CHAPTER-VII

SUMMARY AND CONCLUSIONS
7.1 Introduction:

Mobilisation of adequate resources by State Governments assumes great importance from the point of view of autonomy and economic development. Apart from taxation, State governments in a federation is generally empowered to raise revenue from public services and utilities and enterprises. But the experience of Less Developed Countries (LDCs) suggests that most of the public utility services are predominantly in the nature of welfare activities, rendering commercial pricing inapplicable. Besides, in the case of several social goods and merit goods, there is no scope for making substantial surpluses. The capital intensity, the long gestation period and the narrow scope for pursuing profit oriented price policy make public sector in the LDCs, a big liability on the Governments. In addition, State governments in most federations, do not enjoy external borrowing powers. Even the internal borrowing powers of the State governments are effectively controlled and restricted by the Central Government. Moreover, State governments do not enjoy powers of deficit financing.

Therefore, taxation is the only principal source of mobilizing revenue, apart from the transfers from the Central Government. While, the Central assistance is largely predetermined and formula based, taxation affords adequate handles to the State governments.
Sales tax is considered as one of the most important tax revenues raised by the Indian states and it plays a predominant role in their fiscal structure. For instance, the total own tax revenue of the 15 major states as a percentage in their total revenue increased from 47.19 per cent in 1985-86 to 53.98 per cent in 2004-05. In absolute terms the States sales tax revenue increased by 10 times i.e. Rs.8206.56 crores in 1985-86 to Rs.81057.4 crores in 2004-05. This indicates that sales tax plays a crucial role in the States finances in India. During the study period, sales tax contributed a lion’s share to the states finances. The sales tax revenue of major states (15 States) as a percentage of Net State Domestic Product (NSDP) declined from 4.507 per cent in 1985-86 to 4.206 per cent 2004-05 and per capita sales tax revenue has increased from Rs. 116.126 to Rs. 923.615 during the study period.

In Andhra Pradesh sales tax revenue and own tax revenue have grown from 761.33 crores to 11020.80 crores and from 1451.6 crores to Rs.16250.9 crores respectively during 1985-86 to 2004-05. In other words, per capita sales tax revenue has increased from Rs.128.72 to Rs.1393.38 during the same period. Sales tax revenue as a percentage in the States’ total revenue and own tax revenue rose from 27.45 per cent to 38.33 per cent and from 52.45 per cent to 67.82 per cent respectively during the period 1985-86 to 2004-05 and during the same period Sales tax revenue as a percentage of total tax revenue and Indirect tax revenue rose from 38.13 per cent to 49.39 per cent and from 56.53 per cent to 75.24 per cent respectively. Sales tax as a percentage of NSDP increased from 5.70 to 6.19 per cent during the same
period. In view of growing its importance in the State finances of Andhra Pradesh, an attempt has been made to study the structure, growth, and determinants of sales tax revenue in Andhra Pradesh during 1985-86 to 2004-05.

The main objectives of the study are:

1. To review and analyze the evolution of sales tax in India,
2. To study the structure of sales tax in Andhra Pradesh;
3. To estimate the growth rates of sales tax revenue of Andhra Pradesh and to make a comparison with the major States in India,
4. To examine the determinants of sales tax revenue in Andhra Pradesh;
5. To estimate the buoyancy of sales tax revenue in Andhra Pradesh during the period 1985-86 to 2004-05.

Methodology:

The study is based on secondary data. The study covers the period 1985-86 to 2004-05. It focuses various facts of sales tax in Andhra Pradesh. Fifteen major States i.e., Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal have been selected for all comparative analysis.

The growth of several fiscal variables of Andhra Pradesh and other major States is analyzed in terms of growth rates. For estimating the growth rates, both linear and exponential form of the trend equations are estimated by the method of least squares and the best fitted form are chosen on the basis of
the value of \( R^2 \) and the significance levels of the parameters. The growth rate based on the best fitted form is used in the analysis. Regression analysis is used as an analytical tool for studying buoyancy, and the determinants of sales tax.

7.2 Evolution of Sales Tax in India:

Sales tax has been one of the very old sources of revenue. It made its appearance in countries of the East of the Mediterranean and was also found in one form or the other in Egypt, Greece, Rome and India. In Athens, which was one of the chief slave markets in the fourth and fifth centuries B.C., the sales tax on the slave trade was a significant source of revenue. Emperor Augustus introduced sales tax in ancient Rome at the rate of one per cent on the sale of movable goods and two per cent on the sale of slaves.

Spain introduced ALCAVALA as a National Tax, which has adopted the general sales tax as a National Tax in 1342 and retained it for about five centuries. France introduced the general sales tax in the fourteenth century for a short period. Again, in 1871, France levied a Payments Tax which was, in effect, a low rate general sales tax.

In Italy, it was prevalent during 15th century and the earstwhile Czechoslovakia initiated the payment tax in 1919. Hungary, the earstwhile USSR, Rumania, Belgium and Yugoslavia imposed it in 1921, Luxemburge in 1922, and Poland and Austria in 1923. The Netherlands embarked upon sales tax in 1933 after the Great Depression.
In Asian countries, sales tax in its modern form is of a recent origin. In Pakistan, sales tax is a central levy. The tax was imposed in 1948 and modified substantially in 1951. It is basically a single-stage levy imposed upon all commodities when sold by a licensed seller (normally a retailer). In 1950, the Indonesian government imposed a 2.5 per cent multiple stage sales tax on all sales of merchandise, at all levels of production and distribution. In 1951, this was replaced by a manufacturers' sales tax. In the Philippine Islands, there is relatively long history of sales taxation; a business occupation levy on gross sales introduced in that land in 1904 eventually grew into a sales tax.

The United States introduced this more systematically after 1930s when the States were actually facing financial problems due to declining revenues from other taxes on one side and increasing expenditures of the States on the other. In Latin America, sales tax was levied by different countries in the following time sequence: Cuba in 1922, Brazil in 1924, Equador in 1925, Uruguay in 1928, Argentina in 1931, Mexico in 1932 and Chile in 1934.

The origins of sales tax of some crude form in India could be traced as far back as in the Mauryan period. The modern form of sales tax was first levied by the erstwhile Bombay state on tobacco in 1938. But a general sales tax of the present form was first imposed in the erstwhile Madras State while the last state to levy was Kerala which levied in 1963. The sales taxation has undergone several changes both in form and point of levy. The general sales
tax adopted by various states in different years is shown in Table 2.1. It is evident from the discussion that there exists no uniformity in the system of sales tax among the States in India either with regard to the point of levy or stage of levy. It appears that the states have adopted different systems of general sales tax which suit their own economic characteristics and needs. Single point, double point and multi point tax is prevalent in the Indian States either exclusively or in combination. The single point tax is also levied at the first sale in some states while it is imposed at the last sale in some other states. The discussion about various aspects of the system of sales tax reveals that, in Andhra Pradesh it is a combination of single point levy on specified items and a multi point tax on certain others. Assam, Jammu and Kashmir, Madhya Pradesh, Orissa, Punjab, Rajasthan, West Bengal and Delhi levy a single point sales tax. Among these, Delhi levy the tax at the retail stage, while Rajasthan and Madhya Pradesh levy at the first sale point and Assam has adopted a middle course. Maharashtra and Gujarat followed a double point levy.

Another important dimension in the Indian sales tax system is the prevalence of central sales tax imposed by the Central Government administered and collected by the states.

Central Sales Tax (CST) alone is leviable on the first inter-state sale of all goods, other than newspapers, auctionable claims, stocks, shares, securities and electrical energy subjected to certain, exceptions, the tax is collected in the State where the movement of goods originates and the tax so collected is
retained by that State. As the revenue is assigned to the States, the administration of the CST Act is also entrusted to the State Governments. Since the recommendation of the original rate of one per cent by the Taxation Enquiry Committee (1955-56), the rates of CST have been revised thrice. These rate revisions, which were justified on the ground of mobilising additional resources for the States, took place in 1963, 1966 and 1975, raising the rates to 2 per cent, 3 per cent and 4 per cent respectively.

Value Added Tax (VAT) is a comprehensive form replacing central excise duty, sales tax and other domestic trade taxes. Central Value Added Tax (CENVAT) was introduced in Union Budget 2000-01 adopting a single 16 per cent rate with exemption of select commodities. Value Added Tax has been introduced by several major states for 1-4-2005. Andhra Pradesh is one of the first States to adopt VAT at the Stat level. The important features of Value Added Tax in Andhra Pradesh are (1) dealers having a turnover of less than Rs.5 lakhs are totally exempted from registration and tax liability (2) the VAT structure contained four slabs of rates and 12.5 per cent is the maximum rate.

A simple and acceptable method of filing of returns on 100 per cent self assessment basis without any hassles of producing books of accounts etc., and the provision of self correction with in a period of six months after the returns are filed and the liberalized penalty provisions compared to the erstwhile APGST Act made the implementation of VAT in the state easy and friendly.
7.3 Theoretical Aspects of Sales Taxation:

Sales tax is essentially a tax on business transactions and thus it differs from an excise duty in certain aspects. Its significance in India is that it has provided a relatively elastic and productive independent source of revenue to the States. Sales tax can be general or selective. From operational point of view, sales tax may be either single point or multipoint. In India, both single point and multi point sales taxes have been levied in different States. Sales tax is collected from all registered trading concerns that invariably shift its burden to consumers. In India, the practice of charging the amount of sales tax from buyers is a sufficient evidence of the fact that its incidence is wholly on consumers. The sales tax has been levied practically on all tangible commodities; immovable property and services have not been covered under it. Tax rates are not uniform in all States. They are generally higher in States where sales tax is at single point. Further, luxury articles have been taxed rather heavily.

Sales tax is a tax on all sales of tangible goods at the retailing, wholesale trading or manufacturing stage with the exceptions noted in the taxing laws. When the tax is assessed on the turnover of sales of a dealer, it is called sales tax. If the tax is assessed on the turnover of purchase of the dealer and ignores whether he has sold what he had purchased, it is called purchase tax. The several types of sales tax are: 1. Selective sales tax or general sales tax and 2. Turnover tax or gross receipts tax.
Most of the States in India has predominantly single point taxes, while Gujarat alone has double point system. The State of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu have some form of multi-point levy. The States of Madhya Pradesh, Jammu and Kashmir, Rajasthan and Tripura have the first point levy while all the remaining States levy at the last point.

Sales tax is levied on several bases. First of all, it is levied on dealers who sell or purchase taxable commodities. If the levy is on sales, it is called sales tax and purchase tax, if it is imposed on purchases. The nature of the commodity determines whether it should be subject to the purchase or sales tax. Sales tax is also levied according to turnover of the dealers. Generally, they are levied according to slabs of turnover. Sales taxes affect mostly the consumers, but, sellers also suffer in the process. The taxes affect resource allocation decisions, the degree of competition and the integration of industries.

The complex sales tax rates, bases, exemptions, deductions and incentives cause changes in relative prices which in turn cause trade diversion and misallocation or inefficient allocation of resources. In a federal polity, the inter-State differences in the Sales tax rates and coverage lead to exportation of tax burden from the richer to the poorer States. This is particularly true of Central sales tax. Secondly, tax collected largely from commodities purchased by the poorer sections impose regressive burden distribution and enlarge inequalities in the distribution of consumer expenditure, income and wealth. Since, the tax is not related to any index of ability to pay; it has an adverse
impact on post-tax income distribution. A regressive sales tax however, would tend to be more anti-inflationary as it reduces the consumption expenditures of the low income families. In terms of their effects on work leisure choice, sales taxes would appear to be better than income tax.

Sales taxation has not found favour with those who advocate merger of sales taxes and excise duties. Therefore, the levies on some commodities are better levied by a single Government to control cascading and incidence. All the effects of the levy and their consequences to production and distribution can be better assessed if the tax is levied by a single authority. This view has claimed considerable savings of the cost of collection if both the levies are integrated. It is also argued that a unified levy would prevent unnecessary diversion of trade as well as production from one State to another. More importantly, it is argued that a unified levy would minimize problems relating to tax compliance.

It has been argued that tax does not discriminate between a large and a small family. A large family which spends a higher percentage of its income is penalized while a smaller one is favored with a lower tax burden.

The advocates of permanent income hypothesis believe that transitory tax changes would have relatively smaller impact on consumption. But, a majority of the economists disagree with this view. It is argued that countercyclical tax change is often assumed to be the most effective if they are confined to the lower income classes. This view presupposes that poor
people spend proportionately more out of any additional income they may receive than the rich. Absolute and relative income hypotheses imply that consumption taxes are regressive while the permanent income hypothesis disagrees with this view.

A sales tax which is essentially a tax on the sale of certain goods and services has a disadvantage compared to the tax on expenditures, while the expenditure taxes can be proportional and progressive, sales taxes levied at uniform rates tend to be regressive. While expenditure taxes are collected from the sellers, but, in a less developed country like India, the base of expenditure tax is potentially limited and is difficult to administer.

There is a considerable degree of tax overlapping between the Center and the States. Very often, the customs, Union excise taxes, sales taxes have an overlapping coverage in the sense that they are levied on the same base but at different stages and at different rates of taxes. Much overlapping has arisen due to the rapid expansion of excise duty in lieu of sales tax on sugar, tobacco and mill made textiles reduces the overlapping coverage at least partly.

Wide inter-State differences in the rates of sales taxes, their coverage lead to undesirable and unnecessary diversion of trade and commerce. The widely differentiated rates discourage interaction of national market and create unjustified handicaps from business. Therefore, in the interests of orderly development of trade and commerce greater co-ordination is needed among the neighbouring States atleast.
Incidence of sales tax ultimately depends on the nature of the commodity, the relative elasticity of demand and supply and the time required for adjustments in supply and demand. Generally, if the producers and sellers can adjust their production and sales rather quickly, and if the elasticity of demand is less, then the entire tax burden would be shifted to the consumers quickly. The expectation of future tax increases may create uncertainties about future cost which may result in either backward or forward shifting of sales taxes. Even then sales taxes can be shifted completely; the producers and the business men cannot escape the effects of the tax in the form of declining sale, reduction of the effectiveness of competition and integration of industries. The effects on the producers and the business men ultimately depend on the degree of competition of market for the commodity, the availability of substitutes and the availability of the taxed commodities outside the State. The shiftibility of the tax also depends on the size of the tax in relation to price. Further, the possibility of shifting the sales tax will depend on the business and economic conditions. It is generally easier to shift a tax in a boom period than in depression.

An important problem of the sales tax structure relates to the point of levy. The choice in favour of the first point levy has been made largely on considerations of administrative expediency. From the economic point of view, the first point tax suffers from many shortcomings. First, cascading takes place under the first point tax. Second, taxes on inputs lead to changes in relative factor prices and can produce inefficiency and in the technique of
production and related inefficiencies and waste. Third, the tax is biased against those commodities which have larger value-added at the earlier stages of production. Fourth, it has a lower taxable base than the last point tax and finally, it pushes prices beyond tax point and promotes vertical integration of firms.

As against the first point tax, the last point tax is the most desirable form of levy from the economic point of view. However, administratively it is not preferred because; the tax department would have to deal with a large number of dealers under such a system. The single point and multi point tax is "incidence controlled" whereas the multipoint tax is "not incidence controlled" The double point tax is levied at the point of levy and exit of a commodity in the chain of transactions from the producer to the consumer. The system is also "incidence controlled" to a certain extent.

When taxes fall both on inputs and on the final product, such of those taxes as are levied on and advalorem basis, fall not only on the value of the products but at each stage they fall on the taxes that may have been earlier levied on them. Alongside, there is an escalation of costs and profits at each stage. This is known as the phenomenon of cascading. The most important undesirable consequences of this phenomenon are as follows;

(1) It is not possible to control the incidence on final products with widespread taxation of inputs by more than one authority.
(2) The taxation of inputs tends to promote vertical integration encouraging industries more and more of the inputs needs by them rather than purchase them form ancillary industries, thus adversely affecting the growth of small industries;

(3) A general escalation of costs due to cascading, acts as a positive handicap in the efforts to increase exports because it reduces the competitiveness of Indian products in foreign markets; and

(4) The use of indirect taxation as an economic tool gets blunted and levying of tax on raw materials and intermediates affect producer’s choice between different factors of production in intended ways. This leads to uneconomic use of scarce resource and misdirection of investments contrary to national priorities.

Imposition of tax at all points of sale from the original producer or manufacturer down to the final consumer will produce a cumulative effect. The same commodity may be exchanged more than one every time if it is done so the kind of tax is described as a turnover tax. In this case it is accompanied by what is characterised as pyramiding effect, It means that not the tax paid by the wholesaler or manufacturer and the middlemen but also the interest charges on the tax paid would raise the price of commodities. The sales tax has pyramiding effect in a period of rising prices and in the case of luxury articles.
7.4 The Structure of Sales Taxation in Andhra Pradesh:

The Andhra Pradesh General Sales Tax Act is basically modeled on the basis of Madras General Sales Tax Act. In 1956 when Andhra Pradesh was formed, there used to exist two different structures of sales tax in two regions of Andhra and Telangana. In the Andhra region sales tax was levied under the Madras General Sales Tax Act of 1939, the Madras Tobacco (Taxation of Sales and Registration) Act of 1953 and the Madras Sales of Motor Spirit Taxation Act of 1939. In the Telangana region sales tax was levied under the Hyderabad General Sales Tax Act of 1950.

After the formation of Andhra Pradesh in 1956 both the regions of Andhra and Telengana were brought under a uniform system of sales tax with the enactment of the Andhra Pradesh Sales Tax Act in 1957. The Act was modeled more on the lines of the Andhra Sales Tax pattern. However, some of the provisions of the Telangana system, such as taxation of casual dealers, were also incorporated. The principal features of the levy continued to be multipoint, single point and additional single point taxes.

The name of the commodity, the point of levy and the rates applicable are shown in six different schedules. The goods, which are not listed in any of these schedules, are liable to tax at 12 per cent at the point of first sale in the state unless they are exempted by the Act subject to the conditions prescribed therein.
The First Schedule consists of 225 Commodities including 20 sub-commodities are in first schedule and excluding omitted goods. All the goods except one are liable to single point tax at the first point of sale in the State. The rate of taxation varies from 4 per cent to a maximum of 70 per cent.

The Second schedule of APGST includes 17 items are mostly minor forest produce and products mining in the state. They are taxed either at the first or last purchase point in the state. The tax rates on their commodities vary from 4 per cent to 9 per cent.

The third schedule of the Act contains the declared goods, which are produced in agricultural sector; items are subjected to first point sales tax, items subject to first point purchase tax items subject to last point purchase tax. The tax rates vary from 1 per cent on cotton seeds to 4 per cent on coal including coke, oil seeds, castor, Ground nut, copra, Hides and skins, cotton yarn, crude oil, pulses, wheat, paddy, PVC cloth, water proof cloth, cotton fabrics aviation turbine fuel etc.

The Fourth Schedule contains description of goods that are exempted from tax under Section 8 of APGST and at present there are 9 items that are enumerated in this schedule.

The fifth schedule contains only commodity “jaggery” is enumerated in the Fifth Schedule subject to the conditions specified therein.

The sixth schedule includes goods in respect of which tax is leviable at every point of sale in the state. There are 22 items at different rates of taxation in the schedule ranging from 9 per cent to 16 per cent.
Seventh schedule enumerates the residual category items which are being subjected to single-point taxation, up to 31-3-2005 as items also subject to tax at the first point of sale at the rate of 12 per cent provided that a dealer other than a casual trader and an agent of a non-resident dealer whose total turnover for a year is less than Rs.2 lakh is not liable to pay tax in respect of these goods. Tax in respect of supply of articles of food and drinks in restaurants are catering houses or hotels are levied under Section 5-C.

It has been observed that the present tax structure viewed especially from the point of view of differential tax rates, has upheld the equity considerations as the lowest rate is levied on conventional necessities and the highest rate of tax is imposed on non-essential items. However there is a need to reclassify some of the non-essential goods as essential goods in view of the changing consumption patterns of the poorer people in the society. The declared and exportable goods are levied at 4 per cent tax rate which are produced and sold by the local manufacturers and also to protect the small units. An important consideration for levying the single point tax is to keep the tax rates in the range of rates prevailing in other states to avoid smuggling, diversion of trade and tax evasion.

An analysis of reasons for the unabated growth of tax evasion has been made. It is observed that the variance in tax rates, concessions and controls appear to be the major reasons for all the clandestine transactions across the borders of Andhra Pradesh through different means of transport. It calls for an urgent need to initiate measures to check the tax evasion. It necessitates
strengthening the existing check posts across the borders of the State. It has also been suggested to conduct inter-state meeting of the concerned officials at regular intervals and to seek cooperation from the local public. It has been felt that the supply of modern equipment like computers and communication equipment to the officials is necessary to check and trace the illegal movement of transactions. Such facilities, no doubt, will strengthen the official machinery in curbing tax evasion.

Hence, it has been suggested to adopt the Value Added Tax (VAT) system in a phased manner which may help in avoiding the built-in defects or loopholes prevailing in the present system. The Value Added Tax (VAT) system adopted in 2005 entail the advantages of the multi point tax system and avoids the disadvantage in the single point tax system especially tax evasion apart from being non-inflationary.

7.5 Growth of Sales Tax Revenue in Andhra Pradesh:

The sales tax revenue of Andhra Pradesh has increased from 761.33 crores in 1985-86 to 11020.80 crores in 2004-05. Out of this 117.93 and 1052 crores in 1985-86 and 2004-05 respectively accrues from Central Sales Tax (CST). This implies that the CST has increased nearly about 9 times while that of APGST only by 15 times during the same period. This clearly indicates the growing importance of revenue from APGST in Andhra Pradesh. An analysis of division wise contribution of sales tax revenue in Andhra Pradesh for the year 2004-05 shows a positive correlation between
urbanisation and sales tax revenue as the Secundrabad division (40.87 per cent) occupies the first place while the Vijayawada-1 division (0.12 per cent) is the lowest in contributing the total sales tax revenue among all the 25 divisions in Andhra Pradesh.

The sales tax yield of top 20 commodities during the year 2004-05, indicates the sales tax revenue of these commodities constitutes 85.60 per cent of the total sales tax revenue. Of these commodities, Diesel occupied first place by contributing 20.59 per cent of the total sales tax yield and the yield from liquor (19.17 per cent) stood second. Thus, the diesel ranks first and tubes occupy the last place. Since Andhra Pradesh is a relatively developed state with a fairly high degree of organization, the consumption of petroleum products is high.

In order to examine the importance of sales tax revenue in the state finances of Andhra Pradesh, exponential growth rates of sales tax revenue, indirect tax revenue and Net State Domestic Product have been estimated for the period from 1985-86 to 2004-05. The indirect tax revenue in Andhra Pradesh has increased from Rs.1346.88 crores to Rs.14646.7 crores during the same period. It has registered a growth by nearly 11 times. The percentage share of sales tax in indirect tax revenue was 56.53 per cent in the year 1985-86 which has increased to 75.24 per cent during 2004-05. The share of sales tax revenue in total indirect taxes revenue was between 55-60 per cent during 1985-86 – 1992-93. From the year 93-94 its share has increased significantly which is due to implementation of complete prohibition by the Government of
Andhra Pradesh. Prohibition has resulted in fall in revenue from excise duty and there by increased the share of sales tax revenue. However, in the year 1997-98, the share of sales tax revenue in total indirect taxes revenue declined which might be due to shift from full prohibition to partial prohibition by the Government. However, the sales tax revenue accounted for 75 per cent of the total indirect tax revenue. In contrast the share of state excise duty and entertainment tax declined from 30.94 per cent to 19.43 per cent from 3.32 per cent to 1.46 per cent respectively, while the share of motor vehicle taxation remained more or less constant during the study period.

The growth rates of sales tax and indirect tax revenue have been estimated dividing the study period into four sub periods (1) 1985-86 to 1989-90, (2) 1990-91 to 1994-95, (3) 1995-96 to 1999-2000 and (4) 2000-01 to 2004-05. Both linear and exponential trend curves are used and the exponential values are found to be well represented. The exponential growth rates of sales tax and indirect tax revenues are 15.8207 and 13.6544 per cent respectively. During the study period it has been inferred that the growth rate of sales tax revenue is higher than that of indirect tax revenue indicating increasing growth of sales tax revenue than the growth of indirect tax revenue as a whole in Andhra Pradesh. Regarding the sub periods, the growth rates of sales tax revenue during the four periods, in three periods are found to be higher than the growth rates of indirect tax revenue and in one period, it is lower then the growth rate of indirect tax revenue. Further, the growth rates of sales tax revenue as well as the indirect tax revenue during the fourth period
have declined compared to the remaining periods indicating a slower growth of revenue.

More or less similar conclusions are arrived when an analysis of growth rates of Net State Domestic Product and sales tax revenue. According to the estimated values of growth rates, the growth of sales tax revenue is higher than the NSDP in Andhra Pradesh during the study period. The percentage growth rates indicate that the growth of sales tax revenue in Andhra Pradesh was less than the rate of growth of net state domestic product during the first two periods, while the reverse is noticed during the subsequent periods thereby indicating higher tax buoyancy.

An attempt is made to analyse the relative importance of sales tax revenue vis-à-vis, certain fiscal variables such as sales tax revenue, indirect tax revenue, own tax revenue, total tax revenue, total revenue, state excise duty, motor vehicle tax, entertainment tax and net state domestic product among the major states by estimating the exponential growth rates for the period 1985-86 to 2004-05.

It has been concluded from the estimated values of the fiscal variables that the growth of sales tax revenue is relatively higher than the growth rate of state excise duty, motor vehicle tax, entertainment tax indirect tax revenue, own tax revenue, total tax revenue, total revenue and net state domestic product during the period 1985-86 to 2004-05 in Andhra Pradesh. Andhra Pradesh got Second position in total sales tax revenue and last position in
state excise duty. It is also observed that Andhra Pradesh got Fourth position with regard to the growth rate of entertainment tax and obtained Eighth position with regard to growth rate of indirect tax revenue during the study period. It follows that sales tax as a fiscal tool is more important in Andhra Pradesh than in any other state.

7.6 Buoyancy and Determinants of Sales Tax Revenue in Andhra Pradesh:

As sales tax has emerged as an important source of tax revenue, any changes in its revenue will have its own bearing upon the State finances. Thus it will have a crucial impact on the overall development of the states and Andhra Pradesh cannot be an exception to this. Therefore a study of such changes of tax revenue from sales tax assumes unquestionable importance in the state finances. The changes in tax revenue either due to over all economic development or due to changes in rate structure have their own significance for policy making. So an attempt is made in the present study to estimate buoyancy of sales tax revenue in Andhra Pradesh for the period 1985-86 to 2004-05. A thorough review of the existing and available literature shows that the studies of buoyancy with reference to sales tax in Andhra Pradesh are confined to the period until 1990. But several political and fiscal changes have taken place in Andhra Pradesh after 1995-96. More over several changes like imposition of additional sales tax, introduction of turn over tax etc., have taken place which may have influence on the trends in the yields. Therefore, an attempt is made to analyse the buoyancy of sales tax in Andhra Pradesh to explain the variations in tax revenue either due to the discretionary changes
relating to sales tax or due to the automatic changes in State income during the period 1985-86 to 2004-05. The buoyancy of sales tax revenue with respect to Net state Domestic Product has been estimated by using both linear and log linear regression methods. The level of responsiveness has been determined on the basis of R2 and T values of estimated coefficients. The coefficient of buoyancy of sales tax with respect to Net State Domestic Product estimated by using the logarithm regression method is 1.018. In the linear regression method the coefficient estimated is 1.087 which is lower than the coefficient under the log linear regression method. However, both the coefficient is significant at 1 percent level. It indicates that the buoyancy of sales tax yield is responsive to changes in NSDP along with the discretionary changes during the period 1985-86 to 2004-05.

In view of the importance of sales tax revenue, it has been attempted to quantify the determinants of sales tax revenue in Andhra Pradesh during the 1995-96 to 2004-05 study period. A multivariate regression model has been carried out using state income (NSDP), state income from non-agricultural sector, secondary sector and proportion of urban population to total population as explanatory variables and sales tax revenue as the dependent variable. A similar analysis is also made using the same dependent and independent variables in per capita terms, in combination with the proportion of urban population to total population.

It can be inferred from the results of that the proportion of urban population to total population has emerged as the most influencing factor of
sales tax revenue in Andhra Pradesh. It may also be observed that the variables of income from secondary sector and non-agricultural sector are found to have more impact on the variations in sales tax revenue than the Net State Domestic Product. The statistical analysis also reveals that almost 99 percent of the variations are explained by the chosen variables. More or less similar inferences could be drawn from the regression analysis, using the same variables in per capita terms. It has been concluded that the combination of proportion of urban population to total population income from secondary sector and non-agricultural sector are found to be the dominant factors influencing the sales tax revenue in Andhra Pradesh during 1995-96 to 2004-05.

Thus it had been concluded that the tax yield is more due to the overall development of the state, especially the non-farm sector than due to the discretionary changes initiated by the Government. This calls for an urgent need to increase the tax base, rationalize the exemption and concessions and restructuring the tax rates, which may help in evolving a rational and efficient sales tax structure in Andhra Pradesh.