‘COMMENTARAO’ IN “THE TELEGRAPH” OF August 31 2016 :

“A Salesman’s experience with local taxes” by S L Rao

Now that the Constituional amendment enabling the goods and services tax has been passed by Parliament, government expects to have the legislation in place by April 2071. This assumes resolution of other issues like passing it in state legislatures, setting up the General Tax Council, defining its powers, deciding tax on petrol and alcohol, division between states and Centre, etc. GST replaces central and state indirect taxes and is intended to be revenue neutral. It is a value added tax and so there is need for a comprehensive information system with information technology about thousands of tax payers.

But it will signidficantly improve the ease of doing business, make India into a true common market with the same price for the same product all over India, and should reduce “tax terrorism”, that is, harassment by tax officials.

 During my corporate career from 1957 to 1985, I was responsible for marketing many consumer and other products over india. One had to know the complex procedures and tax rates of indirect taxes in India, levied by local authorities, state governments and the Centre. Imported goods were charged customs duties on entry and were not an issue since they were included in the price charged by the manufacturer or importer.

 Most manufactured goods bore central excise duties that had to be paid before the goods left the factory. These varied between products, and the size of the manufacturing unit. Central and state governments could both levy excise duties on petrol and alcohol. They are not difficult to calculate. There could be evasion especiallyby alcohol based products or others in which the there was liquid content, by claims of “evaporation loss”. This may not be possible when it is included in GST.

 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 ihad to be certified. If only a portion was to be sold in the state, what was going onward to other states was also certified. One expects that only trucks with interstate permits will be allowed to carry goods across state borders.

 In the fifties when I started my Marketing and sales career, there was a very small network of rural roads. There were few lorry routes. There were no nationally marketed products that had significant rural or even small town consumption. Most sales were to urban arteas.

Goods were packed in heavy wood boxes. A trader in a small town or village who wanted to stock such products had to go to the nearest large town and buy from the local wholesaler. If he had a fairly large order, he might place it on the manufacturer. But the goods would only be delivered at the nearest town with a railway station. He had to collect the goods and take them to his location. There were few bank branches. In Lever where I worked then, we gave such traders from non-banked locations, a “bank negtiastion allowance” to go and clear the documents and collect the goods.

The world changed over the years. Strong card board boxes replaced wood boxes as paking. The rural road netwoek wexpanded and many villages had lorries delivering to them. Lorries and road transport replaced many shipments that would have earlier gopne bny rail. Bank branches increased. Today the rural roads programme is an important part of government policies. Crores of rural Indians now have bank accounts. Post offices are to become bamnkl branches for payments. The GST will use this new infrastructure to supply goods into remotest parts of India.

Sales tax could be levied at different points: at the first point of sale; or at the final point; or at multi points in which the product is traded; or as value added tax (VAT) when only the value added at each [pomt pf sale is taxed. State governments preferred the other options to the single point levy which of course is much simpler. The first point levy is least remunerative to the state, while tax at the last point and tax at each point of sale would give better revenues. However the administration of the latter two is complex, harasses the seller and is open to manipulation.

Apart from sales tax there is also the tax by ocal bodies and municipalities. This local body tax or octroi on goods entering their territory 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 tried to abolish it but were stopprd by vested interests that make money out of such levies. Hoever, except for Maharashtra which now has entry tax, it is abolished elsewhere. Further, it can be a significant source of revenue for local authorities who have few tax options.

 Thus products before reaching the point of consumption, have paid import duty and central excise duty at the factory. Sales rtax is calculated at the point of levy. If at the first point, the process is simple. The other points of levy are more complicated and require inspections of thousands of books of accounts of traders. They are subject to corruption.

Our federal Constitution gives states the power to levy property registration fees, tax alcoholic drinks, charge levy on notor vehicles, they are limited and not buoyant. Sales taxes are the opposite. States get a share of the direct taxes collected by the Centre, as determined every five years by the Finance Commisison. But the state can avoid this sharing by levying special cesses that it does not have to share with the states. GST is against the principle of federalism.

When each state government levyes its own rate of ta, end product prices vary over the country. India had thus missed being a true and large common market, to the detriment of its growth.

I experienced this when in 1970 I led the launch of Chiclets chewing fum in India. My strategy was to target children aged from 5 to 14, for who the price had to be in a single coin of 10 and 50 paise, for two or ten pellets. Single coins were more likely to be given to a pestering child by a parent. Because of the differing sales tax between states, we had to have different factory invoice prices, that ensured adequate trade margins but gave the single coin end price. The stragey succeeded and the product sold very well.

The rationale for a single goods and services tax over the country is to have one price for all consumers anywhere in the India. But state governemtn will no longer have the flexibility to vary sales tax rates according to their needs. They must have it confirmed by the GST Council.

 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 an corruption get reduced.

When the GST becomes operational we will be marketing goods and services in an India where light weight packing is in extensive use, an extensive rural roads and lorry network is over the country, direct roads to manyvillages (and more being built, bank accounts with crores of people and bramore honest indirect tax collection system.

My Indian markets of sixty years back have transformed.

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