CHAPTER VI
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CONCLUSIONS & RECOMMENDATIONS

Taxation is an important fiscal instrument for increasing the state revenue and for achieving the socio-economic objectives of the community. The functions of the tax system in a developing country are curtailing consumption, reallocating resources from less to more productive investments, and providing flow of funds to the Government. The importance of the study of tax structure follows logically from the growing importance of the Government in accelerating the rate of economic development of a state.

Tax structure refers to the composition of taxes imposed by the Government of a country. It refers to the mix and types of taxes imposed by a Government. Therefore, how taxes are, or should be composed in a state are questions that relate to tax structure. In the context of the relationship between taxes and economic development, the tax structure of Andhra Pradesh has been examined to find out the share of each tax and of entertainment tax in particular in different years. The tax structure of Andhra Pradesh is not basically different from the general pattern of the states in India. Government of Andhra Pradesh for its part, imposes direct taxes like the land revenue and stamps and Registrations fee
and indirect taxes like sales tax, state excise duties, motor vehicle tax, entertainment tax and electricity duties. Of the two important divisions of tax revenue namely direct and indirect taxes, the increase in indirect tax revenue was terrific compared to the growth of direct taxes.

A look at the relative importance of the tax components shows that the sales tax is and was the major source of revenue to the exchequer. It contributed 29.34 per cent in 1960-'61 and 52.84 per cent in 1985-'86 in state's own tax revenue and it contributed 27.45 per cent to total revenue in 1985-'86. The revenue significance of state excise duties increased from 18.54 per cent in 1960-'61 and 28.93 per cent in 1985-'86 in state's own tax revenue, which remained in second rank. Motor Vehicles tax and stamps and Registration fees came in third and fourth ranks respectively. Entertainment tax now occupies fifth position as against the sixth rank earlier in the Andhra Pradesh tax structure. It contributed 2.97 per cent in 1960-'61 and 3.17 per cent in 1985-'86 to state's own tax revenue. In money terms it contributed ₹1.10 crores in 1960-'61 and ₹44.78 crores in 1985-'86. Though its share in the state's own tax revenue was less, still it is evident that its significance has been increasing and it is the main source of revenue to the local bodies.
When we examine the responsiveness of the tax structure of Andhra Pradesh Government to the economic development taking place at the macro level, we find that the buoyancy co-efficient of state's own tax revenue was 1.32 indicating high responsiveness to the changes in the state income between 1957-58 and 1980-81. After an analytical examination of the buoyancy of individual taxes, it may be noted that all taxes except stamps & Registration fees have a buoyancy co-efficient higher than unity. Over a longer period (1957-58 to 1980-81) Entertainment tax had the highest buoyancy co-efficient (1.71) followed by sales tax (1.59), state excise duties (1.57) and Motor Vehicle tax (1.50). However, it may be noted that almost all indirect taxes in the state had an elasticity co-efficient greater than unity; among them entertainment tax had the highest elasticity co-efficient (1.37) followed by sales tax (1.36) State Excise duties (1.29) and Motor Vehicle tax (1.12).

In the indirect taxes of the state Government are by and large elastic, what is the position of taxes of Municipalities in state? The purpose of this study has been to examine the relative importance of individual taxes, particularly the importance and significance of Entertainment tax in the tax structure of Kurnool Municipality. The tax structure of Kurnool Municipality has been examined to find out the share and extent of each tax and of entertainment tax in particular over a decade (1970-71 to 1980-81).
The Ultimate aim of a Municipality is the satisfaction of local needs with the available resources. For the effective performance of its functions, an efficient system of finances is necessary. Almost all financial aspects of municipalities in the state, are strictly governed by local Acts and by the rules made by the state Government.

The main sources of income of the Kurnool Municipality are classified into five categories:

1) Tax receipts,
2) Non-tax receipts,
3) Grants-in-aid,
4) Public borrowings and loans, and
5) Miscellaneous receipts.

Tax receipts constitute the major source of the income to the municipality. The council is vested with powers to levy a considerable number of taxes like taxes on property, taxes on persons and taxes on traders.

The location of the state head quarters in Kurnool in 1953 was largely responsible for the sudden increase in the receipts of the municipality in 1950's and the shifting of the capital to Hyderabad did not result in any substantial decline in the revenue. The annual receipts of Kurnool Municipality amounted to ₹63.60 lakhs in 1970-71. By 1980-81, the amount increased to ₹188 lakhs that is an
increase of 255 per cent, over the decade. Between 1970-71 and 1980-81 the total receipts of the Municipality increased by an annual compound growth rate of 17.48 per cent.

It is an accepted fact that the revenue from taxation is the single largest source of income. The relative importance of individual taxes in the tax structure of Kurnool Municipality is more or less the same as in other Municipalities in the state. Property tax and entertainment tax have proved to be the major sources of revenue to the municipality. The contribution of property tax to the total tax revenue was 62 per cent in 1970-71 and 42.73 per cent in 1980-81 and it represented 22 per cent in 1970-71 and 19 per cent in 1980-81 to the total revenue. It may be noted that the share of property tax receipts decreased due to ineffective administration of tax, granting of liberal concessions along with under-estimation of the rental values of the properties and administrative lapses of the executive in the assessment and collection of the tax.

It is an accepted fact that entertainment tax is and was a major source of revenue to the municipalities. Tax on public entertainments is another striking feature of the local taxation in Andhra Pradesh. Though it is levied by the state Government it is the main source of revenue to the local bodies, which are receiving 90 per cent of the tax.
proceeds within their jurisdiction. To plug the loopholes and control evasion of the tax, Government of Andhra Pradesh amended the Andhra Pradesh Entertainment Tax Act, 1956 by introducing slab system in 1984. The entertainment tax is levied, in short, at rates varying from 10 per cent to 24 per cent on gross collection capacity according to the status of local body and the category of theatre. Under the new tax system it is easier to assess and to collect the tax and it controlled the evasion of entertainment tax to a large extent. Another important fact to be noted is that entertainment tax receipts increased to a high level after the introduction of the slab system. For instance, entertainment tax contributed Rs.38.48 lakhs in 1970-71, Rs.41.33 lakhs in 1983-84 and Rs.49.66 lakhs in 1984-85 to Kurnool municipality. This meant an increase of 550 per cent over 14 years. Apart from this the contribution of entertainment tax to the total revenue varied between 10 per cent and 20 per cent in Kurnool municipality over a decade (1970-71 to 1980-81). The contribution of entertainment tax to total tax revenue varied between 30 per cent in 1970-71 and 48 per cent in 1980-81 with 22.33 per cent compound growth rate. Entertainment tax plays a significant role in the municipal finances. However, the contribution of Entertainment tax to the state's own tax revenue varied from 3.85 per cent (Rs.5.32 crores) in 1971-72 to 3.11 per cent (Rs.44.78 crores) in 1985-86 and it contributed 1.77 per cent in 1971-72 and 1.61 per cent in 1985-86 to total revenue of Andhra Pradesh.
With an analytical examination of the buoyancy rates of individual taxes in Kurnool municipality it may be observed that entertainment tax has a buoyancy co-efficient higher than unity. Entertainment tax had the highest buoyancy co-efficient (1.092) followed by property tax (0.6897) and other taxes (1.0725). The responsiveness of entertainment tax indicates the importance of this tax in the revenue position of Kurnool municipality. The per capita Entertainment tax in Kurnool municipality was Rs.18.68 as against the average of Rs.3.68 for the state as a whole in 1980-81.

Tax evasion is defined as the difference between the legal and the realised tax potentials. Widespread tax evasion has serious consequences for the economy's fiscal system. In Andhra Pradesh also tax evasion and tax avoidance are not unknown in respect of direct taxes, local taxes and particularly sales tax. It may be noted that the extent of tax evasion was high with regard to entertainment tax under different methods before the introduction of slab system. Complaint of evasion of entertainment tax was made by almost all municipal authorities in Andhra Pradesh. After the introduction of fixed tax rates the possibility of tax evasion was controlled to a large extent. However, it may be noted that tax avoidance and tax evasion seem to take place even under the new tax system. It may be observed that some of the exhibitors resort to the practice of excess
booking which is the additional capacity created to the legally specified. Entertainment tax evasion is also possible by reducing seating capacity with Government permission, but actually making arrangements to seat the normal number of persons. Another important fact to be noted, even under the new system tax avoidance is practised by running additional shows without paying the tax. But with all these the extent of entertainment tax evasion appears to be lower at present, compared to the earlier practices.

Further it is widely accepted that after the introduction of the slab system, the evils of tax arrears and official harassment decreased substantially. It is a known fact that entertainment tax is an important source to the local bodies and it is a reliable source of income particularly after the introduction of slab system. Entertainment tax had the highest buoyancy both at the state level and in municipalities with the functioning of slab system. The views expressed by distributors, exhibitors,
producers, municipal authorities and tax officials also show the utility of slab system. Most of the persons interviewed expressed their satisfaction on slab system. But distributors and exhibitors pleaded that the tax rates should be reduced by 2 per cent or 3 per cent or that the tax should be restructured taking into account the population and income of the local area, and the location of the theatre. Municipal authorities and commercial tax officials expressed their satisfaction on the slab system because it is easier to collect the tax money and to forecast the tax amount. However, many of the producers appear to be opposed to the present system which is regarded by them as the main cause for the prevailing 'slump' in the film industry.
In short, the main problem of the municipalities is the shortage of resources, so there should be a fuller exploitation of the tax handles available.

Further, there should be stricter collection of taxes particularly property tax where underassessment is very common. There should be standardisation of property tax in municipalities of similar status with properly identifiable norms for assessment, levy and collection of tax. There should be little scope for official discretion and corruption.

The share of Municipalities in entertainment tax proceeds should be increased from 90 per cent to 95 per cent so as to meet the local necessities effectively. Government should continue the slab system while the introduction of slab system in entertainment tax is welcome, there should be further improvements in its assessments and collection. It is suggested that the entertainment tax should be fixed taking into account the factor of location of the theatre in the town and increase the percentage of tax to some extent on centrally located theatres and decrease on those which are on the outskirts. The number of classes for the imposition of the tax based on the range of population should be reduced. Entertainment tax rates should be reduced by 1 per cent or 2 per cent for 'C' class theatres and rural theatres. Government should impose a surcharge at a low percentage on additional shows run by the theatres.
Government should further effectively check the construction of unlicensed discantennas and running of video parlours and 16mm mobile films. Government should grant 30 per cent concessions in tax to films produced five or more years earlier if they are exhibited at least for 3 days. There should be a proper control over the starting of new cinema houses. There should be standardisation of seating capacity. Government should check the over issuing of tickets by the theatres beyond the legally sanctioned capacity.

With these improvements, it is hoped that entertainment tax will not be a tax of nuisance value but a highly productive and elastic source of income to the Municipalities.