

## 1. INTRODUCTION

In May 1981, the Government of Tamil Nadu entrusted the Institute with a study of the sales tax system in the State with special reference to rationalisation of the rate structure, the extent and methods of evasion and possible improvements in the information system for tax administration.

### Terms of Reference

The terms of the study are as follows:

- " 1. To build up a comprehensive and adequate information system with a view to facilitating the building up of a sound sales tax structure in the State.
2. To go into the structure of sales tax rates with special reference to the trade pattern, evasion and economy of the State.
3. To study the impact of the sales tax on raw materials with particular reference to diversion of trade.
4. To offer suggestions to optimise the yield of the sales tax without, at the same time, distorting the trade pattern or adversely affecting the economy or the objective that the industrial climate in the State is improved."

### Modalities of the Study

The major part of the work on the study was carried out by the Study Team of the NIPFP during the period from July 1981 to March 1982. During the most

part of this period, the NIPFP had its camp office at Madras and the Study Team visited various places in the State. During these visits, every effort was made to ascertain the views and experiences of the officials of the Commercial Taxes Department as well as selected representatives of the taxpayers.

The terms of reference required us to gain an idea of the quantum of evasion of sales tax in the State as well as the causes which facilitated evasion. For this purpose, apart from doing a macro study, we have undertaken a sample survey of commodity flows in the State. Such a survey was undertaken in respect of groundnuts, groundnut oil, and automobile parts. For this purpose, a Team from the NIPFP visited Madras, Villupuram, Nagarcoil, Salem, Madurai, Kanyakumari, Kumbakonum, Coimbatore, and Tirunelveli.

As the Government Order regarding the study was kept confidential, we were handicapped in contacting the dealers and traders at large. However, a brief questionnaire was sent out to most of the Chambers of Commerce and Trade Associations in the State to seek their comments on the rates of sales tax causing diversion of trade and manufacturing activity in the State. The eliciting of information through the questionnaire was supplemented by taking oral evidence from the representatives of different organisations.

### Interim Report

As the completion of the study took a longer time than envisaged, mainly because the requisite data were not readily available and the Department was

trying to get those collected from the district offices, it was thought proper to submit an Interim Report on some of the important aspects that were of immediate concern. These aspects related to the exemption limit for the registration of dealers, the tax treatment of inputs, the existence of checkpoints and the establishment of a computer centre. The Interim Report was submitted to the Government of Tamil Nadu on February 17, 1982. The Interim Report, with some modifications, is incorporated into the relevant parts of different chapters of this Report.