SALES TAX

by

JAMSHED M. ANTIA

FORUM OF FREE ENTERPRISE
235, DR. DADABHAI NAOROJI ROAD, BOMBAY 1

SALES TAX

JAMSHED M. ANTIA

M.A. (Bom.), B.Sc., Econ. (Lond.), A.C.A. (Eng. & Wales)

DURING the last 20 years Sales Tax has become an important feature of India's Public Finances. The first Sales Tax took the form of a tax on the sale of motor spirit, which was imposed by the Central Provinces in 1937. Madras was the first Province to adopt the General Sales Tax in 1938. With the recognition of its potentialities as a revenue earner Sales Tax has been adopted by all the States. Indeed, today it has become the mainstay of State Finances, rivalling in importance even Land Revenue. In States such as Bombay its importance is greater than that of Land Revenue. It has also proved one of the most fruitful sources of revenue. Whereas in 1944 the total revenue of all States from Sales Tax was only Rs. 8 crores, today it is more than Rs. 80 crores, and is very nearly equal to the revenue from the Central Income-tax other than Corporation Tax. With rising money incomes the Sales Tax promises to rival in importance even the Income-tax.

THE NATURE OF SALES TAX

Sales Tax, as its name implies, is a tax on the sale of goods, and is assessed on the seller. It may take the form of a General Sales **Tax** imposed on the sale of all goods, or alternatively, it may take the form of Selective Sales Tax imposed on the sale of certain specified goods only. Selective Sales Tax in India is imposed on the sale of motor spirit, electricity, entertainment and transport. There are also General Sales Taxes which, in India, are imposed by the Centre as well as by the States on the sale of goods generally. One variant of the tax on a sale is the Purchase Tax. As the purchase and sale are two aspects of the same transaction it will be readily appreciated that the Purchase Tax is really a form of Sales Tax. There is, however, one difference. It is assessed on the purchaser instead of the seller. This tax is found in some States in India.

There are three main systems of Sales Tax, namely, the multi-point, the single-point and the double-point. When tax is levied on every sale regardless of whether the goods involved in each sale have borne tax on any previous occasion, the tax is known as the Multi-point Sales Tax. On the other hand, under the Single-point system of Sales Tax the tax is levied at only one point before the goods are finally sold to the consumer. This tax may be levied either on the first point of sale or the last. In some States the Single-point Sales Tax is levied both at the first point of sale and at the last point of sale. Such a system has come to be known as the Double-point system.

All the above systems with their variants are to be found in the States of India. Sometimes the Single-point system is applied in the case of certain specified goods, while the Multi-point system applies to all other transactions There is no uniformity in taxation of sales by the States. The Union, however, only levies the Multi-point Inter-state Sales **Tax** on sales in the course of Inter-state Trade.

In the discussion which follows, references to Sales Tax will refer not so much to any particular type of tax,

but rather to the totality of the various Sales Taxes, General and Selective, which are levied by the States of the Union. Our discussion will also cover the Central Sales Tax on Inter-state Trade.

CONSTITUTIONAL BACKGROUND

Let us review, very briefly, the history of the Sales Tax legislation against the Constitutional background, as it throws some light on the reasons for lack of uniformity in taxation of sales in India.

Under a Federal Constitution such as India's, there is a division of powers between the Centre and the States. All laws have, therefore, to be framed in accordance with the Constitution; otherwise they will be held invalid by the Courts. The Government of India Act, 1935, divided the sources of revenue between the Centre and the Provinces. Under that division Sales Tax was made a Provincial subject and the various Provincial Sales Taxes were levied under the authority of that Act. However, there were no clear cut principles for determining the location of a sale and various States claimed the right to tax the same transaction for a variety of reasons. As a result there was confusion and great diversity in Sales Tax laws accompanied by multiple taxation of the same transaction by different States. After Independence, the Constituent Assembly applied itself to the task of dividing the revenues between the Union and the States. The States were given the right to tax purchases and sales inside the State of goods other than newspapers or advertisements in newspapers. Further, by Article 286 of the Constitution, they were prohibited from levying Sales Tax on sales effected outside their territorial limits even when such sales were made by resident dealers. The Constitution also prohibited them from taxing sales in the course of import and export or in the course of Inter-state Trade. Accordingly, State

Sales Tax laws were modified to conform to the Constitutional requirements. However, there was an Explanation to Article 286 according to which a sale was deemed to take place in the State in which the goods were delivered. Under this, States claimed the right to tax non-resident dealers, and hence sales in the course of Inter-state Trade. The interpretation of this Explanation caused a great deal of difficulty. Ultimately the Supreme Court ruled that it was within the competence of the States to tax sales effected within the States by dealers resident outside the State. This Court ruling nullified the prohibition of taxation by States of sales in the course of Inter-state Trade. Later the Court reversed its stand. The whole question was reviewed by the Taxation Inquiry Commission and, following this inquiry, the Constitution was amended in 1956. This Amendment removed from Article 286 the Explanation which caused so much difficulty. The amended Article 286 prohibits States from taxing

(1) Sales outside the State.
(2) Sales in the course of import or export.
(3) Sales in the course of Inter-state Trade.

It also authorises Parliament to formulate principles for determining where a sale takes place in any of the three ways just mentioned. Further, Sales Tax on sales in the course of Inter-state Trade was made a Central subject.

The Constituent Assembly recognised that certain goods were essential to the life of the nation and that taxes on their sales should be Centrally regulated. It was, therefore, provided by the Constitution that no tax on the sale or purchase of any goods declared by Parliament by law to be essential to the life of the community should be imposed unless it had received the prior approval of the President. Accordingly, the Essential Goods Act, 1952, was passed and 15 commodities, including among others, cereals, coal, and raw cotton, were declared to be essential

goods. The aim of the Constituent Assembly was to introduce a certain degree of uniformity in the taxation of these goods and not to completely exempt them from taxation. The President however adopted the policy of freezing the existing tax structures which caused considerable discontent, and the opportunity was taken at the time of amending the Constitution to introduce a further provision to the effect that taxation of the sale or purchase of goods declared by Parliament by law to be of special importance in Inter-state Trade or Commerce would be subject to such restrictions and conditions in regard to the levy, rates and other incidents of taxes as Parliament may by law impose.

THE CENTRAL SALES TAX ACT, 1956

Following the Sixth Amendment, Parliament enacted the Central Sales Tax Act, 1956. Its object was threefold. Firstly, it formulated the principles for determining whether a sale took place in the course of Inter-state Trade, or whether it took place in the course of import or export, or inside a State. Secondly, it declared certain goods to be of special importance in Inter-state Trade and imposed restrictions and conditions which all State laws imposing taxes on these declared goods have to observe. Thirdly, it provided for the uniform levy, collection and distribution of taxes on the sale of goods in the course of Inter-state Trade.

1. *Principles for determining various types of Sales*

The Central Sales Tax Act has formulated the principles for determining various types of sales under the Act. A sale is defined as any transfer of property in goods from one person to another for cash or deferred payment or for any valuable consideration. Four types of sales are distinguished by the Act.

(a) ***Sale inside a State*** — A sale will be deemed to have taken place inside a State if at the time of the contract of sale the goods are within the State.

(b) ***Sale outside a State*** — Any sale which is inside any State will be deemed to be outside all other States.

(c) ***Sale in the course of Import or Export*** — A sale is regarded as being in the course of import or export if the property in the goods passes by transfer of documents while the goods are still beyond the frontiers of India, or if such sale or purchase occasions the export or import of goods.

(d) ***Sale in the course of Inter-state Trade*** — A sale will be deemed to be in the course of Inter-state Trade either when the contract of sale occasions the movement of goods from one State to another, or when the property in the goods passes by transfer of documents while the goods are in transit from one State to another.

2. *Goods declared to be of special importance in Inter-state Trade* :

The Central Act repealed the Essential Goods Act, 1952 and in its place declared certain goods to be of special importance in Inter-state Trade. The States are prohibited from taxing sales of these declared goods at rates higher than 2%, nor may they levy such tax except at the last stage. But if the goods enter into Inter-state Trade the States will not be permitted to levy this tax even at the last stage.

3. *Uniform levy of Sales Tax on sales in the course of Inter-state Trade* :

The Central Sales Tax is a Multi-point Sales Tax and every dealer who sells goods in the course of Inter-state

Trade is chargeable to it. All dealers are required to register themselves in whichever State their liability to Central Sales Tax arises. There is no exemption limit related to turnover. The tax is levied by the Centre but the collection and administration of the tax is entrusted to the appropriate State Governments. It is, therefore, interesting to ascertain the meaning of "appropriate State". In relation to any sale the "appropriate State" under the Act will be either the State from which goods are despatched or the State in which the sale is effected by delivery of documents.

STRUCTURE OF SALES TAX RATES

(a) ***Rates of Sales Tax on sales in the course of Inter-state Trade*** :

The effect of the several provisions of the Central Act as regards rates of tax on Inter-state sales is as follows :

(1) In the case of declared goods intended for resale Central Sales Tax is chargeable at 1%. Where, however, such goods, sold in the course of Inter-state Trade, are intended for manufacture of other goods, they will not be liable to any **tax.**

(2) Where a registered dealer sells to another registered dealer in the course of Inter-state Trade, Sales Tax is chargeable at 1% of the price, provided the purchasing dealer obtains from the selling dealer a declaration in Form "C" to the effect that the goods are either intended for resale or for use in the manufacture of goods for sale or for use by him in the execution of any contract and that such goods are included in his certificate of registration. Where, however, such goods are either exempt or **are** chargeable

at rates lower than 1% in the appropriate State, the Tax will be either nil or at the lower rate prevailing in that State.

(3) Where a registered dealer sells in the course of Inter-state Trade or Commerce goods to an unregistered dealer or to a consumer, the sale will be treated as though it had taken place inside the State and will be taxed at the General Sales Tax rate in the despatching State.

(b) ***Sales Tax on sdes inside the State*** :

Intra-state sales are subject to varying rates ranging from less than 1% to 30%. These differ from State to State.

THE BURDEN OF SALES TAX:

On whom does the burden of Sales Tax fall? Whatever be the initial impact of this tax, it is ultimately borne either by the consumer or the manufacturer or by the trader. The proportion in which it is borne depends upon the relative bargaining power of the consumer and the manufacturer. Sales Tax can be passed on fully to the consumer only where the consumer's demand is totally dnaflected by price changes. Where higher prices lead consumers to purchase smaller quantities of goods only a part of the Sales Tax can be passed on, as any attempt to pass it on fully would result in stocks being left unsold. The profit margins of the manufacturers and dealers will, therefore, be squeezed to some extent depending upon the relative bargaining position of the consumer *vis* a *vis* the dealer and the manufacturer. However, in conditions of short supply most of the burden of tax will be passed to the consumer.

No comprehensive statistics of the burden of the tax on manufacturers are available. However, figures published by the Millowners' Association suggest that profit margins of the cotton mills have been squeezed to some extent, and this probably holds good for other industries as well.

Let us now consider statistics of the distribution of this tax, between the States, between social groups and on the consumers. The burden per head for all-India population works out to nearly Rs. 2.2. But the Finance Commission's report shows that this burden is heavier, per head, in Industrial States than in Agricultural States. Thus Bombay and West Bengal are the most heavily taxed States, while Rajasthan has the lowest tax burden per head. Further, the tax weighs more heavily on town population than on rural population. Thus, out of the total Sales Tax revenue of Rs. 32 crores in Bombay, more than half came from Bombay city and Ahmedabad.

The Taxation Inquiry Commission worked out the burden on the consumer with an income below Rs. 300 p.m., and came to the conclusion that the burden was 1% and that it was proportional to income. Following the same basis I have re-worked the burden of the Sales Tax in Bombay City taking into account the present rates of Sales Tax in Bombay and including Selective Sales Taxes. The analysis reveals that the present burden is approximately 4% of the income. However, when this Sales Tax burden is compared with the Income-tax burden, the analysis takes on new significance. Thus all unmarried individuals having incomes between Rs. 300/- to Rs. 400/- per month would actually pay twice as much by way of Sales Tax as they would by way of Income-tax, and individuals having incomes between Rs. 400/- per month and Rs. 650/- per month would pay more by way of Sales Tax than by way of Income-tax. It is only at an income level of about Rs. 700/- that the burden of Sales Tax and Income-tax become equal. But these comparisons refer to unmarried individuals. In the case of married individuals having two children the burden of Sales Tax is actually greater than that of Income-tax on all such individuals having incomes below Rs. 900/- per month.

How can there be integration in taxation when all the efforts of the Centre to give reliefs based on equitable principles are undonk by State Governments with their regressive taxes?

Table illustrating the relative burden of Sales Tax and Income-tax in Bombay City

Income Monthly	Monthly Estimated Sales Tax if the Monthly Income is spent	Monthly Estimated Income-tax	
		Married individual with 2 children	Unmarried individual
	Rs.	Rs.	Rs.
Rs. 300/-	12.01	nil	6.50
Rs. 400/-	17.99	3.00	9.50
Rs. 500/-	22.11	8.50	15.00
Rs. 600/-	27.76	14.50	21.00
Rs. 700/-	33.20	23.89	30.71
Rs. 800/-	39.95	33.34	40.16
Rs. 900/-	45.26	44.18	49.01

EFFECTS OF SALES TAX ON THE INDIAN ECONOMY

(a) *Effects on Trade* :

Under the powers given by the Government of India Act, 1935, and by the Constitution, the States started levying Sales Tax solely to raise revenues to cover their deficits arising from Prohibition and from their Development Schemes. There was no all-India co-ordination, and the various States experimented with and imposed taxes based on various formulae. As the rates and systems of Sales

Tax differed, the incentives to sell goods in different parts of the Union were distorted. As sales outside the State in which the selling dealer was registered could not be taxed by the dealer's State, trade was diverted to those States which had the lower Sales Tax. Indeed, so pronounced was this diversion that States found it profitable to tax non-resident dealers selling goods within the State. This diversion of trade was more pronounced amongst adjacent States than among those more distant, as higher transport charges sometimes wiped out the tax advantage.

In States like Madras, having multi-point taxes at high rates, the competitive position of the Madras dealers was destroyed by the cumulative effects of the multi-point tax. The economic adjustment took the form of elimination of certain middle channels of distribution and manufacturers set up their own purchasing and distributing organizations.

But the most serious aspect of these diversities in rates was felt by the nation as a whole. Differences in Inter-state Sales Tax rates act like tariff barriers and hamper the growth of trade. This has serious consequences for the economy. If trade does not expand, each State will aim at self-sufficiency and specialization will not be encouraged. Inability to specialise will result in inefficient small scale methods of production as the market for each product will be limited by the State boundaries. Production will, therefore, decline. The Inter-state difference in Sales Tax rates will thus reduce the level of production, the level of employment and of national income. The standard of living will be lower than if trade was allowed to flourish unhampered by differences in Sales Tax rates.

The tremendous distortion of channels of distribution which these complex and varied taxes produced underlined heavily the need for the introduction of uniformity and all-India co-ordination. But as sectarian interests predominated, nothing much was achieved. Ultimately Parliament had to pass the Essential Goods Act, 1952, regulating the taxation of goods which were essential to the life of the nation, but its administration only resulted in freezing the rate differentials. These have been sought to be removed by the Central Sales Tax Act. Furthermore, recently certain goods have been removed from the list of goods subject to State Sales Tax and have been made subject to Central Excise Duties. These have gone some way towards introducing uniformity and order into the scheme of Sales Tax but they have not eliminated rate differentials.

The Central Sales Tax Act provides for uniform levy of Sales Tax on transactions in the course of Inter-state Trade. But the uniformiy of rates is more apparent than real, for the rates differ according to the Sales Tax status of the dealers and upon the declaration forms obtained. So ,the Central Sales Tax Act cannot be said to have completely eliminated rate differences which act as barriers to Inter-state Commerce. Indeed, other barriers to trade have been raised as a result of the reaction of the States to the Central Act. Thus, in Bombay, dealers are now unable to purchase goods free of General Sales Tax unless they intend to re-sell these in the State of Bombay. It is true that Sales Tax paid on purchases is refunded or set-off in the final assessment, but full set-off is only obtained if goods are sold in Bombay or in the course of Inter-state Trade. There is also a reduced refund in the case of consignment stock transfers outside Bombay, the net effect of which is to leave the dealer bearing a charge of 1% of the purchase price paid by him. As 1% tax on the selling price is normally higher than 1% on the purchase price dealers have an inducement to sell outside Bombay on consignment basis and, therefore, Inter-state Trade, as visualised by the Central Act, will decline. The Bombay Set-off Rules represent double and unwarranted taxation of Inter-state Trade and Commerce.

(b) *Effects on Agriculture* :

Agriculture has been favoured by the Sales Tax legislation. Widespread exemptions on the grounds of essentiality, smallness of turnover, lack of money consideration and the desire to avoid rises in food prices have left agriculture comparatively unaffected except in Multi-point States like Madras. However, agricultural producers have not really suffered as the tax has been passed to the consumer.

(c) *Effects on Small-Scale and Cottage Industries* :

With a view to encouraging the growth of small-scale and cottage industries, many Governments have exempted the sale of their products from Sales Tax, and the effect on these industries has been to give them a relative and substantial advantage over machine-made goods competing with them.

(d) *Effects on Industry* :

Let us now consider the effects on costs in industry. Where the distribution channels for supplies of industrial raw materials have been long, raw material costs have been increased by as much as 10% in States imposing Multi-point Taxes. Some industries have, therefore, reacted by undertaking all the processes from the purchase of raw materials to the sale of the finished product. This has meant that industries supplying these firms have suffered a set-back. Moreover, some industrial States have levied taxes based on purchase of goods *used* in any manufacture in the State (Bihar). As a cumulative result of these taxes entering into the cost of production the cost structures have been indeed distorted and made very rigid.

But raw materials are not the only items entering into cost. There are also Selective Taxes on electricity and on motor spirit. The tax on electricity is most unfortunate. It increases .industrial costs. It is a tax on power to drive the industrial machine. It is, therefore, a tax on industrialization and keeps down the standard of living of the common man by denying him the fruits of technological progress. It is a tax on health and on mechanization. Similarly, the tax on motor spirit and on certain industrial oils is most undesirable as these fuels are the spear-heads of modern technological progress. It means the continuance of outmoded and obsolete methods of production and represents a drag on development of road transport. When you consider that more than two-thirds of all motor spirit is used for industrial purposes the seriousness of the effects on industrial costs can hardly be underestimated.

Another aspect of increases in industrial costs deserves more than a passing mention. We all work so that we may enjoy the fruits of our labours and we all have a certain scale of preference between leisure and work. We all want a fair wage for a fair day's work. That is our birthright, and when it is denied to us we naturally fight for it. And so industrial labour, when it finds its standard of living reduced by Sales Taxes demands higher wages and we have a series of industrial disputes, which end in wage increases. As labour spends its increased wages, prices and the cost of living go up. This results in new demands for higher wages. Thus Sales Tax on commodities which enter into the cost of living of industrial labour may touch off a wage-price inflationary spiral. In India, some States like Andhra and Madras have not appreciated the effects on industrial costs of Sales Tax and have imposed Sales Tax on items consumed by labour. Thus we find States taxing food products, clothing, etc., with a total disregard for the inflationary effects of their taxes. The Government has often talked of hanging on grimly to the hard core of the Plan. Has it occurred to them how difficult they are making it for themselves by raising industrial costs? How can targets under the Plan be achieved if money costs

and money incomes keep on rising without a corresponding increase in productivity?

(e) *Effects on* ***Exports*** :

Sales in the course of export are free from State Sales Taxes. But the definition of such a sale under the Central Act only makes the final sale, resulting in the actual export, free of tax. All sales prior to the final sale may be taxed. It is, therefore, probable that our competitive position in export markets has been undermined to some extent. At a time of foreign exchange shortage, such as we are experiencing today, it would be desirable to refund all Sales Tax borne by exports at any stage. Other countries like U.K. experiencing foreign exchange difficulties give full remission of their Purchase Tax with a view to promoting exports. Apart from keeping our prices competitive, such a remission would make the export markets more attractive to manufacturers than the home market, and the country would benefit from higher foreign exchange earnings.

ADMINISTRATION OF SALES TAX

The burden of administration of Sales Tax falls on the State Governments. Even in the case of the Central Sales Tax, although it is levied by the Centre, its collection is entrusted to the appropriate State Governments who collect the Central Sales Tax on behalf of the Union.

The machinery of assessment, collection and appeals has generally followed the lines of the Income-tax administration. How efficient is the Sales Tax administration? Considerable dissatisfaction with the administration of Sales Tax has been expressed amongst the business community. As the administration of the Act affects the interests of the community in general and of the dealers in particular, the dealers' complaints deserve close examination. Dealers have generally complained of the departmental delays arising from the cumbersome machinery of registration, licensing, assessment and appeal. It appears that this machinery has been built up against the background of suspicion with which the Sales Tax Authorities approach the inspection of the dealers' accounts. This suspicion results in the accounts being verified first by the Inspectors and then by the Sales Tax Officers themselves. Where accounts audited by Chartered Accountants are submitted, there should be no need for this long-winded double verification, but for some unknown reason Sales Tax consultants are not popular. Why should this be so? Do Sales Tax Inspectors know more about accounts than Chartered Accountants? Or are Chartered Accountants less skilled in detecting frauds?

It is also common complaint that Sales Tax Officers follow very closely departmental instructions and have no initiative. It would be advantageous if the Sales Tax Officers made more and proper use of the discretionary powers vested in them. Failure to exercise them and adherence too closely to procedure and departmental instructions have been the causes of unnecessary hardship to dealers who have been thus subjected to penalties even for inadvertent procedural omissions. Particularly unfortunate is the practice of imposing penalties when the recitals in the declaration form are not complied with due to unforeseen circumstances.

The machinery of appeals has been instituted by the legislature to ensure that the assessee receives a fair deal. But it has been noticed that the Department is not very efficient or expeditious in the disposing of appeals. To keep the appeals pending is tantamount to denial of justice. As a great jurist has said, "Justice delayed is justice denied."

It has also been alleged that the Administration is corrupt. I believe that our Sales Tax Administrators are men of integrity, but as there is no smoke without fire, the charges of corruption deserve to be investigated. Even the Taxation Inquiry Commission was not prepared to

discount wholly these charges. It would appear that conditions in the Sales Tax Department do provide scope for corruption. The complicated rules and laws, the secrecy attached to departmental instructions and the elastic interpretation put on various terms leave room for questionable practices. Furthermore, the inspection of accounts is entrusted to the subordinate staff who are more likely to be amenable to material inducements. The departmental salaries also do not appear to bear a proper relation to the responsibilities shouldered by the officers.

SUGGESTIONS FOR IMPROVEMENT

In conclusion, it may fairly be said that Sales Tax as it has been operated in the country has retarded the pace of urbanization, has put a heavy burden on manufacturers and consumers, has seriously distorted the cost structures, has reduced the volume of trade and thereby the level of national income and employment. Last but not least it has stifled free enterprise, caused great hardship to the trading community, resulted in unwarranted interference with the rights of individuals through the inordinate growth of delegated legislation, has done incalculable harm to the small dealer and has denied justice and fair treatment to the man in the street.

The recognition of some of the damage wrought by the Sales Tax laws has resulted in efforts to rationalise the Sales Tax laws. In the main, efforts have been directed in five directions. Firstly, schemes are being devised for introducing uniformity in taxation within each State. The Bombay Sales Tax Inquiry Committee is at present applying itself to that task. Secondly, tariff barriers on goods which are of special importance in Inter-state Commerce are sought to be eliminated *vide* Section 15 of the Central Sales Tax Act, **1956.** Thirdly, a measure of uniformity has been sought to be introduced in the taxation of Inter-state sales. Fourthly, certain goods which were subject to Sales Tax have now been made subject to Central Excise. Lastly, Mr. B. R. Bhagat, the Union Deputy Finance Minister, announced in Parliament that efforts were being made to persuade State Governments to impose taxes at uniform rates on certain less essential goods sold inside the State.

However, all suggestions for reform of the Sales Tax system seem to proceed on the assumption that it is essential to provide the States with a source of revenue. This assumption has wrought more mischief than any other factor. Unfortunately, our legislators and administrators have not been able to disabuse their minds of the conception that the purpose of taxation is to raise revenue and that the States must raise their own revenues. But the purpose of taxation is not merely to raise revenue for the State. Taxation is today used to promote public policy and to control the tempo of economic activity. The needs of the National Economy must dictate fiscal policy in regard to all taxes. The aim of an integrated tax structure would be defeated if the States of the Union followed divergent policies. Accordingly, it is my recommendation that

(1) sales tax should be made a Central subject by an amendment of the Constitution;

(2) the tax structure should be simplified so that the man in the street and the trading community may be able to understand their obligations. It should minimise hardships and spread the burden of the tax equitably on all sections of the community;

(3) the tax should be levied uniformly all over India. This will eliminate the necessity for a separate Inter-state Sales Tax, at the same time reducing considerably the hardships arising from the existence of different systems and the paper work associated with them;

(4) the tax should be a single-point tax levied on the dealers only at the last point of sale to the consumers. This will enable the level of consumption in the economy to be controlled effectively and democratically by changes in Sales Tax rates;

(5) the rates of tax should be governed by the needs of the economy but there should be no differences in rates in different parts of the country. Necessaries of life and exports should be totally exempt from tax and rates of tax on luxuries should be higher than those on semi-luxuries to make the tax progressive.

(6) the States should be compensated for loss of revenue by grants in accordance with formulae which can be worked out by the Finance Commission.

To make the Administration more efficient, I recommend that the salaries of Sales Tax Officers should be increased to make them more consistent with the wide powers wielded by these officers.. Revision of salaries may be expected to eliminate any possible temptations to stray from the path of strict integrity. But revision of salaries will not by itself be sufficient. It is also essential that the Department and its Officers should be re-educated in their responsibilities. Further, Sales Tax Officers should be thoroughly trained and should be made to approach the assessee with an open mind. I also most strongly urge that the Department should insist on accounts and sales breakdowns being audited by Chartered Accountants. In this connection I point to the practice adopted by the Income-tax Department. Thirdly, the machinery of Administration should be streamlined so as to eliminate departmental delays. The appointment of a Public Relations Officer may help in this direction.

If the above improvements in the Sales Tax are undertaken, they will place in the hands of the Government a most ,powerful weapon for controlling the economy in a democratic manner. Through the medium of Sales Tax the Government will be able to control the direction of resources without stifling private enterprise. It will mean more popularity for the Government, lower burdens on the consumer, and greater flexibility in the economy resulting in higher living standards and more production. It will create a climate of confidence in which free enterprise will be able to play a major role in promoting the welfare of the nation and will bring nearer the day when India's dream of an integrated tax structure will become a reality.

The full text of a public lecture delivered in Bombay on Monday, the 14th of April 1958, under the auspices of the Forum of Free Enterprise in its series of talks on The New Pattern of,Taxation.

HAVE YOU JOINED THE FORUM?

Annual Membership Fee is Rs. 10/-

Western Printers & Publishers,
13/23 Hamam Street, Bombay-1.

11/6/58

66