CHAPTER 4

SALES TAX
SYSTEMS IN
MAHARASHTRA
STATE
CHAPTER 4

Sales Tax systems in Maharashtra State

Part I

Single Point Last Stage system 01-10-46 to 31-10-52

4.1.1 Introduction:

Having studied the history of sales tax and its administration in Maharashtra state, this chapter is devoted to the analysis of various sales tax systems in the state. As made it clear while dealing with the Administration of Sales Tax, as many as five different systems were in vogue in the state. These systems represent various combinations of stages and points of tax collection. It would be better to have same discussion on the nature of the system before taking up the analysis.

By definition, Sales Tax is to be levied on sales i.e. when the ownership of the goods is transferred from one party to the other. This leaves at list two different points at which the tax can be collected. One point is the transfer of goods for resale. For example, when a manufacturer sales goods to retailer the tax may be levied on manufacturer himself. Another alternative is to charge tax on the middle men who sale to the ultimate consumers or user. It is also possible to have a combination of both. In Sales Tax Administration these are termed as stages. When the tax is levied on only one constituent that is a manufacturer or a middle man, it is termmed as a single point system. Since the travel of goods begins from the
manufacturer, it is also termed as single point first stage system. When the retailer is required to pay Sales Tax and no other party including manufacturer the system is known as single point last stage system, because the retailer represents the final link in the channel of distribution. The government may exercise the option of tax levy on manufacturer as well as middleman. The system would be referred as multi point system.

In the beginning in 1946 the system adopted was single point last stage system. Thereafter on recommendation of various expert committees different combinations have been tried in the state.

This chapter deals with the working of these systems and presents its operational analysis together with its strengths and weaknesses. To facilitate the process of understanding the discussion begins with the concept and background of the system under review.

4.1.2 Concept Period and Background:
This system came into existence along with the introduction of Sales Tax Act 1946. The Act was published on 8th March 1946 and was to be implemented from 1st July 1946. But the publication of the Act resulted in public resentment and agitation. In view of the unfavourable circumstances the Government postponed its implementation to 1st Oct. 1946. Thus the Act became operative and so the system from 1st Oct 1946.

Originally the Act provided for a turnover limit of Rs. 10,000 (for registration under Sales Tax Act). However, in response to public demand the limit was raised to Rs. 30,000.
Manufactures used to produce goods and send them for sale to wholesaler and here the liability of collecting and paying tax was on the last dealer. Hence the wholesaler used to give declaration that he will sale goods to retailer and not to consumer.

Thus under this system the liability of paying tax arises when goods are sold to consumers, i.e., seller has to collect Tax while selling to user.

Since the last link in the chain was responsible for collection of tax the system was known as single point last stage system.

Thus this last dealer used to collect tax from consumers and then after every three months he had to file sales tax return and deposit the amount of tax which he has collected from the consumers.

This system was in force from 1-10-1946 to 31-10-52 and major portion of todays Maharashtra was covered by this system.

At the time of its introduction, as per concerned provision of the Sales Tax Act, Registration as a dealer was necessary subject to turnover limits prescribed by the Act. In the mean time, Gadgil committee was appointed by the government to look into the cause of general discontent regarding Sales Tax and suggest suitable measures in this respect. The committee recommended voluntary Registration irrespective of turnover limits. Thus according to this recommendation, which was accepted by the government, any dealer no matter what his turnover was could get registration if he so desired. Every registered dealer had to file quarterly Sales Tax Return. On this return he had to write
his Sales Tax registration number the period for which he is filling return. The detailed name and address of the dealer was to be written on the top of return. Then the figures of sales and purchases were to be written in various columns and other claims and deduction were also to be shown in return. He had to pay tax with a separate challan and this challan was to be attached to this return as an evidence of payment of tax.

4.1.3 Characteristics of the system

From the above description the following characteristics of the system can be brought out.

a) Simplicity: The most important characteristics of this system was that it was very simple to operate. The retailer while preparing bills has to mention the cost of the goods sold and then add the amount of Sales Tax. Thus there were neither any deductions nor any claims to be made by the registered dealer. He had to make a total of all the sales bills in the respective quarter and deposit the amount of tax collected by him.

Due to this simple nature of the system about 98 percent of tax was recoverable along with return. Secondly there was no need to levy any penal interest or penalty if the tax is paid in time. Assessment being simple and without deduction and without claims the non technical person was also able to complete his case conveniently.

b) Low Tax Rate: In this system the tax rates were very low. The reasons for this were that the goods used to travel from manufacturer to wholesaler and wholesaler to retailer. For
example the manufacturer cost is Rs. 100 then to wholesaler by adding overheads and profits the selling price would be Rs. 130 then by adding his overheads and profits the retail price becomes Rs. 150. Thus the tax recoverable would be on Rs. 150. Hence the low rate of tax was possible. Say for example, 2 percent is rate of tax. Then instead of recovering 2 percent on Rs 100 it is recovered on Rs. 150 and the government used to get Rs 3.00 instead of Rs. 2 only on Rs. 100 the cost of manufacturer. Hence, low rate was easy to pay and total price at retailer's level was considered for calculating tax. tax rate

c) Customer Awareness:- When retailer used to sale goods to customers, they were able to see the difference between the price paid by them and the tax over this. Bifurcation of price and the tax paid by them was properly shown on the bill. Customer was able to understand amount of tax charged in the bill. By this type of billing the customer used to get satisfaction that his total payment of bill is accounted to proper head.

4.1.4 Strength of the system:- On the basis of the above discussion, major strength of the system may be described as follows:-

a) Incidence Of Tax On Customer Is Observable :- Under this system, the amount of tax is chargeable at the last level i.e. while selling goods to ultimate customer. The retailer, while billing the customer is required to show separately the price of the article sold and the amount of Sales Tax charged on the same. Thus, the incidence of tax is clearly observable. It may be
pointed out that in no other system this thing is possible. For example, if tax is charged at manufacturer level, it will get added to the price payable by other links and the final customer would never know the amount of tax he was required to pay.

b) Pyramidal Effect Avoided:— Single point last stage system helps in avoiding pyramidal effect. Since the tax is calculated on the price payable at the last stage. In no other system this benefit is available. For example, if single point first stage system is adopted, price at manufacturer stage plus sales tax will form the basis of calculating price chargeable to the next link in the channel. This way every link in the channel will have inflated price to the extent of sales tax amount. In multipoint system, the burden would be still more, as the tax is chargeable at recovery level. The following equations will make this point clear.

**Single Point First Stage System**

Manufacturer's Price + tax = Price payable by the wholesaler + his overheads + profit = Price payable by retailer + his overheads + profit = price payable by customer. Thus, it is clear that, the burden of tax charged at the first level is carried through all the stages. Whereas, in the single point last stage system it is not so. Therefore, it is said that this system helps in avoiding pyramidal effect and to that extent provides relief to the customer.

c) Rates of tax were low:— As the overheads and profits of all the dealers are added and the last registered dealer while
selling goods to the consumer to collect tax on the enhanced price of goods, tax rates are kept at low level.

Suppose the price of a commodity is Rs. 200 in the hands of manufacturer and Government want Rs. 10 as tax on such commodity. In other systems Government has to levy 5% tax. But in single point last stage system rate of tax need not be kept as 5 percent. Because as the tax is to be collected by last registered dealer the selling price of such last dealer will increase due to overheads and profits of middlemen to Rs. 300 and as Government want Rs. 10 as tax 3 percent tax can be levied in this system (Three percent of Rs. 300 is Rs. 9. But for convenience it is taken as ten approximately.) In this connection,

Wanchoo committee has very boldly said that lower the rate more the revenue. As rates are low there will be less evasion compared with high rates of tax.

4) Number of tax rates was less:— At present there are about eleven types of tax rates. In this system there were very few tax rates. Essential goods were taxed at low rates. Luxuries were taxed at high rates and goods of use of common man were taxed at reasonable rates. More number of tax rates leads to complication. In view of this Rambawala committee has suggested four to five types of rates. Sales Tax study Team Gujrat has also suggested that taxes rates shall not be more than 6 to 7 types. Looking to this, the tax structure with less rates is possible in this system which is a most important feature of the system.
e) Voluntary Registration:— In no system there is a provision of voluntary registration as a registered dealer. The registration certificate is granted to a dealer only when a particular limit of turnover is crossed by a dealer. In single point last stage system there was a provision of voluntary registration which was favourable to the dealers intending to start business and mainly for middlemen market. Due to voluntary registration, dealing with shopkeeper was very easy.

4.1.3 Weaknesses of the system:—

This system was in force for five years. In this period the experience has shown the deficiencies of the system, which are briefly described below:

a) Arrears of Assessment:— In every recovery there is bound to be arrears but it is necessary to observe that they are not excessive. "In March 1950 the arrears of 1946-47 were Rs. 14073 and it has increased by leaps and bounds in 1947-48 to Rs. 34918, in 1948-49 to Rs. 66834 in 1949-50 to Rs. 1,01,816".

The system was in force till 31-10-52. Above figures are taken only up to March 1950. The figures are self explanatory and hence need no special comment.

Arrears of revenue is called to the greatest deficiency of a system.

b) Unorganised Small Dealers:— The liability of collecting and paying tax was fixed on the small dealers. As they are not well organised they could not pay proper attention to sales tax recovery and payments. In some cases dealers used to be
abscounded or in some matters dealer had become insolvent and in many times due to financial difficulties the dealer was unable to pay tax inspite of recovering, the same from the customers.

Recovery of tax was spread over among small dealers and hence there was a great loss of revenues. In this connection, someone has very aptly commented that, single point last stage is a "lost stage".

c) **Difficult to Administer** :- In this system the number of dealer was very high. Secondly almost all the small dealers were required to attend the assessment. These dealers were ignorant in tax matters and were unable to keep records which was essential for assessment.

Thus poor and ignorant dealers used to attend assessment which was not only time killing but also unreliable and hence difficult to administer.

d) **Bogus Dealers** :- In this system sales from one registered dealer to another registered dealer were exempt at all the stages. In such conditions the persons who are not in Trade and Commerce used to take registration for claiming resales.

One dealer used to purchase goods and as he is registered he was not required to pay any tax. Thus tax liability used to be continuously shifted and resale enjoyed by giving declaration. In the end when goods are sold to a customers the dealer used to avoid issuing bills and as bills were not issued there was no question of paying any tax to state. Thus customers also used to agrees with the seller that if the bill is prepared tax liability will be over the customer
directly. Hence there was a great evasion of tax in this system.

b) Corruption and misuse of power: As the tax recoverable was at end point the middlemen used to give declarations. Checking of declaration by officers had great element of discretion leading to heavy corruption. The absence of record with the last dealer lead to harassment at the assessment and provided very fertile ground for corruption.

4.1.6 Working results:

As pointed out earlier the system was in operation from 1946 to 1952. The details of sales tax collected, collection expenditure and dealers and staff of the department are presented in the following table.

Table 4.1

First system (period 1-10-46 to 31-10-52) Working results

(Figures in Lakh Rs.)

<table>
<thead>
<tr>
<th>1 YEAR</th>
<th>2 SALE TAX RECEIPTS</th>
<th>3 REGISTERED DEALERS</th>
<th>4 EXPENDITURE</th>
<th>5 STAFF NO.OF PERSONS</th>
<th>6 PERCENTAGE OF 4 TO 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-47</td>
<td>117.60</td>
<td>40785</td>
<td>5.86</td>
<td>411</td>
<td>4.98</td>
</tr>
<tr>
<td>1947-48</td>
<td>489.21</td>
<td>57231</td>
<td>9.91</td>
<td>561</td>
<td>2.03</td>
</tr>
<tr>
<td>1948-49</td>
<td>684.20</td>
<td>73890</td>
<td>12.39</td>
<td>711</td>
<td>1.81</td>
</tr>
<tr>
<td>1949-50</td>
<td>1324.88</td>
<td>102210</td>
<td>18.53</td>
<td>1066</td>
<td>1.40</td>
</tr>
<tr>
<td>1950-51</td>
<td>1523.94</td>
<td>112617</td>
<td>21.62</td>
<td>1000</td>
<td>1.42</td>
</tr>
<tr>
<td>1951-52</td>
<td>1272.46</td>
<td>118579</td>
<td>24.23</td>
<td>1241</td>
<td>1.90</td>
</tr>
</tbody>
</table>

Source: Selected statistics Government of Maharashtra sales tax act department pertaining to relevant issues.

The analysis of the above table shows that as far as the tax revenue is concerned the system gave good results. Rise in the amount of tax collected is significant. This amount rose
Similar trend is noticed in respect of dealers covered by the system. In the beginning this number was 40785 which increased to 1,18,579 in year 1952. The rise in the number of dealers is continuous and the rate of addition is more or less steady. This rise in the number of dealers coupled with rise in the amount of revenue naturally resulted in more work load to the departmental staff. Consequently the period under observation also witnessed the rise in the Sales Tax staff. Total number of employees increased from 411 in 1946 to 1211 in year 1952. The increase in the staff naturally lead to increase in the expenditure on collection.

As will be seen from the above table, total amount of expenditure was Rs. 5.86 lakhs in the year 1946. The year 1952 recorded the figure of Rs. 24.23 lakhs. In other words the total amount of expenditure increased nearly by 5 times. However, the proportion of rise in the amount of revenue and increase in the amount of expenditure does not show any significant change. It moved in the range of Rs. 4.98 per hundred of tax collected to 1.90 in the year 1952. The increase in the expenditure per hundred leads to a conclusion that the system proved to be economical as far as the period under observation is concerned.

4.1.7 Critical appraisal

Having studied the strengths and weaknesses of the system, the following paragraphs present its critical appraisal.

a) Improper distribution of liability: An essential characteristic of a sound system is that it should be just to
It is observed that in this system this principle was not followed. For example big dealers if they occupied the position above retailer were not required to pay tax. Whereas retailers irrespective of their size of business were made responsible for tax collection and payment. A mention may be made of "Oil Dealers" cases. The oil dealers i.e. manufacturers with huge and rapid turnover were left outside the preview of the system. This cannot be considered as just and proper distribution of liability.

b) Arrears of tax:— The efficiency of a tax system depends upon its capacity to recover the amount of tax. The system resulting in large amount of arrears cannot be considered as an efficient system. While discussing the weaknesses of the system it has already been pointed that, due to its inherent defects there were high tax arrears under the system.

c) Malpractices and corruption:— A system leading to malpractices and corruption cannot be called an ideal system. As has been pointed out earlier in order to claim resale most of the dealers were tempted to obtain registration certificate. Thus the system gave rise to malpractices and corruption through bogus dealers.

d) Court cases: An ideal system is always free from ambiguity. Naturally it provides minimum scope for different interpretations. As a result the number of court cases is very less under such system. Unfortunately the situation under the system namely single point last stage system was exactly opposite. The
ambiguous provisions, discretion granted to authorities resulted in a large number of court cases making system more complex and difficult to administer smoothly.

Thus the system had good capacity to generate revenue, it attracted criticism on account of the facts discussed above. The government therefore was compelled to give serious thought to find out an alternative to this system. Before that alternative is discussed it would be admissible to know what experts think about the system.

4.1.8 Experts Opinion :-

As explained in the chapter dealing with research methodology a field survey was conducted, together experts opinion on the subject. As far as single point last stage system most of the experts recorded unfavourable opinion regarding the system. These experts included some retired officers of the department who were involved in the administration of this system. They were of the opinion that since this system required assessment on mass scale it was very difficult to do justice to the assessment. Similarly due to scattered nature of retailers Arroors were inevitable. However as it was the first system it needs to be analysed from that angle.

Experts belonging to another category also subscribed to the same view point. They were of the opinion that the system was the starting point of Sales Tax and improvements were possible on the basis of experience only.
4.1.2 Conclusion :-

In sum, the system was introduced for the first time in the state. Though it had revenue generation capacity and it could help the government in reaching its budgetary targets, as years passed many defects of the system came to be noticed resulting in general resentment and compelling the government to search an alternative. The government therefore appointed a committee under the chairmanship of Shri D.R. Gadgil to review the existing system and to suggest a viable alternative to the government. The committee was appointed on 12th Oct. 1946. The committee submitted its report to the government in June 1947 which was accepted by government and as a result of which a new system namely multipoint system came into operation from 01-11-1952.

PART II

Multi Point Tax System 1-11-1952 to 31-3-54

4.2.1 Introduction

As stated above, this system was introduced in the year 1952, on the recommendation of Gadgil committee. The system was in force upto 31-03-1954. Thus, the system lasted for a very short duration i.e. one year and five months only. The following is the brief description of the concept and characteristics of the system.

4.2.2 Concept - Period and Background :-

As the name suggests, under multipoint systems, tax is recoverable at more than one point. In the preceding period, it was recoverable at one point only. Thus, this system brought a
major change in the tax collection operations.

In this system tax was leviable at every stage of sale. Manufacturer used to recover tax from wholesaler. Wholesaler from the retailer and in the end retailer used to recover the same from customer. Every dealer had to obtain registration certificate and recover tax and pay it to Government and he had also to attend assessment when he is called by Notice. For example A is a oil miller and has produced oil of Rs. one lakhs. A will pay tax while reselling to B who is a wholesaler. Then B will also pay tax and will sale to C who is retailer. Thus in the end tax is recovered from customer and paid by retailer.

Here, the rate of tax was very low. One Anna (six and quarter percent only) in a rupee was a tax payable. Probably this was the only system in which there was so low rate leviable on commodities.

Looking to the deficiencies of recovering tax from last stage dealers, in this system an arrangement was made for recovering tax at all the stages. Tax was payable by every dealer and was at a very low rate.

4.2.3 Characteristics of the system:

In the light of above discussion the characteristics of multiple point system may be outlined as follows:

a) Broad Based System:— The system was broad based in nature. All members of production—Distribution channel were subject to Sales Tax. This has widened the tax base.
b) Low rates of taxes: As the tax base was very wide rates of tax were low. The tax rate was one anna in a rupee (six quarter percent.)

c) Registration was essential: As every dealer had to recover and pay tax to the exchequer it was essential for him to obtain registration certificate in order to facilitate resale benefits.

d) Cumulative Burden: Under this system every dealer, right from the manufacturer to retailer was required to collect and pay tax. This naturally resulted in cumulative burden on consumers.

c) Revenue Generation Capacity: Compared to earlier systems, multipoint systems had greater capacity to generate more revenue. This was possible due to taxation at all levels.

4.2.4 Strength of the system:

The duration of the system was very short and hence it is very difficult to discuss its merits as observed during implementation. However on the basis of above discussion the following may be stated as the strength of multipoint systems:

   a) Very wide tax base, very few exemptions lead to greater collection of tax revenue.

   b) Inclusion of all levels in the trade channel coupled with low rates of taxes is expected to enhance revenue collection and minimise tax evasion.

   c) Since every dealer is taxed and the exemptions are minimum chances of malpractices and corruption also get minimised.

   d) The administration of the tax under this system was
simple, since there was no need to trace commodities through stages of sales or purchases and since the number of articles exempt were kept to the minimum.

While assessing the dealer the officer had to check sale value and tax them. Secondly the purchases which may be from registered dealers or may be from unregistered dealers, he had to see the bills produced before him by the dealers for assessment. No other formalities were required.

As every registered dealer had to pay tax and the incidence of tax was open. Secondly, every customer had to pay it to the dealer, the location of tax was traceable.

4.2.5 Weaknesses of the system:

Enquiry committee had suggested this system with the intention of getting more revenue to the state but due to improper implementation the system failed in the state. The following may be stated as weaknesses of the system:

a) Pyramidal effect of increase in cost:— As the goods move from stage to stage, cumulative cost of commodity increases with the tax effect. Multi point tax has also the effect of increasing the cost of production by adding to the cost of raw and processing material etc. It also added to the price of the goods purchased from out of the State depending upon the number of stages though which they pass before they are sold in the course of inter-state trade. Particularly such a system adversely affects the competitive position of the dealers in a state which are relatively highly industrialized and which has an extensive
inter port trade in relation to dealers in other states.

b) Records also to be kept by small dealers: Goods are sold through number of middlemen till they reach the ultimate customers. Thus every dealer has to keep records for his tax liability. Even the smallest dealer has to keep a record.

Many dealers due to ignorance were unable to keep such records and this it gave rise to the corruption and there was injustice with them in the absence of required records.

Incident of multi point tax was high in rural areas on imported and manufactured commodities since they passed through a large number of intermediate stages of sales before reaching the rural area.

c) Costly to administer: Under the multi point levy tax was collected from a comparatively large number of dealers which brought in relatively small amounts of revenue. Thus, in terms of cost, the system could be criticised for comparatively greater collection cost. It is stated that a purely multi point tax cannot bring sufficient revenue and hence it is necessary to supplant it by other suitable system.

d) Inequity of incidence of tax: This multi point tax is as per the multiplicity of transaction of goods. For example cloth mill has manufactured cloth. This cloth reaches the customer after three to four stages. Thus this commodity gathers tax at four points. But in the case of some other commodity such as caustic soda it is taxed only once when used by the purchaser for manufacturing another goods.

This disparity of collection of tax from various
commodities affect the incidence of tax.

e) Hampers Tax Planning :-

There are dealers who purchase in bulk. In such large scale purchases they always have to calculate tax element for the sake of calculating sale price. Due to the element of multiplicity sale price computation becomes difficult. This leads to a number of difficulties in tax planning.

4.2.6 Working results :-

The tenure of this system was from 1-11-1952 to 31-3-54 i.e. for one year and Five months only. This period being very small the working results do not provide adequate base for evaluation. However, Inspite of its low tenure the figures given below may be useful for comparison with other system.

Table 4.2

Second System (1-11-52 to 31-3-54) Working Results
(Figures in Lakhs Rs.)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SALES TAX REGISTERED RECEIPT</th>
<th>EXPENDITURE</th>
<th>STAFF OF 4 TO 2</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952-53</td>
<td>1240.55</td>
<td>1,15,112</td>
<td>28.80</td>
<td>1438</td>
</tr>
<tr>
<td>1953-54</td>
<td>1666.42</td>
<td>96,562</td>
<td>35.14</td>
<td>1548</td>
</tr>
</tbody>
</table>

Source : Selected statistics Govt. of Maharashtra Sales Tax Department pertaining issue.

The receipts of revenue for the first year was 1240.50 lakh and it has increased considerably to Rs. 1666.42 lakhs. As the tax was payable on every stage the revenue gathered was more. Though tax rate was low it was payable at every stage this being a special feature of this system tax revenue has increased so
It is surprising that the number of dealers has fallen from 115112 to 96562. Though the number of dealers has reduced, the revenue has increased. In the first system, maximum expenditure was Rs. 24.23 lakhs. But in this system, it has shot up to Rs. 35.44 lakhs. Thus it is very clear that this system was quite expensive.

Staff strengths have also increased and due to this rise, the expenditure has increased.

The percentage of expenditure to the revenue receipts has also increased from 1.40 in previous systems to 2.32 in this system. For collecting Rs. 100, the department had to spend Rs. 2.32 which is very high expenditure considering expenditure under other systems.

Thus, this system has found to be a failure due to so many reasons, of administrative as well as financial.

4.2.7 Critical Appraisal:

The system was in operation for a very short duration. It was noticed during this period that it was very difficult to administer this system smoothly due to complexities involved in it. All registered dealers in the channel were required to pay the sales tax and for this purpose maintain various types of records.

This system caused hardship to the taxpayer, leading to unfavorable opinion and as observed by Mr. Lele, non-fulfillment of expectations. The government therefore switched over to a new system from the year 1-4-1954.
4.2.8 Expert opinion:

While interviewing some respondents subscribed that this was a good system but this should not be enforced independently. It should be in combination with single point first stage system.

They proposed that as at present there is a single point first stage system the same should be in force for luxurious goods and essential goods, but for semi luxuries Multi point system should be introduced for detection of evasion.

Some opined that as the rates were low the tax liability was also low and secondly for reducing regresiveness of the system some goods need to be taxed more than once. Some respondents were of the opinion that in a country like ours multipoint system may be useful in promoting in small and village industries. There is a point in this arrangement because generally small and village industries operate at the most in the regional market and hence number of intermediaries are few in these operations. Therefore they will not be affected by adversities of the system but at same the objective of revenue may be achieved. Thus, most of the respondents favoured the idea of introducing a mixed system in a combination of this system with single point first stage system.

4.2.9 Conclusion:

This system was for a very short period. Secondly the expenditure percentage was also very high looking to other systems.
This system has not fulfilled the revenue needs of the state and hence the system was discontinued.

PART III

Double Point Tax system
01-04-1954 to 31-12-1959

4.3.1 Introduction

The multipoint system, as mentioned above failed to reach the budgetary targets of revenue collection through sales tax. Moreover trade and industry agitated against this system mainly due to harassment in assessment and also heavy burden of taxation due to multiplicity. In response to the agitations the government announced some concessions. This, however, could not pacify the situation. As a result the government decided to replace multipoint system by double point tax system. Thus this system came to existence from 01-04-1954.

4.3.2 Concept period and background:

As the name suggests under this system sales tax was leviable at two points or stages, i.e. at manufactured stage and at retailers level. However, two point taxation was not applicable to all the goods. Some goods used to be taxed at first stage only. Whereas there was two point taxation for some goods. Thus under this system, there were two schedules. The first schedule included commodities other than those declared as tax free. The second schedule was of tax free commodities. There were sixty items in this schedule. These items included food
grains, bread, tobacco, kerosene, agricultural goods and other essential goods.

For goods included in first schedule there were two types of taxes. One was known as special tax for which the tax rate was one anna per rupee. The other tax was known as general sales tax. Most of the taxable commodities which could be considered as, 'common goods' were taxed once i.e. at first stage only. The other category of the goods were subject to taxation at two stages i.e. first and last stage.

Like the previous systems registration was an essential factor in this system also. Further a new provision leading to issuance of license was introduced. Big registered dealers could avail the benefit of set off in respect of interstate transaction.

The following example will make this point clear.

A purchased goods of Rs. 1,00,000 from B. B levied 4% tax i.e. Rs. 4000. Then A sold it for Rs. 1,25,000. A will pay tax @ 4 percent on Rs. 1,25,000 i.e. Rs. 5,000 and will obtain set off of Rs. 4,000 which he has paid to B. And thus the tax liability of A will be Rs. 1000 only.

But suppose A could not file form no. 12 in time then A will lose the set off of Rs. 4,000 and he will have to pay Rs. 4,000 and 5,000 both. Thus to obtain set off form no. 12 was very essential to file in time.

Licensed dealer were unaffected by the above provision. Generally small dealers were not getting the facility of license. And if they do not file form no 12 in time in such case small
dealer were double taxed.

The tenure of this system was from 1-4-1954 to 31-12-59. Thus, this system was in operation for four years and nine months.

In the period of this system set off was introduced. Secondly declaration like authorisation for sending goods out of state and license for manufacturer purchasing goods without paying general Sales Tax i.e. shifting tax liability to another dealers were introduced. Set off was also provided on Sales Tax paid by them on their purchases of raw material oil, fuel, lubricants etc.

4.3.3 Characteristics of a system :-

In this system there were dealers who were to pay tax on some goods twice. But the procedure of such tax payment was very clear and a common man was also able to understand the procedure of depositing tax in Govt. treasury. The main characteristics of the system may be described as follows:

a) Simplicity :- In this system goods were to be taxed twice in the chain of distribution the goods travel from manufacturer to wholesaler and from wholesaler to retailer and then retailer sales them to his customers.

According to this system, if tax is paid by manufacturer, and if he obtains declaration, the wholesaler need not pay tax. Secondly retailer also need not pay tax to wholesaler. But retailer has to recover it in the end from customer and pay it to government.
Thus through this simple process tax was payable at two points only.

For administration the officer had to see the declaration and a simple set off claimed by the dealer the incidence was at two places only.

b) Low Rate:— As tax was payable at two points the rate at first point was low and at last stage it was lower than first stage due to increase in the cost at end point.

c) Revenue Generation:— This system could generate substantial revenues tax was leviable at two stages, without creating resentment.

d) Evasion was detectable:— In some other systems once tax is lost at a particular stage it is lost for ever. But in this system if at all the tax has escaped at any particular stage then, it was traceable at another stage due to the arrangement in the system itself.

e) New provisions:— This system has introduced set off and various declarations. These technical aspects are introduced for the first time in the Sales Tax systems in Maharashtra.

Dealers are required to be punctual in their transactions to obtain declarations. Secondly, declaration if not properly handled there was a great loss on the part of the dealers. There were some cases of double taxation but due to the mistake on the part of the dealers they had to pay tax twice. This resulted into disciplined behavior in tax matters.
4.3.4 **Strengths of the system**

The study of the available literature shows that, compared to other systems, this system enjoyed popularity. This was due to its inherent strengths. These are described below:

a) **Flexibility in tax revenue** — It was possible to adapt a flexible approach, since two point taxation was mainly on luxurious goods. Thus, the system enables to enhance revenue collection without causing hardships to the masses.

b) **Concealment was curbed** — If a particular dealer conceals goods then ultimately for set off the other dealer has to bring those goods on record. Thus the concealment was very difficult.

c) **Number of dealers substantial** — In the single point system, dealers belong to one particular level. In this system, for many goods, dealers operating at two different levels come within the purview of taxation. Hence, their number is greater as compared to single point system.

d) **Regressiveness was minimised** — In this system luxurious goods used by the upper income group are taxed at high rate. First they are taxed at first stage and again they are taxed at last stage. This amounts to reduce the Regressiveness of the tax.

4.3.5 **Weaknesses of the system**

The system has certain weaknesses also which are briefly described below.
a) Complex Nature :- This system has introduced set off and also so may declarations and schedules of multi rates. Dealers were not aware of these technicalities and hence they were confused. No doubt due to set off, double taxation was avoided. But as the dealers were not accustom with these type of deduction they were taxed twice. This happened due to complex nature of the system.

b) Lengthy procedure :- As there were provisions relating to set off and declarations of various types, the assessing officer had to check all the claims and deduction made by the dealers. Dealers were unable to produce all the declarations at one time and used to request adjournments to officer for obtaining declaration and due to this, assessment procedure resulted in pendency.

c) Escape of tax liability : Like first dealer, tax the second dealer had also to pay tax and thus liability was progressive. Dealers thus tried to escape of tax liability and were tempted to deal in transactions without bills. Misuse of bills and transactions without bill were on increase in the system.

4.3.6 Working results:-

The following table gives details of tax collected, number of registered dealers staff strength and expenditure on tax collection under this system. (1-4-54 to 31-12-59)
Table 4.3
Working Results
(Figures in Lakhs)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SALES TAX RECEIPTS</th>
<th>REGISTERED DEALERS</th>
<th>EXPENDITURE</th>
<th>STAFF PERCENTAGES OF 4 TO 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-55</td>
<td>2161.29</td>
<td>73289</td>
<td>37.96</td>
<td>1605</td>
</tr>
<tr>
<td>1955-56</td>
<td>2417.18</td>
<td>78689</td>
<td>40.38</td>
<td>1587</td>
</tr>
<tr>
<td>1956-57</td>
<td>2914.25</td>
<td>75435</td>
<td>42.00</td>
<td>1743</td>
</tr>
<tr>
<td>1957-58</td>
<td>3441.05</td>
<td>79460</td>
<td>68.00</td>
<td>1817</td>
</tr>
<tr>
<td>1958-59</td>
<td>3486.13</td>
<td>81110</td>
<td>75.18</td>
<td>2350</td>
</tr>
</tbody>
</table>

Source: Selected statics: Government of Maharashtra Sales Tax Department Report relevant issues.

It is seen from the above table that, during this revenue was progressive. Similarly, the number of dealers showed increase with the exception of year 56-57.

The expenditure and its percentage to the revenue was also reasonable, i.e. 1.44 a minimum one.

Staff position was increasing and this increase is not much higher in relation to the revenue.

4.3.7 Critical appraisal:

As compared to other systems, this system gave good results and enjoyed general acceptability. Though it attracted criticism on account of procedural complexities it may be mentioned that in terms of principles also the system enjoys acceptability, since it adheres to the principle of capacity to pay tax. Further, it proved to be a successful system in terms of revenue generation and cost. It is worth mentioning that the
system is in operation even to day in some of the states.

4.3.8 Experts opinion :-

Officers in the department were of the opinion that this system was complicated and assessments were lengthy. Dealers took lot of time to collect documents and due to this heavy time lag simple cases turned to be complicated. Retired Tribunal members and some similar other officer, who handled this system subscribed to the view point that this system used to give a real assessment of a dealer. Reasonable tax was recovered from the person who has a ability to pay the tax.

The officer, as well as dealers who were in the field during its operation favoured it since its defects were very few. In this way the system has proved to be successful on all counts.

4.3.9 Conclusion :-

The system worked well for reasonable period and enjoyed general acceptability at all levels i.e. Government, Administration and Business. There was, in fact, no reason to think of an alternative system. However, the formation of new state, prompted the government to search for an viable alternative considering the needs of the newly formed state. Hence the system was discontinued from 31-12-1959.
PART IV

COMPOSITE SYSTEM OR MIXED SYSTEM 01-01-1959 to 30-06-81

4.4.1 INTRODUCTION :-

The three systems discussed so far were in operation during their respective periods in Urest while Bombay state, most of which is now known as western Maharashtra. In the year 1956 as a result of states reorganisation a new state namely Bilingual state of Maharashtra came into existence. This state included some part of Gujrat State, some part of Madhya Pradesh and some part of former state of Hyderabad. It may be pointed out that all these regions were governed by Sales Tax Laws and systems prevailing in their State of origin. After the creation of new State, since immediate switch over was not possible these regions were allowed to continue with the old systems. This was a transitory arrangement. However, a look at the systems prevalent in those areas would certainly add to the clarity of the subject.

New state was comprised of following areas.

1) Former state of kutch and Saurastra and Bombay.

2) Aurangabad, Parbhani, Bhir and Ahamadnagar districts, some talukas and circles of Bidar Nanded and Adilabad districts of the former Hyderabad state.

3) Buldhana, Akola, Amravati, Yatmal, Wardha, Nagpur, Bhandara, and Chanda District from Madhya Pradesh.

In the newly merged area of Bombay state, different systems of sales tax were in force. In Vidarbha, Saurastra and
Kutch areas there was single point tax more or less at the retail stage of sales. In Marathwada area the multi point system of Sales Tax prevailed.

The commodities affected by the general Sales Tax laws of the five areas were generally speaking the same except a tax on the sale of food-grains was unique in Marathwada.

There was no sales tax on motor spirit in Kutch and it was introduced only with effect from 1st April 1957. The Sales Tax on lubricants in Vidarbha did not exist elsewhere. The tax on the sales of intoxicants prevailed only in the area of the original Bombay state.

Thus there were three different Acts in force in the reorganised Bombay state.

Various Acts in Force:
As mentioned above the Acts were as below.

1) The Bombay Sales Tax Act 1953 in the pre-organised Bombay state area.


In Kutch, the central provision and Berar Sales Tax Act 1947 was made applicable with effect from 1st January 1955. In Saurashtra Sales Tax was introduced on 19th January 1950 which came into force from 1st June 1950.

The original measure was very restricted in application and provided for a levy on only 13 selected commodities at a flat
rate of 6 paisa per rupee levied at the last stage of sale.

4.4.2 Concept Period and Background

The new system was introduced as a result of reorganisation of a state. The system is known as COMPOSITE SYSTEM since it is a combination of three different methods. The Patel committee recommended first stage tax on 69 Articles listed by them. This grouping was done after taking into consideration the number of stages through which goods reach the ultimate user. The committee suggested the last stage tax on a group of 20 items and two stages tax on 14 items including resuiday entry. Thus in this system some articles are taxed at the first stage some, articles at the last stage, and some are taxed twice. Hence the system is known as composite tax system.

As suggested by the committee there were five schedules and five different type of taxes. These schedules and taxes are as follows:

Schedule A consists of tax free goods. Schedule B covers declared goods. (declared by central government for fixing rate). Schedule C comprised of goods taxable at first stage. Schedule D listed goods taxable at first and last stage.

Schedule E comprised of goods on which retail sales tax was leviable in addition to Sales Tax.

The types of taxes leviable under this system included

1) Sales Tax
2) General Sales Tax
3) Purchase Tax
4) Retail Sales Tax
5) Additional Tax

The ordinance was amended on 1st December 1950 and the selective Sales Tax hitherto in force was converted into a general Sales Tax which followed the single point system of Bombay state from 1946 to 1952. A number of items of non essential nature were selected for taxation at one anna in a rupee instead of half an anna. The list of items on which no tax was leviable was somewhat longer than that in the pre-organised Bombay state.

**Shri Babubhai Patel Committee**

Anomalies resulting from the operation of various systems in the state made the government to think over the situation. The parties concerned also suggested that government to introduce uniformity in the state in Sales tax matters. In response to this the government of Bilingual state appointed a committee in December 1957 to suggest the sales tax systems for this newly formed state. Under the chairmanship of Shri Babubhai Patel. Patel committee recommended composite system.

The government decided to implement the new system from 01-01-1960. In the mean time the present state of maharashtra came into existence (01-05-1960). The government of this newly formed state decided to implement the system suggested by Babubhai Patel. The concept and the characteristics etc. of the system are discussed in the following paragraphs:

The present system of tax under the Bombay Sales Tax
Act 1959 is the result of the recommendations made by this committee.

The committee proposed a composite system in which 69 Articles or groups of goods were suggested for a first stage tax. These goods were selected after giving due weightage to such factors as the comparatively smaller number of stages through which these goods pass to the ultimate consumer and comparatively high level of their business organisation and the ease with which both the purchaser and the product can be identified. It also suggested a last stage tax on 20 items on the ground that those goods pass through a chain of dealers and that it would be proper to levy this tax at a stage when the goods passed from a licensed dealer to a registered dealer or a consumer.

On 14 items including a residuary item which were separately listed the committee recommended a two stage tax and retail tax to be paid by the retailer on the turnover of resale of these goods. For manufacturers it proposed the concession of purchasing raw materials processing materials and packing materials excluding specified items free of all taxes.

The recommendations were accepted by the government and the present Act was enacted. The new Act was brought into force from 13th July 1962 the concession given to the manufacturer was made subject to the payment of a flat rate of tax at one percent. The rate was raised to two percent with effect from 1st January 1966 and was again enhanced to three percent with effect from 15th April 1974.
4.4.3 Characteristics of the system:

It is said that all the earlier systems played their role jointly in the formation of this system. This system which is a composition of all earlier systems has the following characteristics.

a) Multiplicity of Taxes:— This is a system in which there were five types comprising of taxes viz.,

1) Sales Tax
2) General Sales Tax
3) Purchase Tax
4) Retail Sales Tax
5) Additional Tax.

These various taxes were applicable according to the nature of the transaction and the goods involved in the sale or purchase transactions.

b) Evasion was traceable:— In this system as there was a multiplicity of taxes the evasion of tax was easily traceable. Goods were passed through number of hands and as there were transactions which were covered by some or the other tax the evasion was easily traceable.

c) Assessment was cumbersome:— Every dealer had to attend Sales Tax office. Secondly, every dealer was required to pay some or the other tax and looking to such broad base tax the assessing authority had to spend lot of time for assessment and also the dealer was required to prepare lot of details to be submitted to authorities. Tax consultant had to work and maintain documents
of the dealer for a pretty long period as those may be asked by Authorities frequently.

d) Double Taxation :- This was most unwanted feature of this system. Inspite of giving some declaration in some transaction the dealer had to pay either general Sales Tax or retail Sales Tax. Retail Sales Tax was payable by each and every dealer who used to deal in "E" scheduled goods.

Secondly there was additional tax which was not allowed to be recovered from the customers and the dealers had to pay this tax from their profits only.

e) Budgeted Expectations were fulfilled :- This system was in force for a pretty long period. Being a multiple nature system, the Budgeted expectations were fulfilled by this system.

f) Special Branch was Opened :- During this period the department opened a special branch for detecting bogus dealers and to keep watch on the transactions of the dealers with huge turnover.

4.4.4 Strengths of the system :-

Due to the nature of the system, entire Business field was affected by the Sales Tax transactions. Till this, Sales Tax ward was limited to the businessmen and the assessing authorities. This system has affected all types of traders and has gone to the grass root of all the financial and tax related areas. Major strengths of the system may be stated as follows :
a) Revenue Targets Reached :- Due to its composite nature, the estimated revenue targets were always reached and occasionally collections exceeded the target.

b) Evasion was curbed :- Due to multiple nature of the system bogus transactions and the bogus dealers both were traceable.

c) Specific Importance to Department :- From this system period the department got special importance as revenue yielding department. There was a great decentralisation and so many administrative and other posts were created during this system period.

4.4.5 Weaknesses of the system :-

Sales Tax revenue assumed important position mainly during the period of this system. At the same time, negative effect of generating revenue was also seen during this period. Other weaknesses of the system are :

a) Corruption increased :- Due to broad based nature and multicity in taxes corruption found its way during the period.

There were number of discretions to the concerned authorities and due to this specific nature of the system, the discretion tended to be misused ultimately leading to corruption.

b) Complicated Nature :- As there were five schedules and also five types of taxes the normal dealer was unable to understand his tax liability. While going for assessment there was always a tension on the dealer due to complex nature of the system.
c) Double Taxation:— In many cases general Sales Tax, additional and retail Sales Tax were payable as tax on tax. Due to this, dealers were displeased. It was experienced that there was always tax payable after assessment.

d) Arrears of taxes:— As assessment always resulted in tax liability due to wide nature of the system, it was very difficult for the department to recover such arrears which were varied, scattered and were in small amounts.

Tax liability resulting from Departmental assessment generally pertained to past three four years. It was perceived by dealers as harassment.

4.4.6 Working Results:—

The system had greater capacity to generate revenue and being in operation for a long period it gave substantial revenue to the state.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>SALES TAX RECEIPT</th>
<th>REGISTERED DEALERS</th>
<th>EXPENDITURE (IN CRORE)</th>
<th>STAFF</th>
<th>PERCENTAGE OF 4 TO 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969-70</td>
<td>89.46</td>
<td>123411</td>
<td>1.70</td>
<td>3401</td>
<td>1.27</td>
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<td>1970-71</td>
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<td>130344</td>
<td>1.82</td>
<td>3489</td>
<td>1.11</td>
</tr>
<tr>
<td>1971-72</td>
<td>109.05</td>
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<td>1.87</td>
<td>3481</td>
<td>1.19</td>
</tr>
<tr>
<td>1972-73</td>
<td>120.10</td>
<td>144205</td>
<td>2.05</td>
<td>3624</td>
<td>1.10</td>
</tr>
<tr>
<td>1973-74</td>
<td>153.96</td>
<td>152744</td>
<td>2.35</td>
<td>3678</td>
<td>1.00</td>
</tr>
<tr>
<td>1974-75</td>
<td>211.43</td>
<td>166362</td>
<td>2.57</td>
<td>4045</td>
<td>0.81</td>
</tr>
<tr>
<td>1975-76</td>
<td>247.76</td>
<td>182408</td>
<td>2.95</td>
<td>4019</td>
<td>0.76</td>
</tr>
<tr>
<td>1976-77</td>
<td>290.99</td>
<td>198098</td>
<td>3.93</td>
<td>5213</td>
<td>0.83</td>
</tr>
<tr>
<td>1977-78</td>
<td>308.10</td>
<td>212399</td>
<td>4.11</td>
<td>6358</td>
<td>0.85</td>
</tr>
<tr>
<td>1978-79</td>
<td>365.53</td>
<td>224982</td>
<td>6.40</td>
<td>6318</td>
<td>1.12</td>
</tr>
<tr>
<td>1979-80</td>
<td>421.11</td>
<td>239920</td>
<td>6.68</td>
<td>7099</td>
<td>1.03</td>
</tr>
<tr>
<td>1980-81</td>
<td>505.89</td>
<td>255896</td>
<td>8.07</td>
<td>7714</td>
<td>1.02</td>
</tr>
</tbody>
</table>

Source: Selected statistics government of Maharashtra Sales Tax department relevant issues.

This system came in force from 1-1-60. And from 1960 to 1969 the required data of about ten years was not available. During this period, the office of Sales Tax Department was housed in the Swadeshi Mills Building and unfortunately this building caught fire and major portion of the Sales Tax records was burnt. Due to this natural calamity the data for the first decade are not available. Details pertaining to the next decade are available and the same have been presented in the above table.
Revenue receipts have always shown progressive trend. The receipts at the beginning of the decade i.e. 1969-70 stood at 69.46 crores and at the time of closure of this system it shot up to Rs. 505.89 crores. Slowly and steadily the receipts increased. This offers to be a good indication of system from revenue point of view.

The number of dealers also shows progressive trend which shows the progress of industry and trade.

Staff required was also not excessive and it proves that administrative expenditure was reasonable looking to the income from this tax.

The percentage of expenditure with income was also quite justifiable. In some years the collection expenditure for collecting 100 Rs. to the state was 76 paisa. And even in all other years the expenditure ratio with the income was quite reasonable.

Thus the system found to be successful, inspite of its complex nature.

4.4.7 Critical Appraisal :-

Systems duration was pretty long and also the revenue yield was reasonable. This proves that the system was quite successful. However, it was not free from defects which attracted the criticism on the following grounds:

a) Lengthy assessment :- As there were five schedules and five types of taxes to be considered while doing every assessment, the procedure was quite lengthy and dealers were required to attend
b) Tough in assessment:— The assessing authorities were always under the fear that a case may come up in Sales Tax audit. His assessment was open for number of angles of revenue collection. Due to this he was not satisfied till the audit of those particular year are completed by the authorities. This resulted in a very and extra cautious approach.

c) Tax Planning was difficult:— As every dealer had to pay tax at some or the other transaction he was not sure of his tax liability. Tax planning was very difficult and final tax liability was possible only after assessment.

d) Harassment and litigations:— As the law was voluminous, the tax liability was always uncertain, and due to this the appeals were increasing, thus this forced litigations due to its inherent defects.

4.4.8 Experts opinion:—

Expert's opinion regarding this system, as collected during personal interviews with them, are summerised below:—

Assessing authority felt that all the energy was concentrated on assessment only. No survey or no detailed scrutiny was possible of big tax payers.

Big tax payers cases were also completed like small tax payers. The ultimate effect was that big tax payers, due to their ways and means were able to conceal tax and the small tax payer, were many a times, over assessed.
4.4.9 Conclusion:

The system worked well as far as revenue generation was concerned. However, multilayer operations, feelings of harassment on the part of dealers and uncertainty regarding accuracy of assessment made the Sales Tax advisory committee of the government to recommend the review of the system. The government in turn appointed a committee under the chairmanship of Shri M.R. Yeardi to look into the matter. The committee suggested single point first stage system which forms the matter of discussion in the coming paragraphs.

PART V

5th SYSTEM

SINGLE POINT FIRST STAGE SYSTEM

4.5.1 Introduction:

This is a system which is currently in operation in the state. The system owes its existence to the Yeardy committee. The background on which this committee was appointed has been explained earlier. The committee which was appointed on 10th of July 1975 by finance department resolution No, STA-1075/4/M-1 was expected to submit its report to the government before Dec. 1975. The study process adapted by the committee included collection of relevant data and views on the problem with the help of questionnaire. It was circulated to organisations like chambers of commerce various representatives of trade and industries heads of Sales Tax department of various states; members of Parliament etc. Naturally the committee took time to prepare its report.
Thus after giving due considerations to all representations and views expressed to them. The committee submitted its report to the government of Maharashtra.

The government accepted the report and thus a new system known as single point first time system came to existence from 01-07-81 replacing the old system.

4.5.2 Concept Period and background :-

As the name indicates sales tax is charged and recovered at the first stage of trade channel. Thus if the channel begins with manufacturer this is taken as first stage and so tax is levied at manufacturer's level only. The bill issued by the manufacturer specifies his registration number and certificates, its validity and currency in addition to the amount of tax collected. No other member of the trade channel i.e. wholesaler or retailer has to pay tax under this system. In case of goods imported from other state of India, if such goods enter the manufacturing process, they are not taxed. however, if they are purchased for resale then the first purchase in the state has to pay tax at the time of resale. Thus the formalities regarding collection of tax have to be completed at the first stage only. This system is known as single point first time system.

There are two types of taxes in this system. They are:

1) Sales Tax
2) Purchase Tax.

The system has three schedules:

Schedule A - for tax free goods
Schedule B - for declared goods
Schedule C I - for low rates of tax
Schedule C II - for high rates of tax

All the provisions relating to set off and deductions due to declarations as existed in the old system have been continued in this system also with the exception of the declaration namely license which has been discontinued.

Like three schedules, there are eleven different rates of taxes for different types of goods. Thus with all the provisions and procedures the system has being given effect from 01-07-1981.

4.5.3 Characteristics of the system :

a) Simplicity :- It is quite clear from the above description that the system was very simple in nature. Only manufacturer, importer and unregistered dealers transactions were taxable. thus for the purpose of administration the system is very simple.

b) Speed in assessment :- While introducing the system the government desired to consent rate on big dealers and simplicity the procedure for small tax payer. This has been made possible by introducing a system of assessment under section 33(2) of the act. Under which the cases of small dealers could be completed. This naturally looked up the assessment procedure

c) Concentration on Big Dealers :- The most important character of this system is that by concentrating on 15 percent dealers about 85 percent of tax is recoverable.

The nature of this system was to some extend like a excise Duty. As exercise duty once levied on goods manufactured on the same line of manufacturer when once tax is paid at single
point then the goods can be resold by number of dealer and the state has not to loose any tax.

d) High Rates of Tax :- As per the nature of the system the tax is to be levied once only the rate of taxes are kept high because till the goods riches in the hand of consumers those travel though number dealers. Ultimately to consumers goods gets its cost with a profit and overheads of all the mediators. But in this system tax is levied when the cast of the goods is very low and for this specified character of the system the rate of tax is kept high. Additional tax and Turnover tax are introduced in this system period.

4.5.4 Strengths of the system :-

This system is a result of all other systems experience. Therefor there are lot of merits and flows point in this system.

a) Easy to Administer :- There are about 3,34,914 dealers in the year 1988-89 out of which 2,06,041 were the reseller. Now these cases of reseller of about 62 percent can be speed up very easily in this system.

More than 70 percent of above 2,06,041 reseller cases and some other cases can be completed U/S 33(2) without calling the dealer in the Sales Tax office.

Secondly there were 2,55,057 dealers in the year 1988-89 whose tax liability was below Rs. 5000 per year. The cases of such small dealers finalised speedily.
b) Control over Revenue and Trade:— In this system the budgeted figures are fulfilled and secondly there was a full control over the revenue.

There are statistical details of various commodities which gave particular amount of revenue. Secondly taxwise statistics of revenue are also available. Data base in the form of commoditywise and rate wise revenue enables the government to regulate tax system in a better manner.

c) Time Barring Assessment:— In other system the assessment was open and can be completed as per the convenience of assessing authority.

This system has declared a three year period, in which all the previous assessments must be completed. Due to this, assesses are not required to keep records for number of years for completion of assessments. Secondly due to this arrears were also considerably reduced.

d) Survey raids and deep scrutiny is possible:— As the assessments are completed easily there is ample time to the officers to make survey and also a time for conducting raids. Due to this black marketing and revenue loss is reduced to considerable extent.

4.5.5 Weaknesses of system:—

No doubt that this system is popular among traders, and the Administrators but there are some defects in this system which are discussed below:
a) **Double taxation:** In many cases this system leads to double taxation. For example, dealer A purchases goods from dealer B and due to some or other reason dealer B is not having registration certificate and even though B's purchases are from some other dealer C who is a registered dealer. A has purchased goods by paying tax. But since B is not having registration A has to pay tax again as B is unregistered dealer.

b) **Set off provision:** The previous system also offered this concession to avoid double taxation. However number of manufacturers during that period were less as compared to the present period. Similarly types of set off were also very few as a result of Industrialisation, number of manufacturers has gone up considerably and this trend will continue. Another important thing is that this system provides for various types of set off. The sales tax administration finds it very difficult to cope up with growing complexities and confusion amongst the tax payers increases.

c) **Rate multiplicity:** There are about Eleven types of rate in this system. due to this the system has become complex and hence this multiplicity need to be minimised. Bombaywala committee as well as Gujrath study team also commented on this aspect and recommended 5 to 6 types of rates only.

d) **Provisions of declarations:** There are three types of declarations (1) Permit (2) Authorisation (3) Recognition. Due to these declarations assessments are delayed. Assesses are not able to collect all the declaration in time and properly.
e) Penal Provisions: In this system if the returns are not filed in time penalty U/S 36 (4) (a) is imposed at the rate of Rs. 2000 per return irrespective of tax liability on the part of the dealer. Similarly, the interest levied is high in some cases it is harassing to the dealer. At present there are about 16 types of penalties under various sections causing hardships to dealers.

4.5.6 Working Results: This system was made effective from 1-7-81, working results from that year the figure till 88-89 are given in following table.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>SALE TAX RECEIPT</th>
<th>REGISTERED DEALERS</th>
<th>EXPENDITURE (IN CRORE)</th>
<th>STAFF</th>
<th>PERCENTAGE OF 4 TO 2</th>
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</thead>
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</tr>
<tr>
<td>1985-86</td>
<td>1020.72</td>
<td>302800</td>
<td>16.98</td>
<td>9218</td>
<td>1.08</td>
</tr>
<tr>
<td>1986-87</td>
<td>1203.26</td>
<td>305390</td>
<td>18.61</td>
<td>9176</td>
<td>1.01</td>
</tr>
<tr>
<td>1987-88</td>
<td>1428.61</td>
<td>319674</td>
<td>21.50</td>
<td>9065</td>
<td>1.00</td>
</tr>
<tr>
<td>1988-89</td>
<td>1681.78</td>
<td>334914</td>
<td>25.42</td>
<td>8956</td>
<td>1.00</td>
</tr>
</tbody>
</table>

A glance at the above table shows that the tax revenue of the state increased from 625 crores at the beginning to Rs. 1681 crores which is a substantial rise. This rise is not due to the nature of the system only. The process of industrialization also deserves credit for this.

Secondly, the number of registered dealers has also increased from 259601 to 334914. This rise is due to the fact that the incidence of tax is only at first stage. Other dealers have to obtain registration certificate only.

Staff has also increased during these years along with receipts.

The most important aspect is percentage of expenditure with the tax revenue. In the year 1981-82 the state had to incur 96 paisa for earning Rs. 100 as to revenue which is reasonable and shows that system is not expensive.
4.5.7 Critical Appraisal:—

Analytical study of the system reveals the following facts:—

a) Single point incidence of tax purpose is defected:—

This system is like an excise duty i.e. tax is payable at manufacturer’s stage only. But there are number of cases such as:

1) Ready-made garment dealers
2) Gold and Silver dealers
3) Dealers in goods where the tax is payable ad valorem. In such cases the above purpose is defected.

b) Agro based Economy:— Ours is a predominantly agro based economy. In Maharashtra state there are number of small scale industries and cottage industries. In such mixed economy the single point system is not advisable.

c) Set off complication:— Set off provisions help to avoid double taxation. But these provisions are only in Maharashtra and Gujrat state. In other states if goods are purchased for manufacture or for inputs such transaction the Sales Tax is low and a declaration is obtained by seller that goods will be used as inputs and at the time of finished stage these will bear tax.

Set off provisions and provision of declaration and various notification issued frequently make the system complicated and ultimately leads to corrupt practices and loss of revenue for state.
4.5.8 **Experts opinion** :-

While interviewing the offers of the department they expressed satisfaction over the working of the system because assessment was easy and they were able to complete their quota of cases speedily.

Assessments are finalised only on the bills of purchase from registered dealers making the procedure quick and simple.

Tax consultants and retired officers said that the system offers scope for evasion. Because once goods escape from manufacturer stage they travel in the hands of bogus dealers as tax paid and enjoy resale inspite of not paying tax to the state.

Experts have proposed that as our economy is mixed our system should be mixed, that is tax on single point and again tax on last stage on some listed luxurious goods should be introduced.

The definitions the tax multiplicity and some other matters like notifications and declaration create complications in the system.

No doubt that 85 percent revenue is collected by the department from 15 percent big dealers in the state. As Bombay is thickly situated as industrial zone the major revenue is contributed from this zone only as manufacturers are ample in this zone. Concentration of such type is never advisable.

Thus the opinion as a whole was that the system needs revision leading to combination.
<table>
<thead>
<tr>
<th>Incidence of Tax in System at a Glance in Distribution chain</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distribution chain</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>has sold goods to wholesaler</td>
<td>102 (with tax)</td>
<td>102 (with tax)</td>
<td>Tax being Multilayered (with tax)</td>
<td>102</td>
<td></td>
</tr>
<tr>
<td>Purchase Price of Wholesaler</td>
<td>100</td>
<td>102</td>
<td>102</td>
<td>102</td>
<td>102</td>
</tr>
<tr>
<td>Add Overheads</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Add profit</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Sale Price for Retailer</td>
<td>120</td>
<td>122</td>
<td>2.40 (with tax)</td>
<td>124.40</td>
<td>122</td>
</tr>
<tr>
<td>Sale bill prepared for customer by retailer</td>
<td>140</td>
<td>144.40</td>
<td>142</td>
<td>142.80</td>
<td>147.28</td>
</tr>
<tr>
<td>Add Tax Recovered @ 2%</td>
<td>2.80</td>
<td>2.88</td>
<td>1.42 (tax 1% on last stage)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>with tax with tax with tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax to the exchanger</td>
<td>2.80</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>2.40</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>2.88</td>
<td>1.42</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium Rate</td>
<td>Low Rates</td>
<td>Medium Rates</td>
<td>Multi layered Rates</td>
<td>High rate is must</td>
<td></td>
</tr>
<tr>
<td>Possible</td>
<td>Possible</td>
<td>Possible</td>
<td>Possible</td>
<td>Possible</td>
<td></td>
</tr>
</tbody>
</table>
FOOT NOTE:
1. Rate of tax is assumed 2%
2. Overheads are treated as fixed Rs. 10/-
3. Profit Ratio Rs. 10/-
4. Thus the Revenue generation capacity Cerially is as below.
   
<table>
<thead>
<tr>
<th>System</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd</td>
<td>Rs. 7.28/-</td>
</tr>
<tr>
<td>3rd</td>
<td>Rs. 3.42/-</td>
</tr>
<tr>
<td>1st</td>
<td>Rs. 2.80/-</td>
</tr>
<tr>
<td>5th</td>
<td>Rs. 2.00/-</td>
</tr>
<tr>
<td>4th</td>
<td>Generate revenue more than all above system as it is Multilayered.</td>
</tr>
</tbody>
</table>

5. Thus in present system High Rates is Must.
6. High Rates leads to High evasion.
7. Hence Medium Rates in bigginning and again low Rates in the end on same luxerious goods is a carrect way out for effective system.
The system is like excise duty. As the excise is payable on goods manufactured on the similar lines Sales Tax is recovered from registered dealers who manufacture the goods. Once goods bear tax at first stage then all other subsequent dealers are entitled for claiming resales as tax paid.

Due to high rate, high evasion is there. As the tax is recoverable at manufacturing stage the industrial organisation becomes Sales Tax payer and not the dealers as whole. Agricultural goods are not taxed in this system. Though this system is called as single point first stage tax even then in some cases there is a double taxation. The combination of this system with two point system may lead to better performance.

The possibility of introducing such mixed system need to be discussed in the light of data collected from various constituents of the sales tax system. The chapter to follow presents data collected during field survey and its analysis.