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## “A less harassing, more honest tax collection system coming; here's how - Commerce in India and Indirect Taxes”

##  by S L RAO

 Indian trade and commerce now penetrate both urban and rural India. Sixty years ago there were no national marketers who covered much of rural India. Sales were mostly in urban areas. Today rural markets contribute significant proportions to sales of many products and especially fast moving consumer products.

 Sixty years ago as a management trainee in Hindustan Lever, I worked as a salesman in urban and rural areas. My connections with rural and urban markets continued for many yearsd during my corporate career.

Until the 1960’s shipments were made in wood boxes, heavy and cumbersome to handle and open. Rail was the primary transportation. Lorries did not usually go to many small towns and villages. There were few rural roads and so no lorry routes to them. The wholesaler who bought the goods had to take delivery at the nearby railhead and carry the goods back by bullock cart or other available means. Lever innovated the use of strong cardboard boxes to lighten the delivery. Cardboard boxes are since the 1960’s almost universally the packing for most products. There were few bank accounts in rural India and few bank branches even in small towns. Lever gave such traders from non-banked locations, a “bank negotiation allowance” to travel to the nearest bank where the goods could be collected at the lorry depot after clearing the documents at the bank branch.

 Sales and marketing people had to know the complex procedures and rates of indirect taxes in India. These might be levied by local authorities, state governments and the Centre as excise duties, and customs duties on imports. Central duties were included in the price at which goods were invoiced by the manufacturer.

 Central excise duties varied between products, and the size of the manufacturing unit. Alcohol based products and petrol attracted both central and state excise. In some cases of products with liquid content, claims of “evaporation loss” enabled less payment than due on the manufactured quantity.

 When the goods left the factory they had to cross state government borders. Many trucks did not have inter state transit licenses and had to pay levies at each state border. In addition each state levied sales taxes at varying rates on different products. The lorry had to stop at the state borders and what was brought into the state had to be certified. If only a portion was to be sold in the state, what was to go onward to other stateswass also certified.

The levy of sales tax could be at the first point of sale, at the final point, or at multi points, or at each point of sale till the consumer. The tax at the first point was least remunerative to the state, while at the last point, with taxes being levied at each point of sale, there were better revenues. However the administration of multi point taxes is complex, harasses the seller and the buyer, and is open to manipulation. Leakages reduce the revenues collected.

In addition, many local bodies and municipalities levy a local body tax (or octro) on goods entering their territory. This is a cumbersome levy. The tax is collected at the point of entry and results in the carrier having to halt with the goods until the matter is settled. It is subject to massive corruption. Many authorities have abolished I but with repeated resumption. Vested interests would not sacrifice thir illegal earnings out of such levies. Further, octroi can be a significant source of revenue for local authorities who have few tax options to raise revenues. Property registration tax, motor vehicle tax, professional tax, are small earners and not buoyant unlike octroi. Maharashtra has retained it as an entry tax, with similar peoblems as octroi.

 Thus any products before reaching the point of consumption, have paid import duty and central excise duty before they leave the factory, included in the invoiced price. If the sales tax levy is at the first point, the process is simpler since only manufacturing or importing establishments are involved. The other points of levy create complications by requiring inspection of thousands of books of accounts of traders. It is rampant with harassment and considerable corruption.

The federal nature of IOndia gives states and local authorities in the state the power to levy taxes on sales in their territories. State governments have limited tax powers. States do get a share opf the direct taxes collected by the Centre, as determined every five years by the Finance Commisison. But the Centre at times avoids this sharing by levying special cesses that it does not have to share with the states.

When each state government levyes its own rate of tax, end product prices vary a great deal between different states. There could also be ‘smuggling’ across borders of low tax states to high tax states. Sales tax has made India an agglomeration of markets and not a single common market for the whole nation. That makes national marketing difficult and discriminates between prices paid at different places.

 In 1970 when I led the launch of Chiclets chewing fum in India, I identified the target consumers as children aged between 4 and 16. They would not be usually able to pay except in round coins. We fixed on 10 and 50 paisa for packets of 2 and 10 tablets. They were single coins and more likely to be given to a pestering child by a parent. To achieve this object we classified states and markets into five categories of sales tax rates and varied our invoicr price to enable the end price in these markets after taxes to be 10 and 50 paisa while enabling a comfortable trade margin of 16 to 18%. Our strategy was successful. If we had variable end pricesrelated to sales tax rates, and no single coin for each pack, it would have been much less so. Most manufactured consumer products today have a single end price all over India.

The rationale for a single goods and services tax over the country is threefold: to minimize “tax terrorism” by sales tax officials; minimize evasion and corruption; and to simplify doing business. However this does diminish the federal structure of the country. State government will no longer have the flexibility to vary sales tax rates according to their revenue needs. Other state governments in the GST Council must concur to a rate change.

The XIV Finance Commission has encouraged federalism by merging grants for many central schemes into the tax share of states so that they can decide to spend as they wish and not per the diktats of the central government. A single nationwide goods and services tax would also reduce harassment of tax payers, make collection easier, and almost certainly boost tax revenues as evasion and corruption get reduced. There will be glitches and disagreements but the proposed Council can smoothen them.

When the gst becomes operational we will be marketing goods and services in an India where light weight packing is in extensive use, widespread rural road network, an extensive lorry network, direct roads to many villages, bank branches and post office payment banks in many towns and villages, and a less harassing and more honest indirect tax collection system.

It has taken time but we are peiveleged to witness the change.

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