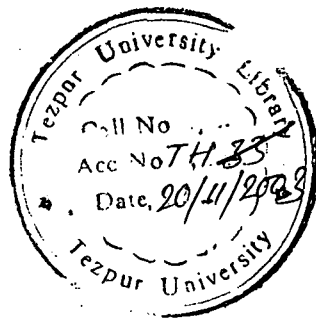


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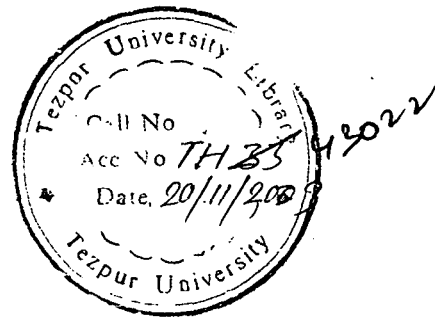


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**STRUCTURE AND ADMINISTRATION
OF SALES TAXATION IN ASSAM
– A CRITICAL ANALYSIS**

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**Thesis Submitted to Tezpur University
for Award of the
Degree of Doctor of Philosophy
under the School of Management Sciences**

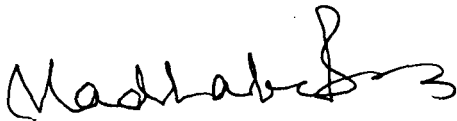


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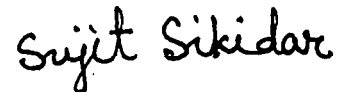
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This is to certify that the thesis entitled "Structure and Administration of Sales Taxation in Assam- A Critical Analysis" by Sri Subhrangshu Sekhar Sarkar is a bona fide work carried out under our guidance and supervision.

This work has not been submitted to any other University or Institute for any Degree or Diploma.



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PREFACE

India is a federal State and comprises of a Union Government and 28 State Governments. For Governance of the country, both Union Government and the State Governments need finance. Normally, the finance is acquired by imposing various taxes and duties on the subjects by the respective Governments. While excise duty is the main source of earning for the Union Government, sales tax is the prime revenue earner for the State Governments.

In India, sales tax was initially introduced in 1939 to substitute either the transit duties or State excise duties. This substitution has turned out to be very lucrative for the Indian States. The growth rate of the yield of sales tax in the States has been very high as compared to any other State tax. Thus, sales tax has come to occupy a very important place in the fiscal structure of the States.

Assam, being one of 28 States of Indian Union, has to rely mostly on the Union Government for its finance. In recent time, a tremendous pressure has been put on the State Governments by the Union Government to augment its own resource generation. Sales tax, by and large, accounts for 70 per cent of the total tax revenue of the State. Thus, the Government of Assam has been trying hard to increase its revenue generation from sales tax.

The Government of Assam has been administering sales tax since 1947. A major reform took place in the year 1993 when a consolidated sales tax Act was formulated incorporating four separate Acts. Since then, the State has been struggling hard with the sales tax system for garnering its required resources.

Sales tax, being a tax on commodity, is an indirect tax. Normally, indirect taxes are regressive in nature. Hence, increasing revenue from this source that too by a poor underdeveloped State like Assam is a difficult proposition.

Moreover, a strategic decision has been taken by the Union Government to transform the system of sales taxation by the States into Value Added Tax System. Accordingly, the Government of Assam has already committed to the Union Government about introduction of State Value Added Tax tentatively from April 1, 2004.

The situation demands a thorough study of the present sales tax system in the State and to find out the ways to augment generation of revenue from sales tax for the State. The revenue collection machinery of the State requires a good tax structure equipped with well-trained manpower to handle effectively the various complicated problems associated with the administration of sales tax. The tax structure should be such that it gives maximum revenue to the State exchequer and at the same time it gives least possible pains to the taxpayers. The thesis makes an attempt to suggest various ways for effective administration of the sales tax statute. In this endeavour, an effort has been made to construct a roadmap for implementation of the proposed VAT Act in the State. A thorough analysis of the organization for sales tax administration and views and perceptions of the stakeholders have been presented in various chapters of the thesis. In fact, the problems of structure, administration and evasion of the tax are so interwoven that any reform in the structure has to consider all these aspects.

Enthusiasm in this study fettered the researcher to undertake visits to the different units and zonal offices of the taxation department in Assam. A number of meetings have been organized with different officials of the Chambers of Commerce and other trade associations. The experience gathered in these visits helped in realizing the toughness of the task. Quite a number of problems and issues dealt within the present study actual emanate from the practical aspect of sales tax compliance and administration in the State.

The researcher takes this opportunity to express his profound gratitude and indebtedness to Prof. Madhab C. Bora and Prof. Sujit Sikidar for their valuable guidance and insight into the problems under the study.

The researcher is greatly benefited from discussions with various officials of the State Governments in Assam. He has also been benefited from the discussions he had with the expert members in National Institute of Public Finance and Policy, New Delhi and especially to Prof. Mahesh Purohit, who is the pioneer in the implementation of VAT in India.

The researcher wishes to express his gratitude to all the faculty members in the Department of Business Administration, Tezpur University for their constant encouragement and help in every aspect. Thanks are also due to Sri Mrinal Kanti Chakroborty, Retired Superintendent of Taxes, Assam who has been kind enough to share his experience in tax administration in his long standing career.

However, in all fairness, the researcher specially acknowledges the help received from the officials in the Statistics Department in the Commissionerate of Taxes, Assam and especially to Sri T. R. Dey, IAS, Commissioner of Taxes, Assam for his valuable comments and cooperation.

Many thanks are also due to a number of dealers, tax-officials, retired tax officials, tax consultants who spared their valuable time in sharing their views and perceptions needed for the study.

Last but not the least, the researcher acknowledges with gratitude the blessings and encouragement extended to him by family members and well-wishers.

Tezpur, Assam
Dated 19th of April.2002

Subhrangshu Sekhar Sarkar

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CHAPTER 1

Introduction and Overview

CHAPTER 1

INTRODUCTION AND OVERVIEW

1.1 Introduction

With the rapid increase in the activities of the welfare States, taxation has assumed an important role in mobilizing resources to finance various activities. Taxation, however, has far-reaching consequences on the economy. The revenue may be raised through various types of taxes, each of which has its influence on different aspects of production, productivity, consumption pattern, resource allocation, income distribution and price stabilization. Unless the system is sound, tax structures are appropriate, and the system is properly administered, the economy cannot reap the due benefits from the taxation system.

India, being a welfare economy, has a mounting pressure of public expenditure. It is not possible for the Government to raise the entire expenditure through revenue. Hence, fiscal deficit is very common in Indian public finance. A nominal fiscal deficit may be very much usual in any welfare economy. But, excessive fiscal deficit has a tremendous negative effect on the overall economy of the country. The Government of India tries very hard to control the fiscal deficit in and around 5 percent of the Gross Domestic Product (GDP). It would much depend on the quantum and growth of revenue generated by the Government. Commodity taxation in India has been playing a crucial role in generating public revenue. Besides creating buoyancy in State exchequer, it helps the Government primarily in containing the onslaught of fiscal deficit both at the Centre as well as at the States. It is estimated that 80% of the central tax revenue is generated through commodity taxation alone. Its relevance in the context of price structure of the commodities can hardly be overlooked.

Taxes imposed on commodities are indirect taxes. They may be levied at the point of production or at the point of sale of commodities and are collected from the sellers. These taxes are mostly shifted to the buyers in the form of a part of the price of the commodity charged from them. Thus, commodity taxes push up the prices of the commodities. Commodity taxes, as imposed in India, can broadly be grouped into three categories viz. Excise Duties, Customs Duties, and Sales Tax. Excise duties are levied on the production of commodities, while the commodity taxation in relation to internationally traded goods is popularly known as Customs Duties which include both Import and Export Duties. Both these taxes are under the jurisdiction of Central Government. Sales tax is charged by the State Governments and is a major source of State revenue.

There is a clear division of tax jurisdiction between the Central and State Governments. While the Union Government is empowered to impose taxes on a wide basis, State Governments have somewhat limited fields. Sales tax is the main source of tax revenue for any State Government. However, it has been observed that the tax structure and its imposition vary from State to State. While a certain State may impose heavy tax on one commodity the neighbouring State may give total tax exemption on that commodity. Such practices make the system more complicated and directly affect the revenue earning of both the States. Besides, there are wide variations in State-commodity-tax structure in different States of India. Such variations and differences in State commodity tax structure have made the tax administration system more complicated. Considering this, the Government of India in connotation with the State Governments have planned for imposition of a uniform Value-Added Tax (VAT) in the entire country in the place of State sales taxes.¹ Sales taxation, thus, assumes a special significance and provides scope for investigation over its several dimensions viz. structure, administration, levy, collection, and distribution.

1.2 The Problem Under Study

Taxation management by State Governments in India has been a serious problem since long. The State Governments have been struggling hard and also have been trying continuously to improve the tax legislation in order to make it more effective and simple. In the process, the industry had not been able to draw long-term perspective plans because of annual tinkering with the tax structure in the federal set-up. On the other hand, the States are getting engaged in a trade war in the form of cutting down of tax rates and providing concessions and relaxation. Such attitudes on the part of the State Governments have made the system even more complex. The Captains of the Indian industries feel that proper research in this area should be carried out to evolve effective and stable policies of tax legislation.

Under the federal structure of the economy, the Union Government and the State Governments are both empowered to levy taxes. The provisions of the Constitution of India provide wider scope of revenue generation to the Union Government in comparison to the State Governments. The State Governments are allowed to levy taxes in the areas specified in the schedules of the Constitution. The economic conditions of the State Governments in the country also vary very widely. There are some State Governments who are developed enough, and can earn substantial revenue by themselves. On the contrary, there are underdeveloped States who mainly depend on the Union Government as the main source of revenue. The State of Assam belongs to the later category as, on an average, 8 percent of the GDP is the share in Central Taxes. Its share of own tax revenue to the total tax revenue is around 40 percent. Thus, majority of its revenue comes from the Union Government as the share in union taxes or as grants-in-aid.

The Eleventh Finance Commission, which is set up by the President of India to decide about sharing of revenue between the Union Government and State Governments, has been pressing hard to the State Governments for self-reliance instead of being dependent on the Union Government for financing their expenditures. Therefore, the State Governments are facing hard times for augmenting their own resource generation. Though the State Governments impose various taxes and duties, sales tax is the major source of revenue for any State Government.

The Government of Assam has been administering sales taxes since 1947. In the past, there were several tax legislation governing taxation of commodities in Assam, viz., Assam Sales Tax Act, 1947, Assam Finance Tax Act, 1956, Assam Purchase Tax Act, 1967, and the Assam (Sales of Petroleum and Petroleum Products including Motor Spirit and Lubricants) Taxation Act, 1955 leading to the first point tax as well as last point tax at multi-points on interstate sale as well as intrastate sale. However, with a view to rationalizing the tax structure, a comprehensive legislation viz. The Assam General Sales Tax Act, 1993 was enacted bringing all the former legislation under the banner of above Act. It was expected that the new Act would help the State Government in collecting higher amount of taxes particularly in the form of sales tax. On an average, the sales taxes contribute around 65 percent of the total tax revenue in Assam.² However, the data available show that while the collection of revenue from sales tax was Rs. 293 cr. in 1991-92, it was Rs. 508 cr. in 1997-98.³ It is a strange fact that the receipts from sales tax during this period could not be made at least double even though product-wise market growth has been manifold over this period. However, collection from sales taxes during the years 1998-99, 99-2000 and 2000-2001 had been Rs. 550 cr. Rs. 716 cr. and Rs. 918 cr. respectively. This tremendous growth in the collection of sales tax revenue in the current years has been possible because of some reform measures initiated by the authorities. This situation suggests that

there remains ample scope for augmenting resources from sales tax collection. Moreover, the Government of Assam has already committed to the Central Government for imposition of uniform Value-Added Tax along with other States of the country tentatively from April 1, 2004. It is essential to have clear roadmap in order to implement the VAT successfully to the benefit of the stakeholders. Such a situation warrants the need for a critical study of the structure of the present AGST Act and its administrative mechanism in order to find out the flaws in the said Act. Such a study should be able to suggest changes needed, if any, in the structure and administration of the sales tax system in Assam which would help the planners to draw a flawless roadmap for introduction of VAT for the State of Assam which is totally new to all quarters.

Collection of revenue from any tax statute depends on its efficient administration. A well-designed Act may not garner its expected quantum unless it is administered efficiently. Thus, the State should adopt the art of management while administering its tax statutes. The main objective of any Government should be to raise maximum revenue by giving minimum pains to the taxpayers and all concerned.

The researcher has not come across any literature pertaining to the studies related to the situation as stated above. It clearly shows that the area has remained unexplored and that the Government of Assam is not getting the feedback as to the effectiveness of the tax system. Hence, a study is needed to be conducted to suggest changes, if needed, in the structure and administration of the sales tax system in Assam so that the State of Assam can join hands with other States in the imposition of uniform VAT effectively.

1.3 Aims and Objectives of the Study

The aim of the present study is to suggest measures for enhancing revenue from sales taxation by the Government of Assam through proper modification(s) of the existing structure and its administration mechanism.

The objectives of the study are:

- (a) to critically examine the present sales tax system of Assam as regards its structure and administration mechanism.
- (b) to have an in-depth study of the growth of revenue and other financial aspects of administration of sales taxation in Assam over the last four decades.
- (c) to throw light on difficulties encountered in the compliance with, and in administering the tax legislation
- (d) to identify various factors which lead to evasion of sales tax in Assam.
- (e) to develop a roadmap for introducing a State Value-Added Tax in Assam in the line of uniform VAT all over the country
- (f) to offer pragmatic and implementable suggestions for better and efficient sales tax administration in the State in future.

1.4 A Brief Profile of the Economy of Assam

The State of Assam is situated in the eastern periphery of India and is endowed with enormous natural resources. The total area covered by the State is 78,438sq. kms having rural area of 77609.59 sq. km and urban 828.41 sq. km. The area under forests, account for around 26 per cent of the total area of the State. The State comprises of twenty-three districts.

According to 2001 census, the total population of Assam was 2,66,38,407 with majority population (about 90 per cent) living in rural areas. While the economy has been sliding all these years, the population growth has

been exceptionally high in the State. While the population in the country during the last three decades (1961-91) grew by 92.7%, it has grown by 107.4% in Assam during the same period. Population density in Assam was 340/sq.km as against the national average of 324/sq.km in 2001. Overall result of this growth has been the breakdown of the State's economy. The population of the State is expected to reach around 4 crore by 2025 which would put tremendous pressure on land and infrastructure. Serious efforts are, therefore, required to rein in all factors, including migration of foreigners, which are contributing to such changes.

During the period 1987 to 1998 the GDP growth rate per annum in the State has been around 3 per cent as against that of 6 per cent in the country as a whole. The per capita income of Assam was Rs. 1173 in 1950-51 as against the country's figure of Rs. 1127. But in 1996-97, the whole picture was reverse. While the country was having a per capita income of Rs. 2761, it was only Rs.1628 in Assam (Table 1.1). This is due to the faster rate of growth of population in Assam compared to that in the country as a whole.

Table 1.1
Per Capita Income (at constant 1980-81 prices) (in Rs.)

Year	1950-51	1960-61	1970-71	1980-81	1990-91	1995-96	1996-97
India	1127	1350	1520	1630	2222	2608	2761
Assam	1173	1140	1221	1284	1524	1606	1628
Difference	46 (+)	210 (-)	299 (-)	346 (-)	698 (-)	1002 (-)	1133 (-)

Source: Director of Economics and Statistics, Assam

Assam with two major rivers and with a number of perennial tributaries, 2.24 crore people and varieties of natural resources is a sleeping economic giant whose potential is yet to be tapped. The State, that had once a promising economy, has now slid into poverty and backwardness. In the beginning of the post independence era, Assam was ranked among the prosperous States of the country. The per capita income in Assam in 1950-51 was 4 per cent above

the national average (Table-1.1) but as the time passed, it gradually came to the all India average level in 1954-55 and slipped down further in the following years. In 1996-97 it stood at Rs.1628 which was 41% below the all India average of Rs.2761. The growth rate of the Gross Domestic product (GDP) in Assam (Table-1.2) since 1987 has been declining. While the all India growth rate of GDP during the period 1987 to 1999 has been around 6.5%, in case of Assam it has been 3.7% in the beginning and has come down to 1.8% in 1998-99.

Table 1.2
GDP Growth Rate Per Annum (in percentage)

Year	1987-1992	1992-1997	1997-98	1998-99
India	6.0	6.8	5.0	6.0
Assam	3.7	3.7	3.0	1.8

Source: Director of Economics and Statistics, Assam

Fig 1.1 is a pictorial presentation of the scenario of growth in the State of Assam. It is seen that during the last twelve-year period the growth rate of GDP had been constantly lower than the national rate. Moreover, the growth rate has been falling during the period. It is due to the fact that the growth of business in the State had been abysmally low due to various reasons. It is one of the prime factors for lower collection of sales tax in Assam.

1.4.1 Major Sectors in the Economy

The State has got abundant natural resources both renewable and non-renewable viz. water resources, forests, livestock, fishes etc. are of renewable nature while minerals like gas, crude oil, limestone, coal etc. are of non-renewable nature. The ray of hope in Assam's economy is her possession of these rich natural resources, her plenteous human and water resources and certain climatic conditions endemic to her.

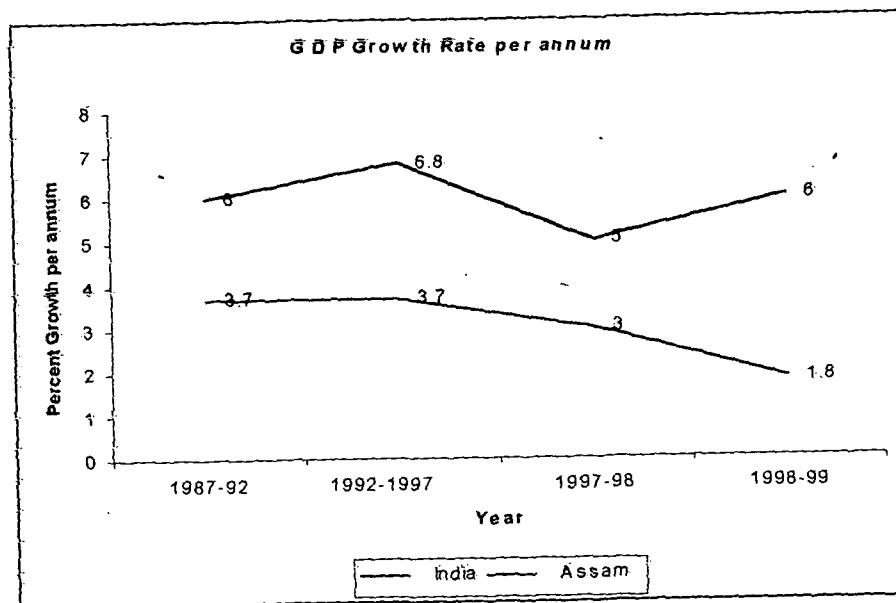


Fig 1.1 Comparison of GDP Growth Rate of Assam vis-à-vis India

The agricultural sector in Assam currently contributes 35 percent of the GDP. Rice, jute, tea, potato, sugarcane, oil seeds, and wheat are some of the important crops of the State. The fourth Economic Census,⁴ revealed that of the 5,82,873 enterprises in Assam, 18,227 enterprises were found to be under agricultural activities while 5,64,646 enterprises were found in non-agricultural activities, the percentage being 3.13 and 96.87 respectively. The overall growth rate of enterprises during the period 1990-98 is estimated at 2.06% against the all-India growth rate of 2.23%. Among the districts, Tinsukia records the maximum growth rate followed by N. C. Hills and Kamrup. Of the total enterprises, 3.99 lakh are located in the rural areas while 1.84 lakh are in urban areas. The growth rate in urban areas is maximum in Tinsukia district followed by Darrang and Nalbari. As per Economic Census 1998, almost 18,000 enterprises constituting 3.13% are engaged in agricultural activities. The share of agricultural enterprises against total enterprises being 3.25%.

1.5 Methodology Used

The methodology used in the study is discussed below:

- (a) The Sales tax structure and its administration by the Government of Assam has been thoroughly studied and analyzed
- (b) A Delphi like study has been conducted to obtain group consensus on issues related to sales tax structure and its administration in Assam
- (c) Questionnaire method has been followed to collect the views and perception regarding sales tax from various segments such as dealers, administrators (tax officials), tax experts and consumers in general.
- (d) Collected data have been processed and analyzed through statistical software SPSS. Various statistical tests viz. Correlation coefficient, chi-square test, t-test etc. have been carried out to establish bearing of several variables on each other.

1.6 Scope of the Study

The study aims at an in-depth analysis of the following aspects:

- (a) Scope for reducing the difficulties encountered by the stakeholders in the compliance and administration of sales taxation in Assam.
- (b) Controllability of the evasion of sales taxation in the State of Assam
- (c) The attitude of consumers in Assam towards payment of sales tax.
- (d) A prognosis of selected aspects of the new VAT regime in the State to be implemented tentatively from April 1, 2004.

1.7 Limitations of the Study

The present study proposes to bring into focus the various forms of commodity taxes and the two-tier Government legislation viz. Central Government and State Government in general. It encompasses a vast area covering the whole gamut of the powers of state Government to impose tax on commodities. However, the present study does not cover the extent of commodity taxes levied by the Central Government viz., central excise and customs duties. The study will restrict itself to the various pros and cons of Sales taxation of the State Governments. Assam, with its unique problems, does not resemble with other States. Moreover, its neighbouring States being tribal States have either no sales tax or a very low sales tax in their respective States. Hence, comparative analysis with other States of the country could not be carried out in the Study. Therefore, the study has been limited to that of Assam only.

Sales Tax legislation of a State may be theoretically sound as far as the economic considerations are concerned. But the success of this would depend on its effective administration. The study tries to restrict itself mainly in the area of management and administration of tax system rather than in-depth economic analysis of the Acts.

1.8 Periodicity of the Study

The study covers post 1993 period till March 2001. However, for the purpose of examining the growth in revenue and other financial parameters, data have been used since 1950-51.

1.9 Review of Literature

The subject commodity taxation has been much discussed by various authors and researchers in the recent past. The review of literature presented here, covers the main writings on sales taxation and its structure and administration, and not on the finer economic details of various commodity taxes.

Gupta (1983) makes an attempt to examine re-distributional effects of both taxation and expenditure policies in Punjab. It has been observed that while the agricultural sector has received more benefits from public exchequer, it has always borne less tax burden than the non-agricultural sector. The author makes an elaborate analysis on the incidence of various taxes including sales tax. To examine the distributional effects of tax incidence and expenditure benefits, concentration ratios have been worked out for the proportions of consumer expenditure as revealed in the NSS Consumer Expenditure Survey. The author urges for change in the structure of public expenditure with a view to minimizing inequalities through Government activities particularly in the agricultural sector.

Agarwala (1985) expounds the theoretical background of commodity taxation for the development of a country's economy. He carried out a synoptic analysis of the commodity taxes in Assam on a few selected important commodities. His suggestions for substitution of sales taxes are of much relevance to the present-day commodity tax administration system.

Chopra (1985) attempted to find out whether some of the States had been discriminated against in the matter of allocation of allocation of resources. In analyzing these, the study goes beyond the provisions of the Constitution. It, thus, seeks to evolve the alternative criteria for evaluating fairness of transfers

to States in accordance with the recommendations of the Finance Commissions.

Sastry and Reddy (1988) attempted an analytical study of various data relating to Centre-State financial relations. The findings of the analysis reveal that the inequity in the distribution of plan outlays is mainly on account of the capacity of the richer States in mobilizing more resources of their own. It has been observed that the trends in the indirect taxes of the Centre viz. reduction in the proportion of excise duties and increase in the proposition of customs have been to the disadvantage of the States. Such developments curtailing the power of the States need to be contained in the interest of harmony in Centre-State relations.

Ahmad and Stern (1991) tried to develop guidelines for the design of tax policy; to show how the principles can structure systematic research into tax reform in terms of the consequences for households, producers, Government. They finally attempted to combine the guidelines and applied research into a practical tax package for Pakistan, where tax reform has become an urgent priority. Though the study aimed at making policy guidelines for Pakistan even then, the entire findings and recommendations are very much relevant to India.

Lekhi (1992) makes a departure from old treatment of subject of public finance. He highlights the theoretical issues in Indian set-up and various illustrations drawn from Indian economy to resolve the problems.

Mehta and Manay (1992) expressed concern about the unholy tax war among States in a federal set up. The States go for reducing tax rates to attract trade and industry. They advocated for the 'user tax' as practiced in the U.S. According to them, the user type of tax is expected to be successful in discouraging the diversion of trade.

Rao (1992) concludes that designing an efficient indirect tax structure in a federal set-up is difficult when different levels of Government separately levy tax broadly on the same base. He studied the effects of tax structure in Brazil, Canada and other federal countries. He strongly recommends that, in a federal country, indirect tax reforms call for a good deal of coordination among different levels of Government. He warns that unless serious attempts towards harmonization of policies are made, indirect tax reform can turn out to be a futile exercise.

Goel (1993) examined the influence of financial administration, economic and fiscal policies on taxation management. But the study failed to provide any recommendations for improvement of the financial management by the Central or State Governments.

Ruhela (1994) attempts to present a rational, integrated and consistent approach to the problems of Centre-State financial relations in India. The author finds that the present financial inadequacy of the State Governments in India is partly due to their reluctance to impose additional taxes and their inability to rationalize their tax structure and partly due to the constitutional framework which restricts their financial autonomy by making them increasingly dependent on the Centre. The author coined a model called 'Eligibility Index Model', an equity-incentive approach which determines the eligibility of a State to get a share in the federal funds. This index is based on three criteria viz. levels of development, fiscal potential and relative tax efforts. The author strongly urges for a different style of political, economic and bureaucratic functioning on the part of the Centre in relation to the States.

Purohit (1995) summarizes the development of sales tax system and presents its fiscal importance in different States. The study is an analysis of the complex structure of the tax and presents short-term as well as long-term reforms towards the adoption of value added tax. The disquisition presents a review of the empirical studies on the incidence of the tax at regional as well as national level with special emphasis on inter-State coordination of sales taxes. Viewing tax administration as a fiscal measure, it presents reforms in administration, enforcement as well as Management Information System (MIS).

Purohit and Purohit (Ed. 1995) attempted to summarize various studies that deal with sales tax reforms. 'Analysis of various researches on Value-Added Tax have been clubbed. They highlighted the mechanics for adoption of Value-Added Tax in the Indian context.

Todi (1995) examines the various aspects of sales taxation in the State of Assam including interpretation of various critical issues in the tax statute. The author highlights some areas for substitution of sales tax by state excise as well as Value Added Tax.

Chelliah (1996) suggests that instead of relying on very tough measures for enforcement of sales tax, the States should be encouraged to improve the quality of tax administration. To maintain fiscal autonomy of the States, the right approach would be to convert the sales tax into a nationally acceptable instrument which, while raising revenue for the States, would form a useful and necessary complement to central taxation.

Bagchi (1997) supports the argument of Dafflon (1971). The theory deals with the essence of federalism. It deals with evolving a system of governance that can maximize citizens' welfare through discussion among

equals instead of being imposed by a powerful Centre. This approach imparts a sense of realism with a positive advice on how to deal with tax problems in a federation.

Chakrabartty (1997) presents his own views about the reasons for leakage of tax revenue and he provides various ways for augmenting revenue to the State exchequer. He is of strong opinion for the development of infrastructure of check gates for augmenting revenue.

Chatterjee (1997) provides an analysis of the overall tax performance of the State West Bengal over three decades. Econometric models have been used to know the effects of various factors on the tax performance of the State. The study reveals that compared to Maharashtra, Orissa, Punjab and the all-India average, tax effort of West Bengal during the reference period has been poor, and this had an adverse impact on the total revenue and expenditure of the State Government. It had also led to a growing dependence on central taxes. The study emphasizes on the key role of own source revenues in assuring stability in Government performances of the States.

Mukhopadhyay (1997) challenges the conventional conclusion that a revenue-neutral VAT would have no impact on the aggregate price level, unless it elicits a supply response due to a lower degree of distortions. On the contrary, he shows that even if we ignore supply response, a revenue-neutral VAT can lead to higher output and lower price in a demand-constrained output regime. However, price will remain unchanged in a supply-constrained output regime.

Sury (1997) traces the structural evolution, explains the legal framework, and describes the present system of taxation in India. The study focuses on individual taxes levied by the Central and State Governments. The

author supports the introduction and extension of MODVAT at the Centre and advocates for its immediate imposition for States to harmonize and rationalize the existing sales tax system considering the development of the country as a whole and encourage free flow of trade and commerce in the economy.

Aggarwal (1998) studied the incidence of major indirect taxes in India. He attempts to estimate effective tax rates of major commodity taxes in India for the fiscal year 1989-90. It includes both central and state taxes in its coverage. There is a wide range of findings emanating from the analysis. The major finding is that the total effective rate of taxes varied between 3 to 40% for most commodities. On an average, sales tax accounted for the highest burden, exceeding 5 percentage points of the effective tax rate. The contribution of sales tax in input taxation was highest. In the conclusions of the study, it is said there is an obvious need to reduce the high incidence of input taxation. The author strongly advocates for usefulness of central level MODVAT, with its widening coverage, in reducing cascading, and improving efficiency in production. He urges the States to be induced for reforming the system of sales tax which is the major contributor to input taxation.

Chande (1998) presents Kautilya's work in a lucid manner. The author makes his own observations about the political situation vis-à-vis the state and its administration in India from the Vedic period to date. Though the Arthashastra was expounded in about 330 B.C. by Kautilya, it is still relevant and capable to arrest the rapidly worsening condition of people on account of their depleted moral values, inter alia, mal-governance, mal-administration and all pervading corruption, both in the administration and society.

Sharma (1998) makes a comprehensive and explicit analysis of financial administration through the technique of budgeting adopted by the Government of India. Although there is no dearth of literature written by the British and

American authors on the subject, this study is an appropriate and meaningful academic work in Indian context. The study analyses, in detail, the relationship of Indian budgetary trends with economic development and policy formulation of India. It reveals a vivid picture of the financial position of the Government and enables Parliament to measure adequately the impact of such financial programmes on the country's economy. A package programme of various measures has been suggested for gearing budgets as instruments for physical and financial control in the process of planned economic development of the nation.

Working Report of Tax Research Institute (1998) on "Tax Evasion in Theory and Practice" analyses the concept of tax evasion in terms of devices adopted to evade taxes, causes and consequences of tax evasion and measures needed to deal with this fiscal malady. It records various estimates of tax evasion in India and the policy of the Government to curb it.

Working Report of Tax Research Institute (1999) on "India: Environmental Protection Policy and Tax Concessions" describes the relationship between economic activities and environmental resources. It explains the causes leading to the current deplorable state of environment in India. Government policy and initiatives (constitutional, legislative and fiscal) to protect environment and ensure sustainable growth have been highlighted.

Working Report of Tax Research Institute (1999) on "Tax Incidence Studies in India - A Survey" explains the various concepts of tax incidence. It also summarizes and critically examines the findings of various tax incidence studies attempted in India since independence. The research report covers all-India, State-level and sectoral level studies of incidence of indirect taxes.

Working Report of Tax Research Institute (1999) on “India: Tax Measures and Reforms 1991-2000” examines the effect of post-1991 reform of lower tax regime in India. It has been observed that by lowering the tax rates, the Government has been partially successful in speedy industrial development and hence buoyancy in tax revenue.

Economics of Taxation (1999) is an intensive study on the various aspects of taxation viz. effects of taxes, canons of taxes, incidence of taxes and the like. The study emphasizes on the technique of calculation of tax ratio. It tries to accurately measure the tax buoyancy by eliminating the discretionary changes from actual tax revenue. However, it has not suggested any measure that can be useful for developing policies in the matter.

Khadka and Shukla (1999) observe that while there is some scope to generate additional revenue through the direct taxes, India will have to depend more on indirect taxes in the foreseeable future. The authors suggested for restructuring the tax administration and for training of tax officials to create a proper environment for moving towards a VAT regime in due course.

While the growth of analytical literature on the theory of tax reform and the practical experiences in several countries over the years have helped to identify the directions and preconditions for successful tax reforms, a number of issues both at conceptual and practical levels, have remained unclear. Moreover, most of the literatures are on the economics of taxation and some are on the federal structure of the country. It has been found that there is dearth in literature as regards the management of tax system is concerned. No work has been found which had attempted to examine and find out the optimum ways for efficient management of sales taxation system in India. Thus, there is a need to work in this area to gain a better understanding of those aspects.

1.10 Overview of the Thesis

Chapter 1 includes introduction of the problem under study, the objectives, scope and limitations of the study, and overview of the chapters of the thesis. A discussion on the literatures available have also been presented here.

In Chapter 2, the salient features and fiscal importance of the commodity taxation are being highlighted. The chapter tries to justify the study of sales taxation as an important component of the whole gamut of commodity taxation. An introduction to the Value Added Tax has been provided in this chapter.

Chapter 3 presents in detail the methodology followed in the study for achieving its objective. The system followed in the collection of primary as well as secondary data are being explained. The method for analyzing the data have also been presented here.

Various Acts relating to commodity tax implemented in Assam since its inception are discussed in Chapter 4. The revenue collected through implementation of the various legislations, specially during pre 1993 and post 1993 periods, are analyzed and presented in this Chapter.

Chapter 5 presents the views and perceptions of the stakeholders about the sales taxation system in Assam. The information were collected through a survey carried out all over the State. A thorough analysis has been carried out to identify the wish lists of different segments of stakeholders viz. Dealers, administrators, experts and consumers.

Chapter 6 highlights the findings and analysis of the study. Based on the findings of the study as well as analysis of all available information, the constituent features of most effective tax policy for the State have been developed and presented.

The findings from the previous chapters are summarized and presented in Chapter 7. The scope for future work have been mentioned in this Chapter.

References:

¹ Report of the Committee of State Finance Ministers for Charting a Time Path for Introduction of VAT, August 1998, National Institute of Public Finance and Policy, New Delhi,

² Statistical Handbook, Directorate of Economics and Statistics, Assam, 1999

³ Administrative Report, Commissioner of Taxes, Government of Assam, 1999

⁴ The Fourth Economic Census was a joint endeavour of the Central Statistical Organization, Government of India and the Directorate of Economics and Statistics, Assam. 1999

CHAPTER 2

Sales Taxation in India – An Outline

CHAPTER 2

SALES TAXATION IN INDIA – AN OUTLINE

2.1 Introduction

A tax is a compulsory extraction of money by public authority for public purposes which is enforceable by law and against which no services are guaranteed. Primarily the purpose of levying any tax is to raise fund to undertake developmental activities in the country. The policy of taxation primarily aims at raising revenue with the least sacrifice inflicted on the people and least injury caused to the economy as a whole.

Taxes are of two types: direct taxes and indirect taxes. When the impact and incidence of taxation fall on the same person, the tax is called a direct tax. On the contrary, in the case of an indirect tax, the impact is on one person while the incidence falls on another. Thus, shifting of burden of taxation is possible in case of indirect taxes. Commodity taxes come under the category of indirect tax.

Commodity taxation has assumed significant dimensions in the fast developing economy of a nation as it makes available substantial financial resources to the Government to go ahead with its plan of activities. Besides being a source of revenue, taxation also regulates and controls the use of certain goods and services in the desirable way. Commodity taxation has now become an integral part of State economy.

India has a government that combines the features of both a unitary and a federal system. There are three tiers of government- the union government, the State government, the local government; and all the three tiers are empowered to levy taxes. These taxes are enshrined in the Constitution of

India. The Indian Constitution assigns the powers of taxation more precisely and in greater detail than most federal countries. There are also provisions under which the legislature of a State may authorize the local governments (*panchayat* or municipality) to levy, collect and appropriate taxes, duties, tolls and fees in accordance with such procedure and subject to such limitations as may be specified by law. The tax jurisdiction of the Union and the State Governments are specified in the Seventh Schedule of the Constitution of India.

2.2 Tax Structure under the Constitution of India

India has a Federal constitution with two layers of Government viz., the Union and the State. The Constitution of India that came into force from 26 January 1950 has clearly classified the functions to be performed by the Union and the States and has also indicated their respective sources of revenue. As per the constitution, taxes within the jurisdiction of the Indian Union can be classified into four categories.

(a) Those taxes which are levied and collected by the Centre and the amount so collected is retained by the Centre. e.g. Custom-duties, Corporation taxes etc.

(b) Those taxes which are levied and collected by the Centre but the amount so collected is shared between the Centre and States e.g. Income Tax, Excise duties etc.

(c) Those taxes which are levied and collected by the Centre but the entire proceeds of which are assigned to the States e.g. Estate Duty.

(d) Those taxes which are levied by the Centre but are collected and retained by the States e.g. Stamp duties.

2.2.1 Tax-Revenue of the Central Government

Taxes within Union jurisdiction are enumerated in List I, Seventh Schedule of the Constitution of India as under:

1. Taxes on income other than agricultural income.
2. Duties of Customs including export duties.
3. Duties of excise on tobacco and other goods manufactured or produced in India
4. Corporation Tax
5. Taxes on capital value of assets
6. Estate Duty in respect of property other than agricultural land
7. Terminal taxes on goods or passengers, carried by railway, sea, air, taxes on railway fares and freights
8. Duties in respect of succession to property other than agricultural land
9. Taxes other than stamp duties on transaction in stock exchange and future markets
10. Rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills etc.
11. Taxes on the sale or purchase of newspapers and on advertisements published there in.

Out of these, excise duty is the prime revenue earner for the Union Government.

2.2.2 Tax Revenue of State Government

The main sources of tax revenue of the State Governments are the share of the States in the Union Excise Duties, Income tax etc. Taxes within the jurisdiction of the States are enumerated in List II Seventh Schedule of the Constitution of India as under:

1. Land Revenue, including assessment and collection of revenue.
2. Taxes on agricultural income.
3. Duties in respect of succession to agricultural land.
4. Estate Duty in respect of agricultural land.
5. Taxes on land and building
6. Taxes on mineral rights
7. Excise duties on alcoholic liquors produced in the State
8. Taxes on entry of goods into local area for consumption, use or sale therein
9. Taxes on consumption or sale of electricity.
10. Taxes on sale or purchase of goods other than newspapers.
11. Taxes on goods and passengers carried by road or inland waterways.
12. Taxes on vehicles
13. Taxes on animals and boats
14. Tolls
15. Taxes on profession, trades, callings and employment
16. Capitation taxes
17. Taxes on luxuries including taxes on entertainment, amusements, betting and gambling.
18. Rates of stamp duty in respect of documents
19. Fee in respect of any of the matters in List II, but not including fees taken in any court.

Out of these, sales tax is the prime source of revenue for any State Government.

2.3 Sales Taxation - The Major Source of State Revenue

Sales tax is essentially a tax on business transactions and thus it differs from an excise duty in certain respects. Its significance in India is that it has provided a relatively elastic and productive independent source of revenue earning to the States. Sales tax can be general or selective. What is known as

the general sales tax in India is in fact, a selective sales tax; as many commodity transactions are not covered under it. From operational point of view, sales tax may be either single-point or multi-point. In India both single-point and multi-point sales taxes have been levied in different States. Sales tax is collected from all registered trading concerns who, in turn, invariably shift its burden to consumers. In India, the practice of charging the amount of sales tax from buyers is sufficient evidence of the fact that its incidence is wholly on consumers. The sales tax has been levied in this country practically on all tangible commodities, immovable property and services have not been covered under it. Tax rates are not uniform in all States. Steps are being taken to have uniformity of sales tax rates all over the country. Sales tax ordinarily means tax on sale of certain commodities made by a dealer.

Although we have come across many definition of sales tax, the one given by Prof. John F. Due (1957) may be described as the most comprehensive which says sales tax is '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'.

2.3.1 Evolution of Sales Taxation in India

Sales tax, which is an indirect tax, occupies a prominent position in the revenue structure of any State. This fiscal tool, of late, has been given adequate attention in order to mobilize resources to meet the ever-increasing expenditures in the States. Sales taxation is not of recent origin. It was also a source of revenue to the Government in ancient India. The Hindu theory of taxation is of immense importance from the constitutional point of view. Taxes were determined by Law and had been embodied in the sacred common law. The consequence was that whatever the form of Government, the matter of

taxation was not an object of the ruler's notion. No friction could, therefore, legally arise between the crown and the people on the question of taxation. The mainstay of revenue was the king's fixed *bhaga* or the share of produce of agriculture¹. References indicating levy of sales tax during Mauryan Period (Circa 323-185 B.C.) are found in Kautilya's Arthashastra. According to Arthashastra, taxes were levied at 1/5 of the value of the goods imported. Taxes were levied on flowers, fruits, vegetables, roots, seeds and dried fish at the rate of 1/6 of the value of such goods². Tax at the rate of 1/10 or 1/15 of the value of goods were levied on the items like iron, sandal wood, spices, hides & skins, silk cloth etc. Tax at the rate of 1/20 or 1/25 was levied on the items like cloth, animals, thread, cotton, scented item, timber, bamboo, earthen pots, food grains, sugar, salt etc. At the entrance of the town 1/5 of the value of food grains that come from villages were collected or sometimes keeping in view the benefit derived by the State from such commodity the rate were reduced. The superintendent of tolls were responsible for erecting office at the main entrance of the city and to place a flag there. The merchants passed beyond the flag were to furnish value and other details of the goods carried by them. Anybody who tried to cross the flag without paying taxes were to pay eight times of the tax as fine.

The medieval period of Indian history shows that sales tax was one of the important indirect taxes levied by the Mughal rulers. In India, the tax continued to be levied during the East India Company rule in the same way and form as it was passed on from the previous times.

Before the adoption of the Constitution of India, the State Governments levied tax under the provisions of section 100(3) of the Government of India Act, 1935. The Act introduced a large degree of autonomy in the provinces. Bombay was the first province in the country to levy selective tax on the sale of tobacco in the year 1938.³ Although the provinces derived power to levy tax,

there were certain restrictions on the imposition of tax on the newspaper and on sale and purchase in the course of inter-State trade or commerce, and on the sales outside the State and on the import and export of goods.

With the Constitution of India coming into force with effect from 26th of January, 1950 the States derived power to levy sales tax from entry 54 of List II of the Seventh Schedule to the Constitution of India. The State Governments have the sole jurisdiction to levy taxes on items included in the State List and the entire proceeds are credited to the consolidated fund of the States and are utilized for the purposes of the States. In India, erstwhile Madras (now Tamilnadu) was the first to introduce General Sales Tax as far back as in the year 1939. The tax was introduced by other States gradually. Because of the flexibility of this particular source of revenue and its contribution to the State exchequer, most of the States rely on this source as a major source of finance.

The sales tax enactment of Madhya Pradesh and Tamil Nadu were challenged in the courts of law by the Central Government on various grounds, particularly in respect of the authority of the States, to impose such taxes. The States, however, won the legal battle. Hence, the other States also started using the opportunity to impose sales tax.

Following Tamil Nadu, many States resorted to this form of taxation during and after the Second World War. Seven of the States adopted this form of levy in the 1940s. West Bengal and Punjab adopted it in 1941, Bihar in 1944, Maharashtra in 1946, Orissa in 1947 and Assam & Uttar Pradesh resorted to it in 1948. Many other States also imposed sales tax before 1950. As there has been no specific rationale behind a particular form of sales tax structure, models adopted earlier underwent many changes. As the States adopted a particular structure of the tax without giving thorough consideration to its economic rationale, difficulties were faced in the administration of the

tax. Also, it was overlooked that economic circumstances of different States were not homogeneous. Trade diversion, opposition from trade organizations, problems of inter-State trade and double taxation were experienced by many of the States. While some of the problems were sorted out in State Finance Ministers' Conference held in 1948, some of them remained in the Constitution.

2.3.2 System of Sales Taxation

The present structure of sales tax in India consists of - State sales tax and Central sales tax. The former is levied on intra-State transactions and the latter on inter-State transactions. The general rate of tax in the States varies between 5 and 14 percent. In all the States, there are a large number of variations in the tax rates based on the type of commodities. The tax is levied at low rate on necessities and at high rate on luxuries. In addition, there are exemptions for necessities, specific institutions and for specification by the States. Most of the States levy tax on raw materials and other inputs as well. The tax treatment of these goods ranges from no exemption to concessional treatment varying between one to four percent, to complete exemption in some States. The tax-base is also affected by the grant of exemptions in finished goods by almost all the States. These exemptions have been provided as part of "incentive schemes".

As per the original provisions of the Constitution, 'services' are exempted from levy of State sales tax. However, a new dimension has been added to the sales tax system through the Forty-sixth Amendment of the Constitution whereby sales tax can be levied by the States on works contracts, hire purchases and leases. Accordingly, many States have already imposed sales tax on such services.

The Central Sales Tax is collected on all inter-State transactions. The tax is levied, collected and retained by the States occasioning movement of goods from one State to another. The richer States earn larger resources from Central Sales Tax causing further inequality among States.

Taking all the States together, the yield from State sales taxes in 1950-51 was around Rs 600 million, accounting for 27.5 per cent of the aggregate State taxes. During 1991-92, the sales tax revenue represented around 54 per cent of the total yield from State taxes. In the structure of the State finances, the position of sales taxes is broadly similar to union excise duties in the case of the union finances, though the relative importance of the sales tax differs from State to State. Sales tax is the single largest source of revenue to almost every State in India, accounting for about 60 to 70 per cent of the States' own tax revenue in the case of several States. That the share of sales tax in the total revenue of the Centre and the States has increased from 12 per cent in 1960-61 to about 21 per cent in 1999-2000 bears eloquent testimony to the growing importance of this tax. As a percentage of the total tax revenue of the States including their share in central taxes, the share of sales tax increased from 26 per cent in 1960-61 to around 38.5 per cent in 1989-90. Most of the States levy tax on raw materials as well as other inputs. Sequel to the amendment to the Constitution in 1982, sales tax has become leviable on work contracts, hire purchases and leases. Among the various incentives offered by the State governments to encourage growth of industries, sales tax concessions either as deferrals or concessional rates are quite significant. Such concessional rates of sales tax or exemptions are available for small scale and tiny industries in nine States and medium and large industries in twelve States. In addition to the general sales tax, another peculiar feature of the Indian fiscal system is that inter-State sales are also liable to be taxed by the States of origin. Despite a ceiling of 4 per cent for the rate of Central Sales Tax (CST) laid down by Parliament, tea export on account of this tax is substantial. While, on an

average, nearly 18 per cent of the States' sales tax revenue is accounted for by the CST, the shares of certain individual States are quite high: West Bengal (35.2 per cent), Haryana (33.9 per cent), Maharashtra (28.3 per cent), Madhya Pradesh (23 per cent), Punjab (22.6 per cent), Karnataka (20 per cent) and Tamil Nadu (12.8 per cent).

An important feature of the Indian sales tax system is that sales taxes are applied extensively at the first stage of the sale in any State – a phenomenon which has contributed to the maximum amount of cascading as the first point sales tax is levied ad valorem on the price of a commodity that includes the excise duty paid into the central exchequer at the last point of its manufacture. Though this is somewhat similar to the practice in Canada, the element of cascading in Canada is not that large as the provincial sales tax in that country is imposed on retail sales only. Another peculiar feature of the Indian sales tax system is that while the sales tax is leviable on all commodities including of inputs and capital goods, services are excluded owing to the constitutional limitations. These characteristics have contributed to "complexity, lack of transparency, distortions in economic decisions and inequities in inter-jurisdictional division of tax bases. It is increasingly felt that these problems cannot be solved without harmonization [Bagchi 1997].

The disintegrated character of the existing tax system has given rise to the following problems relating to economic as well as administrative aspects.

- ***Lack of uniformity*** : One of the problems that the existing sales tax structure in India encounters relates to lack of uniformity in rates. The variations of rates cause diversion of trade as well as shifting of manufacturing activity from one State to another having low rate of tax or higher tax incentives. These variations of tax rates keep the sales tax department on its toes. Each time the sales tax department receives representation from traders or

manufacturers or whenever it notices diversion of trade, changes in the rate structure are attempted. This not only keeps the rates changing every now and then but also creates a 'tug of war' among different States.

- ***Multiplicity of rates:*** Another weakness of the existing sales tax system is the multiplicity of rates. This has arisen due to very fine gradation of tax rates for different commodities. The multiplicity of rates not only blunts the intended progressive effects but creates the need for additional calculations by the dealers causing an increase in the cost of compliance rather than increasing the revenue to the State coffer. More importantly, it creates many disputes relating to classification of commodities for the application of appropriate rates.

- ***Cascading taxes:*** The first point sales tax is a cascaded type of tax. As the tax is levied at the initial stage of production-distribution process, most of the inputs and raw materials as well as capital equipment are taxed without any set-off. All the taxes on these items become part and parcel of the price of the final product resulting in cascading.

- ***Revenue loss due to incentives:*** A weakness of the existing structure of the tax relates to the exemptions and incentives provided to industrial units. Although the exact loss of revenue as a result of these incentives is difficult to estimate, the available data indicate that due to these concessions the base has been eroded by approximately 20 percent. More importantly, the number of units availing these concessions has been increasing year after year, causing greater loss of revenue to the States.

- ***Lack of transparency:*** The existing system results in uncontrolled incidence of various taxes on the same commodity. The overall cumulative incidence lacks transparency for an economic analysis. As the cumulative incidence on commodities becomes fortuitous, it is rather difficult to grade different commodities progressively. The lack of transparency obviates exact calculations of tax incidence.

- ***Encourages vertical integration:*** The phenomenon of wider spread of taxation promotes vertical integration. That is, it mitigates against the

objectives of ancillary industries and encourages industries to produce more and more inputs needed by them rather than purchasing it from ancillary industries.

- ***Taxation on out-of-State sales:*** Taxation on out-of-State sales creates many formidable problems. Presently, inter-State sales are taxable under the Central Sales Tax Act. Such a tax causes the phenomenon of cascading. Also, a high rate of such tax increases the incidence of tax and forces the States to surrender their autonomy in deciding the State's sales tax rate. Hence, taxation of all the transactions would be inflationary, iniquitous and distortionary

2.3.3 Reforms in Sales Taxation in India

The shortcomings mentioned in the earlier section have given rise to tremendous problems. The Government of India, in consultation with the State Governments, has taken a number of steps to rationalize the sales tax system in India. The Central Government has been advising the States to formulate uniform tax structure with a view to avoiding competition. Most of the North Indian States impose lower tax rates to divert trades from neighboring States to their own, ignoring the 1997 agreement on floor rates. Haryana and Delhi have been engaged in a tax-war on several items. The Finance Minister of India exhorted the States aiming at luring private investment and industrial development. According to him, the unrealistic and unhealthy competition in providing more and more tax-concessions and subsidies will be harmful for the economy of the country in the long run. He suggested that the State Governments should arrive at a consensus to avoid tax war. The business houses are also hoping for a common market throughout the country to be achieved by way of withdrawing trade barriers among the States. They argue that while European continent can have a common market, why cannot there be a system in the Indian federation to withdraw all barriers in the intra-county transactions.

In the light of the above assessment of the commodity taxes, some strategies can be formulated for reforming the structure and administration of commodity taxation for the country as a whole. In this context, the recommendations of the Tax Reforms Committee (Final Report, Part I and II, 1992-93, Ministry of Finance, Government of India) are very useful. While suggesting any reform in this regard, the federal constraints applicable to Indian republic are to be considered. The division of tax powers between the Union and the States provides both the tiers of Government powers to levy taxes falling on the same base. The tax revenue from excises constitutes almost forty-five percent of the total tax revenue of the Centre while almost sixty percent of the States' own tax revenue comes from sales tax . Moreover, the dependence of the States on the Centre has been increasing over the years.

The Union and State Governments are sincerely trying hard to ratify the above problems present in the sales tax system of the country. As per the decision taken in the Chief and Finance Ministers' Conference convened by the Union Finance Minister, the State Governments were asked to implement uniform floor sales tax rates by January 1, 2000. The uniform floor rates of tax was recommended by the committee of Finance Ministers of Gujrat, Karnataka, Madhya Pradesh, Maharastra, Punjab, Uttar Pradesh and West Bengal under the aegis of the National Institute of Public Finance and Policy, New Delhi. The committee was set-up for the purpose of simplifying the rate structures by reducing the number of tax rates for enhancing transparency by eliminating or merging multiple levies under different Acts. On an average there are more than 500 commodities on which State Governments impose sales tax. The whole process becomes complex if a number of tax rates are applied for different commodities. As per the decision, ultimately there would be only six separate tax rates dividing the whole gamut of commodities into six main blocks. These tax rates are zero percent on basic necessities, four, eight and

twelve percent with two special rates viz. one percent for gold and twenty percent for petroleum products.

Besides the rationalization of State sales tax structure, the other basic aim of this decision of the Committee is to end the tax war among the States of the country. The floor rates of tax basically propose the rates below which the State Governments are not allowed to impose sales tax on specified commodities. It was also decided to phase out the sales tax based incentive schemes with effect from January 1, 2000. Some States are loosing revenue to the extent of Rs. 8,000 - Rs. 10,000 crore a year as a result of the competitive tax concessions being offered to attract industries. The big losers are Maharastra, Gujrat, Punjab and Haryana. Their tax revenue as a share of State's income is on the decline. In the case of Gujrat, the tax-SDP ratio declined from 13.6 in 1992-93 to 10.5 in 1997-98. Maharastra, the most industrially advanced State, saw its tax-SDP ratio decline from 9.87 to 8.55 during the same period. It is the result of the fact that revenue loss on account of tax concession cannot be off-set by other benefits that might accrue as corporate route their projects to these States. Thus, an urgent need was faced by the country to end this unholy tax-war among the States and the decision of imposition of floor sales tax rates is an outcome of this necessity.

India has multiple indirect taxes at both State and federal level. Each operates largely independently, and the system lacks the essential qualities of coherence and transparency. Reform is controversial but the first steps is now being taken.

A modified VAT system of taxation is to be introduced by 1 April 2003 in 15 target States. It does not change the present division of taxation powers between the Central and State governments. It continues with separate taxes on goods and services and does not envisage credit for all taxes paid at an earlier

stage, against all taxes payable subsequently. Thus all the indirect taxes will continue to operate individually. Despite this, the proposals include some welcome reforms to the various sales tax regimes, including:

- Uniform sales tax rates. All States must collectively agree on the minimum rate of sales tax (the floor rate) for specific goods. Although the States can levy higher rates, it is hoped that this would prevent competitive tax rate wars between States, that distort local economies.
- Removal of incentives such as sales tax exemptions and deferrals, across all States.
- Alignment of sales tax rates with the Harmonized System of Nomenclature (HSN) as applies to customs and excise duty.

The essence of these reforms is to begin the process of ensuring uniformity and consistency in commodity taxation across India. A word of warning is, therefore, relevant as to the way these reforms are implemented. If each State goes ahead drafting its own legislation (as is believed to be happening) the inevitable result will be a lack of uniformity of basic principles. A strong case can be made for the need for Central Government to provide direction and focus in the form of umbrella legislation which States implement locally. This is possible as EC Directives establish the principles of VAT in the EU which Member States then implement and apply.

Overall, the proposed reforms have all the characteristics of compromise. However, if they prove successful, India may be encouraged towards more radical changes in future.

2.4 Value Added Tax

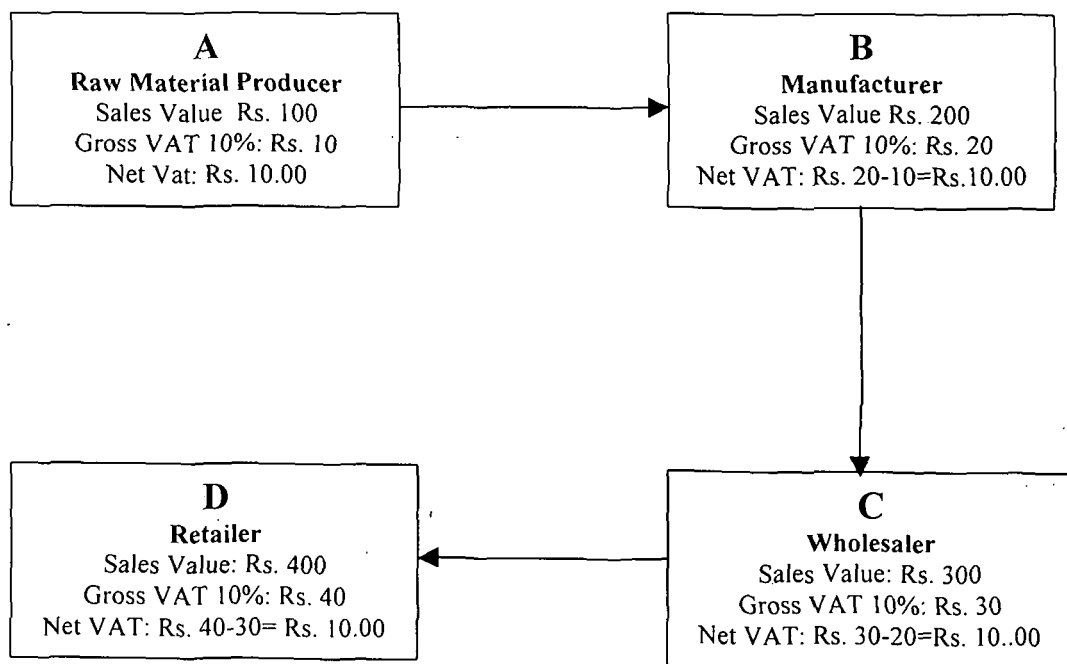
The origin of Value Added Tax (VAT) can be traced as far back as the writings of F Von Siemens, who proposed it in 1918 as a substitute for the then newly established German turnover tax. VAT was first introduced in France in 1954. Development of VAT in other countries has been gradual. Until the sixties many countries did not adopt it. As many as 50 countries have switched over to VAT during the last decade. This has brought the total number of countries who have adopted VAT as their major form of consumption tax to more than 110. Thus, the augmentation of interest in VAT has been the most remarkable event in the evolution of commodity taxation in the present century. VAT is common in most parts of the world with India remaining one of the few exceptions.

VAT is a multi-point tax system where taxes are paid at one stage of production and sales get set-off or rebated at the next stage. This clear up the problem of cascading taxes, where the same item is taxed several times through the production chain. VAT is a multi-point sales tax with set-off for tax paid on purchases.

- It is collected in installments at each transaction in the production distribution system.
- It does not have cascading effect due to the system of deduction or credit mechanism.
- It is a tax on consumption. The final and total burden of tax is fully and exclusively borne by the domestic consumer of goods and services.
- It being a tax on domestic consumption, no VAT is charged on goods exported.
- It is an alternative mechanism of collection of tax.
- It is, in many respects, equivalent to a last point retail sales tax.

2.4.1 Strides of VAT

As pointed out earlier, VAT is a multi-point tax. Tax is calculated on each point of value addition. Evasion of payment of tax is tried to be curbed in this system as all the points of value addition in a sale transaction are subject to sale. Fig 2.1 is an example that illustrates how VAT is calculated at different points of sale. For simplification, gross VAT at all stages have been taken as 10%. The product is sold for Rs. 400 to the ultimate consumer where tax rate is 10%, the consumer pays VAT as Rs. 40. However, this amount goes to the Government exchequer where all four viz. Raw material producer, manufacturer, wholesaler and retailer are involved in the payment of tax. Each one gets credit of tax paid by them.



Total VAT collected at four points = Rs. 10 + 10 + 10 + 10 = Rs. 40

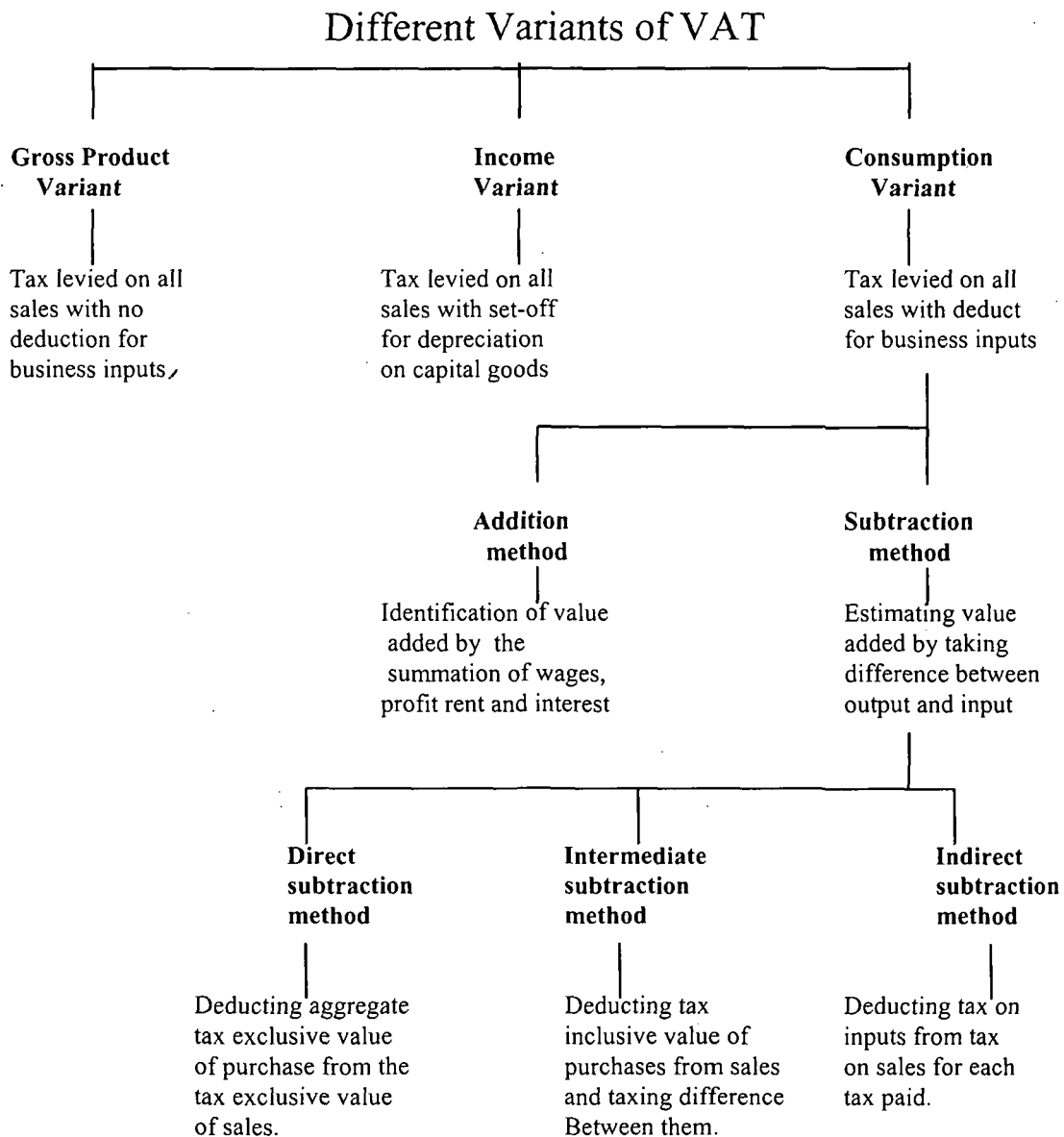
Fig 2.1 Stages of Computation of VAT

2.4.2 Structure of VAT

Different types of VAT are prevalent in various parts of the world. The system and structure varies from country to country keeping the basic principle in tact.

2.4.2.1 Types of VAT

Value added tax is a tax on value added. There are diferent methods for calculation of value-added on a transaction. The following Chart explains the different variants commonly followed across the world.



2.4.2.2 Methods of Computation of VAT

VAT can be computed by adopting three different methods. These are (i) Addition method (ii) Subtraction method (iii) Tax credit method.

- ***Addition Method***

Identification of value-added can be done by summation of all the elements of value-added (i.e. wages, profits, rent and interest). This method is known as addition method or income approach.

- ***Subtraction Method***

The subtraction method estimates value-added by means of difference between outputs and inputs. This is also known as Product Approach and has further variants in the way subtraction is attempted form among direct subtraction method, intermediate subtraction method or indirect subtraction method. Direct subtraction method is equivalent to a business transfer tax whereby tax is levied on the difference between the aggregate tax – exclusive value of sales and aggregate tax-exclusive value of purchases. Intermediate subtraction method is based on deduction of the aggregate tax –inclusive values of purchases from the aggregate tax-inclusive value of sales and taxing the differences between them.

- ***Tax Credit Method***

The indirect subtraction method entails deduction of tax on inputs from tax on sales for each tax period. This is also known as tax credit method or invoice method. In practice, most countries use this method and employ net-consumption VAT. A comparative picture of the three methods of calculating is presented in Table 2.1

Table 2.1
Different Methods of Calculating VAT Liability
A Comparative Study
(10% Tax Rate at all levels)

Economy		Stage of Production			
		Manufacturer	Wholesaler	Retailer	Total
		1	2	3	4
Value in Rs.					
1.	Addition Method				
a.	Wages	150	300	200	650
b.	Rent	50	100	20	170
c.	Interest	25	75	20	120
d.	Profit	25	25	10	60
e.	Value Added (a+b+c+d)	250	500	250	1000
f.	VAT	25	50	25	100
2.	Subtraction Method				
a.	Sales	350	850	1100	2300
b.	Purchases	100	350	850	1300
c.	Value Added (a-b)	250	500	250	1000
g.	VAT	25	50	25	100
3.	Invoice Method				
a.	Sales	350	850	1100	2300
b.	Tax on Sales	35	85	110	230
c.	Purchases	100	350	850	1300
d.	Tax on Purchases	10	35	85	130
e.	VAT (b - d)	25	50	25	100

Adopted from Purohit Mahesh C., *Value Added Tax*, Gayatri Publications, Delhi, 1999

Although all the methods are identical, these are not likely to yield the same revenue when tax rates vary according to commodities i.e. the rates are different for inputs and that for outputs. As depicted in Table 2.2, the yield from VAT to the total economy would be Rs. 30 under the subtraction method while it is Rs. 25 only under the invoice method when the tax rate is 15 per cent at wholesale stage, and 10 per cent at all other stages.

Table 2.2
Different Methods of Calculating VAT Liability
A Comparative Study
(Tax Rates at different levels are different)

		Value in Rs.			
		Stage of Production			
		Manufacturer	Wholesaler	Retailer	Total
		1	2	3	4
Economy					
a.	Sale	100	200	250	550
b.	Purchases	--	100	200	300
c.	Value Added (a –b)	100	100	50	250
Rate of VAT is 10% at all stages					
VAT under Subtraction Method		10	10	5	25
Invoice Method		$10 - 0 = 10$	$20 - 10 = 10$	$25 - 20 = 5$	$55 - 30 = 25$
Rate of VAT is 15% at Wholesale Level and 10% at all other stages					
VAT under Subtraction Method		10	15	5	30
Invoice Method		$10 - 0 = 10$	$30 - 10 = 20$	$25 - 30 = (-) 5$	$65 - 40 = 25$

Adapted from Purohit Mahesh C., *Value Added Tax*, Gayatri Publications, Delhi, 1999

The invoice method is widely used in most VAT countries because of the inherent advantages in the credit method of calculating tax liability. First, it makes cross checking of tax paid at earlier stages more tractable, as dealers are required to State the amount of tax on invoices. Secondly, tax burden being dependent upon the tax rate at final stage, dealers at intermediate stages do not have any incentive to seek special treatment in tax rates. Finally, it facilitates broader tax adjustments.

2.4.2.3 Forms of VAT

VAT is normally levied on all items of final consumption including services. The overall coverage, however, depends upon the past experience of the country concerned. As shown in Fig 2.2 there are three forms of VAT which are adopted on the basis of coverage.

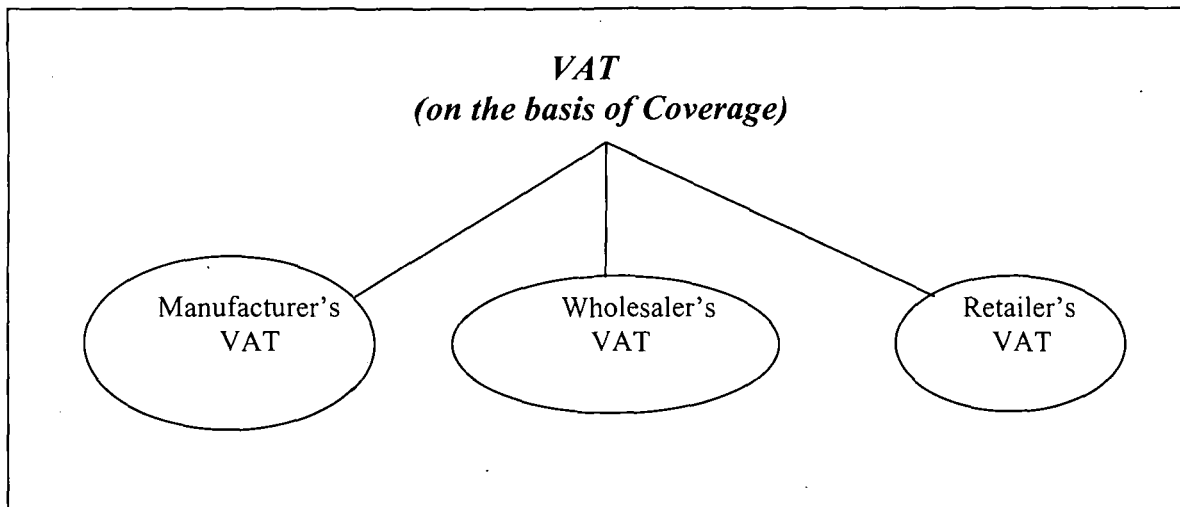


Fig 2.2 Forms of VAT

Manufacturer's VAT could extend to all the manufacturers in the economy. As the number of dealers is limited here, this tax is the easiest to administer. Nevertheless, this form is not popular among the VAT nations and only a few countries have adopted it.

Wholesaler's VAT covers all the transactions ranging from manufacturer to the wholesaler with the exclusion of retail dealers. This VAT is considered superior to Manufacturer's VAT because it is closer to the consumer and takes care of the value added from manufacturer to wholesaler.

Retailer's VAT encompasses all transactions in the economy. It is considered to be the most preferred solution because it does not create economic distortions. However, it comprises of a large number of small dealers who cannot keep adequate accounts. Hence, most countries have provisions through which small firms are fully or partly exempted from VAT.

2.4.3 Advantages of VAT

VAT is practised in many countries of the world because of its inherent advantages. VAT is very popular in these countries because of its following features:

- Simple tax structure
- Reduces evasion of tax.
- Neutrality of tax with respect to behaviour of consumer (relative prices are not affected) and behaviour of producer (production technique not affected).
- Efficient resource allocation.
- No tax on inputs.

Moreover, VAT is advantageous over other forms of sales taxation. This is because of the following facts.

- It has a flexible capacity to generate large and buoyant revenues.
- It could be designed to be neutral.
- Eliminates cascading and hence no tax-induced distortion in favour or against vertical integration.
- Tends to lessen incentive for evasion by not concentrating the impact of tax on any given level.
- Tax burden is transparent.
- Zero rating of tax on exports is easy.
- Large base. Low tax rates could have the same revenue.

2.4.4 VAT in India

The Finance Ministers of India's major States formed a committee in 1995 to reform sales tax in the line of VAT. The committee had set April 1, 2002 as the deadline for all States to switch over to VAT. In March 1999, Maharashtra became another State to dumpster VAT. Earlier, Andhra Pradesh and Kerala withdrew VAT type of tax system and reverted to sales tax. Tamilnadu, though planned to introduce it in 1996, has not been able to do so till date because of resistance from the traders. Only in Madhya Pradesh does a carcass version of VAT survive. Maharashtra and Madhya Pradesh came closer to implementing VAT correctly. Both reduced the number of tax slabs from twenty to seven and ten to four respectively. But Maharashtra Government being faced with the problem to meet heavy public expenditure as well as traders resistance, had ultimately scrapped the system.

The Union Budget 2000-01 has proposed a CenVAT to replace MODVAT. This system has an essence for converting the whole system of commodity taxation in India into a VAT regime.

Implementing VAT had not been an easy job for most of the Indian States so far. It is said that most States did not do their homework properly. The State Governments worry about losing revenue from Central Sales Tax- if Centre opts for VAT. The revenue from CST is retained by the States from which goods originate and accounts for 20 -30% of the revenue of most States. The existing tax system is incompatible with VAT; yet it cannot be abolished unless the States are compensated for the revenue loss. Besides, there are some prerequisites which cannot be ignored. Tax offices have to be computerized since calculating VAT and maintaining the records required are, otherwise, complicated. Moreover, tax officials have to be trained and businesspersons and traders should be educated. Tax officials have to understand the system,

otherwise, there could be a lot of harassment to the tax payers. More importantly, VAT is to be introduced in the neighbouring States as well. Clearly, the aim of introducing VAT may not be achieved immediately.

The National Institute of Public Finance and Policy (NIPFP), New Delhi has come out with a model Value –Added Tax Act. By the end of September 2001, the State Governments of Delhi and West Bengal have already published their respective Draft Value-Added Tax Acts as a preparatory measure for its implementation tentatively with effect from April 1, 2003.

2.5 Conclusion

Revenue from tax collection contribute largely to the State exchequer. Both direct and indirect taxes are of great importance to generate such revenue. The Constitution of India provides the scope of collecting taxes by the Central Government as well as by the State Governments. Taking the advantage of the liberty to decide taxation policies in certain areas, the Governments of different States follow different tax policies. Wide variations in such policies among neighbouring States create disharmony and consequent problems in tax administration. Sales tax, which has been in force since the ancient days, is a type of taxation on which the State Governments rely most. Hence, it is necessary to have a proper structure and administration of sales tax in each State of India. In order to bring uniformity and to reduce complexities in administration, the system of Value-Added Tax (VAT) is being suggested for all the States of India. VAT has already been tried and has been found to be successful in many countries. In case of adoption of VAT system of sales taxation in Indian with effect from April 1, 2003, it would be necessary to see that the policies are formulated properly, the structure is made full-proof as possible, administration has to be easy, and it generates enthusiasm among all the stakeholders for its implementation.

References:

- ¹ Jaiswal (Ed. 1978), *Hindu Polity*, p 318
- ² Deb Sarma R.K. and Sarma D (Ed. 1977), *Kautilya's Arthashastra*, (Assamese) p 79
- ³ Purohit M.C. (Ed. 1975), *Sales Taxation in India*, p 52

CHAPTER 3

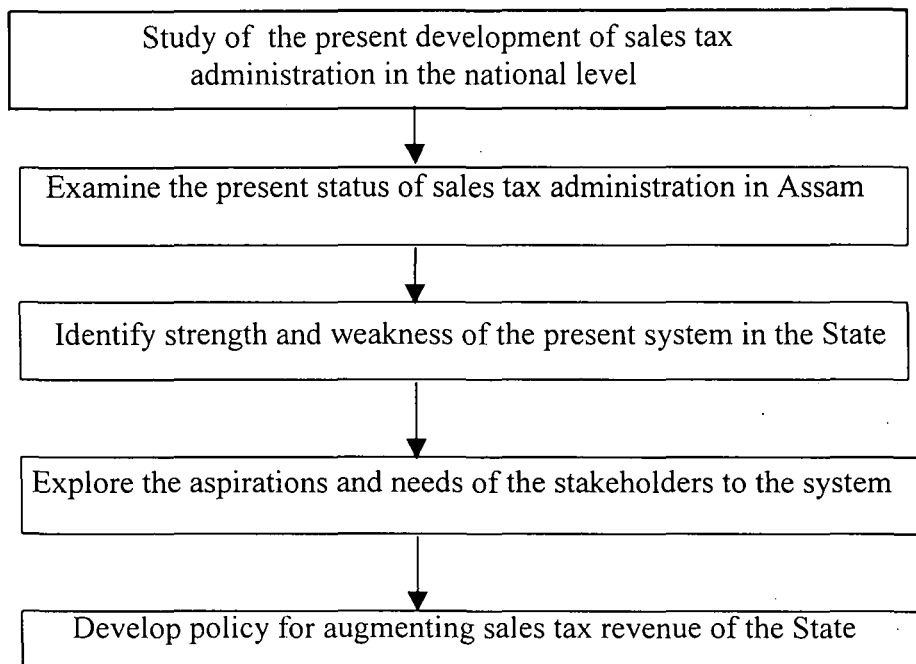
Research Methodology

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

To fulfil the objectives of the study, a well-thought research methodology has been carried out throughout the study. The current performance of the sales tax department is evaluated through various secondary information as provided by the Office of the Commissioner of Taxes, Assam. The nation-wide scenario regarding the introduction of value-added tax has been studied thoroughly. Data regarding stakeholders' perception have been collected through a State-wide survey. It has been tried to identify the loopholes in the present system of sales tax administration, the requirements of changeover to the VAT regime and the need and aspirations of the stakeholders to the system. Considering all the factors, it has been tried to develop policies for the effective administration of sales taxation in the State of Assam. The whole research plan has been depicted in the following chart:



3.2 Collection of Information

The success of a study depends on the quality and relevance of the data. As part of collecting required and adequate amount of data from appropriate sources, it was planned to collect primary as well as secondary data to meet the research requirements.

3.2.1 Secondary Data

The basic objective of the study has been to suggest ways for augmenting revenue from sales taxation by giving least possible pains to the taxpayers. In this effort, the study needed various information relating to the past performance of the sales taxation system in the State. The study tried to examine the following factors:

- i) the present state of economy of the State
- ii) the structure and administration practised in the State as regards sales taxation
- iii) the pattern of growth of revenue from sales taxation in Assam
- iv) the performance of the sales tax department as regards collection of arrears, settlement of pending assessments etc.
- v) the development in the field of sales taxation in the national as well as international arena.

The data relevant to the above aspects were collected from number of sources such as past studies, published papers, articles, tax administration reports, various tax Acts etc. Many offices and institutions were visited, as mentioned below:

1. Commissioner of Taxes, Guwahati
2. National Institute of Public Finance and Policy, New Delhi
3. Directorate of Economics and Statistics, Guwahati
4. Indian Institute of Public Administration, New Delhi
5. Relevant web-sites
6. Libraries of various institutions.

3.2.2 Primary Data

As part of data collection, primary data have also been collected from different sources. Observation and case study methods were used. Survey technique has been used by designing questionnaire as per the objectives of the study.

Primary data were collected from a group of stakeholders comprising of dealers, administrators, experts and consumers. Primary data were collected mainly through questionnaires but observation method was also followed to obtain various first-hand information relevant for the study.

3.2.2.1 Stakeholders Defined

In this regard, the stakeholders are classified under four categories viz. Dealers, administrators, experts and consumers. Dealer, in the context of sales taxation, means any person who deals in taxable merchandise. Dealers are of two type viz. registered dealers and unregistered dealers. Dealers play the main role in the process of collection of sales tax. Sales tax is an indirect tax. The State Government imposes sales tax on various commodities. The dealers collect the tax from their customers and deposit it to the Government exchequer. In this way, they perform the function of an agent of the Government so far as collection of sales tax is concerned.

Administrators are the functionaries of the sales tax department. They are the functionaries through whom the sales tax statute is administered. They are the main pillars as far as the execution of the Act is concerned. The administrators for this study include officers in the rank of Inspector of Taxes and above. Five categories of administrators viz. Joint Commissioner of Taxes, Deputy Commissioner of Taxes, Senior Superintendent of Taxes, Superintendent of Taxes and Inspector of Taxes, have been considered in the study.

Experts are those persons who have wide knowledge and expertise in sales tax matters of the State. This category includes sales tax consultants, retired sales tax officials, office bearers of the Chambers of Commerce and the like. This category also includes some dealers who have in-depth knowledge in the subject.

The fourth category is the consumers. This segment represents public in general who purchases any product for their use. These are the persons who ultimately bear the burden of sales tax imposed by the State Government.

3.2.3 The Questionnaire

Various factors described in § 3.3 were tried to be measured through a questionnaire using various scales. Utmost care was taken to ensure that the variables be measured with least possible error and that they are valid for using the appropriate analytical tools. The principles regarding questionnaire preparation were followed thoroughly and precautions were taken so that occurrences of non-sampling errors were negligible. Most of the questions were close ended so that they do not pose any difficulty to the participant in responding and that the analysis could be done in a pre-determined way.

A unique method was adopted for selection of questions for the questionnaire. A Delphi-like study was conducted where some open-ended broad questions were sent to 30 eminent experts in the field of sales taxation. Their diverse responses were narrowed down in three consecutive iterative rounds. On the basis of the findings of the above study, the detailed questionnaire for the general respondents was prepared. Hence, the questionnaire could incorporate all the necessary elements that were required for the study.

A pilot survey was conducted with the proposed questionnaire in May 2000 on 35 respondents and necessary modifications in the content of questions, wordings, and sequence were made.

The questionnaire consisted of 28 questions for dealers and administrators, 37 questions for experts, and 10 questions for consumers. The questionnaire was started with an introductory note stating the reasons as to why the study was necessary. Respondents' full participation was sought. The first question of all categories was put as a warm-up question and thus it was a simple and preliminary one. Subsequent questions gradually tried to invite the respondents deeper into the study zone. Questions using the interval scale (a 10 point rating) were used to determine the reason for poor sales tax collection, problems in compliance and administration of sales tax statutes and ways of evasion of sales tax in the State. A 3-point scale was used to determine the various ways for simplification of sales tax system in Assam. In other questions, nominal and interval scales were used. The dealer-respondents were asked to give a profile of themselves with regard to their nature of business, range of annual turnover, experience. Administrator-respondents were asked to provide information on their designation, service carrier, and job satisfaction level. Expert-respondents were requested to provide information on their profession, tenure of relationship with the sales tax system. Consumer-respondents' profile was also recorded as to their education, monthly income

and their profession. The idea behind inclusion of many identification data was to find out any relationship that might exist among the respondent's peer and variables under study.

The distribution of questions on the basis of measurement scale used is shown in Figure 3.1. Sample questionnaires are presented in appendix.

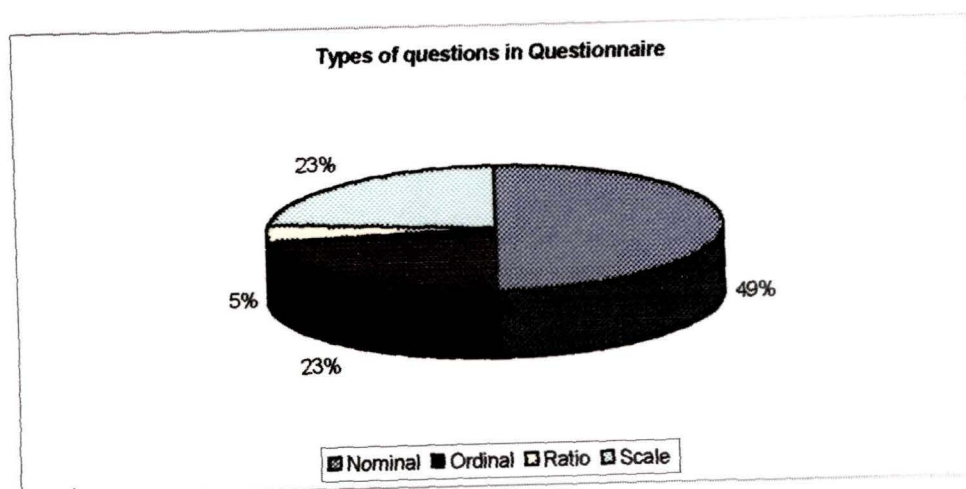


Fig 3.1 Types of Questions in the Questionnaire

Data collected were validated with due caution. Only those responses that were clearly given were taken into consideration. A number of responses were to be rejected as because of lack of clarity. A database comprising responses from all 1220 questionnaires was created for relevant analysis.

3.3 Survey of Stakeholders' Perception

A survey was conducted between July 2000 and June 2001 among dealers, administrators, experts and consumers to study the variables that had direct bearing with the study objectives. The prime objectives of the survey were to find out the factors that lead to non-compliance of tax statutes resulting in evasion of taxes. The survey also tried to find out the problems and difficulties faced by the stakeholders in compliance and administration of the

tax laws. It was tried to explore the consumers' attitude towards payments of sales tax. The factors to be evaluated in order to achieve the above objectives are mentioned below:

1. Shortcomings in the present Sales Tax Law of the State.
2. Reason for poor collection of sales tax in Assam
3. Awareness about the Value-Added Tax (VAT) system
4. Problems faced by the dealers in the compliance of sales tax law of the State.
5. Problems faced by administrators in the administration of sales tax of the State.
6. Ways of Evasion of sales tax in Assam as perceived by dealers, administrators and experts.
7. Widening the sales tax net by bringing more dealers under registration.
8. Scope for enhancing sales tax revenue.
9. Views of stakeholders regarding simplification of sales tax structure in Assam.

Fig 3.2 shows the composition of stakeholders in the sample that was surveyed for exploring the factors mentioned above. The percentage of consumers is not included in the diagram as the consumers' survey has been completely different from that of the other three segments. The figure shows that majority of the respondents belong to dealer category followed by administrators and then experts. It is for the reason that dealers play the main role in the process of generation of sales taxation and the administrators are there to follow up the dealers. As the dealers are the main source of collection of sales taxation in the State, hence main emphasis has been placed on dealers while determining the sample composition.

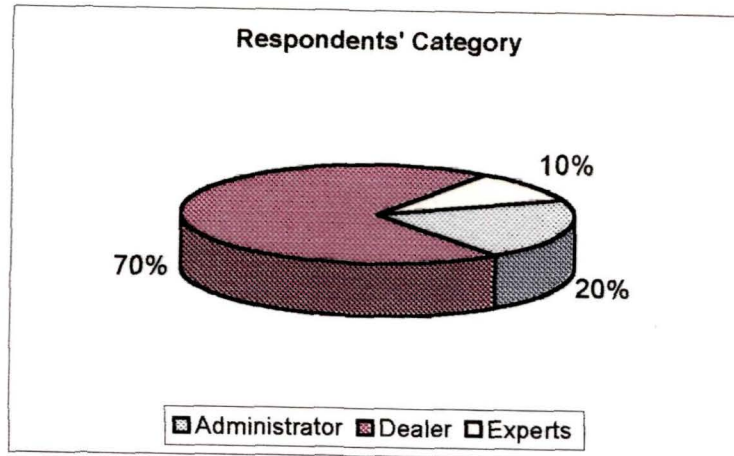


Fig 3.2 Composition of Sample of Total Respondents

The quality of the findings of a sample study depends, to a large extent, on the composition of sample. The survey for the study has been carried out in four independent ways. The study population, sample size, element vary from one to another. The following is the brief description of the surveys being carried out on the four stakeholder groups.

Survey I: Survey on Dealers :

⇒ Sampling Plan

The study population is defined as follows:

Element : Persons who deal in taxable merchandise in the State of Assam. This includes persons who have registered themselves with the sales tax authorities as sellers as well as persons who deal in taxable merchandise but have not been registered.

Sampling Units: Individual shops and establishments.

Extent: Whole of Assam. It covered various districts of the State. The places were selected on the basis of the tax collection targets as fixed by the Commissioner of Taxes, Assam.

Time From July 2000 to June 2001.

⇒ Sampling Frame

Sampling Frame is not available though the population is finite. The population consists of well- defined registered dealers. There were 28990 registered dealers in the State of Assam during 1997-98. The turnover-wise dealer population is depicted in Table 3.1

Table 3.1
Gross Turnover-wise Number of Registered Dealers during 1997-98

below Rs. 1 lakh	10489
Above Rs. 1 lakh up to Rs. 3 lakh	7674
Above Rs. 3 Lakh up to Rs. 5 lakh	4201
Above Rs. 5 lakh up to Rs. 10 Lakh	3003
Above Rs. 10 lakh	3623
Total	28990

Source: Commissioner of Taxes, Assam

⇒ Sample Size and Sampling Procedure

A sample size of 430 had been selected among the study population of dealers. Figure 3.3 portrays the composition of dealers in the sample as per their annual turnover. It is noticed that the sample is almost equally divided among various groups in the mid and high annual turnover category. Though more than 30% of the population consists of dealer in the small turnover group even in the selection of sample size more emphasis is being given on mid and high turnover group because of their more interaction with the sales taxation system in comparison to the small turnover group.

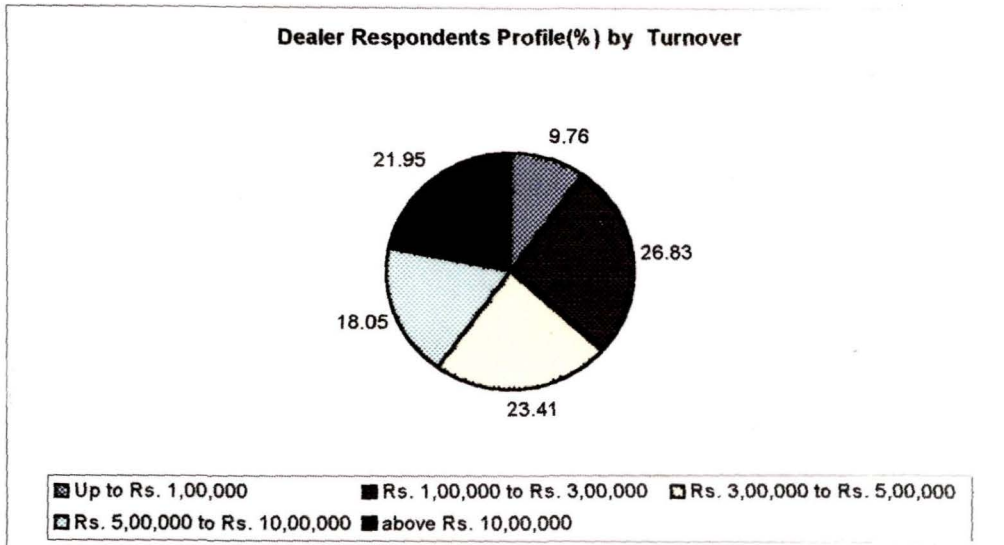


Fig 3.3 Composition of Sample in Dealer-Respondents according to Turnover

Fig 3.4 shows the composition of dealer-respondents in relation to their registration with the tax authorities. It is seen from the figure that most of the respondents in the dealer category are registered. It may be because the registered dealers are more approachable than unregistered dealers. A very few unregistered dealers could be surveyed during the study.

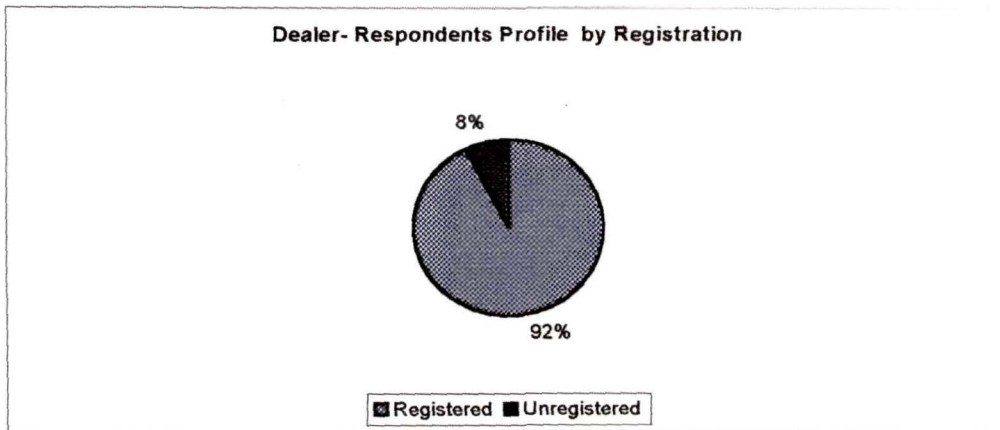


Fig 3.4 Dealer-Respondents Profile according to Registration with Tax Dept.

Survey II : Survey on Administrators:

⇒ Sampling Plan

The study population is defined as follows:

Element : Persons who are engaged in administering the sales tax statutes in the State of Assam. This segment includes persons who are the authorized employees of the sales tax department in charge of the execution of various responsibilities relating to sales tax administration.

Sampling Units: Individual Officers not below the rank of Inspector of Taxes.

Extent: The entire State of Assam. It covered various districts of the State. The places were selected on the basis of the tax collection targets as fixed by the Commissioner of Taxes, Assam. Due weightage is being given to the places where concentration of collection of tax is substantial. Guwahati, the State capital, is given main emphasis as 40 percent of the total respondents belong to this place. This is because almost 45 percent of the total tax collection of the State come from this place.

Time: From July 2000 to June 2001

⇒ Sampling Frame

The sampling frame is not defined. But the population consists of well-defined administrators as maintained by the Office of the Commissioner of Taxes. There were altogether 376 administrators up to the rank of Inspector of Taxes in the State of Assam during 1997-98. Table 3.2 enumerates the number of administrators in the State of Assam who are responsible for the administration of sales taxes.

Table 3.2
Sanctioned Strength of Officers as on 31-3-98

Commissioner of Taxes (<i>CT</i>)	1
Additional Commissioner of Taxes (<i>ACT</i>)	2
Joint Commissioner of Taxes (<i>JCT</i>)	5
Deputy Commissioner of Taxes (<i>DCT</i>)	14
Senior Superintendent of Taxes (<i>SST</i>)	15
Finance and Accounts Officers (<i>FAO</i>)	1
Superintendent of Taxes (<i>ST</i>)	131
Inspector of Taxes (<i>IT</i>)	207
Total (except Grade III and IV Staff)	376

⇒ **Sample Size and Sampling Procedure**

It is always desirable to have a large sample size to have the least possible sampling error. Hence, a substantial number has been selected to form the sample of this category of respondent. A total number of 126 administrators were selected from all over the State. Convenience sampling technique has been applied for selection of sampling units. Due emphasis has been given on various parameters while selecting the respondents for the survey. The parameters have been place, designation, experience etc.

Fig 3.5 represents composition of sample of administrator-respondents on the basis of their designation. The figure shows that majority of the respondents are Superintendent of Taxes (ST). It has become very much necessary to have their views as because both SSTs and STs are the officers mainly entrusted with the job of assessment of taxes. Next prominence has been given to the Inspector of Taxes (IT) because they are the officers at the grass-root level to deal with the tax collection and to check tax evasion. Both STs and ITs have maximum contact with the dealers and other parties in comparison to other officers in the rank and, therefore, their comments about the tax system are taken to be of great importance.

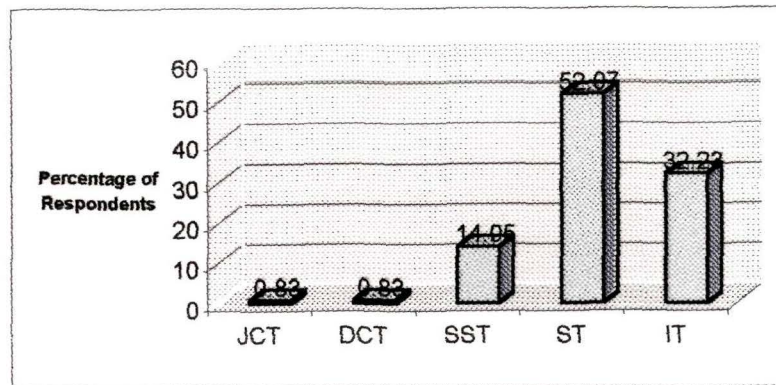


Fig 3.5 Administrator-Respondents Profile by Designation

Fig 3.6 shows the composition of administrator-respondents on the basis of authority of assessment of sales tax. Assessment of sales tax is the prime authority by which an officer exercises his power for determination of the amount of tax payable by any dealer. The figure clearly shows that a very high percentage of the respondents belong to the category of having the authority for assessment of sales taxation. The officers having the authority can perceive the strength and weaknesses of the present sales tax system more strikingly than others.

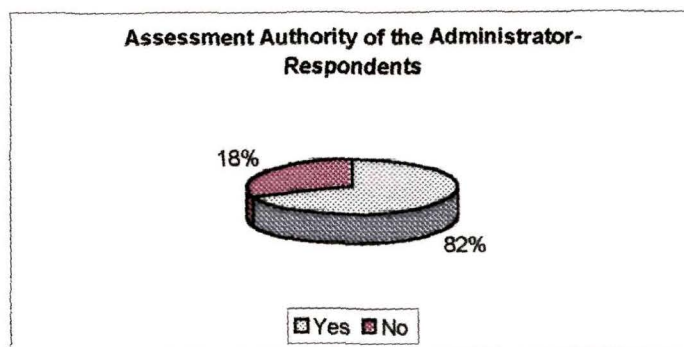


Fig 3.6 Administrator-Respondents Profile by Authority

The views of administrators may depend on their service career. Fig 3.7 portrays the composition of sample of administrators on the basis of their service career. It is seen that more than half of the administrator-respondents comprise of young administrators having a service career of less than 10 years.

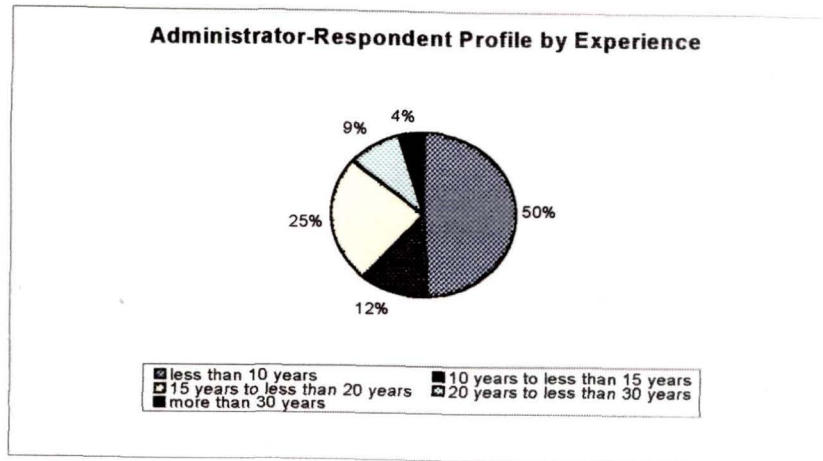


Fig 3.7 Composition of Sample of Administrator-Respondents by Service Experience

Survey III : Survey on Experts:

⇒ Sampling Plan

The study population is defined as follows:

Element : Persons who are actively involved in various fields as regards the sales tax statutes in the State of Assam. This includes persons who are performing the functions of a consultant in sales tax matters to the dealers. This category also includes persons who were tax administrators but now retired after serving in the sales tax department at different capacities. There are also some dealers who have wide knowledge and experience over sales tax matters in the State. They are also treated as experts for the survey. Expert category also includes academicians and researchers who are engaged in the field of sales taxation in the State.

Sampling Units: Individuals

Extent: The entire State of Assam. It covered every corner of the State. The places were selected on the basis of the location of the respondents. As Guwahati is the nerve centre of business in the State, hence most of the persons in the expert category are located in this place. Naturally, more weightage is being given to the places where concentration of such respondents is substantial.

Time: From July 2000 to June 2001

⇒ Sampling Frame

The sampling frame is not defined. Hence, it was not possible to draw out any frame for the population.

⇒ Sample Size and Sampling Procedure

As the sampling frame was not defined, it was difficult to come to any decision regarding the optimum sample size for this category of respondents. Convenience sampling technique has been applied and a sample size of 64 respondents was taken from the entire State. While selecting the respondents due care has been taken to see that they are selected in a manner to cover the various parts of the State, represent various professions as well as a mixture of senior and young persons.

Fig 3.8 represents the profile of expert-respondents on the basis of their profession. It can be noticed from the figure that most of the respondents in this category are tax consultants. They are the persons who know the various intricacies as well as pros and cons of the present sales taxation system in the State. The next substantial group have been retired tax officials who have wide experience in sales tax matters because of their long standing service career. Academicians, researchers in sales taxation are few in the category as there are dearth of such persons in the State.

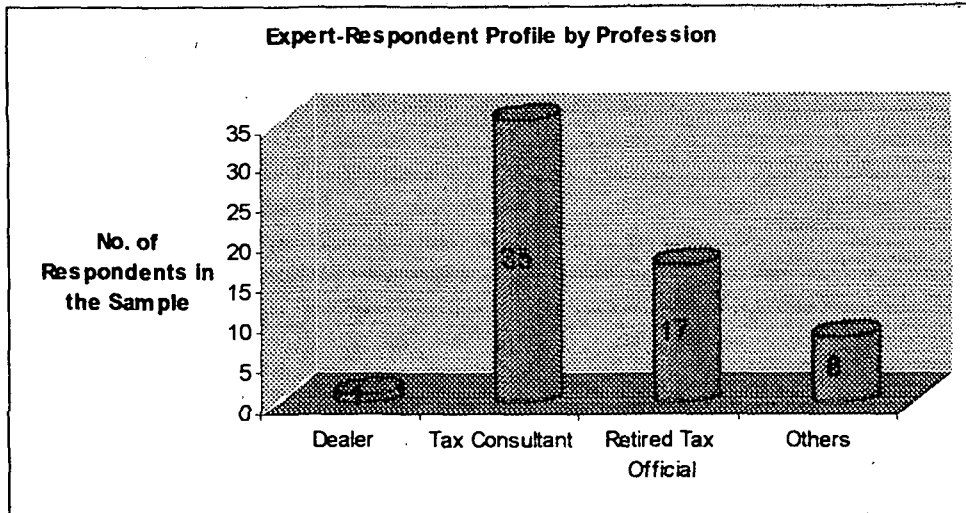


Fig 3.8 Composition in the sample of Expert-Respondent category by Profession

The comments and suggestions provided by the expert-respondents depend to a great extent on their experience of handling the sales tax system. Utmost care has been taken to have a mix of experienced and young persons in this category. Fig 3.9 is a representation of the composition of expert respondents' sample by experience.

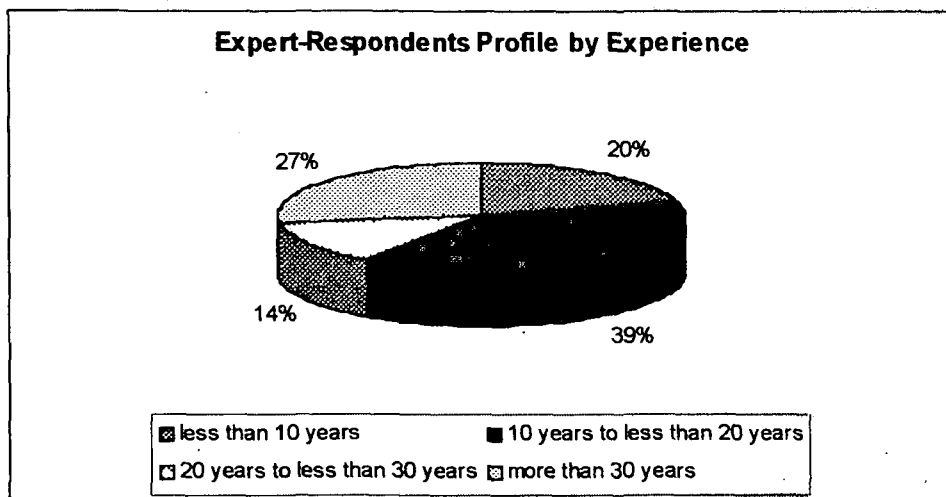


Fig 3.9 Composition of Expert-Respondent Sample by Experience

Basis of Selection of Sample of Respondents

The above categories of respondents were carefully selected from various places of the State. But selection of number of respondents from each place had been a tough job. The dealers were selected on the basis of their place of business. Number of dealers as well as administrators selected in a particular place had a direct relevance to the proportion of total sales tax earning of the State. Thus, more respondents were taken from those places where collections of sales tax were more. Table 3.3 shows the justification for selection of respondents representing various places in the State of Assam.

Table 3.3

Distribution of Sampling Units

<u>Name of District</u>	<u>Collection (Rs. In lakhs)</u>	<u>%</u>	<u>No. of respondents</u>	<u>%</u>
Tinsukia	9877.65	11.30	60	9.67
Dibrugarh	11092.42	12.69	105	16.94
Sivasagar	5259.99	6.02	13	2.10
Jorhat	1836.63	2.10	44	7.10
Golaghat	972.20	1.11	7	1.12
Nagaon	1132.35	1.30	32	5.16
Morigaon	899.67	1.03	1	0.16
Karbi Anglong	465.5	0.53	0	0
North Cachher	277.37	0.32	0	0
Cachher	1312.71	1.50	0	0
Hailakandi	571.32	0.65	0	0
Karimganj	503.20	0.58	0	0
Dhemaji	142.89	0.16	3	0.48
North Lakhimpur	395.06	0.45	32	5.17
Sonitpur	2120.19	2.43	61	9.83
Darrang	694.02	0.80	0	0
Kamrup	42735.09	48.91	249	40.16
Nalbari	403.32	0.46	0	0
Barpeta	577.84	0.66	12	1.94
Bongaigaon	4604.83	5.27	0	0
Goalpara	306.44	0.35	0	0
Kokrajhar	300.42	0.34	0	0
Dhubri	904.31	1.04	1	0.16
Total	87385.42	100.00	620	100.00

Source: Figures of Collection of Sales Tax, Commissioner of Taxes, Assam

It is clear from Table 3.3 that almost half of the total sales tax collection of the State comes from Kamrup District of Assam. Guwahati, the State capital, is also the headquarter of the district. On this basis, 40 percent of the respondents were selected from that district. In selecting other places due weightage was given on the respective collection figures of sales taxes in that place.

Survey IV: Survey on Consumers

The fourth segment happened to be the consumers where the size of the population was very large and a sampling frame could not be defined. Classical statistical method of sample size determination using the precision level and level of confidence could not be employed. Altogether responses of 600 consumers from different places of the State were considered for the Study.

Consumers are the persons who ultimately bear the burden of sales taxation. Dealers pay the taxes at first instance to the authorities, but they shift the burden of sales taxes as soon as the commodities are sold to consumers. Quantum of collection of sales tax, to a large extent, depends on the attitude of consumers regarding payment of sales tax. A major way of evasion of sales tax in the State has been non-recording of sales. If consumers were aware of their rights and duties, and they insisted on vouchers against every purchase, the evasion of sales tax could be checked to a great extent.

The consumers are also given due importance for the collection of various information. To have first-hand knowledge about the attitude and perceptions of the consumers towards sales tax, a Statewide survey has been carried out to explore the following aspects:

1. Awareness of consumers to the present state of economy of the State
2. Awareness about importance and payment of sales tax
3. Habit of asking for authentic vouchers against each purchase
4. Honesty for payment of sales tax
5. Views regarding payment of sales tax
6. To know the effects of various factors like income, education, profession on the habit of payment of sales tax.

⇒ Sampling Plan

The study population is defined as follows:

Element : Persons who make purchases of taxable commodity in the State of Assam. This includes any individual irrespective of any profession, educational qualification, income etc.

Sampling Units: Individuals

Extent: The entire State of Assam. It covered various districts of the State. The places were selected on the basis of the collection of sales taxation. Naturally, more weightage is being given to the places where collection of sales taxes have been substantial.

Time: From July 2000 to June 2001.

⇒ Sampling Frame

The sampling frame is not defined. Hence, it was not possible to draw out any frame for the population.

⇒ Sample Size and Sampling Procedure

As the sampling frame was not defined, it was difficult to come to any decision regarding the optimum sample size for this category of respondents. Convenience sampling technique has been applied and a sample size of 600 respondents was taken from the entire State. While selecting the respondents due care has been exercised to see that they are selected to cover the various parts of the State, represent various types of individuals including housewives, students and the like.

Fig 3.10 describes the consumer-respondents profile according to their educational qualification. More than half of the respondents are graduate while

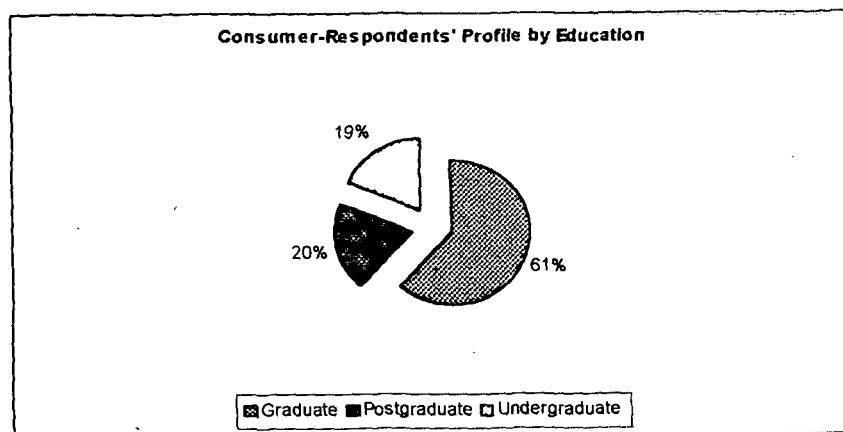


Fig 3.10 Composition of Sample of Consumer-Respondents according to Educational Qualification

the balance is equally represented by undergraduate and postgraduates. The educational level has a direct bearing on the attitude of consumers. Another factor that may affect the attitude of consumers in the payment of sales may be their income level.

Fig 3.11 shows the composition of sample of consumer-respondents on the basis of their monthly income. It can be noticed from the figure that half the sample comprise of respondents having mediocre income in the range of Rs. 5,000 – Rs. 10,000 per month.

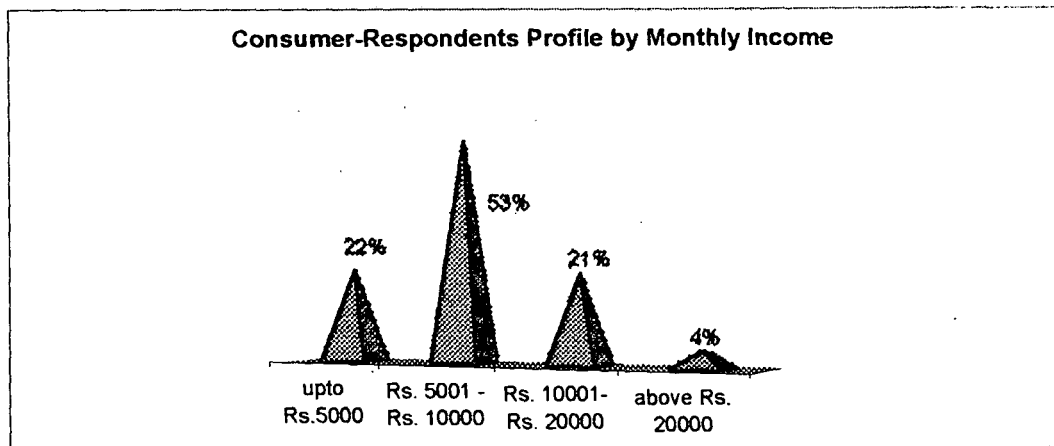


Fig 3.11 Composition of Sample of Consumer-Respondents according to Income

The attitude and perception of the consumers may also depend on the profession they carry out. Fig 3.12 is a representation of the composition of sample of consumer respondents on the basis of their profession. In selecting the sample, emphasis has been given more on the service holders to know their perception about the sales tax matters. Businesspersons and professionals come next. The other category, being the least, includes housewives, students etc. who also play a substantial role in making purchases of commodities from the dealers.

3.4 Statistical Tools Used

The data have been processed by using the software SPSS version 8.0 as well as Sigmastat. The software has been used widely in analyzing the data to arrive at the conclusion. Various techniques like chi-square test, z test have been used. As the data have been of a very complex nature, categorical analysis was necessary. In arriving at important conclusions, emphasis had been given on two-way ANOVA technique.

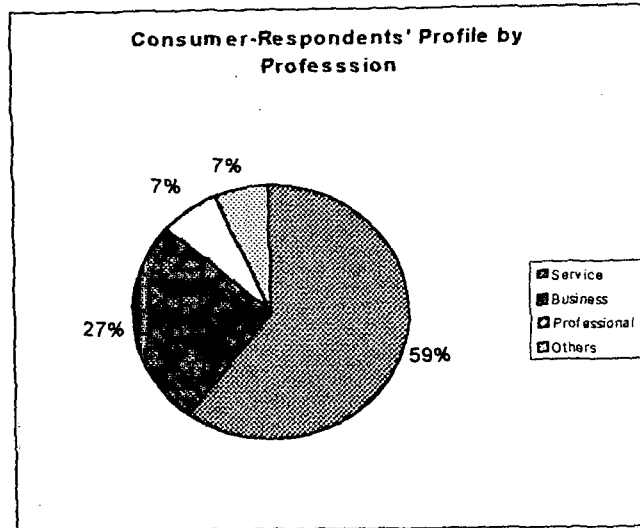


Fig 3.12 Composition of Sample of Consumer-Respondents according to Profession

3.5 Conclusion

Both primary and secondary data were collected from all over the State of Assam with a view to analyzing the existing taxation system in the State. While the secondary data were collected regarding growth pattern of tax revenue, performance of the tax department, pros and cons of the present tax statute etc., the primary data are related to views and perceptions of the stakeholders involved in the sales taxation system. The stakeholders include dealers of various commodities, tax administrators of various levels, experts of various backgrounds, and consumers in general. The questionnaire method was followed to collect the primary data from all categories of respondents. Though it is possible to apply a wide range of statistical tools to analyze the data, keeping in view the objectives of the study, a few statistical tools have been applied in this study. The collected data have been processed through SPSS software to have a segmental analysis of the respondents. The statistical tools viz. Chi-square test, ANOVA, regression analysis are applied in the processing of secondary and primary data which are presented in the subsequent chapters.

CHAPTER 4

Sales Tax Administration in Assam —An Introspection

CHAPTER – 4

SALES TAX ADMINISTRATION IN ASSAM - AN INTROSPECTION

4.1 History of Sales Taxation in Assam

The history of sales taxation in Assam dates back to Tenth Century A.D. The information is based on scanty data scattered over the period on copper plates. Rock inscription found in Tezpur refers to the collection of taxes on merchandise carried on keeled boats. It further mentions levying of *sulka* (toll) and the imposition of fines. The Bargaon grants' inscription tells that the State derived considerable revenue from copper mines known as *kamalakara*. The officer of the revenue department was the *Auparika* or *Uparika* and the officer was primarily entrusted with the recovery of the Uparika tax.

Another officer known as *koshagarika* was in-charge of the royal granary or store in the village, where *kara* (tax) in the kind of *dhanya* (rice) was collected. The history of sales taxation in Assam can also be traced during the Ahom rule (1300 A.D. to 1825 A.D.) when *khajna* (duty) on the commodities brought to the market were collected by *Bhandari* (tax collector) appointed by the king generally known as *Sargadeo* amongst the Ahom. The description of revenue from customs in 1793 reveals that the trade with Bengal was considerable and the officials who were in charge of the customs paid revenue paid Rs. 90,000 a year to the *Barphukan* of which, however, only Rs. 26,000 reached the royal treasury. At that time, however, a certain amount was smuggled past the custom house.¹

The administration of commodity taxes during the British rule was a remarkable one. At that time, the province of Assam was divided into six districts, namely, Kamrup, Darrang, Nowgong, Sibpur, Lakhimpur and Mutuuck or Sadiya. These districts were further sub divided into parganas, mahals or mauzas respectively and placed under the fiscal management of Chowdhuris, Patgiris or Thakurias, each of who paid the revenue of his division directly to the collector.²

The modern commodity taxation in Assam has come into existence in the beginning of the twentieth century. The year 1910 marked an important step towards the development of commodity taxation in Assam. The Eastern Bengal and Assam Excise Act, 1910 empowered the Government of Assam to impose excise duties on some specific goods manufactured or produced in the State.

Before the adoption of the Constitution of India, the State Governments of India derived power to levy tax under section 100(3) of the Government of India Act, 1935. After coming into force, the Constitution of India conferred the power on State Legislatures to enact laws in respect of taxes to be levied on the sale or purchase of goods other than newspapers by virtue of Article 246(3) of the Constitution read with Entry 54 of list-II of the Seventh Schedule. Like other States in India, the Government of Assam for the first time, with a view to levying tax on sale of goods, enacted Assam Sales of Motor Spirit and Lubricant Taxation Act, 1939. To raise additional and substantial revenue from taxation of sales of goods in Assam, the State Legislature passed another Act, the Assam Sales Tax Act, 1947. In 1956 a new Act viz. The Assam Finance (Sales)Tax Act, 1956 came into force with the aim to impose tax on sale of cigarettes, tobacco and other commodities in Assam. A number of commodities had been brought under the Statute liable to be taxed at different rate ranging from 7 paise in the rupee to 40 paise in a rupee. Tax under this statute is levied at the point of first sale in the State.

Prior to the enactment of the Assam General Sales Tax Act, 1993, the present Act, the following sales tax statutes passed by State Legislatures were in force in the State

- (1) The Assam Sales Tax Act, 1947
- (2) The Assam Finance (Sales Tax) Act, 1956
- (3) The Assam (Sales of Petroleum and Petroleum Products including Motor Spirits and Lubricants) Taxation Act, 1955
- (4) The Assam Purchase Tax Act, 1967

In an attempt to consolidate the four sales tax statutes mentioned above, the Assam General Sales Tax Act, 1993 (Act of XII of 1993) was passed in 1993. The Assam General Sales Tax Act, 1993 has brought about strategic changes in the structure of sales taxation in Assam. This has made the tax structure simple for both the taxpayers and the Government. An important feature of the Act has been the introduction of the principle of double point taxation on certain commodities to check tax avoidance and evasion.

The Act is in force at present and the present study is based on the functioning of the Act over the last eight years.

4.2 Structure and Administration of Sales Taxation in Assam

Effective administration of sales tax is very essential to achieve the revenue collection target of any State. Without effective and suitable administration even the best-designed sales tax structure will not be much effective. Effective administration of sales tax requires two things. First, the law relating to levy and collection of sales tax should be unambiguous. There should be little scope for avoidance and evasion of tax under the Act and Secondly, the machinery to enforce the tax should be an organized one. It is the administrative authorities who look that taxes are properly administered. Proper and effective administration does not mean that maximum revenue is to be

collected by coercive manner but to see that the taxpayers develop confidence in the taxation department and honest taxpayers do not get difficulty while discharging their obligations.

The sales tax administration in Assam can be broadly divided into Head Quarter organization, Administrative Field organization, and Appellate organization. The administration in the head quarter is under the direct supervision of the Commissioner of Taxes who is normally an officer of IAS cadre. Fig 4.1 depicts the organizational structure of the sales tax system in Assam and also the strength of the staff (figures in the bracket).

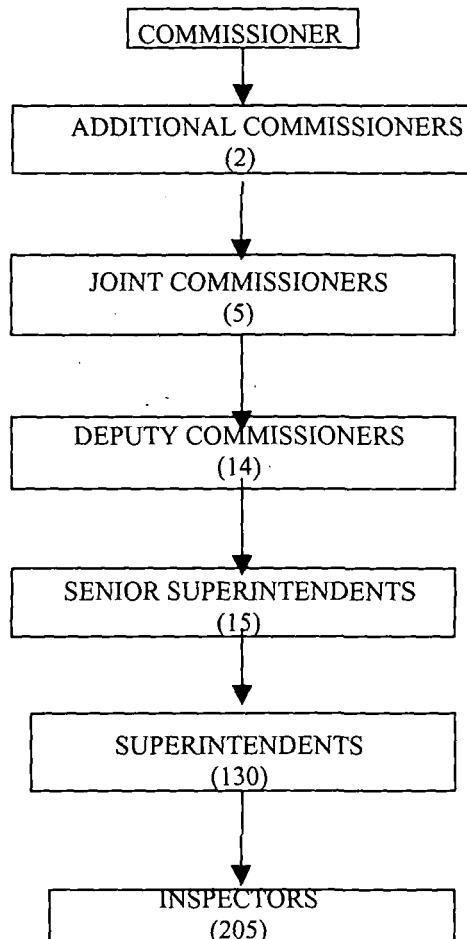


Fig 4.1 Departmental Set up Chart and Sanctioned Strength
Source: Commissioner of Taxes, Assam, Administrative Report, 1999-2000

The above figure reveals that in Assam, the sales tax administration is headed by the Commissioner of Taxes who is assisted by two Additional Commissioners and five Joint Commissioners of Taxes. The Joint Commissioner of Taxes in charge of planning and monitoring, looks after planning, and maintains co-ordination. The Joint Commissioner of Taxes in charge of law looks after court cases, enforcement branch, and internal audit. The Joint Commissioner of Taxes in charge of audit looks after audit, and matters related to public accounts committee. The revision cases are taken up by the Additional and the Joint Commissioner of Taxes as assigned to them by the Commissioner of Taxes. The Deputy Commissioner of Taxes (Statistics) is responsible to compile various statistics relating to collection of revenue, relevant data in order to facilitate tax policies and various other data those are required and helpful for better tax administration. Table 4.1 enumerates the offices for sales tax administration in the State of Assam.

Table 4.1

Offices under the Commissionerate of Taxes, Assam

1.	Head Office consisting of following 10 branches	
	(i) Establishment Branch	
	(ii) Accounts Branch	
	(iii) Sales Tax Branch	
	(iv) Other Taxes Branch	
	(v) Agricultural Income Tax Branch	
	(vi) Planning and Monitoring Branch	
	(vii) Vigilance Branch	
	(viii) Law Branch	
	(ix) Audit Branch	
	(x) Confidential Branch	
2.	Zonal Offices	10
3.	Unit Offices	34
4.	Recovery Offices	16
5.	Appellate Offices	5
6.	Check Posts	11

Administrative field organization starts with the Deputy Commissioner of Taxes at Zonal Offices. They do not undertake the assessment work, but are endowed with *suo moto* revisional power when warranted after inspection of any unit office. The second level of administration at the field level starts from the working of the Senior Superintendent of Taxes/ Superintendent of Taxes. They are in charge of the unit offices and are the most important functionaries in the administrative set up of the taxation department. They perform registration functions, make assessment, raise demands, collect dues, initiate action for recovery of arrears and initiate penal proceedings. Successful working of the department and improvement of revenue depends on this part of the organization. They are said to be the backbone of the taxation department. Inspectors of Taxes are responsible for conducting the survey of the business premises for the purpose of registration and assessment. Appellate organization is another set up of the department which offers the opportunity to dealers to file appeal against any Order of the assessing authorities.

Table 4.2 depicts the jurisdiction of each office as well as the area of recovery offices, check posts and appellate offices. The Table gives a complete picture of the sales tax administration of the State.

As the State of Assam is the gateway of six tribal States, commodities meant for those States pass through the State of Assam. Majority of these States have either no sales tax or a very nominal rate of sales tax. Thus, there exists a tendency of unscrupulous traders to take the bill of the commodities in the name of those tribal States but actually these goods are unloaded in Assam and are consumed in Assam. Thus, these traders can evade a great chunk of taxes thereby causing a huge leakage of sales tax in Assam. Hence, the check gates are of immense importance. Check gates are placed in various places to monitor the movement of commodities brought from outside the State as well as goods moved to other neighboring States.

Table 4.2

Zone-wise Location of Unit Offices, Recovery Offices, Check Posts and Appellate Offices under the Commissionerate

Zone	Unit	Recovery Offices	Check Posts	Appellate Offices
Guwahati-A	Guwahati-A	Guwahati	Jalukbari	Guwahati
	Mangaldoi	Mangaldai		
	Tangla			
Guwahati-B	Guwahati-B			Do
	Nalbari	Nalbari		
	Barpeta	Barpeta		
	Barpeta Road			
Guwahati-C	Guwahati-C		Khannapara	Do
	Guwahati-D			
Dhubri	Dhubri	Dhubri	Boxirhat	Do
			Damra	
	Bongaigaon			
	Kokrajhar	Kokrajhar		
	Goalpara	Goalpara	Kabaitory	
Tezpur	Tezpur	Tezpur	Balipara	Guwahati
	Dhekiajuli			
	B. Chariali		B. Chariali	
	N. Lakhimpur	N. Lakhimpur		Jorhat
	Dhemaji			
Jorhat	Jorhat	Jorhat		Do
	Golaghat			
Sibsagar	Sibsagar	Sibsagar		Do
	Dibrugarh	Dibrugarh		Tinsukia
Tinsukia	Tinsukia	Tinsukia		Do
	Naharkatia			
	Doomdooma			
	Digboi			
Nagaon	Nagaon	Nagaon	Sukhanjan	Nagaon
	Morigaon			
	Hojai			
	Diphu			
Silchar	Silchar	Silchar	Charaibari	Silchar
	Karimganj	Karimganj		
	Hailakandi		Dholaibazar	
	Halfong		Digorkhal	

4.3 Growth and Revenue Performance

Among the tax administered by the Commissioner of Taxes, Assam, the area of operation of the sales tax is widest. In Assam, by taxing of a total of around 300 commodities, it now covers the entire trading and business community of the State.

Inter-state disparities in the tax provisions and the intervention of the Centre into the jurisdiction of states' sales tax system create problems in the tax generation in the State. Moreover, revenue collection from this tax is also hampered in Assam resulting from the deficiencies in the economic structure of the State. The economic scenario of the State has already been described in details in Chapter 1. It has already been observed that the economic condition of the State is deplorable. There had been stagnant condition in the industrial field over the years since independence. Industrial production in the State has passed through phases of decline and recovery over time. It is evident from fluctuating indices of industrial production over the years. Table 4.3 shows in detail the indices of various types of industries in the State of Assam. It can very well be noticed that except petroleum refinery products, the index numbers of other types of industries as well as all- industry index numbers fluctuated widely over the period.

Table 4.3
Index Number of Industrial Production in Assam

Industry Group/Year	(Base 1970=100)				
	1993	1994	1995	1996	1997(P)
Grain Mill Products	86	100	86	118	54
Manf. of refining of sugar	37	15	26	13	0
Manf. of other edible oil and fats	88	57	35	32	50
Tea Processing	190	188	188	200	201
Manf. of cotton textiles	128	107	82	101	104
Manf. of Jute Textiles	353	302	312	294	394
Sawing and Planning of Wood	153	115	140	128	3
Manf. of Vaneer Plywood and their products	390	454	394	314	178
Manf. of Fertilizers and Pesticides	81	47	103	76	76
Manf. of Matches	87	76	80	70	7
Petroleum refinery products	256	265	272	294	316
Petroleum products NEC	23	77	39	46	20
Aluminum Products	143	188	142	131	86
All Industries	201	204	202	210	202

Source: Directorate of Economics and Statistics, Assam

Moreover, the subsequent Tables 4.4, 4.5 and 4.6 clearly reveal the stagnant situation in the State as far as the industry and commerce is concerned. The number of factories registered in Assam has been quiescent over the period 1993-1997. During this period, almost the same number of factories are registered in the State. Hence, the growth rate is nil as regards growth of factories in Assam. This has an immense negative effect on the tax base of the State.

Table 4.4
Number of Registered Factories in Assam

Type of Industry	1993	1994	1995	1997(P)
Manuf. Food Products	1028	1036	1036	1034
Man. Of Wood and Wood Products				
Furniture and fixtures	606	634	634	584
Man. of Paper and Paper products	30	34	34	32
Man. of Chemicals and chemical products	31	34	34	38
Man. of Non-Metallic Mineral Products	394	421	421	400
Grand Total	2518	2601	2601	2526

Source: Directorate of Economics and Statistics, Assam

Table 4.5 indicates the growth situation from various angles. Though there had been growth in some cases, the rate of growth is not at all satisfactory.

Table 4.5
Annual Survey of Industries (Summary Results) in Assam

Item	Unit	1990-91	1991-92	1992-93	1993-94	1994-95
Factories	Number	1548	1625	1625	1435	1514
Fixed Capital	Rs. Cr	1032.09	1334.46	1334.46	1519.05	1936.87
Working Capital	Rs. Cr	569.4	606.26	686.26	806.44	918.69
Invested Capital	Rs. Cr	1523.04	1946.54	1946.54	2184.49	2791.69
Outstanding Loan	Rs. Cr	716.16	1474.66	1474.66	1410.12	2526.45
Total Workers	Number	90878	100992	100992	94832	101371
Total Employees	Number	108953	121835	121835	113562	124095
Wages to Workers	Rs. Cr.	8105	109490	109.49	130.42	172.9
Total Emoluments	Rs. Cr.	118.37	156.25	156.26	188.12	254.78
Total Input	Rs. Cr.	2032.4	2465.36	2456.36	2695.07	3170.49
Value of Products	Rs. Cr.	2838.57	3262.49	3262.49	3506.8	4122.05
Value of Output	Rs. Cr.	2886.99	3374.84	3374.84	3682.89	4315.85
Depreciation	Rs. Cr.	120.86	151.64	151.64	128.07	158.85
Value Added	Rs. Cr.	733.63	757.84	757.84	859.75	986.51
Net Income	Rs. Cr.	653.55	591.3	591.3	785.28	730.1

Source: Central Statistical Organization, New Delhi

Growth of joint stock companies in a State is an effective indicator of growth of business in a State. Table 4.6 represents the gloomy scenario of registration of joint stock companies in the State during 1990-1998.

Table 4.6
Growth of Joint Stock Companies in Assam

Year	Registration of Companies during the year			Authorized Capital (Rs. In lakhs)		
	Pub. Ltd	Pvt. Ltd	Total	Pub. Ltd	Pvt. Ltd	Total
1990-91	4	78	82	1020	4160.5	5180.5
1991-92	4	122	126	1065	2189	3254
1992-93	11	164	175	61	2263.5	2324.5
1993-94	14	161	175	100	6982.5	7082.5
1994-95	14	161	175	100	7080	7180
1995-96	28	233	261	51561	4899	56460
1996-97	25	274	299	3290	5230	8520
1997-98	16	339	355	1626	7640.2	9266.2

Table 4.7 is an elaborate representation of the composition of revenue receipt of the Government of Assam over the period 1994-95 to 1999-2000. The Table shows that majority of the revenue receipts of the State is derived from the Union Government. An analysis of the Table reveals that on an average 30 percent of the total revenue receipts come from Central Government as the share in central taxes, 20 percent is generated from the state taxes, 10 percent from the State through non-tax revenue, while 40 percent comes as a grants-in-aid from the Central Government. This analysis shows the dependency of the Government of Assam on the Central Government for its revenue receipt. Thus, only 20 paise in the rupee of total revenue receipt of the State is contributed by state taxes. Out of the different state taxes, sales tax plays the major and the most important role. A close scrutiny of the Table discloses that on an average 70 percent of the total state tax revenue is accounted for by sales tax over the years. This shows the importance of sales taxes in the whole gamut of State taxes. The contribution of sales taxes as a percentage to the total tax revenue have almost been constant over the years. While the receipts from the Central Government increased in absolute terms over the years, the scenario of revenue generation from the State sources have been very much dismal.

Table 4.7

Revenue Receipt of the Government of Assam (Rs. In lakhs)

	1994-95	1995-96	1996-97	1997-98	1998-99(RE)	1999-2000 (BE)
Share of Central Taxes						
Union Excise Duties	59530	61078	79885	88741	112498	112498
Additional Excise Duties in lieu of Sales Tax						
Income Tax	24893	33267	41174	62732	56230	56960
A	84423	94345	121059	151473	168728	169458
State Taxes						
Land Revenue	4896	4051	3897	6088	11080	12241
Agricultural Income Tax	3868	4697	3535	8431	8635	5122
State Excise	2649	2895	2942	7774	8588	9490
Stamps and Registration	1845	2142	2256	2450	2958	3269
Receipts on Motor Vehicles Tax	3788	3998	5198	4326	7791	8609
Sales Tax	40790	46405	51741	50767	70685	78001
Other Taxes and Duties	3013	3061	3618	4411	5765	6370
B	60849	67249	73187	84247	115502	123102
Non Tax Revenue						
Interest Dividend and Profit	220	247	252	249	311	327
General Services	1902	2521	1872	3357	3580	1848
Social and Community Services	611	681	641	665	1061	1125
Economic Services	29916	30110	2944	3351	3364	3388
Forest	1702	1849	1743	781	840	882
Mines and Minerals	25810	26685	25410	30826	30279	30348
Others	2404	2576	2295	2244	2523	2651
C	32650	33560	32213	38120	38594	37181
Grants in Aid						
Non Plan Grants	10170	39469	38484	34262	36018	48149
Grants for State Plan Scheme	73686	84217	102076	108888	127725	132716
Grants for Central Plan Scheme	5369	5112	3138	2641	13486	13773
Grants for Centrally Sponsored Scheme	27982	13597	13402	11841	26349	29934
Grants for Special Plan (NEC)	1076	25	2022	1093	3087	2429
D	118219	142420	159122	158725	206665	227001
Total Receipts	A+B+C+D	296141	337574	385581	432565	525497
						559742

Source: Director of Economics and Statistics, Government of Assam

A close look of the above Tables shows that the growth of business and commerce for the last five years has been awfully sluggish. This is the prime factor for the poor growth of tax base in the State.

Table 4.8

Sales Tax Revenue Receipt Since 1959-60 (Rs. In Lakhs)

Year	SALES TAX	TOTAL	Percentage to Total Tax Revenue
1959-60	227.57	524.75	43.37
1960-61	283.13	597.22	47.41
1961-62	344.92	675.81	51.04
1962-63	411.80	830.56	49.58
1963-64	542.02	1051.60	51.54
1964-65	683.88	1181.99	57.86
1965-66	802.08	1198.40	66.93
1966-67	840.75	1238.84	67.87
1967-68	1057.11	1541.87	68.56
1968-69	1120.63	1357.80	82.53
1969-70	1188.73	1805.52	65.84
1970-71	1240.06	1612.10	76.92
1971-72	1341.88	1787.06	75.09
1972-73	1445.35	1942.74	74.40
1973-74	1683.13	2278.24	73.88
1974-75	2141.52	2864.82	74.75
1975-76	2776.43	4407.51	62.99
1976-77	2949.35	5111.61	57.70
1977-78	2950.84	6658.56	44.32
1978-79	3538.22	7543.78	46.90
1979-80	3634	5901.00	61.58
1980-81	3375	5434.07	62.11
1981-82	6468	8631.00	74.94
1982-83	7174	8794.00	81.58
1983-84	9489	11513.00	82.42
1984-85	12007	16728.00	71.78
1985-86	13686	21314.00	64.21
1986-87	14898	22910.00	65.03
1987-88	17056	21667.00	78.72
1988-89	18298	24503.00	74.68
1989-90	23130	28802.00	80.31
1990-91	24349	37036.00	65.74
1991-92	29322	45499.00	64.45
1992-93	32264	44804.00	72.01
1993-94	36888	52734.00	69.95
1994-95	40790	52856.00	77.17
1995-96	46378	59075.00	78.51
1996-97	51246.13	63214.19	81.07
1997-98	50762.51	70883.87	71.61
1998-99	54977.96	78486.70	70.05
99-2000	71583.11	94970.37	75.37
2000-01	91789.50	113823.54	80.64

Source: Commissioner of Taxes, Assam

It can be seen from Table 4.8 that sales tax account for an average of 70 per cent to the total revenue receipt of the State. Hence, the importance of sales taxation in the total revenue scenario of the State Government can easily be estimated. The percentage yield varied from 43 per cent to as high as 82 per cent of the total revenue receipt of the State. Thus, the dependence of State Government of this source can easily be estimated.

Of over 300 commodities where sales tax are charged, the most important revenue raiser from sales taxation had been crude oil followed by diesel oil, motor spirit and tea. Table 4.9 enumerates collection of sales tax revenue from selected items.

Table 4.9
Commodity-wise Tax Collection on Some Selected Items

Name of Commodity	Tax Collected (Rs. In Cr.)			
	1996-97	1997-98	99-2000	2000-01
Tined, packed and bottled foods and provisions including butter, ghee etc.	12.03	14	20.65	23.60
Medicines both Ayurvedic and Allopathic	9.27	22.78	27.41	43.66
Motor Vehicles	1.96	10.59	16.04	37.84
Hair Oil, Tooth Past, soaps etc.	7.65	10.07	11.2	12.69
Coal Gas, Coal and Coke	25.34	24.85	23.2	19.19
Iron and Steel Materials including CI Sheets etc	8.38	11.63	13.03	20.41
Crude Oil	65.09	66.34	88.83	103.32
Diesel, Kerosine; Lubricants	49.73	46.37	101.13	140.35
Aviation Turbine Fuel	12.74	11.13	18.22	19.08
Other Motor Spirits	29.42	25.12	44.07	67.10
Petroleum Gas	14.91	14.55	11.35	37.96
Tea	11.75	18.82	25.49	30.11

Source: Commissioner of Taxes, Assam

The Table 4.9 shows there has been a steady rise in the collection of sales taxes in most of the commodities though a fall in the collection of taxes has been noticed in the case of coal gas, coal and coke. The growth of revenue from sales taxes has been highest in case of crude oil because of sharp rise in the rates of sales taxes in the recent year.

While compiling the data from different sources, it has noticed that there remains some discrepancies in the data supplied by different agencies.

The growth of sales tax revenue in Assam has been depicted in Figure 4.2. The growth line shown in the figure displays the collection of revenue from sales taxation over a period fourteen years. The rate of growth of revenue

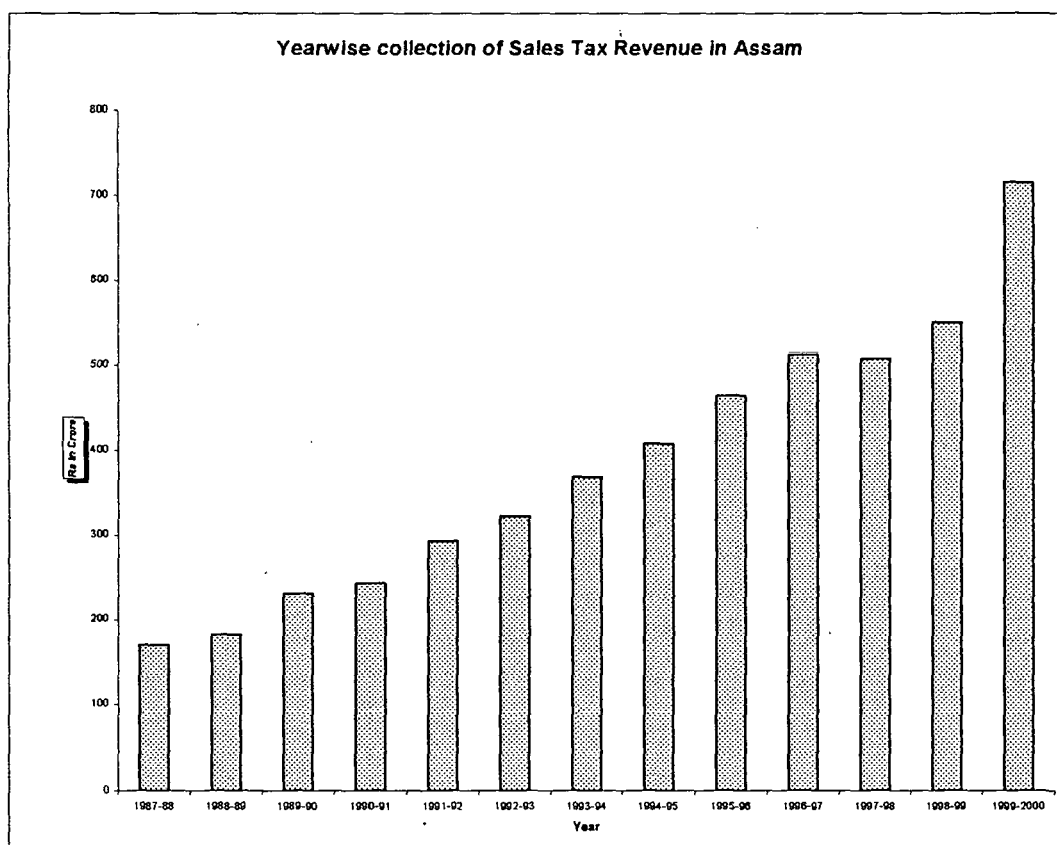


Fig 4.2 Revenue Collection from Sales Taxes in Assam

from sales taxation has not at all been satisfactory. The rate of growth had not been steady during the period. Historical figures as portrayed in Table 4.8 shows the dismal scenario of growth of sales tax revenue in Assam. It can be noticed that barring a comparatively satisfactory collection, the collection from sales taxes could not be made for the last ten years taking into consideration the inflation factor.

Comparing the tax performance of Assam with the other States of the country does not seem to be justified. Assam has a peculiar characteristic that cannot be compared in the straightforward way with other States. Even comparison with its neighbouring States also would not carry its meaning.

Assam has its border with seven States and out of these, six are tribal States and the other one being West Bengal is much developed in comparison to Assam. Hence, the business growth rate as well as other macro economic foundations of these States cannot be brought under uniform scale and hence comparison would not give any result.

Fig 4.3 shows that the growth rate of sales tax collection per annum has been very much volatile during the period shown in the graph. Since the

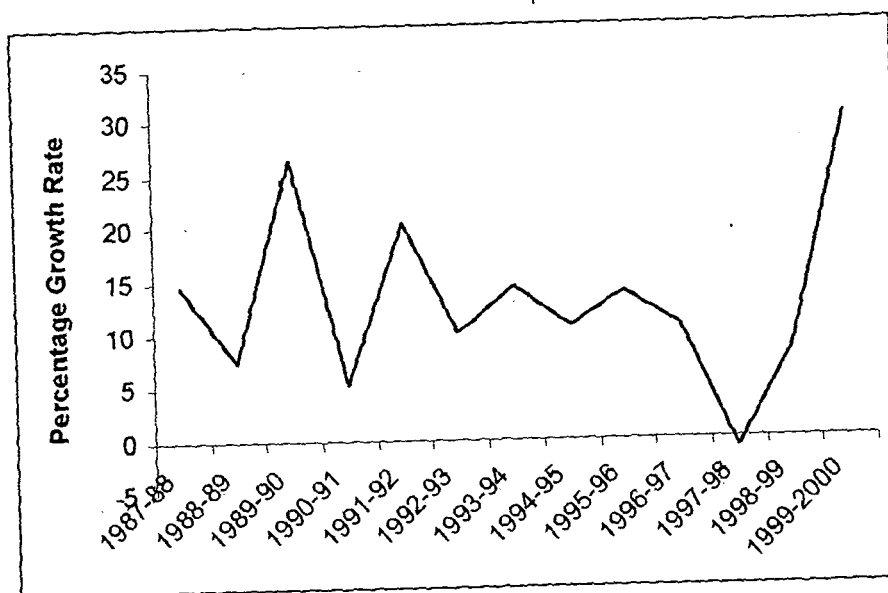


Fig 4.3 Growth Rate of Sales Tax Revenue in the State of Assam

inception of the Assam General Sales Tax Act, 1993 with effect from July 1, 1993 the growth rate of sales tax collection had been sluggish over the years. The growth rate had been negative in 1998-99 because of shifting of 'liquor' from sales tax to excise. However, the reforms steps initiated by the sales tax department resulted in positive growth during the last year. The increase in the growth rate of tax collection is a result of strong insistence on the tax collection target by the various unit offices.

Fiscal discipline and cost of collection are the yardsticks for evaluating the performance of administration of sales taxation system in the State. Table

4.10 displays the revenue and expenditure of sales department in collection of sales tax over the years.

Table 4.10
Revenue Receipt and Departmental Expenditure since inception of AGST Act.

Year	Revenue (Rs. in lakhs)	Total Departmental Expenditure (Rs. in lakhs)	Percentage increase over previous year	Expenditure as percentage of total revenue
1993-94	52370.00	607.10	5.71	1.16
1994-95	52856.00	850.15	40.03	1.61
1995-96	59075.00	864.56	1.70	1.46
1996-97	63214.19	921.98	6.64	1.46
1997-98	70883.87	956.02	3.69	1.35
1998-99	78486.70	1217.86	27.39	1.55
1999-2000	94970.37	1567.83	28.73	1.65

Source: Commissioner of Taxes, Assam

Table 4.10 shows that the proportion of expenditure over revenue of the department has been almost constant except in the year 1994-95 when there had been an unprecedented increase in expenditure due to restructure in the organizational set up as necessitated by the implementation of the new AGST Act, 1993. After that, the rise in expenditure has been proportional to that of revenue. An improvement has been noticed in the year 1997-98 when there had been reasonable rise in revenue and hence the percentage of expenditure over revenue fell down remarkably. It is an improved scenario of tax administration for the State.

Disposal of pending appeal cases is also one of the indicators of performance of the tax department. Increase in the number of appeal cases mean the increase in the number of aggrieved assesseees, which is also not a good sign of proper tax administration. The department must take necessary steps to dispose of the appeal cases at the earliest. Table 4.11 shows the number of pending appeal cases with the sales tax authorities. It is noticed that the disposal rate of appeal cases has not been consistent over the years. The

correlation between the number of cases added and disposed is $r = 0.38$. Thus, there is no relationship between the number of appeal cases added and disposed during the year. However, efficiency has been noticed in the year 1997-98 when there was remarkable increase in the disposal of pending cases.

Table 4.11
Pending Appeal Cases with the Sales Tax Department

Years	Cases pending at the beginning of the year	Cases added during the year	Cases disposed of during the year	Cases pending at the end of the year
1990-91	727	547	393	881
1991-92	881	343	501	723
1992-93	723	302	296	729
1993-94	729	738	486	981
1994-95	981	476	517	940
1995-96	940	394	529	805
1996-97	805	398	431	772
1997-98	772	567	691	648

Source: Commissioner of Taxes, Assam

The relationship between the dealer and the sales tax department depend, to a large extent, on the manner how tax assessments are disposed of. Many a times it has been noticed that disposal of assessments are deferred by tax authorities causing hardship to the dealers. Table 4.12 presents the frequency of disposal of assessment cases by the sales tax department since the introduction of AGST Act, 1993.

Table 4.12
Disposal of Assessment Cases by the Sales Tax Department

Year	No. of cases at the beginning of the year	No of cases added during the year	No of cases disposed during the year	No of cases pending at the end of the year
1994-95	0	12805	4593	8212
1995-96	8212	19677	7987	19902
1996-97	19902	21256	27173	13985
1997-98	13985	28334	24564	17755

Source: Commissioner of Taxes, Assam

Collection of arrear tax is another parameter by which the performance of the tax administration can be evaluated. The arrear tax can arise when the tax is demanded by the tax authority but the assessee fails to pay the amount due to some reasons. Accumulation of arrear tax is an indication of poor performance of the tax authorities and should be discouraged at all possible ways. Table 4.13 is an elaborate revelation of the scenario of arrear taxes in Assam. The Table shows an increasing trend of amount under appeal as well as amount under stay by the courts.

Table 4.13
Position of Arrear Taxes at the end of Each Year (Rs. in Crores)

Year	Amount under Appeal	Amount under Revision	Amount under Stay by Courts	Amount covered by Recovery Certificate	Amount under Process of Recovery
1990-91	3.69	3.54	4.87	12.22	8.50
1991-92	3.50	3.32	5.23	14.42	8.76
1992-93	2.24	3.47	19.83	11.84	22.16
1993-94	3.99	7.47	7.47	21.47	41.71
1994-95	5.02	16.12	9.05	26.52	74.15
1995-96	5.06	15.08	8.24	33.77	91.18
1996-97	14.54	13.14	25.22	73.35	96.29
1997-98	17.21	4.09	58.42	61.99	55.14

Source: Commissioner of Taxes, Assam

The tax base of the State depends on the number of dealers registered under the sales tax statute. Fig 4.4 shows that the growth in the number of registered dealers is very much marginal. This results in the low collection of revenue from sales tax for the State.

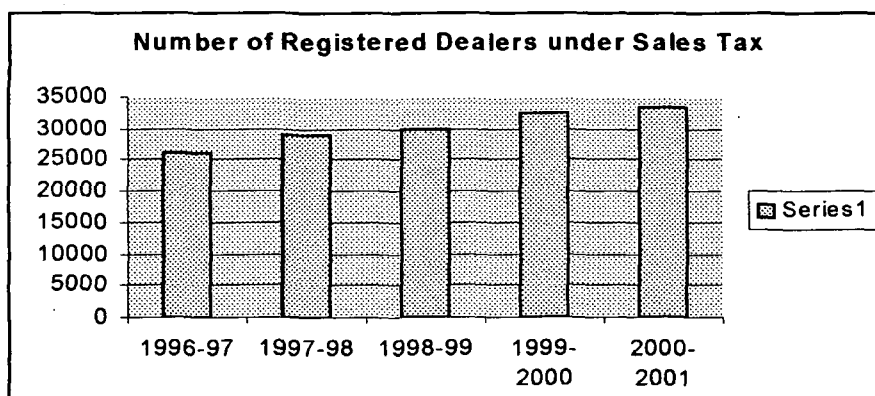


Fig 4.4 Number of Dealers Registered under the AGST Act

4.4 Report of the Eleventh Finance Commission

An assessment of the revenue receipts and non-plan revenue expenditure of the States has been made by the Commission where the concerns of the States have been taken into account in the assessment of revenue receipts and non-plan revenue expenditure. The norms laid down by the Commission together with the principles for sharing of Central taxes recommended are expected to act as an incentive for better fiscal performance. However, the position emerging after assessment of the budgetary position of each State on non-plan revenue account after the devolution of central taxes and grants is given in Table 4.14.

Table 4.14:
Non-Plan Revenue Surplus/Deficit : 2000-05

State	Special Category States					Total
	2000-01	2001-02	2002-03	2003-04	2004-05	
Arunachal Pradesh	-24463	-24674	-24612	-24196	-24857	-122802
Assam	-11068	13076	53669	95810	146075	297562
Himachal Pradesh	-104947	-100218	-94653	-83923	-71185	-454926
Jammu & Kashmir	-211166	-224087	-223939	-229064	-232863	-1121119
Manipur	-35468	-35503	-35198	-34460	-33865	-174494
Meghalaya	-33813	-33042	-32623	-30090	-27670	-157238
Mizoram	-32278	-32958	-33482	-35105	-33807	-167630
Nagaland	-64432	-67396	-72015	-73404	-76377	-353624
Sikkim	-16970	-17073	-16983	-16644	-16388	-84058
Tripura	-49329	-49302	-49532	-47605	-45648	-241416

Source: Report of the Eleventh Finance Commission, Ministry of Finance, Government of India, 2001

It can be seen from the Table that after the devolution of Central tax revenues, some States will still have deficit on non-plan revenue account. The Commission recommends grants-in-aid to be given under article 275(1) of the Constitution, equal to the amount of deficits assessed for each year during the period 2000-05. Assam is having positive surplus from the year 2001-02 and thus, is not eligible for grants-in-aid under this head.

It puts tremendous pressure on the State Government to justify the assessment made by the Commission and augment its own tax generation capacity.

4.5 Conclusion

The sales tax department of Government of Assam has a multi-tier organizational structure. The authority and responsibility at various levels are well defined. However, the growth and revenue performance of the State has been dismal. This situation is a result of various factors some of which are controllable and some are out of reach of the taxation department. The Finance Commission has estimated a rosy scenario of tax collection in Assam. However, the department has to take reform measures to augment its earning from sales tax. In this respect, the views and perceptions of various persons involved in this field carry meaning. The following Chapter deals with the various factors that are noticed during the primary survey.

References:

- ¹ Gait Edward, *History of Assam*, Ed. 1926 Reprint 1981
- ² Ibid p 300

CHAPTER 5

Views and Perceptions of the Stakeholders in the Field of Sales Taxation in Assam

CHAPTER 5

VIEWS AND PERCEPTIONS OF THE STAKEHOLDERS IN THE FIELD OF SALES TAXATION IN ASSAM

5.1 Introduction

The tax statutes as well as tax rates etc. are framed taking into consideration the economic analysis of estimated revenue and expenditure. But these exercises do not pay adequate attention on the management of the administrative mechanism for tax statutes. In this chapter, an attempt has been made to examine how different segments of the people associated with the sales taxation understand the process in terms of its meaning, action and other associated factors. The detailed analysis is based on a field survey in the entire State of Assam encompassing the above-mentioned segments of the population. The respondents are drawn from a random sample of 430 dealers, 126 tax administrators, 64 tax experts, and 300 consumers. The sample respondents were interviewed with the help of a structured questionnaire specially designed for each segment.

The objectives of the study could be achieved only by a thorough understanding of the stakeholders' perceptions regarding the sales tax mechanism. The stakeholders' own understanding of the structure and administrative mechanism of sales taxation can be explored in terms of the identification of major loopholes in the system, difficulties faced in the compliance and administration of the statute, and their cognition as to the ways for improvement of the system. It was also necessary to explore the extent of awareness about the Value-Added Tax (VAT) system as this system of sales taxation is proposed to be introduced all over the NE region tentatively from April 1, 2004. An attempt was made to evaluate the following aspects of sales

taxation through the extensive survey conducted among the stakeholders of the system

- Shortcomings of the present sales tax system in the State of Assam
- Reason for poor collection of sales tax in Assam
- Problems faced by dealers in the compliance of the provisions of the Act
- Problems faced by tax authorities in the administration of the Act
- Ways of evasion of sales tax in Assam
- Awareness about the VAT system of sales taxation
- Consumers' attitude perception towards payment of sales tax
- Scope for enhancing sales tax revenue in Assam

The concepts and variables were selected after conducting a Delphi-like study among the eminent persons involved in the sales tax matters in the country. The views put forward by the experts are thoroughly incorporated in the questionnaire.

5.2 Shortcomings of the Present AGST Act

The basic objective of the study has been to find out the ways for augmentation of sales tax revenue for the State of Assam. In this endeavour it is very much needed to know the shortcomings which are inherent in the present Act. All categories of respondents viz. Dealers, Administrators, and Experts were asked about their views on some of the shortcomings. These are based on the suggestions made by the eminent experts in the Delphi-like study conducted prior to the preparation of the questionnaire. Figure 5.1 and Table 5.1 depict the summarized views of the respondents to this question.

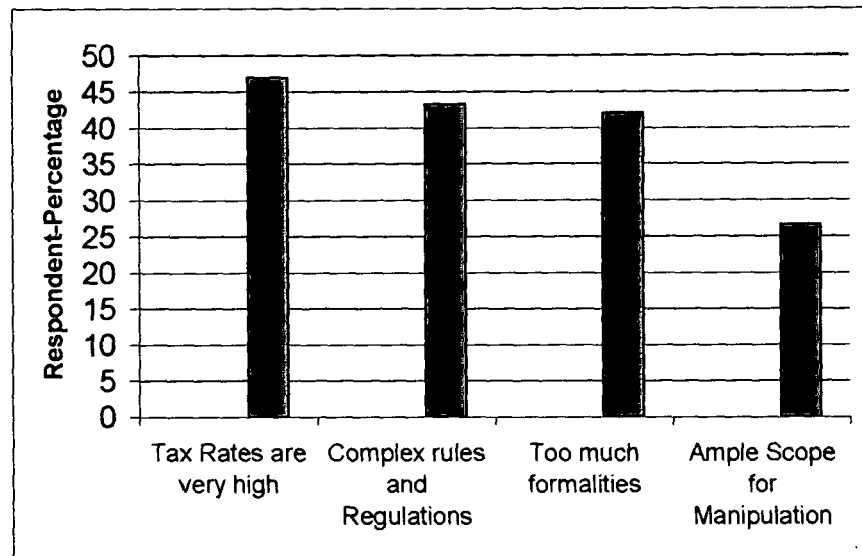


Fig 5.1: Shortcomings of the Present Sales Tax Act in Assam

From Figure 5.1, it can be seen that, in general, relatively equal number of respondents had perceived the following in-built weaknesses in the system such as: very high tax rates (46.9%); complex rules and regulations (43.2%); and too many formalities (41.9%). More than one-fourth (26.6%) expressed that there was a scope for manipulation in the calculation of payment of sales tax.

Category-wise respondent analysis, as presented in Table 5.1, also reveals more or less similar opinions in case of dealers and experts segments. In case of administrator-respondents relatively equal number accepted all the shortcomings except 'too many formalities' (31.75%).

**Table 5.1
Shortcomings of the Present AGST Act**

	Category							
	Dealer		Administrator		Expert		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Tax Rates are very high	213	49.53	50	39.68	28	43.8	291	46.9
Complex Rules and Regulations	191	44.42	48	38.1	29	45.3	268	43.2
Too much formalities	192	44.65	40	31.75	28	43.8	260	41.9
Ample scope for manipulation	92	21.4	48	38.1	25	39.1	165	26.6
Total	430		126		64		620	

* Each respondent provided more than one response

As a whole, it may be understood that all the shortcomings that were mentioned in the questionnaire have almost equally been projected as system deficiency in the present Act.

The main shortcoming that has been mentioned and noticed happens to be the high rates of sales taxes on commodities. It is a long-standing controversy whether high rates of taxes yield higher revenue also. There are advocates for lower taxes who are of the view that higher rates of taxes lead to more evasion and ultimately lower revenue collection by the State. Several questions related to the rates of taxes have been put forward to the respondents. Their perception regarding the rates of sales tax is very important for framing any tax policy in the future. The views of the stakeholders regarding the rates of sales taxes and the related implications are summarized in the following sections.

5.2.1 Tax Rates (in general) are High at Present

Table 5.1 depicts the views of three segments of respondents as to the rates of sales taxes in Assam. It is evident from the Table that most of the respondents (46.9%) think that tax rates are high in Assam. As far as the categorical analysis is concerned, the percentage of dealers treating tax rates as high is more than that of the administrators.

A high percentage (43.8 %) of expert-respondents is also of the view that rates of sales tax in Assam are high. This feeling of the respondents may be due to the fact that Assam is surrounded by tribal States where sales tax rates are either very low or in some cases it is nil. Hence, Assam has to suffer a lot by way of diversion of trade to the other States.

5.2.2 Burden of Sales Tax on Consumers in Assam vis-à-vis Other States

The dealers, administrators, and expert respondents were asked about their feeling about the burden of sales tax a consumer had to bear in Assam. The burden of sales tax is felt by the consumer especially when he makes the purchase of any high priced commodity e.g. car etc. Table 5.2 reflects the views of the respondents to this aspect.

Table 5.2

Tax Burden of AGST on Consumers in Relation to Other States

Response	Category							
			Administrator		Expert		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
High	211	52.36	41	34.75	25	40.32	277	47.51
Low	3	0.744	4	3.39	0	0	7	1.20
Moderate	121	30.02	53	44.92	24	38.71	198	33.96
Not Known	68	16.87	20	16.95	13	20.97	101	17.32
Valid response	403		118		62		583	
Non Response	27		8		2		37	
Total	430		126		64		620	

From Table 5.2 it is seen that, in general, almost half of the total respondents (47.5%) believed that the tax burden on consumers is high in Assam as compared to the neighboring States. A very small percentage (1.2%) was of the view that tax burden in Assam is low.

The categorical analysis shows that majority of the dealers (52 per cent) and experts (48 per cent) believe that the tax burden of AGST was high as compared to other States of the country. In contrast, a large portion of the tax administrators (45 per cent) believed that the tax burden in Assam was moderate.

It may be inferred from Table 5.1 and 5.2 that the dealers have been facing the problem of high tax rates in the State as the neighbouring States have either nil or a very nominal sales tax rates on various commodities. There has been a tendency of diversion of trade from Assam to the neighbouring States in case of high valued commodities This problem is attempted to be reduced by the Central Government with the imposition of uniform sales tax rates all over the country.

5.2.3 Relationship Between Tax Rate and Evasion of Tax

There seems to be a relationship between tax rate and tax receipt. It is sometimes perceived that if tax rates are high, people try to evade payment of sales tax, which ultimately lead to leakage of tax revenue for the State. Opinions of the respondents were sought regarding the impact of the high rates of taxes in the AGST Act on tax evasion. Table 5.3 presents the findings with respect to this question.

Table 5.3

Perception of Respondents as regards High Tax Rates Lead to Tax Evasion

	Category							
	Dealer		Administrator		Expert		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Strongly Agree	133	31.74	29	23.58	14	22.6	176	29.1
Agree	180	42.96	64	52.03	39	62.9	283	46.9
Disagree	46	10.98	13	10.57	7	11.3	66	10.92
Strongly Disagree	11	2.625	7	5.691	1	1.61	19	3.15
Not Sure	49	11.69	10	8.13	1	1.61	60	9.93
Valid responses	419		123		62		604	
Non Response	11		3		2		16	

It is seen from the Table that in general as high as 76% of the respondents agree that high rates of taxes lead to propensity to evade payment of sales tax in the State. A small percentage (3.15%) of the respondents disagrees with this view. The categorical analysis also shows positive correlation as regards judgement.

It may be inferred that when higher taxes are imposed on commodities, the tax amount itself becomes substantial which induces the dealers as well as other concerned parties to take advantage of various avenues both legal as well as illegal to reduce its tax liability.

5.2.4 Enhancing Sales Tax Revenue by Lowering Sales Tax Rates

Some economists advocate that if tax rates were lowered, collection of tax revenue would increase. It will induce the taxpayer to pay their accurate tax. Keeping this view in mind, all segments of the respondents were asked about their opinion in this matter.

It is interesting to note that a very large part of the combined respondents (78 per cent) does agree that revenue from sales taxation can be enhanced if the tax rates are lowered. A small fraction of the respondents (11.84%) either disagree or strongly disagree with this view.

It is seen from Table 5.4 that 79 per cent of the dealer respondents, 71 per cent of the administrator-respondents, and 84 per cent of the expert respondents feel that collection from sales tax can be substantially increased if the rates of sales tax are lowered. It is because of the fact that most of the respondents, irrespective of category, believe that tax evasion can be automatically reduced if rates of taxes are lowered. On the other hand, it is a corollary to the fact that high sales tax rates encourage excess evasion.

Table 5.4

Possibility of Increasing Tax Revenue by Lowering Tax Rates

	Category							
	Dealer		Administrator		Expert		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col%
Strongly Agree	154	36.41	22	17.89	7	11.3	183	30.1
Agree	182	43.03	66	53.66	45	72.6	293	48.2
Disagree	26	6.147	19	15.45	5	8.06	50	8.22
Strongly Disagree	12	2.837	7	5.691	3	4.84	22	3.62
Not Sure	49	11.58	9	7.317	2	3.23	60	9.87
Valid responses	423		123		62		608	
Non Response	7		3		2		12	
Total	430		126		64		620	

Hence, the general concept of the economists that the tax revenue can be raised by increasing the tax rate may seem to be incorrect. The general perception of the respondents also shows support to the “*Lafer’s Curve Approach*” which says that revenue from taxation can be increased by decreasing the tax rates.

5.2.5 Dependence of Demand of a Product on the Tax Rate

Indirect taxation has its own effect on the demand expansion or contraction of a commodity. Sales taxation is the prime indirect tax which may control the demand position of a commodity in a particular State. The dealers are the best judge to note the effect of tax rate on the demand of a commodity. This factor is very much important in framing the tax policy of a State.

Table 5.5 clearly shows that different categories of respondents are somewhat unanimous on this issue. Two-third of the total respondents (66.67 per cent) are of the view that demand of product is not dependent on the rate of sales tax on that product.

Table 5.5
Dependence of Demand of a Product on Sales Tax Rate

	Category						Total	
	Dealer		Administrator		Expert		Count	Col %
	Count	Col %	Count	Col %	Count	Col %		
No	243	61.21	95	82.61	43	71.7	381	66.6
Yes	154	38.79	20	17.39	17	28.3	191	33.4
Valid responses	397		115		60		572	
Non Response	33		11		4		48	
Total	430		126		64		620	

Thus, it can be inferred from the above that the respondents do not think that the demand for any product depends on the rate of sales tax on that product. This may be so, because most of the consumers are unaware or

least bothered about the fact that they do pay sales tax on every purchase they make.

5.2.5 On Multiplicity of Tax Rates

One of the shortcomings regarding the rates of sales taxes noticed and mentioned by the expert panel during the Delphi-like study had been the multiplicity of tax rates. Multiplicity of tax rates refers to a large number of sales tax rates for different commodities and sometimes different tax rates on the same commodity depending on the purpose of its use. The experts were requested to put their views as regards this problem. Table 5.6 depicts the views of the experts. It can be seen that majority of the expert respondents (96.8%) recognize this fact as a reason for making the Act more complicated.

Table 5. 6
Respondents' Perception as to Whether Multiplicity of Tax Rates Makes the Act Complicated

<i>Expert Respondents</i>	Count	Percentage
To a Great Extent	24	38.7
To Some Extent	36	58.1
Not at All	2	3.2
Valid Response	62	100.0

This is because, the dealers as well as administrators face various problems arising out of multiplicity of tax rates. Moreover, it facilitates the chance for manipulation in the calculation and assessment of sales tax due.

5.3 Reasons for Poor Collection of Sales Taxes in Assam

Assam, as a State of the Indian union, has been facing severe problems in the collection of sales tax in the past. This fact has been justified by analysis of secondary information portrayed in the previous chapter. To have a first-

hand knowledge and also information from the grass-root level, all categories of the respondents were requested to identify the reason for poor collection of sales tax according to their relative significance.

5.3.1 Dealer-Respondents' Views

Table 5.7 summarizes the ratings as given by the dealers as per their perception on the reasons for poor collection of sales tax in Assam. In all questions on rating 1 means high and 10 means low. These are the two extremes while other ranks are gradually from high to low. The value has been calculated taking rank 1 as 10, 2 as 9, 3 as 8 and so on, and multiplying it with the percentage of respondents.

Table 5.7
Reasons for Poor Collection of Sales Tax in Assam
(Dealer-respondents) (in percentages)

	Rating										Value
	1	2	3	4	5	6	7	8	9	10	
High rate of taxes	27	12	11	7	4	4	2	2	2	1	578
lower or no taxes in the neighbouring States	12	17	7	8	8	4	5	2	3	3	488
Evasion by dealers	5	8	6	7	4	6	8	5	5	8	338
Inefficient administration	24	15	11	8	3	2	2	1	1	1	561
Faulty procedure of checking at check gates	5	11	15	7	9	4	3	8	1	1	431
Long list of exempted goods	1	4	6	7	7	7	5	8	8	5	285
Socio-political turmoil leading to slow growth of trade in the State	2	3	5	6	7	9	8	7	6	5	286
Sale by way of 'stock transfer'	2	2	2	7	7	7	8	7	9	4	255
Tax holiday for SSIs	0	1	2	5	6	5	8	7	11	10	206
Limited number of registered dealers	3	3	7	7	10	10	6	6	4	9	331

Though the dealer-respondents were given to rank ten variables as reasons for poor collection of sales tax in Assam, a close look at the above Table shows that most of the dealers have confined their rankings mainly to three reasons as stated below –

- high rates of taxes
- inefficient administration
- low or no sales tax in the neighbouring States

5.3.2 Administrator-Respondents' View

The administrators were also given to rank ten options as reasons for poor collection of sales tax in Assam. Table 5.8 summarizes the ranks provided by the administrators as regards poor collection of sales taxation in the State.

Table 5.8
Reasons for Poor Collection of Sales Tax in Assam
(Administrator Respondents) (In percentages)

	Rating										Value
	1	2	3	4	5	6	7	8	9	10	
High rate of taxes	16	9	9	6	5	10	2	6	6	3	475
lower or no taxes in the neighbouring States	24	28	14	3	2	2	6	1	1	1	677
Evasion by dealers	25	16	19	8	4	4	1	2	1	0	658
Inefficient administration	6	3	0	3	1	2	2	10	15	24	216
Faulty procedure of checking at check gates	4	7	14	8	6	6	10	6	6	2	409
Long list of exempted goods	1	4	5	18	9	8	7	5	7	10	373
Socio-political turmoil leading to slow growth of trade in the State	4	2	9	9	10	6	14	7	6	5	377
Sale by way of 'stock transfer'	2	6	9	13	17	10	2	7	5	2	430
Tax holiday for SSIs	3	1	2	6	6	13	10	13	10	10	307
Limited number of registered dealers	1	8	2	6	14	6	12	8	6	8	346

Value for each factor has been calculated in the same method as stated earlier. An introspection on Table 5.8 reveals that the administrators have mentioned the following three factors as the main reasons for poor collection of sales tax in Assam. These are:

- Evasion by dealers
- Lower or no sales tax in the neighbouring States
- High rates of tax.

5.3.3 Expert-Respondents' View

The segment 'experts' consists of the persons who are actively involved in the system of sales taxation in Assam and have wide experience in tax administration or tax consultancy. They are considered to be good judges to

identify the reasons for poor collection of sales taxes in Assam. Table 5.9 portrays the viewpoints of expert respondents in this matter.

Table 5.9
Reasons for Poor Collection of Sales Tax in Assam
(Expert-respondents) -(in percentage)

	Rating										Value
	1	2	3	4	5	6	7	8	9	10	
High rate of taxes	11	6	17	6	8	6	5	5	6	5	472
lower or no taxes in the neighbouring States	23	16	11	9	3	3	8	2	2	3	603
Evasion by dealers	16	14	13	3	6	8	9	3	3	6	544
Inefficient administration	9	20	8	9	5	6	8	2	2	6	505
Faulty procedure of checking at check gates	3	8	14	14	14	9	5	3	2	0	474
Long list of exempted goods	3	5	2	9	3	5	6	16	16	6	307
Socio-political turmoil leading to slow growth of trade in the State	8	3	5	9	11	8	8	6	6	5	383
Sale by way of 'stock transfer'	5	3	6	3	16	13	9	11	5	0	386
Tax holiday for SSIs	2	0	5	11	8	5	6	8	11	14	294
Limited number of registered dealers	3	5	5	6	5	11	5	9	5	14	313

The main reasons identified by the experts also move around the following three factors. These are:

- Lower or no sales taxes in the neighbouring States
- Evasion by dealers
- Inefficient Administration

In the process of summation of all three segment respondents' view, it is interesting to note that while the dealers mentioned '*inefficient administration*' as one the main causes for poor collection of sales tax in Assam, the administrators think that '*evasion by dealers*' is the prime reason for poor tax collection. The reason '*inefficient administration*' has been broad enough to include all the shortcomings on the part of the administrators including alleged corruption in the administration system. On the other hand, the term '*evasion by dealers*' include manipulation of accounts produced by dealers, showing deflated turnover etc.

Fig 5.2 presents in a nutshell the main reasons for poor collection of sales tax in Assam as perceived by all three respondent segments. The figure clearly shows that regarding high rate of sales tax the dealers are more concerned than administrators and experts. As far as lower rates of sales tax in neighbouring States are concerned, most of the administrators and experts, in contrast to dealers, think it to be a major factor. The clear dissidence in opinions can be seen between dealers and administrators regarding the contradictory reasons viz. 'evasion by dealers' and 'inefficient administration'. This is not at all a healthy sign for tax administration which shows a state of distrust between the two main components of sales tax system. Experts, on the other hand, presume that

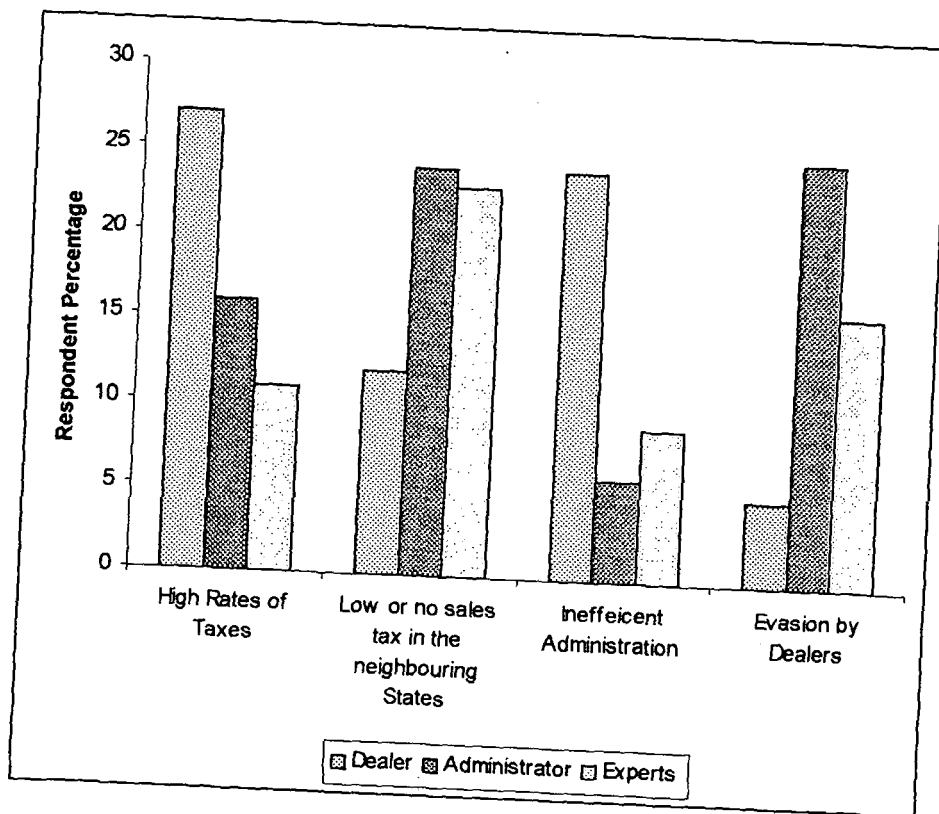


Fig 5.2 Reason for Poor Collection of Sales Tax in Assam as Perceived by all Respondent Groups

evasion by dealers is more responsible for poor collection of sales tax in Assam than inefficiency and corruption on the part of the administrators. The opinion of experts may be in favour of accusing the dealers because of the fact that a large part of the experts consists of retired tax administrators.

It is a controversial point whether a high rate of sales tax is a reason for poor collection of tax in the State. A t-test has been carried out to know whether the dealers and administrators view it from the same perspective. The mean of the ranks given by dealers for high rate as the reason for poor collection of tax in Assam has been 2.94 whereas it has been 4.39 for the administrators. The findings of the test is given in Table 5.10:

Table 5.10
t-test for Reason for Poor Collection of SalesTax in Assam

Levene's Test for Equality of Variances		t-test for Equality of Means						
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Diff.	
							Lower	Upper
18.5451	0.00	4.95	395	.000	1.45	0.294	0.879	2.04
		4.34	121	.000	1.46	0.336	0.793	2.12

The analysis of the above test shows that the opinions of the dealers and the administrators differ significantly. Though administrators regard this as a reason for poor collection of tax revenue but their emphasis on this point is not so strong as that given by the dealers.

5.3.4 Reasons for Non-Registration by Dealers

The tax base of a State depends on the number of dealers registered under the sales tax statute. To augment the collection of sales tax, widening of tax net is very much necessary. For this purpose, more dealers are to be brought under the tax net. It has been observed that many of the dealers dealing in taxable quantum prefer to remain unregistered. Table 5.11 shows that most of the dealers have identified the following two factors as the prime reasons for the dealers to avoid registration –

- fear psychosis about the sales tax system
- fear of too much formalities to be carried out

The administrators and experts are almost unanimous in identifying the following factors as the prime reasons for non-registration of dealers.

- apathy of the dealers to get themselves registered
- penalty system is not strict

Table 5.11
Reason for Non-Registration with the Tax Authorities

Ranks	1			2			3		
	D	A	E	D	A	E	D	A	E
Fear psychosis about the sales tax dept	166	24	22	70	23	7	21	18	9
Apathy of the dealers to get themselves regd.	15	54	8	37	16	5	63	17	7
No motivation for registration	29	18	4	47	24	8	51	12	7
Fear of too much formalities to be carried out	77	24	6	25	18	17	48	24	9
Penalty system is not strict	29	7	35	18	8	3	58	11	7

1:High, 2:Medium,3:Low D: Dealer, A: Administrator, E: Expert

5.4 Problems in Compliance and Administration of Sales Taxation in Assam

A tax system can be successful only when it gives least possible problems to the persons involved in the payment of sales tax. In this context, an endeavour has been made to explore the various factors that are regarded as the problems by different stakeholders in the sales taxation system in the State.

5.4.1 Problems Faced by Dealers in the Compliance of the Sales Tax Act

Though sales tax is paid by the consumers, the collected money is deposited to the State treasury by the dealers. Dealers act as agents of the State Government as far as collection of sales tax is concerned. In doing so, they face various problems in the compliance with the Sales tax statute.

The dealer-respondents were provided with several options to mention about the problems that are generally faced by them in the normal course of operation. They were to rank these problems according to their impact. Rank 1 refers to the most problematic factor whereas rank 10 refers to the least problematic one. The other ranks are allotted accordingly. Table 5.12 reflects the problems normally faced by the dealer in the compliance of the tax laws. Values for each option has been calculated by multiplying percentage of respondents for each option with rank value. For this purpose rank 1 has been taken as 10, rank 2 as 9, rank 3 as 7 and so on.

Table 5.12
Problems Faced by Dealers in the Compliance of the Sales Tax Act
(Dealer-respondents)

	Ratings										Value
	1	2	3	4	5	6	7	8	9	10	
Non-availability of various forms in the office	7	11	11	8	4	7	4	3	6	2	411
Limited period of validity of road permit	9	7	10	6	6	5	3	4	3	4	370
Excessive formalities for filing of returns	22	14	10	7	4	3	3	3	1	1	538
Unfriendly attitude of the tax authorities	14	14	5	7	5	5	4	3	2	1	440
Diificulty in getting 'refund' in case of excess payment of tax	3	8	7	9	10	4	5	3	6	4	346
Ineffective mechanism for appeals	6	5	3	7	7	9	5	6	4	4	315
Lack of prompt service from office staff	6	6	7	9	7	7	7	4	6	3	365
Need for keeping large number of books	3	3	7	7	7	7	6	10	4	4	305
Indefinite stay of the office staff at the same place	1	2	3	3	3	7	7	7	7	11	200
Too many slab of tax rates	8	4	3	5	6	6	6	5	7	10	304

An analysis of Table 5.12 discloses the following three factors recognized as main problems by the dealer- respondents for compliance of tax laws and regulations. These are:

- Excessive formalities for filing of returns
- Unfriendly attitude of the tax authorities
- Non-availability of various forms in the office

The expert-respondents were also requested to put forward their views on the problems faced by the dealers in the State for compliance of tax laws. Table 5.13 is a summary of rankings the expert-respondents had given in response to this question.

Table 5.13
Problems Faced by Dealers in the Compliance of the Sales Tax Act

(Expert-respondents) (in percentages)

	1	2	3	4	5	6	7	8	9	10	Value
Non-availability of various forms in the office	9	16	9	6	11	3	9	8	0	6	495
Limited period of validity of road permit	8	5	6	14	14	14	5	3	5	5	469
Excessive formalities for filing of returns	16	15	9	3	14	9	5	8	2	2	567
Unfriendly attitude of the tax authorities	15	8	5	9	13	3	8	2	6	8	476
Difficulty in getting 'refund' in case of excess payment of tax	5	11	5	11	9	13	9	6	5	3	452
Ineffective mechanism for appeals	5	0	3	5	2	8	9	16	16	6	283
Lack of prompt service from office staff	13	13	11	16	9	6	6	2	2	0	565
Need for keeping large number of books	2	3	9	11	0	6	8	9	9	6	309
Indefinite stay of the office staff at the same place	5	6	5	0	2	11	3	2	13	22	277
Too many slab of tax rates	11	8	14	13	3	6	3	6	8	8	487

An introspection of the above Table shows that the expert-respondents have identified the following factors that are the problem creators for the dealers in the compliance of the Act. These are:

- Excessive formalities for filing of returns
- Non-Availability of forms in the office
- Lack of prompt service from office staff

Aggregating the dealer-respondents' views as well as expert-respondents' views, it is found that two factors are common while each segment provided two separate problems. Fig 5.3 clearly reveals the perception of dealer as well as expert-respondents to this issue. This picture is a reflection of the exasperation a dealer faces in their regular interaction with the tax authorities.

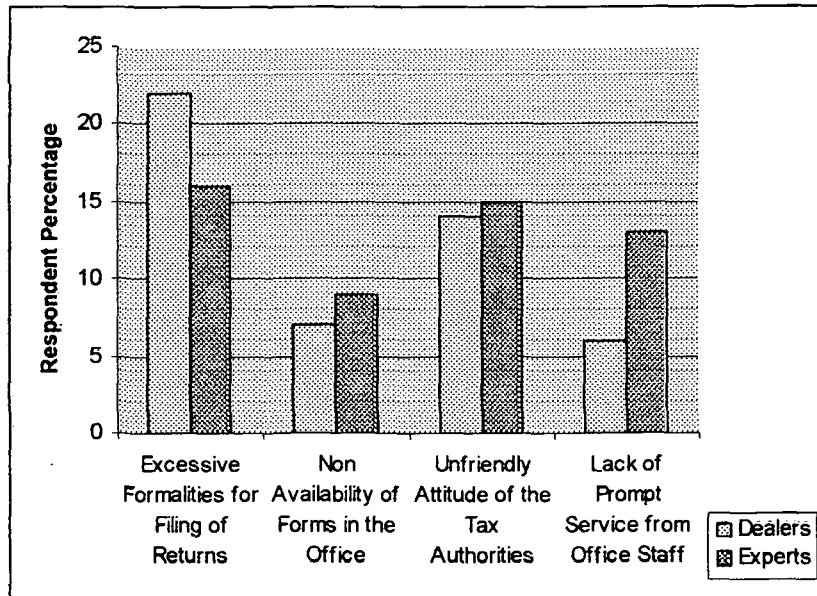


Fig 5.3 Problems Faced by Dealers in the Compliance of the Sales Tax Act

An attempt was made to explore the fact that whether all the dealers irrespective of their size of turnover opine for the factor '*unfriendly attitude of tax authorities*' as a hindrance in tax payment. Table 5.14 gives the summary of chi-square test being carried out to find out any relationship between the comment given by the dealer and their size of turnover.

Table 5.14
chi-square test for Knowing Effects of Turnover on Comments

chi-square Tests				
Category		Value	df	Asymp. Sig. (2-sided)
Dealer	Pearson chi-square	47.94	45	0.35
	Likelihood Ratio	54.41	45	0.16
	No. of Valid Cases	277		

The results show that there exists no relationship between the comment given on the unfriendly attitude of the tax authorities by the dealer-respondents with their turnover size. Thus, it reflects that all the dealers irrespective of their size of business are dissatisfied with the attitude of the tax administrators.

5.4.2 Problems Faced by Tax Authorities in the Administration of the Sales Tax Act

A tax statute cannot yield maximum benefit unless it is administered in the most effective way. In this course, it is to be ensured that the machinery involved in the execution and administration of the system face least problems. Problems faced by the administrators in the execution of the Act lead to poor collection of revenue from sales taxation in Assam. In an attempt to know these problems, the administrators were presented with several problems that they were required to rank according to the gravity of the problem. Various problems that were mentioned were gathered from the Delphi-like study and a thorough survey. Table 5.15 provides the summarized information about the problems.

Table 5.15
Problems Faced by Tax Authorities in Administration
(Administrator-Respondents) (in percentages)

	Ratings										Value
	1	2	3	4	5	6	7	8	9	10	
Excessive Formalities for issuing notices etc	16	15	9	12	7	6	1	3	1	3	541
Unfriendly attitude of the dealers	16	14	13	5	6	8	2	2	3	2	523
Lack of prompt service from the office staff	6	5	3	10	6	6	12	7	7	5	353
Indefinite stay of the office staff at the same place	5	3	7	3	7	6	5	14	8	4	308
Too many slab of tax rates	27	8	14	6	7	2	5	1	3	3	580
Proper authority is not defined and not delegated	5	2	4	3	2	8	8	5	8	17	253
Complicated rules difficult to interpret	4	11	7	9	9	7	5	5	6	1	395
Political interference	1	3	3	7	4	8	10	7	7	12	261
Penalty provisions are not strict	2	8	9	3	11	7	6	9	6	4	353
Uncertainty about transfer from a place	2	6	6	10	2	4	6	8	13	9	307

The Table shows that the administrators mainly confined their problems to the following three. These are –

- Too many slabs of tax rates
- Unfriendly attitude of the dealers
- Excessive formalities for issuing notices etc.

The same question was asked to the expert-respondents. Table 5.16 presents the viewpoints of expert-respondents as regards ranking of problems faced by administrators in the execution of the Sales Tax Act.

Table 5.16
Problems Faced by Authorities in Administration
(Expert-Respondents) (in percentages)

	Ratings										Value
	1	2	3	4	5	6	7	8	9	10	
Excessive Formalities for issuing notices etc	11	8	9	13	9	8	3	0	4	0	459
Unfriendly attitude of the dealers	11	9	9	8	6	2	8	3	5	5	421
Lack of prompt service from the office staff	13	5	6	13	9	3	11	3	0	3	439
Indefinite stay of the office staff at the same place	5	6	6	6	5	2	6	13	13	3	326
Too many slab of tax rates	14	14	13	5	6	2	5	6	2	2	495
Proper authority is not defined and not delegated	0	6	6	6	9	3	6	8	8	6	283
Complicated rules difficult to interpret	6	6	6	6	8	8	3	3	6	5	330
Political interference	6	6	3	5	5	9	6	6	11	8	320
Penalty provisions are not strict	2	6	5	5	3	16	3	9	6	6	304
Uncertainty about transfer from a place	6	3	3	2	3	8	6	6	5	17	252

A close look of the Table reveals that the expert respondent regarded the following four as the main problems that administrators face in the execution of the Act-

- Too many slabs of tax rates
- Lack of prompt service from the office staff
- Excessive formalities for issuing returns etc.

Fig 5.4 shows the combined perception of administrators as well as expert respondents regarding the problems the administrators face in their day to day functioning. The factors identified deal with the structure of the Act as regards 'too many slabs of tax rates', and 'excessive formalities to be carried out' are concerned but other two factors are concerned with human elements involved in the system. It needs a thorough human resource engineering approach for mitigating these problems.

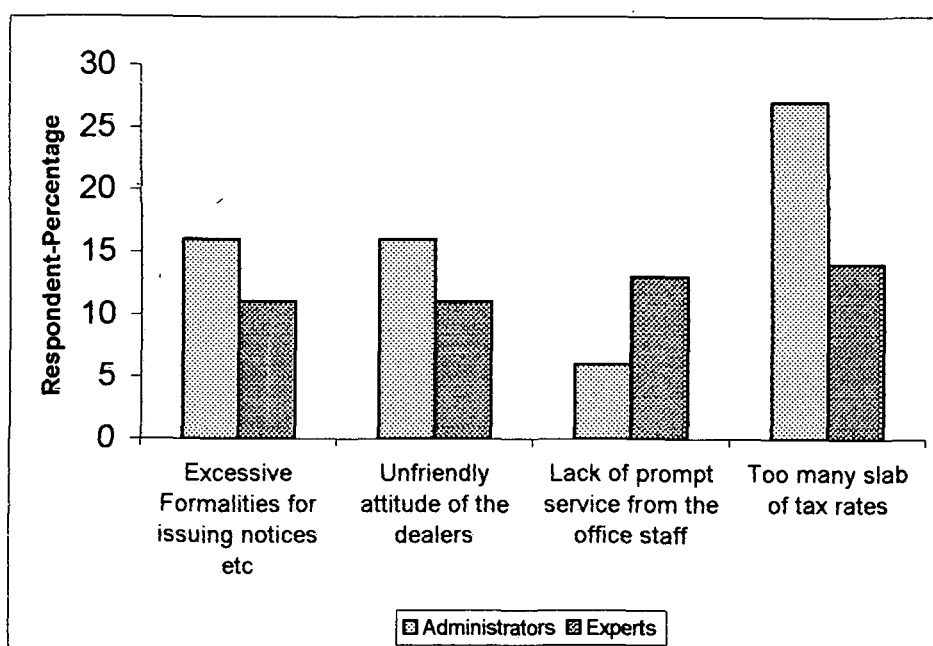


Fig 5.4 Problems Faced by Administrators in the Execution of Sales Tax Act

5.5 Sales Tax Evasion in Assam

There appears to be a general tendency on the part of the taxpayers to reduce their tax liability to the extent possible. Tax liability can be reduced or minimized by various ways. These ways can broadly be classified as tax avoidance, tax planning, and tax evasion. While the first two ways are legal, the third one i.e tax evasion is very much illegal and unwanted. It is alleged that evasion of sales tax is very common in Assam. An attempt has been made to explore the reasons for tax evasion in Assam.

5.5.1 Impact of Sales Tax Rates on Tax Evasion

One of the main reasons for tax evasion that had been identified during the survey as well as during interactions with experts happened to be rates of sales taxes. The respondents being the stakeholders to the sales taxation system in the system were asked to comment on this issue.

Table 5.3 above already described the views of individual segments of the respondents. Fig 5.5 is a pictorial presentation of the perception of the respondents as a whole. It can be seen from the pie chart that most of the respondents had the opinion that there had been a relationship between high rates of tax and propensity to evade. It seems that if tax rates are lowered, the evasion may be checked.

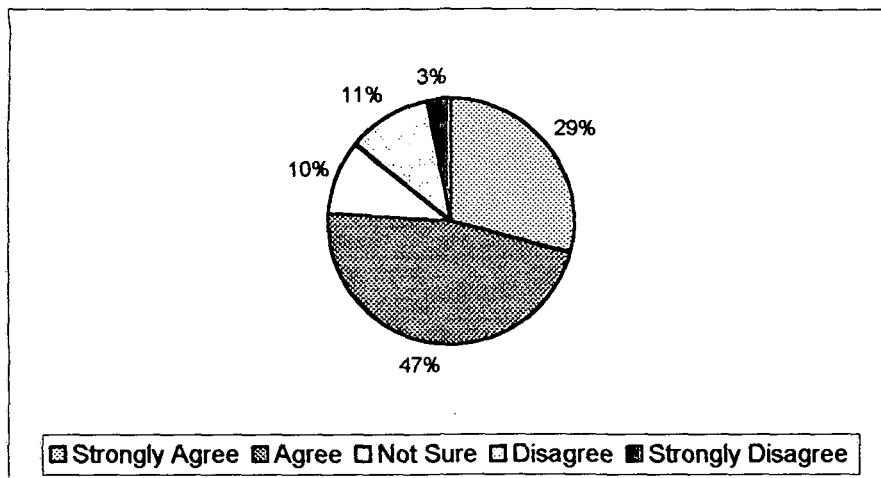


Fig 5.5 Respondents' Opinion as to High Rates of Sales Tax Create Propensity to Evade

This is a vital aspect to be examined. There are differences in opinions regarding this aspect. A reference to Table 5.3 shows that the dealers are strongly in favour of the statement that high rates of taxes create propensity to evade.

A chi-square test has been carried out to know whether the opinions of different groups differ regarding the point stated above. A null hypothesis has been framed as follows:

H_0 : There is no significant difference among the opinions of dealer, administrators, and experts regarding the point that high rates of taxes create propensity to evade.

The result of the chi square test is presented in Table 5.17

Table 5.17
Chi-square Test for High Rates of Tax and Tax Evasion

	Value	df	Asymp. Sig. (2-sided)
Pearson chi-square	18.08	8	0.02
Likelihood Ratio	19.84	8	0.01
N of Valid Cases	604		

As the chi-square value is 0.02 which is less than 0.05, the hypothesis can be rejected at 95% confidence level. Thus, it can be stated that there exists significant difference between the opinions of different stakeholder groups as far as the presumption that high rates lead to tax evasion is concerned.

5.5.2 Ways of Evasion

It had been a tough task for the researcher to uncover the ways of evasion from the respondents. The respondent segment includes dealers who may practice tax evasion, administrators whose main job is to control evasion, and experts who have their long experience in this matter. All the respondents were requested to pin point the main ways of evasion from a bunch of ways provided to them. Table 5.18 presents the ways of tax evasion as ranked by the respondents.

Table 5.18

Ways of Evasion of Sales Tax in Assam

	Ratings									Value
	1			2			3			
	D	A	E	D	A	E	D	A	E	
Under-invoicing	19	28	33	12	11	11	8	6	5	1258
Non-recording of Accounts	11	30	23	16	14	16	12	14	6	1310
Billing in the name of other NE State	16	21	17	9	13	11	7	11	13	1085
Sale by way of 'stock transfer'	4	9	11	6	10	13	9	9	13	749
Purchase of goods in fake names	6	9	16	8	20	11	7	10	13	901
Mis-classification of goods	5	9	11	7	4	8	8	11	8	637
Non-issue of Memos	11	12	23	8	10	9	6	14	8	927
Maintenance of Double sets of accounts	6	6	8	4	7	19	8	6	11	670
Mis-use of declaration forms	8	8	5	7	8	8	4	5	8	553
Lack of adequate and modern machinery at check gates	17	14	16	15	16	13	3	7	2	962

D: Dealer, A: Administrator, E: Expert

The ratings given by the respondents are valued taking rating 1 as 10, 2 as 9 and 3 as 8. The percentage of respondents against ratings are multiplied with the corresponding values to calculate the value against each factor. This shows that the respondents' view over the various ways of evasion of sales taxation in Assam mainly concentrated on the following five ways irrespective of the segments. These are:-

- Under-invoicing
- Non recording of Accounts
- Billing in the name of other NE States
- Non- issue of memos
- Lack of adequate and modern machinery at check gates.

5.6 Value-Added Tax (VAT) System in Assam

The Government of Assam has already committed to the Central Government for introduction of Value-Added Tax system tentatively from April 1, 2004. It has been felt necessary to know from the respondents their

knowledge-level about the new system of taxation. It is commonly believed that a new tax system can be effective and successful if it is received by the tax payers as well as all persons involved in the right sense.

5.6.1 Awareness Level of VAT System

Table 5.19 presents the awareness level of the respondents about the system of taxation called Value-Added Tax(VAT). It is seen from the Table that, in general, most of the respondents (61%) are aware of the system. The categorical analysis shows that the awareness of administrators is the highest as compared to experts and dealers. While almost 92 of the administrators out of every 100 know about the VAT system, this figure is 94 for experts, and as low as 48 for dealers. It shows that the awareness of the dealers regarding the new system of taxation to be introduced in recent future is not satisfactory.

Table 5.19

Respondents' Awareness About VAT System of Sales Taxation

	Category							
	Dealer		Administrator		Expert		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
No	213	51.82	10	8.20	4	6.00	231	38.76
Yes	198	48.18	112	91.80	59	94.00	365	61.24
Valid Responses	411		122		63		596	
Non Response	19		4		1		24	
Total	430		126		64		620	

5.6.2 Knowledge of Implementation of Uniform VAT All Over the Country

The Government of India has decided for a uniform VAT all over the country with effect from April 1, 2003. Assam has been a signatory to the above declaration. But all the Northeastern States of the country including Assam has been given one-year cooling period and asked to introduce it

tentatively from April 1, 2004. It has been of utmost exigency to know whether the stakeholders have the requisite information about this development. Table 5.20 is a description of the awareness of the respondents over uniform VAT in India. The Table portrays that two-third of the respondents has the knowledge of the decision taken by the Government. However, it can be seen that the knowledge level of the dealer-respondents has been the lowest (55%) as compared to experts (86%), and administrators (94%). It can be perceived that the administrators and experts are more informative as compared to dealers as regards developments in the field of sales taxation in the national as well as State levels.

Table 5.20
Knowledge About Introduction of VAT in India

	Category							
	Dealer		Administrator		Expert		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
No	178	45.41	7	5.69	9	14.52	194	33.62
Yes	214	54.59	116	94.31	53	85.48	383	66.38
Valid responses	392		123		62		577	
Non Response	38		3		2		43	
Total	430		126		64		620	

5.6.3 Support to the Decision of Introduction of VAT in Assam

A new tax system can be successfully implemented only if it receives co-operation from every quarter involved in the system. As the Government of Assam has already decided for VAT system of sales taxation to be followed in the State, it was necessary to explore the perception of the respondents regarding the same. Fig 5.6 summarizes the perception of the different segments of respondents as to the introduction of VAT system. It is noticed that all the segments of respondents have voted for introduction of the new system. This may be a reason that the stakeholders sincerely desire a change-over from the present system of sales taxation in the State.

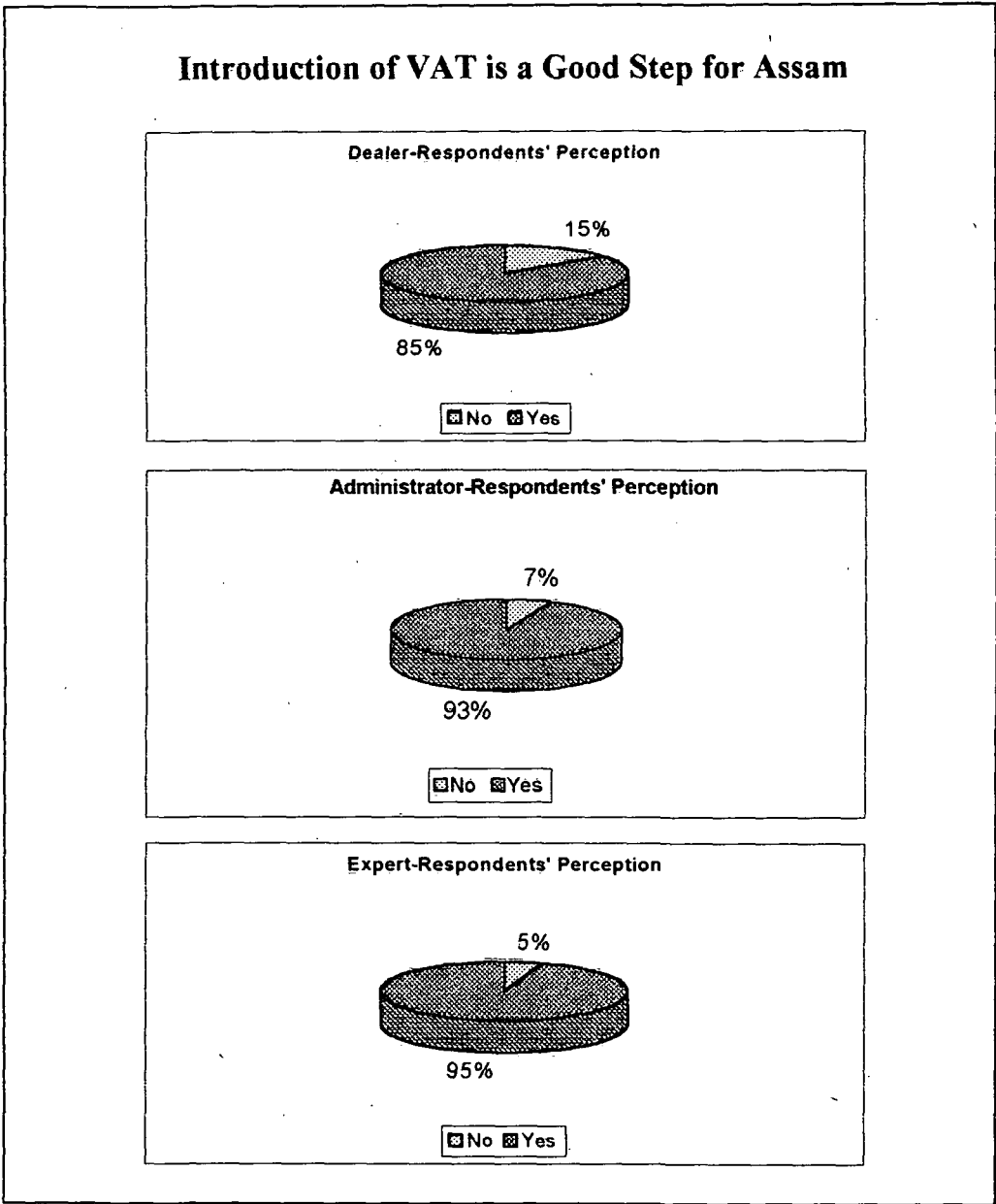


Fig 5.6 Respondents' Perception whether Introduction of VAT is a Good Step for the State

It was necessary to know whether the awareness level of the administrators about the VAT system has any bearing with the tenure of service of the administrators. Table 5.21 shows the findings of the test.

Table 5.21

chi-square test for Length of Service and Awareness Level about VAT

Chi-Square Tests				
Category		Value	df	Asymp. Sig. (2-sided)
Administrator	Pearson chi-square	1.7363	5	0.884295
	Likelihood Ratio	2.328535	5	0.802067
	No. of Valid Cases	113		

The result shows that there exists no relationship between the awareness level and the service length of the administrators. Hence, the awareness drive as well as the training programs should be meant for all levels of administrators.

5.6 Ways of Increasing Revenue from Sales Taxation in Assam

To know the ways for augmenting revenue from sales taxation, all the respondents were requested to put forward their views regarding the matter. Views of the three segments of the respondents are presented in three different Tables. In Table 5.22 the suggestions of the dealer-respondents for increasing revenue from sales taxation have been presented. It is seen that the dealer-respondents have recommended 'reduction of tax rates and simplification of procedures' as the main way by which the revenue from sales taxation can be increased in Assam. The other options that were given due regard are as follows:

- Introduction of incentives for honest tax payers
- Improving infrastructure and functioning of check gates
- Imposition of entry tax
- Extension of payment of lump sum tax

Table 5.22

The Scope for Enhancing Revenue from Sales Taxation in Assam

(Views of Dealer-Respondents)

	Count	Percentage
Reduction of tax rates and simplification of procedures	263	61.2
Imposition of Entry tax	109	25.3
Extension of payment of lump sum tax	104	24.2
Imposition of tax on some commodities from exempted list	71	16.5
Introduction of incentives for honest tax payers	132	30.7
Improving infrastructure and functioning of the check gates	124	28.8
Imparting training to the tax officials	63	14.7
Restricting concessions of tax holidays to SSIs	80	18.6
Thorough checking of godowns/transporter's godowns	72	16.7
"Bureau of Economic Offence' to be mad more effective	33	7.67

(Each respondent provided more than one response)

The administrator-respondents' suggestions for enhancing tax revenue have been incorporated in Table 5.23. A close look at the Table reveals that most of the administrators have given emphasis on imposition of entry-tax for enhancing tax revenue for the State followed by thorough checking at godowns, reduction of tax rate and simplification of procedures, and improving infrastructure and functioning of the check gates.

Table 5.23

The Scope for Enhancing Revenue from Sales Taxation in Assam

(Views of Administrator-respondents)

	Count	Percentage
Reduction of tax rates and simplification of procedures	57	45.24
Imposition of Entry tax	64	50.79
Extension of payment of lump sum tax	29	23.02
Imposition of tax on some commodities from exempted list	46	36.51
Introduction of incentives for honest tax payers	41	32.54
Improving infrastructure and functioning of the check gates	55	43.65
Imparting training to the tax officials	25	19.84
Restricting concessions of tax holidays to SSIs	38	30.16
Thorough checking of godowns/transporter's godowns	58	46.03
"Bureau of Economic Offence' to be mad more effective	25	19.84

(Each respondent provided more than one response)

Table 5.24 enumerates the suggestions of experts for improving the revenue collection from sales taxation in Assam. An analysis of the contents of the Table reflects that most of the experts (55 percent) are also of the view that by reducing tax rates and simplifying the procedures tax revenue can be enhanced in the State. A substantial portion of the experts (48 percent) feel that introduction of incentives for honest tax payers, thorough checking of godowns, and imparting training to Tax Officials may yield positive result for enhancing revenue collection from sales taxation in the State.

Table 5.24

The Scope for Enhancing Revenue from Sales Taxation in Assam

	(Expert-respondents)	
	Count	Percentage
Reduction of tax rates and simplification of procedures	35	54.69
Imposition of Entry tax	24	37.50
Extension of payment of lump sum tax	20	31.25
Imposition of tax on some commodities from exempted list	20	31.25
Introduction of incentives for honest tax payers	31	48.44
Improving infrastructure and functioning of the check gates	24	37.50
Imparting training to the tax officials	26	40.63
Restricting concessions of tax holidays to SSIs	18	28.13
Thorough checking of godowns/transporter's godowns	27	42.19
"Bureau of Economic Offence' to be mad more effective	16	25.00

(Each respondent provided more than one response)

ANOVA test has been carried out to know the most preferred scope for enhancing revenue from sales tax in Assam. The following null hypothesis has been framed for this purpose:

H_0 : There is no significant difference between the opinions of the dealers, administrators, and experts regarding the scope for enhancing tax revenue from sales tax in Assam.

Table 5.25 presents the results of ANOVA test regarding the scope for enhancing revenue. The results show that the

Table 5.25**ANOVA Table for Responses regarding Scope for Revenue**

S.V.	S S	df	M S S	V R
Between Columns	2726	9	303	4.73
Between Rows	968	2	484	7.56
Error	1155	18	64	
Total	4849	29		

Hypothesis cannot be accepted at 5% level of significance and hence it can be concluded that there remains significant difference between the various treatments as presented in Table 5.26. The treatment mean effects, arranged in descending order of magnitude, are portrayed in the Table. The ten treatments given in the Table have not been treated alike by different groups of stakeholders. Considering all the stakeholder groups, the highest mean effect is 54 and is for the treatment “Reduction of tax rates and simplification of procedures”. Hence, if a choice to be made to enhance the revenue from sales tax in Assam then this would be the most preferred option.

Table 5.26**Options Regarding Enhancement of Earning from Sales Tax**

Treatment		Mean	Diff.
T ₁	Reduction of tax rates and simplification of procedures	54	16
T ₂	Imposition of entry-tax	38	1
T ₅	Introduction of incentives for honest tax payers	37	0
T ₆	Improving infrastructure and functioning of the check gates	37	2
T ₉	Thorough checking at godowns/transporters' godowns etc.	35	7
T ₄	Imposition of tax on some commodities from exempted list	28	0
T ₃	Extension of payment of lump sum tax	28	2
T ₈	Restricting concessions of tax holidays to SSIs	26	1
T ₇	Imparting training to the tax officials	25	7
T ₁₀	Bureau of Economic Offence' to be made more effective	18	

If a choice is to be made among other options, the treatments T₂, T₅, T₆ and T₉ are to be preferred because of their higher means. All other treatment pairs are alike and differ significantly. Thus, it can be viewed that the respondents presume “Reduction of tax rates and simplification of procedures”

as the main scope for enhancing sales tax revenue in Assam. Other considerable factors are:

- (a) Imposition of entry fee
- (b) Introduction of incentives for honest tax payers
- (c) Improving infrastructure and functioning of check gates
- (d) Thorough checking at godowns/transporters' warehouse etc.

5.7.1 Relation between the Collection of Revenue from Sales Taxation and the Tax Base.

Tax base depends on a large number of factors. One of the important factors may be the number of dealers registered with the sales tax authorities in the State. Collection from sales taxation can be increased if more dealers come under the tax net. It is generally observed that though there are many dealers whose turnover cross the taxable quantum, they wish to remain unregistered and thus be outside the tax net. It is a big problem for sales tax administration in the State. The findings of the Delphi-study revealed various suggestions. The prime suggestions are that if tax rates are lowered, and formalities are simplified then more dealers would come voluntarily to get themselves registered. This suggestion had been cross-checked to know the perception of stakeholders at the grass-root level regarding the same. Table 5.27 summarizes the understanding of the stakeholders regarding this suggestion. The findings from the Table coincide the view as provided by the Delphi-study. While almost 90% of the respondents in general subscribe to this view, it is as high as 94% for dealers, 81% for administrators, and 83% for experts. Thus, it can be found that lowering of tax rates as well as simplification of procedure may serve as a boost for bringing more dealers under the tax net.

Table 5.27**Respondents' Perception as to Lowering Tax Rates and Procedure Simplification
Would Encourage Registration**

	Category							
	Dealer		Administrator		Expert		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Strongly Agree	189	44.58	36	29.03	19	30.16	244	39.93
Agree	208	49.06	65	52.42	33	52.38	306	50.08
Disagree	8	1.89	8	6.45	7	11.11	23	3.76
Strongly Disagree	1	0.24	6	4.84	1	1.59	8	1.31
Not Sure	18	4.25	9	7.26	3	4.76	30	4.91
Valid responses	424		124		63		611	
Non Response	6		2		1		9	
Total	430		126		64		620	

5.7.2 Scope for Simplification of Tax Structure in Assam

The main aim of any tax administration is to maximize its revenue collection by the best possible way. Opinions of stakeholders were sought to know whether they believed that there is scope for rationalization and simplification of the present sales tax system in Assam. Table 5.28 presents the views of the respondents. More than half (53%) of the respondents in general believe that there is scope for rationalization and simplification of the sales tax system to a great extent. 44% of the respondents in total believed that there is scope for rationalization to some extent.

Table 5.28**Scope for Simplification of Sales Tax Structure in Assam**

	Category							
	Dealer		Administrator		Expert		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
To a great extent	228	57.72	52	45.22	23	39.7	303	53.3
To some extent	154	38.99	62	53.91	34	58.6	250	44
Not at all	13	3.291	1	0.87	1	1.72	15	2.64
Valid responses	395		115		58		568	
Non Response	35		11		6		52	
Total	430		126		64		620	

5.8 Consumers' Perception Towards Sales Taxation System in Assam

Consumers are the persons who pay sales tax whenever they purchase any commodity. Sales tax is an indirect tax and hence the impact and incidence of this tax are on different persons. Though consumers pay and bear the tax, but actually this tax is collected by the dealers from whom the consumers make their purchases. Dealers, in turn, deposit the tax to the State exchequer. Thus, it is to be recognized that consumers are one of the prime pillars in the system of sales taxation. Collection of revenue from sales taxation, to a great extent, depends on the attitude and psychology of the consumers. Taking a cue from this, an attempt has been made in this study to make an elaborate survey State-wide to know the feelings of the consumers towards the sales taxation system of the State. Various questions related to the objective of this study were put to the consumer respondents.

Consumers' attitude depends on a number of factors. The taxable capacity of a State depends on the psychology of the taxpayers. The attitude and perceptions of the consumers are tried to be evaluated on the basis of their awareness about the economic condition of the State, duties of good citizen, ways of evasion of sales tax, wishes and expectations etc.

Fig 5.7 is a summary of various facts that were collected from the survey of consumers. Analysis of the Figure shows that the consumers, in general (90%), are aware of the fact that Assam has been facing unprecedented financial crunch. 85% of the respondents also know the fact that sales tax is the major source of revenue for any State Government. Almost 85% of the respondents are aware that they do pay sales tax whenever they purchase any commodity while 15% of the respondents are not sure about this.

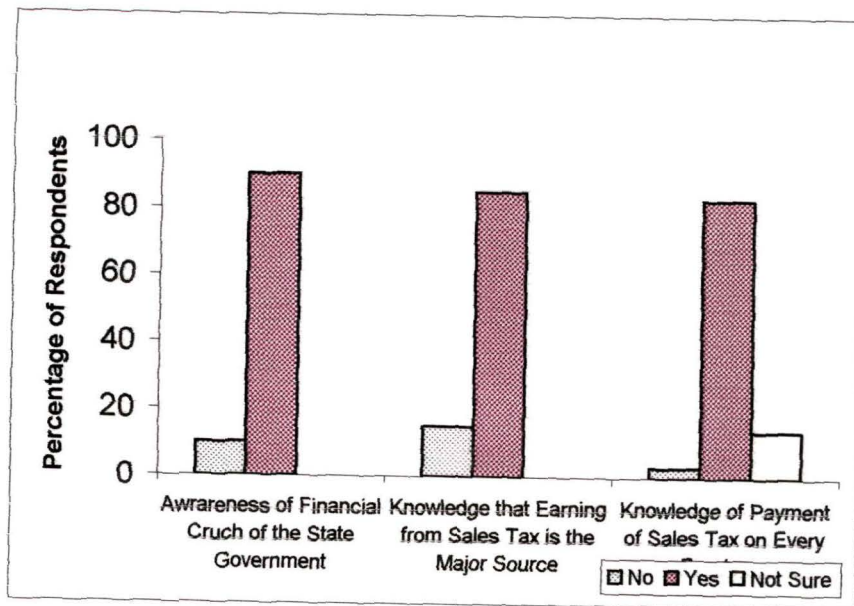


Fig 5.7 Consumers' Awareness Level About Sales Taxation

Sales tax is collected on the turnover declared by a dealer. Turnover is recorded when a sale is made by the dealer and a voucher is issued corresponding to the transaction. The issuance of voucher as a proof of sale transaction, to a large extent, depends on the purchasers whether he insists on the voucher. It is felt very necessary to have a look on the attitude of the consumers towards collection of cash memo. Fig 5.8 shows the consumers' experience with cash memo when they make their purchases. It is seen that only a meager percentage (25%) of consumer-respondents always insists the seller to issue cash memo against every purchase they make. A substantial portion (31%) has the practice of asking for cash memo on rare occasions. Majority of the consumer-respondents (55%) sometimes asks for memos. It is observed that around one-third the consumers respondents do not bother to have memo as they do not feel any necessity for the same unless the purchase is of some kind of valuable assets. Regarding refusal of issuance of cash memo by shopkeepers, majority of the (43%) consumer- respondents are not sure whether they were refused in any occasion. Almost an equal proportion (41%)

opine that they were never refused cash memo by shop-keepers, while a small proportion (15%) confirm that they were refused cash memo against their purchases. It may be mentioned here that in general shopkeepers do issue cash memo when the customers ask for it. Cases for refusal of cash memo is not very common in Assam.

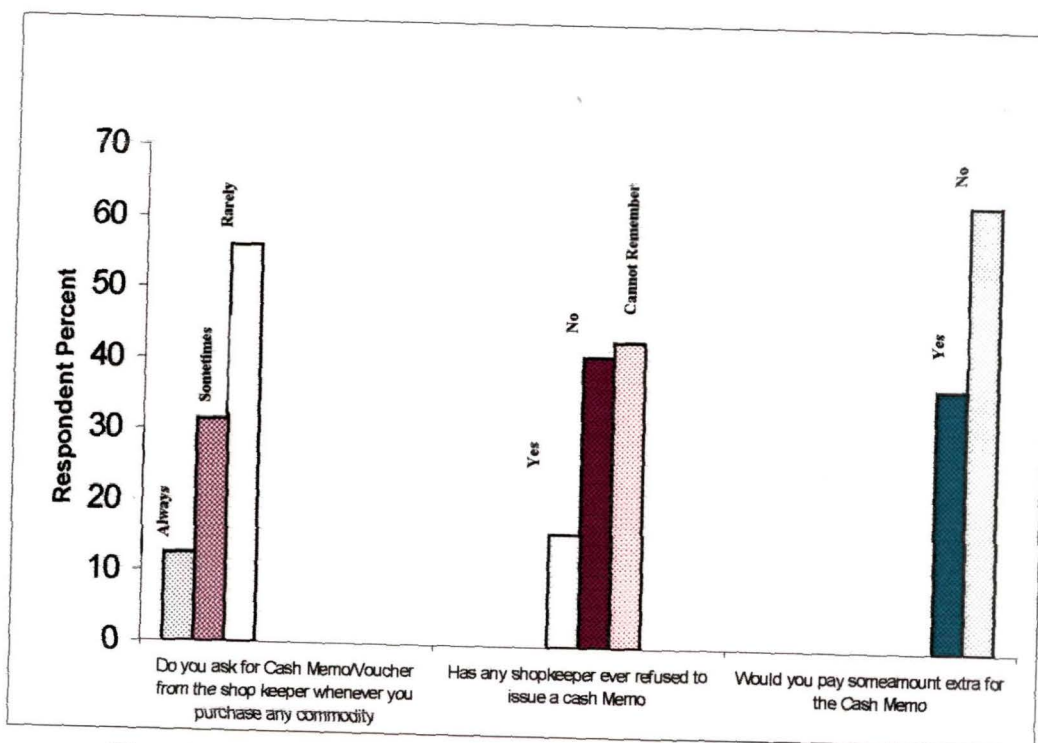


Fig 5.8 Consumers' Attitude Towards Collection of Cash Memo

It is observed that there is a general practice among the traders to quote the price of a product purposively low without sales tax. If the customers ask for memo, then the trader asks for additional amount as sales tax for issuance of the requisite memo. Normally consumers making their personal purchases may not like to pay additional amount for the memo. In most of the cases, they take the option of making the purchase without proper authenticated voucher. The consumer-respondents were requested to give their honest and candid opinion as to whether they were ready to pay more for cash memo against their purchases. Majority (60%) of the respondents have opined against it. Thus, it is

a great hurdle in the collection of sales tax by the Government and this attitude of the consumers play a significant role in the evasion of sales tax by the dealers.

It is the consumers who pay the sales tax whenever they make purchase of any commodity. It is of utmost importance to have the knowledge about their preference of payment of sales taxes in the best possible manner. Fig 5.9 is a representation of the attitude of the consumers towards their nature as regards the payment of sales tax. It is seen from the figure that majority of the respondents admit that they presume payment of sales tax as an act of good citizenship but at the same time they wish to pay sales taxes unknowingly. Some of the respondents feel pinch in the payment of sales tax and a very low percentage (7.5%) of the respondents wish to avoid payment of sales tax whenever possible. Sales tax, being an indirect tax, is to be paid by all citizens and if administered and managed in the proper way, consumers would be willing to pay their dues honestly.

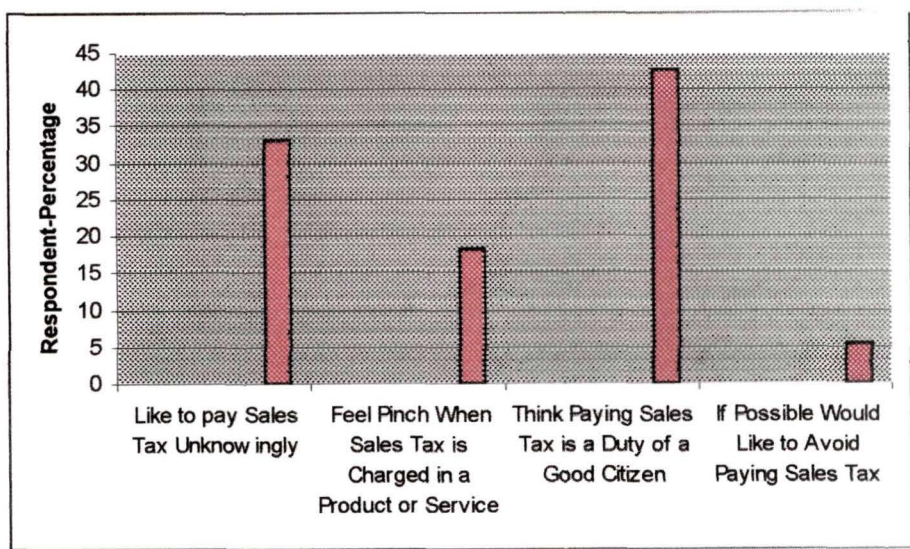


Fig 5.9 Consumers' Attitude Towards Payment of Sales Tax

presentation of the opinions of the consumer-respondents as regards evasion of sales tax. The respondents are divided almost equally in two extreme considerations. While around 44% of the respondents opined against evasion of sales taxes, almost an equal proportion is in favour of evasion. This makes the problem of tax administration more critical when some consumers are against evasion of sales tax and others are in search of opportunity to evade tax.

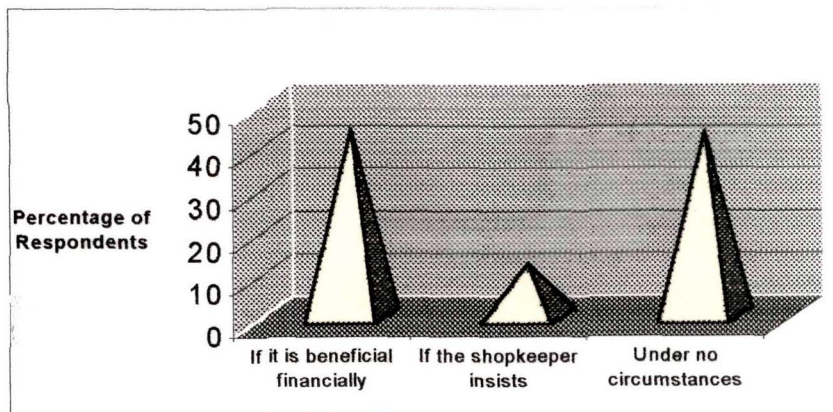


Fig 5.10 Consumers' Perception Towards Evasion of Sales Tax

Segmental classification of data is important to identify the composition of respondents subscribing to a particular view. It has been noticed during the survey that consumers in the upper segment of educational qualification and income are comparatively much aware about the economic scenario and sales tax system. As regards the practice of asking for cash memo against every purchase, it is seen that the practice prevails in more educated class and higher income group. Almost all the respondents, irrespective of educational background, income level or profession, wish to pay sales tax unknowingly. A moderately low percentage of respondents opine that they feel pinch for the payment of sales tax. This view is different with the respondents in the higher income category. Respondents in the lower income group and lower educational qualifications are in favour of evasion of sales tax in case they gain

financially. A low percentage of respondents opined for tax evasion on the insistence of the shopkeeper. Respondents in the highest income group would try to evade sales tax not because of financial reasons but on the insistence of the shopkeeper. The percentage of respondents who could say loud and clear that they would not evade tax has been low in most of the categories. Majority (60%) of the respondents in the highest monthly income group could definitely say that they would not evade tax under any circumstances. Segmental analysis of data collected from the consumer survey has been appended in the Annexure.

5.9 Conclusion

In the formulation of any tax policy, effort should be made to make it stakeholder friendly. The survey carried out through out the State could point out various factors that are very much important in compliance and administration of the Statute. Moreover, consumers' perception and attitude have been explored to a great extent. All these factors are given due regard in the development of recommendation package as narrated in the following Chapter.

CHAPTER 6

Findings and Recommendations

CHAPTER – 6

FINDINGS AND RECOMMENDATIONS

6.1 Introduction

To achieve the objective of the study, due emphasis has been given to the views and perceptions of the stakeholders. Data and information that were collected from various sources were analyzed to answer the following research questions that are formulated, on the basis of the objectives of the study. The questions are:

- What is the status of revenue generation in Assam?
- How effective are the structure and mechanism of the present sales tax system in Assam?
- What are the position of the revenue and other financial aspects of sales tax in Assam over the last four decades?
- What difficulties do the stakeholders face in compliance with or administration of the sales tax legislation?
- What are the various factors that lead to evasion of sales tax in Assam?
- What is the general attitude of the consumers towards payment of sales tax in Assam?
- What is the status of Value-Added Tax system in Assam?
- How the present ailments can be removed and what should be the roadmap for effective future administration of the sales tax machinery?

The findings of the analysis are presented in the forms of answers to the above questions in the following sections.

6.2 Findings from the Secondary Information

Data and Information gathered from the published sources have revealed the present position of the sales taxation system in Assam. The following sections highlight various aspects of the present system relevant to the study.

6.2.1 Revenue Structure of the State

The Government of Assam, being a constituent of the Indian federal system, has been facing severe financial crunch in the governance of the State. The mounting pressure on the State Government to meet various expenditures including the hefty salary bill of the public servants make the situation more complex. The data available show that while the collection of revenue from sales tax was Rs. 149 cr. in 1986-87, it was Rs. 918 cr. in 2001-02. On the other hand, the salary paid to public servants were Rs. 468.56 Cr. in 1986-87 and it went up to Rs. 4990.55 Cr. in 2000-01. The State Government is mostly dependent on the Central Government for its finance. Assam has been a State with low investment in all sectors as indicted by the ever decreasing credit deposit ratio from 50 percent in 1991 to about 33 percent in 2001. As against this, the national average is 58 percent as observed by the Committee on Fiscal Reforms constituted by the Government of Assam in 2001. That major part of the revenue receipts of the State is derived from the Union Government.

The position of the State economy of Assam vis-à-vis other States of the country are shown in Table 6.1. It can be seen from the Table how much the State is dependent on the Central Government for its finance.

Fig 6.1 depicts the share of central taxes obtained by the State of Assam in comparison to other States of the country. It is the reflection of the dependence of the State Government on the Union Government for its revenue. It is seen from the figure that Assam, being an underdeveloped State, has to

rely more on Central Government fund in comparison to developed States like Maharashtra.

Table 6.1
State Revenue as per the Existing System (1996-97 RE) (Rs lakh)

	States	SOTR	Shared Taxes	Grants in Aid	Total Cols. 2+3+4	Percent Share to Total Revenue		
						SOTR	Shared Taxes	Grants in Aid
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. HIGH INCOME STATES	1.GOA	30,013	9,055	6,615	45,683	65.70	19.82	14.48
	2.GUJARAT	630,432	133,206	73,017	836,655	75.35	15.92	8.73
	3.HARYANA	216,641	42,300	48,658	307,599	70.43	13.75	15.82
	4.MAHARASHTRA	1,199,980	214,592	176,314	1,590,886	75.43	13.49	11.08
	5.PUNJAB	280,679	52,835	59,384	392,898	71.44	13.45	15.11
	TOTAL(1)	2,357,745	451,988	363,988	3,173,721	74.29	14.24	11.47
B. MIDDLE INCOME STATES	6.ANDHRA PRADESH	498,851	288,360	174,260	961,471	51.88	29.99	18.12
	7.KARNATAKA	604,442	172,980	121,159	898,581	67.27	19.25	13.48
	8.KERALA	394,885	121,770	74,693	591,348	66.78	20.59	12.63
	9.TAMIL NADU	777,580	212,229	97,014	1,086,823	71.55	19.53	8.93
	10.WEST BENGAL	460,925	242,015	122,848	825,788	55.82	29.31	14.88
	TOTAL(2)	2,736,683	1,037,354	589,974	4,364,011	62.71	23.77	13.52
C. LOW INCOME STATES	11.BIHAR	236,544	394,411	86,779	717,734	32.96	54.95	12.09
	12.MADHYA PRADESH	400,136	258,290	189,799	848,225	47.17	30.45	22.38
	13.ORISSA	143,306	157,284	114,409	414,999	34.53	37.90	27.57
	14.RAJASTHAN	328,429	176,583	139,409	644,421	50.96	27.40	21.63
	15.UTTAR PRADESH	607,965	586,485	281,540	1,475,990	41.19	39.74	19.07
	TOTAL(3)	1,716,380	1,573,053	811,936	4,101,369	41.85	38.35	19.80
	TOTAL(15 MAJOR STATES)	6,810,808	3,062,395	1,765,898	11,639,101	58.52	26.31	15.17
D. SPECIAL CATEGORY STATES	16.ARUNACHAL PRADESH	954	17,905	58,067	76,926	1.24	23.28	75.48
	17.ASSAM	83,810	117,556	187,855	389,221	21.53	30.20	48.26
	18.HIMACHAL PRADESH	37,386	53,008	86,804	177,198	21.10	29.91	48.99
	19.JAMMU AND KASHMIR	28,927	82,146	242,447	353,520	8.18	23.24	68.58
	20.MANIPUR	3,240	22,951	49,750	75,941	4.27	30.22	65.51
	21.MEGHALAYA	7,652	21,754	44,918	74,324	10.30	29.27	60.44
	22.MIZORAM	633	18,178	43,952	62,763	1.01	28.96	70.03
	23.NAGALAND	3,135	27,475	52,684	83,294	3.76	32.99	63.25
	24.SIKKIM	2,211	7,357	26,955	36,523	6.05	20.14	73.80
	25.TRIPURA	5,962	31,878	62,673	100,513	5.93	31.72	62.35
	TOTAL(4)	173,910	400,208	856,105	1,430,223	12.16	27.98	59.86
	TOTAL(ALL STATES)	6,984,718	3,462,603	2,622,003	13,069,324	53.44	26.49	20.06

Notes: SOTR = State Own Tax Revenue RE = Revised Estimates

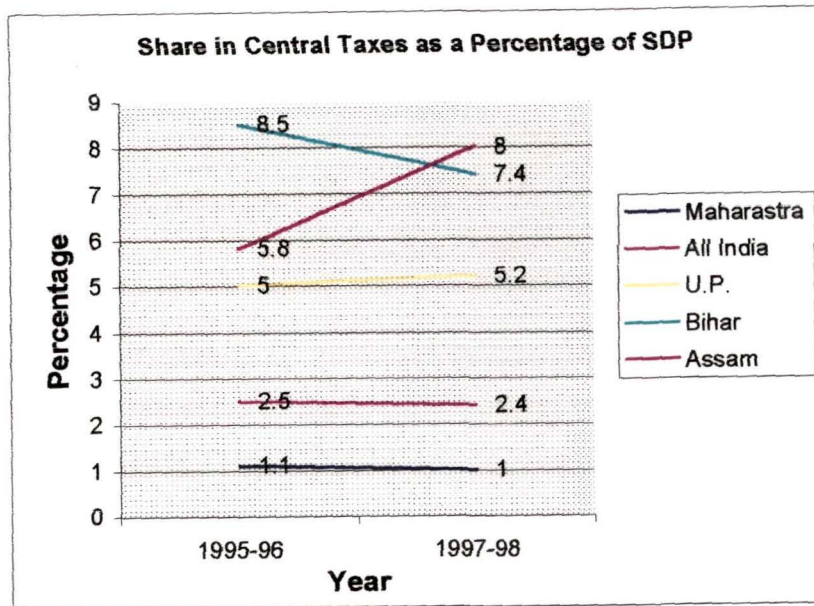


Fig 6.1 Share of Central Taxes as a Percentage of GDP

Total tax revenue of a State consists of tax revenue collected by it as well as the share of union taxes received. XI Finance Commission's index of self-reliance (ratio of own revenue to revenue expenditure) is one pointer of fiscal performance of the State Government. The share of each State in the net proceeds of the shareable central taxes and duties has been fixed by the Finance Commission. Para 6.36 of the Report of Finance Commission fixes the share of Assam as 3.285 per cent for the years 2000-01 to 2004-05. Emphasis has been given on the generation of own revenue by the State Governments. More funds are to be allocated to the States earning more revenue from own sources [Report of Eleventh Finance Commission, 2001]. The Eleventh Finance Commission has estimated a rosy picture for the State [Table 4.14]. Thus, it gives ample pressure on State Governments to augment its own resource generation.

Fig 6.2 represents share of own taxes collected by the State to the total revenue collected from tax (including share of union tax). It can be seen from the figure that the share of own tax revenue to the total tax revenue of the State of Assam is one of the lowest in the country. While the receipts from the Central Government increased in absolute terms over the years, the scenario of revenue generation from the State sources have been very much dismal. This situation ought to be improved and the State of Assam has to be self-dependent to get more share from the Union Government.

An indicator of growth of sales tax revenue can be the ratio of sales tax to the State Domestic Product (SDP). Figure 6.3 shows the movement of share of sales tax in the total SDP of the State of Assam. In case of Maharashtra which is one of the developed States of the country, the percentage of sales tax on SDP moves around 7 to 8 percent over the years.

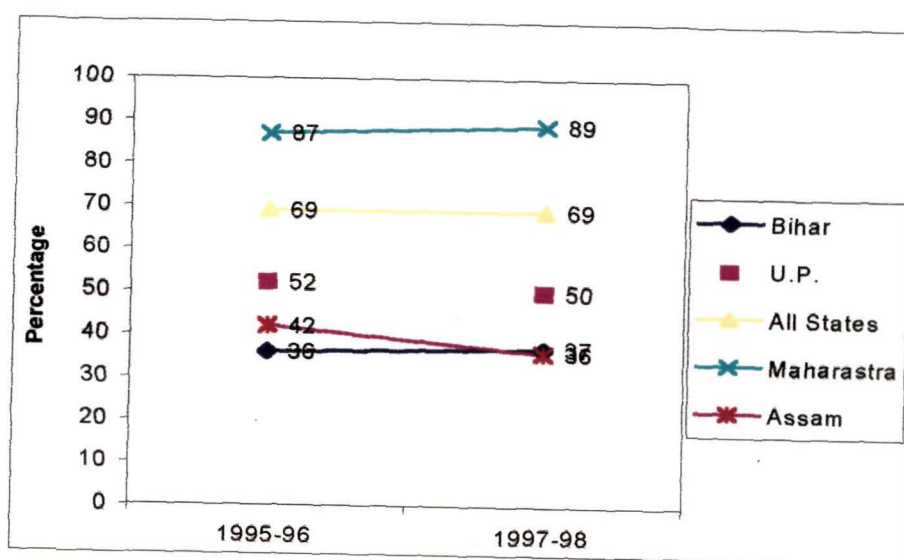


Fig 6.2 Share of Own Revenue to the Total Tax Revenue of Different States

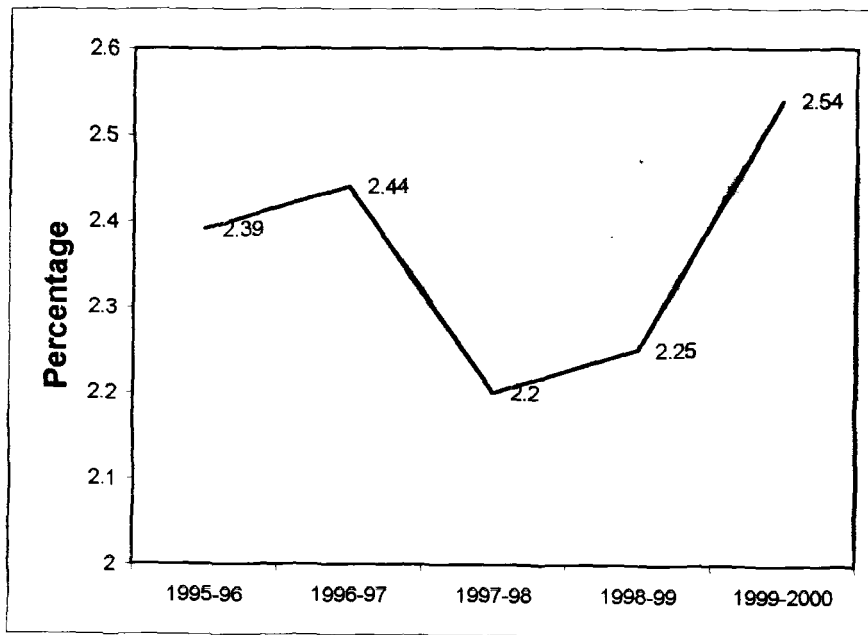


Fig 6.3 Percentage of Collection from Sales Tax to the GDP of the State of Assam

This shows that there remains ample scope for increasing revenue from sales tax in the State. Of over 300 commodities, the most important revenue raiser from sales taxation had been crude oil followed by diesel oil, motor spirit and tea. Excessive care needs to be taken in the imposition and collection of sales tax from these items.

6.2.2 Structure and Administration of Sales Taxation in Assam

Out of the different State taxes, sales tax plays the major and the most important role. Figure 6.4 discloses that on an average more than 60 percent of the total state tax revenue is accounted for by sales tax. The percentage yield varied from 43 per cent to as high as 82 per cent of the total revenue receipt of the State. Thus, the dependence of State Government on this source can easily be understood.

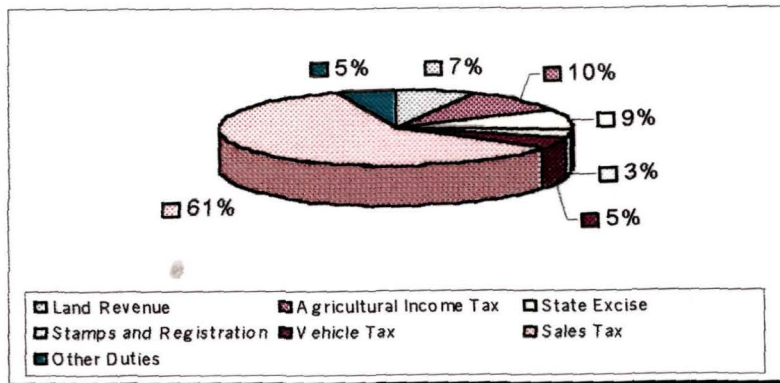


Fig 6.4 Composition of State Tax Revenue in 1997-98

Source: Statistical Hand Book, Assam, 1999

Sales tax in Assam is not of recent origin. History shows that sales tax has been imposed in Assam since the Tenth Century. After a series of transition, the present Assam General Sales Tax (AGST) Act, 1993 is in force at present. Consolidation of separate tax statutes and formulating new AGST Act has made the system simpler. The present structure of Sales tax administration is found to be satisfactory. The department of statistics in the Commissionerate of Sales Tax has been successful in compiling statistics and thus enabling fixing targets for unit offices.

The Sales Tax Department has to undertake a very tough job for checking evasion originated as a result of diversion of trade to the neighbouring tribal States. The Unit offices are located in different places of the State and cover all the areas of the State as the Recovery Offices. Appellate offices are not evenly located and needs ratification in earmarking of areas.

The proportion of expenditures over revenue of the Sales Tax Department has been almost constant except in the year 1994-95 when there had been an unprecedented increase in expenditure due to restructure in the organizational set up as necessitated by the implementation of the new AGST Act, 1993. After that the rise in expenditure has been proportional to that of

revenue. The percentage of expenditure to revenue has been on an average 1.4 percent during 1993-94 to 1999-2000 [Table 4.10]. An improvement has been noticed in the year 1997-98 when there had been tremendous rise in revenue and hence the percentage of expenditure over revenue fell down remarkably. It is an improved scenario of tax administration for the State.

The process of collection of revenue from sales taxation is affected negatively because of appeal cases and arrears. When there is an increase in appeal cases there should be proportionate increase in its disposal also. The correlation between the number of appeal cases added and appeal cases disposed over the years is $r= 0.38$. Thus, there is no relationship between the number of appeal cases added and disposed during the year. This factor adds to the woes of the assesseees. The arrear amount under the process of recovery kept on increasing for the period 1990-91 to 1996-97. However, the year 1997-98 showed some changes in this regard as the cases stayed by courts increased tremendously and the amount under process of recovery dropped.

The Assam General Sales Tax Act, 1993 has been enacted after consultation with the various tax statutes of different States of the country. Therefore, the tax statute attempted to contain the generally accepted principles of taxation. The tax statute contains seven schedules where items are specified for different treatments of taxation. Sales tax is an indirect tax. Indirect taxes are basically of regressive nature. Even then attempt has been made to make it as equitable as possible. Commodities used by common people for their day-to-day use are either exempted from tax or are levied with low rates of taxes. On the contrary, luxury items are charged with highest rates of taxation.

With the imposition of uniform floor rates of taxation by the Union Government, the State Governments are compelled to impose sales taxes with regard to minimum floor rates. The practice of fixing lower rates to attract investment by industry is being tried to be curbed. The Government of Assam

has already implemented the uniform floor rates on all the commodities with effect from January 1, 2000. But the State has been facing problems from the neighbouring tribal States who are yet to impose the floor rates. Thus, a large chunk of trade of Assam is diverted to these States to evade payment of higher sales tax in Assam.

6.2.3 Position of Revenue and Other Financial Aspects of Sales Tax in Assam

Since the inception of the Assam General Sales Tax Act, 1993 with effect from July 1, 1993 the growth rate of sales taxation had been sluggish over the years. The growth rate had been negative in 1998-99 [Fig 4.3] because of the fact that IMFL (Indian Made Foreign Liquor) had been shifted to excise from sales tax causing a revenue loss of Rs. 40 Lakhs for the Sales Tax Department. But the reform steps initiated by the Sales Tax Department resulted in positive growth during the year 1999-2000. The increase in the growth rate of tax collection is a result of strong insistence on the tax collection target by the various unit offices.

Regarding growth pattern of revenue collection from sales tax, it has been found that the scenario is dismal because of the weak tax base. Tax base depends on number of economic macros. Some of them are controllable and some are beyond control. If the business growth rate is not satisfactory in the State, then growth in the collection of sales tax revenue cannot be anticipated. It has been found that the growth of registered factories, joint stock companies, index of industrial production has been almost constant over the years. Thus, the increase in the sales tax revenue over the past years may be attributable to the inflation factor.

6.3 Findings from the Stakeholders' Survey

The survey carried out among the stakeholders reflected the following distinguishing features of the present system of sales taxation in Assam. The survey also focussed on various areas where improvement can be made for increasing revenue collection from sales tax in the State.

6.3.1 Weaknesses in the Present Sales Tax System

Stakeholders' perceptions and views in this regard carry meaning for the formulation of future tax policies. Almost equal emphasis has been given to the following in-built weaknesses in the system such as:

- very high tax rates
- complex rules and regulations
- too many formalities
- scope for manipulation in the calculation of payment of sales taxes to the State exchequer.

Categorical analysis shows that the administrator-respondents are of the view that 'too many formalities' is the major shortcoming of the AGST Act. Almost half of the total respondents believe that the tax burden on consumers is high in Assam as compared to the neighboring States. It is seen that majority of the expert respondents recognize the fact that multiplicity of tax rate makes the Act more complex.

6.3.2 Difficulties Faced in the Compliance of Tax Statute

Any tax administration cannot yield its best result unless it provides a hassle-free system to the stakeholders. A good tax system should be simple so that the stakeholders face the least possible problems in dealing with the tax matters.

Collection of revenue from tax is affected negatively with the increase in the problems faced by the dealers in compliance of the various provisions of the tax statute. An in-depth analysis discloses the following three factors recognized as main problems by the dealer- respondents for compliance of tax laws and regulations. These are:

- Excessive formalities for filing of returns
- Unfriendly attitude of the tax authorities
- Limited period of validity of road permits

The expert-respondents have identified another factor that causes problem to the dealers. This is:

- Lack of prompt service from office staff

Excessive formalities for filing return and limited period for road permits require reforms in the structure, unfriendly attitude and lack of prompt service from the office staff could be reduced by improvement of the behavioural aspects of employees.

6.3.3 Difficulties faced in the Administration of Tax Statute

Tax administrators are the officials for implementation of various provisions of the tax statute. In the performance of their duties effectively, it is very much needed that the structure and the system be designed in a way that facilitates in smooth functioning of their duties. The administrators mainly confined their problems to the following three.

- Too many slabs of tax rates
- Unfriendly attitude of the dealers
- Excessive formalities for issuing notices etc

Besides the above three, the expert respondents have mentioned the following factor as a barrier in the effective administration by the tax officials.

This is:

- Lack of prompt service from the office staff

Thus, too many slabs of tax rates and excessive formalities of issuing notices are the causes inherent in the structure of the Act. The other two reasons viz., unfriendly attitude of the dealers and lack of prompt service from the office staff are concerned with human resources involved in the sales tax system and requires proper management techniques to get the best out of them.

6.3.4 Evasion of Sales Tax in Assam

It is a general belief that high rates of taxation create propensity to evade taxes. Majority of the respondents agrees that high rates of taxes lead to propensity to evade payment of sales tax in the State. The categorical analysis also shows positive correlation as regards this statement. It may be inferred that when higher taxes are imposed on commodities, the tax amount itself becomes substantial which induces the dealers as well as other interested parties to take shelters of various avenues both legal as well as illegal to reduce its tax liability.

Some dealers evade payment of sales tax in various ways. This evasion causes a large leakage in the sales tax revenue for the State. The respondents' views, irrespective of segments, over the various ways of evasion of sales tax in Assam mainly focus on the following five ways:

- Under-invoicing
- Non recording of Accounts
- Billing in the name of other NE States
- Non- issue of memos
- Taking advantage of lack of adequate and modern infrastructure at check gates.

6.3.5 Consumers' Attitude Towards Payment of Sales Tax

Consumers are the ultimate entities who have to bear the burden of sales tax. Therefore, collection of sales tax for the State, to a large extent, depends on the attitude of the consumers. If the consumers purposively avoid payment of sales tax, then it becomes very difficult for the tax authorities to fill up the leakage in collection of revenue. The survey revealed interesting facts about the views, perception and attitude of the consumers.

The consumers are, in general, aware of the fact that Assam has been facing unprecedented financial crunch. They also know the fact that sales tax is the major source of revenue for any State Government. Most of the respondents are aware that they do pay sales tax whenever they purchase any commodity. However, only a meager percentage of consumer-respondents always insist the seller to issue cash memo against every purchase they make. A substantial portion of consumers has the practice of asking for cash memo on rare occasions. It is observed that most of the consumers do not bother to have memo, as they do not feel any necessity for the same unless the purchase is of some kind of valuable assets.

In general, shopkeepers do issue cash memo when the customers ask for it. Cases for refusal of cash memo is not very common in Assam. The majority of the consumer-respondents have opined against paying extra money (tax) to get cash memo. Thus, it is a great hurdle in the collection of sales tax by the Government and this attitude of the consumers play a significant role in the evasion of sales tax by the dealers. That majority of the respondents admit that they presume payment of sales tax is an act of good citizenship, at the same time they wish to pay sales tax unknowingly. Sales tax, being an indirect tax, is to be paid by all customers and if administered and managed in the proper way, consumers are willing to pay their dues honestly. It would be beneficial

for all concerned if sales tax can be collected without giving much pressure to the consumers.

The problem of sales tax evasion is very common in Assam. This may be so either at the provocation of the dealers or on their own by the consumers. There are substantial number of consumers who wish to evade tax. This makes the problem of tax administration more critical. It may be possible that if the consumers are aware about the grim economic condition of the State, they may come forward to pay sales tax. It has been found from the study that there exists a positive correlation between the awareness level and educational qualification as well as income of the consumers. Higher the level of education and income, high is the awareness level. Moreover, consumers in Assam lack the habit of asking for authentic cash memo, and this practice encourages evasion of sales tax by unscrupulous dealers. When the sales get unrecorded, there remains ample scope for evasion.

6.3.6 Reasons for Poor Collection of Sales Tax in Assam

Analysis of data provided by the tax authority shows a dismal scenario of the growth of tax revenue in Assam. Findings from respondents give a picture as perceived by them regarding the reasons for poor collection of sales tax in Assam.

In the process of summation of findings from all three segments, it is noticed that while the dealers mentioned '*inefficient administration*' as one the main causes for poor collection of sales tax in Assam, the administrators think that '*evasion by dealers*' is one of the prime reasons. The reason '*inefficient administration*' has been broad enough to include all the shortcomings on the part of the administrators including alleged corruption in the administration system. On the other hand, the term '*evasion by dealers*' include manipulation of accounts produced by dealers, showing deflated turnover etc. The clear

dissidence in opinions between dealers and administrators regarding the contradictory reasons viz. 'evasion by dealers' and 'inefficient administration' is not at all a healthy sign for tax administration which shows a state of distrust between the two main components of sales tax system. A congenial relationship among the stakeholders can contribute in a better way to the State exchequer.

Widening the tax net is one of the prime concerns for any tax administration. It has been found that a large number of dealers wish to remain unregistered through legal and illegal means. 'Fear psychosis about the tax department' and 'fear for formalities' are the barriers for registration by these dealers. Moreover, penalty system is found not to be so strict for non-registration. Normally, a large chunk of tax revenue is lost every year from the sales affected by these unregistered dealers.

6.3.7 Augmenting Revenue from Sales Taxation in Assam

It is interesting to note that a very large part of the combined respondents agree that revenue from sales taxation can be enhanced if the tax rates are lowered. It is because of the fact that most of the respondents, irrespective of category, believe that tax evasion can be automatically reduced if rates of taxes are lowered. On the other hand, it is a corollary to the fact that high sales tax rates encourage excess evasion. The general perception of the respondents also supports the "Lafer's Curve Approach" that says that decreasing the tax rate can increase revenue from taxation.

Most of the respondents believe that there remains scope for rationalization of sales tax structure in the State. The dealer-respondents are of the view that by reducing tax rates and by simplifying procedures, the collection of revenue from sales taxation can be increased in Assam. Most of

the administrators have given emphasis on imposition of entry-tax for enhancing tax revenue for the State followed by thorough checking at godowns, reduction of tax rate, simplification of procedures, and improving infrastructure and functioning of the check gates. A substantial portion of the expert-respondents feel that introduction of incentives for honest tax payers, thorough checking of godowns, and imparting training to tax officials may yield positive result for enhancing revenue collection from sales taxation in the State.

6.4 Reform Initiatives Taken by the Government

In India, sales tax has by now become the mainstay of all the State Governments. But, this source of income was tending to become stagnant, mainly due to competitive rate wars indulged in by the various States in the hope of attracting more business to their respective State. The present study though conducted in the State of Assam, has relevance to the findings related to the problems already recognized nationwide. The Government of India has initiated a process of reform in the field of sales taxation. The reform measures suggested by the Union Government are as follows:

- The first reform relates to the adoption of a Uniform Floor Rate (UFR), a four-rate structure (i.e. zero, 4, 8 and 12 percent) in the existing sales tax system. In addition, there are two special rates of 1 percent and 20 percent for a few specified items. The recommended rates are floor rates – the States have the freedom to adopt higher rate on any of the commodity from the list, but they cannot go below these rates. This checks the rate war and prevents diversion of trade.
- The second reform pertains to abolition of sales tax-related incentives. In the past, all the States granted such incentives to new industries. Various studies and committee reports¹ have argued against such incentives. In terms of loss of revenue, the country as a whole sacrifice about 25 percent of the sales

tax base by way of giving incentives. In addition, the incentives take the form of tax competition (war) or *harmful tax practices*. The empirical studies² attempted for Delhi indicates that the concessions of sales tax do not affect the location of industry. The concession could be relevant, if at all, when given by one State alone. Similar results are seen from the other studies as well. When all the States give such concessions, such concessions result in zero sum game. No State benefits from these concessions.

Being an industrially under-developed State, it is very difficult for Assam to withdraw sales tax based incentives now, as it may harm the industrialization as well as entrepreneurship development in the State.

The Government of Assam has already initiated the process of rationalization and simplification of sales tax structure. Under the direction from the Central Government, the Government of Assam has already introduced the Uniform Floor Rates (UFR) of taxes with effect from January 1, 2000. This has substantially reduced the number of slabs of tax rates. At present there are only six slabs of rates. With adoption of UFR by the neighbouring States, the evasion of sales tax in Assam can be checked to a large extent. Moreover, entry-tax as desired by the expert-respondents has already been introduced in the State with effect from October, 2001.

The Government of Assam has already decided to introduce the VAT system tentatively from April 1, 2004. However, some reform measures are to be carried out for its effective implementation. The State would find it convenient to adopt VAT without much difficulty once these reforms are implemented.

6.5 SWOT Analysis of the Present Sales Tax System in Assam

Before a plan of action for introduction of VAT is made, an introspection of the present system of sales taxation in Assam should be carried out. This study has identified various pros and cons of the present sales taxation system in Assam.

6.5.1 Strengths of the Present System

- Organized Structure: A well-thought organized structure has been effective enough to have wide delegation of authority and responsibility for better tax administration.
- Experienced Officers: The State has long experience of administering sales taxation. The administrators have wide experience in administering both single point and multi-point taxation.
- Wide Network: The State has tax collection points scattered all over the State. The check gates are situated at all major points of entry. Nonetheless, almost all major business areas are represented by tax collection unit offices. The network, if effectively used, would yield substantial revenue to the State exchequer.

6.5.2 Weaknesses of the Present System

- Poor Infrastructure: The tax collection points including check gates lack proper infrastructure. As a result, rampant tax evasion takes place in the State. It is almost impossible for the tax administrators to check this evasion with the present infrastructure.

- Poor Relationship among Stakeholders: It has been noticed that the relationship between the dealers and tax administrators is not congenial. There exists a situation of distrust between them. It gives negative impetus for the growth of revenue from sales tax in the State.
- Low Motivation: No steps have been taken to motivate the consumers to exercise their rights by asking for authentic memo against purchase. Dealers and administrators are less motivated in compliance and administration of the Act respectively.

6.5.3 Opportunities Ahead

- Ample Scope for Augmenting Tax Collection: There has been wide scope for augmenting revenue from sales taxation in the State. It has been seen that few reform measures taken during the year 1998-99 could provide a substantial revenue increase from sales tax.
- Expanding Economy: The economy of the State is expanding with the emergence of cross border trade. The State is in the verge of entering into international trade. Moreover, with various development policies of the Government, the economy of the State is in the process of growth.
- Capable Human Resources: The staff and administrators in the Sales Tax Department are efficient enough to take up any challenge. With a well designed training program and other interventions, they can be motivated to excel in their own fields.

6.5.4 Threats Perceived

- Non Participating Neighbouring States: Reform measures initiated by the Central Government for ending the tax-war among States are not implemented in true spirit by some neighbouring States of Assam. While Assam has implemented the Uniform Floor Rates (UFR) by raising sales tax rate in many commodities, the neighbouring States are yet to implement this. As a result, diversion of trade takes place to these low tax-rate States and the Government of Assam loses a large chunk of revenue from sales tax.
- Weak Economical Condition: Implementation of VAT requires massive structural reforms. Effective administration of VAT is possible only when it is supported by adequate infrastructure. The present weak economic condition of the State may not permit preliminaries for VAT. Half-hearted implementation of VAT would make the whole essence futile.
- Revenue Loss: Assam, being an underdeveloped State, imports most of its requirements from other States of the country. In general, value addition in commodities is very low in the State. It is feared that unless an integrated compensation plan is chalked out, there may be revenue loss for the State if more tax-credits are to be allowed under the VAT regime.

As the change-over to the proposed system of VAT is a complex one, the strengths of the present system have to be utilized and weaknesses are to be removed. Linking opportunities with strengths would make the new system effective.

6.6 Value Added Tax System in Assam

The State of Assam is going to enter into the Value Added tax regime. The Government of Assam is in the process of initiating the preliminaries for introducing VAT in the State. To make its implementation successful, it is necessary that the participants are in the knowledge of the pros and cons of it. The awareness level of the stakeholders regarding the Value Added Tax system carries a great meaning as far as its introduction in the State is concerned.

6.6.1 Peoples' Perception in Assam

The following points have been noticed from the results of the survey among the stakeholders:

- Majority of the dealers are unaware of the system called Value-Added Tax. However, majority of the tax administrators as well as tax experts have the knowledge of the system.
- Majority of the stakeholders have the knowledge that there would be a change over to a new system of taxation in the near future.
- Almost all the stakeholders have support for the decision of the Government for a harmonized tax system all over the country. It is interesting to note that while most of the dealers have no knowledge about the new system of taxation even then most of them have opined for the new system. This is because the persons related to this field are seeking a change in the system.

6.6.2 Historical Account of State-VAT in India

In view of the deficiencies in the existing structure of sales tax, the Committees of States' Finance Ministers (in 1995 and 1998) and of the Chief Ministers (in 1999) have put forth recommendations to replace sales tax by

VAT. This is in tune with the developments in all other countries, including many developing countries, where VAT is a proven success.

The experience of introduction of VAT (in some or the other form) by some of the Indian States in the past is of great importance for Assam. Some of the States that have experimented with VAT, faced many problems of administrative or operational nature, in their efforts to introduce VAT.

Andhra Pradesh is one of the States that has introduced VAT on some select items with effect from April 1, 1995 for resellers only, with rate of tax of 4% on inputs applicable to all manufacturers. Prior to the introduction of VAT, Andhra Pradesh abolished the (then) existing surcharge and turnover tax. It also reduced the rate slabs to six only.

Kerala is another State that levied VAT on resellers on a few select commodities. While doing so, it did not grant set-off for the tax paid on inputs. No efforts were made to rationalize the structure of tax prior to the introduction of VAT. In addition, a graded surcharge was levied on dealers having different levels of turnover. However, with effect from April 1, 1997, Kerala has withdrawn VAT and replaced it by a double-point sales tax.

Maharashtra moved towards VAT from October 1, 1995. It attempted to simplify the existing structure prior to introduction of VAT. It abolished "additional tax" as well as "turnover tax". Also, it moved towards providing set-off on input-tax to manufacturers. Under the then prevailing rules, the input credit was available "for the tax paid above 4%". Taking into account the incidence of non-recoverable taxes such as "additional tax" and "turnover tax", the effective burden on inputs of the manufacturer was in excess of 6%. Eventually, this burden was reduced to 4%. In addition, the rate slabs were drastically reduced from 20 to just seven. VAT was initially levied on all dealers having turnover above Rs. 1 crore. The coverage was extended to dealers with turnover above Rs. 50 lakh in 1996 and to Rs. 40 lakh from June 1, 1997. Also, the input credit was increased. Further, due to non-economic

considerations the State has withdrawn VAT and replaced it by the first-point sales tax with effect from April 1, 1999.

Madhya Pradesh followed the threshold approach and introduced VAT for dealers with turnover higher than Rs. 1 crore with effect from April 1, 1997. It brought down the threshold to Rs 50 lakh with effect from April 1, 1998. Also, it introduced one rate slab of 8 percent for all dealers falling under VAT. However, Madhya Pradesh has so far not given set-off for the tax on inputs in spite of the announcement made long back. Also tax on reseller is not in the true spirit of VAT. The most important aspect of VAT is to make it a neutral and transparent system.

The experience of the States that experimented with some form of VAT indicates that except Maharashtra, no State has attempted introduction of a proper form of VAT so far. It is misnomer to call a tax on resellers as VAT. The first and the foremost pre-requisite of VAT is to give input credit for all purchases. Also, there was no requisite preparedness on the part of tax department.

6.7 Administration of VAT through E-Governance

VAT is the most popular form of commodity tax being followed in most of the countries of the world. The most important element for proper administration of VAT is efficient collection, collation, and analysis of available information. The prime requisite for proper VAT administration, therefore, is an adequate information-base (data warehouse) which helps in the evaluation of the existing tax policy and simulation of the effects of proposed legislative changes. In order to facilitate decision making process it is very much necessary to provide tax authorities with an integrated all encompassing information system on the dynamics of the tax system in its entirety. An information-base of the dimension necessary to look into all the above aspects

is possible with efficient e-governance. E-governance uses IT for delivering quality services to the citizens. This is one of the prime ways to control corruption, bring transparency and efficiency in the system. Accountability can be increased tremendously. The result is an output that provides the authority with meaningful data for effective monitoring, administering and controlling departmental policies. Thus, the system should be designed to facilitate decision-making process to meet the objectives of tax policy and administration.

The system of e-governance should be such as to serve a wide variety of objectives. It should enable evaluation of tax policy and correct appraisal of alternative policy measures with the help of reliable statistical information. Also, the quality and quantum of information should be of immense help in deriving insights into important facets of the economy. The statistics obtained therefrom should also constitute the data sources for various tax-accounting purposes. Moreover, the information system is a vital part of the support measures for effective enforcement of tax laws as well. It should help in monitoring, administering and controlling the overall tax system. Finally, the system should be designed to facilitate decision-making process to serve the objectives of tax policy and administration. However, accomplishment of these objectives calls for an administrative system that would enable the department to have a proper information flow.

To accomplish the above objectives, the following points would seem to be the major aspects on which data would have to be collected and collated:

- Gross Turnover and Taxable Turnover of VAT set-off/credit claimed by the seller.
- Information from the Chamber of Commerce, Trade Associations etc.
- Flow of tax revenue month by month
- Distribution of registered dealers by size and of turn-over with corresponding tax base.

- Projected Gross Turnover, Taxable Turnover, Tax Paid, Tax Credit and VAT revenue
- Cross Verification of vouchers claimed as set-off.
- Detailed report from check gates
- Data on yearly assessment, collections, arrears or assessments and revenue.
- Information on audit.

Of the above aspects, the most important are the data related to gross turnover, taxable turnover, tax paid and cross verification of the tax credits claimed by the dealers. Information on these aspects is necessary for understanding the flow and movement of commodities in different regions. Also, this would be helpful for studying the incidence of tax on different commodities and on different socio-economic classes of people.

A proper e-governance system could play a vital role in cross verifying the credits claimed by the dealers. A large number of transactions involving hundreds of dealers are required to be cross-checked to determine correctness of the claim by the dealers. Such verification is manually impossible and hence proper administration of VAT requires adopting a suitable e-governance system that would ultimately improve the efficiency of tax administration and pave the way for a more rational tax policy formulation.

6.7.1 The International experience of sales tax administration through E-governance

Administration of VAT has been successful in many countries because of extensive use of computers and on-line processing of data. In fact, this has become the prime necessity for proper administration of the system. Lessons can be learnt from France, Canada, EU, Korea, Indonesia where the platform of e-governance has been availed for administration of VAT. Described below are the essential features of VAT administration in these countries.

I. The French Model:³

All dealers falling under the purview of tax administration, whether large, medium or small, have a master file in the computer. A special code number is allotted to each dealer. This number is allotted according to the type of activities. An additional number is allotted by the Tax Department that would be used by the dealer for submitting return. Every data-processing center gives its code to each of the dealers. Hence, the master file of the dealer is a multi-digit number having complete identification of the dealer.

Each tax collectorate has a conversational terminal of the Regional Computer Center. It allows the department to create and update files in 'real time' and process VAT returns by data entry. All these terminals are connected to a single central computer which:

- a. automatically supervises correct execution of the declaratory as well as payment obligations of each of the dealer, and
- b. executes all receipts as well as accounting operations.

The computer center, therefore, looks into the management of reminders to be served. Also it performs the calculation of tax liability for all the dealers on the basis of actual calculation or on notional basis. In addition, it presents statistical statements and documents necessary for tax management.

II. The Canadian Model:⁴

The General Sales Tax of Canada, which is a comprehensive VAT, has adopted a system of integrated information technology that not only helps administering the tax but also provides for selection of cases for field and office auditing in the country. All the information commencing from the time of registration of dealer is fed in to the integrated system. This allows the MIS for VAT to be used in the process of selection of dealers. This basically depends on department's Computer Assisted Audit Selection System (CAASS)

which makes it possible to screen thousands of tax returns and selects those which might require auditing. Also the MIS in Canada helps the tax department to undertake an effective compliance of the tax through matching of turnover reported in returns with information furnished by third parties. Depending on the volume, optical character recognition(OCR) technology is being used to put the data into the computers instead of keying them manually.

III. The European Model⁵

Extensive use of computers exists in the management of VAT in European Union (EU). The VAT information exchange system in operation in the EU, uses high technology, provides all the information on the network. It enables member States to obtain from each other necessary information regarding VAT registration status of dealers and their transactions among member States. The response time in getting various information ranges from 10 seconds to 5 minutes depending on the degree of details. The system helps member States in obtaining information in all aspects of management of VAT and provides administrative co-operation among member States in the EU.

IV. The Korean Model⁶

The Republic of Korea is among the countries that have adopted VAT in the recent past. Here also, extensive uses of computers are made for performing the works such as: -

- a. maintaining master file of the dealers,
- b. printing of tax notices and other guidelines for the tax payers,
- c. processing of VAT returns
- d. notices to non-filers
- e. calculating the amount of tax to be assessed
- f. sorting and cross-checking of invoices.

There are two network systems in the central office of the National Tax Administration. One computer processes betel data and another is for on-line data processing. Medium sized computers have also been installed at the regional branches and an on-line system has been established in ten district offices in Seoul. The following output is generated through computer:

- a. list of invoices submitted
- b. list of variations in tax invoices
- c. return compliance table
- d. other output.

V. The Indonesian Model⁷

Indonesia also has gone for extensive use of computerization for VAT administration where the number of registered dealers is also very large. For the purpose of computerization, each dealer is given a nine-digit Tax Identification Number (TIN) with one check digit and district code. The TIN provides for a unique identification number and is used for all the taxes. Indonesia has a decentralized system of computerization. Also the computerization system provides a means of printing and issuing of identification cards for all the dealers.

6.7.2 The Indian Experience of Sales Tax Administration through E-governance

Tax Governance through electronic media is at present in its fundamental stage in India. However, many States have made intense efforts to introduce the information system. While the degree of efforts may vary, yet most of them have attempted to modernize the existing system. Some of the States like Andhra Pradesh, Delhi, Karnataka, and Tamilnadu have installed satisfactory information system. Other States are also making effort in this direction.

I. The Andhra Model

At the forefront of e-governance in the country, Chandrababu Naidu, the present Chief Minister of Andhra Pradesh, is determined to see information technology translate into wealth creation and empowerment in his State. Notwithstanding the variations in the level of development in this regard in various States, one State can be taken as model to be followed by others in this regard. And the State is Andhra Pradesh. There are many reasons for selecting it as model one. Firstly, the State has made a sincere attempt to computerize almost all the operations of the tax department. Each and every operation of the tax administration is handled through the computer. As a result, it is now in a position to obtain information from each level of functionaries. The operations are classified according to flow of information from district offices, check-posts, regional offices, and from the main computer centre. The operations at the district office require the officer concerned to maintain master file of each dealer which is opened at the time of registration of a dealer. All data pertaining to the activities of the dealer are put into the master file. Notices and reminders are issued by the district office through the computer. At the level of check post various information is fed into the computer. The functions of the check posts include –

- Validation of consignor and consignee
- Capturing data from the waybills of the transports
- Issuance of transit passes
- Tracking blacklisted vehicles and missing waybills.

The middle tier comprises of divisional offices and at this level information received from the district level is collated and compiled to prepare consolidated statement for the region. The central computer wing at the headquarters maintains master file of each dealer. Also, it maintains data on revenue and turnover for the whole of the state. It also records information on the flow of goods from check posts. It has access to the information from the Commercial Tax office as well as from the divisional office. The central

computer wing is, therefore, the data-warehouse for the department and brings out reports to analyze the operations of the tax in the State. The system of e-governance evolved in Andhra Pradesh is quite satisfactory, given the administrative procedure of management of VAT in the State.

II. The Karnataka Model :

Karnataka is in the forefront of Information Technology and is called the Silicon State of India. In addition, the State capital Bangalore has shown tremendous growth in the IT Sector and is the IT Capital of India. Karnataka is the first State to announce IT Policy in the year 1997. The Government of Karnataka has announced Mahithi, the Millennium IT Policy. The Government of Karnataka believes that effective implementation of e-governance will take IT to the common man. The Government would like to be pro-active and responsive to all its citizens particularly the poor. Presently, computers are used in several departments and decisions are taken in a decentralised manner. While the Apex Committee headed by the Additional Chief Secretary lays down the general guidelines, the committees under the Secretaries to Government are empowered to take all decisions and implement computerization in their respective departments. The departments are supported by Karnataka Government Computer Centre as well as the National Informatics Centre. In fact, Karnataka is a pioneering State that established Karnataka Government Computer Centre as early as in 1971.

The Government of Karnataka proposes to establish a Centre for e-governance under the Department of Information Technology. This Centre will facilitate the use of Information Technology for the common man rapidly and effectively. It will provide technical support to all the Government departments in their IT Projects. It will play a vital role in coordinating with the Government departments as well as undertake a few critical projects that are likely to be used in more than one department.

A few important elements in the e-governance are: *Mukhya Vahini*: A comprehensive database of the economy will be developed and portions of the database will be made available to respective decision makers. *Education Department*: The details of over 18 lakh students that take SSLC, PUC and university examinations have already been computerized and the results of SSLC are made available on the web-site. The examination is conducted in a most transparent manner. The students are admitted by computerized counseling process, the best ever designed in any education system in India. *Bhoomi*: The land records of all the villages in Karnataka have already been computerized. Immediate steps will be taken to make these computerized land records available to the villagers. *Nondani* : This project is aimed at making land registration simple and easy for the citizens. So far, over 100,000 documents have been registered in a computerized environment. *Khajane*: This involves intensive computerization of the treasuries all over Karnataka. The treasury payment system handles over Rs.20,000 crores annually through 225 treasuries. A comprehensive computerization is planned using the V-sat terminals. There will be a main data base centre at Bangalore and a disaster recovery centre at Dharwad. *Therige*: The Commercial Taxes Department has already computerized several facets of its operations. The details of about one lakh dealers are being computerized by the department. In addition, important check posts are being computerized where the invoices will be scanned and the details of the transactions will be made available to the assessing officers to check evasion of taxes on certain commodities.

6.8 Causal Analysis for Sales Tax Administration in Assam

The detailed study of the structure and administration of sales taxation in Assam has revealed various factors responsible for low collection of sales tax in Assam. The study has been able to establish the cause and effect relationships among the elements of the system. Based on the findings from the

study, an aggregate causal loop diagram has been developed and presented in Fig 6.5

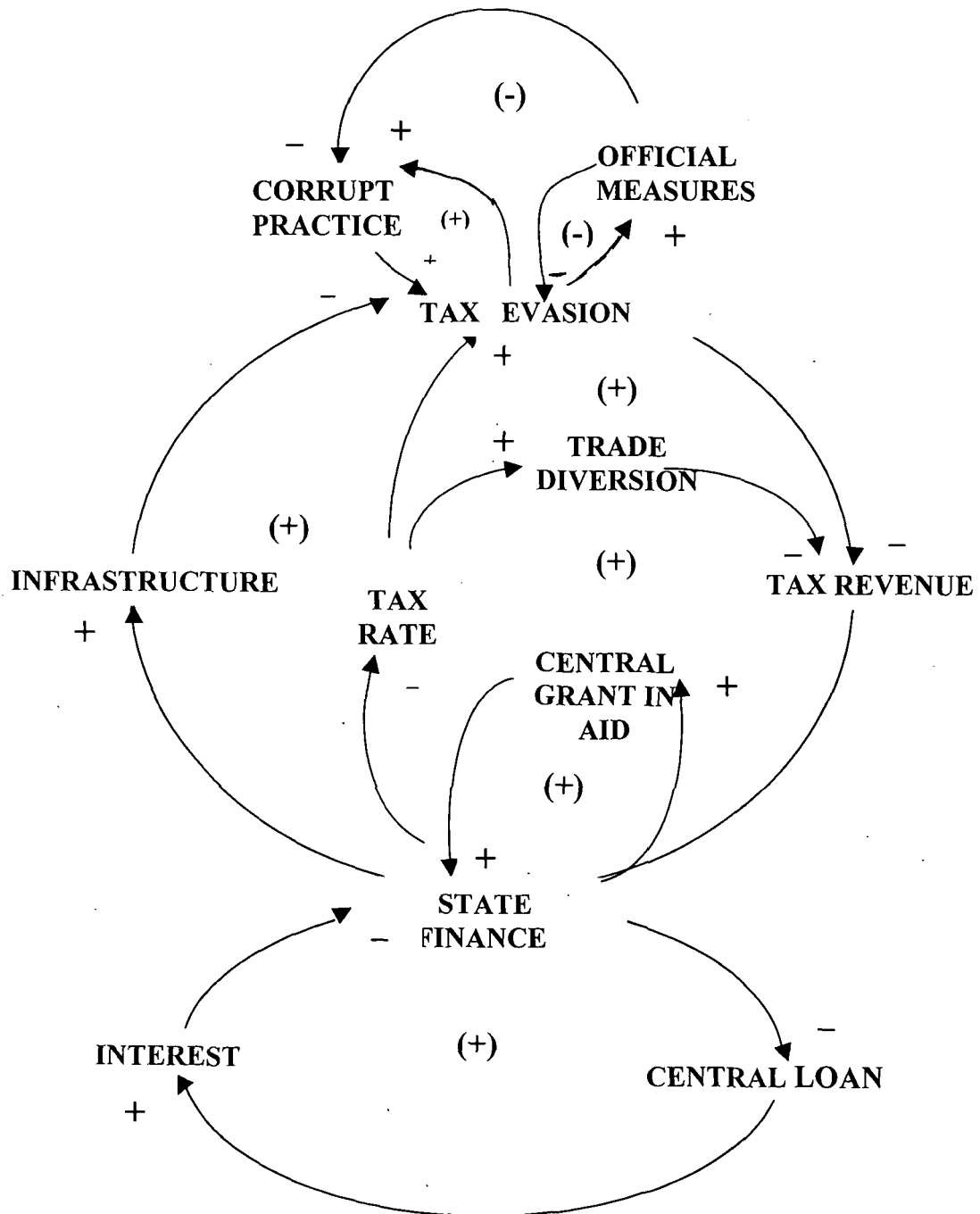


Fig 6.5 Causal Loop Diagram for Sales Tax Administration

As it is evident from the Figure, there are eight loops, and out of these, six are positive and two are negative loops. The basic characteristics of positive feedback loop is that the factors in the loop contribute or reinforce the growth or decline while negative loops try to maintain a goal.

An analysis of each loop will help to understand the problem of sales tax administration in Assam. Such an understanding would help in suggesting remedial measures for the problems of sales tax administration in Assam.

6.8.1 Tax Evasion –Corrupt Practices Loop

From Figure 6.6 it is seen that the presence of corrupt practices by various quarters encourage tax evasion. There has been some cost of evasion which, in turn, patronage corrupt practices. This cycle goes on until and unless it is checked by some action.

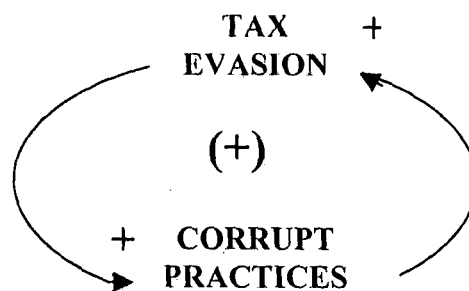


Fig 6.6 Tax Evasion- Corrupt Practices Loop

6.8.2 Tax Evasion-Official Measures Loop

From Figure 6.7 it can be seen that there exists a negative relation between tax evasion and official measures. It has been found from the survey that when official machinery exercises their duties sincerely and strictly, tax evasion is checked to a great extent. This has been proved from the tax collection figures since 1999-2000 onwards.

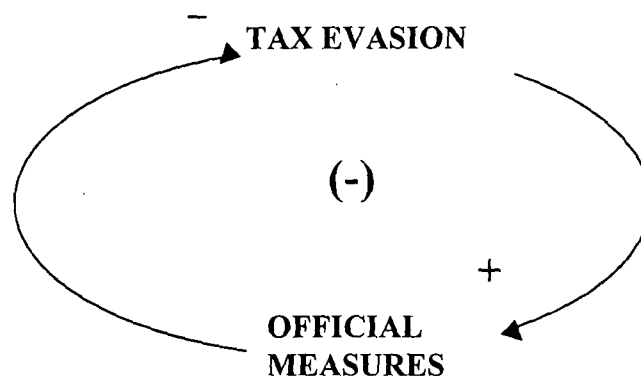


Fig 6.7 Tax Evasion-Official Measures Loop

6.8.3 Tax Evasion-Tax Revenue-State Finance-Infrastructure Loop

Fig 6.8 shows that there exists a relationship among tax evasion, tax revenue, State finance, and infrastructure. When evasion increases it has negative effect in tax revenue. When tax revenue falls, the condition of State finance weakens and it leads to poor infrastructure as the Government has less finance to invest in infrastructure. Reverse is that when infrastructure in places like check gates improve it curbs tax evasion. When tax evasion is less, collection from sales tax will increase. It improves the condition of State finance and the Government would be in a better position to invest in infrastructure.

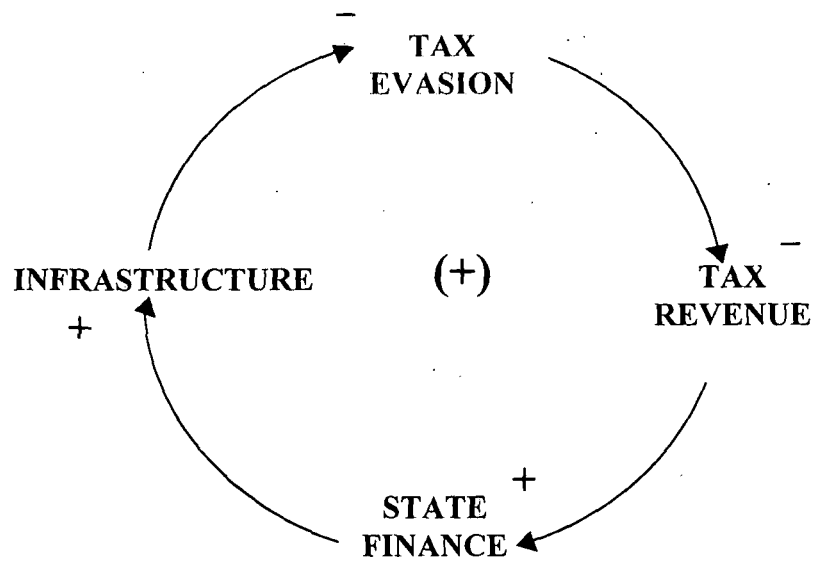


Fig 6.8 Tax Evasion-Tax Revenue-State Finance-Infrastructure Loop

6.8.4 Tax Rate-Trade Diversion- Tax Revenue-State Finance Loop

Diversion of trade is very common in Assam. Fig 6.9 shows that when tax rate is more, trade is diverted to neighbouring States where rates of sales tax are low. This practice lowers tax revenue of the State. As a result, the State finance deteriorates. It may be possible that by lowering tax rate trade diversion can be controlled. When trade diversion is reduced, the revenue from sales tax of the State increases. It improves the condition of State finance. It would be a lose-lose game unless and until the neighbouring States adhere to the minimum floor rates of tax as prescribed by the Union Government.

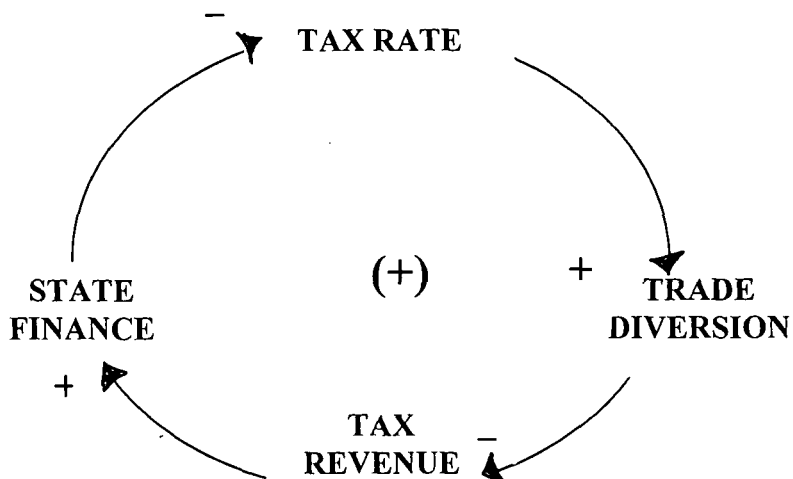


Fig 6.9 Tax Rate-Trade Diversion-Tax Revenue-State Finance Loop

6.8.5 Tax Rate-Tax Evasion- Tax Revenue-State Finance Loop

Fig 6.10 shows that increase in tax rate encourages tax evasion. When tax evasion is rampant, it results in loss of revenue to the State. Low collection of tax revenue weakens the State finance. Weak condition of State finance prompts the Government to increase tax rate and the cycle continues.

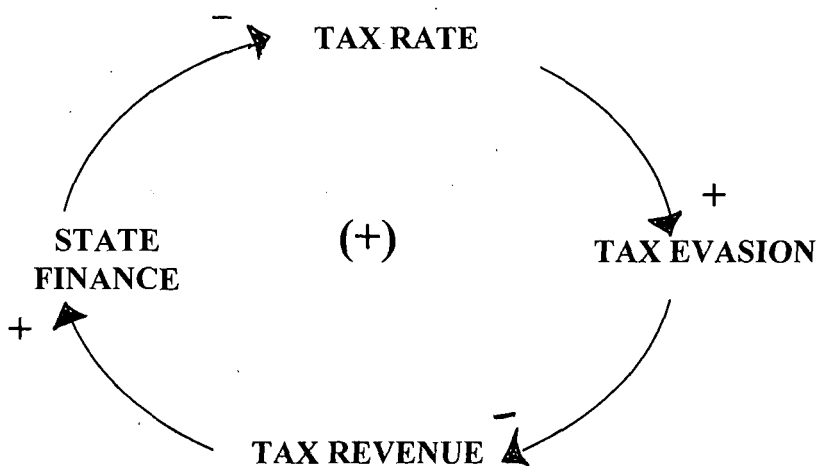


Fig 6.10 Tax Rate-Tax Evasion-Tax Revenue-State Finance Loop

6.8.6 Official Measures-Corrupt Tax Practices-Tax Evasion Loop

This is a negative loop. Fig 6.11 shows when tax evasion is rampant in the State it compels the administration machinery to exercise strict control. When official measures are exercised strictly, it curbs corrupt practice followed by different quarters. When corrupt practices are reduced, tax evasion is automatically controlled.

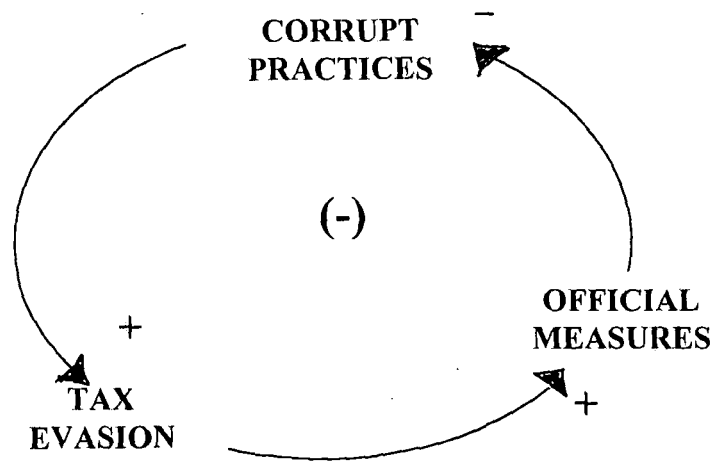


Fig 6.11 Official Measures-Corrupt Tax Practices-Tax Evasion Loop.

6.8.7 State Finance-Central Grants-in-Aid Loop

Fig 6.12 shows a relationship between State finance and Central Grants-in-Aid. According to the norms suggested by the Eleventh Finance Commission, States having stronger financial position are entitled to more Central grants. It is a positive loop, which shows more the Central grants, stronger the financial position and so on.

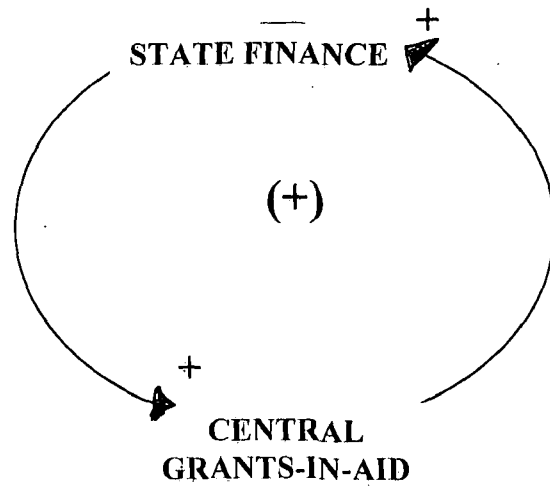
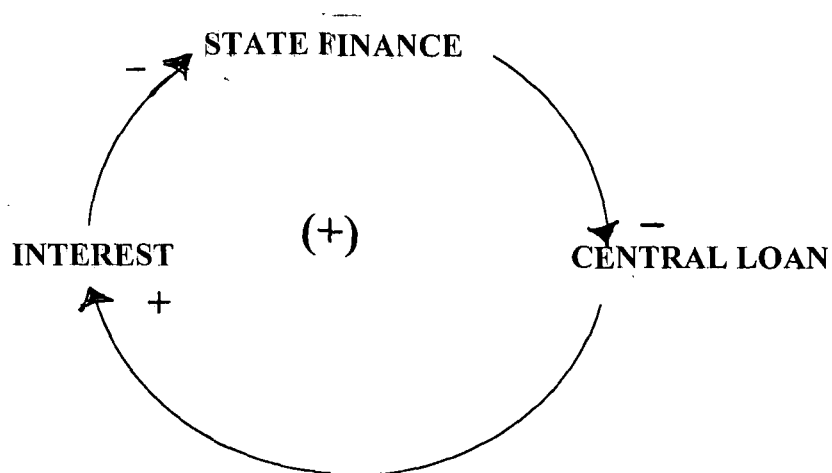


Fig 6.12 State Finance- Central Grants-in-Aid Loop

6.8.8 State Finance-Central Loan-Interest Loop

Fig 6.13 shows that there exists a positive loop between State finance, Central loan, and interest on loan. If State finance is strong, there will be lesser need for central loan. When central loan is minimum, interest burden is also low. When interest burden is low, the State has more finance for developmental activities which, in turn, improves the condition of State finance.



6.8.9 Loop Analysis

The aggregate causal mechanism as depicted in Fig 6.5 and the consequent analysis of the individual loops, have revealed that basically three factors are to be controlled and monitored properly in order to administer the tax system effectively. These three factors are:

- (i) Tax Rate
- (ii) Tax Evasion, and
- (iii) Official Measures regarding strict tax administration.

It has been highlighted in the Study conducted among the stakeholders that high rates of sales tax lead to high degree of tax evasion, though this view has not been supported by all segments of stakeholders alike. Tax evasion may be in the form of (a) non-payment of sales tax by keeping the sales unrecorded, (b) by diversion of trade to the neighbouring States where the tax rates are either low or nil. In any case, the tax rates are ought to be optimum, and the tax mechanism has to be simple. This aspect of sales taxation needs an in-depth study.

Whatever the reason for tax evasion may be, tax evasion leads to slower or no growth of the State exchequer. It is needless to say that slow growth of State exchequer cripples the economy of the State and affects developmental work of the State. Tax evasion coupled with corruption at various levels make the situation worse. Hence, it is required to formulate policies to plug the loopholes present in the present taxation system.

In order to control tax evasion, appropriate official measures are to be taken so that minimum or no scope is given for tax evasion. In this regard, the decision of the State Government for introduction of VAT seems to be appropriate. However, under VAT mechanism, tax evasion can be curbed only

when the system is implemented through the platform of e-governance. Besides, the human resource in the tax system is to be properly tuned to handle the new system in an appropriate manner.

6.9 Suggested Road Map for Effective Sales Tax Administration in Assam

It has been established in the foregoing sections that VAT has to be introduced in Assam along with other States of the country to: (a) keep uniformity with other States, (b) implement an effective tax administration system. In introduction of VAT in the State, it should be kept in mind that the system would be successful only when it is supported by a suitable e-governance platform. In this regard, it is proposed to have an e-governance system for the State for sales tax administration. An activity chart has been developed for proper ground work necessary prior to implementation of VAT. The success of the new system entirely depends on the human resources involved therein. A detailed plan of action has been chalked out for proper human resource development in the right perspective.

6.9.1 A Model e-governance System for Sales Tax Administration

The proposed model should contain some important elements. Incorporating these elements, a model system has been proposed in the following sub-sections.

6.9.1.1 Components of an Integrated System

Different systems are followed in various countries all over the world. But they highlight a common feature that all the activities are interwoven and

are aimed at achieving management objectives of the taxation system. The various components of an integrated system are:

- Master File maintenance - The first and foremost job of the system is to prepare a master file of all the registered dealers. This would create a database of potential VAT payers from every available source.
- Payment of Tax and processing of VAT returns - The system should facilitate filing up of VAT return forms with payment vouchers with required instructions to the tax payer. This should be followed by proper processing of tax returns including verification of computation. It should be able to identify stop-fliers (those who fail to file return or pay the tax).
- Selection of dealers for audit - The system could be used to select a suitable number of dealers based on audit selection criteria developed through auditing procedures and master file's historical data. It could also be used to record the results of the audits and revise the criteria as necessary.
- Cross Verification of Documents - It is also important to match sales and purchase data from income and excise tax returns. Such a cross-check by the Sales Tax Department of all the invoices of buyers and sellers is extremely important to find out discrepancies.
- Management Information System - The integrated system should provide complete accounting summaries of VAT payers including returns received, amount collected, demands and arrears etc. It could also calculate the number and amount of assessments and penalties and interest assessed. In the same way, the system should help in preparing management analysis such as comparative data about amounts collected for several tax periods, and various ratios to judge the performance of the responsibility centre.

6.9.1.2 A Presumptive Architecture

Fig 6.14 shows some components of a proposed e-governance system for sales tax administration

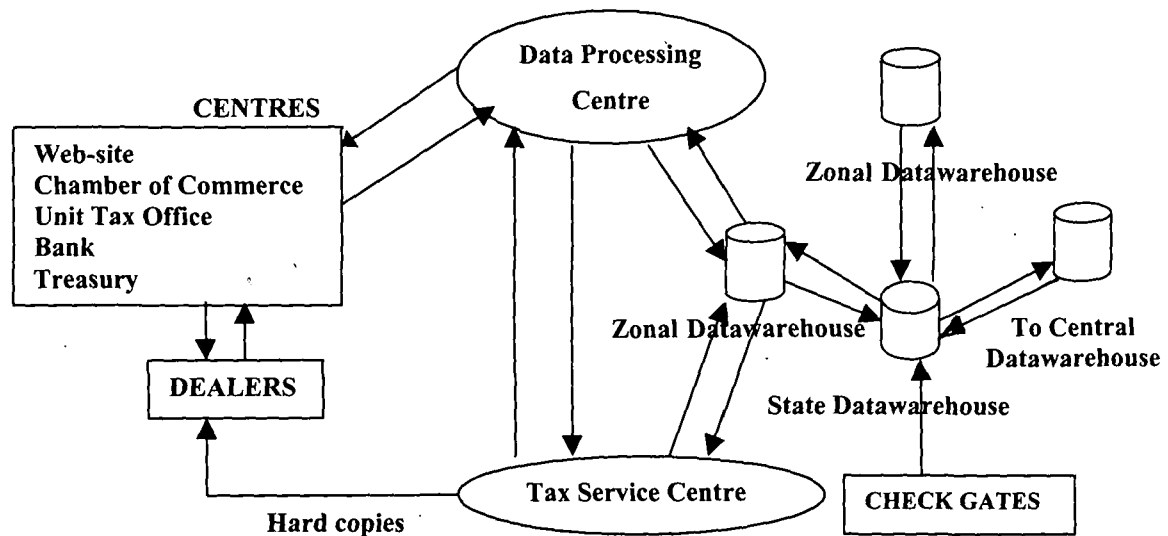


Fig 6.14 E-Governance Model for VAT Administration

The functions of the proposed model has been described below:

Dealers mean the assesseees of the Sales Tax Department who are registered under VAT and are being allotted VAT registration number. The dealers have their specific Taxpayers Identification Number (TIN).

Centres are the places where the dealers can interact with the VAT administration system. It can be the web-site of the tax department that would provide various facilities. Moreover, banks, tax offices, treasury, Chambers of Commerce can also serve the functions of a centre. Dealers may get information from the centres. A New Dealer can get itself registered whereas a registered one can file its Returns as well as be able to perform other

requirements in these centres. Tax can also be paid in these centres. Dealers with plastic or electronic money should be able to pay their dues through website. After submission of information in these centres, they will be transmitted to the data processing centre where the data validation would take place. Data would be verified with the records in the data warehouse as well as the warehouse will be updated with the new information. The validated and verified data would be transmitted to the tax service centre. Tax service centre is a multi-functional component in the system. It would carry out the functions of registration as well as assessment and other usual activities of the tax department. It would be updated by information from the warehouse. After completion of the necessary function, it would produce hard copies that would be communicated to the dealer. The State level datawarehouses would facilitate setting up of a Central Datawarehouse for the whole country. The cross relationships among the nodes are very much required as it will make possible cross verification of information submitted by the dealer. The proposed system, if implemented, would reduce, to a large extent, the problems stakeholders are facing at present.

6.9.2 Proposed Activity Schedule for Introduction of VAT in Assam

As explained in § 6.6.2, implementation of VAT failed in many States as there was no concrete plan of action. Assam should learn a lesson from these failures. Keeping the above aspects in view and also the decision to introduce VAT in the State tentatively from April 1, 2004, an activity chart in the line of approved plan of the Empowered Committee of State Finance Ministers has been developed and is presented in Fig 6.15. This is a 15-month duration activity plan. The figures within bracket and below the activity name indicate the probable duration in months required to complete the respective activity. Adhering to the time schedule would enable the State of Assam to introduce the VAT system effectively from April 1, 2004.

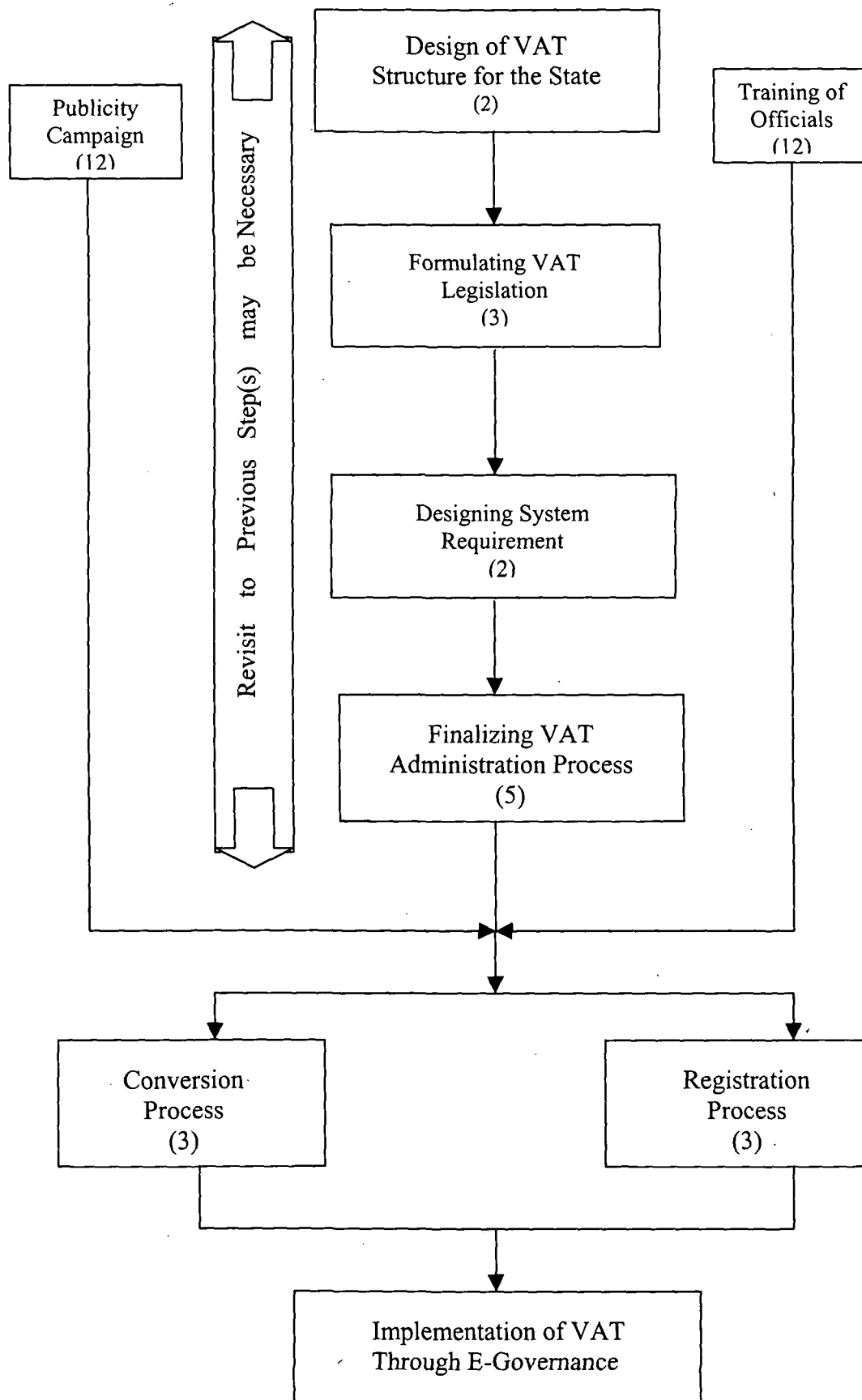


Fig 6.15 Activity Schedule for VAT Implementation

Each activity shown in Fig 6.15 can be further segregated into sub-tasks. The following sections provide a brief outline of the activities and sub-activities.

Activity A : *Designing of VAT Structure for the State (2 months)*

- Deciding about the inter-State transactions (i.e. the decision on rates path of CST) and intra-State transactions (i.e. whether to follow a single-rate VAT or three-rate structure).
- Decision regarding the coverage of VAT (whether to include services) and issues related to transitional measures (about tax paid inventories, continuing contracts etc.)
- Finalizing design of VAT

◆ **Activity B:** *Formulating VAT Legislation (3 months)*

- Preparation of Draft Legislation of VAT and passing of the same by the State Assembly.
- Finalization of procedures for VAT administration including registration of VAT payers, collection procedures, processing of returns, and audit for VAT, design of VAT Return Forms, VAT Payment Form, Registration Form.

For this purpose, the model VAT Act formulated by the National Institute of Public Finance and Policy be consulted.

◆ **Activity C:** *Designing System Requirements (2 months)*

- Organizing workshop on business process and computerization for VAT administration,
- System design and identifying resource requirements.
- Designing criteria for selection of cases for assessment.

◆ **Activity D:** *Publicity Campaign (12 months)*

- Starting preparation for extensive information campaign and publicity literature.
- General campaign backed by articles, brochures, advertisements and publicity through media.
- Publishing detailed procedures for VAT including business process model, assessment criteria etc.

◆ **Activity E:** *Training of Officials at the State Level. (12 months)*

- Determining training needs of Official
- Designing training tools
- Imparting training to Officials

◆ **Activity F:** *Finalizing VAT Administration Process (5 months)*

- Testing the computer software and hardware for VAT.
- Procurement of Hardware

This is a very vital activity. The success of VAT administration in the State is entirely dependent on effective functioning of software and hardware. Every care has to be taken to test the validity of the software by carrying out a system testing. It involves the prime activity of preparing the test plan. The next important activity is specifying the condition for acceptance testing. The conditions required for VAT administration may specifically be incorporated so that the software knows the acceptance or rejection criteria. The programming is to be verified and test data to be prepared for testing the programming. Test performance is to be carried out with the test data. Simultaneously, user training program is to be carried out. Ultimate user acceptance test is to be performed for accepting the software.

◆ **Activity G:** *Conversion Process (3 months)*

- Determining procedures and document conversion
- File Conversion

Once the software is selected, the other important aspect is to carry out the conversion process from manual to computerized one. A very cautious attitude is needed in this regard. Any hasty decision in this regard would lead the whole programme into jeopardy. Fig 6.16 depicts various activities that are to be carried out in the process.

◆ **Activity H:** *Registration Process (3 months)*

- Starting registration process with new TIN for VAT.
- Interacting with banks on procedures for receiving returns and VAT payment.
- Allocating Registration Numbers to Dealers

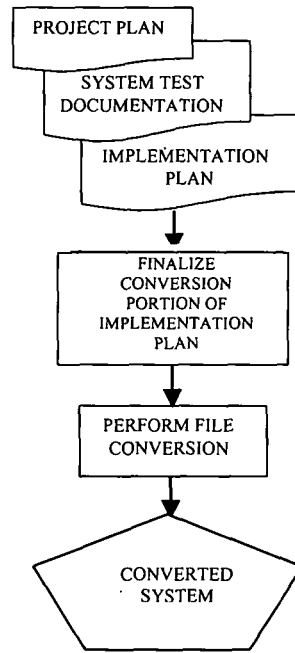


Fig 6.16 Activities for Procedure and Document Conversion

◆ **Activity I:** *Implementation of VAT through E-Governance*

- Implementing the VAT mechanism for sales tax administration

Administration of VAT system can begin once the registration numbers are allocated to the existing dealers. VAT administration requires extensive dependence on computers and on-line processing. Hence, it is advisable that before switching over to complete conversion to e-governance, parallel processing with the manual system be carried out for a period of time. If any discrepancy is noticed, the reason is to be diagnosed, and corrective action is to be taken. Otherwise, parallel processing is to be discontinued. Steps are to be taken for complete conversion by preparing plan for post-implementation. These activities are depicted in Fig 6.17

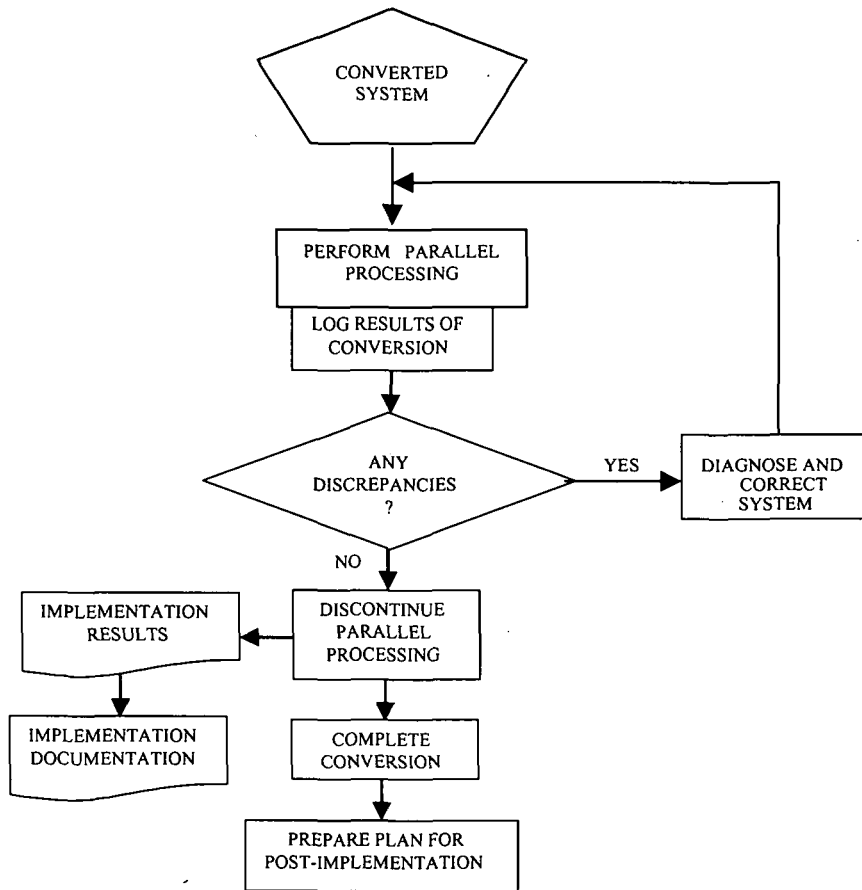


Fig 6.17 Implementation Procedure for VAT Administration

These steps would gear up the tax machinery in such a way that the administrative cost of VAT would be lower and compliance cost as well as the harassment to the taxpayers minimum.

6.10 Recommendation Package for Governance of VAT in Assam

The experiences from VAT experiments in different States indicate that it is required to have some reforms in the governance of State-VAT, when introduced. The findings of the study have highlighted some loopholes in the present sales tax system. It has also pointed out the basic reasons that create difficulties in the compliance and in administration of the Act. Moreover, the future system should ensure avoidance of evasion of tax to the maximum extent. Consumers' attitude does play an important role in the successful implementation of the emerging VAT.

Considering all the above factors, the recommendation package can be segregated into two components, structural aspects, and the most important, human aspects of tax administration.

6.10.1 Structural Aspects

Introduction of VAT through e-governance in the State would require some reforms in the structure of tax administration. These reforms are very much needed to cope with the changed scenario of tax administration. Some of these reforms that must be carried out prior to introduction of VAT are described below.

(a) Rationalizing the Rate Structure

The rates of sales tax should be fixed in a justified manner. The findings of the study has shown that high tax rate may be the prime factor for evasion of sales tax in Assam. However, there are differences among the respondent segments over the issue. The Government of India has suggested the States to follow the Uniform Floor Rates (UFR) below which the States cannot fix the rates. Keeping into consideration the low rates in the neighbouring States, it is

advisable that the Government of Assam should not go for arbitrary increase in tax rates in commodities for augmentation of revenue. In many cases, it happened to counter productive. The elasticity of demand of the product in question must be taken into consideration while fixing the sales tax rate.

(b) Assessment Procedure

The problems mentioned by the dealers during the survey are basically symptoms of a big problem. The problem lies in the process of assessment. The dealers have to face much difficulty during the process of assessment. Thus, an important aspect of reform relates to the procedures and the governance. One such aspect concerns assessment. At present all the dealers are called into the office of the sales tax with books of accounts. This procedure is not cost-effective. It is important to switch over to a system of selective assessment. Selection of cases for assessment has to be made in accordance with various criteria, such as, size, turnover, and risk evaluation. It might indeed be useful to cull out a fixed proportion of large and medium sized dealers for assessment on a regular basis. Further, the assessment of VAT dealers should be supplemented by cross-checking of invoices. The most important aspect relates to use of Discriminate Function System for audit selection. This function could use other relevant sources such as names of suppliers, number of taxpayers deviating from the normal trend, data on imports supplied by the customs department, and the information on the fast growing sectors of the economy.

(c) Registration of Dealers

Registration of dealers is very much important for widening the tax net. Every effort is to be made to encourage dealers to go for registration. The new system of registration of dealers under VAT should be stakeholder friendly. A decision about the size of the firm under VAT is of critical importance. In fact,

it is impracticable to include all the small dealers under VAT. Given their large number and low level of maintenance of records, learning from different country experiences⁸, the States should fix a threshold of annual turnover of Rs 5 lakh for registration. The dealers having turnover between Rs. 5 lakh and Rs. 25 lakh could be assessed on the basis of one percent tax on their turnover. The rest of the dealers, having higher turnover, would fall in the actual system of VAT. However, dealers dealing mainly with exports requiring refund of tax paid could always go in for the proper system of VAT irrespective of their size. This would enable them to claim full refund of tax involved in exports⁹.

(d) Management of Check Gates

The respondents are of the view that because of inadequate infrastructure at the check gates, a large quantum of evasion of sales tax takes place in Assam. The existing practice of monitoring of inflow of goods at the check-posts is an archaic method of tax administration. The introduction of VAT should be able to do away with such check posts. As is known, this would reduce corruption and save considerable national truck time spent at these check-posts. It would also facilitate the country to have free flow of goods.

(e) Re-organization of the Sales Tax Department

The management of VAT in Assam calls for re-allocation of duties of different functionaries of Sales Tax Department. For example, the work related to revenue receipts and follow up action of the defaulters is an important component of VAT management. It requires special attention on delinquents. In some countries this is taken care of by contacting dealers on phone, sending them reminders, and visiting them personally. An attempt is to be made for functional re-organization of the department to provide for separation of duties of different officers. This is essential to have efficiency in the working of the department.

(f) Creating a Database

Creation of a database and data warehouse is extremely important. Each tax payer should have a unique master file with an identification code. It is very much necessary to have a control over the whole system.

The first and foremost requirement relates to operating State-VAT through a single master file, based on unique TIN. The TIN should bear an economic activity code based on International Standard Industrial Classification (ISIC). In addition, the TIN must have feasibility for comparison among different taxes such as State-VAT, CenVAT, and income tax (including tax on corporate income). The TIN would also aid in drawing a comparison of tax statistics with the national accounts. In addition, it would facilitate proper use of the database of various systems.

(g) A Computerized Environment

Adoption of suitable computational technology is essential for a proper administration of VAT. In view of fast development in the IT sector, it is absolutely necessary that a requisite system suitable to the structure and administrative requirements of the State concerned is selected.

However, in choosing the computer technology one must keep in mind the capacity of the computer system to be adopted. At the same time in the selection of the system the principle of simplicity must be emphasized upon. More importantly, it is essential to have proper co-ordination among the States to adapt software according to their requirement. Pooling their resources for developing requisite software programmes could be cost effective.

(h) Development and Implementation of a Management Information System

An integrated Management Information System (MIS) is a prerequisite for obtaining all the information from tax returns of individuals and of corporations. In fact, the coordination of Sales Tax Department with all the tax departments is extremely necessary. In India, at present the administration of federal taxes such as income tax and Cen-VAT is quite independent. This is equally true of sales tax. In the context of introduction of VAT, it is important to develop procedures that would have complete coordination among all the tax departments

(i) Facilitating Cross Checking of Information

The most important component being risk management, the Sales Tax Department has to make use of the information collected through registration, submission of VAT return, claim for input credit, refunds and information flowing from income tax returns etc. This information used to classify dealers into small, medium and large categories. 'Risk management' is attempted for selecting dealers from different size groups to perform thorough audit of these dealers. In case of Assam, it is important to evolve procedures to undertake 'risk management' prior to introduction of VAT.

6.10.2 Human Aspects

The study has revealed a very vital issue for proper tax administration. A tax system can be theoretically sound but its implementation depends on its stakeholders. The human beings involved in the system must actively participate in true sense to facilitate the success of it. In this regard, an urgent necessity is felt for overall human resource engineering to bring about a change

in the mind-set of people so that the State of Assam can successfully implement the proposed VAT system.

In designing the package for human resource development emphasis has been given on the issues as publicity campaign to make the people aware of the new system, development of human resources engaged in tax administration, interventions to make the administrators to cope up with the new system and some other relevant issues. The following sections deal with these issues in detail.

6.10.2.1 Publicity Drive

A system cannot be effective unless it is made known to its various components. For this purpose, a plan of action has to be carried out to clarify the intricacies of the system prior to its implementation in the State.

(a) Awareness Campaign

An important step in the introduction of VAT, however, is the need for all taxpayers to understand that VAT will be levied on the value-added only and not on the gross turnover. Such an understanding will not cause any resistance from taxpayers. This requires that the Government should vigorously campaign for the case of VAT. It should take the help of various national and regional Chambers of Commerce and Industry. The role of daily newspapers, TV, radio and other mass media is significant in the dissemination of knowledge to the users. There could be series of articles, question and answer sessions, feature stories and lectures discussing the need for adopting VAT. Various types of pamphlets on VAT could be printed and distributed through out the State.

(b) Information Dissemination

It is of paramount importance in Assam to concentrate on this area of activity to reduce problems that dealers face in interacting with the department. Availability of authentic information should be a matter of right for the dealers. Requisite publicity of their rights and duties with do's and don'ts and use of telephone and electronic means would help developing proper provisions for introducing VAT in India.

(c) Consumers' Education about the Taxation System

Consumers must be educated about their rights and they should be able to exercise their rights in proper manner. Once the consumers ensure their rights and perform their duties as responsible citizens, evasion of sales taxation can be checked to a substantial extent. A wide publicity campaign is extremely necessary to educate tax payers and consumers about the system for administering VAT. Countries such as Argentina, Korea and Mexico have spent adequate time and money on publicity campaign aimed at both taxpayers and consumers. Their experiences suggest that more educated and informed the tax payers and consumers, lesser the difficulty in implementing tax administration.

6.10.2.2 Human Resource Development

The prime pre-requisite of efficient tax administration is staffing requirements and training of personnel. In the great Indian epic *Mahabharata*, *Acharya* Drona passed on the secret use of *Brahmastra* (the ultimate weapon) to Arjuna, but he was reluctant to do the same to his son, Ashwatthama. He commented : 'Arjuna has done necessary *tapasya* (devotion) and so he has the quality of mind which can control the *Brahmastra*.' "In most of the government projects that we implement, 20 per cent of the budget is for training. This is a critical element in change management", says

Chandrasekhar, the former Secretary - Information Technology to the Government of Andhra Pradesh, and a man widely respected throughout the country for his efforts in the computerization of many activities of his State and for his understanding of E-governance. In sales tax administration in Assam, training of personnel needs prioritization. The staff who administer existing sales tax is not adequately trained. The training is all the more crucial when it comes to administering VAT. Hence, it is extremely important that the staff be trained adequately at all levels.

The officers of the Sales Tax Department are generally drawn from the State public services. It is, therefore, of paramount importance that those who are posted at the Sales Tax Department are imparted proper training in the beginning of their career. The State should think of having personnel well trained in taxation services to serve well. The training now given to the tax officers of the State is, by all standards, inadequate. The course is for too short a period and the vital components of economics or accountancy do not appear much in the course contents. It is important that the new recruits earmarked for the taxation services be given intensive training for a period of not less than six months. There should be regular refresher programmes for the tax administrators to make them up-to-date with the business scenario. The details of training programme and other change management tools have been discussed in § 6.10.2.3

Employees' Development Programs may be initiated to make the employees goal-oriented, honest, motivated, team spirited, dedicated, more accountable and responsible. Creation of responsibility centers may be a wise step in this direction. *A programme on Yoga and Mediation will be of much help to the administrators.* Such programmes will infuse the sense of values and ethics which would, in turn, motivate them to discharge their duties with utmost honesty and integrity.

It is the quality of people, their value and skills that will dominate the e-governance tools. If they are not properly selected and trained the whole exercise would prove to be futile. In this regard the Organizational Development (OD) interventions as practised in many organizations would be very much relevant to bring a radical change in the department to cope up with the change requirement for VAT administration.

6.10.2.3 Organizational Development (OD) Interventions

OD is a planned approach to improve employee and organizational effectiveness by conscious interventions in those processes and structures that have an immediate bearing on the human aspect of the organization. OD is a process for planned change. It aims at building internal competencies in individuals to higher levels of performance by individual, group, system and process-related competencies. It focuses on behavioural aspects, and uses of various behavioural tools. It has a specialized body of knowledge and, therefore, needs special attention to handle it. Its focus on people, processes, systems, structure etc. can extend from individual-based interventions to structural changes and system revamps.

The study reveals that there is a need for strategic change in the functioning of the Sales Tax Department. This can be effectively done by the application of various OD interventions. Some of these interventions which are very much relevant to this purpose are specified below:

1. *Diagnostic Activities*: This includes fact finding activities designed to ascertain the status of a problem, the way things are. The problems faced by the organization are identified through these activities.

2. Team Building Activities: Here, activities are designed to enhance the effective operation of teams such as formal work teams, temporary task force teams, newly constituted team, and cross functional teams. These activities focus on task issues, such as the way things are done, the skills and resources needed to accomplish tasks, the quality of relationship among the team members. It also tries to see how well the team gets its job done.
3. Inter-group Activities: Activities designed to improve the effectiveness of interdependent groups that must work together to accomplish the common output.
4. Survey Feedback Activities: Activities that rely on questionnaire survey to generate information that is then used to identify problems and opportunities. Groups analyze the data regarding their performance and design action plan to correct problems.
5. Education and Training Activities: Activities designed to improve individual's skills, abilities and knowledge. These activities may be directed towards leadership issues, responsibilities, functions of group members, decision making, problem solving, goal setting, and so forth.
6. Techno-structural Activities: These are also called structural interventions. Here, broad class of interventions or change efforts aimed at improving organizational effectiveness are put into action through changes in tasks, structural, technological, and goal process in the organization.

An effective mechanism is the formation of autonomous work groups that may be self-managing or self managed. It involves grouping of core tasks so that a team has a major unit of work out of the total work to be accomplished.

The concept of Management By Objectives (MBO) or Collaborative Management By Objectives (CMBO) can be introduced in the organization set up whereby individual member or the group as a whole can be taken into consideration in formulation of objectives.

In this regard, “Parallel Learning Structure’ can be of great use. It consists of a steering committee and a number of working groups that study what changes are needed in the organization. It also makes recommendations and monitors the resulting change efforts.

7. Life and Career Planning: Activities that enable the individuals to focus on their lives and career objectives and also how to go about achieving them. Structural activities include life and career inventories, discussing goals and objectives, assessing capabilities and areas of strength and deficiency.

All these interventions are very much relevant for bringing a radical change in the organizational culture of the Sales Tax Department. The study has identified some problems of compliance and administration of the statute. Effective OD interventions can identify the problem areas in the organization. It can promote team building and inter-group activities that are very much important for achieving the targets set for unit offices. Feedback are to be provided to the staff so that actions can be taken for betterment of activities. It is very much important to create the qualities of leadership, decision making and problem solving among the tax administrators.

Introduction of VAT in Assam requires a structural change in the organization set up. Team spirit among the administrators would be extremely needed in the transition period. The concept of self-managed team is to be incorporated. Moreover, the objectives are to be fixed in consultation with the employees adopting to the concept of MBO or CMBO. “Parallel Line Structure” as explained above can be effectively implemented in the organization. Moreover, the tax administrators should have a clear life and career planning so

that they can exercise their duties with diligence, honesty and integrity which is the need of the hour.

6.10.2.4 Other Measures

(a) Building a congenial relationship among stakeholders

A congenial relationship is necessary whereby the taxpayers are motivated to pay their dues and the administrators are encouraged to exercise their duties with diligence. The department should take necessary steps in simplifying the procedures to the maximum possible extent and to make arrangements for transparent relationship among the dealers and consumers. In this regard, the tax department should maintain a close relationship with the Chambers of Commerce, Trade Associations, Consumer Bodies etc.

(b) Creating a win-win situation

The structure and administration mechanism of sales taxation must result in creating a win-win situation among the stakeholders. The consumers are to be encouraged to pay taxes as well as administrators are to be motivated to exercise their best efforts to collect taxes.

For this purpose an incentive scheme may be introduced. The tax administrators may be provided with a certain percentage of the tax collected by them as an award. This incentive may be given on individual basis or on the basis of group posted in a unit office.

On the other hand, the consumers may be encouraged to ask for memo against their purchases. There are various ways to induce the customers to cultivate the habit of asking for authentic memo against their every purchase. One of the effective ways may be to arrange for a lottery by the Sales Tax Department on the basis of the cash memo numbers. This may be introduced

for a purchase over a threshold limit. This will not only induce the consumers to develop the habit of asking for memo but also the tax authorities to estimate the turnover of many items (e.g. sweetmeats) which cannot be otherwise accurately known.

6.11 Conclusion

The tax payers should be properly guided and brought closer to the administration for fearless compliance of their obligations and duties and also to make them aware about various provisions of law. Unless the tax administration machinery is efficient enough to perform its duties, tax evasion cannot be checked properly.

While sufficient lead-time is required to prepare for the introduction of VAT, it should be noted that the State of Assam has got good experience of administering a turnover tax and a first-point sales tax. The reform process to reduce the rate categories and computerizing the system of administration has already begun in Assam. The National Institute of Public Finance and Policy (NIPFP), New Delhi has already prepared a *Model VAT Law* for the implementation of VAT. The need is to have an overall organizational redesigning to make the tax administrators goal oriented, team spirited, motivated and value-based so as to exercise their duties with utmost honesty and integrity.

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CHAPTER 7

Conclusion

CHAPTER – 7

CONCLUSION

7.1 Epilogue

The thesis addresses to one of the major problems the State Governments in India is facing today. Assam is a constituent State of Indian federation. With the changing economic scenario worldwide, gone are the days where countries could afford the luxury of having subsidy schemes, fiscal deficits and the like. Owing to huge fiscal deficits for welfare activities, mounting pressure has been put by the Union Government on the State Governments to augment its own resource generation capacity.

The State of Assam with its weak economic base has to rely on the Union Government for most of its finance. Sales tax is the main source of revenue for Assam and accounts for more than 60 percent of its total tax revenue. The Government of Assam has been administering sales tax since 1947. However, the growth in the collection of revenue from sales tax has happened to be marginal over the last few decades. This is due to two main factors. Firstly, the State has weak tax base because of indolent economic development as indicated by various macro economic factors. Secondly, the structure and administration of the sales tax mechanism has not been very much effective over the years. But the State has immense potential to increase its earnings from sales tax.

The present system of sales taxation in the country has been engulfed with various problems. Rationalization of the sales tax structure is the order of the day. States have to optimize revenues from limited tax sources available to them. Tax reform has become no longer a choice but a necessity. With Value-Added Tax (VAT) system in the anvil, the study has focussed on the pros and cons of the introduction of this system in Assam.

The findings of the survey could portray a number of factors that are responsible for the present dismal performance of the tax administration of the State. High rates of taxes in Assam together with lower or nil tax in the neighboring States cause massive diversion of trade to the neighboring States. Thus, the Government of Assam loses a large chunk of revenue from sales tax.

It is essential that for proper administration of sales taxation, the relationship between different components of the sales tax system be congenial. However, it has been found that on one hand, the dealers think that because of the ineffective administration by the tax authorities, the collection of sales tax has been lower in Assam. On the other hand, the administrators are of the opinion that dealers evade payment of sales tax. This situation is not at all congenial for growth of revenue collection from sales tax. Many dealers do not wish to get themselves registered because of 'fear psychosis about the sales tax department' and 'fear of too much formalities to be carried out'. As far as the third component, the consumers, is concerned, they (consumers) seem to play a passive role in the matter. While some consumers do not want to pay the sales tax, some avoid payment of the same at the instance of the shopkeepers. It is a common feature with majority of consumers that they do not insist for cash memo and thus, the sales may go unrecorded. This gives the dealer the opportunity to evade tax.

The awareness level about the VAT has been found to be low among the dealers. While 94% of the experts are fully aware about VAT, 92% of the administrators, and only 48% of the dealers are aware about the same. It clearly shows that a substantial publicity and awareness campaign has to be carried out in this regard.

In spite of low level of awareness about VAT, the stakeholders are opting for switch over to VAT. It is an indication of unfriendly features of the present sales tax system. The stakeholders desire to come out of the present system and feel that the changeover to country-wide uniform tax policy would definitely be better than present system.

Complexity in the tax system affects effective and efficient tax administration. Moreover, it complicates its compliance by taxpayers. A sound, effective and efficient tax system should yield steady revenue, be easy to understand, comply with, and administer, be transparent, fair and equitable and should have minimal 'distortionary' scope. Tax Reform and successful tax administration must go hand in hand.

In the recent period, substantial reforms have been carried out by the Union Government in the field of sales taxation. Steps like adoption of Uniform Floor Rates of taxes by all the States would go a long way in solving many problems the system is facing today. The Government of Assam has already initiated the reform measures at the instance of the Union Government. For switching over to the Value-Added Tax system, the State has to take lessons from (i) the pros and cons of the existing AGST Act and (ii) the history of VAT in India. The strength of the present system are to be carried to the new system. Care must be taken to minimize, if not eliminate, the weaknesses embedded in the present system. The opportunities of enhancing sales tax

revenue are to be translated to workable plan and then to implement them. Serious thought should be given on the possibility of converting the threats into opportunities.

VAT has been tried in several States in India. There has been a mixed result- while some States have been successful some others had to revert to old system. The factors for success and failure are to be taken into consideration before adopting VAT in Assam. The critical success factors are to be determined and be given due emphasis. One point is to be kept in mind that the case of Assam does not resemble to any other State in the country. Thus adoption is not going to work, the VAT system is to be adapted.

It is apparent that for successful implementation of VAT through e-governance would be most effective. The State Government should take up the issue of e-governance simultaneously. The awareness campaign about VAT and its administration mechanism must be started forthwith.

An economically sound tax policy cannot yield its best result unless each and every component of the system functions in its true spirit. VAT and its administration through e-governance would bring about a strategic change in the system. Most important in this respect is the human resource development. Effective training program through Organizational Development (OD) interventions have to be carried out to make the tax administrators motivated and dedicated so that they exercise their respective duties with utmost honesty and integrity.

7.2 Recommendation for Future Research

Tax administration and public finance provides excellent scope for study. Study on sales taxation itself is a large area and provides vast opportunities for research work. During the course of the study it has been felt that certain areas of administration and management of sales taxation could not be covered in this thesis.

7.2.1 Study on Incidence of Tax

From the study it has been found that rate of tax is related to the magnitude of evasion of tax. But this is a controversial issue. A study on the computation of cumulative burden of sales tax is required for estimating the effective tax rates. It is generally argued that the burden of a tax on a commodity is shared between the consumers and the producers depending on the price elasticity of demand and supply of the commodity. Sales tax is levied at one or more stages in the process of production and distribution of goods and services. It is levied on the tax base inclusive of tax customs and excise duties, if any. Proposed VAT structure in each State would try to maximize its revenue without serious concern about its economic effects. Estimation of tax incidence or tax rates requires a knowledge about shifting of tax in question i.e. the extent to which the tax may be passed on from producers to consumers. It is very much necessary to know the ultimate incidence of tax on various levels. Such a study if carried out for Assam, would help in fixing the effective rate of sales tax of various commodities for the State.

7.2.2 Study on the Tax Performance of the State

Revenue performance of a tax structure is the aggregate effect of the performance of individual taxes constituting that structure. Sales tax accounts for more than 60 percent of the total State tax of Assam. Hence, a detailed study of the revenue performance of sales tax in Assam needs to be undertaken. Structural adjustments to be carried out under the VAT system may yield larger revenue. While structural changes determine the base of the tax, the administrative decisions help to utilize that base for tax purpose. The former builds up the tax potential while the latter indicates the tax efforts of the State. Since there is no absolute standard in this regard, a relative assessment of the same may be made considering the cases of some other States. The average position of all the States taken together may also serve as a reference for the purpose.

7.2.3 Study on the Accounting System for VAT

Administration of VAT would require proper book keeping and accounting procedures. The system enables set-off of tax already paid in commodities. Tax is levied on value-added on the transaction.. VAT is paid on all sales after giving due credit for the tax already paid on inputs. However, the right to credit accrues only when the taxable event takes place. In order to qualify for credit VAT must be specifically noted on the purchase invoice. However, sales exemption from VAT do not entitle the tax payer to credit in respect of VAT paid at the time of purchase excepting for zero-rated goods. As the department allows tax credit on the basis of assessment of accounts and records of a dealer, a taxpayer has some accounting as well as declaratory obligations. The problem is that it may not be possible for the small dealers to maintain all these accounting formalities. Although it is generally suggested that VAT administration has an advantage of built-in policing, various authors have expressed their doubts about its effectiveness [Lent, George E et

al.(1973)]. As evasion is already rampant under the existing tax system, the role of book-keeping and accounting can not be undermined. The study may suggest some tax-payer friendly accounting procedures which would be efficient enough to curb the practice of tax evasion.

7.2.4 A System Dynamics Study for Policy Formulation

The study revealed that there are various factors in sales taxation, which are interdependent and interactive. For example, high tax rate may lead to low tax collection leading to less revenue and prompting to raise the tax further. It has been felt that such cause-effect relationships and causal loops exist in various sectors of the sales taxation system. An attempt has been made in this thesis to construct some of these loops. An elaborate study in this aspect will be worth attempting to identify the various factors affecting the taxation system, and to establish the cause-effect relationships among these factors. A system dynamics model could be developed from such causal loops and the taxation system could be simulated to (i) identify the problem areas, (ii) suggest structural changes, if needed, and (iii) to formulate policies for proper tax administration with the objective of enhancing tax revenue.

ANNEXURES

ANNEXURE I

Questionnaire for Experts in Delphi-like Study

Dated

To, _____

Dear _____

We cordially invite you to participate, as an expert-panelist, in a Delphi study being conducted for finding out lacunas in the present sales tax system in Assam as well as for setting long term policies for commodity taxation in the State, as a part of a research project, being conducted by Sri S. S. Sarkar, Lecturer in the Department of Business Administration, Tezpur University, under my supervision.

You are, of course quite aware of the problem that the State governments are facing in administering their commodity taxation legislation. The Indian States are now getting engaged in a trade war in the form of cutting down of tax rates and providing concessions and relaxation. While introducing the Assam General Sales Tax Act, 1993 the Government expected that the new Act will help it in collecting higher amount of taxes particularly in the form of sales tax. However, the data available show that while the collection of revenue from sales tax was Rs. 293 cr. in 1991-92, it was Rs. 512 cr. in 1996-97. It is a strange fact that the receipts from sales tax during the last five years could not be made at least double even though product-wise market growth has been manifold over this period. On the other hand, some other States in India have successfully implemented their tax Acts there and have been able to generate enormous funds for the State. Such a scenario arouses the curiosity as to study and understand the tax structure and administration in other States and to compare the same with those prevailing in Assam.

Taxation, though a compulsory contribution, should be imposed in such a way that maximum revenue is earned through a simple way. Presently, the administrators think of the dealers as deceivers whereas dealers are complaining about the cumbersome rules and harassment by tax personnel. Therefore, the whole system of commodity taxation in Assam needs an overall scrutiny and analysis. A Delphi study is proposed which is expected to throw light on the lacunas of the present tax system, besides suggesting some concrete policies implementable by the appropriate authority, to establish a win-win situation among the dealers, consumers and the government.

Very briefly speaking, Delphi consists of sending a series of questionnaires to the panelists on matters related to the problem ; making a statistical analysis of the responses ; feeding back the aggregate group response to the panelists to revise their views while keeping them anonymous to each other. At the end of the study, the views of the panelists converge to a meaningful group consensus in the various aspects of the study.

The proposed Delphi study will consist maximum of four questionnaires to be sent subsequently. During the framing of your response, you will be free to utilise information sources normally available to you. However, you are requested to respond as an individual expert and not as a representative for a particular group.

We shall make every effort to maintain the anonymity of the panelists. Panelists will be allotted a code number which will be used to identify the responses during the exercise. A list of all the panelists will be sent to you at the end of the study.

We feel sure that a person with your knowledge and experience in the field of sales taxation can make a valuable contribution as a panelist in the study. We, therefore, request you kindly to send your consent to act as a panelist for this study.

We would like to inform you that several experts in this field have expressed their willingness to associate themselves with this study. The Commissioner of Taxes, Assam, Sri T.R. Dey has given his assurance of full co-operation for the study.

Anticipating your positive response, the first set of questionnaire is enclosed herewith which may kindly be returned within two weeks.

This is to inform you that the team, monitoring this study, comprises of Mr. S. S. Sarkar, Prof. S. Sikidar, Dean, Faculty of Commerce, Gauhati University and the undersigned.

Thanking you and expecting your active participation,

Yours sincerely,

(M.C. BORA)

- Encl.: 1. An Addressed Stamped Envelope
2. A note on the Objectives of the Study
3. First set of questionnaire.

**DELPHI STUDY ON
STRUCTURE AND ADMINISTRATION OF SALES TAXATION IN ASSAM**

A. Objectives of the Study

The objectives of the proposed Delphi study are to:

1. Identify the major reasons for lower collection of tax revenue in Assam
2. Explore the scope for enhancing the revenue earnings from sales taxes in Assam
3. Find out the methods for simplification of existing sales tax structure and administration mechanism in Assam
4. Suggest policies for more efficient sales tax structure and administration mechanism in the State to be implemented.

B. Code Number

To prevent bias on the part of the monitoring team and to preserve anonymity of opinions we have given you a Code Number

YOUR CODE NUMBER IS

C. General Instructions to Participants (Applicable to All Rounds):

1. Two copies of each Questionnaire will be sent to you in each Round. You are requested to prepare your responses on both copies of the Questionnaires. Kindly send one copy to us and retain the other copy with you for your future reference and duplication (in case the posted copy does not reach us)
2. You may use extra sheet for preparing your response if the space provided is insufficient
3. Your Code Number will appear on the top of the first page of each questionnaire. However, should you wish to use any extra sheet(s), please write your Code Number on the top of each sheet attached.
4. You are requested kindly to return your responses within two weeks after the date of receipt of each questionnaire or earlier, if possible.

DELPHI STUDY ON
STRUCTURE AND ADMINISTRATION OF SALES TAXATION IN ASSAM

Code Number

QUESTIONNAIRE NO. 1

1. Please point out the lacunas and loopholes that you have observed in the present Assam General Sales Tax Act, 1993

a)

b)

c)

d)

e)

2. Kindly mention at least five reasons for lower collection of sales taxes in Assam

a)

b)

c)

d)

e)

3. Kindly indicate various scope for increasing sales tax revenue in Assam
 - a)
 - b)
 - c)
 - d)
 - e)

4. Please give your views regarding simplification of the existing sales tax structure in Assam
 - a)
 - b)
 - c)
 - d)
 - e)

5. (a) If you are aware about the structure and administration of sales tax Acts of any other State in India, please mention the Sales Tax Act which you consider to be the *ideal*/more appropriate

(b) Please highlight the features that make the above Act ideal

6. Kindly enlist a few items (products) for which enhancement of tax revenue is possible through simplification of tax rules.

- 1 _____
- 2 _____
- 3 _____
- 4 _____
- 5 _____
- 6 _____
- 7 _____
- 8 _____
- 9 _____
- 10 _____

7. Kindly suggest a few policies to be adopted to make the sales tax structure and its administration in Assam more effective.

i)

ii)

iii)

iv)

v)

CONCLUDED

ANNEXURE II

Questionnaire for Dealer-Respondents

D		
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A SURVEY ON THE ASSAM GENERAL SALES TAX ACT, 1993

Dear Respondent,

This is an opportunity to greet you and solicit your kind patronage in conducting a research work on commodity taxation. The aim of this survey is to find out from the dealers and persons related in this field, the factors responsible for popularity of any commodity taxation legislation and vice-versa.

This questionnaire is consisting of four pages and twenty-eight questions. These are very easy to respond and involve little thinking. It is worth mentioning that there is no right or wrong response, we just want your views to be shared with us. This would help all of us in coming to a consensus about the features of an ideal sales taxation legislation and thereby forwarding these views to the appropriate authority. *You need not disclose your identity.* Kindly feel free to respond the way you are comfortable.

This survey is carried out in *pure academic interest* and the responses will be treated in strict confidentiality.

1. What are the shortcomings you have noticed in the AGST Act, 1993 ? (Please tick)

- a. Tax rates are very high
- b. Complex Rules and Regulations
- c. Too much formalities
- d. Ample scope for manipulation
- e. Any other

(please specify)

2. Do you prefer separate tax Acts (like that of pre-1993) or a consolidated one as the AGST Act, 1993 (Yes / No)

3. Are you aware of the amendments made in the AGST Act, 1993 in the budget 1999-2000 ? (Yes / No)

4. If the answer to the above is 'yes', which proposal(s) you have liked most

5. Are you aware of the tax Acts of any other State of the country which you think to be ideal or appropriate for our State ? (Please name the State and the Act)

6. Please mention the distinguishing features of the above Act making it ideal

7. As compared to other States, the tax burden of AGST on consumers is (high/ moderate/ low/ not known)

8. Do you think that all the States in North-Eastern Region should have a common tax structure (Yes / No)

9. The reason for poor sales tax collection in Assam is (please rank) [1- main reason , 10-not a reason]

- high rate of taxes
- lower or no taxes in the neighbouring States
- evasion by dealer
- inefficient administration
- faulty procedure of checking at check gates
- long list of exempted goods
- socio-political turmoil leading to slow growth of trade in the State
- purchase by way of 'stock transfer'
- tax holidays for SSIs,
- limited number of registered dealers

Would you like to add any reason besides the above?

10. Have you liked the introduction of Sales Tax Audit in the AGST Act in this year's budget ? (Yes / No)

11. Do you think that high rate of taxes in the AGST Act creates propensity to evade ?

Strongly Agree Agree Disagree Strongly Disagree Not Sure

12. Is it possible to increase the tax revenue by lowering the tax rate ?

Strongly Agree Agree Disagree Strongly Disagree Not Sure

13. Do you think demand of your product depends on the sales tax rate ?

Yes / No

14. What is the ideal rate of tax you propose for the products you deal in ?

- a) _____
 b) _____
 c) _____
 d) _____

15. In your opinion how many tax points should be there for the products you deal in ?

16. Are you aware of a tax system called Value-Added Tax (VAT)?

Yes/No

17. Do you know that the Indian State Governments have agreed for introducing a uniform VAT type structure for sales taxation all over the country?

Yes/No

18. Do you think that it would be a good step if Assam too joins hand with other State for the uniform system of sales taxation.

Yes/No

19. Kindly specify the reason for your support or objection to the above proposal?

20. What problems do you face in the compliance of the Assam General Sales Tax Act, 1993?

(Please rank according to the degree of difficulty)

[1 - main problem, 10 - not a problem]

- Non-availability of various forms in the office
 Limited period of validity of road permits
 Excessive formalities for filing returns etc.
 Unfriendly attitude of the tax authorities
 Difficulty in getting 'refund' in case of excess payment of tax
 Ineffective mechanism for appeals
 Lack of prompt service from office staff
 Need for keeping large number of books
 Indefinite stay of office staff in the same place
 Too many slabs of tax rates

Would you like to add any other problem besides the above?

21. What, in your opinion, are the ways of evasion of sales tax in Assam. (Please rank them in a 10 point scale in order of magnitude of most likely way of evasion)

Please Tick 1- Most Preferred way, 10-Least Preferred way

Ways of Evasion	1	2	3	4	5	6	7	8	9	10
Underinvoicing										
Non-recording of Accounts										
Billing in the name of other NE State										
Purchase by the way of 'stock transfer'										
Purchase of goods in fake names										
Mis-classification of goods										
Non-issue of memos										
Maintenance of double sets of accounts										
Mis-use of declaration forms										
Lack of adequate and modern machinery at check gates										

22. It is felt that if tax rates are lowered, formalities are simplified then more dealers will come voluntarily for getting themselves registered .

Strongly Agree Agree Disagree Strongly Disagree Not Sure

23. What should be the basic exemption limit of turnover for compulsory registration of a dealer?

Rs. _____

24. A large number of dealers liable for paying sales tax do not come under tax net as they prefer not to get themselves registered under the Act. The probable reason may be (please rank) [1 - main reason, 5- not a reason]

- Fear psychosis about the sales tax department
 Apathy of the dealers to get themselves registered
 No motivation for registration
 Fear of too much formalities to be carried out
 Penalty system is not strict

Would you like to add any other reason besides the above:

25. Do you think that there remains scope for rationalization and simplification of the present sales tax system in Assam ?

To a great extent To some extent Not at all

26. Please indicate the various scope for enhancing sales tax revenue in Assam. (Please tick) (May tick more than one)

- Reduction of tax rates and simplification of procedures
 Imposition of entry-tax
 Extension of payment of lump sum tax
 Imposition of tax on some commodities from exempted list
 Introduction of incentives for honest tax payers
 Improving infrastructure/functioning of the check gates
 Imparting training to the tax officials
 Restricting concessions of tax holidays to SSIs
 Thorough checking at godowns/transporters' godowns etc.
 'Bureau of Economic Offence' to be made more effective

(any other)

27. Please give your views regarding simplification of sales tax structure in Assam : (Please tick)

	Extremely needed	Needed	Not Needed
a. Removal of double point tax			
b. Return forms to be simplified			
c. Introduction of uniform VAT			
d. Enhancing basic exemption limit			
e. Discontinuation of additional tax			
f. Easy system for Revision and Appeal			
g. Withdrawal of tax exemption to SSIs			
h.			

(any other)

28. Information regarding yourself: (Need not divulge identity)

- a) Nature of your business :
 Trading / Manufacturing
- b) Are you a registered dealer:
 Yes/No
- c) If yes, then for how long:
 _____ years
- d) Range of your annual turnover :
- | | | |
|-------|-------------------------------|--------------------------|
| | upto Rs. 1,00,000 | <input type="checkbox"/> |
| above | Rs. 1,00,000 to Rs. 3,00,000 | <input type="checkbox"/> |
| above | Rs. 3,00,000 to Rs. 5,00,000 | <input type="checkbox"/> |
| above | Rs. 5,00,000 to Rs. 10,00,000 | <input type="checkbox"/> |
| above | Rs. 10,00,000 | <input type="checkbox"/> |

Thank you for your kind co-operation

ANNEXURE III

Questionnaire for Administrator-Respondents

A			
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A SURVEY ON THE ASSAM GENERAL SALES TAX ACT, 1993

Dear Respondent,

This is an opportunity to greet you and solicit your kind patronage in conducting a research work on sales taxation in Assam. The aim of this survey is to find out from the dealers, tax authorities and persons related in this field, the factors responsible for popularity of any commodity taxation legislation and vice-versa.

This questionnaire is consisting of four pages and twenty-eight questions. These are very easy to respond and involve little thinking. It is worth mentioning that there is no right or wrong response, we just want your views to be shared with us. This would help all of us in coming to a consensus about the features of an ideal sales taxation legislation and thereby forwarding these views to the appropriate authority. *You need not disclose your identity.* Kindly feel free to respond the way you are comfortable.

This survey is carried out in *pure academic interest* and the responses will be treated in strict confidentiality.

1. What are the shortcomings you have noticed in the AGST Act, 1993 ? *(Please tick)*

- a. Tax rates are very high
- b. Complex Rules and Regulations
- c. Too much formalities
- d. Ample scope for manipulation
- e. Any other

(please specify)

2. Do you prefer separate tax Acts (like that of pre-1993) or a consolidated one as the AGST Act, 1993 (*Yes / No*)

3. Are you aware of the amendments made in the AGST Act, 1993 in the budget 1999-2000 ? (*Yes / No*)

4. If the answer to the above is 'yes', which proposal(s) you have liked most

5. Are you aware of the tax Acts of any other State of the country which you think to be ideal or appropriate for our State ? (Please name the State and the Act)

6. Please mention the distinguishing features of the above Act making it ideal

7. As compared to other States, the tax burden of AGST on consumers is (high/ moderate/ low/ not known)

8. Do you think that all the States in North-Eastern Region should have a common tax structure (Yes / No)

9. The reason for poor sales tax collection in Assam is (please rank) [1- main reason , 10-not a reason]

- high rate of taxes
- lower or no taxes in the neighbouring States
- evasion by dealer
- inefficient administration
- faulty procedure of checking at check gates
- long list of exempted goods
- socio-political turmoil leading to slow growth of trade in the State
- purchase by way of 'stock transfer'
- tax holidays for SSIs,
- limited number of registered dealers

Would you like to add any other reason besides the above:

10. Have you liked the introduction of Sales Tax Audit in the AGST Act in this year's budget ? (Yes / No)

11. Do you think that high rate of taxes in the AGST Act creates propensity to evade ?

Strongly Agree Agree Disagree Strongly Disagree Not Sure

12. Is it possible to increase the tax revenue by lowering the tax rate ?

Strongly Agree Agree Disagree Strongly Disagree Not Sure

13. Do you think demand of any product depends on its sales tax rate?

Yes / No

14. What is the ideal rate structure of tax you propose for the categories of products?

- a) _____
 b) _____
 c) _____
 d) _____

15. In your opinion how many tax points should be there for the different categories of products?

16. Are you aware of a tax system called Value-Added Tax (VAT)?

Yes/No

17. Do you know that the Indian State Governments have agreed for introducing a uniform VAT type structure for sales taxation all over the country?

Yes/No

18. Do you think that it would be a good step if Assam too joins hand with other State for the uniform system of sales taxation?

Yes/No

19. Kindly specify the reason for your support or objection to the above proposal?

20. What problems do you face in the administration of the Assam General Sales Tax Act, 1993? [1 - main problem, 10 - not a problem]

(Please rank according to the degree of difficulty)

- Excessive formalities for issuing notice etc.
 Unfriendly attitude of the dealers.
 Lack of prompt service from office staff
 Indefinite stay of office staff in the same place
 Too many slabs of tax rates
 Proper authority is not defined and delegated
 Complicated rules difficult to interpret
 Political interference
 Penalty provisions are not strict
 Uncertainty about transfer from a place

Would you like to mention any other problem besides above :

21. What, in your opinion, are the ways of evasion of sales tax in Assam. (Please rank them in a 10 point scale in order of magnitude of most likely way of evasion)

Ways of Evasion	Please Tick									
	1	2	3	4	5	6	7	8	9	10
Underinvoicing										
Non-recording of Accounts										
Billing in the name of other NE State										
Purchase by the way of 'stock transfer'										
Purchase of goods in fake names										
Mis-classification of goods										
Non-issue of memos										
Maintenance of double sets of accounts										
Mis-use of declaration forms										
Lack of adequate and modern machinery at check gates										

22. It is felt that if tax rates are lowered, formalities are simplified then more dealers will come voluntarily for getting themselves registered .

Strongly Agree Agree Disagree Strongly Disagree Not Sure

23. What should be the basic exemption limit of turnover for compulsory registration of a dealer?

Rs. _____

24. A large number of dealers liable for paying sales tax do not come under tax net as they prefer not to get themselves registered under the Act. The probable reason may be (please rank) [1 - main reason, 5- not a reason]

- Fear psychosis about the sales tax department
- Apathy of the dealers to get themselves registered
- No motivation for registration
- Fear of too much formalities to be carried out
- Penalty system is not strict

Would you like to add any other reason besides above

25. Do you think that there remains scope for rationalization and simplification of the present sales tax system in Assam ?

To a great extent To some extent Not at all

26. Please indicate the various scope for enhancing sales tax revenue in Assam. (Please tick)

- Reduction of tax rates and simplification of procedures
- Imposition of entry-tax
- Extension of payment of lump sum tax
- Imposition of tax on some commodities from exempted list
- Introduction of incentives for honest tax payers
- Improving infrastructure/functioning of the check gates
- Imparting training to the tax officials
- Restricting concessions of tax holidays to SSIs
- Thorough checking at godowns/transporters' godowns etc.
- 'Bureau of Economic Offence' to be made more effective
-

_____ (any other)

27. Please give your views regarding simplification of sales tax structure in Assam : (Please tick)

	Extremely needed	Needed	Not Needed
a. Removal of double point tax			
b. Return forms to be simplified			
c. Introduction of uniform VAT			
d. Enhancing basic exemption limit			
e. Discontinuation of additional tax			
f. Easy system for Revision and Appeal			
g. Withdrawal of tax exemption to SSIs			
h.			

(any other)

28. Information regarding yourself: (Need not divulge identity)

- a) Your Designation:
ACT/JCT/DCT/SST/ST/IT
- b) Are you an assessing authority:
Yes/No
- c) If no, then kindly specify your main functional area:
- d) What is your service career? _____ years
- e) Kindly rank your job satisfaction in the present position in a 10 point scale:

Please tick

1	2	3	4	5	6	7	8	9	10

Thank you for your kind co-operation

ANNEXURE IV

Questionnaire for Expert-Respondents

E		
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A SURVEY ON THE ASSAM GENERAL SALES TAX ACT, 1993

Dear Respondent,

This is an opportunity to greet you and solicit your kind patronage in conducting a research work on sales taxation in Assam. The aim of this survey is to find out from the dealers, tax authorities and experts related in this field, the factors responsible for popularity of any commodity taxation legislation and vice-versa.

This questionnaire is consisting of five pages and thirty seven questions. These are very easy to respond and involve little thinking. It is worth mentioning that there is no right or wrong response, we just want your views to be shared with us. This would help all of us in coming to a consensus about the features of an ideal sales taxation legislation and thereby forwarding these views to the appropriate authority. *You need not disclose your identity.* Kindly feel free to respond the way you are comfortable.

This survey is carried out in *pure academic interest* and the responses will be treated in strict confidentiality.

1. What are the shortcomings you have noticed in the AGST Act, 1993 ? (Please tick)

- a. Tax rates are very high
- b. Complex Rules and Regulations
- c. Too much formalities
- d. Ample scope for manipulation
- e. Any other

(please specify)

2. Do you prefer separate tax Acts (like that of pre-1993) or a consolidated one as the AGST Act, 1993 (Yes / No)

3. Are you aware of the amendments made in the AGST Act, 1993 in the budget 1999-2000 ? (Yes / No)

4. If the answer to the above is 'yes', which proposal(s) you have liked most

5. Are you aware of the tax Acts of any other State of the country which you think to be ideal or appropriate for our State? (Please name the State and the Act)

6. Please mention the distinguishing features of the above Act making it ideal

7. As compared to other States, the tax burden of AGST on consumers is (high/ moderate/ low/ not known)

8. Do you think that all the States in North-Eastern Region should have a common tax structure (Yes / No)

9. The reason for poor sales tax collection in Assam is
(please rank) [1 - main reason, 10 - not a reason]

- high rate of taxes
- lower or no taxes in the neighbouring States
- evasion by dealer
- inefficient administration
- faulty procedure of checking at check gates
- long list of exempted goods
- socio-political turmoil leading to slow growth of trade in the State
- purchase by way of 'stock transfer'
- tax holidays for SSIs,
- limited number of registered dealers

Would you like to add any other reason besides above ?

(please specify)

10. Have you liked the introduction of Sales Tax Audit in the AGST Act in this year's budget ? (Yes / No)

11. Do you think that high rate of taxes in the AGST Act creates propensity to evade ?

Strongly Agree Agree Disagree Strongly Disagree Not Sure

12. Is it possible to increase the tax revenue by lowering the tax rate ?

Strongly Agree Agree Disagree Strongly Disagree Not Sure

13. Do you think demand of any product depends on its sales tax rate ?

Yes / No

14. What is the ideal rate structure of tax you propose for the categories of products?

- a) _____
 b) _____
 c) _____
 d) _____

15. What problems are faced by the dealers in the compliance of the Assam General Sales Tax Act, 1993?

(Please rank according to the degree of difficulty)

[1 - main problem, 10 - not a problem]

- Non-availability of various forms in the office
 Limited period of validity of road permits
 Excessive formalities for filing returns etc.
 Unfriendly attitude of the tax authorities
 Difficulty in getting 'refund' in case of excess payment of tax
 Ineffective mechanism for appeals
 Lack of prompt service from office staff
 Need for keeping large number of books
 Indefinite stay of office staff in the same place
 Too many slabs of tax rates

Would you like to add any other problem(s) besides above ?

 (please mention)

16. In your opinion how many tax points should be there for the different categories of products?

17. Are you aware of a tax system called Value-Added Tax (VAT)?

Yes/No

18. Do you know that the Indian State Governments have agreed for introducing a uniform VAT type structure for sales taxation all over the country?

Yes/No

19. Do you think that it would be a good step if Assam too joins hand with other State for the uniform system of sales taxation.

Yes/No

20. Kindly specify the reason for your support or objection to the above proposal?

21. What problems are generally faced by tax authorities while administering the Assam General Sales Tax Act, 1993?

(Please rank according to the degree of difficulty)

[1 - main problem, 10 - not a problem]

- Excessive formalities for issuing notice etc.
- Unfriendly attitude of the dealers.
- Lack of prompt service from office staff
- Indefinite stay of office staff in the same place
- Too many slabs of tax rates
- Proper authority is not defined and delegated
- Complicated rules difficult to interpret
- Political interference
- Penalty provisions are not strict
- Uncertainty about transfer from a place

Any other point you may add :

22. Do you think that the list of exempted goods contains goods which need not be tax free?

23. Do you think that multiplicity of tax rates for different goods makes the working of the Act complicated?

To a great extent/ To some extent/ Not at all

24. Have you any suggestion to make regarding the levy of additional tax as introduced recently?

25. Do you think that the concessions under sales tax to new industries are adequate? Yes / No

If no, what type of concessions could be advocated ?

26. Do you think that the present rates of sales tax on any of the commodities have any adverse effect on the trade, commerce and industry of the State? Yes/ No

If so, please give the list of the commodities and state how the trade, commerce or industry is adversely affected.

27. Do you have any suggestion for curbing the diversion of trade* to other NE States [* of the commodities meant for use in the State of Assam]

28. What, in your view, are the reasons for accumulation of arrears and what means would you suggest to reduce them.

29. Enumerate the provisions in the sales tax law which, according to you, are ambiguous or are exposed to different interpretations.

30. What, in your opinion, are the ways of evasion of sales tax in Assam. (Please rank them in a 10 point scale in order of magnitude of most likely way of evasion)

Ways of Evasion	1- Most Preferred way, 10- Least Preferred Way (Please Tick)									
	1	2	3	4	5	6	7	8	9	10
Underinvoicing										
Non-recording of Accounts										
Billing in the name of other NE State										
Purchase by the way of 'stock transfer'										
Purchase of goods in fake names										
Mis-classification of goods										
Non-issue of memos										
Maintenance of double sets of accounts										
Mis-use of declaration forms										
Lack of adequate and modern machinery at check gates										

31. It is felt that if tax rates are lowered, formalities are simplified then more dealers will come voluntarily for getting themselves registered .

Strongly Agree Agree Disagree Strongly Disagree Not Sure

32. What should be the basic exemption limit of turnover for compulsory registration of a dealer?

Rs. _____

33. A large number of dealers liable for paying sales tax do not come under tax net as they prefer not to get themselves registered under the Act. The probable reason may be (please rank) [1 - main reason, 10 - not a reason]

- Fear psychosis about the sales tax department
- Apathy of the dealers to get themselves registered
- No motivation for registration
- Fear of too much formalities to be carried out
- Penalty system is not strict
- _____ (any other)

34. Do you think that there remains scope for rationalization and simplification of the present sales tax system in Assam ?

To a great extent To some extent Not at all

35. Please indicate the various scope for enhancing sales tax revenue in Assam (Please tick)

- Reduction of tax rates and simplification of procedures
- Imposition of entry-tax
- Extension of payment of lump sum tax
- Imposition of tax on some commodities from exempted list
- Introduction of incentives for honest tax payers
- Improving infrastructure/functioning of the check gates
- Imparting training to the tax officials
- Restricting concessions of tax holidays to SSIs
- Thorough checking at godowns/transporters' godowns etc.
- 'Bureau of Economic Offence' to be made more effective
- _____

(any other)

36. Please give your views regarding simplification of sales tax structure in Assam : (Please tick)

	Extremely needed	Needed Not	Needed
a. Removal of double point tax			
b. Return forms to be simplified			
c. Introduction of uniform VAT			
d. Enhancing basic exemption limit			
e. Discontinuation of additional tax			
f. Easy system for Revision and Appeal			
g. Withdrawal of tax exemption to SSIs			
h.			

(any other)

37. Information regarding yourself: (Need not divulge identity)

a) Your Profession:
Dealer/Tax Consultant/Retd. Tax Authority/others

b) Tenure of your relationship with the sales tax system

_____ years

c) Kindly rank your satisfaction level with the present sales tax system in Assam [in a 10 point scale]:

	1	2	3	4	5	6	7	8	9	10
Please tick										

Thank you for your kind co-operation

ANNEXURE V

Questionnaire for Consumers

C		
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A SURVEY ON THE ASSAM GENERAL SALES TAX ACT, 1993

Dear Respondent,

This is an opportunity to greet you and solicit your kind patronage in conducting a research work on sales taxation in Assam. The aim of this survey is to find out from the dealers, tax authorities, experts and consumers related in this field, the factors responsible for popularity of any commodity taxation legislation and vice-versa.

This questionnaire is consisting of one pages and ten questions. These are very easy to respond and involve little thinking. It is worth mentioning that there is no right or wrong response, we just want your views to be shared with us. This would help all of us in coming to a consensus about the features of an ideal sales taxation legislation and thereby forwarding these views to the appropriate authority. *You need not disclose your identity.* Kindly feel free to respond the way you are comfortable.

This survey is carried out in *pure academic interest* and the responses will be treated in strict confidentiality.

1. Are you aware the Government of Assam is facing an unprecedented financial crunch these days.
Yes/ No/ Do not Care

2. Do you know that earnings from sales tax is a major source of revenue for any State Government ?
Yes/ No

3. Are you aware that you do pay sales tax whenever you purchase any commodity ?
Yes/No/Not sure

4. Do you ask for Cash Memo/ Voucher from the shop-keeper whenever you purchase any commodity ?
Always/Sometimes/Rarely

5. Has any shop-keeper ever refused you to issue a Cash Memo ?

Yes/No/Cannot remember

6. If you are to pay something extra for sales tax for cash memo, would you still ask for it ?

Yes / No

7. Do you feel that you are sometimes deceived by the shop keeper in the name of collection of local sales tax?

Yes / No/ Not sure

8. Tick the statement which relate to you most: (may tick more than one)

- I like to pay sales tax unknowingly
- I feel pinch when sales tax is charged in a product or service
- I think paying sales tax is a duty of a good citizen
- If possible I would like to avoid paying sales tax

9. Would you like to avoid payment of sales tax in the following circumstances : (please tick)

- a. If it benefits you financially
- b. If the shop keeper insists
- c. Under no circumstances

10. Information about yourself : (Please tick)

Educational Qualification :

Undergraduate/Graduate/Post-Graduate

Monthly Income:

Below Rs.5,000/Rs5,000-Rs.10,000/

Rs.10,000-Rs. 20,000/Rs. 20,000 and above

Profession:

Service/Business/Professional

(kindly specify)

Thank you for your kind co-operation

ANNEXURE VI

Consumers' Attitude Towards Payment of Sales Taxes in Assam

	<i>Respondents Percentages</i>										
	Edu Qualification			Monthly Income (Rs.)				Profession			
	UG	G	PG	A	B	C	D	W	X	Y	Z
Aware that Government of Assam is facing financial crunch at present	74	91	98	82	92	98	100	94	82	71	67
Knows that Sales Tax is the major source of revenue for Assam Govt.	67	88	93	64	83	86	90	89	87	86	31
Aware that sales tax is being paid against every purchase	72	86	88	78	84	93	98	85	81	86	85
Always asks for cash memos against every purchase	8	10	22	8	11	17	40	10	9	36	23
Shop Keeper has refused to issue memo when asked for	10	13	23	10	15	14	20	12	17	29	16
Ready to pay extra amount for cash memos against purchase	38	33	48	33	38	38	33	40	32	43	23
Likes to pay sales tax unknowingly	47	48	38	51	48	45	20	48	40	43	46
feels pinch when sales tax is charged on a product	41	21	23	33	25	26	0	24	30	14	23
Thinks paying sales tax is the duty of a good citizen	51	68	68	59	67	69	60	67	59	64	54
If possible likes to avoid payment sales tax	8	7	10	10	9	2	20	8	8	7	8
Tries to evade tax if it is financially beneficial	56	43	35	58	45	33	0	42	44	43	46
Tries to evade tax if the shopkeeper insists	8	13	15	13	9	21	40	10	17	7	23
Under no circumstances tries to evade sales tax	31	40	50	22	44	45	60	43	34	43	31

Educational Qualification - UG = UnderGraduate G = Graduate PG= PostGraduate

Monthly Income - A = < Rs. 5000 B= Rs.5000 - Rs 10000 C = Rs.10001 - Rs 20000 D= > Rs 20001

Profession - W = Service X = Business Y= Profession Z = Others (includes housewives, students etc.)

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