CHAPTER V
TAX EVASION IN GENERAL -
EVASION OF ENTERTAINMENT TAX IN PARTICULAR

Tax evasion is a world-wide phenomenon, it exists where ever there are taxes. A high degree of tax evasion can sharply reduce the value of incentives and affect allocative behaviour.¹ The tax evasion and black money are closely and inextricably inter-linked. While tax evasion leads to the creation of black money, the black money utilised secretly in business for earning more, inevitably leads to tax evasion. Black money and tax evasion, which go hand in hand, have also the effect of seriously undermining the equity concept of taxation and robbing its progressiveness.²

A distinction is generally made between 'avoidance' and 'evasion' of the tax. The term tax avoidance is taken to refer to arrangements by which a person acting within the purview of law, reduces his true tax liability. Evasion on the other hand, denotes down right defrauding of revenue through illegal acts and deliberate suppression of the facts relating to true tax liability.

It is necessary to review the extent of tax evasion, black money, causes of black money and remedies to control black money in general as a background to comprehend fully the problem of the evasion of entertainment tax in Andhra Pradesh. In sequence the meaning, nature, extent and methods of black money are explained in the following study because black money and tax evasion are closely inter-linked with each other.

**Meaning of Black Money:**

The term Black Money (alias the parallel economy, unaccounted money, underground and unreported money) would indicate, the accumulation of that income which does not figure in accounts, the objective being to evade taxes. According to National Institute of Public Finance and Policy (NIPFP) Report (1985), "Black money or black income is aggregate of incomes which are taxable but are not reported to the tax authority". The total of black income generated in the country is simply the total of black incomes made by all tax entities in the nation.

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Magnitude of Black Money in India:

For more than three decades experts have been quas-
timating at regular intervals on the volume of black money
and dutifully suggesting remedial measures to eradicate
this menace. In 1953-’54 Professor Kaldor estimated the
black money in circulation at Rs.600 crores, constituting
6 per cent of the GNP. In 1968-69, the Wanchor Committee
put the figure at Rs.1,600 crores (6 per cent of GNP), while
Dr. D.K. Rayeker estimated the amount at Rs.3,000 crores
for 1969-70. Prof. J.C. Sadasara also estimated that in
1981 the total amount of black money was roughly about11,000
crores which was 10 per cent in national income. The report
of the National Institute of Public Finance and Policy (NIPFP)
on ‘Aspects of Black Money in India’, shows that the extent
of black money in 1983-84 was between Rs.31,584 crores to
Rs.36,786 crores that is between 18 per cent to 21 per cent
in G.M.P.

Again, it may be noted that the estimates of
(NIPFP, between 1980-81 and 1983-84) black income as percent-
tage of GNP rose from somewhere between 15 to 18 per cent
to somewhere between 19 to 27 per cent. From Rs.600 crores
in the Kaldorian days of early fifties black income has
galloped to well over Rs.36,000 crores in 1983-’84.

5. Agarwal, S.K., To fight with the Menace of Black Money,
For measuring the extent of black money different methods are used in recent years. In sequence the following are the broad approaches:

i) Fiscal approaches,

ii) Monetary approaches,

iii) Physical input approaches,

iv) Labour market approaches, and

v) National accounts approaches.

Prof. Chopra deployed Fiscal approach and arrived at the amount of about Rs.8,098 crores in 1976-77 as black money.

The leading causes for the generation of black money are: prevalence of high tax rates (the first and foremost reason for tax evasion), inflation, political funding, scale of Government spending, general laws and regulations, all-pervasive economic controls and the continuing deterioration in moral standards among people with money.

To fight with the menace of Black Money Government has to take necessary remedies to curb the black money such as simplified taxation, financing of elections, removal of

price controls, relaxation of rent control laws and
administration of laws and promotion of high standards of
honesty in administration. Tax evasion represents the
major portion in black money. To reduce the extent of
black money it is necessary to minimise the tax evasion.
The NIPFP Report (1985) emphasises that a package of
consistent measures are needed if any significant success
is to be achieved in tackling the menace of black money.
The first requirement for tackling the problem of black
income generation is clean administration at least at the
level of political authority and top civil servants.
**Measuring of Tax Evasion**

The worst consequences of black money and tax evasion is their pernicious effect on the general moral fibre of the society. Black money and tax evasion have an adverse effect on economy. The Wanchoo Committee pointed out that it is no exaggeration to say that tax evasion is like a cancerous growth in the country's economy which, if not checked in time, is sure to lead its ruination. Prof. Kaldor attempted to make an estimate of the extent of tax evasion in 1956.

A high degree of tax evasion can sharply reduce the value of tax incentives and affect the allocative behaviour. It is not the existence of tax evasion, but its extent that is a cause of major concern for tax policy-makers and tax administrators. Thus, measuring the size of tax evasion is useful because it gives policy makers some idea about the reliability of their policy analysis and the expected effectiveness of their policy prescriptions. However, the direct measurement of tax evasion is inherently difficult.

In measuring tax evasion two major conceptual issues arise. Two concepts of tax noncompliance are used, one emphasizing its legality and the other its effect on

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revenue production. The estimates are used as proxies for
tax evasion; the estimate of the underground economy and that
of tax non-compliance and these estimates deal with unaccounted
income in the national income accounts, while the other for
tax purposes.  The first one the monetary approach to tax
evasion originated from attempts to measure the size of
underground economy with three variants i.e., the fixed
ratio, the currency denomination, and the currency equation,
and second one is physical input approach to compare income
reported in the tax returns and income in the national
income accounts.

The main causes of tax evasion are mentioned in
sequence, the high rates of tax evasion, complexity in tax
laws, inadequacy of powers, shortage of experienced personnel,
absence of deterrent punishment to tax evaders, lack of
publicity and moral and psychological attitudes of tax payers.

9. Ibid., p.12,
It is observed that the tax evasion is a global issue hampering economic development. The remedial steps that are being taken by the central and state Governments are not so effective so as to fight with the menace of tax evasion and black money. Though evasion of tax is common to all classes of citizens, opportunities for evasion are largest when the income is derived from business, profession and political participation.

The extent of tax evasion from direct taxes particularly income tax appeared at maximum level. Evasion of income tax is a common practice in India - in view of high profits through understating of income and wealth. In addition to that there are always some loopholes under the system of tax administration and enforcement.
Evasion of Entertainment Tax in Andhra Pradesh:

Generally the evaded tax is defined as the difference between the legal and the realized tax potential. Widespread tax evasion has serious consequences for the economy's fiscal system. The most obvious consequence is the loss of revenue that should have accrued to the exchequer. The long-run consequence of such revenue is to reduce the built-in-elasticity of the tax system and increase of black money.\(^{10}\) Tax evasion on legal activities has been only one, though probably the most important source of black income.

That evasion of income tax exists at present is beyond question. The citizen who is deficient in public spirit has always, aimed at paying less than his fair share of the nation's expenses, and it is safe to assume that he will always continue to do so. This may be said with regard to every tax, but it is specially true of the income tax.\(^{11}\) Several Committees expressed their views and suggestions with regard to tax evasion and estimated the extent of evasion.

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In Andhra Pradesh also tax evasion and tax avoidance are not unknown in respect of direct taxes, local taxes and particularly sales tax. The extent of tax evasion was high in entertainment tax particularly before the introduction of slab system. In general state sales tax system tends to find rampant evasion. In the tax structure of local bodies property tax, profession tax and vehicle and animal taxes tend to be vulnerable for avoidance and tax evasion.

The present study is exclusively concerned with entertainment tax, it is important to observe the extent of entertainment tax evasion in Andhra Pradesh. It is necessary to assess the nature of tax evasion in percentage system which was imposed on admission to entertainment (up to 1984) and in the present slab system introduced in 1984. The problem of evasion was relatively greater in respect of the entertainment tax particularly before the introduction of slab system.
Though the entertainment tax is levied and collected by state Government, 90 per cent of the tax proceeds are assigned to local bodies which is the main source of revenue to the local bodies. For instance in Kurnool Municipality entertainment tax proceeds were Rs.6.53 lakhs in 1970-71 and Rs.38.48 lakhs in 1980-81 which constituted 10.27 per cent and 20.47 per cent in total revenue of the council. But the wide fluctuations that occurred with regard to entertainment tax revenue are due to the high extent of tax evasion under the percentage system. After the introduction of slab system in 1984 it is a fixed source of revenue to the local bodies.

To make comparative analysis relating to the tax evasion it is necessary to observe the nature of levying the tax in Andhra Pradesh under Entertainment Tax Act, 1956 and Andhra Pradesh Entertainment Tax Act (Amendment), 1984. The Andhra Pradesh Entertainment Tax Act, 1956 provides for the levy of tax only on entertainments relating to cinematography exhibitions. The tax is leviable at rates varying from 35 per cent to 45 per cent on the admission of entertainment. In this procedure of levy and collection of entertainment tax, evasion of tax is a major problem.
The methods of evasion of entertainment tax generally practised are issuing of complementary passes without any restrictions on the percentage of the total seats of a particular class or even allowing entries without complementary passes. Evasion of entertainment tax is also possible if tickets are issued without official seal or with a bogus seal. By allowing persons to sit in upper classes after taking the difference between the upper class and lower class tickets and thereby avoiding tax of higher class tickets and actually paying tax of lower class tickets is another method. Evasion of entertainment tax is also possible to a large extent by understatement of the number of shows and filing of false daily collection reports and resale of used tickets. Apart from these methods of tax evasion administrative lapses, ineffective collection of tax and corrupt nature of executive to some extent are the main reasons for the low level of tax revenue.
The overall extent of evasion of entertainment tax in Andhra Pradesh is said to be the order of 30 to 40 per cent per annum with the enforcement of percentage system. Evasion of entertainment tax is reported largely in small towns rather than in cities where there would be infrequent and improper checking and verification by commercial tax officials. In big cities the collections were expected to be better and the extent of evasion was less. Complaint of evasion of entertainment tax was made by almost all municipal authorities in Andhra Pradesh. For instance, it was estimated that the evasion of entertainment tax was of the order of 40 per cent due to the malpractices of the management in Kurnool Municipality.

In view of wide fluctuations in tax collections and large scale tax evasion state Government amended the Andhra Pradesh Entertainment Tax act, 1956 and implemented the new tax system which is called as 'slab system' with effect from 19-4-1984. According to slab system the tax is levied, in short, at rates varying from 14 per cent to 24 per cent on gross collection capacity per show according to the status

of local body and the class of theatre with the specified number of shows per week irrespective of collections. After the introduction of slab system evasion of entertainment tax was largely controlled. It is a constant source of revenue to the local bodies without any wide fluctuations in tax collections. It has minimised the harassment of the exhibitors. In the personal interview by the author all the proprietors of theatres in Kurnool town expressed their satisfaction over this. It is observed that after imposition of slab system the tax amount payable by exhibitors increased by about 40 per cent over the previous payments. But the incidence and burden of tax was increased on cinema goers because along with slab rates admission rates also were increased in 1984. Nevertheless it is a matter of satisfaction that the evasion of entertainment tax is reduced to a minimum level by the introduction of slab system.

If evasion of entertainment tax can be controlled successfully, the revenue position of the Municipalities will be improved, as 90 per cent of the proceeds of entertainment tax are assigned to local bodies. This enables the municipalities in the State to augment their resources, for providing the basic amenities to the citizens since entertainment tax is the major source income particularly after introduction of slab system. For instance, the proceeds
of entertainment tax increased from ₹41.33 lakhs in 1983-84 to ₹49.66 lakhs in 1984-85 in Kurnool Municipality. This meant an increase of 0.33 lakhs with the annual growth rate of 20.15 per cent. It may also be noted that the elasticity and buoyancy co-efficients of entertainment tax were high in Andhra Pradesh particularly after introduction of slab system with new tax rates. It may be remembered that effective administering of tax increase of rates and minimisation of tax evasion are the main reasons for high co-efficients. Anyway with the enforcement of new tax system entertainment tax has become the major source of revenue to the local bodies.

In view of fixed slab rates specified, according to the status of local body and class of theatre, it is observed that there is the least possibility to evade the tax. The exhibitor should pay the specified amount regularly for every week under section (5). If a proprietor fails to pay the amount of tax on the due date, such amount of tax shall be recoverable with interest calculations at such rate specified under section (8). It is observed that the magnitude of tax dues decreased with the new system. Previously it was a common practice to pay the tax irregularly. For instance,

the balance amount decreased from ₹1.11.18 lakhs to ₹6.28 lakhs after the introduction of slab rates which insists on payment of the tax amount on due date. In view of fixed slab rates, strict administration and effective collections have curtailed the extent of tax evasion.

However, it may be noted that the tax avoidance and tax evasion seem to take place even under the new tax system. Some of the exhibitors resort to the system of excess booking which is the additional capacity to the specified. Entertainment tax evasion is also possible by reducing the specified seating capacity with the Government permission, but actually allowing or making arrangements to seat the normal number of persons. In view of high tax rates on high class seating, exhibitors are diverting their seating capacity from high class to lower class to minimise the amount of tax. It is thus important to note that the tax evasion is possible even under the new tax system. For example under the slab system the entertainment tax is levied at rates varying from 14 per cent to 24 per cent on gross collection capacity according to the status of local body and the position of a theatre with the specified shows per week. Actually the act determined the limit of shows to impose tax according to the status of local body i.e., 22 shows for Municipal Corporations and
selection grade Municipalities, 21 shows for special, first, second grade Municipalities, 17 shows for third grade Municipalities and finally 14 and 7 shows for Grampanchayat permanent and touring theatres respectively. But, actually and obviously particularly in urban areas exhibitors are running about 7 to 12 additional shows per week without paying any tax. In practice this is one kind of tax avoidance. In view of this Government should calculate the rate at minimum level like surcharge on additional shows. In addition to the above things proprietors are filing false daily collection registers by showing low collections because some of the proprietors are trying for old percentage system in case if it comes in to effect it is easy to evade tax in future by not showing the actual particulars of the concerned theatre. Any way the possible magnitude and extent of entertainment tax evasion appear to be low at present.
To strengthen the utility of the study the author interviewed and collected the views of distributors, proprietors, producers, tax officials and municipal authorities regarding the slab system of the Entertainment Tax. They expressed their views with regard to the pros and cons of amended entertainment tax, the nature of levying and collection of tax, prospective of the tax and finally the problems involved in paying fixed amounts. Most of the persons interviewed, expressed their satisfaction on slab system which is easier to collect and easy to pay regularly. Municipal authorities expressed their deep satisfaction over the increased collections of entertainment tax. In general, majority of the distributors and exhibitors expressed their satisfaction over the slab system and made some suggestions to reduce the tax rate so as to allow the film industry to prosper. But most of the producers and some of the exhibitors argued against the slab system and wanted the restoration of the old system. The detailed views on entertainment tax given by different individuals and institutions are given below. In sequence the views of distributors, exhibitors, producers, commercial taxes officials and municipal authorities are explained and analysed.
Views of the Distributors:

1) Rayasankar Film Distributors:

The managing partner and the secretary of Rayasankar Distributors Association, by name A.V.S. Prasad, expressed his views in favour of the new system. He appreciated the slab system and made suggestions to reduce the slab rates to some extent. The evils of tax evasion, harassment by officials and revenue fluctuations in entertainment tax were reduced after the introduction of slab system. He expressed great concern over the problems of 'C' class and rural theatres in the payment of tax in view of the low collections and high tax rates. He suggested that Government should understand practical difficulties and make arrangements to develop the film industry by reducing the tax rates by 2 per cent to 3 per cent. However, he was of the view that the slab system is a useful improvement over the earlier one. But Government should protect the interests of the film industry and help in its development.

11) Tirumala Film Distributors:

The managing partner and Honorary Joint Secretary to Andhra Pradesh Film Chamber of Commerce showed keen interest in the study and expressed his views on entertainment tax. He expressed his satisfaction over the introduction of the slab system. He forwarded the resolutions of the Andhra Pradesh
Film Chamber of Commerce which was held in May, 1987. Most of the members (about 80%) expressed their acceptance of the slab system but unanimously wanted reduction the slab rates by 3 per cent or 4 per cent or restructure of slab rates according to population range with the variation of 2000 for every step. However the remaining members wanted the scrapping of the slab system. He mentioned that particularly 'C' class theatres and touring talkies are facing difficult problems with regard to tax. He strongly opposed the move to start disc antenna's and video parlours without licence which have become the main competitors to the industry. He made a statement with regard to the problems of entertainment tax in "Andhra Jyethi" daily on 9th April, 1987.

iii) VMC Film Distributors:

The managing partner of the above mentioned firm expressed his opposition to the present high rates of taxation. He strongly pleaded for reduction of tax rates to certain extent. He asserted that slab system is not the real reason for the 'Slump of Film Industry'. The main reasons are high cost of production, heavy competition of films, low quality in films and poor response from distributors. He suggested that Government should take effective step to combat unlicensed Video parlours, disc antenna's and 16mm Mobile films.
iv) Vijsva Radhika Combains:

This film distribution combine also sharply opposed the high rates of taxes particularly on rural theatres which are getting low collections. He denied the possibility of tax evasion under the slab system. Tax evasion is being practised to some extent in rural areas by over issue of tickets. He suggested that Government should reconsider the fixed slab rates which are very burdensome to the theatres locate far away from the town.

v) Ari Lakshminarayana Rao Combains:

The management expressed satisfaction over the introduction of slab system and suggested that slab rates should be decreased by 3 per cent to 4 per cent facilitate the growth of film industry. He wanted the existing high tax rates on Air-conditioned theatres to be reduced because A/C theatres are providing more facilities with the same admission rates. Slab rates should be higher to the centrally located theatres as distinguished from theatres on the outskirts. He said that tax evasion is not now a normal practice with regard to additional running of shows he said that it is permitted by law after taking into account the over all situation. Slab system is not the only reason for 'Slump' high rates of casting, technicians, high cost of production and the existence of middle men are the principal reasons for the prevailing 'slump' in film industry. Slab system is an obstacle to the production of low budget films in view of low of collections. He pleaded that slab rate should be reduced on the old films.
In view of the different reactions on the slab system and the need to discuss the problems involved, A.P. Chamber of commerce held a meeting in May, 1987. The members expressed different opinions on the slab system. Most of the members (about 80%) expressed their satisfaction over the prevailing slab system with an appeal that the slab rates should be either decreased by 3% to 4% or should be restructured according to population range and income potentiality of the place in the interests of safeguarding the film industry.

However, some of the members strongly condemned the introduction of slab system. The President the West Godavari Film Distributer's Association strongly opposed the slab system and submitted a paper on entertainment tax at the meeting. After the introduction of the slab system the film industry is facing new problems and the low budget films are facing many more problems. It is a huge burden to the theatres on the cut skirts and rural theatres because of high taxes on the gross collection capacity. According to him after the introduction of the slab system film industry is facing a 'slump'.

According to him Government is liberally giving permissions to start new theatres without taking into account the longrange problems of this policy. The number of cinema houses increased tremendously in A.P. It is to be noted that A.P. stood on top of the all states in the country in respect of the number of cinema houses. A comparative picture of the number of theatres in A.P. and other states and the number of persons per theatre presented in the table 5.1.
### Table 5.1

NUMBER OF THEATRES IN DIFFERENT STATES

<table>
<thead>
<tr>
<th>State</th>
<th>Population of the</th>
<th>Number of Districts</th>
<th>Number of Theatres</th>
<th>Average Population per theatre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>5,35,49,673</td>
<td>23</td>
<td>2,335</td>
<td>23,000</td>
</tr>
<tr>
<td>Assam</td>
<td>1,98,96,843</td>
<td>16</td>
<td>200</td>
<td>99,500</td>
</tr>
<tr>
<td>Bihar</td>
<td>6,99,14,734</td>
<td>38</td>
<td>368</td>
<td>1,90,000</td>
</tr>
<tr>
<td>Gujarat</td>
<td>3,40,85,799</td>
<td>19</td>
<td>554</td>
<td>61,800</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>5,21,78,846</td>
<td>45</td>
<td>539</td>
<td>96,000</td>
</tr>
<tr>
<td>Haryana</td>
<td>1,29,22,618</td>
<td>12</td>
<td>105</td>
<td>1,23,000</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>42,80,818</td>
<td>12</td>
<td>28</td>
<td>1,52,900</td>
</tr>
<tr>
<td>Jammu-Kashmir</td>
<td>59,87,389</td>
<td>14</td>
<td>34</td>
<td>1,76,000</td>
</tr>
</tbody>
</table>

**Source:** Article on slab system submitted in a meeting of A.P. Film Chamber of Commerce, Hyderabad, by L. Narayana Murthy.

Andhra Pradesh Film Chamber also made a strong plea with regard to the exemption to the old films. Initially the Government granted 20% tax concession for a commercial week, (G.O. No. 168-1986), for those films made five years earlier. The chamber objected to this because it is not always possible to run an old film for a full commercial week so as to get exemption in view of low collection. Hence, it made a request to the Government to grant at least 50% tax concession on the old films without insisting that it should run for a full commercial week.
Views of the Exhibitors:

The author interviewed theatre owners of Kurnool, Nandyal and Koilkuntla towns so as to get first hand information on the working of the slab system. Most of the exhibitors expressed their satisfaction over the introduction slab system. But some of the owners expressed their opposition to the system particularly uniform rates for all theatres in a town irrespective of their location. They pleaded that it is necessary to reduce the tax rates to some extent. After the introduction of slab system the harassment of tax administration decreased and the payment of tax has become easy. But the amount of tax is increased by 40 per cent after the introduction of slab system and at the same time admission rates also are increased. Ultimately the burden is shifted to cinema goers. In view of high taxes on A/C theatres some theatres were compelled to disconnect the air conditioners. For instance Anand theatre (A.C.) in Kurnool was converted into an ordinary theatre to minimise the tax amount. Infact some theatres want to reduce the seating capacity. In Kurnool and Nandyal towns some theatres did reduce their seating capacity so as to minimise tax amount. Most of the proprietors pleaded that the slab tax rates should be reduced by 3% to 4% and it is to be restructured according to population and income potentiality of the place.
Views of Producers

Most of the producers, however appear to be opposed to the present slab system which is regarded as the main cause for the prevailing 'slump' in the film industry (Sri Surendra Babu Producer, S. Venkataratnam Producer of Vijaya Pictures and Dasari Narayana Rao). They think that it is curse to low cost films particularly with new actors. They therefore want the restoration of the old system.

Commercial tax department officials expressed their satisfaction and appreciation to the working of slab system because it is easier to collect the tax money and to forecast the tax amount. If any exhibitor fails to pay the tax they can collect such dues with interest. The collections from entertainment tax increased steeply. If any exhibitor tries for over issuance of tickets they can check it through inspections.

Municipal authorities also expressed their satisfaction over the slab system because it contributed a large amount of income to the municipalities. It is a constant source of income to the municipalities (after the introduction of slab system). Hither to, there used to be wide fluctuations, intax revenue due to tax evasion and other problems. In view of the growing importance of local self government they pleaded with the state Government that the percentage of tax share for local bodies should be increased from 90 per cent to 95 per cent so as to meet the growing needs for civic amenities. In brief, barring a few producers most of the persons connected with the entertainment tax welcome the introduction of the slab system and want its continuance with a few modifications.