CHAPTER 6

Findings and Recommendations
CHAPTER – 6

FINDINGS AND RECOMMENDATIONS

6.1 Introduction

To achieve the objective of the study, due emphasis has been given to the views and perceptions of the stakeholders. Data and information that were collected from various sources were analyzed to answer the following research questions that are formulated, on the basis of the objectives of the study. The questions are:

- What is the status of revenue generation in Assam?
- How effective are the structure and mechanism of the present sales tax system in Assam?
- What are the position of the revenue and other financial aspects of sales tax in Assam over the last four decades?
- What difficulties do the stakeholders face in compliance with or administration of the sales tax legislation?
- What are the various factors that lead to evasion of sales tax in Assam?
- What is the general attitude of the consumers towards payment of sales tax in Assam?
- What is the status of Value-Added Tax system in Assam?
- How the present ailments can be removed and what should be the roadmap for effective future administration of the sales tax machinery?

The findings of the analysis are presented in the forms of answers to the above questions in the following sections.
6.2 Findings from the Secondary Information

Data and Information gathered from the published sources have revealed the present position of the sales taxation system in Assam. The following sections highlight various aspects of the present system relevant to the study.

6.2.1 Revenue Structure of the State

The Government of Assam, being a constituent of the Indian federal system, has been facing severe financial crunch in the governance of the State. The mounting pressure on the State Government to meet various expenditures including the hefty salary bill of the public servants make the situation more complex. The data available show that while the collection of revenue from sales tax was Rs. 149 cr. in 1986-87, it was Rs. 918 cr. in 2001-02. On the other hand, the salary paid to public servants were Rs. 468.56 Cr. in 1986-87 and it went up to Rs. 4990.55 Cr. in 2000-01. The State Government is mostly dependent on the Central Government for its finance. Assam has been a State with low investment in all sectors as indicted by the ever decreasing credit deposit ratio from 50 percent in 1991 to about 33 percent in 2001. As against this, the national average is 58 percent as observed by the Committee on Fiscal Reforms constituted by the Government of Assam in 2001. That major part of the revenue receipts of the State is derived from the Union Government.

The position of the State economy of Assam vis-à-vis other States of the country are shown in Table 6.1. It can be seen from the Table how much the State is dependent on the Central Government for its finance.

Fig 6.1 depicts the share of central taxes obtained by the State of Assam in comparison to other States of the country. It is the reflection of the dependence of the State Government on the Union Government for its revenue. It is seen from the figure that Assam, being an underdeveloped State, has to
rly more on Central Government fund in comparison to developed States like Maharastra.

Table 6.1
State Revenue as per the Existing System (1996-97 RE) (Rs lakh)

<table>
<thead>
<tr>
<th>States</th>
<th>SOTR</th>
<th>Shared Taxes</th>
<th>Grants in Aid</th>
<th>TotalCols. 2+3+4</th>
<th>Percent Share to Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>A. HIGH</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. GOA</td>
<td>30,013</td>
<td>9,055</td>
<td>6,615</td>
<td>45,683</td>
<td>65.70</td>
</tr>
<tr>
<td>2. GUJARAT</td>
<td>630,432</td>
<td>133,206</td>
<td>72,017</td>
<td>836,655</td>
<td>75.35</td>
</tr>
<tr>
<td>3. HARYANA</td>
<td>216,641</td>
<td>42,300</td>
<td>48,658</td>
<td>307,599</td>
<td>70.43</td>
</tr>
<tr>
<td>4. MAHARASHTRA</td>
<td>1,199,980</td>
<td>214,592</td>
<td>176,314</td>
<td>1,590,886</td>
<td>75.43</td>
</tr>
<tr>
<td>5. PUNJAB</td>
<td>280,679</td>
<td>52,835</td>
<td>59,384</td>
<td>392,898</td>
<td>71.44</td>
</tr>
<tr>
<td>TOTAL(1)</td>
<td>2,357,745</td>
<td>451,988</td>
<td>363,988</td>
<td>3,173,721</td>
<td>74.29</td>
</tr>
<tr>
<td>B. MIDDLE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. ANDHRA PRADESH</td>
<td>498,851</td>
<td>288,360</td>
<td>174,260</td>
<td>961,471</td>
<td>51.88</td>
</tr>
<tr>
<td>7. KARNATAKA</td>
<td>604,442</td>
<td>172,980</td>
<td>121,159</td>
<td>898,581</td>
<td>67.27</td>
</tr>
<tr>
<td>8. KERALA</td>
<td>394,885</td>
<td>121,770</td>
<td>74,693</td>
<td>591,348</td>
<td>66.78</td>
</tr>
<tr>
<td>9. TAMIL NADU</td>
<td>777,580</td>
<td>212,229</td>
<td>97,014</td>
<td>1,086,823</td>
<td>71.55</td>
</tr>
<tr>
<td>10. WEST BENGAL</td>
<td>460,925</td>
<td>242,015</td>
<td>122,848</td>
<td>825,788</td>
<td>55.82</td>
</tr>
<tr>
<td>TOTAL(2)</td>
<td>2,736,683</td>
<td>1,037,354</td>
<td>589,974</td>
<td>4,364,011</td>
<td>62.71</td>
</tr>
<tr>
<td>C. LOW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. BIHAR</td>
<td>236,544</td>
<td>394,411</td>
<td>86,779</td>
<td>717,734</td>
<td>32.96</td>
</tr>
<tr>
<td>12. MADHYA PRADESH</td>
<td>400,136</td>
<td>258,290</td>
<td>189,799</td>
<td>848,225</td>
<td>47.17</td>
</tr>
<tr>
<td>13. ORISSA</td>
<td>143,306</td>
<td>157,284</td>
<td>114,409</td>
<td>414,998</td>
<td>34.53</td>
</tr>
<tr>
<td>14. RAJASTHAN</td>
<td>328,429</td>
<td>176,583</td>
<td>139,409</td>
<td>644,421</td>
<td>50.96</td>
</tr>
<tr>
<td>15. UTTAR PRADESH</td>
<td>607,965</td>
<td>586,485</td>
<td>281,540</td>
<td>1,475,990</td>
<td>41.19</td>
</tr>
<tr>
<td>TOTAL(3)</td>
<td>1,716,380</td>
<td>1,573,053</td>
<td>811,936</td>
<td>4,101,369</td>
<td>41.85</td>
</tr>
<tr>
<td>TOTAL(15 MAJOR STATES)</td>
<td>6,810,808</td>
<td>3,062,395</td>
<td>1,765,898</td>
<td>11,639,101</td>
<td>58.52</td>
</tr>
<tr>
<td>TOTAL(ALL STATES)</td>
<td>6,984,718</td>
<td>3,462,603</td>
<td>2,622,003</td>
<td>13,069,324</td>
<td>53.44</td>
</tr>
</tbody>
</table>

Notes: SOTR = State Own Tax Revenue  RE = Revised Estimates
Total tax revenue of a State consists of tax revenue collected by it as well as the share of union taxes received. XI Finance Commission’s index of self-reliance (ratio of own revenue to revenue expenditure) is one pointer of fiscal performance of the State Government. The share of each State in the net proceeds of the shareable central taxes and duties has been fixed by the Finance Commission. Para 6.36 of the Report of Finance Commission fixes the share of Assam as 3.285 per cent for the years 2000-01 to 2004-05. Emphasis has been given on the generation of own revenue by the State Governments. More funds are to be allocated to the States earning more revenue from own sources [Report of Eleventh Finance Commission, 2001]. The Eleventh Finance Commission has estimated a rosy picture for the State [Table 4.14]. Thus, it gives ample pressure on State Governments to augment its own resource generation.
Fig 6.2 represents share of own taxes collected by the State to the total revenue collected from tax (including share of union tax). It can be seen from the figure that the share of own tax revenue to the total tax revenue of the State of Assam is one of the lowest in the country. While the receipts from the Central Government increased in absolute terms over the years, the scenario of revenue generation from the State sources have been very much dismal. This situation ought to be improved and the State of Assam has to be self-dependent to get more share from the Union Government.

An indicator of growth of sales tax revenue can be the ratio of sales tax to the State Domestic Product (SDP). Figure 6.3 shows the movement of share of sales tax in the total SDP of the State of Assam. In case of Maharashtra which is one of the developed States of the country, the percentage of sales tax on SDP moves around 7 to 8 percent over the years.
This shows that there remains ample scope for increasing revenue from sales tax in the State. Of over 300 commodities, the most important revenue raiser from sales taxation had been crude oil followed by diesel oil, motor spirit and tea. Excessive care needs to be taken in the imposition and collection of sales tax from these items.

6.2.2 Structure and Administration of Sales Taxation in Assam

Out of the different State taxes, sales tax plays the major and the most important role. Figure 6.4 discloses that on an average more than 60 percent of the total state tax revenue is accounted for by sales tax. The percentage yield varied from 43 per cent to as high as 82 per cent of the total revenue receipt of the State. Thus, the dependence of State Government on this source can easily be understood.
Sales tax in Assam is not of recent origin. History shows that sales tax has been imposed in Assam since the Tenth Century. After a series of transition, the present Assam General Sales Tax (AGST) Act, 1993 is in force at present. Consolidation of separate tax statutes and formulating new AGST Act has made the system simpler. The present structure of Sales tax administration is found to be satisfactory. The department of statistics in the Commissionerate of Sales Tax has been successful in compiling statistics and thus enabling fixing targets for unit offices.

The Sales Tax Department has to undertake a very tough job for checking evasion originated as a result of diversion of trade to the neighbouring tribal States. The Unit offices are located in different places of the State and cover all the areas of the State as the Recovery Offices. Appellate offices are not evenly located and needs ratification in earmarking of areas.

The proportion of expenditures over revenue of the Sales Tax Department has been almost constant except in the year 1994-95 when there had been an unprecedented increase in expenditure due to restructure in the organizational set up as necessitated by the implementation of the new AGST Act, 1993. After that the rise in expenditure has been proportional to that of
revenue. The percentage of expenditure to revenue has been on an average 1.4 percent during 1993-94 to 1999-2000 [Table 4.10]. An improvement has been noticed in the year 1997-98 when there had been tremendous rise in revenue and hence the percentage of expenditure over revenue fell down remarkably. It is an improved scenario of tax administration for the State.

The process of collection of revenue from sales taxation is affected negatively because of appeal cases and arrears. When there is an increase in appeal cases there should be proportionate increase in its disposal also. The correlation between the number of appeal cases added and appeal cases disposed over the years is \( r = 0.38 \). Thus, there is no relationship between the number of appeal cases added and disposed during the year. This factor adds to the woes of the assessees. The arrear amount under the process of recovery kept on increasing for the period 1990-91 to 1996-97. However, the year 1997-98 showed some changes in this regard as the cases stayed by courts increased tremendously and the amount under process of recovery dropped.

The Assam General Sales Tax Act, 1993 has been enacted after consultation with the various tax statutes of different States of the country. Therefore, the tax statute attempted to contain the generally accepted principles of taxation. The tax statute contains seven schedules where items are specified for different treatments of taxation. Sales tax is an indirect tax. Indirect taxes are basically of regressive nature. Even then attempt has been made to make it as equitable as possible. Commodities used by common people for their day-to-day use are either exempted from tax or are levied with low rates of taxes. On the contrary, luxury items are charged with highest rates of taxation.

With the imposition of uniform floor rates of taxation by the Union Government, the State Governments are compelled to impose sales taxes with regard to minimum floor rates. The practice of fixing lower rates to attract investment by industry is being tried to be curbed. The Government of Assam
has already implemented the uniform floor rates on all the commodities with effect from January 1, 2000. But the State has been facing problems from the neighbouring tribal States who are yet to impose the floor rates. Thus, a large chunk of trade of Assam is diverted to these States to evade payment of higher sales tax in Assam.

6.2.3 Position of Revenue and Other Financial Aspects of Sales Tax in Assam

Since the inception of the Assam General Sales Tax Act, 1993 with effect from July 1, 1993 the growth rate of sales taxation had been sluggish over the years. The growth rate had been negative in 1998-99 [Fig 4.3] because of the fact that IMFL (Indian Made Foreign Liquor) had been shifted to excise from sales tax causing a revenue loss of Rs. 40 Lakhs for the Sales Tax Department. But the reform steps initiated by the Sales Tax Department resulted in positive growth during the year 1999-2000. The increase in the growth rate of tax collection is a result of strong insistence on the tax collection target by the various unit offices.

Regarding growth pattern of revenue collection from sales tax, it has been found that the scenario is dismal because of the weak tax base. Tax base depends on number of economic macros. Some of them are controllable and some are beyond control. If the business growth rate is not satisfactory in the State, then growth in the collection of sales tax revenue cannot be anticipated. It has been found that the growth of registered factories, joint stock companies, index of industrial production has been almost constant over the years. Thus, the increase in the sales tax revenue over the past years may be attributable to the inflation factor.
6.3 Findings from the Stakeholders’ Survey

The survey carried out among the stakeholders reflected the following distinguishing features of the present system of sales taxation in Assam. The survey also focussed on various areas where improvement can be made for increasing revenue collection from sales tax in the State.

6.3.1 Weaknesses in the Present Sales Tax System

Stakeholders’ perceptions and views in this regard carry meaning for the formulation of future tax policies. Almost equal emphasis has been given to the following in-built weaknesses in the system such as:

- very high tax rates
- complex rules and regulations
- too many formalities
- scope for manipulation in the calculation of payment of sales taxes to the State exchequer.

Categorical analysis shows that the administrator-respondents are of the view that ‘too many formalities’ is the major shortcoming of the AGST Act. Almost half of the total respondents believe that the tax burden on consumers is high in Assam as compared to the neighboring States. It is seen that majority of the expert respondents recognize the fact that multiplicity of tax rate makes the Act more complex.

6.3.2 Difficulties Faced in the Compliance of Tax Statute

Any tax administration cannot yield its best result unless it provides a hassle-free system to the stakeholders. A good tax system should be simple so that the stakeholders face the least possible problems in dealing with the tax matters.
Collection of revenue from tax is affected negatively with the increase in the problems faced by the dealers in compliance of the various provisions of the tax statute. An in-depth analysis discloses the following three factors recognized as main problems by the dealer-respondents for compliance of tax laws and regulations. These are:

- Excessive formalities for filing of returns
- Unfriendly attitude of the tax authorities
- Limited period of validity of road permits

The expert-respondents have identified another factor that causes problem to the dealers. This is:

- Lack of prompt service from office staff

Excessive formalities for filing return and limited period for road permits require reforms in the structure, unfriendly attitude and lack of prompt service from the office staff could be reduced by improvement of the behavioural aspects of employees.

6.3.3 Difficulties faced in the Administration of Tax Statute

Tax administrators are the officials for implementation of various provisions of the tax statute. In the performance of their duties effectively, it is very much needed that the structure and the system be designed in a way that facilitates in smooth functioning of their duties. The administrators mainly confined their problems to the following three.

- Too many slabs of tax rates
- Unfriendly attitude of the dealers
  Excessive formalities for issuing notices etc

Besides the above three, the expert respondents have mentioned the following factor as a barrier in the effective administration by the tax officials. This is:

- Lack of prompt service from the office staff
Thus, too many slabs of tax rates and excessive formalities of issuing notices are the causes inherent in the structure of the Act. The other two reasons viz., unfriendly attitude of the dealers and lack of prompt service from the office staff are concerned with human resources involved in the sales tax system and requires proper management techniques to get the best out of them.

6.3.4 Evasion of Sales Tax in Assam

It is a general belief that high rates of taxation create propensity to evade taxes. Majority of the respondents agrees that high rates of taxes lead to propensity to evade payment of sales tax in the State. The categorical analysis also shows positive correlation as regards this statement. It may be inferred that when higher taxes are imposed on commodities, the tax amount itself becomes substantial which induces the dealers as well as other interested parties to take shelters of various avenues both legal as well as illegal to reduce its tax liability.

Some dealers evade payment of sales tax in various ways. This evasion causes a large leakage in the sales tax revenue for the State. The respondents' views, irrespective of segments, over the various ways of evasion of sales tax in Assam mainly focus on the following five ways:

- Under-invoicing
- Non recording of Accounts
- Billing in the name of other NE States
- Non-issue of memos
- Taking advantage of lack of adequate and modern infrastructure at check gates.
6.3.5 Consumers’ Attitude Towards Payment of Sales Tax

Consumers are the ultimate entities who have to bear the burden of sales tax. Therefore, collection of sales tax for the State, to a large extent, depends on the attitude of the consumers. If the consumers purposively avoid payment of sales tax, then it becomes very difficult for the tax authorities to fill up the leakage in collection of revenue. The survey revealed interesting facts about the views, perception and attitude of the consumers.

The consumers are, in general, aware of the fact that Assam has been facing unprecedented financial crunch. They also know the fact that sales tax is the major source of revenue for any State Government. Most of the respondents are aware that they do pay sales tax whenever they purchase any commodity. However, only a meager percentage of consumer-respondents always insist the seller to issue cash memo against every purchase they make. A substantial portion of consumers has the practice of asking for cash memo on rare occasions. It is observed that most of the consumers do not bother to have memo, as they do not feel any necessity for the same unless the purchase is of some kind of valuable assets.

In general, shopkeepers do issue cash memo when the customers ask for it. Cases for refusal of cash memo is not very common in Assam. The majority of the consumer-respondents have opined against paying extra money (tax) to get cash memo. Thus, it is a great hurdle in the collection of sales tax by the Government and this attitude of the consumers play a significant role in the evasion of sales tax by the dealers. That majority of the respondents admit that they presume payment of sales tax is an act of good citizenship, at the same time they wish to pay sales tax unknowingly. Sales tax, being an indirect tax, is to be paid by all customers and if administered and managed in the proper way, consumers are willing to pay their dues honestly. It would be beneficial
for all concerned if sales tax can be collected without giving much pressure to the consumers.

The problem of sales tax evasion is very common in Assam. This may be so either at the provocation of the dealers or on their own by the consumers. There are substantial number of consumers who wish to evade tax. This makes the problem of tax administration more critical. It may be possible that if the consumers are aware about the grim economic condition of the State, they may come forward to pay sales tax. It has been found from the study that there exists a positive correlation between the awareness level and educational qualification as well as income of the consumers. Higher the level of education and income, high is the awareness level. Moreover, consumers in Assam lack the habit of asking for authentic cash memo, and this practice encourages evasion of sales tax by unscrupulous dealers. When the sales get unrecorded, there remains ample scope for evasion.

6.3.6 Reasons for Poor Collection of Sales Tax in Assam

Analysis of data provided by the tax authority shows a dismal scenario of the growth of tax revenue in Assam. Findings from respondents give a picture as perceived by them regarding the reasons for poor collection of sales tax in Assam.

In the process of summation of findings from all three segments, it is noticed that while the dealers mentioned 'inefficient administration' as one the main causes for poor collection of sales tax in Assam, the administrators think that 'evasion by dealers' is one of the prime reasons. The reason 'inefficient administration' has been broad enough to include all the shortcomings on the part of the administrators including alleged corruption in the administration system. On the other hand, the term 'evasion by dealers' include manipulation of accounts produced by dealers, showing deflated turnover etc. The clear
dissidence in opinions between dealers and administrators regarding the contradictory reasons viz. ‘evasion by dealers’ and ‘inefficient administration’ is not at all a healthy sign for tax administration which shows a state of distrust between the two main components of sales tax system. A congenial relationship among the stakeholders can contribute in a better way to the State exchequer.

Widening the tax net is one of the prime concerns for any tax administration. It has been found that a large number of dealers wish to remain unregistered through legal and illegal means. ‘Fear psychosis about the tax department’ and ‘fear for formalities’ are the barriers for registration by these dealers. Moreover, penalty system is found not to be so strict for non-registration. Normally, a large chunk of tax revenue is lost every year from the sales affected by these unregistered dealers.

6.3.7 Augmenting Revenue from Sales Taxation in Assam

It is interesting to note that a very large part of the combined respondents agree that revenue from sales taxation can be enhanced if the tax rates are lowered. It is because of the fact that most of the respondents, irrespective of category, believe that tax evasion can be automatically reduced if rates of taxes are lowered. On the other hand, it is a corollary to the fact that high sales tax rates encourage excess evasion. The general perception of the respondents also supports the “Lafer’s Curve Approach” that says that decreasing the tax rate can increase revenue from taxation.

Most of the respondents believe that there remains scope for rationalization of sales tax structure in the State. The dealer-respondents are of the view that by reducing tax rates and by simplifying procedures, the collection of revenue from sales taxation can be increased in Assam. Most of
the administrators have given emphasis on imposition of entry-tax for enhancing tax revenue for the State followed by thorough checking at godowns, reduction of tax rate, simplification of procedures, and improving infrastructure and functioning of the check gates. A substantial portion of the expert-respondents feel that introduction of incentives for honest tax payers, thorough checking of godowns, and imparting training to tax officials may yield positive result for enhancing revenue collection from sales taxation in the State.

6.4 Reform Initiatives Taken by the Government

In India, sales tax has by now become the mainstay of all the State Governments. But, this source of income was tending to become stagnant, mainly due to competitive rate wars indulged in by the various States in the hope of attracting more business to their respective State. The present study though conducted in the State of Assam, has relevance to the findings related to the problems already recognized nationwide. The Government of India has initiated a process of reform in the field of sales taxation. The reform measures suggested by the Union Government are as follows:

- The first reform relates to the adoption of a Uniform Floor Rate (UFR), a four-rate structure (i.e. zero, 4, 8 and 12 percent) in the existing sales tax system. In addition, there are two special rates of 1 percent and 20 percent for a few specified items. The recommended rates are floor rates – the States have the freedom to adopt higher rate on any of the commodity from the list, but they cannot go below these rates. This checks the rate war and prevents diversion of trade.

- The second reform pertains to abolition of sales tax-related incentives. In the past, all the States granted such incentives to new industries. Various studies and committee reports have argued against such incentives. In terms of loss of revenue, the country as a whole sacrifice about 25 percent of the sales
tax base by way of giving incentives. In addition, the incentives take the form of tax competition (war) or harmful tax practices. The empirical studies attempted for Delhi indicates that the concessions of sales tax do not affect the location of industry. The concession could be relevant, if at all, when given by one State alone. Similar results are seen from the other studies as well. When all the States give such concessions, such concessions result in zero sum game. No State benefits from these concessions.

Being an industrially under-developed State, it is very difficult for Assam to withdraw sales tax based incentives now, as it may harm the industrialization as well as entrepreneurship development in the State.

The Government of Assam has already initiated the process of rationalization and simplification of sales tax structure. Under the direction from the Central Government, the Government of Assam has already introduced the Uniform Floor Rates (UFR) of taxes with effect from January 1, 2000. This has substantially reduced the number of slabs of tax rates. At present there are only six slabs of rates. With adoption of UFR by the neighbouring States, the evasion of sales tax in Assam can be checked to a large extent. Moreover, entry-tax as desired by the expert-respondents has already been introduced in the State with effect from October, 2001.

The Government of Assam has already decided to introduce the VAT system tentatively from April 1, 2004. However, some reform measures are to be carried out for its effective implementation. The State would find it convenient to adopt VAT without much difficulty once these reforms are implemented.
6.5 SWOT Analysis of the Present Sales Tax System in Assam

Before a plan of action for introduction of VAT is made, an introspection of the present system of sales taxation in Assam should be carried out. This study has identified various pros and cons of the present sales taxation system in Assam.

6.5.1 Strengths of the Present System

• Organized Structure: A well-thought organized structure has been effective enough to have wide delegation of authority and responsibility for better tax administration.

• Experienced Officers: The State has long experience of administering sales taxation. The administrators have wide experience in administering both single point and multi-point taxation.

• Wide Network: The State has tax collection points scattered all over the State. The check gates are situated at all major points of entry. Nonetheless, almost all major business areas are represented by tax collection unit offices. The network, if effectively used, would yield substantial revenue to the State exchequer.

6.5.2 Weaknesses of the Present System

• Poor Infrastructure: The tax collection points including check gates lack proper infrastructure. As a result, rampant tax evasion takes place in the State. It is almost impossible for the tax administrators to check this evasion with the present infrastructure.
• **Poor Relationship among Stakeholders:** It has been noticed that the relationship between the dealers and tax administrators is not congenial. There exists a situation of distrust between them. It gives negative impetus for the growth of revenue from sales tax in the State.

• **Low Motivation:** No steps have been taken to motivate the consumers to exercise their rights by asking for authentic memo against purchase. Dealers and administrators are less motivated in compliance and administration of the Act respectively.

### 6.5.3 Opportunities Ahead

• **Ample Scope for Augmenting Tax Collection:** There has been wide scope for augmenting revenue from sales taxation in the State. It has been seen that few reform measures taken during the year 1998-99 could provide a substantial revenue increase from sales tax.

• **Expanding Economy:** The economy of the State is expanding with the emergence of cross border trade. The State is in the verge of entering into international trade. Moreover, with various development policies of the Government, the economy of the State is in the process of growth.

• **Capable Human Resources:** The staff and administrators in the Sales Tax Department are efficient enough to take up any challenge. With a well designed training program and other interventions, they can be motivated to excel in their own fields.
6.5.4 Threats Perceived

- **Non Participating Neighbouring States:** Reform measures initiated by the Central Government for ending the tax-war among States are not implemented in true spirit by some neighbouring States of Assam. While Assam has implemented the Uniform Floor Rates (UFR) by raising sales tax rate in many commodities, the neighbouring States are yet to implement this. As a result, diversion of trade takes place to these low tax-rate States and the Government of Assam looses a large chunk of revenue from sales tax.

- **Weak Economical Condition:** Implementation of VAT requires massive structural reforms. Effective administration of VAT is possible only when it is supported by adequate infrastructure. The present weak economic condition of the State may not permit preliminaries for VAT. Half-hearted implementation of VAT would make the whole essence futile.

- **Revenue Loss:** Assam, being an underdeveloped State, import most of its requirement from other States of the country. In general, value addition in commodities is very low in the State. It is feared that unless an integrated compensation plan is chalked out, there may be revenue loss for the State if more tax-credits are to be allowed under the VAT regime.

As the change-over to the proposed system of VAT is a complex one, the strengths of the present system have to be utilized and weaknesses are to be removed. Linking opportunities with strengths would make the new system effective.
6.6 Value Added Tax System in Assam

The State of Assam is going to enter into the Value Added tax regime. The Government of Assam is in the process of initiating the preliminaries for introducing VAT in the State. To make its implementation successful, it is necessary that the participants are in the knowledge of the pros and cons of it. The awareness level of the stakeholders regarding the Value Added Tax system carries a great meaning as far as its introduction in the State is concerned.

6.6.1 Peoples’ Perception in Assam

The following points have been noticed from the results of the survey among the stakeholders:

• Majority of the dealers are unaware of the system called Value-Added Tax. However, majority of the tax administrators as well as tax experts have the knowledge of the system.

• Majority of the stakeholders have the knowledge that there would be a change over to a new system of taxation in the near future.

• Almost all the stakeholders have support for the decision of the Government for a harmonized tax system all over the country. It is interesting to note that while most of the dealers have no knowledge about the new system of taxation even then most of them have opined for the new system. This is because the persons related to this field are seeking a change in the system.

6.6.2 Historical Account of State-VAT in India

In view of the deficiencies in the existing structure of sales tax, the Committees of States’ Finance Ministers (in 1995 and 1998) and of the Chief Ministers (in 1999) have put forth recommendations to replace sales tax by
VAT. This is in tune with the developments in all other countries, including many developing countries, where VAT is a proven success.

The experience of introduction of VAT (in some or the other form) by some of the Indian States in the past is of great importance for Assam. Some of the States that have experimented with VAT, faced many problems of administrative or operational nature, in their efforts to introduce VAT.

Andhra Pradesh is one of the States that has introduced VAT on some select items with effect from April 1, 1995 for resellers only, with rate of tax of 4% on inputs applicable to all manufacturers. Prior to the introduction of VAT, Andhra Pradesh abolished the (then) existing surcharge and turnover tax. It also reduced the rate slabs to six only.

Kerala is another State that levied VAT on resellers on a few select commodities. While doing so, it did not grant set-off for the tax paid on inputs. No efforts were made to rationalize the structure of tax prior to the introduction of VAT. In addition, a graded surcharge was levied on dealers having different levels of turnover. However, with effect from April 1, 1997, Kerala has withdrawn VAT and replaced it by a double-point sales tax.

Maharashtra moved towards VAT from October 1, 1995. It attempted to simplify the existing structure prior to introduction of VAT. It abolished "additional tax" as well as "turnover tax". Also, it moved towards providing set-off on input-tax to manufacturers. Under the then prevailing rules, the input credit was available "for the tax paid above 4%". Taking into account the incidence of non-recoverable taxes such as "additional tax" and "turnover tax", the effective burden on inputs of the manufacturer was in excess of 6%. Eventually, this burden was reduced to 4%. In addition, the rate slabs were drastically reduced from 20 to just seven. VAT was initially levied on all dealers having turnover above Rs. 1 crore. The coverage was extended to dealers with turnover above Rs. 50 lakh in 1996 and to Rs. 40 lakh from June 1, 1997. Also, the input credit was increased. Further, due to non-economic
considerations the State has withdrawn VAT and replaced it by the first-point sales tax with effect from April 1, 1999.

Madhya Pradesh followed the threshold approach and introduced VAT for dealers with turnover higher than Rs. 1 crore with effect from April 1, 1997. It brought down the threshold to Rs 50 lakh with effect from April 1, 1998. Also, it introduced one rate slab of 8 percent for all dealers falling under VAT. However, Madhya Pradesh has so far not given set-off for the tax on inputs in spite of the announcement made long back. Also tax on reseller is not in the true spirit of VAT. The most important aspect of VAT is to make it a neutral and transparent system.

The experience of the States that experimented with some form of VAT indicates that except Maharashtra, no State has attempted introduction of a proper form of VAT so far. It is misnomer to call a tax on resellers as VAT. The first and the foremost pre-requisite of VAT is to give input credit for all purchases. Also, there was no requisite preparedness on the part of tax department.

6.7 Administration of VAT through E-Governance

VAT is the most popular form of commodity tax being followed in most of the countries of the world. The most important element for proper administration of VAT is efficient collection, collation, and analysis of available information. The prime requisite for proper VAT administration, therefore, is an adequate information-base (data warehouse) which helps in the evaluation of the existing tax policy and simulation of the effects of proposed legislative changes. In order to facilitate decision making process it is very much necessary to provide tax authorities with an integrated all encompassing information system on the dynamics of the tax system in its entirety. An information-base of the dimension necessary to look into all the above aspects
is possible with efficient e-governance. E-governance uses IT for delivering quality services to the citizens. This is one of the prime ways to control corruption, bring transparency and efficiency in the system. Accountability can be increased tremendously. The result is an output that provides the authority with meaningful data for effective monitoring, administering and controlling departmental policies. Thus, the system should be designed to facilitate decision-making process to meet the objectives of tax policy and administration.

The system of e-governance should be such as to serve a wide variety of objectives. It should enable evaluation of tax policy and correct appraisal of alternative policy measures with the help of reliable statistical information. Also, the quality and quantum of information should be of immense help in deriving insights into important facets of the economy. The statistics obtained therefrom should also constitute the data sources for various tax-accounting purposes. Moreover, the information system is a vital part of the support measures for effective enforcement of tax laws as well. It should help in monitoring, administering and controlling the overall tax system. Finally, the system should be designed to facilitate decision-making process to serve the objectives of tax policy and administration. However, accomplishment of these objectives calls for an administrative system that would enable the department to have a proper information flow.

To accomplish the above objectives, the following points would seem to be the major aspects on which data would have to be collected and collated:

- Gross Turnover and Taxable Turnover of VAT set-off/credit claimed by the seller.
- Information from the Chamber of Commerce, Trade Associations etc.
- Flow of tax revenue month by month
- Distribution of registered dealers by size and of turn-over with corresponding tax base.
• Projected Gross Turnover, Taxable Turnover, Tax Paid, Tax Credit and VAT revenue
• Cross Verification of vouchers claimed as set-off.
• Detailed report from check gates
• Data on yearly assessment, collections, arrears or assessments and revenue.
• Information on audit.

Of the above aspects, the most important are the data related to gross turnover, taxable turnover, tax paid and cross verification of the tax credits claimed by the dealers. Information on these aspects is necessary for understanding the flow and movement of commodities in different regions. Also, this would be helpful for studying the incidence of tax on different commodities and on different socio-economic classes of people.

A proper e-governance system could play a vital role in cross verifying the credits claimed by the dealers. A large number of transactions involving hundreds of dealers are required to be cross-checked to determine correctness of the claim by the dealers. Such verification is manually impossible and hence proper administration of VAT requires adopting a suitable e-governance system that would ultimately improve the efficiency of tax administration and pave the way for a more rational tax policy formulation.

6.7.1 The International experience of sales tax administration through E-governance

Administration of VAT has been successful in many countries because of extensive use of computers and on-line processing of data. In fact, this has become the prime necessity for proper administration of the system. Lessons can be learnt from France, Canada, EU, Korea, Indonesia where the platform of e-governance has been availed for administration of VAT. Described below are the essential features of VAT administration in these countries.
I. The French Model

All dealers falling under the purview of tax administration, whether large, medium or small, have a master file in the computer. A special code number is allotted to each dealer. This number is allotted according to the type of activities. An additional number is allotted by the Tax Department that would be used by the dealer for submitting return. Every data-processing center gives its code to each of the dealers. Hence, the master file of the dealer is a multi-digit number having complete identification of the dealer.

Each tax collectorate has a conversational terminal of the Regional Computer Center. It allows the department to create and update files in ‘real time’ and process VAT returns by data entry. All these terminals are connected to a single central computer which:

a. automatically supervises correct execution of the declaratory as well as payment obligations of each of the dealer, and
b. executes all receipts as well as accounting operations.

The computer center, therefore, looks into the management of reminders to be served. Also it performs the calculation of tax liability for all the dealers on the basis of actual calculation or on notional basis. In addition, it presents statistical statements and documents necessary for tax management.

II. The Canadian Model

The General Sales Tax of Canada, which is a comprehensive VAT, has adopted a system of integrated information technology that not only helps administering the tax but also provides for selection of cases for field and office auditing in the country. All the information commencing from the time of registration of dealer is fed in to the integrated system. This allows the MIS for VAT to be used in the process of selection of dealers. This basically depends on department’s Computer Assisted Audit Selection System (CAASS)
which makes it possible to screen thousands of tax returns and selects those which might require auditing. Also the MIS in Canada helps the tax department to undertake an effective compliance of the tax through matching of turnover reported in returns with information furnished by third parties. Depending on the volume, optical character recognition (OCR) technology is being used to put the data into the computers instead of keying them manually.

III. The European Model

Extensive use of computers exists in the management of VAT in European Union (EU). The VAT information exchange system in operation in the EU, uses high technology, provides all the information on the network. It enables member States to obtain from each other necessary information regarding VAT registration status of dealers and their transactions among member States. The response time in getting various information ranges from 10 seconds to 5 minutes depending on the degree of details. The system helps member States in obtaining information in all aspects of management of VAT and provides administrative co-operation among member States in the EU.

IV. The Korean Model

The Republic of Korea is among the countries that have adopted VAT in the recent past. Here also, extensive uses of computers are made for performing the works such as:

- maintaining master file of the dealers,
- printing of tax notices and other guidelines for the tax payers,
- processing of VAT returns
- notices to non-filers
- calculating the amount of tax to be assessed
- sorting and cross-checking of invoices.
There are two network systems in the central office of the National Tax Administration. One computer processes betel data and another is for on-line data processing. Medium sized computers have also been installed at the regional branches and an on-line system has been established in ten district offices in Seoul. The following output is generated through computer:

a. list of invoices submitted
b. list of variations in tax invoices
c. return compliance table
d. other output.

V. The Indonesian Model

Indonesia also has gone for extensive use of computerization for VAT administration where the number of registered dealers is also very large. For the purpose of computerization, each dealer is given a nine-digit Tax Identification Number (TIN) with one check digit and district code. The TIN provides for a unique identification number and is used for all the taxes. Indonesia has a decentralized system of computerization. Also the computerization system provides a means of printing and issuing of identification cards for all the dealers.

6.7.2 The Indian Experience of Sales Tax Administration through E-governance

Tax Governance through electronic media is at present in its fundamental stage in India. However, many States have made intense efforts to introduce the information system. While the degree of efforts may vary, yet most of them have attempted to modernize the existing system. Some of the States like Andhra Pradesh, Delhi, Karnataka, and Tamilnadu have installed satisfactory information system. Other States are also making effort in this direction.
I. The Andhra Model

At the forefront of e-governance in the country, Chandrababu Naidu, the present Chief Minister of Andhra Pradesh, is determined to see information technology translate into wealth creation and empowerment in his State. Notwithstanding the variations in the level of development in this regard in various States, one State can be taken as model to be followed by others in this regard. And the State is Andhra Pradesh. There are many reasons for selecting it as model one. Firstly, the State has made a sincere attempt to computerize almost all the operations of the tax department. Each and every operation of the tax administration is handled through the computer. As a result, it is now in a position to obtain information from each level of functionaries. The operations are classified according to flow of information from district offices, check-posts, regional offices, and from the main computer centre. The operations at the district office require the officer concerned to maintain master file of each dealer which is opened at the time of registration of a dealer. All data pertaining to the activities of the dealer are put into the master file. Notices and reminders are issued by the district office through the computer. At the level of check post various information is fed into the computer. The functions of the check posts include –

- Validation of consignor and consignee
- Capturing data from the waybills of the transports
- Issuance of transit passes
- Tracking blacklisted vehicles and missing waybills.

The middle tier comprises of divisional offices and at this level information received from the district level is collated and compiled to prepare consolidated statement for the region. The central computer wing at the headquarters maintains master file of each dealer. Also, it maintains data on revenue and turnover for the whole of the state. It also records information on the flow of goods from check posts. It has access to the information from the Commercial Tax office as well as from the divisional office. The central
computer wing is, therefore, the data-warehouse for the department and brings out reports to analyze the operations of the tax in the State. The system of e-governance evolved in Andhra Pradesh is quite satisfactory, given the administrative procedure of management of VAT in the State.

II. The Karnataka Model:

Karnataka is in the forefront of Information Technology and is called the Silicon State of India. In addition, the State capital Bangalore has shown tremendous growth in the IT Sector and is the IT Capital of India. Karnataka is the first State to announce IT Policy in the year 1997. The Government of Karnataka has announced Mahithi, the Millennium IT Policy. The Government of Karnataka believes that effective implementation of e-governance will take IT to the common man. The Government would like to be pro-active and responsive to all its citizens particularly the poor. Presently, computers are used in several departments and decisions are taken in a decentralised manner. While the Apex Committee headed by the Additional Chief Secretary lays down the general guidelines, the committees under the Secretaries to Government are empowered to take all decisions and implement computerization in their respective departments. The departments are supported by Karnataka Government Computer Centre as well as the National Informatics Centre. In fact, Karnataka is a pioneering State that established Karnataka Government Computer Centre as early as in 1971.

The Government of Karnataka proposes to establish a Centre for e-governance under the Department of Information Technology. This Centre will facilitate the use of Information Technology for the common man rapidly and effectively. It will provide technical support to all the Government departments in their IT Projects. It will play a vital role in coordinating with the Government departments as well as undertake a few critical projects that are likely to be used in more than one department.
A few important elements in the e-governance are: *Mukhya Vahini:* A comprehensive database of the economy will be developed and portions of the database will be made available to respective decision makers. *Education Department:* The details of over 18 lakh students that take SSLC, PUC and university examinations have already been computerized and the results of SSLC are made available on the web-site. The examination is conducted in a most transparent manner. The students are admitted by computerized counseling process, the best ever designed in any education system in India. *Bhoomi:* The land records of all the villages in Karnataka have already been computerized. Immediate steps will be taken to make these computerized land records available to the villagers. *Nondani:* This project is aimed at making land registration simple and easy for the citizens. So far, over 100,000 documents have been registered in a computerized environment. *Khajane:* This involves intensive computerization of the treasuries all over Karnataka. The treasury payment system handles over Rs.20,000 crores annually through 225 treasuries. A comprehensive computerization is planned using the V-sat terminals. There will be a main data base centre at Bangalore and a disaster recovery centre at Dharwad. *Therige:* The Commercial Taxes Department has already computerized several facets of its operations. The details of about one lakh dealers are being computerized by the department. In addition, important check posts are being computerized where the invoices will be scanned and the details of the transactions will be made available to the assessing officers to check evasion of taxes on certain commodities.

### 6.8 Causal Analysis for Sales Tax Administration in Assam

The detailed study of the structure and administration of sales taxation in Assam has revealed various factors responsible for low collection of sales tax in Assam. The study has been able to establish the cause and effect relationships among the elements of the system. Based on the findings from the
study, an aggregate causal loop diagram has been developed and presented in Fig 6.5

Fig 6.5 Causal Loop Diagram for Sales Tax Administration
As it is evident from the Figure, there are eight loops, and out of these, six are positive and two are negative loops. The basic characteristics of positive feedback loop is that the factors in the loop contribute or reinforce the growth or decline while negative loops try to maintain a goal.

An analysis of each loop will help to understand the problem of sales tax administration in Assam. Such an understanding would help in suggesting remedial measures for the problems of sales tax administration in Assam.

### 6.8.1 Tax Evasion – Corrupt Practices Loop

From Figure 6.6 it is seen that the presence of corrupt practices by various quarters encourage tax evasion. There has been some cost of evasion which, in turn, patronage corrupt practices. This cycle goes on until and unless it is checked by some action.

![Fig 6.6 Tax Evasion- Corrupt Practices Loop](image)
6.8.2 Tax Evasion-Official Measures Loop

From Figure 6.7 it can be seen that there exists a negative relation between tax evasion and official measures. It has been found from the survey that when official machinery exercises their duties sincerely and strictly, tax evasion is checked to a great extent. This has been proved from the tax collection figures since 1999-2000 onwards.

\[ \text{TAX EVASION} \rightarrow (\cdot) \rightarrow \text{OFFICIAL MEASURES} \rightarrow \text{TAX EVASION} \]

Fig 6.7 Tax Evasion-Official Measures Loop

6.8.3 Tax Evasion-Tax Revenue-State Finance-Infrastructure Loop

Fig 6.8 shows that there exists a relationship among tax evasion, tax revenue, State finance, and infrastructure. When evasion increases it has negative effect in tax revenue. When tax revenue falls, the condition of State finance weakens and it leads to poor infrastructure as the Government has less finance to invest in infrastructure. Reverse is that when infrastructure in places like check gates improve it curbs tax evasion. When tax evasion is less, collection from sales tax will increase. It improves the condition of State finance and the Government would be in a better position to invest in infrastructure.
6.8.4 Tax Rate-Trade Diversion- Tax Revenue-State Finance Loop

Diversion of trade is very common in Assam. Fig 6.9 shows that when tax rate is more, trade is diverted to neighbouring States where rates of sales tax are low. This practice lowers tax revenue of the State. As a result, the State finance deteriorates. It may be possible that by lowering tax rate trade diversion can be controlled. When trade diversion is reduced, the revenue from sales tax of the State increases. It improves the condition of State finance. It would be a lose-lose game unless and until the neighbouring States adhere to the minimum floor rates of tax as prescribed by the Union Government.
6.8.5 Tax Rate-Tax Evasion- Tax Revenue-State Finance Loop

Fig 6.10 shows that increase in tax rate encourages tax evasion. When tax evasion is rampant, it results in loss of revenue to the State. Low collection of tax revenue weakens the State finance. Weak condition of State finance prompts the Government to increase tax rate and the cycle continues.
6.8.6 Official Measures-Corrupt Tax Practices-Tax Evasion Loop

This is a negative loop. Fig 6.11 shows when tax evasion is rampant in the State it compels the administration machinery to exercise strict control. When official measures are exercised strictly, it curbs corrupt practice followed by different quarters. When corrupt practices are reduced, tax evasion is automatically controlled.

![Diagram of Official Measures-Corrupt Tax Practices-Tax Evasion Loop]

6.8.7 State Finance-Central Grants-in-Aid Loop

Fig 6.12 shows a relationship between State finance and Central Grants-in-Aid. According to the norms suggested by the Eleventh Finance Commission, States having stronger financial position are entitled to more Central grants. It is a positive loop, which shows more the Central grants, stronger the financial position and so on.
6.8.8 State Finance-Central Loan-Interest Loop

Fig 6.13 shows that there exists a positive loop between State finance, Central loan, and interest on loan. If State finance is strong, there will be lesser need for central loan. When central loan is minimum, interest burden is also low. When interest burden is low, the State has more finance for developmental activities which, in turn, improves the condition of State finance.
6.8.9 Loop Analysis

The aggregate causal mechanism as depicted in Fig 6.5 and the consequent analysis of the individual loops, have revealed that basically three factors are to be controlled and monitored properly in order to administer the tax system effectively. These three factors are:

(i) Tax Rate

(ii) Tax Evasion, and

(iii) Official Measures regarding strict tax administration.

It has been highlighted in the Study conducted among the stakeholders that high rates of sales tax lead to high degree of tax evasion, though this view has not been supported by all segments of stakeholders alike. Tax evasion may be in the form of (a) non-payment of sales tax by keeping the sales unrecorded, (b) by diversion of trade to the neighbouring States where the tax rates are either low or nil. In any case, the tax rates are ought to be optimum, and the tax mechanism has to be simple. This aspect of sales taxation needs an in-depth study.

Whatever the reason for tax evasion may be, tax evasion leads to slower or no growth of the State exchequer. It is needless to say that slow growth of State exchequer cripples the economy of the State and affects developmental work of the State. Tax evasion coupled with corruption at various levels make the situation worse. Hence, it is required to formulate policies to plug the loopholes present in the present taxation system.

In order to control tax evasion, appropriate official measures are to be taken so that minimum or no scope is given for tax evasion. In this regard, the decision of the State Government for introduction of VAT seems to be appropriate. However, under VAT mechanism, tax evasion can be curbed only
when the system is implemented through the platform of e-governance. Besides, the human resource in the tax system is to be properly tuned to handle the new system in an appropriate manner.

6.9 Suggested Road Map for Effective Sales Tax Administration in Assam

It has been established in the foregoing sections that VAT has to be introduced in Assam along with other States of the country to: (a) keep uniformity with other States, (b) implement an effective tax administration system. In introduction of VAT in the State, it should be kept in mind that the system would be successful only when it is supported by a suitable e-governance platform. In this regard, it is proposed to have an e-governance system for the State for sales tax administration. An activity chart has been developed for proper ground work necessary prior to implementation of VAT. The success of the new system entirely depends on the human resources involved therein. A detailed plan of action has been chalked out for proper human resource development in the right perspective.

6.9.1 A Model e-governance System for Sales Tax Administration

The proposed model should contain some important elements. Incorporating these elements, a model system has been proposed in the following sub-sections.

6.9.1.1 Components of an Integrated System

Different systems are followed in various countries all over the world. But they highlight a common feature that all the activities are interwoven and
are aimed at achieving management objectives of the taxation system. The various components of an integrated system are:

- **Master File maintenance** - The first and foremost job of the system is to prepare a master file of all the registered dealers. This would create a database of potential VAT payers from every available source.

- **Payment of Tax and processing of VAT returns** - The system should facilitate filing up of VAT return forms with payment vouchers with required instructions to the tax payer. This should be followed by proper processing of tax returns including verification of computation. It should be able to identify stop-fliers (those who fail to file return or pay the tax).

- **Selection of dealers for audit** - The system could be used to select a suitable number of dealers based on audit selection criteria developed through auditing procedures and master file’s historical data. It could also be used to record the results of the audits and revise the criteria as necessary.

- **Cross Verification of Documents** - It is also important to match sales and purchase data from income and excise tax returns. Such a cross-check by the Sales Tax Department of all the invoices of buyers and sellers is extremely important to find out discrepancies.

- **Management Information System** - The integrated system should provide complete accounting summaries of VAT payers including returns received, amount collected, demands and arrears etc. It could also calculate the number and amount of assessments and penalties and interest assessed. In the same way, the system should help in preparing management analysis such as comparative data about amounts collected for several tax periods, and various ratios to judge the performance of the responsibility centre.
A Presumptive Architecture

Fig 6.14 shows some components of a proposed e-governance system for sales tax administration.

The functions of the proposed model has been described below:

Dealers mean the assessees of the Sales Tax Department who are registered under VAT and are being allotted VAT registration number. The dealers have their specific Taxpayers Identification Number (TIN).

Centres are the places where the dealers can interact with the VAT administration system. It can be the web-site of the tax department that would provide various facilities. Moreover, banks, tax offices, treasury, Chambers of Commerce can also serve the functions of a centre. Dealers may get information from the centres. A New Dealer can get itself registered whereas a registered one can file its Returns as well as be able to perform other
requirements in these centres. Tax can also be paid in these centres. Dealers with plastic or electronic money should be able to pay their dues through website. After submission of information in these centres, they will be transmitted to the data processing centre where the data validation would take place. Data would be verified with the records in the data warehouse as well as the warehouse will be updated with the new information. The validated and verified data would be transmitted to the tax service centre. Tax service centre is a multi-functional component in the system. It would carry out the functions of registration as well as assessment and other usual activities of the tax department. It would be updated by information from the warehouse. After completion of the necessary function, it would produce hard copies that would be communicated to the dealer. The State level datawarehouses would facilitate setting up of a Central Datawarehouse for the whole country. The cross relationships among the nodes are very much required as it will make possible cross verification of information submitted by the dealer. The proposed system, if implemented, would reduce, to a large extent, the problems stakeholders are facing at present.

6.9.2 Proposed Activity Schedule for Introduction of VAT in Assam

As explained in § 6.6.2, implementation of VAT failed in many States as there was no concrete plan of action. Assam should learn a lesson from these failures. Keeping the above aspects in view and also the decision to introduce VAT in the State tentatively from April 1, 2004, an activity chart in the line of approved plan of the Empowered Committee of State Finance Ministers has been developed and is presented in Fig 6.15. This is a 15-month duration activity plan. The figures within bracket and below the activity name indicate the probable duration in months required to complete the respective activity. Adhering to the time schedule would enable the State of Assam to introduce the VAT system effectively from April 1, 2004.
Fig 6.15 Activity Schedule for VAT Implementation

1. Publicity Campaign (12)
2. Design of VAT Structure for the State (2)
   - Revisit to Previous Step(s) may be Necessary
3. Formulating VAT Legislation (3)
4. Designing System Requirement (2)
5. Finalizing VAT Administration Process (5)
6. Conversion Process (3)
7. Registration Process (3)
8. Implementation of VAT Through E-Governance

Training of Officials (12)
Each activity shown in Fig 6.15 can be further segregated into sub-tasks. The following sections provide a brief outline of the activities and sub-activities.

**Activity A:**  *Designing of VAT Structure for the State (2 months)*

- Deciding about the inter-State transactions (i.e. the decision on rates path of CST) and intra-State transactions (i.e. whether to follow a single-rate VAT or three-rate structure).
- Decision regarding the coverage of VAT (whether to include services) and issues related to transitional measures (about tax paid inventories, continuing contracts etc.)
- Finalizing design of VAT

**Activity B:**  *Formulating VAT Legislation (3 months)*

- Preparation of Draft Legislation of VAT and passing of the same by the State Assembly.
- Finalization of procedures for VAT administration including registration of VAT payers, collection procedures, processing of returns, and audit for VAT, design of VAT Return Forms, VAT Payment Form, Registration Form.

For this purpose, the model VAT Act formulated by the National Institute of Public Finance and Policy be consulted.
♦ **Activity C:**  *Designing System Requirements (2 months)*

- Organizing workshop on business process and computerization for VAT administration,
- System design and identifying resource requirements.
- Designing criteria for selection of cases for assessment.

♦ **Activity D:** *Publicity Campaign (12 months)*

- Starting preparation for extensive information campaign and publicity literature.
- General campaign backed by articles, brochures, advertisements and publicity through media.
- Publishing detailed procedures for VAT including business process model, assessment criteria etc.

♦ **Activity E:** *Training of Officials at the State Level. (12 months)*

- Determining training needs of Official
- Designing training tools
- Imparting training to Officials

♦ **Activity F:** *Finalizing VAT Administration Process (5 months)*

- Testing the computer software and hardware for VAT.
- Procurement of Hardware
This is a very vital activity. The success of VAT administration in the State is entirely dependent on effective functioning of software and hardware. Every care has to be taken to test the validity of the software by carrying out a system testing. It involves the prime activity of preparing the test plan. The next important activity is specifying the condition for acceptance testing. The conditions required for VAT administration may specifically be incorporated so that the software knows the acceptance or rejection criteria. The programming is to be verified and test data to be prepared for testing the programming. Test performance is to be carried out with the test data. Simultaneously, user training program is to be carried out. Ultimate user acceptance test is to be performed for accepting the software.

**Activity G:**  *Conversion Process (3 months)*

- Determining procedures and document conversion
- File Conversion

Once the software is selected, the other important aspect is to carry out the conversion process from manual to computerized one. A very cautious attitude is needed in this regard. Any hasty decision in this regard would lead the whole programme into jeopardy. Fig 6.16 depicts various activities that are to be carried out in the process.

**Activity H:**  *Registration Process (3 months)*

- Starting registration process with new TIN for VAT.
- Interacting with banks on procedures for receiving returns and VAT payment.
- Allocating Registration Numbers to Dealers
Fig 6.16 Activities for Procedure and Document Conversion

• **Activity I:** *Implementation of VAT through E-Governance*

  Implementing the VAT mechanism for sales tax administration

Administration of VAT system can begin once the registration numbers are allocated to the existing dealers. VAT administration requires extensive dependence on computers and on-line processing. Hence, it is advisable that before switching over to complete conversion to e-governance, parallel processing with the manual system be carried out for a period of time. If any discrepancy is noticed, the reason is to be diagnosed, and corrective action is to be taken. Otherwise, parallel processing is to be discontinued. Steps are to be taken for complete conversion by preparing plan for post-implementation. These activities are depicted in Fig 6.17
These steps would gear up the tax machinery in such a way that the administrative cost of VAT would be lower and compliance cost as well as the harassment to the taxpayers minimum.
6.10 Recommendation Package for Governance of VAT in Assam

The experiences from VAT experiments in different States indicate that it is required to have some reforms in the governance of State-VAT, when introduced. The findings of the study have highlighted some loopholes in the present sales tax system. It has also pointed out the basic reasons that create difficulties in the compliance and in administration of the Act. Moreover, the future system should ensure avoidance of evasion of tax to the maximum extent. Consumers’ attitude does play an important role in the successful implementation of the emerging VAT.

Considering all the above factors, the recommendation package can be segregated into two components, structural aspects, and the most important, human aspects of tax administration.

6.10.1 Structural Aspects

Introduction of VAT through e-governance in the State would require some reforms in the structure of tax administration. These reforms are very much needed to cope with the changed scenario of tax administration. Some of these reforms that must be carried out prior to introduction of VAT are described below.

(a) Rationalizing the Rate Structure

The rates of sales tax should be fixed in a justified manner. The findings of the study has shown that high tax rate may be the prime factor for evasion of sales tax in Assam. However, there are differences among the respondent segments over the issue. The Government of India has suggested the States to follow the Uniform Floor Rates (UFR) below which the States cannot fix the rates. Keeping into consideration the low rates in the neighbouring States, it is
advisable that the Government of Assam should not go for arbitrary increase in tax rates in commodities for augmentation of revenue. In many cases, it happened to counter productive. The elasticity of demand of the product in question must be taken into consideration while fixing the sales tax rate.

(b) Assessment Procedure

The problems mentioned by the dealers during the survey are basically symptoms of a big problem. The problem lies in the process of assessment. The dealers have to face much difficulty during the process of assessment. Thus, an important aspect of reform relates to the procedures and the governance. One such aspect concerns assessment. At present all the dealers are called into the office of the sales tax with books of accounts. This procedure is not cost-effective. It is important to switch over to a system of selective assessment. Selection of cases for assessment has to be made in accordance with various criteria, such as, size, turnover, and risk evaluation. It might indeed be useful to cull out a fixed proportion of large and medium sized dealers for assessment on a regular basis. Further, the assessment of VAT dealers should be supplemented by cross-checking of invoices. The most important aspect relates to use of Discriminate Function System for audit selection. This function could use other relevant sources such as names of suppliers, number of taxpayers deviating from the normal trend, data on imports supplied by the customs department, and the information on the fast growing sectors of the economy.

(c) Registration of Dealers

Registration of dealers is very much important for widening the tax net. Every effort is to be made to encourage dealers to go for registration. The new system of registration of dealers under VAT should be stakeholder friendly. A decision about the size of the firm under VAT is of critical importance. In fact,
it is impracticable to include all the small dealers under VAT. Given their large number and low level of maintenance of records, learning from different country experiences, the States should fix a threshold of annual turnover of Rs 5 lakh for registration. The dealers having turnover between Rs. 5 lakh and Rs. 25 lakh could be assessed on the basis of one percent tax on their turnover. The rest of the dealers, having higher turnover, would fall in the actual system of VAT. However, dealers dealing mainly with exports requiring refund of tax paid could always go in for the proper system of VAT irrespective of their size. This would enable them to claim full refund of tax involved in exports.

(d) Management of Check Gates

The respondents are of the view that because of inadequate infrastructure at the check gates, a large quantum of evasion of sales tax takes place in Assam. The existing practice of monitoring of inflow of goods at the check-posts is an archaic method of tax administration. The introduction of VAT should be able to do away with such check posts. As is known, this would reduce corruption and save considerable national truck time spent at these check-posts. It would also facilitate the country to have free flow of goods.

(e) Re-organization of the Sales Tax Department

The management of VAT in Assam calls for re-allocation of duties of different functionaries of Sales Tax Department. For example, the work related to revenue receipts and follow up action of the defaulters is an important component of VAT management. It requires special attention on delinquents. In some countries this is taken care of by contacting dealers on phone, sending them reminders, and visiting them personally. An attempt is to be made for functional re-organization of the department to provide for separation of duties of different officers. This is essential to have efficiency in the working of the department.
(f) Creating a Database

Creation of a database and data warehouse is extremely important. Each tax payer should have a unique master file with an identification code. It is very much necessary to have a control over the whole system.

The first and foremost requirement relates to operating State-VAT through a single master file, based on unique TIN. The TIN should bear an economic activity code based on International Standard Industrial Classification (ISIC). In addition, the TIN must have feasibility for comparison among different taxes such as State-VAT, CenVAT, and income tax (including tax on corporate income). The TIN would also aid in drawing a comparison of tax statistics with the national accounts. In addition, it would facilitate proper use of the database of various systems.

(g) A Computerized Environment

Adoption of suitable computational technology is essential for a proper administration of VAT. In view of fast development in the IT sector, it is absolutely necessary that a requisite system suitable to the structure and administrative requirements of the State concerned is selected.

However, in choosing the computer technology one must keep in mind the capacity of the computer system to be adopted. At the same time in the selection of the system the principle of simplicity must be emphasized upon. More importantly, it is essential to have proper co-ordination among the States to adapt software according to their requirement. Pooling their resources for developing requisite software programmes could be cost effective.
Development and Implementation of a Management Information System

An integrated Management Information System (MIS) is a prerequisite for obtaining all the information from tax returns of individuals and of corporations. In fact, the coordination of Sales Tax Department with all the tax departments is extremely necessary. In India, at present the administration of federal taxes such as income tax and Cen-VAT is quite independent. This is equally true of sales tax. In the context of introduction of VAT, it is important to develop procedures that would have complete coordination among all the tax departments.

Facilitating Cross Checking of Information

The most important component being risk management, the Sales Tax Department has to make use of the information collected through registration, submission of VAT return, claim for input credit, refunds and information flowing from income tax returns etc. This information used to classify dealers into small, medium and large categories. ‘Risk management’ is attempted for selecting dealers from different size groups to perform thorough audit of these dealers. In case of Assam, it is important to evolve procedures to undertake ‘risk management’ prior to introduction of VAT.

6.10.2 Human Aspects

The study has revealed a very vital issue for proper tax administration. A tax system can be theoretically sound but its implementation depends on its stakeholders. The human beings involved in the system must actively participate in true sense to facilitate the success of it. In this regard, an urgent necessity is felt for overall human resource engineering to bring about a change.
in the mind-set of people so that the State of Assam can successfully implement the proposed VAT system.

In designing the package for human resource development emphasis has been given on the issues as publicity campaign to make the people aware of the new system, development of human resources engaged in tax administration, interventions to make the administrators to cope up with the new system and some other relevant issues. The following sections deal with these issues in detail.

6.10.2.1 Publicity Drive

A system cannot be effective unless it is made known to its various components. For this purpose, a plan of action has to be carried out to clarify the intricacies of the system prior to its implementation in the State.

(a) Awareness Campaign

An important step in the introduction of VAT, however, is the need for all taxpayers to understand that VAT will be levied on the value-added only and not on the gross turnover. Such an understanding will not cause any resistance from taxpayers. This requires that the Government should vigorously campaign for the case of VAT. It should take the help of various national and regional Chambers of Commerce and Industry. The role of daily newspapers, TV, radio and other mass media is significant in the dissemination of knowledge to the users. There could be series of articles, question and answer sessions, feature stories and lectures discussing the need for adopting VAT. Various types of pamphlets on VAT could be printed and distributed through out the State.
(b) **Information Dissemination**

It is of paramount importance in Assam to concentrate on this area of activity to reduce problems that dealers face in interacting with the department. Availability of authentic information should be a matter of right for the dealers. Requisite publicity of their rights and duties with do's and don'ts and use of telephone and electronic means would help developing proper provisions for introducing VAT in India.

(c) **Consumers' Education about the Taxation System**

Consumers must be educated about their rights and they should be able to exercise their rights in proper manner. Once the consumers ensure their rights and perform their duties as responsible citizens, evasion of sales taxation can be checked to a substantial extent. A wide publicity campaign is extremely necessary to educate tax payers and consumers about the system for administering VAT. Countries such as Argentina, Korea and Mexico have spent adequate time and money on publicity campaign aimed at both taxpayers and consumers. Their experiences suggest that more educated and informed the tax payers and consumers, lesser the difficulty in implementing tax administration.

6.10.2.2 **Human Resource Development**

The prime pre-requisite of efficient tax administration is staffing requirements and training of personnel. In the great Indian epic *Mahabharata*, Acharya Drona passed on the secret use of *Brahmastra* (the ultimate weapon) to Arjuna, but he was reluctant to do the same to his son, Ashwatthama. He commented: ‘Arjuna has done necessary *tapasya* (devotion) and so he has the quality of mind which can control the *Brahmastra.’ “In most of the government projects that we implement, 20 per cent of the budget is for training. This is a critical element in change management”, says
Chandrasekhar, the former Secretary - Information Technology to the Government of Andhra Pradesh, and a man widely respected throughout the country for his efforts in the computerization of many activities of his State and for his understanding of E-governance. In sales tax administration in Assam, training of personnel needs prioritization. The staff who administer existing sales tax is not adequately trained. The training is all the more crucial when it comes to administering VAT. Hence, it is extremely important that the staff be trained adequately at all levels.

The officers of the Sales Tax Department are generally drawn from the State public services. It is, therefore, of paramount importance that those who are posted at the Sales Tax Department are imparted proper training in the beginning of their career. The State should think of having personnel well trained in taxation services to serve well. The training now given to the tax officers of the State is, by all standards, inadequate. The course is for too short a period and the vital components of economics or accountancy do not appear much in the course contents. It is important that the new recruits earmarked for the taxation services be given intensive training for a period of not less than six months. There should be regular refresher programmes for the tax administrators to make them up-to-date with the business scenario. The details of training programme and other change management tools have been discussed in § 6.10.2.3

Employees’ Development Programs may be initiated to make the employees goal-oriented, honest, motivated, team spirited, dedicated, more accountable and responsible. Creation of responsibility centers may be a wise step in this direction. A programme on Yoga and Mediation will be of much help to the administrators. Such programmes will infuse the sense of values and ethics which would, in turn, motivate them to discharge their duties with utmost honesty and integrity.
It is the quality of people, their value and skills that will dominate the e-
governance tools. If they are not properly selected and trained the whole 
exercise would prove to be futile. In this regard the Organizational 
Development (OD) interventions as practised in many organizations would be 
very much relevant to bring a radical change in the department to cope up with 
the change requirement for VAT administration.

6.10.2.3 Organizational Development (OD) Interventions

OD is a planned approach to improve employee and organizational 
effectiveness by conscious interventions in those processes and structures that 
have an immediate bearing on the human aspect of the organization. OD is a 
process for planned change. It aims at building internal competencies in 
individuals to higher levels of performance by individual, group, system and 
process-related competencies. It focuses on behavioural aspects, and uses of 
various behavioural tools. It has a specialized body of knowledge and, 
therefore, needs special attention to handle it. Its focus on people, processes, 
systems, structure etc. can extend from individual-based interventions to 
structural changes and system revamps.

The study reveals that there is a need for strategic change in the 
functioning of the Sales Tax Department. This can be effectively done by the 
application of various OD interventions. Some of these interventions which are 
very much relevant to this purpose are specified below:

1. Diagnostic Activities: This includes fact finding activities designed to 
ascertain the status of a problem, the way things are. The problems faced by the 
organization are identified through these activities.
2. **Team Building Activities**: Here, activities are designed to enhance the effective operation of teams such as formal work teams, temporary task force teams, newly constituted team, and cross functional teams. These activities focus on task issues, such as the way things are done, the skills and resources needed to accomplish tasks, the quality of relationship among the team members. It also tries to see how well the team gets its job done.

3. **Inter-group Activities**: Activities designed to improve the effectiveness of interdependent groups that must work together to accomplish the common output.

4. **Survey Feedback Activities**: Activities that rely on questionnaire survey to generate information that is then used to identify problems and opportunities. Groups analyze the data regarding their performance and design action plan to correct problems.

5. **Education and Training Activities**: Activities designed to improve individual’s skills, abilities and knowledge. These activities may be directed towards leadership issues, responsibilities, functions of group members, decision making, problem solving, goal setting, and so forth.

6. **Techno-structural Activities**: These are also called structural interventions. Here, broad class of interventions or change efforts aimed at improving organizational effectiveness are put into action through changes in tasks, structural, technological, and goal process in the organization.

   An effective mechanism is the formation of autonomous work groups that may be self-managing or self managed. It involves grouping of core tasks so that a team has a major unit of work out of the total work to be accomplished.
The concept of Management By Objectives (MBO) or Collaborative Management By Objectives (CMBO) can be introduced in the organization set up whereby individual member or the group as a whole can be taken into consideration in formulation of objectives.

In this regard, “Parallel Learning Structure’ can be of great use. It consists of a steering committee and a number of working groups that study what changes are needed in the organization. It also makes recommendations and monitors the resulting change efforts.

7. **Life and Career Planning:** Activities that enable the individuals to focus on their lives and career objectives and also how to go about achieving them. Structural activities include life and career inventories, discussing goals and objectives, assessing capabilities and areas of strength and deficiency.

All these interventions are very much relevant for bringing a radical change in the organizational culture of the Sales Tax Department. The study has identified some problems of compliance and administration of the statute. Effective OD interventions can identify the problem areas in the organization. It can promote team building and inter-group activities that are very much important for achieving the targets set for unit offices. Feedback are to be provided to the staff so that actions can be taken for betterment of activities. It is very much important to create the qualities of leadership, decision making and problem solving among the tax administrators.

Introduction of VAT in Assam requires a structural change in the organization set up. Team spirit among the administrators would be extremely needed in the transition period. The concept of self-managed team is to be incorporated. Moreover, the objectives are to be fixed in consultation with the employees adopting to the concept of MBO or CMBO. “Parallel Line Structure” as explained above can be effectively implemented in the organization. Moreover, the tax administrators should have a clear life and career planning so
that they can exercise their duties with diligence, honesty and integrity which is the need of the hour.

6.10.2.4 Other Measures

(a) Building a congenial relationship among stakeholders

A congenial relationship is necessary whereby the taxpayers are motivated to pay their dues and the administrators are encouraged to exercise their duties with diligence. The department should take necessary steps in simplifying the procedures to the maximum possible extent and to make arrangements for transparent relationship among the dealers and consumers. In this regard, the tax department should maintain a close relationship with the Chambers of Commerce, Trade Associations, Consumer Bodies etc.

(b) Creating a win-win situation

The structure and administration mechanism of sales taxation must result in creating a win-win situation among the stakeholders. The consumers are to be encouraged to pay taxes as well as administrators are to be motivated to exercise their best efforts to collect taxes.

For this purpose an incentive scheme may be introduced. The tax administrators may be provided with a certain percentage of the tax collected by them as an award. This incentive may be given on individual basis or on the basis of group posted in a unit office.

On the other hand, the consumers may be encouraged to ask for memo against their purchases. There are various ways to induce the customers to cultivate the habit of asking for authentic memo against their every purchase. One of the effective ways may be to arrange for a lottery by the Sales Tax Department on the basis of the cash memo numbers. This may be introduced
for a purchase over a threshold limit. This will not only induce the consumers to develop the habit of asking for memo but also the tax authorities to estimate the turnover of many items (e.g. sweetmeats) which cannot be otherwise accurately known.

6.11 Conclusion

The tax payers should be properly guided and brought closer to the administration for fearless compliance of their obligations and duties and also to make them aware about various provisions of law. Unless the tax administration machinery is efficient enough to perform its duties, tax evasion cannot be checked properly.

While sufficient lead-time is required to prepare for the introduction of VAT, it should be noted that the State of Assam has got good experience of administering a turnover tax and a first-point sales tax. The reform process to reduce the rate categories and computerizing the system of administration has already begun in Assam. The National Institute of Public Finance and Policy (NIPFP), New Delhi has already prepared a Model VAT Law for the implementation of VAT. The need is to have an overall organizational redesigning to make the tax administrators goal oriented, team spirited, motivated and value-based so as to exercise their duties with utmost honesty and integrity.
References:


4 Marshall David, The Use of Technology in the Administration of the Canadian Goods and Services Tax, paper presented at the Conference on Information Technology and Fiscal Compliance, Nov. 5-6, 1992 at Harvard University, Cambridge, Massachusetts, USA.


6 Yoingco, Angel and Milwida M. Guevara, (1980), Experience in Asia, Asian Pacific Tax and Investment Research Centre, Singapore


8 Purohit, Mahesh C (2001), Value Added Tax: Experiences in India and Other Countries, Gayatri Publications, Delhi-110052, op. cit.