CHAPTER 1

SALES TAX
— A CONCEPTUAL FRAMEWORK
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Sales Tax : A conceptual framework

1.1 Introduction :-

Management science considers 'Taxation' as the domain of public finance as a function of state financial management. Concerned with efficient revenue generation, it aims at contributing effectively to National objectives. As a powerful tool in the hands of the Government it has to be very dynamic to respond to the dynamism of economic and political environment of the nation. This implies constant evaluation of policies and continuous search for better alternatives for more revenue in most productive ways. State aims at achieving these objectives by maintaining a judicial mix of direct and indirect taxes in its tax structure and through a vigilant tax system. These decision areas in this field include the nature and number of taxes, levy assessment and collection mechanisms. These decisions are guided by philosophy of the Government, public attitude considerations and principles of taxation.

The mechanism for levy assessment and collection of taxes is in a broad sense termed as 'system'. The system that is a vehicle for giving effect to the policy. Its designs and operations, therefore must match National policy and objectives. Similarly it must take into account the type of taxes it works for. Taxes, as is well known, are broadly classified as direct taxes and indirect taxes. A Further classification is possible on
the basis of who levies these taxes. In Indian context, taxes on this basis may be classified as central taxes (Taxes which can be levied only by the central Government) and state taxes (Taxes only state Government can levy). The third category includes taxes leviable by central as well as state governments. Any system of assessment and collection of taxes must incorporate basis of taxation and management and at the same time must reflect the philosophy of the Government concerned and its rising expectations for revenue. This implies that, though there has to be an uniformity as for as principles and philosophy are concerned, a system must meet demands of specific tax on group of taxes. This follows that different types of taxes may need different types of assessment and collection systems. For example a system most effective for direct taxes may not be effective for indirect taxes. In the same manner a system for state taxes may need different approach than for central taxation.

A system that worked successfully in part may turn absolute with changes in economic and political environment. This explains the need for periodic evaluations of our system.

1.2 Sales Tax Systems:-

Having explained the role of systems in tax administration and need for its evaluation, Sales Tax systems, the central point of this research are now considered. This constitutional frame work permits in India levy of Sales Tax by central as well as state Governments. There are some items reserved for central Sales Tax only, barring them, state Governments are empowered to frame their own policies. Sales Tax
system, refers in this context, to a system designed and implemented to levy tax on sales and collect it to join the state revenue. Broadly, it covers the mechanism and methods of levy assessment, collection and grievance settlement. At micro level it limits its scope to assessment and collection method and mechanisms only. It must be capable enough to contribute desired amount of revenue to the state exchequer and for this purpose, it has to be broad based, elastic, flexible, simple and cost effective. In a state like Maharashtra, which claims to be industrially progressive state, Sales Tax assumes position of paramount importance. To be specific, "Sales Tax contributes 38.6 percent to state income, 53.1 percent is its contribution to state tax revenue and 63.5 percent Sales Tax is a levy in state taxes. The cost of Sales Tax collection is 1.02 percent only."

It is then clear that, in state revenue, Sales Tax assessment dominates position, both in terms of contribution as well as cost running the system. Needless to point out that, ours is an economy wedded to the concept of "welfare State". Technological and economic advancements in macro environment may impose additional revenue demands on state exchequer in future. Considering the limitations of other avenues of taxations and also in view of the tremendous potential of Sales Tax as a source of revenue for the state (more so in the light of overall industrial and agricultural development), hopes for future lies with Sales Tax systems. Its capacity to interact with the current environment and respond to future needs, therefore needs a systematic and unbiased study. This is precisely the background
on which the present study is undertaken. No system can be improved without looking into its past and present and its modified versions or altogether different model can not be accepted unless it is verified in light of National/ State policy and will founded principle of public finance. Having described the background of the study, this chapter discusses the history of Sales Taxation and principle of taxation, which it is hoped, would prepare foundation for the present study.

1.3 CANONS OF TAXATION :-

Canon as known in common parlance refers to general principles. The law made by Church is also called as cannons.

Adam smith was probably the first writer to attempt a general statement of the principles of taxation. He gave four canons, which should be incorporated in any sound system of taxation. Smith's first canon of taxation was Ability. All the citizens should contribute towards the expenses of the Government according to their ability. Second was certainty i.e. the amount to be paid, time and method should be clear. Third canon was convenience. Every tax sought to be levied should be convenient for the contributor to pay. The fourth one was economy by which he meant the minimisation on the cost of collection. Maximum revenue must be collected at minimum cost". 2

The pronunciation of Smith is Developed and Discussed as follows :-

a) Simplicity which is advocated in the tax structure is in the sense that the tax system should be easy and within the comprehension of the common man.
b) **Productivity** shall be there in tax system as a whole and individual taxes in particular. It implies that it should produce adequate revenue to meet public expenditure.

c) **Elasticity** i.e. a tax system ought to be elastic too. When the state requires more revenue it should be possible for it to get enhanced revenue by altering rates. Moreover when a particular commodity is to be sponsored in the market and tax rate rate needs to be reduced the effect of this reduction should be immediately obtainable.

d) **Flexibility** If a particular area is backward and the Government is interested in its development (which it ought to be) it gives some tax concession for industries or some specific industries started in that particular area. When it is said that a tax system ought to be flexible it implies that it should be possible for the government to get industries located in any area it wants, by allowing the concessions. If it cannot get this done through this it means the system is not flexible.

e) **Diversion**: The Government may want to increase the production of certain goods. It may also want certain goods to be sent out of the state. In other words it may want to discourage the consumption of those goods.
within the state. This can be done by making suitable changes in the rate of taxes. But it is possible only if diversion is a feature of the system. In the absence of this feature the system is known as rigid and rigidity is of course an other draw back.

f) **Neutrality**: Democracy pre-supposes that the same set of people and the same party need not always form the Government. The neutrality of the system implies that it should not be affected by any changes in the Government or financial structure or social set up. This discussion of canons of taxation brings us inevitably to principles of taxation. In spite of the fact that canons and principles are often mistaken as Synonymous, they are different. Canons are sort of axiomatic, approximate, unchangeable.

Principles on the other hand are taken into account while determining rates and range of taxation, to simplify the statement further, they deal with the possible basis on which tax burden can be allocated. They are associated with the rate, amount and method of levy and collection.

TRILOKSING PAPLA has correctly identified them that "They are the qualities of a good tax and not the principles on the basis of which the taxes are levied very often. The canons of taxation are confused with the principles of taxation. They must be clearly distinguished so as to facilitate a clear understanding of the theory of Taxation."
1.4 PRINCIPLES OF TAXATION

Broadly speaking the following are the principles which the Government is supposed to take into consideration while formulating the tax policy.

a) BENEFIT PRINCIPLE: According to this principle the amount of Tax should be as much as can be returned through benefits which the Government confers on the tax payers. The principles naturally proclaims the justice of "Don't take more than you can give." It is for collective benefit that taxes are levied not for the individual benefit. The aggregate benefit conferred upon the society as a whole should at least compensate the sacrifice made by the public in paying out taxes.

b) COST OF SERVICE PRINCIPLE: The cost Principle implies that whenever the Government incurs some expenditure for the benefit of particular individuals such costs should be recovered as taxes.

c) ABILITY TO PAY PRINCIPLE: This principle states that every person should be taxed according to his ability to pay taxes. This depends directly on his financial position. The poor ought to be taxed at low rates and the rich at high rates. "Adam smith says with regard to this principle that the subject of every state ought to contribute towards the support of the
Government as nearly as possible in proportion to their respective ability that is in proportion to the income which they respectively enjoy under the protection of the state."

After ascertaining the ability to pay, economists went deeper into the problem of real sacrifice and discovered that the utility of money goes on diminishing like that of goods does. This gave rise to the idea that to tax rich and poor with the same rate will violate the principle of equity or ability to pay. To avoid this progressive rates of taxation was accepted it means tax should not be like toll tax which is the same for one and all. It ought to be in relation to ones income. It should take his financial status into consideration.

d) **MAXIMUM AGGREGATE : SACRIFICE PRINCIPLE :**

This principle is just an extension of the ability theory and takes the sacrifice or disutility in the collective way for the whole body of tax payer. Tax payer should be the least hurt and left as they are found. This is a new element in the sacrifice theory. Thus there must be sacrifice but such sacrifice must be according to utility when the poor get more benefit he should be asked to sacrifice as much as he can then alone can social and collective advantages be
guaranteed. Then alone can the society be assured of increased production. Security against external aggression or internal disorder and elimination to some extent of glaring inequalities of income. But to achieve this objectives it is also necessary for the Government to spend its revenue properly. A judicious curtailment of expenditure is as necessary as careful development of revenue. The tax payer must be convinced of the good intentions of the Government. Then alone he will resent taxes the least. If revenue is appropriated unwisely it would further dampen the tax payer's spirit and he would go in for tax evasion.

1.5 **TAXABLE CAPACITY** :-

Taxes are normally classified into two kinds direct and indirect. On the face of it when money is paid directly to the Government by the tax payer out of his pocket it is direct tax. Indirect tax is not paid by the individual to the Government directly. It's collected by some one from the manufacturer or wholesaler or retailer from the individual and paid to the Government. Sometimes the individuals do not even know that the tax has been collected from him that he pays indirect taxes too.

The classification broadly corresponds to a division between taxes which are levied on persons and taxes which are levied on transactions of some kind. On this distinction all taxes on income or the ownership of property. Whether on individuals or business would fall into one category while all commodity taxes
or tax on the purchase or sale of property would fall into the other.

The taxable capacity is the basis on which it is decided to adopt a particular system. In considering taxable capacity one should take into account the effect of taxation and public expenditure with people's earning capacity and cost of levying. The concept of taxable capacity is usually studied in two terms 1) Absolute taxable capacity, 2) Relative taxable capacity.

Thus it is called as a principle for the allocation of burden of taxes. The taxable capacity of a nation depends upon the following points as narrated in public finance.

a) **WEALTH OF THE COUNTRY** :-

Wealth of the country indicates both national and produced wealth. Greater the wealth of a country, better is its taxable capacity. If the Government holds more wealth the income from taxes will be low. But the total revenue potential would not be smaller.

b) **DISTRIBUTION OF WEALTH** will increase the taxable capacity. Indirect taxes may have the same revenue potential on some commodities with even distribution of wealth few people would be able to afford luxury goods and taxable capacity on those goods would automatically fall. In the case of direct taxes the taxable capacity will be much lower if the distribution is equal. On the other hand if there are some rich people, who can be
subjected to all kinds of taxation. The taxable capacity will be great enough inspite of other remaining poor.

c) **POPULATION** is also a criterion alongwith wealth if the population is very large the greater part of wealth will be consumed. Small part will remain as taxable capacity. If the population is in proportion to wealth then taxable capacity would be greater.

d) **PHASE OF ECONOMIC DEVELOPMENT** means the stage of development achieved.

e) **IF TAX SYSTEM IS WIDE** in its scope the taxable capacity would be greater. If the canon of economy and convenience is observed the taxable capacity would again be greater. The aim of the taxes is maximum social advantage. In practice people may not be willing to pay more taxes and thus taxable capacity will decease. For maximum social advantage maximum people shall be brought under tax net. And for maximum people to be taxed maximum commodities will have to be taxed at minimum rate.

f) **WHEN PRICE LEVEL** is high taxable capacity will not necessarily go up even if people enjoy high income, for this income would be spent in purchasing things. Ultimately the taxable capacity will become low due to high prices, low price level will enhance the taxable
capacities.

g) STABILITY OF INCOME indicates that the working of the economy is smooth enough which ensures regular income when there is regularity in the income or the availability of the commodity people will pay taxes regularly and then the taxable capacity will be sufficient.

h) MENTALITY OF TAX PAYERS means willingness or otherwise to pay taxes. Responsibility of citizenship and faith towards Government will increase the taxable capacity of the citizens as a whole. Thus it is essential to increase the taxable capacity of the state. If the state lowers the rates of taxes and brings all the commodities under tax, taxable capacity will automatically go up.

1.6 THE SIGNIFICANCE OF EXEMPTION

While going through the ancient system of indirect taxation i.e. commodity taxation, it was observed that, there were very few exemption. In some of the cases there were no exemption at all. Even in modern system i.e. V.A.T. adopted in European countries, there are no exemptions of tax.

Again economists and the thinkers in public Finance propose to tax all the incidents of transactions. The result of this is that the complexity of the tax laws is reduced. People
are made very clearly aware of their tax liability. And as all the commodities and services are taxed there was sufficient yield of Revenue due to this system. As JOHN F. DUES has said, "many sales tax laws contain specific exemptions of various types of commodities, particularly food. In the effect of the exemptions are much the same as those of the differential burden produced by a manufacturers' Sales Tax. The burden of the tax is distributed in relation to expenditure on the taxed items rather than in relation to total expenditure, and thus persons with high preferences for the untaxed goods will experience relatively light burden. The exemption from tax of some goods will slow down the speed with which tax is shifted on other articles because the demand schedules for the latter will be more drastic than they would be if all prices rise. But the long period shifting is probably not seriously retarded." 5

Thus in specific economic conditions and social passing it becomes convenient to tax all goods.

JOHN F. DUES suggested that the price pattern of the burden distribution of a sales tax will of course vary with the exact scope of the tax and with consumer spending patterns on a particulars society. If savings and expenditure for non taxable items constitute a relatively uniform percentage of income, the pattern of burden distribution will be nearly proportional. If incomes are very unequal with a large percentage of the population spending most of their income for food, while the few high income families spend large sums for non food items a sales tax with food exempt may be distributed in a progressive fashion. In any economy in which the lower income groups typically produce
their own food clothing, and other items while the higher income groups purchase these articles, the tax may be relatively progressive even with food taxable. 

India's situation is similar to what is described above 70% of the people live in villages and grow their own food. Hence by taxing food those poor will at all not be taxed.

1.7 EVOLUTION OF SALES TAX:

The above discussion throws light on principles of taxation. These represent the contribution of Economists from Adam Smith onwards. This probably may create an impression that thinking pertaining to Sales Taxation began only during this period. It may be pointed out that this impression is not correct. Indian thinkers, right from the ancient period a serious thought to state finance and offered guidelines to the rulers of their times. There are ample evidences of such thinking in ancient Indian literature. The terminology may differ but it is certain that individual taxation as well as commodity taxation existed during those days. Hence the discussion history of sales tax needs to be grouped under three distinct heads namely

a) Ancient Period
b) Mugal Period
c) British Period and onwards.

1.7 a) Ancient Period

There are descriptive discussions in Vedas about the Revenue sources for running the kingdom. There are descriptions of its
Receipts and Payment Accounts and details about the Accounting of Government Revenue. The supervision over Accounts by the Auditors and Inspections of the offices has also been referred to. Very correctly Kingmaker Ratni has said "As in Vedic period in the past Vedic period also the king needed to be elected. In SHUTAPATH BRAHMANS, it has been described that there were king makers, who used to offer the king elect a special arm-let as a token of his election. Those 12 king makers among themselves use to control the treasury. Another was known as "BHAGADUGHA" who use to collect taxes and keep accounts thereof. Yet another was known as " AKSHAWAAP" who used to maintain accounts of Receipts and Expenditure of the Government. In return the king use to offer them presents. "HAVEE" as a token of having obtained their consent for the king ship".7

Thus the ancient culture proves that even in those good old days people were aware to the importance of office discipline and sufficient revenue which latter item concerns as more here.

a) RAMAYANA :
In " SARGA" 100 of Ayodhya Kand Shri Ram, who went to Dandakaaranya leaving the kingdom to be ruled by his brother, Shri Bharat asked his brother the following various Questions when they met in forest.

" Are you surrounded by excellent ministers, who are the springs of good Government? Do you at the proper time reward your army with food and suitable payments without causing them to wait? When there is delay in giving bread and wages they become violent against their master. It result in serious grievances. Do
you employ these persons each? Unacquainted with the other two you should employ various officers for treasury tax collection and supervision of Public Work. Do you preserve over city Ayodhya with its fortified gates, its elephants, horses, and the chariots etc.? is the kingdom assured with the hundreds of peaceful people.

Is it rich in Sanctuaries, wells and ponds? Do the women and man live happily there? Are its boundaries respected? Is the city prosperous and protected from wild, beats, rich in mines and delivered from all sources of fear? Are all your horses furnished with provisions, weapons, water, and weapons of war filled with skillful soldiers? Do your reserves outmighy your expenditure? Is your gold spent properly? Are you acquainted with the following and do you reflect on them. The seven requisites of administration are Ministers, Treasures, Territory, Forts, Army, Friends and King.

Thus Questions throw light on various duties a king must perform. It will have been noted that most of the questions have a direct or indirect bearing on taxation and accounting method.

b) MAHABHARATA:

While narrating the story of the Kaurawas and Pandawas, the Mahabharat describes in details various aspects of life of a person, society as well as a nation. As referred to by Jawaharlal Nehru in his "DISCOVERY OF INDIA" Mahabharat has become a colossal work, an encyclopedia of tradition and legend of the political and social institutions of ancient India."
Thus various thoughts on Political science, economics, public finance, taxation etc. were expressed by various Political thinkers such as Shri Krishna, Bhishma, Narada, Vidur etc. Bhishma has been one of the leading Political thinkers of his time and his thoughts have influenced political systems as well as Government administration for hundreds of years.

"KOSHA" is mentioned as one of the seven most essential limbs of a nation. A king had to follow certain rules while imposing taxes. He wasn’t exactly at liberty to levy whatever tax he pleased. He had to ensure that people could pay. Without undergoing privations. The tax should not be on investment but on profits arising out of such investments in trades and Business. He could levy tax @ 1/6th or the 16 2/3 percent for national defense and maintenance of internal security. The king was to be deemed a servant of the people, who paid him his wages in the form of taxes. In cases of emergency both external as well as internal he had to approach the "Samiti" or "Sabha" which represented the masses and request them to pay more taxes so that normalcy could be restored sooner.

Among taxes which he could impose the Chief ones are as follows :-

A General Tax "Balk" amounting to 1/6 th of income out of Agriculture, animal husbandry and trade and commerce, 2% a tax on the profits by sale of Cattle etc. Sales Tax and Octroi Tax, 2%. Tax on production of gold through mines, fines and forfeitures collected from offenders, taxes, on mines and mineral product, Salt-tax, tax on water, transport etc.

"Kautilya States the rate of Sales tax on commodities
sold by cubical measures should be one sixteenth of the quantity that on commodities sold by weighing. Balance should be one-twentieth of the quantity and that on commodities sold by number it should be one eleventh of the whole. 9

"Detailed description of Sales Tax also appears in Manusmriti. Manu recommended that the rate of tax should not be more than 5% of the value of the commodities. In the case of essential goods consumed by the poor people a lower rate should be charged. The king should collect tax from the trader after taking into consideration, purchases, sales, transports, charges shop and Go-down rent etc. 10

Manu has suggested that all the goods even the essentials should be taxed. No doubt taxing essentials would strike us as a regressive measure. But these were taxed at a very low almost nominal rate. It was indeed a very sound Principle. Every citizen ought to contribute (whatever he can) towards the welfare of his Country. That gives him a sense of participation and a stake of in its progress. Besides a society, a country can hope to prosper only when every member of the society is not only self sufficient but contributes something for the whole society also. The ancients knew this and if we too know it we would not be in the sorry state we find ourselves in.

"VISHNU SMRITI" also advocates the same principles as discussed by MANUSMRITI Higher rate of taxes are proposed in this than MANUSMRITI. 10% as a rate of tax on articles sold in the country has been proposed. Vishnusmriti exempts Brahmins from Taxation by saying that their services to the society are
enough. Hence they shall be exempted from tax. 11

Perhaps because of these exemptions, the Vishnu Smriti has advocated higher rates.

"Agnipurana has also advocated this tax. The rate proposed was 5% in the case of land merchants. In the case of Foreign merchants the rate should be as much as to leave only a profit of one twentieth to the traders. Women, Saints, Slaves etc. should be exempted from this tax 12"

"SHUKRINITI has made a late medieval work in Hindu Polity. Shukraniti has proposed single point first stage system i.e. tax shall be levied once and after distribution in other trade link it should be treated as tax paid and hence no tax shall be again recovered.

While determining the tax rate the cost of production and the profit should be taken into account when the price is lower than the cost of production. No tax shall be levied on sale of commodity. The rate of Tax shall be one twentieth or one sixteenth of the profit. 13

This type of taxation i.e. single point first stage is so well and carefully through-out that it is valid even to-day. Much later CHANDRAGUPTA MAURYA also levied Sales tax at the rate of 10% advalorum on the Sale of all Articles.

"The tax under Mauryas was similar to those enumerated by Dowell as being used by the Romans. Taxes on commodities sold at auction or in Public Market were among the principle Roman Taxes in use at different times in different parts of the States to which the Sales Tax of the Maurayan period may be compared. 14"
It is interesting though that a whole world separated Maurayas and Romans, their ways of obtaining Revenue were identical.

1.7 b) MUGAL PERIOD: (Historical Period):

Now second period in which there was no proper arrangement of levying and recovering this tax. It was in a scattered form and was recovered as per the need.

"Magasthenes, referring to the Mauryan times, states that in fortified towns the Royal Revenue was derived from Sales Tax. 15

The Chinese traveler Huean Tsang, 629–644 A.D. has stated that a light duty was levied on Sales of goods. Sales Tax was also introduced by Sankar Varman (883–902 A.D.) of Kashmir. The Chola dynasty (900–1200 A.D.) provides another example of the existence of Sales tax in south India.

"Abolition of Sales tax clearly indicate the existence of the tax prior to and during the regime of Ferozshah (1351–1388 A.D.) During the reign of Lodi Dynasty (1451–1526 A.D.) Sikandar abolished Sales Tax on food Grains. It must, however, be remembered that such orders of the Sultan were seldom followed in practice by their corrupt officials, who continued to collect Tax illegally for their private gains. 16

It appears that just as Sales Tax has been in existence for centuries corruption too has been in existence for as long.

"The Sales Tax, legally abolished during the Sultana of Delhi, continued to be levied and collected in the Mugal period
also. The Emperors were determined to abolish Sales Tax but due to the corrupt and unscrupulous officials and defective administration, taxes on the sales of commodities continued to be levied while carrying on the tax reform. Emperor Akbar (1556-1605 A.D.) abolished Hazil-i-Bazar (Market Dues) on the sale of commodities along with other taxes. 17

In spite, thus, of efforts to do away with Sales Tax it continued as before chiefly because the Sardars saw in it a good source of private income.

J.N. Sarkar in his book says—

"From the first occupation of India and its parts by Muslims to the end of Shahjahan's reign, it was rule and practice to extract Hazil (1.5 percent Tax) from Trader. From the rose vendor to the clay vendor from the weaver of fine lines to the coarse cloth. 18

Though sales tax was in existence in India in ancient times and the medieval period. It was not in existence in the modern period till 1933. That is India was free from Sales Tax even during the early years of the great depression.

Albeit it proves that Sales Tax in some form was collected not only in the historical past but also in the ancient past, its origin, however, lost in the obscurity of thousand of years. India was naturally not the only country to collect sales tax. This brings us to Sales Tax at global level.

"In the fourth and fifth century B.C. Athens derived sufficient amount of Revenue from Sale of slaves. Revenue was also collected from the Sales Transaction in the Market. 19
In Egypt under the Ptolemies, a very unpopular tax was levied at 5% on all commodities. Rome conquered Egypt. Then they levied a general sales tax which amounted to 10%. In ancient Egypt there was a tradition to manufacture goods and then to send them to a place of consumption.

"In Rome, Emperor Augustus levied a turnover tax called centensima return venalium in 9 A.D. at 1%, later on raised to 2%. 20

Thus the transaction of sales and manufacturing of goods were taxed. The different forms of tax levied on sales and related transactions in various countries are given in Table I.

TABLE I

SALES TAX GLOBAL SCENERIO

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of Country</th>
<th>Year</th>
<th>Exemptions</th>
<th>Name of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Argentina</td>
<td>1931</td>
<td>Public Utility Agricultural goods</td>
<td>Turnover Tax</td>
</tr>
<tr>
<td>2.</td>
<td>Australia</td>
<td>1930</td>
<td>Agricultural goods</td>
<td>Producers Tax</td>
</tr>
<tr>
<td>3.</td>
<td>Austria</td>
<td>1923</td>
<td>Exported goods</td>
<td>Turnover Tax</td>
</tr>
<tr>
<td>4.</td>
<td>Belgium</td>
<td>1921</td>
<td>Govt. Purchase &amp; Sale</td>
<td>-do-</td>
</tr>
<tr>
<td>5.</td>
<td>Bolivia</td>
<td>1923</td>
<td>Sales from Mines and Agricultural goods.</td>
<td>Sales Tax</td>
</tr>
<tr>
<td>8.</td>
<td>China</td>
<td>1924</td>
<td></td>
<td>Consolidated commodity tax.</td>
</tr>
<tr>
<td>9.</td>
<td>Danzig</td>
<td>1927</td>
<td>Export &amp; Import goods</td>
<td>Turnover Tax</td>
</tr>
<tr>
<td>S.No.</td>
<td>Name of Country</td>
<td>Year</td>
<td>Exemptions</td>
<td>Name of Tax</td>
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<tr>
<td>13.</td>
<td>Hungary</td>
<td>1921</td>
<td>Exports &amp; Essentials &amp; Govt.Industry.Food Grain</td>
<td>do-</td>
</tr>
<tr>
<td>15.</td>
<td>Luxemburg.</td>
<td>1922</td>
<td>Exports.</td>
<td>do-</td>
</tr>
<tr>
<td>16.</td>
<td>Mexico</td>
<td>1932</td>
<td>NO EXEMPTIONS</td>
<td>Sales Tax</td>
</tr>
<tr>
<td>17.</td>
<td>Netherland</td>
<td>1933</td>
<td>Exports,Raw Material Essentials.</td>
<td>do-</td>
</tr>
<tr>
<td>18.</td>
<td>New Zealand</td>
<td>1933</td>
<td>Exports Agri.goods Food machinery &amp; Implements.</td>
<td>do-</td>
</tr>
<tr>
<td>19.</td>
<td>Philippines</td>
<td>1904</td>
<td>Agricultural Goods.</td>
<td>do-</td>
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<tr>
<td>20.</td>
<td>Poland.</td>
<td>1925</td>
<td>Exports,Utenciles supply to industries, Railway.</td>
<td>License Duty</td>
</tr>
<tr>
<td>21.</td>
<td>Puerto Rico</td>
<td>1925</td>
<td>Food Grains, Gasoline Electricity, Real property sales of earns, fertilizer</td>
<td>Sales Tax</td>
</tr>
<tr>
<td>22.</td>
<td>Roumania</td>
<td>1921</td>
<td>Essentials.</td>
<td>Turnover Tax</td>
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<tr>
<td>23.</td>
<td>Sweden</td>
<td>1941</td>
<td>NO EXEMPTIONS</td>
<td>Sales Tax.</td>
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<td>25.</td>
<td>Natal.</td>
<td>1945</td>
<td>-do-</td>
<td>-do-</td>
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<tr>
<td>26.</td>
<td>United Kingdom</td>
<td>1947</td>
<td>-do-</td>
<td>Purchase tax</td>
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<tr>
<td>27.</td>
<td>U.S.S.R.</td>
<td>1921</td>
<td>-do-</td>
<td>Industrial tax</td>
</tr>
<tr>
<td>28.</td>
<td>Venezuela</td>
<td>various Duty</td>
<td>Licence Duty</td>
<td>State Tax</td>
</tr>
<tr>
<td>29.</td>
<td>U.S.A.</td>
<td>-do-</td>
<td>-do-</td>
<td>State Tax</td>
</tr>
</tbody>
</table>
GREATEST RELATIVE YIELD OF TURNOVER TAXES
IN FIVE FOREIGN COUNTRIES AND ONE AMERICAN STATE

The entire circle represents the total national tax collection for years given along side segments showing the percentage of turnover tax out of total collection.
It can safely be concluded that sales tax is an old and global phenomenon. 21

1.7 C) SALES TAX IN INDIA (BRITISH PERIOD):

India turned to Sales Tax almost a decade and a half later with the Government of India Act of 1935. Tod Hunter Committee i.e. The Indian Taxation Enquiry Committee recommended for the first time in 1924 that a local retail Sales Tax might be introduced as a substitute for the Octroi and Terminal Taxes, levied by the Municipalities, which in the opinion of the Committee offended against all canons of taxation. The proposal of having this tax was not executed by Government.

In India the Government had no power to levy tax on sales until after the Government of India Act 1935 came into force from 1st April, 1939.

Section 100(3) read with entry 48 of list IT of the seventh schedule of the Act gave the provinces the power to make rules in respect of "Taxes on Sale of Goods". Entry 48 of the list was as below "Taxes on the sales of goods and advertisements".

From 1st April, 1937, provincial Autonomy was granted. Excise duty and Land Revenue were then the sources of income. In provinces, where congress Government had come to power a policy of prohibition was followed. This has affected on excise duty and the Revenue of aforesaid provinces came down substantially. To make-up for it sales tax was seen as an alternative source of
income and was introduced from 1939-40.

Sales tax was then first introduced in India in the province of Bombay with Bombay Tobacco (Amendment) Act 1938. This levy on sale of tobacco within very limited, urban and sub-urban areas was imposed from 24th March, 1938.

Due to provincial Autonomy, the opportunity to levy sales tax was availed of in 1938, by the Central Provinces and Berar (C.P. and Berar). They enacted a law for the levy of selective sales tax at the rate of five percent on the Retail Sale of motor spirit and lubricants.

Afterwards, Bombay province in 1939 levied a selective sales tax on motor spirit under the Bombay Sales tax Act 1939. "Central Provinces and Berar Sales of Motor Spirit and Lubricant Taxation Act" was challenged by Government of India as an encroachment on a field of taxation reserved for federal legislation by the Act of 1935. This tax was first to be levied by the Center as excise Duty within list-I Entry 45 and, therefore, to that extent ultra virus for the provincial legislation. Provinces argued that excise is a tax on production or manufacture where as sales tax is levied on sales. Federal Court gave unanimous opinion that provinces were competent to impose such a tax under Federal Autonomy.

"Federal Court held that the Central Provinces and Berar Act of 1938 was not ultra virus and said that the Central Legislation will have the power to impose duties on excisable articles before they become a part of general stock of the
provinces i.e. at the stage of manufacture or production and the Provincial legislature had an excessive power to impose a tax on sale afterwards. "23

Immediately after this multipoint general Sales Tax was introduced for the first time in India in 1939. This was an epoch making event in the history of taxation.

**POST INDEPENDENCE PERIOD**

Thus, soon after the independence Sales Tax came to be levied in all the states in India.

As per Government of India Act 1935, the state power of taxation was derived from entry 48 of list-II of the VII Schedule under sub-section 3 of section 100.

After the advent of constitution of India in the year 1950, the said power emanated from entry 54 of list-II of Seventh schedule under clause (3) of Article 246 of the constitution.

Entry 54 before the amendment of the constitution read as under:

"Taxes on the sale or purchase of goods other than newspaper".

Section 2(b) of the constitution (Sixth Amendment) Act 1957 entry 54 replaces the original entry "Taxes on the sale or purchase of goods other than the newspaper, subject to the provisions of entry 92-A of list-I".

Under entry 92-A List-I the union Government is authorised to levy" Taxes on the sales purchases of goods other than newspapers where such sale or purchase takes place in the course of inter state Trade and Commerce".

In order to remove Chaotic position and multiple taxation on sales transactions, Article 286 was brought into
being to regulate inter-state sales taxation.

Article 286 prevented states from taxing :-

1) Sale or purchase in the course of trade outside the territories of India.

2) Sale outside the state of levy where these Sales result in delivery for purchases of consumption of goods in another state.

3) Sale in the course of inter state trade or commerce.

Thus in respect of certain commodities, declared as necessities, the power of the states was subject to the parliament restriction.

1.8 SYSTEMS FOLLOWED BY THE STATES :-

Due to federal financing, States were following different system of taxation varied according to condition obtaining in different states.

These systems underwent changes partly on account of agitation against some provisions or because of short comings brought to the light. Committees were also set-up by states to suggest improvements. The systems adopted by various states have been indicated in Table II
Table II

Sales Tax Systems In Various States

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of State</th>
<th>System Followed</th>
<th>Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Assam</td>
<td>Single Point Tax</td>
<td>26 Articles</td>
</tr>
<tr>
<td>2.</td>
<td>Bihar</td>
<td>---do---</td>
<td>NOT TAX FREE</td>
</tr>
<tr>
<td>3.</td>
<td>Bombay</td>
<td>Single Point &amp;</td>
<td>48 Articles</td>
</tr>
<tr>
<td>4.</td>
<td>Delhi</td>
<td>---do---</td>
<td>44 Articles</td>
</tr>
<tr>
<td>5.</td>
<td>East Punjab</td>
<td>---do---</td>
<td>60 Articles</td>
</tr>
<tr>
<td>6.</td>
<td>Hyderabad</td>
<td>Multipoint</td>
<td>25 Articles</td>
</tr>
<tr>
<td>7.</td>
<td>Madras</td>
<td>1)Single Point for specified goods</td>
<td>Agricultural goods</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2)Multi point for remaining.</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Madhya Pradesh</td>
<td>Single point</td>
<td>42 Articles</td>
</tr>
<tr>
<td>9.</td>
<td>Mysore</td>
<td>3 systems</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1)Single point</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2)Multi point,</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3)Multiple point.</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Madhya Bharat</td>
<td>Single point on Manufacturer &amp; Importer</td>
<td>40 Articles</td>
</tr>
<tr>
<td>11.</td>
<td>Orissa</td>
<td>Single point.</td>
<td>29 Articles</td>
</tr>
<tr>
<td>12.</td>
<td>P</td>
<td>---do---</td>
<td>60 Articles</td>
</tr>
<tr>
<td>13.</td>
<td>Saurashtra</td>
<td>---do---</td>
<td>56 Articles</td>
</tr>
<tr>
<td>14.</td>
<td>.</td>
<td>1) Multiple point,</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Single point,</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3) Double point</td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>Uttar Pradesh</td>
<td>1) Single point,</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Multiple point.</td>
<td></td>
</tr>
<tr>
<td>16.</td>
<td>West Bengal</td>
<td>Single point</td>
<td>35 Articles</td>
</tr>
</tbody>
</table>

SALES TAX IN MAHARASHTRA

A look at the above table reveals surprising lack of uniformity both in respect of system as well as tax free goods. This in itself explains the need for research in this area. A system adopted by a particular state would be viable unit for the study. As the state of Maharashtra forms the subject of study it would be better to have a look at sales tax systems in the state. As discussed under the head sales tax in modern India, it was in 1946 that the sales tax was introduced in Maharashtra state.
Since then many changes took place in the political map of Maharashtra. During this period sales tax systems also changed and as many as five different systems operated in the state. Leading o the changes, efficiency of each of the systems and the need for a system in view of future economic developments are some of the issues that deserve systematic study.

This also can be considered as a source of motivation for the study. However this calls for an insight into the rate of a system and its working. In the background of history and principles discussed in this chapter. The next chapter deals with research methodology.
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