

The Multi-Point Sales Tax in Bihar

THE multi-point sales tax, introduction of which into the tax structure of the State has been agreed to by the Bihar Legislature at its last session and credit for which was taken in the Budget proposals for 1958-59, may be regarded as a belated attempt to follow up some of the recommendations of the Taxation Enquiry Commission with regard to this very important, albeit controversial, source of State revenue. Though not among the earliest States in the country to introduce it, Bihar has had for the last 15 years the General Sales Tax, having imposed it first in 1944. Since then the Sales Tax has been growing in importance. In 1944-45 it contributed Rs 15.36 lakhs to the State exchequer out of a total revenue receipt of Rs 1275 crores. In 1954-55 the Sales Tax yielded over Rs 3.52 crores out of a total of Rs 35.99 crores of current revenues of the State Government, i e, nearly 10 per cent, compared to less than 1.5 per cent in 1944-45. In the last three years receipts from Sales Tax have varied between Rs 4 and Rs 5 crores. The 1958-59 Budget estimated a receipt of Rs 5.16 crores from this source. Receipts from the Sales Tax, thus stand second in importance now only to Land Revenue. Before Zamindari abolition Land Revenue hardly reached the present levels of Sales Tax receipts.

The growing importance of the Sales Tax as a form of State taxation is a phenomenon witnessed not only in Bihar but throughout the country. As the Taxation Enquiry Commission reviewed it, while the Sales Taxes have come to stay permanently in the tax structure of the States, they have not ceased to cause worry in, and occasion complaints from trade and business circles. The complaints are partly due to the variations in the form and the rates of the tax. Bihar started in 1944-45 with the Single Point Last Stage Sales Tax and has continued with it since then with variations in rates from time to time. The tax was administered through the registered dealers, extending to dealers outside the State, for collecting taxes from whom the Bihar Government have been running offices at important exporting

centres within the country like Calcutta and Bombay.

To Supplement Single Point

As is well-known the Single Point Sales Tax cannot effectively tap all sales, particularly those made by small unregistered dealers. It involves maintenance of dual accounts by traders who are partly direct retailers and partly distributors, and it offers to them opportunities of evasion. The Multi-Point Sales Tax is conceptually simpler and should therefore be easier to operate because the thorny question of exemptions for transactions with registered dealers does not arise in their case at all. With suitable rates they should also prove to be productive from the revenue standpoint. But the Multi-Point Sales Tax has been recommended by the Taxation Enquiry Commission not as a substitute for the Single Point Tax but as a supplement to it, because, according to the Commission, a Multi-Point Tax at a low rate would not succeed in bringing in the revenue that the normal Single Point tax at a high rate collects. The Commission was decidedly against the imposition of a Multi-Point Sales Tax at a high rate for two reasons. Firstly, the incidence tends to be a little too heavy and secondly, because of the effect on price, there is a tendency towards the elimination of some of the processes or stages in trade. The retailer, thus, stands handicapped; the smaller the retailer, the lower the marginal value of his distributive services, and the greater, therefore, the ease with which he can be substituted by an extension of the functions of the wholesaler. The Bihar Bill is supposed to be based upon the recommendation of the Taxation Enquiry Commission for a low rate of Multi-Point taxation and imposes a tax of $\frac{1}{2}$ per cent on all sales.

It is a characteristic of the Single Point Sales Tax that because of the dual nature of the accounts that the average trader has to maintain in his capacity as a part wholesaler and part retailer, the administrative limits of the Sales Tax Collector are set by the willingness and capacity of the dealer to maintain proper accounts. Very small dealers, thus, are ordinarily exempted

from the Single Point Sales Tax. The Multi-Point Tax Bill reduces the exemption limit to Rs 5,000. This will rope in a large number of very small traders who hitherto were outside the net of the Sales Tax inspector. Theoretically they were subjected to payment of the tax when they purchased their supplies from the wholesaler because, not being registered dealers, they were not privileged to secure exemption for their supplies as dealers. But they were saved from the harassment and exploitation which all dealers associate with sales tax administration. Sales Tax administration in Bihar has earned quite a notoriety both for its alleged inadequacy in roping in enough revenue as also for the vexation that it is supposed to cause to the average dealer. As a measure of administrative inefficiency, speakers in the Legislature in course of discussions on the Bill referred to the alleged arrears of Rs 6 crores in Sales Tax realisations since 1952.

Protecting the Small Trader

To the extent that the administration fails to secure adequate revenue, the trading community should enjoy a certain relief. The general impression, however, is that while the total money burden on the trading community is heavy enough, not all of it finds its way to the State exchequer. The difference, whose quantitative assessment at any rate is a difficult job, may be said to represent the degree of corruption prevailing in the department. The leakage of public revenue, naturally, is thought to be larger than the pecuniary measure of corruption because the trader would certainly withhold more from the public coffers than what he would willingly offer to grease the palm that collects the tax. The feeling, thus, is that with a more efficient and dependable administration, even the pre-existing Single Point Tax was capable of securing higher revenues.

The taxable turnover under the new scheme begins at Rs 5,000 annually. The Deputy Finance Minister assured the Legislature that to prevent harassment to small traders, the Government would com-

pound their tax liability to Rs 25 per annum for those whose turnover ranged between Rs 5,000 and Rs 7,000 and to Rs 35 for those whose annual turnover ranged between Rs 7,001 and 10,000. While this is a fair offer so far as the Government is concerned, critics point out that the opportunity for harassment of small dealers at the hands of petty officials would still remain in the very assessment of the turnover and in the vompounding of the tax liability. Considering the scale on which tax-evasion is practised in the country, the Sales Tax officials, however, cannot in all conscience be unilaterally deprived of their summary powers of assessment.

The 1958-59 Budget proposals had taken credit for Rs 1 crore from the introduction of the multi-point levy.

Opposition Fears

Almost all the opposition parties, understandably, have seized this handy opportunity of belabouring Government on grounds of apprehended exploitation of the small trader. The Government may be partially right in arguing that the beneficiaries of such opposition against the low exemption, were it to Succeed, would be not only the small trader, but the big trader also, who, though subject to the Single-Tax liability at present, finds some avenues of escape from such liability by the last stage character of the pre-existing tax. By subjecting all sales, whether to a consumer or to another trader, to the Multi-Point Tax, the new measure would doubtless help close the nets of the honest and efficient tax-collector more securely round the trader.

In view of the support of the Taxation Enquiry Commission to a multi-point cum single-point sales tax structure in the interest of higher revenue, the Government are on strong grounds. It may be noted that the preamble to the Bill amending the Bihar Sales Tax Act speaks specifically of giving effect to the recommendations of the Taxation Enquiry Commission.

Opposition members were on surer grounds when they charged the Government of failing to provide, in the amending Bill, for a Tribunal as recommended by the Commission. The Deputy Finance Minister, however, announced that Government

had decided to set up a Sales Tax Advisory Council according to the advice of the Commission.

About inter-State trade the Bill's preamble spoke of its being governed by the provisions of the Central law relating to goods declared to be of special importance by the Union Government under the relevant Central law.

Bihar's young and energetic Deputy Finance Minister, Shri Ambika Saran Singh, who is usually regarded as bearing the principal burden of administrative details in finance ever since the passing away of Dr Anugrah Narain Sinha, went some time back on a fact finding tour of the major States like Madras and Bombay to study, in particular, the operation of the Sales Tax laws. The Finance port-

folio is now held Minister himself, very ably assisted by Shri Ambika Saran Singh. It would surely be interesting to watch this able and energetic junior minister implement this major reform in the financial structure of Bihar State. It is said that all the provisions of the amendment will not be implemented in toto immediately or simultaneously.

Tailpiece

News Item: Patna January 29, 1959; Mr Ambika Saran Singh, Deputy Minister for Finance, Government of Bihar appealed to the businessmen today that money coming from poor mens' purse by way of sales tax should not be converted into their capital."

— S K Bose