CHAPTER - IV

Tax Structure

Of

Jammu & Kashmir
This chapter focuses on the appraisal of various taxes being levied in the state of Jammu and Kashmir which are most significant in terms of their productivity and revenue responsiveness. The appraisal of the taxes under reference has been made in relation to various dimensions viz., historical background, legal provisions, fiscal significance, administration and the specific areas of concern. Towards the end of the chapter, a brief conceptual framework of VAT has been presented.

Jammu and Kashmir is one of the ten special category states of India which is blessed with the rich and the vast natural resources having large potential for economic growth and development. But despite its rich and potent natural resource base, the state has not been able to generate sufficient revenue from its own resources and has been facing serious financial problems. The problems became all the more serious due to the prevailing circumstances in the state affecting both the revenue and the expenditure. The state suffered heavily due to insurgency for a long period from 1989 onwards resulting in erosion of the tax base, increase in expenditure, destruction and devastation of infrastructure and various other factors related with law and order. The state’s income did not grow and it became very difficult to collect the user charges and the tax revenue also went into arrears (Institute of Social Sciences, 2002). Because of the shy industrial base (industry is contributing only 6% to state economy), power deficit (against peak demand of 9600 Mega-watt’s only 1650 Mega-watt’s
are available), short falls in tax and non-tax revenue and heavy burden on expenditure particularly due to the pressure of security related expenditure, the fiscal deficit has been increasing significantly.

The development process in the state has largely suffered due to inadequacy of resources and steep rise in the expenditure during the years of turmoil. The state’s inability to generate sufficient financial resources has resulted in its increased dependence on Central assistance, economic packages and borrowings. While the debt requirement (which accounted for Rs 2183.03 crores i.e. 15.41% of the total budget requirements in 2006-2007)* of the state has been growing very fast, the mounting debt servicing burden has been reducing the availability of resources for investment in development projects and other services.

The state government has always been looking out for new ways of augmenting its revenue. It has been striving hard to ensure a speedy economic development and help people to improve their living standards. It is with this intention that huge expenditures are incurred by the state on various public services and developmental projects. In this direction, the state government is in a constant search for handsome financial resources to execute these projects in time and hence for this purpose the state besides mobilising the resources internally through various tax and non-tax sources, has been seeking financial assistance from the union government from time to time.

No doubt every source of state revenue has undergone a substantial transformation with respect to its contribution during the recent years, however, tax revenue has registered a pre-dominant position within the internal finances in the state.

Table 4.1 below presents the year-wise statistics of revenue receipts for 7 years (2000-2001 to 2006-2007) of the state:

**TABLE 4.1**

**TRENDS IN REVENUE OF JAMMU AND KASHMIR**

(Rs. In Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>State's own Revenue</th>
<th>Non-Tax Revenue</th>
<th>Total</th>
<th>Grants-in-Aid Contribution</th>
<th>Total Revenue Receipts</th>
<th>% age of Tax Revenue to Total Revenue Receipts</th>
<th>% age of Non-Tax Revenue to Total Revenue Receipts</th>
<th>% age of Grants-in-Aid to Total Revenue Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>809.46</td>
<td>255.27</td>
<td>1064.73</td>
<td>4362.73</td>
<td>5427.46</td>
<td>14.91</td>
<td>4.70</td>
<td>80.39</td>
</tr>
<tr>
<td>2001-02</td>
<td>858.08</td>
<td>300.63</td>
<td>1158.71</td>
<td>5699.95</td>
<td>6858.66</td>
<td>12.50</td>
<td>4.39</td>
<td>83.11</td>
</tr>
<tr>
<td>2002-03</td>
<td>936.25</td>
<td>322.11</td>
<td>1258.36</td>
<td>5238.90</td>
<td>6497.26</td>
<td>14.40</td>
<td>4.97</td>
<td>80.63</td>
</tr>
<tr>
<td>2003-04</td>
<td>1152.75</td>
<td>354.42</td>
<td>1507.17</td>
<td>6999.62</td>
<td>8506.79</td>
<td>13.54</td>
<td>4.17</td>
<td>82.29</td>
</tr>
<tr>
<td>2004-05</td>
<td>1255.69</td>
<td>883.80</td>
<td>2139.49</td>
<td>6950.71</td>
<td>9090.20</td>
<td>13.81</td>
<td>9.72</td>
<td>76.47</td>
</tr>
<tr>
<td>2005-06</td>
<td>1689.35</td>
<td>727.44</td>
<td>2416.79</td>
<td>9123.45</td>
<td>11540.24</td>
<td>14.64</td>
<td>6.30</td>
<td>79.06</td>
</tr>
<tr>
<td>2006-07</td>
<td>1902.64</td>
<td>604.14</td>
<td>2506.78</td>
<td>9473.81</td>
<td>11980.59</td>
<td>15.88</td>
<td>5.04</td>
<td>79.08</td>
</tr>
</tbody>
</table>


The financial statistics displayed in table 4.1 followed by its diagrammatic and graphic presentation in the adjoining exhibits, reveals that the tax revenue occupies a significant place in the total income of the state. The share of taxes in the total revenue structure has been showing an increasing trend year after year in absolute amounts during the period under reference. The tax revenue has jumped from Rs 809.46 crores in 2000-2001 to Rs 1902.64 crores in 2006-2007 implying that the growth in tax revenue during the said period is more than 155%.
The non-tax revenue on the other hand has also increased from Rs 255.27 Crores in 2000-2001 to Rs 604.14 Crores in 2006-2007, thus recording a growth of over 48.5% during the period. The non-tax revenue has recorded a significant increase during 2004-2005 and 2005-2006 mainly due to some additional efforts of the state to collect the user charges. The improvement in tax revenue is exclusively due to the implementation of VAT. However, despite the increase in its own tax revenue, the state’s budgetary requirements continue to be supported by the public debt, borrowings and above all by the grants-in-aid contribution from the Central Government.
It is beyond any doubt that taxes as the source of revenue occupy a significant place in state’s financial structure. However, it may be emphasised here that within the tax structure itself, some sources of tax are more dominant while some are comparatively sharing a little amount, but the fact is that the tax revenue plays a vital role in the budgeting exercise of the state. Under the tax revenue, the prominent sources in terms of revenue collection after sales tax (here-in-after VAT), are Excise Duty, Toll Tax, Motor Spirit tax, Stamp Duty and Registration Fees, Entry Tax, Passenger Tax etc. The significance of these taxes in the state’s financial structure and their contribution to the state exchequer merits a brief analysis. It is against this backdrop that a modest attempt has been made in the present chapter to appraise the various dimensions of some state taxes which are significant in terms of revenue realisation. Exhibit 4.3 below shows some fiscally significant components of the tax structure of Jammu and Kashmir:

EXHIBIT 4.3

Tax Structure of Jammu and Kashmir

<table>
<thead>
<tr>
<th>Excise Duty</th>
<th>Toll Tax</th>
<th>Motor Spirit Tax</th>
<th>Stamps &amp; Reg. Fee</th>
<th>Entry Tax</th>
<th>Passenger Tax</th>
<th>Sales Tax</th>
<th>VAT</th>
</tr>
</thead>
</table>

Note: The exhibit gives a sketch of some major taxes levied, collected and retained by the state.

Table 4.2 presents a consolidated picture of contribution of some state taxes (shown in exhibit 4.3) to the total tax revenue for a period of 7 years i.e. 2000-01 to 2006-07.
## TABLE 4.2

### REVENUE FROM SOME FISCALLY SIGNIFICANT TAXES IN JAMMU & KASHMIR

(2000-01 to 2006-07)

<table>
<thead>
<tr>
<th>Year</th>
<th>Excise Duty</th>
<th>Toll Tax</th>
<th>Motor Spirit Tax</th>
<th>Stamp Duty &amp; Registration fee</th>
<th>Entry Tax</th>
<th>Passenger Tax</th>
<th>Sales Tax</th>
<th>VAT</th>
<th>Total Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>153.25</td>
<td>149.02</td>
<td>91.83</td>
<td>20.31</td>
<td>0.51</td>
<td>6.51</td>
<td>267.69</td>
<td>---</td>
<td>689.12</td>
</tr>
<tr>
<td></td>
<td>(22.24)</td>
<td>(21.62)</td>
<td>(13.33)</td>
<td>(2.95)</td>
<td>(0.07)</td>
<td>(0.94)</td>
<td>(38.85)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>164.67</td>
<td>169.93</td>
<td>104.83</td>
<td>23.39</td>
<td>7.09</td>
<td>6.67</td>
<td>323.90</td>
<td>---</td>
<td>800.48</td>
</tr>
<tr>
<td></td>
<td>(20.57)</td>
<td>(21.2)</td>
<td>(13.10)</td>
<td>(2.92)</td>
<td>(0.89)</td>
<td>(0.83)</td>
<td>(40.46)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>202.14</td>
<td>176.93</td>
<td>121.28</td>
<td>23.95</td>
<td>6.49</td>
<td>5.91</td>
<td>379.10</td>
<td>---</td>
<td>915.80</td>
</tr>
<tr>
<td></td>
<td>(19.40)</td>
<td>(19.32)</td>
<td>(13.24)</td>
<td>(2.82)</td>
<td>(0.71)</td>
<td>(0.65)</td>
<td>(41.39)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>204.83</td>
<td>192.96</td>
<td>138.82</td>
<td>30.82</td>
<td>19.03</td>
<td>7.37</td>
<td>462.15</td>
<td>---</td>
<td>1055.78</td>
</tr>
<tr>
<td></td>
<td>(19.40)</td>
<td>(18.28)</td>
<td>(13.15)</td>
<td>(2.90)</td>
<td>(1.80)</td>
<td>(0.70)</td>
<td>(43.77)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>197.72</td>
<td>217.07</td>
<td>180.24</td>
<td>35.96</td>
<td>55.28</td>
<td>7.66</td>
<td>609.04</td>
<td>---</td>
<td>1302.97</td>
</tr>
<tr>
<td></td>
<td>(15.17)</td>
<td>(16.66)</td>
<td>(13.83)</td>
<td>(2.76)</td>
<td>(4.24)</td>
<td>(0.59)</td>
<td>(46.75)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>207.62</td>
<td>237.38</td>
<td>218.41</td>
<td>41.74</td>
<td>53.60</td>
<td>7.46</td>
<td>306.82</td>
<td>434.17</td>
<td>1507.20</td>
</tr>
<tr>
<td></td>
<td>(13.77)</td>
<td>(15.75)</td>
<td>(14.49)</td>
<td>(2.77)</td>
<td>(3.56)</td>
<td>(0.49)</td>
<td>(20.36)</td>
<td>(28.81)</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>212.10</td>
<td>254.32</td>
<td>249.19</td>
<td>50.37</td>
<td>50.10</td>
<td>7.61</td>
<td>254.32</td>
<td>633.79</td>
<td>1711.80</td>
</tr>
<tr>
<td></td>
<td>(12.39)</td>
<td>(14.86)</td>
<td>(14.56)</td>
<td>(2.94)</td>
<td>(2.93)</td>
<td>(0.44)</td>
<td>(14.86)</td>
<td>(37.02)</td>
<td></td>
</tr>
</tbody>
</table>

(Figures within the parentheses represent the % age of individual taxes to total tax)

**Source:**

**Note:** The total tax revenue of the state in addition to the above taxes includes some minor taxes also which do not figure in the table.
From the table and the subjoined exhibits, it is clear that the contribution of almost all the taxes to total tax revenue is increasing progressively in absolute figures. However, the percentage share of the individual taxes to the total tax revenue is not only fluctuating but is also low when compared to other states in the country.

EXHIBIT 4.4
TRENDS IN GROWTH OF REVENUE FROM VARIOUS STATE TAXES

EXHIBIT 4.5
TRENDS IN REVENUE FROM VARIOUS STATE TAXES
EXCISE DUTY

By excise is ordinarily meant a duty levied on the commodities produced within the country at the manufacturing stage of their life cycle. It also includes the revenue derived from a licensee to conduct certain trades such as those of tobacco, breweries and distilleries. In India, the excise duties have been divided into two groups, one called as Central Excise Duty levied by the Government of India and the other called as State Excise Duty. According to the Constitution of India, State Excise Duty is levied on alcoholic liquors and narcotics. The state governments levy excise duty on country liquor and Indian Made Foreign Liquor (IMFL). Apart from minimising the use of socially undesirable commodities like intoxicants and harmful shrubs, the state governments levy excise duties with the objectives of increasing revenue (Lekhi, 2005) and regularising/controlling the trade in liquor and narcotic drugs.

In Jammu and Kashmir, the levy is imposed under the Jammu and Kashmir Excise Act, Samvat, 1958. The state imposes excise duty on all types of liquors such as Country Liquor, Indian Made Foreign Liquor (IMFL), Foreign Liquor, Beer and narcotic drugs. After sales tax (now VAT), excise duty is the second highest source of revenue of the state (Godbole Committee, 1998). The state government has been making untiring efforts to mobilise more revenue from this source. Table 4.3 exhibits the contribution of excise duty to the state exchequer for 7 years (2000-01 to 2006-07).
### TABLE 4.3
TRENDS IN REVENUE FROM STATE EXCISE DUTY

(Rs. In Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Receipts</th>
<th>Total Tax Receipts</th>
<th>State Excise Duty</th>
<th>% age of State Excise Duty to Total Revenue Receipts</th>
<th>% age of State Excise Duty to Total Tax Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2001</td>
<td>5427.46</td>
<td>809.46</td>
<td>153.25</td>
<td>2.82</td>
<td>18.93</td>
</tr>
<tr>
<td>2001-2002</td>
<td>6858.66</td>
<td>858.08</td>
<td>164.67</td>
<td>2.40</td>
<td>19.20</td>
</tr>
<tr>
<td>2003-2004</td>
<td>8506.79</td>
<td>1152.75</td>
<td>204.83</td>
<td>2.41</td>
<td>17.78</td>
</tr>
<tr>
<td>2004-2005</td>
<td>9090.20</td>
<td>1255.69</td>
<td>197.72</td>
<td>2.18</td>
<td>15.75</td>
</tr>
<tr>
<td>2005-2006</td>
<td>11540.24</td>
<td>1689.35</td>
<td>207.62</td>
<td>1.80</td>
<td>12.29</td>
</tr>
<tr>
<td>2006-2007</td>
<td>11980.59</td>
<td>1902.64</td>
<td>212.10</td>
<td>1.77</td>
<td>11.15</td>
</tr>
</tbody>
</table>

Sources:

Table 4.3 and the subjoined exhibits show that the contribution of excise duty to the total revenue of the state has been showing a rising trend in absolute figures. However, in terms of its percentage share both in total revenue receipts and total tax receipts, there is a constant decline particularly from 2003-2004 onwards. The contribution of Kashmir division towards excise revenue particularly during the period of turmoil due to the blanket ban imposed by various militant and religious organisations, has remained unsubstantial. Whatever little Kashmir division has been able to offer to the state exchequer on account of excise revenue, has come mainly from the liquor consumption by Army/Paramilitary forces including project Beacon, etc. During the period of turmoil, the state excise depended mainly on the excise duties imposed on the import of liquor by Canteen Stores Department (CSD) and paramilitary forces. It was only after 1998-99 that the civilian excise started gaining its glory back. Though the growth rate in civilian excise is showing an upward trend, however, it is below the level when compared to its volume in 1988. Whatever revenue the state government generates from this tax, mainly comes from Jammu division especially from the civilian population of districts of Jammu, Kathua and Udampur.
EXHIBIT 4.6
TRENDS IN REVENUE FROM STATE EXCISE DUTY

EXHIBIT 4.7
PERCENTAGE OF STATE EXCISE DUTY TO TOTAL REVENUE AND TOTAL TAX RECEIPTS

The State Excise Department is headed by the Commissioner Excise with the headquarters located at Jammu. From the Organisation structure point of view, the state is divided into two divisions namely Kashmir division and Jammu division. The Jammu wing of the department comprises four Deputy Commissioners viz., Deputy Commissioner (Executive), Deputy Commissioner (Distilleries), Deputy Commissioner (Accounts) and Deputy Commissioner (Toll Post) Lakhanpore with their subordinate staff. In Kashmir division only one Deputy Commissioner viz., Deputy Commissioner (Executive) is Stationed. Commissioner’s Camp Office moves with Annual Darbar to Kashmir for 6 months of summer. Exhibit 4.8 below shows the organisation structure of Department of Excise.
EXHIBIT 4.8
ORGANISATION STRUCTURE OF JAMMU & KASHMIR
STATE EXCISE DEPARTMENT

Commissioner of Excise

Jammu Division

Kashmir Division

Dy. Excise Commissioner
(Executive)

Excise & Taxation Officer
(TP) Lakhanpur

Excise & Taxation Officer
(Distilleries)

Excise & Taxation Officers

(City North), (City South)
(Jammu-Kathua Range)
(Rajon-Poonch Range)
(Entertainment Wing)
(Railway Station Jammu)
(Eradicating Wing)

Excise & Taxation Officer
(Entertainment Wing)

Excise & Taxation Officer
(Lowermunda)

Excise & Taxation Officer
(Leh)

Excise & Taxation Officer
(Lakhanpur)

* Toll Post
Under the Act, Commissioner is the only authority to grant licences to the dealers of liquor in the state and to keep a constant vigil on them. Country liquor which previously used to be auctioned on annual basis, has been replaced by a new brand namely JK Desi Whisky which is being sold by the authorised outlets as one of the several brands. The dealers can procure liquors from the distilleries in or outside the state on obtaining necessary licence from the Deputy Excise Commissioner of the area in which the licencee’s premises is situated. The licence is issued after the recovery of licence fee in advance. Table 4.4 below shows the classification of licences and the details of necessary fee each licencee is required to pay under SRO 95 issued on March 23rd, 2007 by the Taxation Section of State Finance Department.

Table 4.4

<table>
<thead>
<tr>
<th>Licence</th>
<th>Classification</th>
<th>Fee (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JKEL-1A</td>
<td>Trade (wholesale)</td>
<td>2.00 lacs P.A</td>
</tr>
<tr>
<td>JKEK1</td>
<td>Trade (wholesale)</td>
<td>1.50 lacs P.A</td>
</tr>
<tr>
<td>W2</td>
<td>CSD Bond</td>
<td>1.50 lacs P.A</td>
</tr>
<tr>
<td>JKEK-2</td>
<td>Retailer (Off)</td>
<td>1.50 Lacs P.A</td>
</tr>
<tr>
<td>JKEK-3</td>
<td>Bar with Hotel</td>
<td>1.00 Lacs P.A</td>
</tr>
<tr>
<td>JKEK-4</td>
<td>Bar with Restaurant, Cinema, Theatre or Dak Banglow</td>
<td>1.00 Lac P.A</td>
</tr>
<tr>
<td>JKEK-4A</td>
<td>Bar with Hotel and Bar with Restaurant at Leh</td>
<td>0.50 Lac P.A</td>
</tr>
<tr>
<td>JKEK-4B</td>
<td>Seasonal Bar in Leh and Kargil</td>
<td>0.10 Lac P.A</td>
</tr>
<tr>
<td>JKEK-4C</td>
<td>Bar with Banquet Hall</td>
<td>0.50 Lac P.A</td>
</tr>
<tr>
<td>JKEK-6</td>
<td>Bottling Plant</td>
<td>1.50 Lacs P.A</td>
</tr>
<tr>
<td>JKEK-7</td>
<td>Club</td>
<td>0.50 Lacs P.A</td>
</tr>
<tr>
<td>JKEK-13</td>
<td>Possession &amp; Use of Extra Neutral Alcohol</td>
<td>1.00 Lac P.A for commercial purposes &amp; Rs. 0.10 lac P.A for non-commercial purposes</td>
</tr>
<tr>
<td>D-2</td>
<td>Distillery</td>
<td>1.50 Lacs P.A</td>
</tr>
<tr>
<td>B-1</td>
<td>Brewery</td>
<td>1.50 Lacs P.A</td>
</tr>
</tbody>
</table>

The licences are issued after thorough investigation and no objection certificates are called from law and order authorities i.e., Superintendent of Police (SP) and District Development Commissioner (DDC) of the concerned district. In addition to licence fee, excise duty, import duty, duty on bottling and assessment fee on sale of liquor, chargeable under the provisions of the Excise Act in respect of the civilian and Army/Paramilitary force use, are levied at the rates shown against each in the following tables:

**TABLE 4.5**

**RATES OF EXCISE DUTY ON LIQUOR**

<table>
<thead>
<tr>
<th>Kind</th>
<th>Band</th>
<th>Rate (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL (per LPL) Deluxe</td>
<td>180.00</td>
<td></td>
</tr>
<tr>
<td>IMFL (per LPL) Premium</td>
<td>150.00</td>
<td></td>
</tr>
<tr>
<td>IMFL (per LPL) Medium</td>
<td>130.00</td>
<td></td>
</tr>
<tr>
<td>IMFL (per LPL) Economy/Cheap</td>
<td>120.00</td>
<td></td>
</tr>
<tr>
<td>Beer (650ml bottle) All brands</td>
<td>7.00</td>
<td></td>
</tr>
<tr>
<td>IMFL (per LPL) JK Desi Whisky</td>
<td>145.00</td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 4.6**

**CONSUMPTION BY ARMY/PARA-MILITARY FORCES & PROJECT BEACON**

<table>
<thead>
<tr>
<th>Kind</th>
<th>Brand</th>
<th>Rates (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL (per LPL) Deluxe</td>
<td>120.00</td>
<td></td>
</tr>
<tr>
<td>IMFL (per LPL) Premium</td>
<td>120.00</td>
<td></td>
</tr>
<tr>
<td>IMFL (per LPL) Others</td>
<td>70.00</td>
<td></td>
</tr>
<tr>
<td>IMFL (per LPL) Rum</td>
<td>40.00</td>
<td></td>
</tr>
<tr>
<td>Beer (650ml bottle) All brands</td>
<td>7.00</td>
<td></td>
</tr>
</tbody>
</table>

*Note: These rates are applicable on both imported as well as locally manufactured liquors including those manufactured under an arrangement of Franchise.*

**TABLE 4.7**

**EXTRA NEUTRAL ALCOHOL**

For use other than in manufacture of medicinal and toilet preparations, liquor and for use in Government Hospitals. Rs. 5.40 per LPL


*London Proof Litre*
## TABLE 4.8
**RATES OF IMPORT DUTY ON LIQUOR**

<table>
<thead>
<tr>
<th>Kind</th>
<th>Brand</th>
<th>Rate (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL/ Foreign Liquors</td>
<td>All brands</td>
<td>20.00 per LPL</td>
</tr>
<tr>
<td>Beer</td>
<td>All brands</td>
<td>10.00 per bottle of 650ml</td>
</tr>
</tbody>
</table>


## TABLE 4.9
**CONSUMPTION BY ARMY/ PARA-MILITARY FORCES & PROJECT BEACON**

<table>
<thead>
<tr>
<th>Kind</th>
<th>Brand</th>
<th>Rate (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL/ Foreign Liquors</td>
<td>All brands</td>
<td>10.00 per LPL</td>
</tr>
<tr>
<td>Beer</td>
<td>All brands</td>
<td>5.00 per bottle of 650ml</td>
</tr>
</tbody>
</table>


## TABLE 4.10
**DUTY ON BOTTLING OF IMFL UNDER ARRANGEMENT OF FRANCHISE**

<table>
<thead>
<tr>
<th>Kind</th>
<th>Brand</th>
<th>Rate (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL/ Foreign Liquors</td>
<td>All brands</td>
<td>10.00 per LPL</td>
</tr>
<tr>
<td>Beer</td>
<td>All brands</td>
<td>5.00 per bottle of 650ml</td>
</tr>
</tbody>
</table>


## TABLE 4.11
**CONSUMPTION BY ARMY/ PARA-MILITARY FORCES & PROJECT BEACON**

<table>
<thead>
<tr>
<th>Kind</th>
<th>Brand</th>
<th>Rate (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL/ Foreign Liquors</td>
<td>All brands</td>
<td>10.00 per LPL</td>
</tr>
<tr>
<td>Beer</td>
<td>All brands</td>
<td>5.00 per bottle of 650ml</td>
</tr>
</tbody>
</table>

TABLE 4.12
STRUCTURE OF ASSESSMENT FEES
ASSESSMENT FEE ON SALE OF IMFL BY THE LICENCEES HAVING LICENCE IN JKEL-2, JKEL-3, JKEL-4, JKEL-4A, JKEL-4B, JKEL-4C AND JKEL-7

<table>
<thead>
<tr>
<th>Kind</th>
<th>Brand</th>
<th>Rate (Rs/Re)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL</td>
<td>All brands</td>
<td>4.00 per bottle of 750ml</td>
</tr>
<tr>
<td>Foreign liquors</td>
<td>All types</td>
<td>18.00 per bottle of 750 ml</td>
</tr>
<tr>
<td>Imported Beer</td>
<td>All types</td>
<td>1.00 per bottle of 650ml</td>
</tr>
<tr>
<td>Beer</td>
<td>All brands</td>
<td>1.00 per bottle of 650ml</td>
</tr>
</tbody>
</table>


These rates are the highest in the country. In addition to these rates, sales tax @ 20% plus 5% surcharge on tax is also charged on the IMFL consumed by the civilian population. As a result, the incidence of tax is the lowest on the cheapest brands of IMFL and it goes on increasing progressively on the superior and expensive brands. Since sales tax is imposed on IMFL, it gives buoyancy to the revenue from IMFL.

Although the liquor is now manufactured in a sufficient quantity in Jammu division, yet heavy quantities are imported from other states. At present there are around 52 wholesale trade vends [IMFL JKEL-1, (34) + JKEL-1A, (18)], 7 Distilleries (D-2) and 9 Bottling Plants (JKEL-6) in the state. The number of retail IMFL outlets in the state is 164, out of which 157 are operating in Jammu division and only 7 (including 3 in Leh) are operational in Kashmir division. In addition, there are around 90 country liquor (now branded as JK Desi Whisky) vends allotted on lottery system out of which only 65 vends are temporarily functioning at Jammu at present under some court orders.
Despite the fact that after VAT, Excise duty in the state contributes handsomely to the state exchequer, but when compared to other Indian states on revenue front, the performance of this tax is marginally dismal. The main reasons seem to be:

- **Lower consumption of liquor due to prohibition under Islam and other religions.** The civilian consumption of liquor is negligible in Kashmir as the majority of population comprises Muslims.

- **Ban imposed by various militant organisations since the onset of militancy in the valley and some Muslim populated areas of Jammu division.**

- **The number of vends for IMFL or JK Desi Whisky per lac of population is much less as compared to Maharashtra, Punjab and Haryana (Godbole Committee, 1998).**

- **The concession given on sales through CSD in the form of lower rates of excise duty not only leads to loss of revenue, but also paves the way for diversion of alcohol from CSD quota to civilian population.**

- **A huge amount of revenue is locked up due to stay orders granted by the Civil Courts and the High Courts.**

- **The illicit sale of liquor is at an alarming height which not only contributes to the loss of revenue but also is an important health hazard.**

- **The illicit sale takes place due to the poor vigil. Poor vigil is mainly due to the understaffing of the concerned administrative department.**

- **The existing staff lacks the proper training and necessary equipments to restrict the illegal activities connected with liquor business.**

It is pertinent to mention here that the revenue position of excise duty can be improved without raising the rates if the administrative machinery is geared up and the information system is strengthened (Rao et al., 2005).
TOLL TAX

Toll Tax is a levy imposed by the government on vehicles of various types, goods and animals (for trade only) for the use of roads, bridges, highways and super highways.

In Jammu and Kashmir the tax is levied under the Jammu & Kashmir Levy of Tolls Act, Samvat, 1995. Among the various taxes levied by the State Government, toll tax is a very important source of revenue to the State. In terms of revenue collection, toll tax is next to Excise duty. The revenue contribution of this tax during some past years indicates that the tax has superseded the excise duty in the state. Jammu & Kashmir is one amongst many states in India, where toll tax is levied on a significant scale. Currently there are two types of tolls, Basic toll and Additional Toll being levied in the state.

Basic Toll

It is levied on all vehicles moving across toll posts established by the government at different places within the State. The levy depends on the type of vehicle and the type of toll post. The rate structure is as under:

Rates of Basic toll tax for the import of goods

a) At Lakhanpore and other allied toll posts, the rate of tax ranges between Rs 20/- and Rs 900/- depending on the type of vehicle and the number of Axels and Tyers fitted therein;

b) At Railway Station Jammu & other minor toll posts, between Rs 30/- and Rs 600/- for the light and heavy vehicles respectively;

c) At Lowermunda toll post, between Rs 70/- and Rs 530/- for the light and heavy vehicles respectively; and

d) At Upshi, between Rs 70/- and Rs 350/- for the heavy and light vehicles respectively.
Rates of basic toll tax for the export of goods

a) At Lowermunda, between Rs 70/- (for light vehicles) and Rs 900/- (for heavy vehicles);

b) At Railway Station Jammu & other minor toll posts, between Rs 30/- and Rs 130/- for the light and heavy vehicles respectively;

c) At Lakhanpore and other allied toll posts, between Rs 20/- (for light vehicles) and Rs 450/- (for heavy vehicles); and

d) At Upshi, between Rs 70/- (for light vehicles) and Rs 350/- (for heavy vehicles).

Additional Toll

The levy of additional toll began in the state w.e.f. March 31, 1987. It is levied on goods and animals moving across the Lakhanpore toll post, Railway station (Jammu), Upshi (Leh) and Railway station (Udampur). Additional toll is levied on the basis of weight in case of goods and according to number in case of animals. The current rate structure of Additional toll in the state is shown in table 4.13.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Goods/ Animals</th>
<th>Rates (Rs./Re.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Goods excluding edible oil, cigarettes, tobacco, textiles, poultry and bread at all the major and allied minor toll posts</td>
<td>40/- per quintal</td>
</tr>
<tr>
<td>2</td>
<td>Edible oil fit for human consumption</td>
<td>140/- per quintal at all toll posts.</td>
</tr>
<tr>
<td>3</td>
<td>Cigarettes</td>
<td>3500/- per quintal</td>
</tr>
<tr>
<td>4</td>
<td>Tobacco and Textiles</td>
<td>150/- per quintal</td>
</tr>
<tr>
<td>5</td>
<td>Sheep/Goat/Cow/Buffalo (for trade only)</td>
<td>25/- per cattle head</td>
</tr>
<tr>
<td>6</td>
<td>Chicken</td>
<td>2/- per bird.</td>
</tr>
<tr>
<td>7</td>
<td>Day old chicks</td>
<td>1/- per bird.</td>
</tr>
<tr>
<td>8</td>
<td>Bread</td>
<td>1/- per loaf.</td>
</tr>
</tbody>
</table>

Broadly, there are 4 toll posts in the State where toll is levied on vehicles, goods and animals. These are:

- *Lakhanpore (The gateway of Jammu & Kashmir);*
- *Railway Station (Jammu), Railway Station toll post (Hiranagar), Railway Station (Udampur);*
- *Lowermunda (Kashmir); and*
- *Upshi (Leh).*

Besides these major toll posts, there are a number of minor toll posts attached to Lakhanpore toll post and the Railway Station toll posts in Jammu, Hiranagar and Udampur.

The levy of toll tax is monitored by the State Excise Department. Under the Act, the government is empowered to fix the rates at which the tax is to be charged at these toll posts. The incharge toll officers at different toll posts are empowered to collect the toll tax revenue, check evasion and impose penalties on the defaulters.

These incharge toll officers are empowered to seize the goods or the vehicles and to make good the toll tax by selling the goods through auction by the Range Inspector of the concerned toll area against the order to be obtained from the civil court in case the defaulter in question fails to remit the toll amount due or the imposed penalty known as “Penal Toll” (which is five times of the toll amount due) within the stipulated time.

**CONTRIBUTION OF TOLL TAX TO REVENUE**

The state receives a sizable amount of revenue from this source of tax. The contribution of toll tax to the state exchequer and its share in the state’s tax revenue is exhibited in table 4.14.
### TABLE 4.14
TRENDS IN TOLL TAX REVENUE

(Rs in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Receipts</th>
<th>Total Tax Receipts</th>
<th>Toll Tax</th>
<th>%age of Toll Tax to Total Revenue Receipts</th>
<th>%age of Toll Tax to Total Tax Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>5427.46</td>
<td>809.46</td>
<td>149.02</td>
<td>2.75</td>
<td>18.41</td>
</tr>
<tr>
<td>2001-02</td>
<td>6858.66</td>
<td>858.08</td>
<td>169.93</td>
<td>2.47</td>
<td>19.74</td>
</tr>
<tr>
<td>2002-03</td>
<td>6497.26</td>
<td>936.25</td>
<td>176.93</td>
<td>2.72</td>
<td>18.91</td>
</tr>
<tr>
<td>2003-04</td>
<td>8506.79</td>
<td>1152.75</td>
<td>192.96</td>
<td>2.27</td>
<td>16.75</td>
</tr>
<tr>
<td>2004-05</td>
<td>9090.20</td>
<td>1255.69</td>
<td>217.07</td>
<td>2.39</td>
<td>17.29</td>
</tr>
<tr>
<td>2005-06</td>
<td>11540.24</td>
<td>1689.35</td>
<td>237.38</td>
<td>2.06</td>
<td>14.05</td>
</tr>
<tr>
<td>2006-07</td>
<td>11980.59</td>
<td>1902.64</td>
<td>254.32</td>
<td>2.16</td>
<td>13.37</td>
</tr>
</tbody>
</table>


### EXHIBIT 4.9
TRENDS IN TOLL TAX REVENUE

![Graph showing trends in toll tax revenue](image)

### EXHIBIT 4.10
PERCENTAGE OF TOLL TAX TO TOTAL REVENUE & TOTAL TAX RECEIPTS

![Graph showing percentage of toll tax](image)
From the table 4.14 and the sub-joined exhibits, it can be seen that the revenue from toll tax has been progressively rising in absolute amounts but the %age share of toll tax both in total revenue receipts and the total tax receipts is not in tandem with the rate of growth in absolute figures. This state of affairs can be attributed to the plethora of exemptions & evasion of tax through unethical practices.

The major issues of concern about toll tax are the too many exemptions granted under this tax, e.g. the exemption of additional toll on raw-materials imported by the industrial units, the exemption of additional toll on finished goods of these units, the exemptions granted on LPG cylinders, vehicles carrying such cylinders, gas for medicinal use, iodized salt and food grains and the exemption on goods used by the army. These exemptions cause a great loss of revenue to the state.

The mechanism of checks and counter-checks to avoid evasion of toll tax is almost absent. Further, it is often alleged by the truck owners and the members of Federation of Chamber of Commerce and Industries that the vehicles are unnecessarily detained and their owners harassed at the toll posts. It is also alleged that at the toll posts, the corruption is rampant. However, under the garb of exemptions enjoyed by the industrialists of the state, the toll officers are bound to physically check the vehicles for their contents (especially the taxable items) to avoid the occurrence of pilferage & loss of revenue.

The new Toll Plaza being constructed for parking of loaded vehicles on scientific lines at the Lakhanpore Toll Post which was expected to be commissioned in 1998-99, is yet to be completed. Further, the long and uninterrupted stay of the staff at the toll posts is considered to be the major cause of uncontrolled corruption at these toll posts.
MOTOR SPIRIT AND DIESEL OIL TAX

Motor spirit tax is another principal revenue producing tax in the state. It is levied on the sale of motor spirit and diesel oil. It is levied at 12% on advalorem basis. In every state, this tax is levied under the erstwhile Sales Tax Acts, (now replaced by VAT). Jammu & Kashmir is the only state where for administrative ease this tax has been separated from the Sales Tax Act and is levied under a separate enactment called as the Jammu and Kashmir Motor Spirit and Diesel Oil (Taxation of sales) Act, Samvat, 2005 Corresponding to 1948 A.D. The tax is charged on the first sale after the import of motor spirit and diesel oil in the state. It is levied on the retail sale of motor spirit and diesel oil. Under the Act, Sale means a transfer of motor spirit and diesel oil for cash or deferred payment or any other valuable consideration and includes its consumption by the dealer for his own use. Dealer means any person including a department of government which on commission basis or otherwise, sells any motor spirit or diesel oil to a consumer or to any other person or keeps stock of motor spirit or diesel oil for sale to a consumer or to any other person.

Commissioner Commercial Taxes superintendents the administration and the collection of the tax. He is empowered to issue the instructions for the effective administration of the tax as and when he considers necessary. He is also empowered to extend the time limit for the payment of tax. The levy and collection of this tax in the state is looked after by the Department of Commercial Taxes through a separate wing which works under the charge of a Commercial Tax Officer (CTO) who is nominated by the Commissioner and designated as Petrol Taxation Officer (PTO). Registration of dealers of motor spirit and diesel oil is done in the designated offices located at Jammu. Only a person in possession of a valid licence granted by the Petrol Taxation Officer on payment of prescribed fee, can conduct the business in motor spirit and diesel oil. The licence is to be renewed annually. The power
of suspension, cancellation and the restoration of suspended licences also lies with the Petrol Taxation Officer.

If a dealer: (i) Fails to comply with the rules, or (ii) Fails to pay the tax due within the time allowed, or (iii) Fails to furnish the returns within the time allowed, or (iv) Furnishes inaccurate particulars in the return, or (v) Prevents or obstructs inspection, search or seizure by an authorized officer, the Petrol Taxation Officer is empowered to (i) collect the amount of tax payable; and (ii) impose the penalties. Interest is also charged on any delayed payment of tax and penalty. Unauthorised sale of motor spirit or diesel oil is punishable with fine which may extend to Rs 1000 or to a sum double the amount of tax due in respect of sale which ever is greater. The Petrol Taxation Officer has also the power to refund to a dealer the amount of tax or penalty paid in excess of the amount due from him.

In terms of revenue realization, motor spirit tax is one of the major contributors to the state exchequer. Table 4.15 and the associated exhibits show the trends in motor spirit and diesel oil tax revenue in the state during seven years (2000-2001 to 2006-2007).

**TABLE 4.15**

**TRENDS IN MOTOR SPIRIT AND DIESEL OIL TAX REVENUE**

(Rs in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Receipts</th>
<th>Total Tax Receipts</th>
<th>Motor Spirit Tax</th>
<th>% of Motor Spirit Tax to Total Revenue Receipts</th>
<th>% of Motor Spirit Tax to Total Tax Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>5427.46</td>
<td>809.46</td>
<td>91.83</td>
<td>1.69</td>
<td>11.34</td>
</tr>
<tr>
<td>2001-02</td>
<td>6858.66</td>
<td>858.08</td>
<td>104.83</td>
<td>1.53</td>
<td>12.22</td>
</tr>
<tr>
<td>2002-03</td>
<td>6497.26</td>
<td>936.25</td>
<td>121.28</td>
<td>1.87</td>
<td>12.95</td>
</tr>
<tr>
<td>2003-04</td>
<td>8506.79</td>
<td>1152.75</td>
<td>138.82</td>
<td>1.63</td>
<td>12.04</td>
</tr>
<tr>
<td>2004-05</td>
<td>9090.20</td>
<td>1255.69</td>
<td>180.24</td>
<td>1.96</td>
<td>14.35</td>
</tr>
<tr>
<td>2005-06</td>
<td>11540.24</td>
<td>1691.35</td>
<td>218.41</td>
<td>1.89</td>
<td>12.93</td>
</tr>
<tr>
<td>2006-07</td>
<td>11980.59</td>
<td>1902.64</td>
<td>249.19</td>
<td>2.08</td>
<td>14.00</td>
</tr>
</tbody>
</table>

*Source: Compiled from the official records of Department Of Commercial Taxation, Government of Jammu & Kashmir.*
After excise and toll taxes, motor spirit and diesel oil tax has emerged as a most potent source of revenue for the state. In absolute figures as revealed by the table, motor spirit and diesel oil tax has registered a phenomenal growth during the period under reference. A minute observation about this tax as testified by the statistics presented in the table 4.15 is that virtually this tax has assumed a pre-dominant position in the overall tax map of the state superseding the revenue giants like excise duty and toll tax.

The revenue under this tax during this period has increased almost 3 times from Rs 91.83 crores in 2000-2001 to Rs 249.19 crores in 2006-2007. The increase in the revenue from this tax can be attributed to:

a) Periodical hike in prices of Petrol and Diesel Oil made by the concerned Union Ministry; and
b) Unprecedented increase in the consumption of petrol and diesel Oil due to the increase in vehicular traffic in the state.

Despite the constant increase in the revenue from this tax in absolute amounts, the percentage growth of this tax to the total tax revenue is not so impressive because there are fluctuations in the percentage of this tax from year to year.

TAX ON STAMPS AND REGISTRATION

Tax on stamps and Registration falls within the purview of tax on properties and capital transactions levied and collected by the State Government.

Tax on stamps in fact is not any tax, but it is a device to collect any tax. Stamp duties are classified as Judicial and Non-Judicial stamps. Judicial stamps consist of Court fees levied under the Court Fees Act, 1870. It is the fee payable by persons who have some business in law courts and public offices. It also includes the fee on succession certificates issued under the Succession Act.

Non-Judicial stamps on the other hand, consist of the revenue from all other stamps used or affixed on the instruments relating to transfer of property or other commercial transactions. The rates are governed by the Indian Stamps Act, 1898 and the State Stamp Act, 1977 amended from time to time. The rates of duty vary from state to state. Table 4.16 shows the rates of tax presently applicable in the state of Jammu and Kashmir.

TABLE 4.16
RATES OF TAX ON STAMPS

<table>
<thead>
<tr>
<th>S. No</th>
<th>Location of Property</th>
<th>Rates (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>For the sale of immovable property located in cities</td>
<td>21,600 per lac</td>
</tr>
<tr>
<td>2</td>
<td>For the sale of immovable property located in towns</td>
<td>14,400 per lac</td>
</tr>
<tr>
<td>3</td>
<td>For the sale of immovable property located in villages</td>
<td>7,200 per lac</td>
</tr>
</tbody>
</table>

The instruments or documents requiring stamp duties include sale deeds, bonds, affidavit, writs, suits, lease and mortgage deeds, partition, adoption, divorce, marriage, gift deeds, etc. The duty is paid for creating the documentary evidence admissible in the court of law. The administration of this tax falls within the Jurisdiction of Commissioner Commercial Taxes. Deputy Commissioner (Stamps and Registration) is the officer incharge for the levy and collection of this tax. Like other states, the state of Jammu and Kashmir, suffers a heavy loss of revenue by way of evasion of stamp duty mainly by:

- Under-valuing the transactions;
- By showing a type of instrument other than the proper one carrying lower duty;
- By bank transfers, electronic transfers etc;
- Non-affixation of stamps on documents;
- Defective administration and faulty regulation of the tax;
- Amalgamation/clubbing of various documents/instruments with an intention to reduce the tax liability; and
- Under-staffing of the department.

Registration fees is charged under two heads, viz.,

- Under Stamp Duty; and
- Under Registration.

Under the law registration of certain documents e.g. sale deeds is compulsory. In Jammu and Kashmir registration fees on sale deeds charged under the stamp duty is 21.6% and under the registration fee Rs 36 for 1st Rs 1000 and Rs 12 for every successive 1000 rupee.

Section 30 of stamps Act deals with the fixation of rates. The rates after a long interval were revised on April 3, 2000. For a transaction
involving an amount exceeding Rs 20/- the rate was increased from the previous 0.50 paisa to Rupee 1. This rate was applicable till 31st March, 2006. With effect from April, 1st, 2006, the rates were revised and fixed as Rs. 2/= for every transaction involving an amount exceeding Rs 40/=.

A number of transactions escape from stamp duties particularly those affected by service providers such as BSNL, Airtel, Aircel (landline and mobile telephone service providers), Nursing Homes, Diagnostic Centres etc. It has been observed that due to the lack of regular inspections, a lot of revenue leakage takes place in law courts, Tehsil Offices and treasuries which are the nerve centres for the collection of stamp duties and registration fees.

Moreover, even if the penalties ranging from Rs 1000-5000 for refusal, non-observance of rules and non-payment of tax (varying with the nature and type of offence) are prescribed under the Act, but still the performance of this tax on the revenue front is very poor.

The share of taxes on stamps and registration in the total tax revenue of Jammu and Kashmir is exhibited in table 4.17 below.

**TABLE 4.17**

**TRENDS IN REVENUE FROM STAMP DUTY AND REGISTRATION FEES**  
(Rs in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Receipts</th>
<th>Total Tax Receipts</th>
<th>Stamp Duty &amp; Reg. Fees</th>
<th>%age to Total Revenue Receipts</th>
<th>%age to Total Tax Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>5427.46</td>
<td>809.46</td>
<td>20.31</td>
<td>0.37</td>
<td>2.51</td>
</tr>
<tr>
<td>2001-02</td>
<td>6858.66</td>
<td>858.08</td>
<td>23.39</td>
<td>0.34</td>
<td>2.73</td>
</tr>
<tr>
<td>2002-03</td>
<td>6497.26</td>
<td>936.25</td>
<td>23.95</td>
<td>0.37</td>
<td>2.56</td>
</tr>
<tr>
<td>2003-04</td>
<td>8506.79</td>
<td>1152.75</td>
<td>30.62</td>
<td>0.36</td>
<td>2.66</td>
</tr>
<tr>
<td>2004-05</td>
<td>9090.20</td>
<td>1255.69</td>
<td>35.96</td>
<td>0.40</td>
<td>2.86</td>
</tr>
<tr>
<td>2005-06</td>
<td>11540.24</td>
<td>1689.35</td>
<td>41.74</td>
<td>0.36</td>
<td>2.47</td>
</tr>
<tr>
<td>2006-07</td>
<td>11980.59</td>
<td>1902.64</td>
<td>50.37</td>
<td>0.42</td>
<td>2.65</td>
</tr>
</tbody>
</table>

*Source: Compiled from Officials Records of the Department of Commercial Taxation, Government of Jammu & Kashmir.*
Table 4.17 and the associated exhibits show an increase of more than 50% in the generation of revenue from stamp duties and registration fees from 2000-2001 with revenue of Rs 20.31 crores to Rs 50.37 cores in 2006-2007. On a keen observation of the data presented in the table, it is quite evident that in terms of percentage contribution both to total revenue receipts and total tax receipts, stamp duties and registration fees have failed miserably to support the socio-economic developmental requirements of the state.
ENTRY TAX

Entry Tax is charged on the purchase value of specified goods on their entry into a local area. It is levied on those goods which are purely meant for personal use or consumption and not for sale.

In Jammu and Kashmir Entry Tax is levied under the Jammu and Kashmir Entry of Goods Act, 2000. The Act provides for the levy of Entry Tax on goods in the state of Jammu and Kashmir. The tax is levied on the entry of scheduled goods into the state at the rates prescribed under SRO 167, Dated 16th Feb, 2005 governing the rate structure of sales tax in the state. Initially the tax was levied at a flat rate of 4% of purchase value of goods for use or consumption. But in order to arrest the diversion of trade, tax exportation and with a view to encouraging the local production and the subsequent demand, the entry of every scheduled item costing more than Rs 5000.00 except those goods which are meant for use/consumption by Small Scale Industrial Units (SSI's) and the contractors (provided the goods are incorporated in their registration certificates) is subjected to Entry Tax according to the rates applicable under the Jammu and Kashmir General Sales Tax Act, 1962.

Under the Entry Tax Act, "Goods" means all kinds of movable property, materials, articles and commodities brought into the state from any outside place for use or for consumption.

No Entry Tax is levied on the goods costing less than Rs 5000.00, the goods which are imported by any person in consequence of transfer of residence into the state and the goods imported into the state in connection with tourism or pilgrimage. Further, under the Act, no person is allowed to import the scheduled goods exceeding a prescribed quantity unless he/ she are in possession of:

- A bill of sale or delivery note or declaration or certificate of ownership, or
- A way bill, or
- A building permission from the Municipal Corporation, a Notified Area Committee or any other authority as the case may be in cases where the goods are meant for consumption in construction, or

- Documents of ownership of a motor vehicle.

If a person liable to pay entry tax fails to pay it, the officer incharge of check post after hearing the person, orders the seizure of his goods. The goods so seized are released only on payment of the tax due together with the penalty, if any.

If a person carries the goods with the fake or false documents, he/she is liable to penalty which is equal to double the amount of entry tax payable on such goods.

Some of the provisions of General Sales Tax Act, 1962 mutatis mutandis apply to some issues like appeals, revisions, power to withdraw and transfer cases, recovery of fines, taxes or penalty, refund of taxes and penalties etc. connected with the administration of Entry Tax.

The administration of Entry Tax in Jammu and Kashmir lies within the jurisdiction of Department of Commercial Taxation. Deputy Commissioner (Commercial Taxes) Lakhanpore is the Officer Incharge for the levy, seizure and imposition of Penalties. However, in case of goods which escape the levy of Entry tax at the check post and are latter caught in transit and also the goods imported through air carriers, the assessment is done by the Deputy Commissioner (vigilance and Inspections) Department of Commercial Taxation.

As regards the fiscal scenario, the tax has assumed a significant position in the overall tax structure of the state. Right from the beginning, the tax has been showing a raising trend in its contribution to state’s own tax sources. Table 4.18 reveals the fiscal fabric of entry tax during the last 7 years.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Receipts (Rs in Crores)</th>
<th>Total Tax Receipts</th>
<th>Entry Tax</th>
<th>%age of Entry Tax to Total Revenue Receipts</th>
<th>%age of Entry Tax to Total Tax Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>5427.46</td>
<td>809.46</td>
<td>0.51</td>
<td>0.01</td>
<td>0.06</td>
</tr>
<tr>
<td>2001-02</td>
<td>6858.66</td>
<td>858.08</td>
<td>7.09</td>
<td>0.10</td>
<td>0.83</td>
</tr>
<tr>
<td>2002-03</td>
<td>6497.26</td>
<td>936.25</td>
<td>6.49</td>
<td>0.10</td>
<td>0.69</td>
</tr>
<tr>
<td>2003-04</td>
<td>8506.79</td>
<td>1152.75</td>
<td>19.03</td>
<td>0.22</td>
<td>1.65</td>
</tr>
<tr>
<td>2004-05</td>
<td>9090.20</td>
<td>1255.69</td>
<td>55.28</td>
<td>0.61</td>
<td>4.40</td>
</tr>
<tr>
<td>2005-06</td>
<td>11540.24</td>
<td>1689.35</td>
<td>53.60</td>
<td>0.46</td>
<td>3.17</td>
</tr>
<tr>
<td>2006-07</td>
<td>11980.59</td>
<td>1902.64</td>
<td>50.10</td>
<td>0.42</td>
<td>2.63</td>
</tr>
</tbody>
</table>


EXHIBIT 4.15
TRENDS IN ENTRY TAX REVENUE

EXHIBIT 4.16
PERCENTAGE OF ENTRY TAX TO TOTAL REVENUE AND TOTAL TAX RECEIPTS

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After Stamp Duty and Registration Fees, Entry tax is the next higher revenue generating own tax source of the state. In the year of its inception i.e. 2000-2001, the revenue from this tax was a meagre sum of Rs 51 lacs which has shot up to Rs 50.10 crores in 2006-07 thus registering more than 98 fold growth in a span of first 7 years. This indicates that Entry tax has a great potential to generate sufficient revenue if it is administered properly. But, despite its significant contribution, the tax has shown a declining trend in revenue generation during the last two years i.e. 2005-06 and 2006-07. Since the tax wholly depends on the entry of goods imported into the state, it is obvious that during these two years comparatively a lesser quantity or the goods of lower value might have been imported into the state. It is a good sign because, the lesser the quantity of goods imported from outside, the more is the production, demand and consumption of local goods.

The main area of concern about this tax is the lack of requisite staff at the check posts. This causes a lot of inconvenience to both the importers as well as to the Department. Besides, the posting of officials with the corrupt bent of mind at the check posts also causes a great loss of revenue to the state. Further, the exemption of the goods imported by the small scale unit holders and the contractors from entry tax is not only resulting in leakage of revenue but also working against the basic spirit of this tax.

**PASSENGER TAX**

Tax on passengers is usually a proportion of the fare. Different states have adopted different criteria to levy this tax.

In Jammu and Kashmir, tax on passengers is levied under the Jammu and Kashmir Passenger Tax Act, 1963 and is presently equivalent to 22% of the passenger fare in the state. The levy is charged by the government on the vehicles operating on the state routes to carry passengers from one place to another. From the passenger vehicles coming from other states, this tax is charged at the check post Lakhanpore at the following rates:
Buses and video coaches @ Rs 300 per day of stay.

Light vehicles like Tempos and Sumos @ Rs 200 per day of stay.

The base of the tax is not the fare from one place to another but the tax is levied on "Ad-unitem" basis i.e. depending upon the capacity of vehicle to keep the seats within its body. This tax is charged on lump sum per seat of the vehicle. Almost all the transporters have exercised the option of paying the tax on lump sum basis. The lump sum per seat per annum based on the assumption of very low capacity utilisation varies between Rs 200 to Rs 600.

Table 4.19 shows the type of vehicle and the present rate of passenger tax levied by the Government:

<table>
<thead>
<tr>
<th>S. No</th>
<th>Type of Vehicles</th>
<th>Rates of Tax (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Buses</td>
<td>200/= per seat p.a</td>
</tr>
<tr>
<td>2</td>
<td>Super-Deluxe Buses</td>
<td>500/= per seat p.a</td>
</tr>
<tr>
<td>3</td>
<td>Mini Buses (Plying in Rural Areas)</td>
<td>200/= per seat p.a</td>
</tr>
<tr>
<td>4</td>
<td>Mini Buses (Plying in Urban Areas)</td>
<td>600/= per seat p.a</td>
</tr>
<tr>
<td>5</td>
<td>Taxi /Cars</td>
<td>300/= per year (upto 5 seats only)</td>
</tr>
<tr>
<td>6</td>
<td>Tata Sumos</td>
<td>500/= per year</td>
</tr>
<tr>
<td>7</td>
<td>Tempo Travellers</td>
<td>500/= per year</td>
</tr>
<tr>
<td>8</td>
<td>Three Wheelers</td>
<td>120/= per year (lump sum)</td>
</tr>
</tbody>
</table>


The levy of tax is monitored by the State Commercial Taxation Department with two separate Headquarters located in two capital cities of Srinagar and Jammu. The Commissioner Commercial Taxes is empowered to act as Commissioner Passenger Taxes also.
With regard to its contribution to state tax revenue, table 4.20 testifies the facts.

### TABLE 4.20

**TRENDS IN PASSENGER TAX REVENUE**

(Rs in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Receipts</th>
<th>Total Tax Receipts</th>
<th>Passenger Tax</th>
<th>%age of Passenger Tax to Total Revenue Receipts</th>
<th>%age of Passenger Tax to Total Tax Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>5427.46</td>
<td>809.46</td>
<td>6.51</td>
<td>0.12</td>
<td>0.80</td>
</tr>
<tr>
<td>2001-02</td>
<td>6858.66</td>
<td>858.08</td>
<td>6.67</td>
<td>0.09</td>
<td>0.78</td>
</tr>
<tr>
<td>2002-03</td>
<td>6497.26</td>
<td>936.25</td>
<td>5.91</td>
<td>0.09</td>
<td>0.63</td>
</tr>
<tr>
<td>2003-04</td>
<td>8506.79</td>
<td>1152.75</td>
<td>7.37</td>
<td>0.09</td>
<td>0.64</td>
</tr>
<tr>
<td>2004-05</td>
<td>9090.20</td>
<td>1255.69</td>
<td>7.66</td>
<td>0.08</td>
<td>0.61</td>
</tr>
<tr>
<td>2005-06</td>
<td>11540.24</td>
<td>1689.35</td>
<td>7.46</td>
<td>0.06</td>
<td>0.44</td>
</tr>
<tr>
<td>2006-07</td>
<td>11980.59</td>
<td>1902.64</td>
<td>7.61</td>
<td>0.06</td>
<td>0.40</td>
</tr>
</tbody>
</table>


### EXHIBIT 4.17

**TRENDS IN PASSENGER TAX REVENUE**
EXHIBIT 4.18
PERCENTAGE OF PASSENGER TAX TO TOTAL REVENUE & TOTAL TAX RECEIPTS

From the table 4.20 and the adjoining exhibits, it may be observed that the passenger tax has been vigorously contributing to state exchequer. Looking at its contribution, the tax has increased from Rs 6.51 crores in 2000-2001 to Rs 7.61 crores in 2006-2007, thus registering an increase of 16.90% during the period. However, in terms of percentage increase, the tax has been showing a declining trend particularly during the last 3 years. The major problems with respect to this tax are:

- **The absence of proper regulation and monitoring of the passenger transport system as a result of which a sizable number of vehicles is plying on state routes without proper authorisation.**

- **In view of the rates prevailing in other states, the rates of passenger tax in Jammu and Kashmir are very low and disproportionate to the type of the vehicles.**

An evaluation of passenger tax system of the state reveals that the tax is not more progressive and thus against the canon of equity of taxation because there is no much difference in rates of tax for the vehicles which the people with higher incomes use and the buses usually used by the lower income people.
Further, the present rate of lump sum tax based on utilisation of seating capacity of buses is also low which causes a large loss of revenue to the state Government. A distinguishing feature of this tax is that it is paid by the transporters on the basis of collections. They simply act as agents of the government. They do not pay the tax from their own pockets. So there can be no question of arrears of this tax remaining with the transporters. But this is precisely what happened in the last few years of insurgency in the state. In the name of losses suffered by the transporters due to frequent strikes and the law and order contingencies, the transporters have been refusing to pay passenger tax. However, in order to arrest the non-payment of taxes, a penalty equal to double the rate of tax payable is imposed on the defaulting transporters.

SALES TAX

Sales tax is a tax levied by the government on the sale of commodities. In most of non-VAT countries services are also covered under sales tax and in a number of the countries which have already switched over to VAT, along with the goods, the services too are taxed under VAT.

By sales tax, we mean a general sales tax covering the sale of all goods. It is assessed on the aggregate sale of a registered dealer. It does not cover the sale of real estate or intangibles. It applies to tangible transactions only (Hassan, 1980). In India sale also includes works contracts and transfer of goods under hire-purchase system as well as the sale of services and amenities in hotels and restaurants (Reddy, 1989). A number of services are covered under the Services Tax Act, 1994 which extends to whole of India except the State of Jammu & Kashmir. In Jammu and Kashmir, some services have been classified as goods under the General Sales Tax (GST) Act, 1962 as amended from time to time and thus have been brought under the preview of sales tax. These services have been listed in schedule B and are chargeable to tax at the rate of 8%, under SRO 117, dated 30-3-2007.
issued by the Department of Finance, Government of Jammu & Kashmir. The services which have been classified as goods and thus chargeable to tax under sales tax include:

- Works contracts;
- Telecom/Cellular phone services;
- Photofinishing including developing, printing and enlarging;
- Lodging provided by hotels;
- Services provided by beauty saloons;
- Services provided by private nursing homes; and
- Services provided by advertisers.

Further, the following services although taxed under the General Sales Tax Act, are yet to be classified as goods under this Act i.e. with regard to these services no amendment has been made so far in the definition of the existing provisions:

- Services provided by courier agencies;
- Banquet hall services;
- Catering services;
- Services provided by cable operators.
- Commercial/professional training and coaching services provided by private educational institutions;
- Banking services; and
- Insurance services.

Under the General Sales Tax Act, 1962 all the registered dealers conducting the inter-state sale and purchase and / or imports and / or exports are required to pay the sales tax.
Basically in Jammu & Kashmir the Sales Tax was adopted as a fiscal measure in the late forties by enacting the Jammu & Kashmir General Sales Tax Act, 1947. No doubt to levy a tax on sales was prevalent during the king Ucalla in Kashmir in the year 1101 - 1111 A.D (Dubin, 1982), but in the modern form, the tax became a permanent feature of the financial structure of the state in 1962 when the Jammu & Kashmir General Sales Tax Act, 1962 repealed the earlier one and gave the tax legislation a sound footing. Since then this tax has remained a constant feature of the budgetary policy of the state (Dar, 1996). The state adopted the system of single point taxation (the tax being levied on first point of sale in most cases). However, in the case of liquor, the tax is levied at the stage of last sale in the state. A number of items such as food articles, agricultural implements, seeds and handicrafts were kept outside the ambit of sales tax in the state.

The erstwhile Sales Tax Department of the state was headed by Commissioner Sales Tax who has been redesigned as Commissioner Commercial Taxes in the VAT regime. For administrative purposes, the state was divided into 2 divisions, viz. Jammu division and Kashmir division each headed by Deputy Sales Tax Commissioner (Administration). In addition, there were Deputy Commissioner (Tax Planning), Deputy Commissioner (Judicial) and Deputy Commissioner (Headquarters) who were working under the direct administrative control of the Commissioner. There also used to be a Deputy Commissioner posted at principle check-post Lakhanpore who was the incharge of the neighbouring small check posts also. Jammu division had more than 25 assessing authorities while Kashmir division had only 20. The assessing authorities were functioning under the direct administrative control of Deputy Commissioner of Sales Tax of the respective divisions. Each division had one appellate authority known as Deputy Sales Tax Commissioner (Appeals). Besides Deputy Commissioner (Appeals), the department had an appellate tribunal headed by a member of
state judiciary as its Chairman. There was a provision to have a person not below the rank of Deputy Commissioner in the tribunal as its member from the Department. Besides, the Department used to have a Deputy Commissioners (Vigilance) and a Deputy Commissioner (Audit). Each division was divided into 18 circles. Each circle used to function under the charge of an Excise and Taxation Officer (ETO) who was assisted by inspectors and other subordinate staff. There were two survey circles, one each in Kashmir and Jammu divisions respectively entrusted with the job of survey and registration of dealers.

There were three major check-posts in the state, besides some minor check posts at small railway stations. Transportation of goods across or beyond the notified areas was permitted only either on a bill of sale, or a delivery note, or certificate of ownership. Goods were subjected to physical verification on sample basis against declaration forms and were liable to be seized in case of any discrepancy. Penal action was taken against the defaulters. The same procedure is being presently adopted under the VAT regime.

Sales Tax as a Source of Revenue

Like other states in India, sales tax in Jammu and Kashmir had occupied a more significant place in the total tax revenue of the state. A look at the earnings from sales tax in the state reveals that the contribution of this tax had increased from Rs 267.69 crores in 2000 – 2001 to Rs 609.04 crores in 2004-2005, thus recording a growth of 227.52%. In terms of revenue, sales tax was the only significant source to support the economy of the state. It constituted about half of total tax revenue.

Table 4.21 presents the statistics of sales tax revenue for 5 years (2000-01 to 2004- 05) in the state of Jammu and Kashmir.
### TABLE 4.21
TRENDS IN SALES TAX REVENUE

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Receipts</th>
<th>Total Tax Receipts</th>
<th>Sales Tax</th>
<th>%age of Sales Tax to Total Revenue Receipts</th>
<th>%age of Sales Tax to Total Tax Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>5427.46</td>
<td>809.46</td>
<td>267.69</td>
<td>4.93</td>
<td>33.10</td>
</tr>
<tr>
<td>2001-02</td>
<td>6858.66</td>
<td>858.08</td>
<td>323.90</td>
<td>4.72</td>
<td>37.75</td>
</tr>
<tr>
<td>2002-03</td>
<td>6497.26</td>
<td>936.25</td>
<td>379.10</td>
<td>5.83</td>
<td>40.49</td>
</tr>
<tr>
<td>2003-04</td>
<td>8506.79</td>
<td>1152.75</td>
<td>462.15</td>
<td>5.43</td>
<td>40.10</td>
</tr>
<tr>
<td>2004-05</td>
<td>9090.20</td>
<td>1255.69</td>
<td>609.04</td>
<td>6.70</td>
<td>48.50</td>
</tr>
</tbody>
</table>


### EXHIBIT 4.19
TRENDS IN SALES TAX REVENUE

![Graph showing trends in sales tax revenue from 2000-2001 to 2004-2005]
Despite the rising trend of revenue from this tax as shown by the table and the subjoined exhibits, its contribution was not as significant and impressive as in most states like Punjab, Haryana, Himachal Pradesh, Karnataka, Tamil Nadu etc. So far as the income responsiveness of sales tax in the state is concerned, its performance was highly unsatisfactory. A number of reasons are responsible for the sad state of affairs of this tax, some of which are recorded as under:

- There was a long list of exempted commodities and almost all the agricultural items including fertilizers, pesticides and seeds were outside the ambit of sales tax. This had amounted to the narrow base and coverage of this tax in the state;
- There were multiple rates at which the tax was charged;
- The assessment was poor and unqualitative;
- A large amount of tax is still lying in arrears and recovery is slow. Very frequently amnesty schemes were announced by the government on the pretext of political disturbances in the state especially in Kashmir division;
➢ There was a great scope for connivance between the traders and the tax administrators for indulging in unethical practices detriment to the revenue;

➢ The illicit use of Form “c” and registration numbers by the unregistered dealers in league with some unscrupulous transporters for importing goods from other states amounted to the leakage of revenue to a larger extent;

➢ Wrong declarations made by some dealers contributed heaavily to the evasion of sales tax;

➢ The levy of sales tax only at first point in the state provided ample opportunities to the dealers to undervalue the sales. At the subsequent stages, no tax used to be levied on value additions. This too used to cause a great loss of revenue to the state;

➢ Most of the dealers after collecting the tax from the customers either used to remit only a part of the amount collected or were not remitting it at all, thus evading the tax;

➢ The loopholes in the tax law provided ample opportunities to the dealers to evade their true tax liabilities; and

➢ The political uncertainty in the state which is now about two decades old further aggravated the problem of tax evasion.

All the above mentioned anomalies in the sales tax system coupled with the inability of other existing state taxes to generate sufficient revenue to finance the development programmes of the state among the other reasons, are responsible to a larger extent for switching over to value added tax system. Besides, the concept of globalization of the economy at international level and the requirements of economic reforms at the national level had also necessitated the introduction of value added tax system as an efficient, effective and rational alternative to the sales tax system.
VALUE ADDED TAX

Before discussing VAT in Jammu and Kashmir, a brief introduction with its conceptual framework, computational methodology, international and national experiences before its formal launch merit a special mention.

Value Added Tax system is a long searched and a much debated substitute for the States’ Sales Tax System. The base of value added tax as the name suggests is the “Value Added”. So before introducing the concept of value added tax, the term “value added” warrants a brief explanation. The explanation has been summed up in the following paragraphs:

A manufacturing firm begins with a certain quantum of raw materials and then engages itself with the conversion process to yield a product with new utility and market value which is different from the original cost of materials. The excess of such market value over the cost of materials is termed as “value added” (Paramanick. 2005). However, in practice, materials in value added calculations include all items purchased from outside and actually processed. Thus, power, fuel and stores are the other items that are added to materials before deducting the latter from sales value. Therefore, the value added by a firm during a period can be stated as:

Value Added = Sales - Cost of items brought from outside and processed

In economics, the term value added is simply the difference between the value of output produced by a firm in a period and value of inputs purchased from other firms for producing the output. In general, the term “value added” is the excess of turnover +income from services over the cost of bought-in-materials and services. It is in fact, a measure of utility that a business firm adds to the bought-in-materials and services. Similarly, the value added is the difference between the sales revenue and the cost of purchase of materials and services (Morely, 1978).
From the above description, it is clear that value added is the wealth created by a business during a specified period of time and the value so created or added is distributed to four productive agencies, viz., human resource (employees) getting wages and salaries, supplies of infrastructural facilities (government) getting various taxes and duties, providers of loan (lenders) getting interest and owners (shareholders) getting the remaining profit.

Economists and governments all over the world have attempted to form the value added as the base for the levy of a new and novel system of taxation popularly known as “Value Added Tax System” the evolution of which is considered as an innovation of 21st century. VAT has become a favourite feature of public finance. It has also become a topic of public debate after its acceptance as an instrument of tax harmonization.

Value Added Tax (VAT, the popular English usage), Added Value Tax (AVT, in the American tax nomenclature), Tax on Value Added or Tax Surla Valuer Ajouti (VAT, as the French and German refer to it), is a concept which originated during the first quarter of Present century. F. von Siemens, a German economist proposed it in 1918 as a substitute for the then newly established German Turnover Tax (Due, 1995). France was the 1st country to adopt VAT in 1954 to remove the evils of turnover tax and to boost the investment. Adoption of VAT is considered as a requisite reform of indirect taxation for several countries (Bosch, 1993). Presently apart from EU, non-EU countries like Finland, Greece, Turkey and some Latin American states like Brazil and Mexico have adopted VAT (Lindholm, 1990). The tax has been growing very fast in popularity in recent years. Many developing countries have been paying increased attention to this form of tax as a means of rationalizing their sales tax system and increasing their revenues.
Value added tax is a multi-point turnover tax imposed at each stage of production and distribution. It is the tax levied on the value added to a product or service each time it changes hands. It belongs to the family of sales tax — the manufacture sales tax and the whole-sale sales tax. It is levied when the manufacturer sells a commodity to the wholesaler, again when a wholesaler sells it to the retailer and finally again when the retailer sells it to the consumer. The ultimate burden of the tax falls on the consumer. Due to its ability to eliminate the cascading (also known a snowballing or pyramiding) effects of taxes, it is sometimes called as improved turnover tax or a refined turnover tax (Kumar et al., 2004). VAT is a form of indirect tax in the nature of a multi-point sales tax with a setoff or credit for tax paid on purchases. Under VAT each transaction of goods sold in the course of business is taxed, thus providing revenue to the government on value addition at each stage. On account of setoff being provided on proceeding purchases, cascading effect on the cost of goods is avoided. It is a self-policing system reducing the scope for tax evasion.

The primary objective of VAT is to enhance competitiveness while removing the cascading effects of taxes and levies. Besides, it eliminates the barriers to inter-state trade in order to create a unified national market. It is simple, transparent, and consistent in structure and approach. It ensures revenue neutrality and has a mechanism of self-regulation.

Why the System Gained Popularity?

VAT has become a very popular system of taxation due to the following reasons:

■ Simple structure and transparency;

■ Neutrality of tax with respect to behaviour of consumer and of producer;
Ability of avoiding cascading effects on goods and services by providing setoff on taxes paid on inputs/purchases;

Flexibility to generate large and buoyant revenues as it levies tax on value additions at each stage of production and distribution;

Ability to be neutral and have no tax-induced distortion;

Ability to decrease incentives for evasion as the impact of tax is not concentrated on one level resulting in less loss of revenue due to large multi-point tax base;

Ability to provide increased revenue to the government with lower rates of tax; and

Extending the tax levy on a greater portion of the value chain, thus expanding the tax base.

Value Added Variants

Value added tax can be levied with the following four specific approaches:

a) Gross product variant;

b) Income type variant;

c) Consumption type variant; and

d) Wage type variant.

Gross Product Variant

It is the most comprehensive variant/ form of VAT. Under this variant the cost of capital goods like plant and machinery is not allowed to be excluded when they are initially purchased and also no allowance is made for depreciation when they are used in production. Here value added = Gross Receipts- cost of intermediate goods. In other words, value added is the sum of wages, rent, interest, and depreciation. This variant corresponds to gross national product of National Income Accounting.
**Income Type Variant**

Under this approach, the base for taxation is the net value added by each producer. Net value added = gross receipts - cost of intermediate goods - depreciation. This variant corresponds to the concept of Net National Income Accounting.

**Consumption Type variant**

Under this approach, the cost of capital goods is excluded from the value added instead of granting allowance for depreciation over the life of capital goods. Here value added = Gross Receipts - cost of intermediate goods - cost of capital goods. In other words, under this approach the base for taxation is the value of production of consumer goods only.

**Wage Type Variant**

Under this variant, besides the cost of capital goods, other expenses together with profit are allowed as deduction. Here value added = gross receipts - (cost of capital goods + other expenses and profit). In other words, only the wages are subjected to VAT.

Expressing algebraically let Value added = V, Gross receipts = G, Cost of intermediate goods = I, Cost of capital goods = C, Depreciation = D, Expenses = E and Profit = P, the above four approaches can be presented in the form of the following equations:

i. \[ V = G - I \]

ii. \[ V = G - I - D \]

iii. \[ V = G - I - C \]

iv. \[ V = G - (C + E + P) \]

Among these approaches, the consumption variant is widely used (Purohit, 1993). The reasons are:
Tax paid on capital goods is also set off against VAT liability;

It is in harmony with the destination principle. In the foreign trade sector, this variant relieves all exports from taxation while imports are taxed; and

It simplifies tax administration by obviating the needs to distinguish between cost of intermediate and capital goods on one-hand and consumption goods on the other.

The above variants of value added may be represented in exhibit 4.21 as under:

**EXHIBIT 4.21**

- **Gross Product Variant**
  - Tax levied on all sales without any deduction for inputs.

- **Consumption Variant**
  - Tax levied on all sales with set off for inputs.

- **Income Variant**
  - Tax levied on all sales with set off for depreciation on capital goods.

- **Wages Type Variant**
  - Tax levied on all sales with deduction for capital goods, other expenses + profit.

**How the system operates (computational methodology)?**

VAT liability can be calculated in the following ways:

a) Addition method
b) Subtraction method
c) Invoice or Tax credit method.

*Addition Method*

Under this method, all the value-adding items such as wages, rent, interest and profits are added to form the basis for computing VAT liability.
**Subtraction Method**

Under this method, purchases are deducted from sales to arrive at the base for computing VAT.

**Tax Credit / Invoice Method**

In this method, VAT is firstly calculated on the sales of the succeeding firm and the tax paid to the proceeding firm is allowed as a deduction.

A comparative picture of the three methods of calculating VAT discussed above is illustrated in table 4.22 below.

**TABLE 4.22**

**DIFFERENT METHODS OF CALCULATING TAX LIABILITY UNDER VALUE ADDED TAX: A COMPARATIVE ANALYSIS**

<table>
<thead>
<tr>
<th>No.</th>
<th>Methods</th>
<th>(Value in Rupees)</th>
<th>Total Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Manufacturer</td>
<td>Wholesaler</td>
</tr>
<tr>
<td>01.</td>
<td>Addition Method</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Wages</td>
<td>1500</td>
<td>3000</td>
</tr>
<tr>
<td></td>
<td>b) Rent</td>
<td>500</td>
<td>1000</td>
</tr>
<tr>
<td></td>
<td>c) Interest</td>
<td>250</td>
<td>750</td>
</tr>
<tr>
<td></td>
<td>d) Profit</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td></td>
<td>Value Added (a+b+c+d)</td>
<td>2500</td>
<td>5000</td>
</tr>
<tr>
<td></td>
<td>VAT</td>
<td>250</td>
<td>500</td>
</tr>
<tr>
<td>02.</td>
<td>Subtraction Method</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Sales</td>
<td>3500</td>
<td>8500</td>
</tr>
<tr>
<td></td>
<td>b) Purchases</td>
<td>1000</td>
<td>3500</td>
</tr>
<tr>
<td></td>
<td>Value Added (a-b)</td>
<td>2500</td>
<td>5000</td>
</tr>
<tr>
<td></td>
<td>VAT</td>
<td>250</td>
<td>500</td>
</tr>
<tr>
<td>03.</td>
<td>Invoice Method</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Sales</td>
<td>3500</td>
<td>8500</td>
</tr>
<tr>
<td></td>
<td>b) Tax on Sales</td>
<td>350</td>
<td>850</td>
</tr>
<tr>
<td></td>
<td>c) Purchases</td>
<td>1000</td>
<td>3500</td>
</tr>
<tr>
<td></td>
<td>d) Tax on Purchases</td>
<td>100</td>
<td>350</td>
</tr>
<tr>
<td></td>
<td>VAT (b-d)</td>
<td>250</td>
<td>500</td>
</tr>
</tbody>
</table>

Note: The Rate of tax under all the three methods is presumed to be 10%.
From the table 4.22, it is clear that under all the three methods, the amount of tax is the same. Amongst the three methods, the invoice method is widely used in most VAT countries because of its following inherent advantages in calculating the tax liability (Purohit, 1993).

- It makes cross-checking of tax paid at earlier stages more amenable as dealers are required to mention the amount of tax on invoices;
- Tax burden being dependent on the tax rate at the final stage, dealers at intermediate stages do not have any incentive to seek special treatment in tax rate; and
- It facilitates broader tax adjustments. If exports are zero rated, adjustment is easily done with this method.

**DIFFERENCE BETWEEN SALES TAX AND VAT**

Sales tax is generally a single point levy while VAT is a multipoint levy. In sales tax no tax is levied on value addition on subsequent sale of goods. In VAT, full set-off of the tax paid at the earlier stages is given. VAT, thus eliminates tax cascading (Chitora, 2005). Sales Tax has a multiplicity of rates. VAT on the other hand has only four rates.

**COVERAGE OF VAT**

It is very important to decide the stage that would be encompassed by VAT. Ideally VAT should cover all the activities related to primary, manufacturing and distribution process. However, this would amount to very broad coverage. The other extreme is a pre-retail VAT which is much narrow in scope. Hence depending upon the experiences of the country in implementing the sales tax, most developing countries have a high exemption limit to avoid the coverage of a retail dealer (Purohit, 1990).

The coverage of primary activities under VAT is not practicable. In most developing countries, farmers engaged in these activities manage at a subsistence level. Since they are not generally literate, to begin with, it is
useful to adopt VAT only at manufacturing stage. Once the experience is gathered, it could further be extended to cover wholesale level. To avoid administrative problems of extending VAT down to retail stage, it is useful to fix exemption limit with reference to turnover. In most countries, the practice has been to follow this pattern. This draws large firms into the tax net and leaves out small retailers (Purohit, 1995).

ADMINISTRATION OF VAT

A Comprehensive VAT requires an elaborate system of book-keeping involving numerous computations at each level of production. So it calls for additional and efficient administrative efforts to cross check the paper work done by the tax payers. It is pertinent to mention here that VAT requires both a collection and a refund mechanism. For the sake of simplification, the experts have suggested the restriction of VAT to the manufacturing stage, because exclusion of retail and wholesale stages would significantly reduce the burden on administration (Ahuja, 2004).

RATE STRUCTURE UNDER VAT

In its ideal form, VAT should be imposed at a uniform rate, at the maximum with 2-3 rates. The higher the number of rates, the more complicated the operation of VAT. It has been experienced that the application of several rates complicates the administration of VAT considerably because the tax payer is forced to maintain separate records in order to match inputs and parts of outputs that may be taxed at different rates. The difficulties are said to be particularly felt by multi-product firms. The easiest form of VAT to administer would be one with a single rate. For various socio-economic reasons, the countries which have adopted VAT, have found it necessary to introduce more than one rate, but the number of rates has to be limited (Jha Committee, 1978).

Although, the rates as well as the coverage vary from country to country, yet there is a trend to have small number of rates (Purohit, 1993).
Many countries levy VAT at a single rate. These include Argentina, Benin, Brazil, Denmark, Ecuador, Grenada, Haiti, Israel, New Zealand, Norway and Paraguay. Some countries have low rates of tax on necessities and high on luxuries. These countries have the rates ranging between 2 and 5. Many countries exempt a few basic food items, medicines cloth and foot wear. Such exemptions to necessities or to specific activities are very limited. As regards luxuries, these are taxed at a high rate in many countries including those from European, African as well as Asian Continents. Further, in order to make the structure more progressive, many of the countries levy special excise on luxury goods. This is generally limited to tobacco products, alcoholic beverages, mineral oils and vehicles.

LOCATIONAL PRINCIPLES OF VAT: ORIGIN VS DESTINATION

VAT may be levied on the principle of origin or destination. Under the origin principle, exports are taxed while imports are exempt. Under the destination principle, exports are exempt while imports are taxed. These two methods could be equivalent in their effects after ‘Border Tax Adjustment’ between importing and exporting jurisdictions (Purohit, 1993). Such an adjustment attains added significance in a federal country where some regions are large internal exporters of major commodities. An immediate interest of exporting regions is to impose a tax based on origin principle. Such regions would like to generate revenues from their exports and thus to have origin based VAT.

However, in the overall interest of the country, it is better to follow the destination principle. The European Economic Countries too follow the destination principle and so does India.

ECONOMIC EFFECTS OF VAT

Effects of VAT are felt all over the economy. This is because the tax influences several variables such as savings, investments, employment, distribution, prices and efficiency of resources. On some of these variables,
the effect is direct while on some, it is indirect. The economic effects of VAT may be studied under the following heads:

**Price Effects**

The effects of VAT on prices are direct. It depends upon whether VAT is a new levy i.e. intended to mobilize additional resources or simply a replacement of existing tax to recover the lost revenue from the tax replaced by VAT. If it is adopted for replacement, then the effects of reduction in price due to abolition of other taxes is to be considered. At the same time rise in prices due to the introduction of VAT has to be taken into account. This would imply a mixture of changes in prices. However, in general, VAT causes increase in the price of commodities depending on the elasticity of demand and supply of the commodity concerned. Normally, it is fully shifted forward because traders would wish to maintain their level of profit by shifting VAT ahead. Initially, all traders bear tax and compliance costs but would like to recoup them in due course, sometimes even to take the advantage of situation to charge prices somewhat higher than wanted by VAT.

The shifting would, however, depend upon the demand and supply conditions of the commodity in question. The degree of shifting would cause increase in prices. This would result in fall of aggregate demand, if money supply is not raised. In that case the dealers would be forced to absorb VAT or pass on its burden back to factor owners in the form of low returns to them. Thus, whether VAT would be inflationary, depends not only on the possible offsetting changes in other taxes and on accommodating money supply, but also on the reaction of wages, transfer payments, liquidity and psychological effects, (Tanji, 1983). The price rise can be arrested by adopting moral suasion and price control measures. Some countries have adopted price freeze to cope with the sensitive problem of price changes as the result of introduction of VAT, (Tait, 1988).
Who really bears the burden of tax? In the case of VAT, this depends on various possibilities of shifting, avoidance and evasion of tax as well as on the number of users of a commodity. The aspects of avoidance and evasion are related to the structure and the administration of tax. VAT is characterized by a proper administration of tax. VAT is characterized by a proper administration because it involves a self-policing mechanism. The buyer would take every care to obtain the invoice to enable him to get credit for the tax paid to seller. The distributional effect, however, depends on the possibility of shifting of VAT. Normally profit-maximizing firms will shift all commodity taxes forward as these taxes affect their marginal cost. But the firms with monophony in the market for an input, will shift backward. The extent of shifting will depend upon the elasticities of demand and supply. The greater the elasticity of demand, the less the firm would be able to shift. Since the demand for a commodity is the function of its price and availability of its substitute, a board-based VAT would have less chances of substituting one commodity for another and hence shifting is more likely to take place. The progressivity or regressivity of VAT depends upon various factors such as exemptions, zero-rating, base and other compensatory features. A VAT would be a proportionate tax if related to consumption and somewhat regressive when related to income.

**VAT and Neutrality**

One of the important objectives of tax policy is to attempt neutrality with respect to the economic behaviour of producers and consumers. This is achieved in production when VAT does not induce firms to change their forms and methods of carrying of business. It is achieved in consumption when VAT does not induce consumers to change their pre-tax choice between taxed and untaxed commodities or between those taxed at different rates. This is distorted if the tax rate differs from one category of goods to
another. Such variations change relative prices of different categories of goods and hence distort consumer's preferences. VAT is designed to be neutral between capital and labour or investment and consumption.

**Effects on Growth**

An important objective of a tax policy is to raise the rate of saving and investment to achieve a higher rate of growth. For raising the rate of savings, it is necessary to keep the increase in consumption out of increase in income less, i.e. we have to prevent consumption from rising as much as income rises due to investment in the economy. VAT can be viewed as a tax on articles of mass consumption to meet the costs of common benefits. Also, it can efficiently curb the consumption of luxuries and socially undesirable goods. Since capital goods and depreciation are exempt under VAT, it has no adverse effects on investments. Besides, a higher rate of tax on luxuries and socially undesirable goods, works as a suitable device for restraining consumption to attain a higher rate of growth in the economy.

**INTERNATIONAL EXPERIENCE WITH VAT**

In tune with the policy of liberalization and globalization, governments of different countries all over the world introduced reforms in their respective taxation systems. To make the policy of taxation consumer friendly on one hand and to mobilize more resources on the other, governments have put their constant endeavors in the field of taxation. Value Added Tax is a significant measure in this direction to broad base the tax net. VAT has emerged as one of the most significant fiscal innovations of the century. Since its origin, about 140 countries across the globe have adopted VAT in varying degrees to reform their systems of commodity taxation so far and more and more countries are heading towards its adoption in view of its growing popularity.

As regards base and coverage, most countries have extended the coverage of their VATs to the retail stage. Some countries have stopped at
the manufacturing stage or the wholesale stage. Further, most countries tax services comprehensively along with goods. Different tax treatments for services prevail in different countries. Some countries tax services selectively, while some countries do not permit a full and immediate deduction of VAT on capital goods. Most countries do not impose tax on public sector, financial services, immovable property, farms etc, while as in some countries; these are taxed with varied provisions.

So far as the rate structure of VAT is concerned, some countries have a single uniform rate while as in some countries the rate structure is in the range of 15% to 25%. In most of the countries, basic food stuffs are exempted. In some countries these are zero-rated. Luxuries in some countries are taxed at the rates higher than the standard rates i.e., between 15% to 25%. With regard to administration, some countries have two departments responsible for administration of VAT, one for domestic transactions and another for import transactions. Collections and control procedures rely upon self-assessment and voluntary compliance. Perception of equity of tax system in some countries is achieved through a proper audit plan, while as in some countries, it is achieved through quick visits and market surveys. Some countries have set up normative electronic database and use computer-assisted audit system, while as some counties maintain a single Tax Identification Number (TIN) for all relevant taxes and yet in some countries pre-processed returns are sent to tax payers to reduce the incidence of returns received with missing or mistaken identification data.

Referring to the revenue impact aspect of VAT, the experience of various countries has shown that VAT makes a major contribution to total tax revenue. In OECD countries, VAT revenues are generally ranging from 15% to 20% of total tax revenue or 5% to 8% of GDP. In contrast, in developing countries, the VAT revenue generally is low but the share of their VATs in total tax revenue is often larger.
Experience has also revealed that like other taxes, VAT is also evaded by indulging in malpractices. Studies have shown that the estimates of VAT evasion range from 2-4% of revenue forgone (UK) to 40% (Italy). Only Korea has been able to cross match sales and purchases invoices. It has been experienced that self-assessment VAT system requires a firm enforcement system with known and applied doses of penalties culminating in criminal prosecution.

From the experience of VAT countries, it is evident that many countries have departed from the requirements of “good VAT” often without heeding the costs in terms of economic distortions and administrative complications. Simplicity in structure and operations has not been taken seriously as they should be.

**INDIAN EXPERIENCE: A Pre-Formal Launch Scenario**

Before its formal launch at the state level, based on the recommendations of Taxation Enquiry Committee (1978), VAT at the manufacturing stage, popularly known as “MANVAT” to tackle the problem of cascading effect of excise taxation, which was later converted into Modified Value Added Tax (MODVAT) with limited application initially, existed in India at the federal level. On the basis of recommendations of Tax Reforms Committee (1991-1992), MODVAT was extended to all commodities excluding a few. W.e.f. April 1st, 2000 MODVAT has been christened as Central VAT (CEN VAT), with a single rate of 16% and a provision of credit for excise paid on all inputs (excepting high speed diesel oil and petrol and all capital goods). Efforts were made to extend VAT to the level of states as well where single point sales tax was levied at the point of 1st sale. Some states like Andra Pradesh, Madhya Pradesh, Maharashtra, Kerela and Tamil Nadu took the initiative and hence experimented with some form of VAT to replace the erstwhile sales tax. The states that have experimented with VAT in some or other forms (in some states on selective
commodity basis and in some on threshold basis either with or without setoff for tax paid on inputs), faced problems of administrative or operational nature in their efforts. The past experience with VAT implemented by the states has been unsatisfactory, because it lacked all the necessary ingredients for successful reforms. With the exception of Maharashtra, VAT was implemented on a selective basis. Even in Maharashtra, its application was confined to a minority of large dealers. In all cases, VAT was drafted on the existing legislation without any effort devoted to rationalizing and simplifying the administrative procedures and training of staff and taxpayers. No collective action was taken to curb inter-state competition and tax exportation (Podder, 2005).

The experiences with VAT experiments in different states indicate that there was a need to have some concrete reforms in the governance of state VAT. With this intention, in 1999, the meeting of Chief Ministers and State Finance Ministers of Indian states unanimously agreed to introduce a Unified Value Added Tax throughout the country by 2002. The interim period would be used for preparing, training, computerization and publicity. The National Institute of Public Finance and Policy (NIPFP) will provide technical assistance to states for introducing VAT. The study group of NIPFP recommended the levy of a separate, destination based, consumption type, retail stage, VAT in place of sales tax. In order to persuade the states to rationalize their tax systems on the lines recommended by the study group, the Government of India appointed an Empowered Committee of State Finance Ministers under the chairmanship of Asim Kumar Das Gupta, the Finance Minister of West Bengal. The Committee recommended switching over to VAT in a given time frame in stages. The Committee recommended the adoption of floor rates by the states to minimize the “race to the bottom”. It also recommended adoption of VAT in 2003, which was repeatedly postponed until April 2005 when finally 21 states switched over to VAT. The Indian VAT only extends to the sales tax up to the retail stage.
with credit allowed of taxes paid on intra-state sales. The inter-state sales tax i.e. Central Sales Tax (CST) will continue to be levied in the same form. It is proposed to be phased out in the next two years (Govind and Kavita Rao, 2005). With effect from April 1st 2007, the rate of Central Sales Tax has been reduced by 1% and is presently levied at 3% only. Some of the salient features of the VAT levied in the states from April 2005 are:

a) The tax is levied basically at two rates, 4% and 12.5% (except for Gold, silver, Precious metals which are taxed at 1%). Basic necessities (about 46 items) are exempted. Most items of common consumption, inputs and capital goods (about 275 items) are taxed at 4% and all other items are taxed at 12.5%. Petrol and diesel have been kept outside the VAT regime and a floor rate of 20% sales Tax is levied on them.

b) The facility of tax credit covers inputs/purchases as well as capital goods for manufacturers as well as dealers. As regards capital goods, credit for taxes paid can be availed against sales over 3 years.

c) The Central Government has agreed to compensate for any loss of revenue due to the introduction of VAT during the 1st 3 years at 100% in the 1st year, 75% in the 2nd year and 50% in the 3rd year respectively. The loss will be calculated by estimating the difference between the projected revenue from sales tax on 2004-2005 base and the actual revenue collected.

d) Tax incentives given to new industries by different states could be continued so long as they do not break the VAT chain.

e) Small dealers with a prescribed threshold in annual turnover (to be fixed individually by the states) need not to register themselves under VAT. However, the dealers with the annual
turnover upto Rs. 20 lacs will have the option either to get registered under VAT or to pay tax at the rate of 1% without any credit for input tax under the “Composition Scheme”.

JAMMU AND KASHMIR STATE VAT: Legal and Constitutional Provisions

Value added tax as a new tax regime, has been introduced in the state of Jammu and Kashmir w.e.f. 1st April, 2005 along with other Indian States. Value added tax is a more harmonious and rational tax system as it has the features of elimination of the problems of double taxation of commodities and multiplicity of taxes and rates that were prevalent in the erstwhile sales tax structure resulting in a cascading tax burden. “The Jammu and Kashmir Value Added Tax ordinance, 2005”, promulgated by the Governor on February 1, 2005, replaced the Jammu and Kashmir General Sales Tax Act, 1962. The ordinance became a Bill on April 3, 2005 when the State Finance Ministry moved a bill in the Legislative Assembly to provide for levy and collection of VAT on the sale and purchase of goods in the state of Jammu and Kashmir (L.A Bill No. 11 of 2005). With this, a new era of tax reforms has begun. The Act and the rules have been largely based on the ‘White Paper’ issued by the Empowered Committee of State Finance Ministers under the Chairmanship of Asim Das Gupta, (Finance Minister of West Bengal) with the objective of bearing uniformity to the extent possible. The paper, however, recognizes that VAT being a state subject, the states will have the freedom for appropriate variations consistent with the basic design.

Every quarter of the society has its own expectations/apprehensions from the new legislation. The government is contemplating increase in the state revenue by virtue of adoption of VAT – a tax on sales from first stage in the state to the last stage when the goods reach the consumer unlike in the past when sales tax was paid only at the 1st stage. Traders feel burdened by the complicated new tax structure wherein they are required to maintain and
preserve detailed accounts of all transactions. Small dealers/manufactures are tight-lipped and apprehensive about the survival of their units and the consumers are enthusiastic that the prices will gradually come down after the launch of new regime.

Some important provisions of Jammu and Kashmir VAT Act, 2005 are summed up below which may go a long way to help traders and manufacturers because they are the most effected lot in the prevailing commercial atmosphere of uncertainty and chaos.

Under the VAT regime, tax liability on sales effected by a dealer, shall be first ascertained on the similar basis as was being done under the Jammu and Kashmir General Sales Tax Act, 1962 and thereafter tax paid on purchases will be deducted and the net amount is to be paid.

HIGHLIGHTS OF THE NEW ACT
1. Tax shall be levied at every point of sale of goods.
2. Taxable quantum (for the purpose of liability to pay tax, registration) has been fixed at Rs. 7.5 lacs. However, for dealers making inter-state sales/purchases taxable quantum shall be nil.
3. A simple ‘Composition Scheme’ (Turnover Tax) will exist for dealers having turnover up to Rs. 20 lacs, who shall pay tax on their entire turnover @ 1% without availing any tax credit.
4. There shall be four rates of tax, i.e., 0%, 1%, 4% and a general rate of 12.5%.
5. A selling dealer can claim credit for tax paid by him on his purchases against tax payable by him on his taxable sales, on the basis of “Tax Invoice” issued to him.
6. All the dealers who are registered and who hold VAT Invoice at the time the prescribed return for the tax period is furnished, are eligible.
for Input Tax Credit, provided the goods are purchased for (1) Sale or re-sale, (2) Use as (i) Raw Materials or (ii) Capital Goods and (3) Packing of Goods. However, no Input tax credit is allowed in respect of (i) Goods purchased from un-registered dealers, (ii) Goods used exclusively for manufacturing, processing or packing of exempted goods specified in schedule-A, (iii) Goods destroyed or lost (iv) Non-creditable goods like Motor Vehicles, Petrol, Diesel, Kerosene, LPG etc., unless purchased for re-sale (v) Goods purchased from a dealer who has opted for the composite scheme and (vi) Goods purchased from a casual dealer.

7. Input tax credit on capital goods shall be available but shall be spread over 3 years. In case of branch transfer and consignment arrangement, no credit is allowed for 1st 4% of Input tax applicable on the goods purchased. Inter-state sale is also eligible for Input Tax Credit.

8. Excess tax credit can be claimed as refund or carried forward to next period.

9. Every dealer has to issue invoices as prescribed by the Act and rules made there under in triplicate. In case a dealer fails to issue Tax Invoice or uses a false invoice, he shall be imposed a fine equal to 10 times of tax payable on each such default or Rs 10,000 whichever is higher.

10. Tax to be deposited and return to be submitted within one month from the expiry of the tax period i.e., a quarter.

11. The scheme of the law is primarily based on self-assessment by the dealer. The scheme carries some other forms of assessment such as:

- Provisional assessment (to be made on the basis of past returns filed when a registered dealers fails to furnish return for any tax period);
• Audit-assessment (to be made where declarations or claims made by the dealer's doubtful turnover, input tax credit, refund etc, exceed a specified limit etc); and

• Re-assessment (to be made where the Assessing Authority believes that some turnover of a dealer has escaped assessment, has been under assessed or assessed at a lower rate, wrongly allowed any deduction or credit).

12. Every dealer already registered under the Jammu and Kashmir General Sales tax Act, 1962, shall be deemed to be registered under VAT under section 104 of Jammu and Kashmir VAT Act, 2005 provided a formal application is made as per the procedure laid down before the jurisdictional Assessing Authority within 3 months of becoming liable to pay tax under the new Act without any fresh fee or security for registration.

13. Section 58 of the Jammu and Kashmir Value Added tax Act, 2005, read with rule 62, makes it obligatory on all dealers registered under the Act to prepare the necessary accounts and keep other related records of goods produced, purchased or sold separately with their value, invoices and bills besides the maintenance of Input tax Register and Output Tax Register on prescribed forms (VAT-48 and VAT-49) respectively.

14. Dealers, whose annual turnover exceeds Rs 40 Lacks, shall be required to get their accounts audited compulsorily by a Chartered Accountant or a Cost and Works Accountant.

15. If a dealer is found to carry on his business in contravention of any provision of the Act or if he fails to file his return or revised return, to produce accounts, register, documents or any other relevant
information without any reasonable cause, shall be imposed a fine of Rs. 5000, a sum equal to 2% of tax payable or Rs. 1000 per month (where no tax is payable) and Rs. 5000 respectively. Similarly, if a dealer liable under the Act fails to get him registered, shall be liable for a penalty of Rs. 5000.

16. In order to enforce, implement and protect the VAT chain, stringent provisions of law have been introduced in the Jammu and Kashmir VAT Act, 2005, under sections 66 (1), (2), (3), (4) and (6). However, appeals and revisions can be filed before different authorities within the specified time to avoid any penalty.

17. On inter-state sales although no VAT is chargeable, yet CST would be charged as it is being done today. The Central Statutory Forms C, D, F and H etc, shall continue to remain applicable until Central Sales Tax (CST) Act, 1956 is abolished in a phased manner.

18. The Government of Jammu and Kashmir has vide its order No. 168, IND of 2005, dated: 30-06-2005, accorded sanction for remission of VAT collected by the large, medium and small-scale industrial units by adopting a novel way of giving incentives to industrial sector which had survived the onslaught of militancy and economic imbalances over more than one and a half decade.

During the past two years of implementation of value added tax in the state, there has been a radical change in its tax map particularly in respect of revenue because a quantum jump has been registered both in tax revenue as well as in the number of dealers registered under this tax system.

Table 4.23 shows a comparative picture of the number of dealers registered under pre and post VAT regime.
TABLE 4.23
TOTAL NUMBER OF REGISTERED DEALERS IN PRE AND POST VAT REGIME IN JAMMU AND KASHMIR

<table>
<thead>
<tr>
<th>Year ending</th>
<th>No. of Dealers registered under pre-VAT regime</th>
<th>No. of Dealers registered under post-VAT regime</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-3-2005</td>
<td>22426</td>
<td>-</td>
<td>22426</td>
</tr>
<tr>
<td>31-3-2006</td>
<td>-</td>
<td>14380+22426</td>
<td>36806</td>
</tr>
<tr>
<td>31-3-2007</td>
<td>-</td>
<td>10055+36806</td>
<td>46861</td>
</tr>
</tbody>
</table>

Source: Compiled from the official records of the Department of Commercial Taxation, Government of Jammu & Kashmir.

The table shows that the number of registered dealers in the state which stood at 22426 in pre VAT regime at the end of March 2005, shot up to 36806 during 2005-2006 and to 46861 during 2006-2007, thereby registering an overall increase of 109% in the post VAT era. Besides, 1734 fresh dealers were registered till ending June 2007.

Table 4.24 presents a comparative analysis of the revenue realized in Jammu and Kashmir during 2004-2005 under General Sales Tax and 2005-06 and 2006-07 under VAT.

TABLE 4.24
REVENUE REALIZED UNDER GENERAL SALES TAX / VAT IN JAMMU & KASHMIR (Rs in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>GST+VAT</th>
<th>GST only</th>
<th>VAT only</th>
<th>Total</th>
<th>% increase in revenue with base(2004-05)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>609.04</td>
<td>609.04</td>
<td>-</td>
<td>609.04</td>
<td>-</td>
</tr>
<tr>
<td>2005-06</td>
<td>740.89</td>
<td>306.82</td>
<td>434.17</td>
<td>740.89</td>
<td>21.65</td>
</tr>
<tr>
<td>2006-07</td>
<td>888.12</td>
<td>254.32</td>
<td>633.79</td>
<td>888.12</td>
<td>45.82</td>
</tr>
</tbody>
</table>

Source: Compiled from the official records of the Department of Commercial Taxation, Government of Jammu & Kashmir.

Note: (General Sales Tax in 2005-06 and 2006-07 represents arrears of sales tax + tax on Commodities and services chargeable under the Jammu & Kashmir General Sales Tax Act, 1962).
EXHIBIT 4.22
TRENDS IN REVENUE FROM VAT

![Graph showing trends in revenue from VAT]

EXHIBIT 4.23
TRENDS IN THE GROWTH OF REVENUE FROM VAT

![Graph showing growth in revenue from VAT]

It is clear from the table that after the implementation of VAT in the state, the tax revenue has registered a phenomenal growth. The revenue realized under GST in the year 2004-05 was Rs 609.04 crores. In comparison, in the subsequent two years, i.e. 2005-06 and 2006-07 (post-VAT period) the revenue has gone up to Rs 740.89 crores and Rs 888.12 crores respectively, thus recording a growth of 21.65% and 45.82% respectively. This implies that the Government’s move to implement VAT in the state was a justified one. It is expected that VAT will help the state in reducing its dependence on the Central assistance for its budgetary support to a larger extent and will ensure a speedy socio-economic development of the state in the years to come.
Realising the social, economic and the academic importance of this new system of tax, an attempt has been made by this researcher in the following chapters to appraise the perception of its stake-holders (the most effected groups) about its various dimensions/constructs (discussed already in chapter 3), in the two capital cities of Srinagar and Jammu separately. In the following pages, the results of the survey are presented.
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