6. COMPOSITION OF REGISTERED DEALERS AND ASSESSEES IN TAMIL NADU

Trends in Sales Tax Registration

The total number of registered dealers in the State under the Tamil Nadu General Sales Tax Act (TNGST Act) is currently about 2,30,000. Besides, there are more than a lakh of dealers registered under the Central Sales Tax Act (CST Act). As most of the latter dealers are also believed to be registered under the GST Act, the total number of registered dealers in the State should be around three lakhs (Table 6.1).

The number of registered dealers has increased from 1,35,013 in 1963-64 to 1,71,301 in 1969-70, and to 2,30,668 by 1979-80. That is, there has been an annual growth rate of 2.8 per cent per annum over the period of sixteen years. But the proportion of dealers who collect and pay the tax (i.e., assessees) has plummeted over the years; from 62 per cent in 1969-70, the proportion of the assessees to dealers has declined to only 45 per cent in 1979-80. This is partly explained by the fact that many commodities have been transferred from the purview of multi-point tax to the single-point tax. This happened in 1973-74 when 59 items were transferred from the multi-point tax to the single-point tax, causing a fall in the number of assessees. Again, there was a decline in the number of assessees in 1978-79 when 4 commodities were transferred to the single-point list. The decline in the proportion may be also due to the large increase in registrations caused by the existing provisions (See Section "Exemption Limit").

TABLE 6.1

Trends in Sales Tax Registration in Tamil Nadu

Year	Under TNGST Act			Under CST Act		
	Assessees	Non-assessees	Total	Assessees	Non-assessees	Total
1959-60	59147 (51.41)	55910 (48.59)	115057 (100.00)	NA	NA	26885
1963-64	NA	NA	135013	NA	NA	40233
1964-65	NA	NA	146944	NA	NA	44582
1965-66	NA	NA	156671	NA	NA	50090
1966-67	NA	NA	162354	NA	NA	51618
1967-68	NA	NA	167478	NA	NA	56097
1968-69	NA	NA	169148	NA	NA	60481
1969-70	105645 (61.68)	65656 (38.32)	171301 (100.00)	15375 (25.45)	45035 (74.55)	60410 (100.00)
1970-71	105773 (61.15)	67210 (38.85	172983 (100.00)	NA	NA	64605
1971-72	102676 (56.26)	79824 (43.74)	182500 (100.00)	NA	NA	67351
1972-73	90703 (48.00)	98254 (52.00)	188957 (100.00)	NA	NA	72703
1973-74	97211 (50.70)	94524 (45.30)	191735 (100.00)	NA	NA	79904
1974-75	87057 (43.30)	113985 (56.70)	201042 (100.00)	20589 (24.71)	62718 (75.29)	83307 (100.00)
1975-76	94353 (44.24)	118924 (55.76)	213277 (100.00)	19436 (21.71)	70076 (78.29)	89512 (100.00)
1976-77	94201 (45.55)	112618 (54.45)	206819 (100.00)	25704 (26.85)	70019 (73.15)	95723 (100.00)
1977-78	108146 (51.25)	102880 (48.75)	211026 (100.00)	24991 (25.24)	73997 (74.76)	98988 (100.00)
1978-79	102795 (50.15)	102118 (49.85)	204976 (100.00)	21874 (20.88)	82898 (79.12)	104772 (100.00)
1979-80	104398 (45.26)	126270 (54.74)	230668 (100.00)	19717 (18.18)	88712 (81.82)	108429 (100.00)
Compound growth rate (1969-70 to 1979-80)	0.03	5.81	2.60	-	-	6.19

Notes 1. Figures within parentheses denote percentage of total.
2. NA denotes not available.

Distribution of Assessees as Per Payment of Tax

Most of the tax revenue is collected from a very small fraction of the total assessees. These are the ones who fall in the highest turnover group. In the year 1974-75, for example, 59 per cent of the revenue was collected from the dealers having gross turnover of over Rs 1 crore (Table 6.2). Almost a similar proportion was collected from such dealers in the half-year ending September, 1980 (Table 6.3). More importantly, classification of dealers by turnover and payment of tax demonstrates that the assessees falling in the gross turnover group below Rs 1 lakh are very large in number (23.8 per cent of the total assessees) but pay a negligible amount of tax to the Government (1.3 per cent of the tax for the period half-year ending September, 1980). Because of their sheer number, the departmental work relating to administering these small dealers is disproportionately large in relation to their inconsequential contribution to the exchequer. Completing many of the formalities such as registration, acceptance and processing of tax returns, and the final passing of the assessment order in respect of such dealers, takes up a major proportion of the time of the Department.

Exemption Limit

This situation can be attributed to the existing law relating to the registration of dealers in the State. According to the TNGST Act, "Every dealer whose total turnover in any year is not less than thirty thousand rupees shall, and any other dealer may, get himself

TABLE 6.2

Distribution of Assessees by Grades of Gross Turnover
Under Tamil Nadu General Sales Tax Act
for the year 1974-75

Turnover group (Rs '000)	Assessees (number)	Gross turnover (Rs lakh)	Taxable turnover (Rs lakh)	Revenue collected (Rs lakh)
Below 50	26509 (30.09)	5315.87 (0.95)	2065.42 (8.85)	111.62 (0.94)
50 - 75	14084 (15.99)	8260.29 (1.47)	4755.81 (1.97)	154.31 (1.30)
75 - 100	6451 (7.32)	5581.78 (1.00)	3115.47 (1.29)	128.69 (1.09)
100 - 150	6245 (7.09)	8909.68 (1.59)	4176.84 (1.73)	189.84 (1.60)
150 - 200	6244 (7.09)	8909.68 (1.59)	4176.83 (1.73)	189.83 (1.60)
200 - 300	6539 (7.42)	16043.35 (2.86)	7407.35 (3.06)	339.72 (2.87)
300 - 500	6906 (7.84)	26749.50 (4.77)	11699.67 (4.84)	539.90 (4.56)
500 - 1000	7182 (8.15)	51099.35 (9.12)	22488.18 (9.30)	1042.31 (8.79)
1000 - 5000	6710 (7.62)	136382.15 (24.33)	47956.25 (19.83)	2148.99 (18.13)
5000 - 10000	683 (0.78)	46862.30 (8.36)	18294.15 (7.56)	809.77 (6.83)
10000 - 50000	473 (0.54)	92742.63 (16.55)	47990.01 (19.84)	2255.64 (19.03)
Above 50000	78 (0.09)	153639.43 (27.41)	67741.45 (28.01)	3941.75 (33.26)
TOTAL	88104 (100.00)	560495.98 (100.00)	241867.43 (100.00)	11852.37 (100.00)

Note: Figures within parentheses denote percentages of total

Source: Department of Commercial Taxes, Tamil Nadu. Madras.

TABLE 6.3

Distribution of Assessees by Grades of Gross Turnover Under Tamil Nadu General Sales Tax Act for the Half-Year Ending September 1980

Turnover group (Rs '000)	Assessees (number)	Gross turnover (Rs lakh)	Taxable turnover (Rs lakh)	Revenue collected (Rs lakh)
Below 50	1801 (4.98)	547.93 (0.13)	362.38 (0.18)	17.70 (0.16)
50 - 75	3665 (10.13)	2256.15 (0.54)	1240.18 (0.61)	59.45 (0.53)
75 - 100	3147 (8.70)	2722.49 (0.65)	1449.25 (0.72)	70.01 (0.63)
100 - 150	3937 (10.97)	5651.39 (1.36)	2979.51 (1.47)	145.22 (1.30)
150 - 200	3937 (10.88)	5651.39 (1.36)	2979.51 (1.48)	145.22 (1.30)
200 - 300	4420 (12.21	10850.34 (2.60)	5532.09 (2.74)	270.24 (2.42)
300 - 500	4722 (13.05)	18231.69 (4.37)	8579.23 (4.25)	425.00 (3.81)
500 - 1000	4761 (13.16)	33532.33 (8.04)	13988.87 (6.93)	698.03 (6.25)
1000 - 5000	4728 (13.06)	95904.62 (23.00)	35889.39 (17.77)	1791.35 (16.05)
5000 - 10000	576 (1.59)	39691.60 (9.52)	17784.43 (8.81)	960.29 (8.60)
10000 - 50000	411 (1.14)	83457.71 (20.01)	44175.27 (21.88)	2618.75 (23.46)
Above 50000	85 (0.23)	118516.71 (28.42)	66949.67 (33.16)	3961.25 (35.49)
TOTAL	36190 (100.00)	417014.34 (100.00)	201909.77 (100.00)	11162.50 (100.00)

Note : Figures within parentheses denote percentages of total

Source: Department of Commercial Taxes, Tamil Nadu, Madras.

registered under this Act." Accordingly, any dealer with a very low turnover, say, even less than Rs 100 a month, could get himself registered. Besides, it provides for "any dealer" to have the privilege of registration. Further, Section 20(2) states: "Every dealer carrying on business in all or any of the goods mentioned in the First Schedule and Second Schedule.... shall get himself registered under this Act, irrespective of the quantum of his total turnover in such goods." This implies that each and every dealer dealing in the first-point goods has to get hikself registered irrespective of his turnover 1/. And the existing structure of the tax is such that about 86 per cent of the revenue is collected from goods subjected to the first-point tax. Only a small proportion of the dealers deal exclusively in goods subject to the multi-point levy. Consequently, almost all the dealers in the State are within the purview of the sales tax administration. This is tantamount to having no registration limit for the dealers under the TNGST Act.

The data relating to the size of turnover and tax paid (Tables 6.2 and 6.3) show that a large chunk of dealers in the low turnover ranges of Rs 0 to 50,000 and Rs 50,001 to 1,00,000 are non-assessees. Thus, the registered dealers having a turnover of less than Rs 1 lakh would contain a large proportion of non-assessee dealers and even the assessees in these ranges pay a very

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1/ In practice, this provision may not be strictly enforced in the case of small dealers in first-point goods.

insignificant amount of tax.

The data relating to dealers and tax paid by turnover groups in some other States also reveal that the share of revenue contributed by a large number of small dealers forms a small proportion of total revenue. We find that in Uttar Pradesh 87 per cent of the total number of dealers, who fall in the turnover group of Rs 0 to 2 lakh paid only 17 per cent of the yield in 1977-78 (Government of Uttar Pradesh, 1980, p. 45); in Gujarat 83 per cent of the total number of dealers, who fall in the turnover group of Rs 0 to 3 lakh paid only 7 per cent of the tax in 1977-78 (Government of Gujarat, 1980, p. 301); in Andhra Pradesh 82 per cent of the total number of dealers, who fall in the turnover group of Rs 0 to 3 lakh paid only 8 per cent of the tax revenue in the year 1978-79 (Government of Andhra Pradesh, 1980, p. 3); in Karnataka 80 per cent of the total number of dealers, who fall in the turnover group of Rs 0 to 3 lakh paid only 8.28 per cent of the revenue in 1979-80; in Bihar, 87 per cent of the total number of dealers falling in the group below Rs 5 lakh collected only 15 per cent of the tax (NIPFP, 1980); and the estimates of data by turnover size and tax payments in Assam show that the tax payment of the dealers falling in the turnover group of Rs 12,000 to 2 lakh totalling 74 per cent of the assessees paid only 10 per cent of the tax during the average of the period 1960-61 to 1977-78 (NIPFP, 1978)

The structure of dealers and tax payment in all the States makes it crystal clear that the lower the exemption limit, the larger would be the work-load for the Department. Also, this increase in the work-load would not be commensurate with the increase in the yield of the tax. We can, therefore, easily infer that the low registration limit of Rs 30,000, coupled with the registration of all the dealers dealing in the first-point goods has created a situation in Tamil Nadu where a major portion of the time of the Department is spent in completing many of the formalities such as registration, acceptance and processing of no-tax returns, and ultimately passing assessment orders, with zero-tax liability. Besides, these registered dealers are found to be partners in bill-trading. Checking of such evasion would be greatly helped by reducing the registered dealers to a small number. On a balance of all considerations, it is recommended that the present exemption limit should be raised to Rs 1,00,000 for the second seller in the State. In fact, many of the States have, of late, brought about similar changes. Gujarat has recently raised the exemption limit to Rs 1,00,000 on the recommendation of the Taxation Enquiry Commission (Government of Gujarat, 1980). Delhi, Punjab and West Bengal have already raised the exemption limit to Rs 1,00,000. Maharashtra has also increased the exemption limit to Rs 75,000 with effect from July 1, 1981 (Table 6.4). It is to be noted that these exemption limits apply to resellers who deal in first-point goods as well as to those who deal in multi-point goods, where applicable.

In Tamil Nadu, as a first step, it may be desirable, to raise the exemption limit to Rs 75,000 for all resellers. After the Department gains experience and assures itself that on the one hand it is able to concentrate on the bigger dealers and that on the other evasion

TABLE 6.4

Exemption Limits Under Sales Taxation in India
(As on 30.4.1982)

(Rupees)

State	Exemption Limit General	Exemption Limit Specific*	
1. Andhra Pradesh	25,000@		
2. Assam	20,000	Nil (I&M)	
3. Bihar	50,000	Nil (I&M)	20,000 (SG)
4. Gujarat	1,00,000	30,000 (I&M)	
5. Haryana	1,00,000	25,000 (M) Nil (I)	40,000 (Eating establishment) Nil (Dealing in IMFS)
6. Jammu & Kashmir	50,000	Nil (I)	1,00,000 (RH)
7. Karnataka	25,000@@	Nil (I)	
8. Kerala	50,000**	Nil (M)	
9. Madhya Pradesh	50,000	10,000 (I) 20,000 (M)	50,000 (Co-op)
10. Maharashtra	75,000	30,000 (I&M)	
11. Punjab	1,00,000	40,000 (M) Nil (I)	40,000 (RH)
12. Orissa	50,000	Nil (M)	Co-op. Ltd. Company
13. Rajasthan	50,000	10,000 (I&M)	25,000 (Co-op) 50,000 (Sweets)
14. Tamil Nadu	50,000@	Nil (I&M)	
15. Uttar Pradesh	1,00,000	Nil (I)£ 50,000 (M)	
16. West Bengal	1,00,000@	50,000 (M) 20,000 (I)	

Contd.......

Notes

* When the specific limit is not given for any category, the general exemption limit applies to it.

@ There is no exemption limit for dealers dealing in first-point goods.

** Dealers dealing in single-point goods have to be registered at the turnover level of Rs 15,000.

@@ Tax is paid only when the turnover is Rs 35,000.

£ Dealers using any form prescribed under the U.P. Central Sales Tax Act also have 'Nil' limit.

I = Importsrs; M = Manufacturer;
Co.op. = Co-operative society;
RH = Restaurants and Hotels;
SG = Schedule Goods;
IMFS = Indian made foreign spirit.

is decreased rather than increased through the rising of the exemption limit, the limit could be raised further to Rs 1,00,000. This may be considered after two years. We would like to point out here that the increase in the exemption limit would not lead to any loss in revenue, because first of all, given the rise in money incomes and prices in recent years, the raising of the exemption limit to Rs 75,000 would not mean any increase in the real exemption limit, compared to the position six or seven years ago; secondly, under the system of the first-point tax, which accounts for 88 per cent of the revenue from the TNGST, the taxes are collected from the first-point sellers and most of them, other than manufacturers, would normally have a turnover higher than Rs 75,000; and thirdly we are suggesting that the exemption limit be raised only in respect of resellers. For others, the existing position would continue. As already pointed out, a reduction in the number of dealers who have to be registered and whose returns are to be checked would lead to better enforcement of the tax through concentration of attention on the bigger dealers. It must also be noted that the removal of the smaller resellers out of the purview of the Sales Tax Department would go a long way towards making the tax acceptable to trade and industry. We also believe that the raising of the exemption limit would bring down the number of bogus registered dealers, who engage themselves in bill-trading. Lastly, the rationalisation of the tax system could be more easily implemented, if the smaller dealers are excluded.

Self-Assessment

As most of the tax revenue is collected from a very small fraction of the total assessees who fall in the highest turnover group, it is in the interests of the Department to concentrate on the assessment of these dealers. Accounts and returns of these dealers should be checked thoroughly. But, it is equally important that the time of the scarce and skilled manpower available to the Department is not allowed to be dissipated in examining the accounts of the small dealers. As brought out in Tables 4.2 and 4.3, these dealers are large in number but pay a negligible amount of tax to the Government. Consequently, departmental work relating to administering these small dealers is disproportionately large. With a view to striking a balance between the revenue and the cost of administration, it is essential that the small dealers having a turnover below Rs 2 lakh are allowed to pay tax on the basis of self-assessment. This would mean that about one-third of the registered dealers, who pay only 4 per cent of the tax revenue, would fall under this scheme. More attention could then be paid to the remaining two-third of the dealers and also some more resources could be diverted to other activities such as survey and enforcement. Thus, the overall efficiency of the system would increase.

The system of self-assessment that we are suggesting is not something new. Many States have already gone in for this. Even in Tamil Nadu, this system has been provided for in the statute for long. But the existing provisions have been made virtually inoperative. Under

Section 5-A of the TNGST Act, the dealers in (a) goods taxable under the first-point tax, (b) declared goods, and (c) goods subject to purchase tax are not eligible to use this facility. As the dealers in such goods comprise over 88 per cent of the total number of assessees, in effect, most of the dealers are denied this facility. If the scheme is to serve any worthwhile purpose, it must be made applicable to all the registered dealers having a turnover of Rs 2,00,000 and below, irrespective of the goods they deal in.

In respect of dealers coming under the self-assessment scheme, the assessment should be done on the basis of returns submitted by them or their representatives. The representatives of the dealers will not normally be called to the office;2/ nor will they be required to produce their books of accounts.

The small dealers should not, however, be completely left out of the purview of assessment. They have to be checked, at least on a sample basis. With a view to doing so, and to discourage attempts at evasion by the small dealers, through instilling in their minds awareness of the possibility of check by assessing authorities, there should be a one per cent random sample check every year. The accounts of all the small dealers falling in the sample should be checked as thoroughly as

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2/ The circumstances under which an assessee under this scheme can be called to the office are specified below.

those of the big dealers. However, with a view to minimising chances of harassment, the sample should be chosen by an independent authority. For this, it is advisable that the Departmental Computer Centre, and until it is established, the Commissioner himself makes the selection and allocates the work of assessment to the respective district offices.

In order to complete the assessment of the small dealers expeditiously, the following procedure is to be adopted: After the scheme is notified, the files of such dealers as are to be covered under this scheme should be sorted out and kept separate. These dealers would be required to submit only the information relating to the gross turnover, the taxable turnover, the amount of tax paid, the details of goods sold against declaration, and the turnover of commodities exempted from tax under the various provisions of the Act. This information would be submitted through a summary return specially designed for the self-assessment scheme. If after the scrutiny of the return, it is found that it is in order, the assessing authority will issue a letter straight away stating that the return has been accepted. In case any additional amount is due, the necessary demand notice will be sent along with an assessment order. Such an order will not be necessary in other cases.

In general, this scheme would be available to all the dealers with turnover not exceeding Rs 2 lakh but it would be open to the Department to exclude dealers in respect of whom there has been evidence of tax evasion. Such dealers will not enjoy the benefit of this scheme even though their turnover is less than Rs 2,00,000, until such time as may be decided by the Commissioner/ Assistant Commissioner concerned. Also, if after the scrutiny of the return, the assessing authority comes to the conclusion that the return is not in order or finds that the information supplied is incomplete in some respects, he should in the first instance send a notice in writing requiring the dealer to submit within a specified date the explanation or the information, as the case may be. Only when there is no response to such a notice from the dealer concerned within the specified period of time, should he or his representative be called to the office of the assessing authority for a personal explanation. Similarly, there may be some dealers who have not maintained accounts in the required form and who may have submitted returns on the basis of rough estimates. In such cases, if the assessing authority is satisfied that the dealer has got the information but is not furnishing it, he may call the dealer and then take section under the rules after giving the necessary notice.

Dealers falling under the self-assessment scheme will be liable to penalties prescribed in the law just as other dealers. However, in the case of small dealers, the assessing authority should avoid as far as possible imposing penalties on purely technical grounds.