CHAPTER I
INTRODUCTION

1.1 - INCEPTION OF OCTROI -

OCTROI is perhaps the oldest method of taxation in India and there is historical evidence to indicate that it was present in ancient days, chargeable on the basis of weight or unit and its present form is traceable to 1805 Regulations of the East India Company. Thus octroi is neither a new tax nor a sectarian levy. Entry 52 of the state list of the Seventh Schedule of the Constitution classifies Octroi as, "the taxes on the entry of the goods into a local area for the purpose of consumption, use or sale therein".

1.2 - ADMINISTRATION AND IMPORTANCE -

Octroi is one of the indirect taxes collected at the entry of the town. As in other States, the Local Self-Governments in Maharashtra State are imposing octroi duty according to the Maharashtra Municipalities (Octroi) Rules 1968, Schedule I, being the part of Maharashtra
Municipalities Act, 1965. In Maharashtra octroi is levied on the basis of ad-valorem and specific octroi methods. It has been an elastic source of revenue purely local in nature and has been growing with the growth in population and with the increase in trade and commerce. Also, as octroi is collected in cash, the Local Self Government gets continuous and adequate local finance. It is a very important source of revenue to local bodies in Maharashtra. Nearly 50% revenue of Municipal bodies is collected from octroi. The share of octroi is much higher in case of local municipal corporations. The percentage of octroi revenue to total revenue for Nasik, Pimpri-Chinchwad, Pune and Thane Municipal Corporations in 1986-87 were 88.23%, 74.13%, 64.54% and 60.53% respectively. Hence it continues to be the bedrock of urban civic finances. It is the life blood of the local bodies which serves as a financial cushion for them.

1.3 - DEMAND FOR OCTROI ABOLITION

Inspite of the strong position of octroi in revenue structure of local finance and its inherent
advantages, it is severely criticised and condemned both on official as well as academic levels. The system of octroi is criticised as being regressive, vexatious, wasteful and anachronistic tax having several demerits. And hence there has been a clamouring demand for the abolition of octroi, in the State of Maharashtra, because of the strong criticism on its method of assessment, levy and collection. In India, the levy of octroi has so far been abolished by 17 out of 25 States and by 4 out of 7 Union Territories. During 1920 to 1991 the Government of India and the State Governments have appointed about 30 Expert Committees, Commissions and Study Groups which conducted studies on the impact of octroi on the economy in general and trade, industry and transport in particular, felt that it was an obnoxious levy and hence strongly recommended for its abolition.

Octroi abolition became a knotty and burning problem in Maharashtra when the business and trading community and transporters organised "Octroi Hatao" agitation in 1986 and 1987. Ultimately the Government of Maharashtra took a policy decision to abolish octroi by
31st May, 1988 and appointed Kasbekar Committee on substitution of octroi, to find out the methodology for implementing the decision to do away with the octroi duty and to identify an alternative to octroi.

Octroi abolition became a severe problem in December, 1987, when the civic functionaries and their concerned employees from all over the State immediately organised "Octroi Bachao" agitation to register their protest against the proposed abolition of "Octroi" - the bread and butter of local bodies.

Meanwhile Kasbekar Committee submitted the report which was announced in January, 1988. The assumptions made by the Committee were not reasonable and realistic and hence the report was not welcomed in the various academic and non-academic circles. The recommendations of the Committee of Entry Tax in lieu of Octroi are facing opposition from local authorities, their organised employees and even, now and again, from trading and business community and hence the State Government backed away from their policy decision to abolish octroi.
The commitment given by the State Government remains pending.

The State Government has postponed the hasty action of abolition of octroi on the ground that a suitable proposal giving as much tax revenue as that given by octroi to the local bodies should be found out. The loss of revenue to the local bodies resulting from octroi abolition would only imply introduction of new taxes other than octroi for making up the loss of revenue. Thus the ultimate implication would be increasing incidence of taxes — whether it be octroi or other alternatives on the consumers.

1.4 — ALTERNATIVES TO OCTROI —

It is argued that after the abolition the State Government will give adequate compensation for the loss of revenue and would also give an yearly increase in the compensatory grant to the local bodies. However this has been a doubtful proposition. The fact remains that, for the local bodies octroi has been a direct, flexible and an elastic source of income having maximum growth
potential. Even the Kasbekar Committee which has recom-
mended the entry tax, has described octroi as the most
flexible and liquid source of revenue. Thus inspite of
the obnoxious effects of octroi on the local economy it
continues on the grounds that it is a State subject and
the local bodies require huge resources to provide the
best possible civic services and amenities.

Therefore under the present circumstances prevail-
ing in the country and even under the international eco-
nomic and political situation, abolition of octroi and
its replacement by entry tax will be a futile exercise
leading to severe problems not only in the field of tax
administration but also other problems like unemployment,
encroachment on the autonomy of the local body, ineffi-
cient administration of entry tax as experienced by the
State of Gujrat.

Thus, if any tax is to be accepted as a necessary
evil, octroi should not be objected by either traders,
businessmen and transporters and obviously if abolition
is objected to by civic functionaries for whom octroi is
an important source of revenue. So long as the trading and business community has been shifting the burden of any charge, tax, fee etc. on to the ultimate consumer, it is really immaterial for them whether they pay 'octroi' or any other substitute like 'turnover tax' or 'entry tax'. Basically they are not against payment of a tax but are protesting against losses, inconveniences and harassment which spoil their profit-oriented and survival-aimed business policies and strategies. Under the circumstances what can be logically done is reformation in the octroi administration rather than its abolition.