CHAPTER VIII

Conclusion & Strategic Action
In the light of the preceding discussion made under (I) review of literature (II) the model devised for the purpose of the study and (III) the statistical and quantitative analysis of the data collected from the two capital cities of Srinagar and Jammu, the present chapter is devoted to the main findings of the study followed by some recommendations for the policy and decision makers in the field of taxation particularly the commodity taxation for an effective and efficient administration of (i) Valued Added Tax and (ii) other existing local taxes in the state of Jammu and Kashmir. The findings of the study have broadly been classified into 2 categories, viz.:

(I) **Findings relating to VAT which have been discussed under:**

   a) Findings emerging from the perception of Consumers, Dealers and Administrators separately;

   b) Identical findings; and

   c) Contradicting findings.

(II) **Findings emerging from other state taxes**

The suggestions have been presented in two parts viz. suggestions pertaining to VAT and suggestions pertaining to other taxes existing parallel to VAT in the state of Jammu and Kashmir.
Findings Relating to VAT

Consumers

- There is a broader consensus among the consumers about the desirability of adoption of Value Added Tax System as a best substitute for the erstwhile highly suffocated sales tax system. Everlasting relief from hazards of sales tax system and the mobilization of more revenue, have been recognized as the two most important considerations behind the adoption of VAT in the state by the consumers of the sample cities under study. Elimination of short-comings of sales tax through the adoption of VAT is a dream come true and it will in the due course, clear all the decks for the general overhaul and rationalization of overall commodity taxation in the state.

- The conceptual and the theoretical framework of VAT is somewhat difficult to understand. However, the mechanism of computation of tax liability under this system of taxation is marginally simple as compared to earlier tax regime.

- The prescribed rate structure is reasonable, certain and normal because the basic rates being only two (4% and 12.5%) have relieved the consumers from the botheration of multiplicity of rates that they were subjected to under the earlier tax regime.

- Uniformity in rate structure across the states facilitating a free flow of trade has provided a diversified choice to the consumers. The consumers are no more dependent on local production to save the taxes. They can get a product being manufactured or produced outside the state even at a low price in case the margin of profit for the product being offered is low. Difference in tax rates is no more a barrier now.

- VAT has to a reasonable extent succeeded in checking the undervaluation of goods (with an intention to evade the taxes) by some sellers.

- The consumers have expressed a desire that the essential commodities and the commodities of daily use should be fully exempted from VAT.
Luxury items like gold, silver, bullion, precious and semi-precious stones (mostly used by the consumers belonging to higher strata) need to be taxed at a higher rate, than the present 1% rate.

The demand for locally produced goods has increased marginally as under VAT there is no discrimination of tax rates. Uniformity in tax rates has to a reasonable level reduced the diversion of trade, tax rate war and tax exportation. However, in terms of price cut, the consumers have received no relief so far as VAT in the state has bitterly failed in checking the rise in prices. The result is that the consumers have not been able to save their income. Instead, their purchasing power has weakened.

Under the garb of VAT, taking the undue advantage of the ignorance of Consumers, some unscrupulous and dishonest traders sometimes charge more from the consumers and thus deceive them.

The administration of VAT in the state is ineffective as the concerned authorities have totally failed in educating the consumers about its merits before its formal launch in the state. Besides, there is absence of effective penal measures under the VAT Act, to protect the interests of consumers against the greed of local vendors.

Implementation of VAT in the state has caused no effect on the choices, preferences and the overall buying behavior of consumers. However, the choice of consumers is really distorted when he asks for an invoice as with the inclusion of amount of tax, he has to pay more for the commodity that he wants to buy which he tries to avoid at all costs.

The nexus of secret deals and underhand transactions between the buyers and sellers continues to exist to some extent even under VAT as the sellers do not issue the invoices voluntarily and the consumers too do not bother to ask for the invoices which ultimately leads to tax evasion.

Consumers particularly the valley based consumers are a bit shy. This
shyness prevents them from demanding invoices/bills from the sellers. Such a state of affairs provides an opportunity to the dealers to evade the taxes easily.

 Consumers especially the valley based consumers are more conscious about their social relations. There is a general feeling among most of the consumers that if they demand the invoice/memo from the traders (particularly those operating in their localities) it may result in the breakage of their social ties with them. Such a feeling among the consumers acts as a psychological barrier to their compliance and clears all the decks for the dealers to evade the taxes easily.

 Shopping of most consumer/household goods in the state is done by the females. Most of the females are neither price nor tax conscious. They don’t insist for issuance of invoices. Their disregard to invoicing paves the way for evasion of taxes by the dishonest traders.

 Illiteracy of the consumers too plays its role in poor compliance. Since a big chunk of population in the state is illiterate, this illiteracy acts as an obstacle in the smooth operation and administration of taxes.

 Ineffectiveness of the Consumer Protection Act, Consumer Protection Organizations/forums and other law enforcing agencies to safeguard the interests of the consumers in the state, is another important cause for ill-response and disregard to a tax system by the consumers.

 Economic backwardness, poverty and lower standard of living of the people in the state accounts for lower consumption. This lower consumption debar the consumers from paying a serious attention to the tax component in the prices of the goods they consume.

 Adoption of VAT in the state has in no way impinged the relations between the buyers and the sellers. The fact is that both enjoy good relations with each other after the implementation of VAT.
Every prudent consumer favours the merger of other existing local taxes with VAT to enable him to concentrate more on tax component in the product prices.

The continued existence of Central Sales Tax (CST) along with the VAT is another cause of concern for a prudent consumer. The consumers feel that the parallel presence of CST along with VAT unnecessarily creates the confusion and also loads the prices of commodities which adversely affects their pockets.

The valley based consumers are more sensitive as compared to their Jammu consumption mates. The Jammu based consumers owing to their non-sensitivity and relatively little consciousness about prices and taxes, easily fall prey to the greed of dealers.

**Dealers**

The dealers have strongly acknowledged the desirability of adoption of VAT in the state. They feel that basically generation of more revenue and harmonization of relations between the Centre and the State are the two main considerations behind the adoption of VAT in the state. The economy of the state is badly shattered due to the two decades old turmoil. In order to bring the economy of the state back on the rails and to rebuild the devastated infrastructure, the state is in dire need of financial assistance from the Centre. For getting a generous financial support, the state needs to keep the Centre in good humour. This is one of the possible reasons of the adoption of VAT in the state.

VAT is marginally simple both in theory as well as in practice as compared to old tax regime. The rate structure is also genuine.

Self assessment under VAT is a hollow slogan and merely a bait because the Act provides that in case a dealer fails to furnish his return for any tax period and in case the assessing authority believes that a part of dealers'...
turnover has escaped assessment or has been under assessed or assessed at a lower rate, he is subjected to audit assessment and re-assessment.

- Accounting under VAT is complex. It needs trained manpower and advanced technology. A lot of paper work is involved. A bundle of records for daily transactions has to be maintained in the order prescribed under the Act. Failure on this count invites trouble for the dealers by way of harassment and penalties.

- VAT has bitterly failed to bring the prices under control in the state. Instead, it has added fuel to the inflationary fire.

- Jammu and Kashmir is a consumption state. Most of the consumer goods are imported from other states. The cascading effect of taxes is very much present in the materials procured from outside. Goods brought from outside are not entitled to input-tax credit. The presence of cascading effect of taxes in inter-state purchases has debarred the dealers from making an increase in their incomes.

- The exporters are the real beneficiaries under VAT because of zero-rating of exports. Exports have registered a marginal increase after the launch of VAT in the state due to their competitiveness and cheapness for the international market.

- The current threshold limit of Rs 7.5 lacs in respect of annual turnover for registration is low. Even the annual turnover of footpath vendors and tea stall owners especially in Jammu city exceeds Rs 7.5 lacs p.a. So in order to ensure discipline and convenience in tax administration and compliance, a suitable increase in the prescribed limit is desirable. Similarly the threshold limit under the “Composition Scheme” in view of the non-availability of input-tax credit and with an intention to accelerate the rate of compliance needs to be suitably increased. Moreover, the threshold limit for the compulsory audit of accounts by a
Chartered/Cost and Works Accountant involving an additional expenditure for the dealer in the shape of auditor's remuneration, also warrants a reasonable increase.

- The claim for input-tax credit has to a reasonable level reduced the propensity of dealers to evade the taxes.

- For the dealers VAT is an un-economical tax as their compliance costs compared to the old tax regime are very high in view of the requirement for the preparation and maintenance of proper records for which they need to hire the services of professionals against huge amount of remuneration.

- Before the launch of VAT, there were tall claims that it will put an end to the "Inspector Raj" for there would be least interference of the tax officials in the business affairs of the dealers. However, the reality is otherwise. In fact, there is no respite in the interference and the irritating inspections of the premises and accounts of dealers by the tax officials after the implementation of VAT in the state. These inspections and dealers' frequent trips to the department for unnecessary explanations and clarifications are not only the persistent issues of concern but an open attack on the dealers' freedom envisaged by the basic philosophy of VAT. Tax officials' interference and the dealers' visits open the doors for corruption. The corrupt practices of the departmental functionaries contribute heavily to tax evasion and account for a lot of leakage on the revenue front. Fair implementation of VAT requires the credibility and the sincerity of administration. Credibility of tax authorities is a stimulant to better compliance.

- Although the process of registration and the filling up of VAT return forms is simple and easy to be complied with, but a proper and satisfactory arrangement for the acceptance of returns is absent in the Department of Commercial Taxes. Heavy rush of tax payers is witnessed soon after the expiry of the tax period. This amounts to wastage of time, money and energy of the dealers. It also causes mental agony and physical
torture to the dealers which in turn breeds their hatred towards the department. Such a state of affairs creates a negative influence on the better compliance from the dealers.

Rules regarding excess tax payment in any tax period and the taxes paid on goods remaining in the stock of the dealers at the end of a particular tax period are fairly adhered to by the departmental functionaries.

The tax officials are not trained fully. As such they are not able to explain the structure of VAT and the legal obligations of the dealers. They do not possess a reasonable knowledge about all the provisions and the rules of this new tax system.

Barring the opening up of a departmental website to register the grievances, complaints and suggestions, there is not any satisfactory mechanism in the department for the purpose of redressal of the grievances of tax payers. Although the complaints are registered and suggestions made, but the feedback from the department is absent.

The Department of Commercial Taxation lacks the basic infrastructure. The entire official process is manual. Computers and other automation devices are yet to be installed. This phenomenon causes a lot of inconvenience not only to the tax payers, but to the departmental functionaries as well.

The Department of Commercial Taxation did nothing concrete to disseminate a widespread information on VAT procedures before its formal launch in the state. With the result, people in general and the dealers in particular know very little about the benefits of VAT. The department needs to spend much more than it had planned to inform every one about VAT in every language and through all media. To begin with holding of inter-actions with the dealers on regular intervals besides conducting the seminars, conferences, lectures, etc, is of paramount importance to enable them to acquire more knowledge about the working of VAT.
The dealers in the state enjoy the same relations with the consumers and the un-registered dealers that they used to enjoy before the launch of VAT. Besides, the implementation of VAT has in no way affected the choices and preferences of the consumers for the goods they (dealers) deal in.

There is a broader consensus among the dealers for the merger of other existing local taxes with VAT and the complete phasing out of Central Sales Tax to avoid the cascading effect of taxes inherited in CST. This will result in better compliance and hence will add to the glory of VAT.

The structure of Jammu and Kashmir VAT is not similar to the one prevailing in other states especially in her neighboring states in all essential respects because:

- the rate structure is not uniform;
- the threshold limits are also different;
- the commodity classification too differs; and
- the legislations also are mismatching.

The perception of valley based traders about various dimensions of VAT when compared to their Jammu based business mates is less positive because of the following reasons:

- lack of complete knowledge about VAT;
- unfavorable business environment due to the prevailing political uncertainty and disturbances;
- harsh treatment of tax authorities with the traders in a bid to generate more compliance; and
- lack of sense of responsibility among the dealers towards the society.

Administrators

Acknowledging the desirability of adoption of VAT in the state, the administrators believe that the suffocation of commodity tax system
particularly the sales tax system on account of its various drawbacks and more importantly the motive of generation of more tax revenue, are the two main considerations behind the adoption of VAT in the state. Their perception about the desirability dimension of VAT is similar to that of consumers to a larger extent.

- The current rate structure of VAT is reasonable and fair.
- The threshold limit of Rs.7.5 lacs for registration of small dealers is adequate and needs no further increase.
- The remission scheme for the manufacturing/industrial sector has a positive effect on the demand for the local products. This fact stands endorsed by the manufacturers also.
- The existing penalties to deter the tax evaders and the defaulters are effective and adequate. These penalties have to a reasonable extent reduced the propensity of dealers to evade the taxes. The rate of compliance has grown tremendously. Besides, VAT has been marginally effective in stopping the secret deals and the undervaluation of goods by the dealers with an intention to evade the taxes. This has been possible through the tight administration of the tax by the authorities.
- It is undoubtedly true that the VAT laws and provisions lack lucidity and comprehensiveness for a common man. A common man is at loss to understand the benefits of VAT.
- Due to harsh clauses and effective monitoring, there has been a quantum jump in the registration of dealers with the department after the launch of VAT in the state. The number of dealers registered under VAT with the department till 31-03-2007 was 46,61 as against 22,426 only under the erstwhile sales tax system, thus registering an increase of about 109%.
- Tax revenue is also showing a rising trend after every quarter. The rate of growth of revenue recorded under VAT during 2006-2007 is around 46%
as against the average growth rate of 18% in other VAT states.*

- VAT is non-inflationary as it has the power to maintain stability in prices.

- VAT is an economical tax as the cost of administration in view of self-assessment, self-policing, less interference and less litigation is low as compared to the old tax regime.

- The provision of self-assessment and the resultant non-interference in the tax related aspects of business affairs, as not any powerful tool for generating voluntary compliance on the part of traders. However, in order to secure a better compliance, a scheme for awarding honest taxpayers is highly desirable.

- Under VAT, the transaction and compliance costs of dealers are high as they are required to prepare and maintain accurate accounting for which they have to hire the services of trained and experienced accounting personnel.

- An important cause of tax evasion under VAT in the state is the disregard to invoicing by both the dealers as well as the consumers. The consumers often do not demand invoices and the dealers do not issue the invoices voluntarily. This kills the very purpose of VAT.

- Administration has succeeded in checking malpractices in business to a satisfactory level after the implementation of VAT in the state which in turn has increased the rate of compliance on the part of dealers.

- For the redressal of the grievances of the taxpayers, there is not any satisfactory mechanism existing in the Department of Commercial Taxes. This fact has been endorsed by the taxpayers also.

- Rules regarding different administrative aspects such as excess tax payments, un-adjusted input-tax credit for any tax period and audit assessment are strictly followed by the department. Moreover, the department has made all possible arrangements for the acceptance of

returns from the dealers (an observation rightly rejected by the dealers).

- Implementation of VAT has increased the workload (in terms of strict monitoring and additional paper work) of the tax authorities. On the other hand, the available quantum of human and material resources of the department has witnessed no change in terms of improvement after the implementation of VAT.

- The Department of Commercial Taxes has made all possible efforts to inform and educate the taxpayers about the merits of VAT in order to promote the registration of dealers.

- Despite the humble attempts in creating the desired level of awareness among the dealers by the department, they (dealers) lack proper knowledge about the working of VAT. To address this issue, holding of regular inter-actions with the dealers is inevitable.

- The tax officials are fully trained in their job. However, the Department Of Commercial Taxes lacks the basic infrastructure viz. computerization and automation which acts as an impediment in the effective and efficient implementation of VAT. To provide better service to the tax payers, the department needs well designed computer networking and internet facilities.

- VAT is a neutral tax in the sense that its implementation has in no way distorted the consumers' and producers' choices and preferences and the relations between the dealers and the department.

- Besides the complete phasing-out of Central Sales Tax, the need of the hour is to bring all the local taxes under the ambit of VAT. Merger of other state taxes with VAT and the abolishment of CST will ease out the task of its administration.

- The Jammu and Kashmir VAT structure is almost similar to the one prevailing in her neighboring states in almost all essential respects.
There is not any significant difference in the overall perception of administrators of two divisions (Kashmir and Jammu) towards various aspects/elements of VAT.

**Identical Findings Emerging from Stakeholders’ Perception vis-a-vis VAT**

- Implementation of VAT in the state was highly desirable for want of strengthening the state coffers through the generation of more revenue.
- The rate structure is fair, reasonable and genuine.
- Implementation of VAT in the state has to a reasonable extent reduced the chances of tax evasion.
- VAT has proved to be a neutral tax as far as its effect on consumers’ choices and preferences is concerned.
- Parallel presence of CST and other local taxes alongside VAT has been strongly criticized by the stakeholders. All the stakeholders wish the merger of various state taxes with VAT besides the complete phasing-out of Central Sales Tax.
- Computation of tax liability under VAT is easy as compared to old tax regime.
- VAT has reduced uncertainty in rates of tax.
- VAT has increased the compliance cost of dealers.
- Accounting under VAT is complex as it involves a lot of paper work and investment of human capital.
- The Department of Commercial Taxes lacks the basic infrastructure in terms of requisite trained manpower and automation.
- There is no satisfactory mechanism existing in the department for the redressal of grievances of taxpayers.
- In order to create more awareness among the taxpayers and to promote
registration, holding of necessary interactions with the dealers through various media at regular intervals is necessary.

Contradicting Findings Emerging from the Stakeholders' Perception vis-a-vis VAT

- As regards the power of VAT to control the rise in prices, the consumers and the dealers are pessimistic while as the administrators are optimistic.

- The consumers and the dealers of the sample cities are of the view that the authorities have failed in disseminating proper information about VAT before its formal launch in the state. On the other hand, the administrators claim that every possible measure in this regard has been taken.

- The theoretical structure of VAT according to consumers and administrators is not comprehensible to a common man while as the dealers have an opposite feeling about this fact.

- Consumers and the dealers hold a pessimistic view about the welfare dimension of VAT while as the administrators are optimistic about the positive economic effects of VAT.

- According to the dealers, the tax officials are not adequately trained and do not possess sufficient knowledge about VAT. The departmental functionaries on the other hand are not ready to accept this version.

- According to dealers the state's VAT structure is not similar to the one prevailing in her neighboring states, while as in the opinion of administrators, the structure is almost uniform in every essential respect.

- The dealers allege that there is no satisfactory arrangement for the acceptance of their tax returns in the department, while as the department claims that elaborate and foolproof arrangements have been made for this purpose.
MAJOR FINDINGS IN RESPECT OF OTHER STATE TAXES

Excise Duty

- The civilian consumption of liquor is low especially in Kashmir division due to the religious prohibition and the ban imposed by various militant outfits.

- The state loses a significant amount of excise revenue by granting concessions on Sales through Canteen Stores Department (CSD) in the form of lower rates of excise.

- The lower rates of excise charged on liquor consumption by Army and Para-military forces paves the way for diversion of alcohol from CSD quota to Civilian population which besides being a health hazard, causes a great loss of revenue to the state.

- Poor vigil which among other reasons can be attributed to the understaffing of the monitoring department is responsible for the illicit sale of liquor which is rampant in the State.

- The departmental functionaries lack the proper training and technology to check the illegal activities connected with the liquor business.

Toll Tax

- The exemption of additional toll on:
  - raw-materials;
  - the finished goods imported into the State (by the small scale industrial units);
  - some goods of daily use; and
  - the goods meant for army consumption

is working against the very spirit of Toll Tax in the State.

- The system of checks to arrest the evasion of Toll Tax in the state is highly ineffective and inadequate.
The nexus among the tax officials, transporters and the agents operating on the Toll Posts leads to tremendous pillage and loss of revenue from the Toll Tax.

The transporters are unnecessarily harassed at the Lakhanpore Toll Post as their vehicles remain detained for hours together due to the non-availability of a suitable parking spot at the Toll Post.

Stay of officials for a longer period at the Toll Posts is the breeding ground for uncontrolled corruption.

**Motor Spirit and Diesel Oil Tax**

In terms of revenue generation, the tax is highly progressive. From the revenue point of view, after VAT this tax is likely to occupy number one position in the tax structure of the state in the years to come.

The valley based dealers face many difficulties in registration. For the purpose of registration, they have to visit the designated offices at Jammu. This amounts to the loss of their time, money and energy.

A lot of illicit and un-authorized sale of Motor Spirit and Diesel oil takes place in the State due to the nexus among the officials, dealers and the law enforcing agencies.

As far as the checking of licences of the dealers, the renewal of these licences and other necessary vigil related activities are concerned, the administrative machinery is ineffective.

**Taxes on Stamps and Registration**

Unlike in other Indian States, people in Jammu and Kashmir particularly those belonging to Kashmir division in view of lack of knowledge and unwillingness to bear the risks, prefer to make investments in the real-estate rather than in marketable financial securities. So often they have their business in law courts for creating documentary evidences in
respect of transfer of property or other commercial transactions. But it has been observed that the State suffers a heavy loss of revenue in the shape of Stamp duty because:

- Most of the transactions are undervalued by the parties concerned;
- Most of the instruments are substituted by those carrying lower rates of duty;
- With an intention to reduce the tax liability, a number of documents/bills are being amalgamated/clubbed;
- In most cases just to avoid the duty payable, bank transfers and the electronic transfers are being resorted to;
- People pay less attention to the fixation of stamps on the documents, thus causing a significant loss of revenue to the state; and
- The administration of the tax in the rural areas is worst.

It is pertinent to mention here that in the State of Jammu and Kashmir, there is a greater scope for mobilization of additional revenue under Stamps and registration as compared to other Indian States, but the defective administration and the faulty regulation of the tax, are responsible for its poor performance on the revenue front. Lack of basic infrastructure (both human as well as physical) has made the administration of the tax rudimentary.

Entry Tax

Like Motor Spirit Tax, Entry Tax is also a promising tax given its progressive trend in terms of revenue generation.

The tax has proved highly effective in arresting the diversion of trade and the tax exportation thereby encouraging the local trade in the State.

Longer stay of officials at the collection points, provides an opportunity to indulge in corrupt practices to these officials.
Passenger Tax

It seems that the State Government has left the administration of Passenger Tax to the mercy of God as no concrete attempt is being made to bring efficiency in its regulation even if every responsible officer in the monitoring department fully recognizes the fiscal significance of this tax. It has been observed that in view of low rates, Jammu and Kashmir is the only state in the country where the transport is cheaper. The major areas of concern in respect of passenger tax in Jammu and Kashmir are:

- Low rate of existing lump sum tax based on lower utilization of seating capacity of buses;
- Non-payment of tax collected by the transporters from the passengers; and
- The nexus among the transport tax authorities, drivers and the traffic police encourages the unauthorized movement of passenger vehicles especially the light vehicles which results in revenue leakage to a significant level.

SUGGESTIONS FOR IMPROVING THE OPERATION OF VAT

The foregoing discussion suggests that VAT is desirable from several points of view. However, the story does not end here. Since VAT has brought many more tax payers under the tax net and since it requires much more paper work for both the tax payers as well as the tax administrators, hence it demands a thorough examination, exploration and the identification of the ways and means for its effective implementation. It is true that an economically accepted tax like VAT is desirable but it requires effective enforcement. VAT in itself is not every thing and cannot be equally fruitful every where and in all circumstances. Studies have shown that VAT is not applicable in its pure form even in developed countries. Several exemptions have been granted under the VAT system of almost all the countries on administrative grounds. Moreover, some countries are able to levy this tax only at the manufacturing level. So a careful consideration of economic and administrative conditions and the nature of record keeping in the business sector is indispensable.
In Jammu and Kashmir in relation to VAT, various problems are inter-connected and so form a vicious circle. The starting point in this circle is the poor compliance by taxpayers and weak and fractured enforcement of laws by the administrators. The enforcement is weak because of administrative inefficiencies and also because of prevalence of unethical practices. Thoroughgoing reforms are needed to remove these problems. Some suggested reforms are:

- An extensive general information campaign to educate both the consumers and the dealers on VAT should be launched. The campaign should aim to give an idea of working of VAT system and its advantages over other forms of commodity tax. Information may be disseminated through media (both print and electronic). In this connection, services of various advertising agencies, T.V Channels, Cinema Owners and Commercial Broad Casting Sections of Radio and Television stations may be utilized. The advertising agencies be directed to get the VAT related information circulated at least through 4 leading dailies preferably, The Daily Greater Kashmir, The Daily Excelsior (English) and The Daily Aftab (Urdu) and The Daily Amar Ujala (Hindi), in Kashmir and Jammu divisions separately at least twice in a week. The commercial Broadcasting services of two major regional Radio Stations and Doordarshan may be approached for the reservation of appropriate time slots for the circulation of VAT related information preferably in Sheherbeen and daily news bulletins in all spoken languages of the state at least twice in a week. The cinema owners may be requested to disseminate the desired information in their commercial breaks against payments. A VAT consultation programme may be launched and broadcast by Radio and Television at least till the end of the transition period. A VAT public relations unit should be created in the Department of Commercial Taxes which could provide both personal and telephone...
inquiry answering services promptly. Further, in order to acquaint the masses with the benefits of VAT, the government should also utilize the services of some NGO’s with an appropriate financial and technical support.

* For the education of dealers, the trade associations especially the Chamber of Commerce and Industry, Federation of Industries and various traders’ and manufacturers’ associations at the divisional levels have also a great role to play. These associations should share the required knowledge with their members by organizing formal lectures, conferences, seminars, discussions and other inter-active sessions. The traders’ associations should also be involved in the process of incorporation of amendments in the Act as and when the need arises.

* For the education and awareness of the tax payers, special booklets, pamphlets with the examples relating to registration, computation of tax, the filing and submission of returns, payment of tax etc, should be prepared and distributed among them. These matters should also be taught to the representatives of the industry and business sectors.

* Leaflets/brochures printed on VAT system explaining its merits and various prescribed penal measures for the prevention of mal-practices etc, should be distributed widely among the dealers and the consumers free of cost. Besides, posters and hoardings about VAT should be erected in commercial areas. This task should be assigned to some specialist marketing agency. Seminars, workshops, training programmes, public talk programmes, forums and meetings should also be organized by the concerned tax department.

* Mere opening up of Departmental Website is not sufficient. Attempts should be made to set up a Consumer Care Cell with Toll-Free Helpline Numbers facilitating the consumers as well as dealers to
contact and get clarifications about their doubts and apprehensions from the concerned department.

* The Department of Commercial Taxation should open a Training Cell (VAT Training Cell) at each headquarter under the charge of an officer of the rank of the Deputy Commissioner. He should be entrusted with the responsibility of identification and deputation of officials down to the rank of inspectors to various national institutions like National Institute of Public Finance and Policy (NIPFP), New Delhi, Foundation for Public Economics and Policy Research, New Delhi, National Institute of Applied Economic Research, New Delhi, Indian Council of Social Science Research, New Delhi, Indian Institute of Public Administration. New Delhi etc, for receiving training and orientation about VAT. Some of them may also be sent abroad to study and observe the operation of VAT in many countries. For this purpose, the necessary tie-up with the institutions engaged in imparting training and conducting different orientation and refresher courses on tax related aspects is necessary. This would help them to learn from their experiences. After receiving the training, the respective Circle Incharges be directed to organize the awareness programmes for the dealers falling under their jurisdiction at least twice in a year at a venue to be identified by the Deputy Commissioner. The Department should devise an appropriate incentive package both for the participants as well as for the trainers. During the course of programme, suitable arrangements should be made for distribution of printed material about the structure and the provisions of VAT Act, among the dealers.
Possibilities should be explored to establish own training institutions in the two capital cities on the lines of Accountancy Training Institutions and Excise training institution of Nagrota Jammu. Primary reliance should be placed on visiting faculty of experts from within and outside the state.

As far as possible and practicable, steps should be taken to make the VAT laws and rules simple, clear and comprehensible so that common people understand these easily. For this purpose, the department should take the help from legal and fiscal experts. This will reduce the scope for negotiations, personal interpretations and above all the menace of corruption.

The tax authorities should go through the VAT Acts of neighboring states. Every possible effort should be made to bring the Jammu and Kashmir VAT Act and its structure at par with these states in all essential respects like rate structure, various threshold limits, accounting methods, penal measures, registration formalities and other administrative affairs.

Apart from facilitating training programmes for the tax officials, the Department of Commercial Taxation in both the divisional headquarters should design a system of computer technology popularly known as Management Information System (MIS) for the proper administration of VAT. The first and the foremost requirement for the development of MIS relates to human resource development. It is necessary to develop proper training and skills development programme for those using the system. Those developing and using the software have to be provided with adequate incentives. The development of MIS requires the commitment by the senior officers such as Commissioner and Additional Commissioners. MIS will prove very helpful in almost all aspects of tax management such as
registration, tax payment, processing of returns, identification of stop-filers and selection of dealers for audit.

Development of MIS would serve as an extremely important tool to improve VAT management in the state. MIS will also require some important structural changes in the headquarter organization. It will require the establishment of a full-fledged Research and Statistics Wing. After building the MIS, the department should tie up with banks (such as Jammu and Kashmir Bank ltd., State Bank of India, Punjab National Bank etc.) to provide electronic banking services so that e-banking such as on-line tax deposit/refund will be possible. This will reduce transaction time and provide quick information about tax collected together with dealer-wise accounting. It is suggested that the proposed software be developed in-house, keeping in mind the changes in the requirements of the department. The development of the compliant software will go a long way to secure and visualize the transparency among the stakeholders.

To avoid tax evasion, possibilities should be explored for the computerization of the check posts. In this context, it is suggested that the department should introduce bar code system and provide for the creation of necessary physical infrastructure at the inter-state check posts including the processing centers. In the bar code system each dealer can be issued a set of smart cards. The dealer can pass these on to the out of state manufacturer /supplier who in turn are provided with a bar code generating kit at a cost by the vendor. All bills, therefore, should carry a 2-dimensional bar code containing the details of the transaction. The bar code should be scanned at the check post by hand held scanners connected to a computer. Data captured by scanning must be transmitted to the central server via a communication link. Smart card at the manufacturer’s premises keeps a trail of all transactions generated by it. Information from the server
has to be filtered and registered against the specific dealer and transmitted to him periodically to indicate his liability. In this process the honest dealer will not be harassed at the check posts. Scanning will take hardly 10 to 15 seconds. Data will be recorded quickly without holding the carriers for too long. This would help contain corruption. Hand held scanners should be held by Flying Squads.

• As a step towards building a strong infrastructure for the proper implementation of VAT, the department should establish the libraries for reference material on taxation.

• The Department of Commercial Taxation is presently under staffed. Keeping in view the work load of the officials necessitated by the adoption of VAT, besides building of a strong physical infrastructure, the present strength of manpower in the department needs to be increased fairly.

• For the identification of potential tax payers, the mapping of business establishments should be done on priority. For this purpose, services of specialists may be utilized.

• In order to ensure the stability and smoothness in the working of VAT, a State-level VAT Council or a permanent suitable body vested with adequate powers to take steps against the discriminatory taxes and practices and to eliminate the barriers to free flow of trade across the country, should be created.

• If for financial reasons, it is not possible to grant full exemption of VAT in respect of most essential commodities, then the government should keep the levy of VAT in abeyance on these commodities for some more period keeping in view the poverty, the low standard of living of the people, the problem of unemployment and underemployment and the conflicting environment prevailing in the state.
Since the fruit and handicraft sectors are the two major feeding sectors of state's economy, the Empowered Committee of State Finance Ministers should be approached for the grant of total exemption of these two sectors from VAT.

The Committee may also be approached for the extension in the list of exempted items under the goods of local importance. Given that the Jammu and Kashmir comprises three distinct zones, its items of local importance do vary from one zone to another. So in order to accommodate maximum number of items of local importance, the Empowered Committee should extend its list of 0% VAT from the current 10 to at least 25 items in case of Jammu and Kashmir. The items should definitely cover shawls, carpets and wood carving as they have great local importance in the valley. Brick Kilns and stone crushers should also be included in the list for 0% VAT in order to facilitate the re-building of the structures devastated due to turmoil and natural calamities.

To arrest smuggling of precious items like silver, gold, bullion etc., and to strengthen the state coffers, the Committee may be approached for the increase of rate of tax on these items at least by 3% thus bringing these items under the category of 4% tax.

In order to facilitate ease in administration of VAT, the taxable commodities should be coded corresponding to the existing 4 rate structure under VAT.

The demand for a proper invoice or memo is in the interest of the consumer himself. If a consumer fails to seek the invoice from the dealer, he may be in loss on several counts, e.g. he may lose the right of guarantee/warranty, the right of replacement or return of money, the right to get a quality product at a reasonable rate, the right to after-sale service etc. Therefore, in order to safeguard his interests, a
consumer should make a demand for a proper invoice while buying a product. Doing so will kill two birds with one stone. Firstly, he will be able to protect his own interests and secondly, there would be no evasion of tax.

- The Department of Commercial Taxation should constitute the mobile inspection teams under the charge of circle officers to ensure proper invoicing. For this purpose they should be provided with vehicles, mobile telephone facilities and the necessary security cover. The penalty for non-invoicing may also be increased and made more stringent.

- In order to avoid invoice related frauds, the Department of Commercial Taxation should think of some common/unique invoices with holograms and bar codes to the dealers. It would ensure transparency in the system. The invoices should be printed in triplicate. One copy must remain with the department, second with the dealer and the third one with the consumer. Issuing of bar coded invoices would help in Cross checking by a consumer any time after his/her purchase through telephone helpline or simply by sending SMS to Consumer Care Cell.

- The Department of Commercial Taxation should seek the co-operation of other concerned departments like the department of Public Distribution and Consumer Affairs, Police Department, Municipal Co-operations and other law enforcing agencies to ensure a check on prices so that the consumers are not cheated in the name of VAT. There should be a perfect co-ordination in the activities of these organizations to ensure stability in prices.

- Works contracts are presently outside the ambit of VAT. Works contracts are currently taxed under the General Sales Tax (GST) and as such are not eligible for input tax credit. Works contracts should also be brought under the purview of VAT. The claim for input-tax
credit will force the contractors to demand invoices from the suppliers of raw materials. This will ensure not only the transparency in the execution of works but will also widen the scope of invoicing.

• The consumers on their part should behave as responsible citizens. They should realize the fact that the money collected from them in the shape of taxes is spent on their welfare. Therefore, they should never hesitate in demanding the invoices while purchasing the goods. They should never allow their shyness and psychological compulsions to act as an impediment in the payment of taxes. Further, they should be ready to sacrifice their concern for social relations for the sake of the discharge of legal obligations to eliminate the menace of tax evasion from the society.

• Under the provision of self assessment, the possibility of under reporting by an assessee can not be ruled out. Hence a strong audit system should be devised. For this purpose a separate full-fledged audit wing under the charge of Deputy Commissioner (Audit and Vigilance) should be established in the department.

• For the defaulting dealers, a mechanism for advance tax payment on the basis of average sales during some specific tax periods, should be devised.

• Generally the dealers complain that under the garb of harsh clauses of VAT Act, they are being unnecessarily harassed through the imposition of heavy penalties without being heard. It is a statutory as well as a moral obligation of the authorities that besides simplifying and making the provisions of the Act dealer-friendly, the dealers should be provided with an opportunity to defend themselves and in the process they should get full justice.

• The business community also needs to change its mind set. It ought to adopt ethical business practices. It should avoid indulging in any act leading to tax evasion.

• The traders should switch over to computerized system of accounting.
This will ensure not only a proper, safe, speedy, transparent and error free record of transactions, but will also help in eradicating unemployment among the educated youth of the state to some extent.

- It is a high time to devise a scheme for duly awarding the honest taxpayers with some incentive packages to promote registration and compliance.

- The current threshold limit for small and marginal dealers should be increased to Rs. 10 lacs. This will ensure better administration, collection and enforcement of the VAT.

- The threshold limit under the composition scheme in view of non-availability of input tax credit needs to be increased at least to Rs. 40 lacs. This will further increase the rate of compliance.

- Maintenance of computerized accounting and other business related records for a dealer with the annual turnover exceeding Rs. 1 crore should be made compulsory. Dealers whose annual turnover is less than Rs. 1 crore, should be allowed to continue with the manual system of maintenance of records at least till the transition period is over.

- The limit of annual turnover for the compulsory audit of accounts by a Chartered Accountant should at least be increased to Rs. 50 lacs. This will ensure more transparency in accounting.

- Government should think of granting more concessions (in addition to remission scheme) to the manufacturing sector for encouraging the local production. This would surely increase the demand for local products and subsequently will provide the dealers as well as the consumers with an opportunity to save their income as there would be no cascading of taxes in locally produced goods.

- Possibilities for the on-line acceptance of returns from the dealers may also be explored. This will save the dealers from inconvenience and harassment. It will also reduce the chances of corruption in the department.
A suitable formula for the collection of statutory/legal documents from the department by the dealers may be devised. This will reduce the requirement of dealers’ trips to the department resulting in saving of the time, money and energy of both the dealers as well as the tax personnel. In this connection, it is recommended that the task of the dispatch and collection of statutory documents (after being properly filled up by the dealers) may be assigned to surveyors /guards of the respective circles against some incentives. If any dealer fails to comply with the instructions/requirements, he should be penalized by way of suspension/cancellation of registration.

If for any specific reason the goods are seized at the check points like Lakhanpore and Lowermunda, the dealer in question should be informed quickly through phone as otherwise the delay causes an adverse effect on his reputation as he fails to fulfill the commitment to the customers. Some times the goods under warranty returned to the supplier for replacement are seized at Lakhanpore check post for want of the bill. This causes a great inconvenience to the dealer. In such a case, the dealer should be informed through the phone immediately to enable him to produce the documentary evidence for the release of such goods.

Industrial and business establishments may be provided with an uninterrupted and concessional power supply especially during the winter season. Irritating and unscheduled power cuts adversely affect the production and sale of commodities. This results in lesser turnover, and hence a less tax revenue for the government.

As VAT requires an extensive recording and accounting system, a simple recording and accounting system should be developed, printed and circulated among the tax payers. A VAT manual should also be prepared and distributed among the tax officials and other government
departments such as The Department of Industries and Commerce, whose cooperation is essential for the effective implementation of VAT.

Since the base for VAT is the value added to a product, therefore, to arrive at the figure of value added, the preparation of Value Added Statement (VAS) — a statement showing the operating performance of an enterprise for a given period of time using both accrual and matching procedures is advisable. The proposed model of VAS is given as under:

Value Added Statement of ______________________ (name of the business unit) for the period ended _____________________ (tax period).

**Generation of Value Added**

**SALES** Adjusted for opening and closing stocks according to methods applied under financial accounting, + Deductions for commission, Brokerage, Discount etc.

**Add** Income from services.

**Less** Cost of bought-in-materials and services (such as Inputs + Insurance premium + Bank charges + Advertising + Postages + Audit fees + Traveling expanses + Legal charges + Rent etc.

**Gross Value Added**

**Less Depreciation**

**Net Value Added**

**Distributions/Applications of Value Added**

- To employees (Salaries and Wages + Provident fund + Commission)
- To financiers (Interest on Loan)
- To government (Income Tax + VAT + Other Taxes)
- To owners (Profit or Retained Earnings)

**Net Value Added**

This statement should be prepared and presented along with a Profit and Loss Account. It would be a supplement to a profit and loss account. This statement is more suitable for large business enterprises. The statement would facilitate the checking of the returns submitted by large business enterprises more conveniently for it presents the inputs and out-puts in detail.
The main reason why most of the dealers do not know the techniques of accounting desirable under VAT, is that for accounting purposes they generally hire the services of mediocre accountants who because of little or no knowledge of accounting, make wrong assessments repeatedly. Their inability to make correct assessments paves the way for corruption. If for any obvious reason, the dealers themselves are not able to record the transactions and maintain the proper accounting required under VAT, then they should employ the professionals having sufficient knowledge of accounting, company law, banking, auditing and income tax law. Maintenance of proper accounts is a technical job which needs to be performed very carefully by the professionals and not by the touts.

All the local taxes such as entry tax, electricity duty, passenger and goods taxes, general sales tax, toll tax, etc, should be subsumed with VAT to ensure better administration, enforcement, compliance and smooth flow of revenue to the government. It will also make the tax system simpler. The parallel presence of these taxes along with VAT has made it rudimentary. To infuse fresh blood in VAT with an intention to make it more result oriented, these taxes need to be subsumed with VAT immediately. After this restructuring, the structure of indirect taxes levied by the states should be as follows:

- A comprehensive state VAT;
- Excise on alcoholic liquor;
- A toll tax on new roads and bridges;
- Motor vehicles tax for regulation of vehicles; and
- A tax on gambling, horse races and lotteries.

After the implementation of VAT the existence of Central Sales Tax (CST) has no justification. The continued presence of CST under VAT is a negation to the very fundamental feature of VAT, i.e.
elimination of cascading effect. The crying need of the hour is to abolish CST completely. Presently CST is levied at 3%. Instead of phasing it out slowly, it would be in the fitness of things to abolish it completely forthwith. Abolishing CST will make India one whole market and will encourage inter-state trade and commerce.

The State Government should engage and seek the help of experts preferably from the out station economists for working out a Standard/Revenue Neutral rate. Taking, the advantage of the special status which the state is bestowed with by the Constitution, the government after consultations with the Empowered Committee, should seek the permission for its levy in place of four different rates to avoid misclassification and to ensure uniformity in the rate structure. During the study it has been observed that in the confusion of rates, the same commodity was being taxed at two different rates in two divisions of the state. Levy of a single uniform revenue neutral rate would be effective and more result oriented.

Targets should be fixed on yearly basis for increasing the number of registered dealers. The achievement of targets should be linked with monetary and non-monetary incentives for the officials as is in vogue in the banking sector.

A possibility for the introduction of an attractive incentive scheme (monetary or non-monetary or both) for the tax officials should be explored as the effective administration of taxes needs high motivation and integrity on the part of officers and officials. This will definitely help stopping them from succumbing to the temptations inherent in tax administration.

The departmental functionaries should change their mindset. They should act as the facilitators rather than the dictators. They should develop cordial relations with the tax payers. They should extend their
full co-operation to tax payers in every aspect of tax administration.

In Jammu and Kashmir the government has identified and classified about 14 services as goods which are presently put to tax at the @ 8% of turnover under the General Sales Tax Act. Unlike in the case of Constitution of India, under the Constitution of Jammu and Kashmir, the residual powers vest in the State Government. Taking the advantage of this Constitutional provision, the State Government should bring these services either under the ambit of VAT or under the Services Tax Act, to be enacted separately with the provision of set off for in-put tax credit at least till the Empowered Committee finalizes the proposed Integrated Goods and Services Act for the replacement of VAT. Further, it is a paradox that in the State where more than 50% of State Domestic Product (SDP) originates in the Service Sector, its contribution to State exchequer is very low because only a few services have been brought under the tax net. This is a serious macro-economic imbalance which has reduced the overall buoyancy of tax revenue in the state. This is so because the most dynamic sector of the state economy has been ignored for tax purposes. In this connection, it is suggested that more and more services be brought under the purview of tax. This will not only help in correcting the economic imbalance, but will also enable the State Government to garner more tax revenue.

Although the measures mentioned above would create high costs initially, however, they would pay substantially in the times to come. For example, a tax payer education programme would remove the confusion, doubts, tensions and apprehensions of tax payers and they would be in a better position to comply with VAT leading to lower compliance costs. When the requirements of VAT are fully met by the tax payers, tax administrators would not have to put much labour in analyzing VAT returns.
or checking administrative costs. All these measures if taken care of would be helpful for a smooth and effective implementation of VAT in the state.

PROPOSED REFORMS IN OTHER STATE TAXES

Pending merger and subsuming of all state taxes with VAT, the following submissions are made by way of suggestions which may prove of some help in eliminating the short-comings of various taxes levied in Jammu & Kashmir. For the sake of convenience these suggestions are grouped separately under different types of taxes constituting the tax system of Jammu & Kashmir.

Excise Duty

- Fee for each licensee should be strictly related to his turnover for the given area for the previous year and floor rates should be fixed accordingly. This will be a progressive, equitable and rational manner of awarding annual licenses for the IMFL.

- To discourage the consumption of hard drinks, a higher excise duty should be imposed.

- The rates of excise duty, fees and miscellaneous charges should be revised periodically.

- The concession given on sales through the canteen stores department (CSD) in the form of lower rate of excise duty, needs to be reduced substantially. Excise duty on sales to CSD should be brought on par with that for the sales to the civilian population. This will put a check on misuse of concessions which is rampant.

- The Excise Act of the state needs to be recast in the light of the latest conditions, court directions, and the steps taken by other major states in the country. Enactments of the other states need to be examined carefully to adopt such of provisions as may be appropriate. For this
purpose a special cell should be created in the office of the Excise Commissioner.

The responsibility of monitoring court cases should be entrusted to a senior officer in the department. The officer should report directly to the head of the department. Besides, a penal of advocates specializing in the given subjects should be prepared from time to time so as to put forth the cases before the court in a convincing manner. This will go a long way in protecting the revenue interests of the government adequately.

The staff strength of the department may be improved. Equally important is the induction training and periodical training of the staff. In this connection, it is suggested that the already existing Excise Training Institute at Nagrota, Jammu should be upgraded in terms of continuous physical as well as mental training. Primary reliance should be placed on visiting faculty of experts from within and outside the state.

Periodical visits by the senior staff of the department to other states to keep abreast with the developments and initiatives taken by them in various directions would be of immense help in keeping the policies, procedures and other elements of work under constant review. This would also help officers learn form the experience of the other states.

The departmental functionaries should be provided with the necessary equipments like mobile sets, vehicles etc., so that a proper check can be kept on illegal activities of tax-evaders.

The department should be fully computerized to facilitate the fastening of the departmental activities.
Toll tax

- The rates of basic toll charged at various toll posts need to be revised periodically.

- The data generated by computerization of toll transactions at Lakhanpore toll post should be used rigorously to cross check the information furnished by the concerned industrial units to the industries department and the VAT returns filed by the concerned units. Senior supervising officers of the concerned departments should be asked to carry out spot inspections and surprise checks and to furnish monthly reports of such inspections to the heads of departments to plug the leakage of revenue from this source.

- The items of raw-materials which do not deserve exemption should be included in the negative list.

- The alternative course of first recovering toll tax and then giving a drawback or refund after due verification of all details by competent officers of the Industries Department would be a better alternative. This is particularly relevant in the context of the observations made that a number of industrial units are only on papers and a large number of them indulge in selling raw-materials in the market.

- The Toll Plaza at Lakhanpore Toll Post be completed and commissioned as early as possible so as to reduce detention time, harassment and corruption at the toll post.

- The staff at the toll posts should be rotated every year to guard against any vested interest.

- In order to check the smuggling of contra-banned items, scanners should be installed at the toll posts.
Painting of the number of vehicles carrying the goods or animals across the toll posts on all the four sides of the vehicle should be made obligatory for the transporters through a special order for the quick identification of the vehicle so that the loaded goods/animals do not escape from the toll payment.

The department should make necessary arrangements for the installation of computers and for imparting computer training to the entire staff.

Motor Spirit and Diesel Oil Tax

For administrative convenience, the motor spirit tax in the state was separated from the erstwhile General Sales Tax. The reform in this area would be to bring this tax under the ambit of VAT. Keeping in view the progressive nature of this tax and in order to streamline it effectively, it would be in the fitness of things to merge it with VAT.

In order to check the unauthorized sale of motor spirit and diesel oil in the state, the fine should be increased from the current Rs 1,000 to Rs 10,000 or to a sum equal to double the amount of tax evaded, which ever is higher.

Renewal and restoration fee of the suspended licences should be revised periodically.

For the convenience of the Kashmir based dealers, a separate registration office should be opened in Kashmir also.

Penal measures for non payment of tax, failure to file the returns in stipulated time and furnishing of incorrect particulars in returns should be made more stringent.
Entry Tax

- The staff at the check posts may be changed frequently.
- The check posts may be provided with adequate staff.
- An attractive incentive scheme may be devised for awarding the honest and most dedicated staff posted at the check posts.
- The rates of tax may also be revised periodically.
- In order to increase the buoyancy of the tax, it is suggested that concessions given to small scale industrial units (SSIs) and the contractors should be withdrawn immediately.

Stamp Duty and Registration Fees

- One of the major problems with the stamp duty and registration fees is the undervaluation of transactions. The higher rates of stamp duty are considered to be the main reason for this undervaluation. In this connection, it is suggested that the present rate structure applicable for cities, towns and villages should be slashed down. The rates may be Rs 5000 per lac for cities, Rs 2500 for towns and Rs 1000 for villages. This will to a larger extent arrest the propensity of the parties to evade the taxes.
- Bank transfers of the amounts involved in the transactions which are liable for stamp duty should be banned forth with.
- The Stamp Act of the state is outlived. It needs to be recast in the light of changed conditions and requirements.
- From the individuals and institutions selling/offering services, a lump sum amount based on a well thought out formula/criteria may be charged in the form of stamp duties.
A lump sum amount in the form of stamp duty for providing electronic services like mobile recharging services etc., may be charged from the service providers.

The basic infrastructure (both in terms of men and material) of the administrative department may be strengthened to ensure the proper administration of the tax.

All the government departments, institutions and the registered service providers through a “circular”, may be directed to print/inscribe the instructions regarding the obligation of payment of stamp duty on the documents to be issued by them.

Registration of documents may be affected by the concerned agencies only after obtaining a certificate from an officer not below the rank of the Deputy Commissioner (stamps and Registration) in order to arrest the evasion of tax.

Courts generally dump the six months old record in Mehafiz Khana (safety store) thus creating impediments in the inspection of records. The courts may be directed to preserve the records at some safe and convenient place to ensure an easy access to the same for the departmental functionaries.

The regulation of the Act is worst in rural areas. In this connection, it is suggested that an officer of the rank of Commercial Taxation Officer (CTO) with the necessary subordinate staff (inspectors, sub-inspectors and guards) may be posted at each district headquarter.

Possibilities should be explored for a secured alternative/substitute to stamp papers in the shape of Tax Meters for the purpose of stamp duty as is existing in various states. The system may be introduced only after considering a package for those who are likely to be retrenched with the introduction of the machine.
Passenger Tax

The facility of lump sum payment of tax may be withdrawn and all transporters may be asked to pay the tax on the basis of actual collections. The remittance of the tax by transporters on weekly basis should be made obligatory.

In order to make the tax more progressive, the rates of tax for the light and luxurious vehicles like tempos, video coaches, sumos, etc., may be fixed at Rs 1500 p. a. and for a matador at Rs 3000 p.a.

REIMPOSITION OF SOME ABOLISHED AND SUSPENDED TAXES AND IMPOSITION OF SOME NEW TAXES

Property Tax

Property tax also called as the Urban Immovable Property tax in some states is a great source of revenue to almost every state in India contributing significantly to the revenue. Jammu & Kashmir was also levying this tax under the Jammu & Kashmir Immovable Properties Act, 1962 till March 31st 2002. However, in view of the dismal performance of this tax on the revenue front due to the following reasons, the levy of this tax was abolished w.e.f. April, 2002:

- Higher cost of collection (the cost of collection was higher than the revenue generated from the tax);
- Submission of incorrect information about the rentals collected by the land lords;
- Failure of the administrative department (Department of Commercial Taxation) to conduct the periodical survey of the urban areas for assessment purposes;
- Lower base and coverage of tax (the tax was confined to let out properties only);
Political interferences in the levy of tax;

Rampant corruption in assessment; etc.

However, in June 2006, a proposal based on the recommendations of the State Finance Commission constituted by the then government under the chairmanship of justice Kotwal in 1999 which was later endorsed by the Lanker Commission on Municipal Finances also, was moved by the Srinagar Municipal Corporation wherein it has been proposed to levy the tax at a flat rate of 15% of annual rental value of the building. The proposal is still awaiting government approval. In this connection, it is suggested that the said proposal may be approved without any further delay. The proposal if approved, will go a long way to improve the financial health of municipal bodies and hence will to a great extent, reduce the burden of the state government to provide budgetary support to these institutions.

Entertainment Tax

Like the property tax, entertainment tax also occupies a significant place in the overall tax structure of many states in India. Prior to 1989 (the beginning of political uncertainty in Jammu & Kashmir), this tax used to contribute progressively to the exchequer. However with the onset of militancy in the state, the tax started showing a declining trend. With the result, the government suspended the levy of this tax w. e. f. April 1st 2003. The suspension is proposed to continue till 2015. The tax was levied in the state under the Jammu & Kashmir, Entertainment Tax Act, 1963.

It is suggested that the levy of this tax may be restored and in this connection, attempts may be made to:

- Re-open all the closed cinema theaters in the valley of Kashmir;
- Introduce a tax on cinema and video parlor advertisements;
- Levy the tax @ 100% of cost of entrance tickets on all cultural and entertainment shows to be held against payments;
Earmark the revenue collected after deducting the cost of collection for the local bodies from whose area it will be collected as it would help in close monitoring of the collection;

Cable operators may also be brought under the tax net;

Entertainment duty may also be charged on Gondola Cable Car Trips at Gulmarg, Amusement parks, Urban Haats and exhibitions.

It is surprising to observe that even after the exemption of entertainment tax, the cinema and theater owners are charging full amount inclusive of entertainment tax from their customers. The department of excise should immediately look into the matter and take strong punitive action against the defaulting cinema and theatre owners.

Tourist Tax

Jammu & Kashmir has a number of places which attract a large number of tourists every year. The state is blessed with a great potential for tourism of all kinds such as pilgrim, adventure, cultural etc. Vishnu Davi & Amarnath shrines attract lacs of tourists from different corners of the country every year. The general tourists (local & foreign) do also come to the state in large numbers. The state government has to spent considerable amount on looking after law and order, infrastructure and other facilities at these places. In view of the critical financial position of the state, it is suggested that:

A tax of Rs 500 per tourist may be levied on all non Jammu and Kashmir Indian tourists visiting the state;

In the case of foreigners, this tax may be fixed at $20 per person;

The tax may be payable only at the 1st place of visit and stay in the state;
The hoteliers may be directed to recover the tax from the tourists; and

The receipts from this levy may be credited to a separate fund which may be earmarked for providing necessary facilities to the tourists.

Local Cess on Petrol, Cigarettes and Liquor

Given the present dilapidated condition of the roads in Jammu and Kashmir, it is suggested to impose a 1% cess on petrol and 2% cess on cigarettes and liquor being sold in Jammu and Kashmir. The money so generated should be spent exclusively for the maintenance and up-gradation of the roads and for the beautification of the capital cities which in turn could help the local economy to grow.