OVERVIEW OF TAX SYSTEMS IN INDIAN STATES

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The Seventh Schedule of the Constitution of India, read with Article 246, clearly demarcates exclusive and concurrent jurisdictions of the Union and the constituent State governments. Residuary powers have been vested in the Union (Parliament) while Articles 249 to 254 qualify the functional distribution provided in the Seventh Schedule under certain circumstances. Other constitutional provisions regarding distribution of tax powers are contained in Articles 268-274, Articles 276, 277, 286, 287, 288 and 289. However, neither the Centre nor the States are actually using all the tax powers granted to them in the Constitution. For example, the Centre is at present not levying any of the taxes listed in Article 269 (which empowers the Centre to levy certain taxes the proceeds of which are to be wholly assigned to the States) except the central sales tax. Also, some of the constitutional arrangements have been modified through mutual consent between the Centre and the States. The resultant tax structure in India can be summarised as follows:

1. The major taxes which State Governments can levy, collect and use in the manner they deem fit are sales tax, entry tax/ octroi duty (levied by urban local bodies where it exists), stamp duties and registration fees, profession tax, land revenue, agricultural income tax, electricity duty, property tax (generally delegated to local bodies fully or partially) and entertainment tax, subject to some special provisions of the Constitution.

2. Taxes on which legislation is done by the Parliament while collection and use is by the State Governments include central sales tax (on inter-State trade), stamp duty on several financial instruments including that on transfer of company shares/debentures and excise duty on medicinal and toilet preparations containing alcohol or narcotics.

3. Taxes which are levied and collected by the Union and the proceeds from which are shared with the States are income tax and excise duty. Additional excise duties levied in lieu of sales tax on commodities like sugar, tobacco and textiles are levied and collected by the Union Government; the proceeds are handed over to the States.

4. The Union and the State governments are prevented from taxing each other directly to a substantial extent.

There are considerable differences among States regarding the way they have actually made use of their tax powers as well as delegation of tax powers to urban/rural local bodies. In particular, notable variations are seen in the levying of entry tax/ octroi duty, agricultural income tax, and profession tax.

In the course of a study on taxable capacities of the States carried out by this Institute for the Ninth Finance Commission, some information on various taxes levied by the individual States, on delegation of tax powers to local bodies, and on tax sharing with local bodies were collected by the two researchers involved, Tapas K. Sen and V.B. Tulasidhar, from the replies to subsidiary points.
submitted by the States to the Commission and directly from the States. Since the variety of tax structures in States was interesting per se, and because the information was considered useful for several groups of users like researchers, officials of the State Governments and businesspersons, it was decided that the information should be published. One problem was that the information was not complete, nor was it fully authenticated. To correct these, State governments were requested to verify the information, and supply the missing information on the basis of a questionnaire prepared for this purpose. We have had mixed responses in this regard, primarily because of which our present compilation covers only eight States. The information on other States have large gaps. Even for the States covered, the information cannot be called complete, although the objective was a limited one of providing only a brief summary of the tax structure of the States concerned. These summaries do not include sales tax, because a separate publication on sales tax is brought out periodically by this Institute.

Another problem faced while compiling information of this nature is the currency of the information. In matters of taxation, any information tends to become outdated quickly. Although we had intended to present the information updated upto an uniform date for all States, it was not possible due to extremely uneven flow of information.

Thus, the present compilation is neither complete in any sense, nor uniformly updated. While these shortcomings are certain to limit its usefulness, it has still been considered worthwhile for two reasons: (i) this could serve as a basis for further compilations along this line, if the present one causes an improvement in the flow of information; (ii) while certain aspects of taxation (e.g., tax rates) change frequently, the structure of taxes do not and the present volume may at least provide an idea of the broad tax structure of the States covered and their special features.

Several people have contributed to the preparation of the present volume, but the major contribution has been of Tapas K. Sen. We welcome suggestions from the readers to improve this compilation regarding coverage, presentation or any other aspect. We thank the State governments and concerned officials for their co-operation and hope that they will provide further co-operation in expanding and updating this volume.

M. Govinda Rao.
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Andhra Pradesh

Tax System in Brief: Andhra Pradesh

Land Revenue

The major provision under which land revenue is collected in Andhra Pradesh is the Andhra Pradesh Land Revenue (Enhancement) Act, 1967. These provisions have actually been in force since 1962, as this Act substituted another Act of 1962, struck down by the Supreme Court, with retrospective effect.

For purposes of land revenue the State has been divided into two zones: Andhra and Telengana. Two types of land are differentiated - dry and wet. Wet lands are essentially defined as those using irrigation provided by the government.

From 1984, all dry lands in the State have been exempted from paying land revenue. For wet lands, 20 per cent of the basic land revenue is taken to be on dry land component and waived. Dry lands drawing water from a source provided by the government have to bear the prescribed water rates. There is an additional wet assessment also over and above the basic land revenue.

There are other levies on land like land cess, education cess, and local cesses. Dry lands are not exempted from these levies. Wet landholdings upto five acres are exempt from basic and additional land revenue, but this exemption is available for 20 per cent of their consolidated assessment. On this exempted amount, the cesses levied are fixed at a concessional rate of 5 per cent. There is no surcharge or special rate of assessment.

For lands classified as wet, there is consolidation of irrigation rates with land revenue. But for lands growing a second crop with the help of irrigation, water cess equal to the single crop land revenue assessed is levied.

Agricultural Income Tax

Does not exist.

Urban Immovable Property Tax

Andhra Pradesh Non-Agricultural Lands Assessments Act, 1963 provides for a tax on lands used for non-agricultural purposes throughout the State. This is in lieu of land revenue if existing land revenue is less than the assessment under this tax. Three categories of land are stipulated based on use: industrial purpose, commercial purpose and other non-agricultural purposes. Tax rates are the highest for industrial purpose lands and lowest for ‘other non-agricultural’ purpose land. The rates are directly related to population of the local area in which the land is situated. Commercial lands are exempted in local areas with population upto 10,000 and ‘other non-agricultural’ land in the same with population upto 15,000.
Overview of Tax Systems

There is no specific levy on conversion of agricultural land to land for non-agricultural purposes.

Local Taxation of Land & Buildings

Andhra Pradesh Municipalities Act, 1965 lays down the guidelines for the levy of property tax by municipal councils.

The tax base for buildings and appurtenant land up to three times the plinth area of the building is the annual rateable value (ARV), defined as the gross annual rental at which the building can reasonably be expected to be let out less 10 per cent for repairs and maintenance. Any amount of appurtenant land in excess of three times the plinth area and vacant lands are assessed on the basis of capital value of the land. For agricultural land, the tax is levied on the basis of land revenue payable. When fair rent for a building has been fixed under Rent Control Act, such rents form the rateable value.

Ceiling rates have been prescribed by the State government within which municipalities can vary their rates. These are 25 per cent of ARV (including library and education cess) for residential buildings and 33 per cent of ARV (including library and education cess) for non-residential buildings. Tax on the basis of capital value is at 5 per cent.

More or less the same system prevails in the municipal corporation areas with some variations. For example, in Hyderabad the residential property rates vary from 17 per cent to 30 per cent of ARV on a graduated scale and the flat rate for commercial property is 30 per cent. There is a library cess at 8 paise per one full Rupee of property tax.

Andhra Pradesh Gram Panchayats Act, 1964 empowers every gram panchayat to levy a house tax, and any special levy for specific public purpose with the concurrence of the State government. House tax is levied on the basis of either annual rateable value or capital value. In the case of the latter, the minimum and maximum prescribed rates are 0.1225 per cent to 1 per cent. In the case of the rateable value method the range of rates prescribed is from 2 per cent to 20 per cent, with differentiation on the basis of the type of the house concerned.

Stamp Duties and Registration Fees

The usual system of ad valorem rates of stamp duties in nominal terms and fees with some graduation on the basis of the value of the consideration/value secured obtains in Andhra Pradesh. Two important rates of stamp duty are: (a) for bonds with secured value of over Rs.1000, Rs. 30 for the first Rs.1000 plus Rs. 15 for every subsequent Rs.500 or part thereof; and (b) for conveyances with value of consideration of over Rs.1000, Rs. 50 for the first Rs.1000 and Rs.25 for every subsequent Rs.500 or part thereof.

The value of consideration recorded in the document involved is now compared with market values maintained by the government to prevent understatement. Designated
government officials are empowered to revise such considerations upwards; this is, of course, subject to judicial review on appeal.

State Excise

The major sources of excise revenue are the levies on arrack, toddy, IMFL and beer and various licence fees.

As far as arrack is concerned, production and distribution is carried out partly by private parties and partly by the government. Private distribution is through a bid-cum-tender system. The price is decided by the government while the monthly rentals for retail shops are arrived at through auctions. Big licensees lift arrack directly from distilleries under departmental supervision, while small licensees lift their requirements from government arrack depots.

As far as toddy is concerned, the revenue is derived mainly from rentals and tree tax on trees allotted. Toddy Tappers’ Cooperatives are encouraged and shops preferentially allotted to these societies. Individual toddy tappers get the next preference. At present, about 60 per cent of the shops are allotted to cooperatives and about 10 per cent to individual toddy tappers. The rentals for the shops vary considerably depending on their location.

IMFL and beer were earlier available to retailers only through the government. Now, ‘Distribution Licences’ are granted to private parties also, who can then import and sell IMFL and beer. The revenue is raised almost entirely through licence fees.

IMFL and rectified spirit are taxed per proof litre. Beer is taxed per bulk litre. The excise on arrack is included in the issue price. Toddy trees are taxed at various rates depending on the particular species involved. The lowest rate is on Date (Rs. 8 per tree) and the highest is on Coconut (Rs. 15 per tree). There is sales tax on liquor also.

Motor Vehicles Taxes

Motor vehicle tax is levied under the Motor Vehicles Act 1939 read with Andhra Pradesh Motor Vehicles Taxation Act 1963 on all motor vehicles operating in the State and their appendages, if any.

Quarterly tax rates have been specified for every type of vehicle in lump sum. There is no separate passengers and goods tax as these were merged with the motor vehicles tax in 1963. While goods vehicles are taxed on the basis of laden weight, buses are taxed on the basis of capacity, route length, route type and permit type. Moreover, as far as inter-State operation of goods vehicles and buses are concerned, separate rate schedules have been provided for many individual States which, along with Andhra Pradesh, form the area of operation of such vehicles.

The rate on goods vehicles varies from Rs. 230 to Rs. 1610 per quarter. For stage carriages the rates range from Rs.92 to Rs. 397 per quarter.
Overview of Tax Systems

Taxing all personalised vehicles in lump sum was introduced, but its operation has been stayed by the A.P. High Court. This system provides for lump sum payment at the time of registration of new vehicles as well as used vehicles based on their type and and age. Vehicles more than twelve years old would not have to pay any tax.

Electricity Duty

Every 'licensee' authorised to distribute power in the State pays a duty of 4 paise every month per unit of energy on all sales of energy @ 12 paise or more per unit where monthly sales exceed 16,666 units and annual sales exceed 2,00,000 units. The licensees include all major electricity suppliers including National Thermal Power Corporation, The State Electricity Board and the rural electricity supply cooperatives (assisted by the Rural Electrification Corporation of India).

Sales to the Central government, Railways, and inter-licensee sales are exempt from electricity duty. The rural electricity supply cooperatives receive grants from the government equal to the electricity duty paid by them to the government.

Entertainment Taxes

The basic entertainment tax, levied under the Andhra Pradesh Entertainment Tax Act 1939 read with Andhra Pradesh Entertainment Tax (Amendment) Ordinance 1985 (No.3, 1985), on cinema theatres in the State is entirely on the basis of gross collections assuming a full house. The rates of tax depend on the location of the theatre (municipal corporation area, different grades of municipalities, rural area), the type of theatre (air-conditioned, air-cooled, ordinary, touring/ temporary), and the number of shows option exercised (fixed number of 22 shows per month or the actual number of shows). The range of rates is from 19 per cent to 28 per cent.

Show tax at specific rates ranging from Rs.2 to Rs.6 are levied per show of entertainment in different localities. This can also be paid on the basis of fixed number of shows assumed.

A betting tax, including a totalisator tax, is levied on admission charges and bets placed regarding horse races at the Hyderabad Race Club as well as inter-venue betting.

All the entertainment tax revenue less collection charges are distributed among the local bodies.

Other Taxes

Profession tax has been levied in the State with effect from June 15, 1987. It is administered by the Commissioner of Commercial Taxes. This is on all salary and wage earners (tax on salaries/ wages of Rs. 1000/= or less p.m. being nil) as well as traders, professionals, etc. All employers must register themselves, submit a return and pay the tax on behalf of their
employees every month after deduction at source. There is a 2 per cent interest charged per month for late payment. The tax rates range from Rs. 72 to Rs 250 per annum.

Local authorities who were levying this tax are paid annually amounts based on their highest collection in any year during the 3-year period preceding the takeover of this tax by the State government.

Luxuries Tax is levied @ 10 per cent on the tariff (excluding food, drinks etc.) of hotels and lodges, where such tariff is Rs. 60 or more per day per person. The proprietors of the hotels/ lodges have the responsibility of maintaining proper books of account and occupation registers, filing a return and paying the tax every month. This tax is administered by the Commissioner of Commercial taxes.

Entry tax was introduced in the State recently w.e.f. 15th October 1987. This was a levy at the point of entry of goods into specified local areas (the list in the Act essentially covered all important urban centres but completely left out rural areas) for consumption, use or sale. The tax base consisted of textiles, sugar and tobacco products excluding the cheap varieties. The tax rate was 2 per cent for the first two categories of goods and 4 per cent for the last. There was an option to pay tax at slab rates. This tax was administered by the Commissioner of Commercial taxes. This tax has been withdrawn w.e.f. 1st April, 1990.

Mineral Rights Tax is a levy on holders of mining leases in respect of 23 major minerals in the State under the A.P.(Mineral Rights) Tax Act, 1975. The rates are 300 per cent and 150 per cent for coal and limestone respectively, and 100 per cent for the rest. The tax base is the royalty rate fixed by the government of India. As far as minor minerals (various types of stone and rock, gravel, sand, marble etc.) are concerned, seigniorage fee or dead rent, whichever is higher, is collected. While the former is based on physical quantity of such mining, the latter is on the basis of area. The rates are specific and not ad valorem.

There is a Purchase Tax on Sugarcane also in the State.

Taxes/ Cesses/ Surcharges levied by Local Bodies

Land cess (Andhra area)/ Local cess (Telengana area), Education cess, and Drainage cess are levied along with land revenue. Revenue from the first is distributed among rural local bodies according to a particular formula. Education cess, meant to finance schools maintained by rural local bodies, is now retained by the State government since financial responsibilities of rural schools were assumed by the State government. Drainage cesses are credited to ‘Land Revenue’ and a debit made through ‘Transfers to Reserve Funds’. This cess is levied at specific rates per acre in various areas.

1. Shown in the budget as receipt of land revenue and then a reduction in receipts under ‘Ryotwari and Misc.’.
Overview of Tax Systems

Library cess and Education Tax (cess) is levied by local bodies along with property tax/house tax. Both are for the specific purposes they are named after and statutorily transferred to the relevant institutions.

There is a Mining cess levied by the State government on its overall receipts from mines. The proceeds are distributed among rural local bodies.

There is a surcharge on stamp duty relating to transfer of properties in local government areas under the relevant Act of the local bodies. The proceeds are distributed among the local bodies after retaining 5 per cent as collection charge.
Overview of Tax Systems

Tax System in Brief: Karnataka

Land Revenue

The fixation of land revenue is on the basis of classification of land and cash value of the average yield of the land. Naturally, all factors affecting productivity in value terms are taken into account. The settlement (last done in 1965), once done, is to remain in force for 30 years or more. The rates differ for dry, wet and garden lands.

There is no consolidation of irrigation charges with land revenue. There is a separate water rate. Also, three cesses - Local cess (@ 50 per cent), Education cess (@ 10 per cent) and Health cess (@ 15 per cent), are collected separately.

Rainfed dry lands upto 4 hectares are exempt from land revenue.

Agricultural Income Tax

Agricultural income tax is levied on any rent or revenue derived from land used for plantation crops specified as coffee, cardamom, pepper, orange, rubber, or tea. Tax is also levied on any income derived from a building situated on land meant for agricultural use.

For individuals/ persons, companies and registered firms, the exemption limit is Rs. 20,000. In the case of individuals/ persons the marginal tax rate varies from 12.5 per cent (for income less than Rs. 35,000) to 50 per cent (for income more than Rs. one lakh). For registered firms the marginal rate varies from 5 per cent (for income less than Rs. 25,000) to 24 per cent (for income over Rs. one lakh). In the case of companies the minimum marginal rate is 30 per cent (income less than Rs. 50,000) and the maximum is 65 per cent (income over Rs. 10 lakh).

Small growers who grow plantation crops mainly or interplanted with any other crop are brought under a tax composition scheme. Under this scheme estates upto 15 acres are exempt. Others pay tax according to the following rates:

<table>
<thead>
<tr>
<th>Holding</th>
<th>Composition Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 15 acres</td>
<td>Nil</td>
</tr>
<tr>
<td>15 to 20 acres</td>
<td>Rs. 1,500</td>
</tr>
<tr>
<td>20 to 35 acres</td>
<td>Rs. 2,500</td>
</tr>
</tbody>
</table>

With effect from 1.4.82 the agricultural income tax on non-plantation crops was removed. Exemption limit was raised from Rs. 14,000 to Rs. 20,000 with effect from April 1985.
Karnataka

Urban Immovable Property Tax

Urban land tax is levied only in eleven local areas including Bangalore and its suburbs though the Karnataka Urban Land Tax Act 1976 extends to the whole of the State of Karnataka. The tax is levied and collected by the State government. The tax base is the market value of the land. The market value, once determined, is applicable for a minimum period of 5 years and maximum of 10 years. The rate of tax varies from 0.5 per cent to 1 per cent depending on the value of land. Residential lands up to 348 sq. mt. and lands with market value of Rs. 5,000 or less are exempt from the tax. Also, publicly owned land and those used for specified public services are exempt.

There is a conversion fine when agricultural land is used for other purposes. For conversions with permission, urban land tax is applicable.

Local Taxation of Land and Buildings


Property tax is levied on buildings and land within the jurisdiction of the local body concerned. The tax base is generally the net annual rateable value, defined as gross annual rateable value minus 16.75 per cent of the same (towards repairs, maintenance etc.).

In municipal councils, there are five elements of the property tax: (a) a land and buildings tax with a maximum prescribed rate of 8 per cent in towns and 10 per cent in cities; (b) a 3 per cent Special Sanitary Cess where cleaning is done by a municipal agency; (c) a General Sanitary Cess of 4 per cent; (d) a Lighting tax of 4 per cent; and (e) water rates, the form of which has been left to the individual municipalities to decide. A water supply cess of 10 per cent of the tax in (a) is levied and passed on to the State government towards maintenance and improvement of water supply schemes in urban areas. The combined rate should not be less than 20 per cent in cities and 10 per cent in towns as per the relevant Act. Assessment is done every four years.

In municipal corporations, assessment is done every five years. Apart from the tax on land and buildings, there are four cesses: a 15 per cent Health Cess, a 10 per cent Education Cess, a 3 per cent Library Cess and a 3 per cent Beggary Cess.

Mandal Panchayats can levy a land and building tax on non-agricultural land. This is based on annual letting value, based on market rents. The maximum rates prescribed by the relevant Act are 8 per cent for tax on buildings and Re.1 for every 100 sq.yd. of land.
Overview of Tax Systems

Stamp Duties and Registration Fees

Karnataka, like all other States, collects stamp duties and registration fees at rates partially fixed by the Centre and partially by its own legislature. These rates are mostly specific, with occasional ad valorem rates. The stamp duty rate on bonds with secured value of above Rs. 1,000 is Rs. 30 for the first Rs.1,000 and Rs 15 for every subsequent Rs.500 or part thereof. On conveyances, the rate is Rs. 100 on the first Rs.1000 of the value of consideration and Rs. 50 for every subsequent Rs.500 or part thereof.

Registration rates were enhanced by 100 per cent with effect from 2.6.1986. The relevant State level Act has a specific section to deal with undervaluation of properties, which is a problem common to almost all States. This allows government officials to make special ex parte assessments and inspect various related documents, besides reopening doubtful cases.

Municipal corporations in the State can impose additional stamp duty at a rate not exceeding 2 per cent on the market value of property situated within their jurisdiction being sold, mortgaged, leased, exchanged or gifted. A similar surcharge at a rate not exceeding 3 per cent in Mandal Pachayats and 1 per cent in municipal councils can be imposed. The additional stamp duty is collected by the State government and assigned to local bodies after deducting 3 per cent as commission charges.

State Excise

Excise duty is levied by the State government on any excisable article (like all types of liquor, opium, ganja and other intoxicating drugs, other narcotics, toddy, beer, fenny, spirit) produced, or issued from a distillery/ manufactory or warehouse. In addition to this, revenue is also derived from (i) fees on the quantity of excisable article imported by any person when issued from a distillery/ manufactory/ warehouse; (ii) tax on tree from which toddy is drawn; (iii) licence fee on manufacture/ sale of any excisable good; (iv) export fee; (v) shop rentals; and (vi) countervailing duty.

As far as IMFL is concerned, the government controls only distribution through its bonded warehouses but has no control over production or price. Arrack is entirely in the private sector except for retail sale, which is done by auctioning exclusive retail vends for different areas. The rentals received as auction bids do not form part of excise revenue. Production of rectified spirit is almost entirely in the private sector, the only exception being Mandya distillery. A part of its production is procured by the government at a price fixed under Ethyl Price Control Order for the manufacture of arrack. Distribution and supply of arrack is completely controlled by the State government.2

Some of the important excise rates are as follows:

2. The revenues from sale of liquor are not shown in the budget accounts under excise duty; they are shown separately under non tax revenues.
Karnataka

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrack 35° under proof</td>
<td>5.00 per BL</td>
</tr>
<tr>
<td>Penny</td>
<td>8.65 per BL</td>
</tr>
<tr>
<td>Toddy</td>
<td>0.40 per BL</td>
</tr>
<tr>
<td>IMFL (London proof strength)</td>
<td>40.00 per LPL</td>
</tr>
<tr>
<td>-do- (20° under proof)</td>
<td>32.00 per BL</td>
</tr>
<tr>
<td>-do- (25° under proof)</td>
<td>30.00 per BL</td>
</tr>
<tr>
<td>-do- (50° under proof)</td>
<td>20.00 per BL</td>
</tr>
<tr>
<td>Beer</td>
<td>1.75 per BL</td>
</tr>
<tr>
<td>Rectified spirit/alcohol</td>
<td>9.75 per LPL</td>
</tr>
</tbody>
</table>

Export fees are much lower, the maximum rate being on spirit and alcohol (Re. 1 per BL). Tree rent is Rs. 25 per tree for toddy-making.

Motor Vehicle Taxes

The State earlier had a motor vehicle tax levied under the Karnataka Motor Vehicles Taxation Act 1957, a tax on passengers and goods carried by motor vehicles under the Karnataka Motor Vehicles (Taxation on Passengers and Goods) Act 1961 and a 10 per cent surcharge on both (w.e.f. 1.4.1975). The surcharge collected was transferred to the Roads and Bridges Fund for expenditure on development and maintenance of roads and bridges.

The passenger and goods tax was merged with the motor vehicle tax w.e.f. 1.7.1976. The surcharge has also been merged with the motor vehicle tax and no amount of the revenue is being transferred to the abovementioned Fund any more. With effect from 1.4.1984, a 10 per cent Rural Development Cess is being levied on the motor vehicles tax.

The tax is collected quarterly. One-time lump sum payment of the tax is also allowed. For the latter system the rate schedule is fairly simple as rates vary according to the age of the vehicle and engine capacity. The rate schedule for quarterly payments, however, is more complicated. Most two-wheelers are taxed according to unladen weight. So are cars and unclassified vehicles. Goods vehicles are taxed according to laden weight (as given in their permit/registration), while all passenger vehicles are taxed primarily according to seating (and standing) capacity and secondarily on the basis of the route they ply on as well as total mileage per day. There are other rates for vehicles temporarily plying in the State. Karnataka also has reciprocal arrangements with some other States to avoid double taxation of vehicles plying in different States.

There are no local taxes on motor vehicles in the form of tolls, or cesses. The State levies an entry tax under the Karnataka Tax on Entry of Goods Act 1979. This is a tax on goods brought into a local area for use, sale or consumption at a rate not exceeding 2 per cent ad valorem. In addition to urban areas, goods entering mandals are also covered under this tax. The list of goods brought under entry tax included only `additional excise duty items’ in 1980 when the tax first became effective, but from 1982 became quite exhaustive and included
Overview of Tax Systems

several industrial raw materials and additional excise duty items. Since 1983, however, due to widespread resentment among traders, adverse court judgements and persuasion by the Union government, the coverage has progressively been reduced, either by deleting specific goods from the purview of the tax or by providing explanations to items which restricted the application of the tax to some extent.

Electricity Duty

Electricity duty is not built into the basic electricity tariff. The rate structure is as follows:

<table>
<thead>
<tr>
<th>Class/Nature of Consumption</th>
<th>Duty per KWH (Paise)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Public Water Supply &amp; Sewerage</td>
<td>10</td>
</tr>
<tr>
<td>2. Bulk consumer - industrial</td>
<td>10</td>
</tr>
<tr>
<td>3. Irrigation (High Tension)</td>
<td>5</td>
</tr>
<tr>
<td>4. Non-commercial (basically residential)</td>
<td>5</td>
</tr>
<tr>
<td>5. Commercial</td>
<td>10</td>
</tr>
</tbody>
</table>

Rural electricity co-operatives and street lighting are exempt.

Entertainment Tax

This tax is levied only on cinema halls and horse races. In addition to the basic rate, a surcharge of 100 per cent is levied. The tax and the surcharge are recoverable from the theatre patrons. Local films are taxed at only 50 per cent of the normal rates. There is also a show tax payable by the proprietors of cinema halls, implying that the tax cannot be explicitly added to the admission charge.

To counter evasion of tax, a scheme of collecting entertainment tax at compounded rates on the basis of gross collection capacity was introduced in 1977. The compounded rates of tax vary from 15 per cent to 35 per cent of total gate collections under certain presumptions regarding occupancy ratio, depending on the local population of the area of location of the theatre. No surcharge is levied in this case. All the usual concessions and exemptions are applicable under this scheme too.

Rates of entertainment tax vary from 35 to 50 per cent of the admission charge plus a surcharge of 100 per cent of tax paid. Show tax assessments range between Rs. 40 and Rs. 100 depending on the highest amount of admission fee charged. Video theatres pay a monthly flat rate tax of Rs. 2500. Betting tax and totalisator tax rates are between 10 and 15 per cent with a combined ceiling of 25 per cent.

90 per cent of the basic entertainment tax revenue is distributed among local bodies. In the case of tax collected at compounded rates, 36 per cent of the proceeds of entertainment tax are given to local bodies.
Karnataka

Other Taxes and Duties

Profession Tax: This tax was levied and collected by local bodies upto 1.4.76. Thereafter, it was taken away from them and the State government is compensating them out of the tax proceeds by an amount equivalent to the highest collection made by them in any year during the period of three years preceding 1975-76.

Luxury Tax: This is charged and collected from persons staying in hotels/ lodges. The tax base includes all charges, excluding those on food and drinks, charged by hotels. Charges per room up to Rs. 35 are exempted from the tax. Thereafter the rate of tax varies from 5 to 10 per cent depending on the room charges.

Entry Tax: Details are given under Motor vehicles tax.

Forest Development Tax: This tax is levied at the rate of 12 per cent on the amount of consideration realised from disposal of timber & firewood and at the rate of 8 per cent on the realisations from other produce. The entire collection of the tax is transferred to "Karnataka Forest Development Fund" and spent exclusively on raising forest plantations and ancillary purposes.

Cesses/Surcharges

Education Cess: This cess is meant to cover the cost of promoting primary education. The cess is levied on land revenue collection, State excise, property tax on land and buildings, and taxes on animals and vehicles collected by the local bodies at the rate of 10 per cent. Where the cess is collected by local bodies, 10 per cent of the collections is given as collection charges.

Health Cess: This is collected at the rate of 15 per cent of the collections of land revenue, State excise and entertainment tax on cinema shows. This is also collected by the local bodies on property tax, tax on animals, vehicles and advertisements on behalf of the State government; they receive 10 per cent of the collection as collection charges.

Local Cess: This was collected at the rate of 50 per cent on all items of land revenue and assigned to Taluka Boards under the Karnataka Village Panchayat and Local Boards (Amendment) Act 1976. Since the Act has been repealed by the Zilla Parishads Act 1983 which has no provision for levy of Cess by Mandal Panchayats, this cess stood suspended. Action is being taken to allow Mandal Panchayats to levy this cess.

Library Cess: This cess is collected in the form of surcharge at the rate of 3 per cent on property tax and tax on vehicles other than motor vehicles tax proper and entry tax. After retaining 10 per cent as collection charges, the proceeds are assigned to the concerned city library in the area of collection.

Irrigation Maintenance Cess: The cess is levied at the rate of Rs. 4 per acre in irrigated areas, where irrigation is provided as a result of government work.
Overview of Tax Systems

**Beggary Cess:** This is levied in certain municipal areas of the State as a 3 per cent surcharge on property tax, local tax on vehicles, and entry tax. The local authorities retain 10 per cent of the revenue as collection charge and remit the rest to the Central Relief Fund constituted for providing relief and rehabilitation to beggars.
Tax Structure
Karnataka

Rs. crores

<table>
<thead>
<tr>
<th>Year</th>
<th>Professional Tax</th>
<th>Agricultural Taxes</th>
<th>Stamp Duty and Regn. Fees</th>
<th>Total Sales Tax</th>
<th>Motor Vehicle Tax</th>
<th>Share of Central Taxes</th>
<th>Other Taxes</th>
<th>Electricity Duties</th>
<th>Total Sales</th>
</tr>
</thead>
</table>
Overview of Tax Systems

Tax System in Brief: Kerala

Land Revenue

The land revenue department levies two types of taxes under the *Kerala Land Tax Act 1961*: (a) basic tax, and (b) plantation tax. For the purpose of basic tax, land is classified into dry land and wet land. Wet land is further divided into single crop and double crop land. There is also substantial difference in the rate of basic tax between two categories of assesses, defined in terms of total landholding, the amount varying between Panchayat, Municipal and Corporation areas. The higher rate of land tax varies from Rs. 24.70 per hectare to Rs. 123.50 per hectare. Also, if the assessing authority is satisfied that the gross annual income from land per hectare is below a specified limit, land revenue is assessed at 20 per cent of the actual gross income from land.

Government land and land owned by certain public bodies (as notified from time to time, keeping public interest in view) are exempt from the payment of land revenue. There are no surcharges/special rates.

Plantation tax is levied on coconut, arecanut, rubber, coffee, pepper, tea and cardamom plantations. The landholding in terms of hectares is determined normatively for each crop by ascertaining the number of bearing/yielding trees/plants and then dividing that by the prescribed number of such trees/plants per hectare for each crop. Such notional landholdings are then aggregated over different crops. Only if the actual landholding is less than the notional landholding calculated this way (implying more intensive cultivation of land than the prescribed norm), the actual is considered for the purpose of this tax. The tax rates are progressive with respect to total landholding. There are four slabs including a zero-tax one. The highest tax rate is Rs. 350 per hectare for plantation land in excess of four (two) hectares in the case of coconut and arecanut plantations (other plantations).

There is no consolidation of assessment. Irrigation cess for the ayacut area and other charges are collected separately.

Agricultural Income Tax

Agricultural income tax is levied in Kerala. The rates for plantation and non-plantation crops are the same. The basic features of this tax are as follows:

- **Exemption limit**: Rs. 20,000: non-company; Rs. 25,000: Companies
- **Marginal Rates**:
  - non-company: 30 - 70 ( >Rs.70,000) per cent
  - Companies: 45 - 65 ( >Rs.10 lakh) per cent with 10 per cent surcharge
  - Foreign Cos.: 85 per cent.
The tax is collected annually. For HUFs and registered firms, the assessment is done at the individual level only on the basis of their respective shares in the income. Unregistered firms are assessed at the firm level. For tea estates, income assessed for the purpose of income tax (Union government) is accepted.

Agricultural income from the cultivation of paddy, tapioca, plantain, ginger, ragi, pulses, sesamum, vegetables, sweet potatoes and tubers are excluded from taxable income. So are expenses on religious or charitable trusts, if these meet the prescribed conditions. Certain types of savings and financial investments are excludable too.

Tax on Urban Immovable Property

The State government does not levy this tax. There is no ground rent/premium for conversion of agricultural into non-agricultural land. However, a non-recurring tax is levied by the Government under the *Kerala Building Tax Act 1973* on buildings and appurtenant structures like garages, outhouses etc. completed after 1st April 1973 and the capital value of which exceeds Rs. 75000/-. The rate structure is progressive in terms of capital value, increasing from 1 per cent to 10 per cent in seven slabs.

Local Taxation of Land & Buildings

Non-agricultural lands in urban areas are taxed if they are not occupied by/adjacent and appurtenant to buildings. The maximum rates (with capital value as the base) are as follows: 1/2 per cent General Tax, 1/2 per cent Water & Drainage Tax, and 1/8 per cent each for lighting and sanitation. Urban local bodies are free to fix any rate subject to these limits indicated. Agricultural lands can also be taxed by local bodies.

In addition to this, urban local bodies can levy property tax on buildings and land occupied by/adjacent and appurtenant to buildings. There are two parts of the overall property tax: (i) general purpose and (ii) service tax, comprising of a lighting tax and a sanitary tax. The rates on annual value of buildings/land can be fixed by municipal bodies between 10 and 25 per cent.

Panchayats levy a building tax at rates between 6 and 10 per cent of the net annual rental. This tax is assessed once in five years only.

Stamp Duties and Registration Fees

The two important stamp duty rates levied under the *Kerala Stamp Act* are as follows:

- **Bonds**: Rs. 2.50 for every Rs. 100 or part thereof of the amount secured;
- **Conveyance**: Rs. 5 for every Rs. 100 or part thereof of the amount or value of consideration; Rs. 7.50
Overview of Tax Systems

instead of Rs 5 for conveyance of immovable property within the municipal areas of Trivandrum, Calicut, Cochin, Quilon, Alleppey, Kottayam, Alwaye, Trichur, Palghat, Tellicherry, and Cannannore.

The above rates are increased by 5 per cent and 4 per cent in municipal corporation areas and other areas respectively; the proceeds are handed over to the concerned local bodies after deduction of collection charges.

The general rate for registration fee on documents is one per cent of the value (of consideration) with the base amount rounded off to the next multiple of 100 if it is not so. There are, however, a large number of exceptions.

Registering officers, in case of doubts regarding valuation of property, can refer the case to the district magistrate, who has the power to determine the property value independently. He can also, *suo motu*, within two years from the date of registration of a document determine the property value himself and ask for the additional duty/fee to be paid.

State Excise

State excise derives revenue mainly from auction of abkari shops. The instalments towards the auction settlement amount are 10 monthly ones. Since 30 per cent of the bid must be deposited on the day of the bid itself, the last three instalments are adjusted against this deposit.

Excise duty is also levied on medical and toilet preparations containing alcohol or narcotics and spirits. Other sources of excise revenue are, Tree Tax on coconut trees tapped, licence fee for toddy shops, and entrance fee for abkari shop auction.

The important rates of excise duty are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL</td>
<td>14.00 per LPL</td>
</tr>
<tr>
<td>India-made wine</td>
<td>12.00 per LPL</td>
</tr>
<tr>
<td>Beer</td>
<td>1.00 per BL</td>
</tr>
<tr>
<td>Arrack 25 degree up</td>
<td>4.50 per BL</td>
</tr>
<tr>
<td>Rectified spirit</td>
<td>15.50 per LPL</td>
</tr>
<tr>
<td>Gallonage fee on</td>
<td></td>
</tr>
<tr>
<td>Rectified spirit</td>
<td>2.50 per BL</td>
</tr>
<tr>
<td>Export duty on IMFL</td>
<td>1.00 per LPL</td>
</tr>
<tr>
<td>Vending fee for IMFL</td>
<td>3.00 per BL.</td>
</tr>
</tbody>
</table>

LPL: London proof litre; BL: Bulk litre.
As for IMFL, all suppliers must sell their products to the Kerala State Beverages Corporation first, which pays the duty on these liquors. The retail sellers obtain their licences and their supplies of liquor from the Corporation.

The government does not have any control over the prices of IMFL. Price of arrack is, however, controlled by the government as it is manufactured in the public sector after importing the required amount of rectified spirit. The duty is paid by the arrack shop contractor while lifting his supply.

**Tax on Motor Vehicles**

The *Kerala Motor Vehicles Taxation Act 1976* provides that such vehicles are mostly taxable either according to their unladen weight (goods vehicles) or according to seating (and standing) capacity (passenger vehicles - stage carriages). Trailers and unclassified vehicles are taxed according to laden weight. There is a separate category for tourist cabs.

Some of the important quarterly rates are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two-wheelers</td>
<td>Rs. 12 - 21</td>
</tr>
<tr>
<td>Three-wheelers</td>
<td>Rs. 18 - 30</td>
</tr>
<tr>
<td>Goods vehicles</td>
<td>Rs. 200 - 1500*</td>
</tr>
<tr>
<td>Stage carriages</td>
<td>Rs. 120 per seat and</td>
</tr>
<tr>
<td></td>
<td>Rs. 30 per standee allowed</td>
</tr>
<tr>
<td>Taxicabs (3-6 passengers)</td>
<td>Rs. 100</td>
</tr>
<tr>
<td>Tourist motor cabs</td>
<td>Rs. 200</td>
</tr>
<tr>
<td>Cars</td>
<td>Rs. 75 - 125</td>
</tr>
</tbody>
</table>

* For goods vehicles with laden weight exceeding 15000 kgs, the rate is Rs. 1500 plus Rs. 30 for every 250 kgs or part thereof in excess of 15000 kgs.

The tax is payable either quarterly or annually at the office specified in the certificate of registration. If the annual tax due is less than Rs. 500, the tax can be paid for 5 years at a time. Two- and three-wheelers can pay their dues for 5/10/15 years in lump at their option. Taxes on passenger and goods, entry tax and road tolls are not levied in Kerala.

The revenue net of collection cost can be shared between the state government and the local bodies on the basis of the recommendations of the Committee to be appointed by the state government for this purpose from time to time, as per section 19 of the relevant Act read with Rule 11 of the relevant rules.
Overview of Tax Systems

Electricity Duty

This tax is levied under the Kerala Electricity Duty Act 1963 read with Kerala Electricity Duty Rules 1963. Electricity duty is not built into the basic tariff but is levied over and above the tariff fixed by the Electricity Board.

Rate Structure:

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>HT/EHT</td>
<td>10 paise per kwh of power</td>
</tr>
<tr>
<td>LT except street light</td>
<td>10 per cent of price</td>
</tr>
<tr>
<td>Self generation</td>
<td>1.2 paise per kwh generated and consumed</td>
</tr>
</tbody>
</table>

There is also a surcharge of 2.5 paise per kwh applicable to consumers of high tension/extra high tension energy. Duty @ 6 paise per kwh is payable by KSEB to government. This cannot be passed on to the consumers. Street lighting is exempt from tax.

Entertainment Tax

Under the Kerala Local Authorities Entertainment Tax Act 1961, entertainment tax is levied by local bodies at a rate not less than 15 per cent and not exceeding 30 per cent on price of admission to any entertainment. The tax is compounded if so desired by the proprietor(s) of theatres. The amount fixed for this purpose is usually based on total ticket price assuming a full house and the location of the theatre concerned. Such compounding is done for maximum three months at a time.

Under the Kerala Additional Tax on Entertainments and Surcharge on Show Tax Act 1963, an additional tax of 60 per cent on the entertainment tax is levied. In addition to entertainment tax the State has show tax @ Rs. 2 per show in licensed theatres (rates are higher for other entertainment shows) along with a surcharge of 25 per cent but no betting tax. The local bodies also collect annual license fee (Rs. 500) from the theatres.

Other Taxes and Duties

All local bodies including Panchayats are empowered to levy profession tax on persons/companies engaged in business in their respective jurisdiction. The amount of tax is determined on the basis of a progressive rate structure with an exemption limit of Rs. 4,800/- in municipal areas and Rs. 2,400/- in the case of panchayats.

Cesses and Surcharges

Apart from irrigation cess there are no cesses in Kerala. There is, however, a surcharge on sales tax assessed on the turnover of dealers.
Power of Local Bodies to levy Cess

Land Cess: Panchayats are empowered to impose land cess. This was originally a compulsory item of tax, but was made optional in 1975. Gradually all the Panchayats opted out of this form of taxation bowing to public pressure.

Irrigation Cess: Panchayats can also, with prior approval of the Government, levy an annual cess on area benefitted by petty irrigation works constructed, repaired or restored wholly or partly at the cost of the Panchayat.

The Panchayats/ Municipalities/ Corporations in the State do not levy or collect any other cess.
Land Revenue

Land revenue in Madhya Pradesh is levied under the Madhya Pradesh Land Revenue Code 1959. It is based mainly on soil type with regard to its productivity. Nazul land is also assessed under land revenue. Periodicity of revenue settlement is supposed to be 30 years, but assessment rates have been actually continuing for a longer period.

Exempted size of total holding is 5 acres, which is considered uneconomic holding.

There is no consolidated assessment of land revenue along with irrigation rates.

Agricultural Income Tax

Not levied.

Tax on Urban Immovable Property

No urban land tax is in force but conversion of agricultural land into non-agricultural uses attracts, apart from the fresh determination of standard rate, a levy of 1/3 (residential) or 1/2 (otherwise) of the annual rental value assessment as a premium, the amount of which also depends on the population size of the locality. This is collected under the same Act as land revenue. A different procedure is adopted for Nazul land due to the auctions involved for the grant of lease, and the procedures thereof.

Local Taxation of Land & Buildings

Under the Madhya Pradesh Panchayat Adhiniyam 1981 regulating Panchayats, a cess of 50 per cent is levied on land revenue on agricultural lands, and the cess is collected even if land revenue is not payable due to any reason. Property tax is levied on lands and buildings, the capital value (including land) of which is above Rs. 1,000/- by the Gram Panchayats.

Urban local bodies levy property tax under the Madhya Pradesh Municipalities Act on the annual letting value of lands and buildings within their jurisdictions. Government properties are exempt from this tax.

Annual letting value is determined on the basis of actual rent, market rent as reflected in similar properties, or the rent fixed under the Rent Control Act applicable. A 10 per cent rebate is given on the gross letting value towards repairs and maintenance. Properties with annual letting value upto Rs. 1800 are exempt from payment of this tax. For properties with higher annual letting values the tax rate rises from 6 per cent in the lowest bracket to 20 percent in the highest.
Stamp Duties and Registration Fees

Stamp duties are mostly ad valorem rates. Bonds have to bear stamp duty @ 4 per cent of the value secured (rounded up to the nearest multiple of ten), and conveyances are taxed at 7 per cent upto Rs. 10,000 of market value of the property concerned, and at 7.5 per cent beyond Rs. 10,000. There is a surcharge on stamp duty on instruments of sale, gift, and mortgages of immovable property @ 2 per cent within municipal corporations and 1 per cent within the limits of municipal council areas. The revenue from this surcharge is passed on to municipalities as grants-in-aid every year. Similar surcharge @ 1 per cent is levied in the Block areas and the proceeds credited to the Panchayat Fund.

Fees for registration and certain other miscellaneous related fees are collected at specific rates for different instruments or services.

State Excise

Excise duty is levied on country liquor, IMFL, Beer, other intoxicants like hemp and rectified spirit. The last is taxed at relatively lower rates. IMFL is taxed at a higher rate than country liquor, as is usual. Military/para-military consumption of IMFL bears half the tax rate as compared to the civil consumption. The revenue consists of licence fees from auctions of retail shops and duty levied at the first sale/purchase point.

The Government is not a manufacturer of liquor, but for country liquors, it is the only wholesaler. The purchase price to be paid to the distillers is fixed by the Government itself. The duty on country liquor is included in the issue price itself. Sometimes the government undertakes retail sales also, especially in tribal areas and under certain special circumstances. Generally retail shops of country liquor are auctioned every year whereas IMFL shops are auctioned every two years. The licence fees for IMFL outlets are fixed. There is no price control except in Indore and Durg districts.

Some important rates of excise duty are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country Liquor spiced</td>
<td>20.00 per PL</td>
</tr>
<tr>
<td>Country Liquor plain</td>
<td>15.00 per PL</td>
</tr>
<tr>
<td>Beer</td>
<td>0.50 per BL</td>
</tr>
<tr>
<td>Spirits, other than denatured, containing more than 42° proof spirit, including IMFL</td>
<td>23.00 per PL</td>
</tr>
<tr>
<td>Absolute alcohol (rectified spirit)</td>
<td></td>
</tr>
<tr>
<td>for basic drugs and aromatic chemicals</td>
<td>2.50 per PL</td>
</tr>
<tr>
<td>for other purposes</td>
<td>3.85 per PL</td>
</tr>
</tbody>
</table>
Ganja cultivation, under the supervision of the excise department, is being phased out. Opium attracts a very high rate of duty.

Motor Vehicles Taxes

Tax under Madhya Pradesh Motor Vehicle Taxation Act 1947 is levied on all motor vehicles used or kept for use in the State. It is a specific duty depending on the type of vehicle, and unladen weight (for two wheelers, jeeps, and cars) or seating capacity (for public passenger vehicles) or registered laden weight (for goods vehicles) as the case may be.

Madhya Pradesh Motor Vehicle (Taxation of Passengers) Act 1959 was repealed w.e.f. 1.8.78. There is an additional motor vehicles tax in its place. This tax is on public passenger vehicles not plying within municipal limits exclusively. This tax is assessed on the basis of operational kilometres and seating capacity.

There is a surcharge on the basic motor vehicle tax @ 20 per cent for all goods vehicles.

Goods tax, levied under Madhya Pradesh Motor Vehicle (Taxation of Goods) Act 1962, is normally levied at 10 per cent of freight charges. For vehicles using zonal or national permits, there is a fixed amount prescribed (Rs. 1000 and Rs. 1500 p.a. respectively). Minimum freight rates are prescribed to counter evasion. Compounding is also allowed at Rs.37.50 p.m.

Entry tax is in operation since 1976 under the Madhya Pradesh Sthaniya Kshetra men Mal ke Pravesh Par Kar Adhiniyam. This is a single point levy at the time of first entry into the State. Both consumption goods as well as inputs including additional excise duty items are taxed. The maximum rate of tax is 20 per cent. Certain raw materials are taxed at concessional rates (0.5 per cent). This tax is administered by the Sales Tax Department.

Electricity Duty

Electricity duty is not included in the tariff and levied separately though they are collected from the consumer together. It is a specific duty on the sale of electricity, per unit(kwh) of energy consumed. There is a two-part graduated rate for domestic use of energy. There is a similar two-part rate for commercial use with higher rates. Public utilities pay the duty at the lowest rate, and mines at the highest rate. Industries other than cement also bear a relatively low rate.

Entertainment Tax

This is a levy based on the admission charges to entertainment shows. The tax is collected through a system of prepaid entertainment duty stamps. The tax rates vary according to the population size in the area in which the theatre is located and the admission charge, with a maximum of 60 per cent.
Overview of Tax Systems

There is an Advertisement Tax on slides, and advertisement films and trailers. The former varies with town population, with a maximum of Rs. 250 per month. The latter is taxed at a maximum of Rs. 50 per month. Show Tax or Betting Tax is not levied by the State government. The former is levied by the local government.

Other Taxes & Duties

Profession tax was payable by any employed person other than in agriculture earning at least Rs. 12,000/- p.a. This was deducted at source for salary-earners. All non-salary earner taxpayers had to pay this tax annually. It has been abolished w.e.f. 1.4.1991 (vide news report in Financial Express, dated 7.3.1991).

Luxury tax is levied on hotel tariffs not less than Rs. 60 per day per person excluding food and beverages @ 5 per cent of such tariff. The rate is 10 per cent for tariff above Rs. 149 per day per person.

Entry Tax: See Motor Vehicles Taxes.

Cesses/ Surcharges

Irrigation cess is levied on cultivations in command areas of irrigation projects @ Rs. 10 or Rs. 5 per acre, depending on the type of irrigation provided.

Panchayat cess is levied on all tenure holders and government lessees @ 50 per cent of land revenue or rent assessed, even if the land revenue or rent is exempted, suspended or remitted. The proceeds are distributed among Gram Panchayats and Janpad Panchayats in the ratio 60:40.

Energy development cess is levied at one paisa per unit of power sold. The proceeds are credited to Energy Development Fund, money from which can be spent on the energy sector only.

Urban development cess was imposed w.e.f. 1982 on land and buildings @ 5 per cent on annual letting value/ annual value. Owner occupied property is taxed at half the usual rate. This is collected along with property tax. Tax bases below Rs. 10,000 are exempt.

The receipts from this tax are earmarked for urban development schemes, particularly slum clearance, taken up by the government.

Cess on transfer of vacant land and land used for agriculture is levied @ 5 per cent of stamp duty payable in addition to the surcharge on stamp duty on instruments of transfer by way of sale, gift, lease, mortgage etc. involving the two specified types of land. This is collected as additional stamp duty and credited to the Panchayat Fund.
School building cess is levied along with land revenue on holdings of 6 hectares or more @ Rs. 3.75 per hectare. The exemption limit is 10 hectares for persons belonging to a scheduled caste/ scheduled tribe. Proceeds of this tax are credited to Primary School Buildings Construction Fund along with a 50 per cent matching grant. This amount is spent on construction of school buildings in non-urban areas. Districtwise correspondence of revenue from this tax and the expenditure on the related item is maintained.

Forest development cess is levied at 2 per cent of the price on every sale or supply by the forest department. This was levied at 1 per cent since 1.11.84 and at the present rate since 15.7.84. The revenue is credited to the Forest Development Fund.

Cess on storage of coal/ on land held in connection with mineral rights was first levied in 1982 as a tax of Rs. 2 per ton of coal stored (in practice raised). Its scope was widened in 1987 to all major minerals with an enhanced rate of Rs. 5 per ton. The proceeds are spent on development of mineral bearing areas.

Mineral areas development cess started as a 25 per cent cess on rental value (dead rent/ royalty) of mining land. The rate was raised to 100 per cent in 1983. Only for coal, this rate was further raised to 125 per cent in 1985. The Supreme Court, however, has restricted the operation of this cess to only Western Coalfields Ltd. by its order. The revenue is earmarked for development of mineral bearing areas of the State.

Levy of Cess etc. by Local Bodies

Nil.
Tax Structure
Madhya Pradesh

Rs. crore

2,400
2,000
1,600
1,200
800
400


- Profession Tax
- Agricultural Taxes
- Stamp Duty and Regn. Fees
- Total Sales Tax
- Motor Vehicle Tax
- Excise Duty
- Electricity Duties
- Other Taxes
- Share of Central Taxes
- Entertainment Tax
Tax System in Brief: Maharashtra

Land Revenue

Given the diversity of soil types, tenancy systems, and administration of land revenue in the present State of Maharashtra, an uniform land revenue system over the whole State has not been considered practical. Standard rates have, however, been fixed in most of the areas under survey settlement operations taking into account the productivity of land and several determinants of the same. Settled rates are guaranteed for 30 years and are not changed for that period. Where survey settlement was not done, ad-hoc settlement has been done, having regard to settled areas.

A surcharge on basic land revenue is levied for the purposes of Employment Guarantee Scheme. The surcharge is levied @ either 50 per cent or 100 per cent of the basic revenue depending on the size of the landholding. Land revenue below Rs. 5 need not be paid, and dryland-holders upto 3 hectares or assessed to land revenue below Rs. 10 are exempted from payment of land revenue.

The State has no consolidated assessment of irrigation rates and land revenue.

Agricultural Income Tax

Under the Maharashtra Agricultural Income Tax Act 1962, all persons having agricultural income above Rs.36,000 had to pay tax @ 50 per cent of all such income over Rs.36,000. Agricultural income included income from rent on agricultural land as well as income from a building on such land. Agricultural income of Central, State and Local governments were exempt. The tax has been abolished w.e.f. April 1 1989.

Tax on Urban Immovable Property

Blockwise standard rates of tax have been fixed for non-agricultural land as 1.25 per cent of the estimated market value. These rates were fixed in 1979 and guaranteed for 12 years. They are due for revision now (1991) after which such revisions can be done every 10 years.

Permitted conversion of agricultural into non-agricultural land is taxed at thrice the assessed rate on non-agricultural land in specified areas. Residential buildings pay the standard rate; industries pay 1.5 times the standard rate and the rate for commercial property is either 2 or 3 times the standard rate, depending on the form of the urban local body that has jurisdiction over it.

Local Taxation of Land & Buildings

Village Panchayats can levy a tax on all buildings and lands which are not subject to the payment of agricultural assessment within village limits. The tax base is either capital value or
Overview of Tax Systems

annual letting value. On the former base, the minimum rate is 20 paise for every Rs. 100 or part thereof, while the maximum is 100 paise for the same. On the annual letting value base, the minimum and maximum rates are 3 and 25 per cent. These rates are for buildings. For land, the corresponding rates are 25 paise and 50 paise, and 6.25 per cent and 15 per cent. Public purpose buildings, government-owned as well as some of the privately owned, are exempt from this tax.

Zilla Parishads can also levy a similar tax. Municipal Councils, of course, can levy a consolidated property tax on the rateable value, the minimum and the maximum being 17 per cent and 25 per cent, the range differing according to the class to which a municipal area belongs.

The municipal corporations have their own system of property taxation usually with a host of other minor taxes. These taxes are based on the rateable value of the property.

Stamp Duty and Registration Fees

Stamp duties are primarily ad valorem rates, while registration fees are mostly specific rates. Other usual miscellaneous fees under the relevant Act are also payable.

The rate of stamp duty on bonds is Rs. 10 on every Rs. 500 or part thereof of the value secured. The rates of stamp duty on conveyances are Rs. 15 for every Rs. 500 of the value of consideration for movable property and Rs. 15 to Rs. 50 on every Rs. 500 of the value of consideration (depending on the city/town in which the property is located) for immovable property. Other important documents from the revenue point of view are mortgages and hypothetications.

To check evasion of this tax, the value stated in the document is compared to the market value in doubtful cases. Evasion through 'agreement to sale' and a subsequent consent decree in a suit for specific performance has been sought to be prevented by treating such decrees or final orders of civil courts as conveyance through suitable modifications of the Act.

State Excise

Excise duty or countervailing duty is levied on all excisable goods when imported, exported, transported, possessed, manufactured or sold, as the case may be under the Bombay Prohibition Act 1949. Imports into the country are, of course, exempt from this tax. Apart from excise duty proper, there are tree taxes, licence fees, transport/export fees and privilege fees.

The price of country liquor is fixed by the government. Country liquor shops are not auctioned. Toddy licences are, however, auctioned. Ganja, opium and other narcotics are sold only from government shops and the duty element is added to the price. The State government is not directly involved in the manufacture, distribution and pricing of liquor except in the pricing of country liquor.
Excise duty on liquor and rectified spirit is recovered when the liquor is issued from distillery or bonded warehouses for use without excise supervision.

Some important rates of excise duty are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMFL (for civilians)</td>
<td>60.00 per PL</td>
</tr>
<tr>
<td>IMFL (for defence)</td>
<td></td>
</tr>
<tr>
<td>Rum</td>
<td>12.00 per PL</td>
</tr>
<tr>
<td>Other</td>
<td>50.00 per PL</td>
</tr>
<tr>
<td>Country liquor</td>
<td></td>
</tr>
<tr>
<td>Manufactured from spirit based on molasses</td>
<td>28.00 per PL</td>
</tr>
<tr>
<td>Manufactured from spirit from other bases</td>
<td>29.00 per PL</td>
</tr>
<tr>
<td>Beer (strength of more than 8.75 per cent proof)</td>
<td></td>
</tr>
<tr>
<td>Civilian</td>
<td>7.50 per BL</td>
</tr>
<tr>
<td>Beer (strength not more than 8.75 per cent proof)</td>
<td></td>
</tr>
<tr>
<td>Civilian</td>
<td>5.00 per BL</td>
</tr>
<tr>
<td>Defence</td>
<td>2.05 per BL</td>
</tr>
<tr>
<td>Tree Tax</td>
<td></td>
</tr>
<tr>
<td>Coconut and Bard</td>
<td>40.00 per tree</td>
</tr>
<tr>
<td>Date and Palm</td>
<td>20.00 per tree</td>
</tr>
</tbody>
</table>

Prohibition in one district (Wardha) is in force.

Tax on Motor Vehicles

Motor Vehicles Tax is levied under the *Bombay Motor Vehicle Taxation Act 1958*. The rate of tax depends on the type of vehicle, unladen weight (for two-wheelers and unclassified vehicles), seating capacity (for stage carriages), and registered laden weight (for goods vehicles). Two-wheelers and motor tricycles pay an once-for-all tax. Motor vehicle owners are grouped into two categories: (a) individuals, local authorities, public trusts, universities, and other educational institutions; and (b) others. The second group is charged this tax at rates 200 per cent higher than the rate charged on the first group.

75 per cent of the revenue from this tax is transferred to the State Road Fund. There is a surcharge levied for purposes of Employment Guarantee Scheme. Also, there is a further tax in lieu of goods tax w.e.f. 1.4.80. This is only on goods vehicles.

Passenger tax is levied at 3.5 per cent of the fare on routes within municipal and adjoining areas. On other routes, the rate is 17.5 per cent. There is further tax to raise finances for the health and nutrition schemes on the routes within municipal and adjoining areas of 5 paise per ticket for tickets of Re.0.60p and above. In other areas this has been merged with the passenger tax.
Overview of Tax Systems

Electricity Duty

This tax, levied under the Bombay Electricity Duty Act 1958, is specific per unit of energy consumed. The rates differ according to the type of consumer and the purpose. Domestic rates are low and commercial and business rates are the highest. Industrial rates vary depending on the specific industry, particularly on the importance of energy as an input. Rates for agricultural purposes are the lowest with energy for pumps exempted from duty. New industries and heavy industries get concessional rates. The duty is not built into the electricity tariff.

There is a tax on sale of electricity under Maharashtra Tax on Sale of Electricity Act paid by the bulk licensees @ 1 paisa per unit, when sale is above 5 million units in a year. Railways and Central government are exempted from this tax. This tax is built into the electricity tariff.

Entertainment Tax

Entertainment tax is levied on admission charges to race course and payments for cabaret shows, discotheques and video game parlours, apart from the main assesses, i.e., the cinema theatres, under the Bombay Entertainments Duty Act 1923, which is deemed to have come into operation in the whole State on January 1 1984.

Basic rates on theatres for every entertainment other than cinema and video shows have a slab system of progressive rates with respect to admission charges, and the three-tier rate schedule differs according to the population size of its location. The minimum rate is 30 per cent of the first one rupee of admission and the maximum is 65 per cent of the same. For cinema and video shows, the rate varies between 80 and 100 per cent of the admission charge depending on the population of the location. For other assesses a proportional or a lump sum tax is levied, as convenient for each type ofassesees.

The rates have been revised w.e.f. 1.1.87. The 5/10 per cent surcharge that was levied earlier has also been abolished. A compounding system based on gross collection capacity can now be availed of, to be paid weekly.

There is a betting tax consisting of a bookmakers tax (15 per cent) and a totalisator tax (10-15 per cent) on the amount of bets placed.

There was a tax on T.V. set owners from 1.7.82 to 31.3.85. Show tax is not levied by the State government but the local bodies concerned.

Other Taxes & Duties

Profession tax is levied under the Maharashtra Tax on Professions, Trades, Callings and Employment Act 1975 on salary earners earning more than Rs. 800/- a month, and on all
self-employed or professionals (employed persons) at the maximum rate of Rs. 600/- per annum. Most of the self-employed persons and professionals, and salary earners with a monthly salary of Rs. 3500 or more have to pay this tax at the maximum rate. Upto 1975, it was levied by local bodies, which, however, earned very small amounts of revenue from it. The State government now compensates those which did levy the tax before 1975. The net (of assignment to local bodies) revenue from this tax is earmarked for the Employment Guarantee Scheme.

Purchare tax on Sugarcane is levied on the quantity of sugarcane purchased by a sugar or Khandar producing unit. The rate is approximately half for the latter as compared to the former. W.e.f. September 1 1990, Rs. 2.20 per Kg for manufacture or production of sugar and Re.0.08 per Kg. for manufacture or production of Khandar in a unit is leviable under this tax.

There is a tax on Luxuries in Hotels and Lodging Houses since 1974. Hotel charges excluding those for food and drinks consist the tax base if over Rs. 60 per day. There is some graduation with 3 rates - 3 per cent, 5 per cent and 10 per cent. The tax is collected from hoteliers on the basis of books required to be maintained by them.

There is a tax on Residential Premises larger than a given size in the five cities of Bombay, Pune, Solapur, Kolhapur and Nagpur. It is collected by respective municipal corporations along with property tax on behalf on the State government. The rate is 10 per cent of the rateable value.

There is a forest development tax of 5 per cent on the sale price of forest produce sold by or on behalf of the State government or the Forest Development Corporation of Maharashtra. The net proceeds are utilised for forest development.

Cesses/Surcharges

Education cess is levied on both agricultural lands growing specified commercial crops and urban land. The revenue is not transferred to local bodies but used entirely on education.

There is a cess on land revenue with a prescribed minimum rate. The rate can be higher than the minimum by an increment (subject to a maximum) in particular areas if the Panchayat concerned so desires. While village level local bodies get the entire amount of cess along with a matching grant for amounts above the minimum, urban local bodies can get the proceeds spent by the State government on specified services and activities through their own resolution.

There is a cess on water rates collected by the State government but handed over to the local bodies.

There is a Bombay Building Repairs and Reconstruction Cess (only in Greater Bombay) collected by the Bombay Municipal Corporation and handed over to the State government. The net proceeds entirely go for building repairs purposes supervised by the Bombay Housing and Development Board.
Overview of Tax Systems

There is also an **Employment Guarantee Cess** on urban land and buildings as well as agricultural land raising irrigated crops.

As per the provisions of the *Maharashtra Zilla Parishad and Panchayat Samiti Act 1961*, a cess on water rates @20 per cent is levied by the State and passed on to the Zilla Parishads.

**Power of Local Bodies to Levy Cesses etc.**

Only Municipal Corporation of Greater Bombay levies an **education cess**. The cess is levied on basic property tax, the range being 0.5 per cent to 5 per cent. No other cess is levied by any local body.
Overview of Tax Systems

Tax System in Brief: Punjab

Land Revenue

For the purpose of land revenue a sufficiently homogeneous cluster of villages are defined as an assessment circle wherein the basic rate is the same. However, the tax base is net assets which means estimated average annual surplus produce given the gross output and the various costs of agriculture. First, total demand is calculated for an assessment circle keeping net assets within the area in mind, and then it is distributed over individual landholdings as per soil conditions, subject to certain limits. Landholdings below 5 standard acres are exempt. Also, all landholdings within a 16 km. belt of the Pakistan border are exempt.

While separate rates are prescribed for dry and wet lands no separate rate exists for garden land.

There is a local rate of 50 per cent of land revenue which goes directly to the Panchayat Samiti and does not enter the consolidated fund of the State. There is another local charge called the village officers cess @ 50 per cent of the land revenue.

There is a progressive additional land revenue based on basic land revenue, with Rs. 20/- as exemption limit for this levy. This yields an amount far higher than the basic land revenue.

There is no explicit consolidation of irrigation rates with land revenue. There is a cess on commercial crops collected along with land revenue. The Irrigation department charges an ‘occupier rate’ and an ‘owner’s rate’ assessed on lands enjoying the benefits of canal irrigation; these are also collected along with land revenue.

Agricultural Income Tax

Not levied.

Urban Immovable Property Tax

Not levied.

Local Taxation of Land and Buildings

Urban local bodies levy the usual property tax. The local property tax rates are: 10 per cent on residential buildings and 15 per cent on commercial buildings. The tax base is annual rental value.

Gram Panchayats levy house tax, irrespective of the value, at two rates (Rs. 7/- p.a. and Rs. 5/- p.a.) depending on the occupation of the occupier/owner.
Stamp Duties and Registration Fees

Like most other States, Punjab has superimposed its own Acts and amendments on the original Central Act. As usual the charges are mostly specific, though progression has been sought to be introduced by making rates rise in accordance with slabs of values in consideration. Registration fees are usually 1 per cent of the value of the document subject to a minimum of Rs. 3/- and a maximum of Rs. 1,000/- . A number of other document-related fees are also collected under registration fees.

A major problem regarding anti-evasion measures in the State has been the inability to revise the stamp duty or registration fees payable post facto. An amendment in the relevant Act is in the process of enactment to plug this loophole.

State Excise

Revenue from this tax consists of excise duty, license fees, assessment fees, export fees, and fines and forfeitures. The highest tax rates are on IMFL (Rs. 32/- per proof litre). Country liquor (ordinary) and country liquor (spiced) are differentially taxed. Special low rates are charged for military consumption. Tax on beer is Rs. 1/- per bottle. Sweet and other wines are also taxed lightly. Exports of IMFL are taxed at Rs. 2.60 per proof litre; for beer, the rate is Re. 0.50p per bottle.

There is an additional excise duty in lieu of octroi on liquor. This is is passed on to local bodies and Panchayats as grants-in-aid.

Country liquor vends are auctioned. There are quotas for both types of country liquors. Beer is allowed to be sold in country liquor vends under a separate license. Minimum retail prices are fixed for country liquor and IMFL. Both imports and exports yield revenue in the form of fees.

Motor Vehicles Taxes

The Punjab Motor Vehicles Taxation Act, 1924 as amended from time to time, specifies rates primarily for commercial vehicles (trucks, tractors, buses, auto-rickshaws and taxis) depending on unladen weight/ seating capacity. Goods vehicles pay a maximum rate of Rs. 1500 per annum while for stage carriages the rate is Rs. 500 per passenger seat, subject to a maximum of Rs. 35,000. Minibuses with a seating capacity of more than 30 passengers are charged a fixed amount of Rs. 3000 per annum. Taxicabs pay Rs. 100 per passenger seat annually while autorickshaws pay Rs. 150 per annum. Rest are grouped under a single group and taxed on the basis of seating capacity. Taxes are collected on a quarterly basis.

For two-wheelers, one-time payment of tax is provided for, optional in the case of those registered prior to 10th October 1987. The rates for new vehicles are Rs. 150 for two-wheelers with an unladen weight < 90.72 kg. and Rs. 500 otherwise. These amounts are reduced pro rata.
Overview of Tax Systems

for vehicles registered earlier but opting for one-time payment. Refund on vehicles transferred out of the State is also provided for. A similar one time tax for some other vehicles also is being considered.

All State government vehicles except those used for commercial purposes are exempt. Similarly, all Central government vehicles except those belonging to the Railways are exempt.

There is a separate passenger and goods tax @ 45 per cent. However, since lump sum quarterly payments (with an assumed occupancy of 75 per cent of the seats for stage carriages) are now allowed, the percentage rate on actual fares collected has become almost infructuous. The lump sum rates depend on the type of vehicle, seating capacity and the route on which the concerned vehicle is plying. Minibuses with 15 or more seats pay a lump-sum amount of Rs. 6,600 per annum; for those with less than 15 seats the rate is Rs. 4400. Other vehicles are required to pay correspondingly lower amounts.

Electricity Duty

Electricity duty in Punjab is levied under Section 3 of Punjab Electricity (Duty) Act, 1958. The duty is levied on consumption of electricity. No duty is leviable on consumption of energy for agricultural uses. Rate differentiation is practically non-existent (mostly 0.11 paise per unit, i.e., kwh of energy consumed).

Entertainment Tax

These taxes are levied under the Punjab Entertainment Duty Act, 1955, the Punjab Entertainment tax (Cinematograph shows) Act, 1954 and other Acts. Basic Entertainment tax is levied @ 100 per cent on the admission charges to entertainment shows for 40 per cent of the total seats closer to the screen. For the rest, the rate is 125 per cent of the admission charge. Video parlours are required to pay Rs. 3000 and Rs. 4000 p.a. in rural and urban areas respectively.

The rates of show tax vary from Rs. 6 to Rs. 12 per 100 occupied seats per show depending on the location of the theatre.

Other Taxes and Duties

None yielding Rs. 50 lakhs or more.

Power of Local Bodies to Levy cesses, etc.

None.
Overview of Tax Systems

Tax System in Brief: Tamil Nadu

Land Revenue

Most of the revenue under this budgetary head accrue from assessment on land and the rest from sale of land and other miscellaneous receipts.

Lands are generally categorised into wet and dry. A third category called *Manavari* also exists in some parts of the State. Classification of irrigation sources is also relevant for land revenue. Various other relevant cross classifications include those based on soil composition and chemical and physical properties, as well as standard crop of the area.

There is at least some degree of consolidation of irrigation rates and land revenue through wet assessments, additional wet assessment and water cess as well as additional water cess on dry lands. There are also special rates for new irrigation sources and betterment levies for irrigation.

Agricultural Income Tax

Under the *Tamil Nadu Agricultural Income Tax Act 1955*, all those who hold land above 20 standard acres or have agricultural income (with specified exemptions) are liable to this tax. Landholdings are converted into standard acres for this purpose through use of availability of irrigation and the crop sown using specified conversion formulae. There is a great deal of progression in the marginal rates, but companies have to pay the maximum individual rates (now 65 per cent). Composition of tax is allowed for farmers not maintaining accounts and either not holding plantation lands or holding plantation lands below 100 standard acres. Composition has the effect of turning this tax into another land revenue as the tax liability does not depend on income but on landholding.

Total agricultural income not exceeding Rs. 10,000 is exempt.

Urban Immovable Property Tax

Originally this tax, levied under the *Tamil Nadu Urban Land Tax Act 1966*, was leviable only in Madras city. In 1971 it was extended to Coimbatore, Salem, Trichy and Madurai. From 1975 it was further extended to areas within 16 km.s of Madras city limits. In 1981 it was again extended to Tirunelveli urban agglomeration and other peripheral areas of Coimbatore, Salem, Trichy and Madras.

The tax is assessed on market value of land. There are various exemptions notified from time to time, but landholdings below two grounds in Madras city areas and below three grounds otherwise as well as slums are not taxed. Owner-occupied housing also gets some rebate. The rates are progressive and vary from 0.7 per cent to 2 per cent. 50 per cent of the revenue from this tax is transferred to the Urban Development Fund.
Local Taxation of Land and Buildings

Local property taxation usually consists of two or more elements, one general and the rest for specific purposes like lighting, drainage, education etc. Usually, annual rateable value is the basis of tax, arrived at in different ways depending on the use of the property. Vacant sites are generally taxed at lower rates. Agricultural land tax is collected only in one corporation and village panchayats.

Stamp Duty and Registration Fees

The rate schedule is the usual combination of a large number of specific rates and a few ad valorem rates according to type of documents. Surcharge @ 5 per cent of the market value of the property is also levied under stamp duty. One unusual feature in this State is that in the event of a serious lapse on the part of a registering officer, he may be punished by recovering the stamp duty lost from the concerned officer. The tax base now is market value rather than the reported consideration, and officials can make on the spot inspections for determining market value.

State Excise Duty

Tamil Nadu has an off-and-on record regarding prohibition, on which revenue under state excise depends to a great extent. Between 1947 and 1971 there was full prohibition and from 1974 full prohibition was again in force. In 1981-82 it again went back to limited prohibition with liquor permits. From June 1983, liquor trade (wholesale) was taken over by the public sector body, Tamil Nadu State Marketing Corporation. From excise year 1985-86 even the retail trade was entrusted to the same body. From beginning of 1987, prohibition was again in force with regard to toddy and arrack. Prohibition has since been relaxed and later reimposed.

The excise revenue consists of one or more of the following, depending on the system in force and on the extent of prohibition:

(a) Licence fee, (b) excise duty proper on manufacture/ export/ import/ transport on spirits, IMFL, Beer and country liquors, (c) vend fees, (d) excise duty on medicinal and toilet preparations, (e) excise revenue in the auction of arrack/ toddy shops, and (f) excise on narcotics.

Motor Vehicles Taxation

Under the Tamil Nadu Motor Vehicle Taxation Act 1974 this tax is a specific duty and, depending on the type of vehicle, is based on horse power/ laden weight/ unladen weight/ seating capacity. The payments are either quarterly, half-yearly or yearly. Half-yearly and annual payments are entitled to a rebate of 4 per cent and 6 per cent respectively. Two-wheelers registered after 1.4.89 have to pay the tax on a lump-sum basis, while those registered prior to
Overview of Tax Systems

This date can pay either annually or a lumpsum tax calculated on the basis of the type and age of the vehicle.

As far as stage carriages are concerned, rate differentiation exists according to the area/route they ply in.

Only vehicles belonging to the non-commercial agencies of the government of Tamil Nadu are exempt from the tax. 7.5 per cent of the total collection from this tax is transferred to the rural road development fund.

Passenger and Goods Tax has been merged with the Motor Vehicles Tax.

Electricity Duty

There are two elements of this tax in Tamil Nadu: electricity duty (levied under the Tamil Nadu Electricity Duty Act 1939) and electricity tax (levied under the Tamil Nadu Electricity (Taxation on Consumption) Act 1962). The State Electricity Board supplies electricity in some areas and in other areas, licensees supply the power. The electricity duty and the electricity tax are applicable to supply by licensees and to supply by the Board (along with self generation) respectively. In areas supplied by the Board, the tax is merged with tariff for collection of dues from consumers, but a separate account has to be maintained for payment to the government. Licensees, however, collect the electricity duty explicitly from the consumers.

Consumption by Central Government Departments, Railways, by licensees for construction, operation and maintenance of electrical undertakings, and sale of electricity not exceeding 16,666 units per month or 2 lakh unit p.a. are exempt from payment of electricity duty. Similarly, exemptions/concessions under electricity tax include those for new industries for five years, HT energy consumption by industrial undertakings liable to pay fuel surcharge, all LT consumption other than street lighting, and self generation for the first five years.

The rate of electricity duty is 3 paise per unit sold by the licensee at a sale price higher than 20 paise per unit. Although a rise in the rate to 5 paise per unit has been sanctioned, this has not been implemented. As for the electricity tax, the normal rate on HT supply is 11 per cent, with textiles, cement and energy-intensive industries assessed at 9, 5.5 and 3.75(or 4.75) per cent respectively. Public lighting is taxed at 20 per cent. Electricity tax on self-generation is substantially higher.

Entertainment Tax

All cinematographic exhibitions and horse races are taxed under this tax. 90 per cent of the collection from this tax is passed on to local bodies. The local bodies can impose an additional surcharge. There is also a show tax and a surcharge levied by the State government. Other entertainment taxes include a betting tax (on bookmakers) and a totalisator tax (on backers on the amounts placed as bets). Video parlours are also taxed under entertainment tax.
While basic entertainment tax depends purely on admission charges, show tax depends on location and surcharge on the same depends on location as well as type (air-conditioned or not) of theatre. The latter are specific rates. Overall rates are around 70 per cent of admission charge.

Compounding of entertainment tax is allowed, except in corporation areas. All the above taxes are collected by the Commercial Tax Department.

**Other Taxes**

*Profession tax* is collected by the municipalities, corporations and panchayats. Usually graduated rates are applicable. Collection is probably well above 50 lakhs taking the State as a whole.

There is a *tax on luxuries in hotels and lodging*. With a minimum daily charge of Rs. 50/- coming under the tax, most hotels and lodging come under the tax net.

**Cesses/ Surcharges**

*Library cess* is levied as a surcharge on property tax by local bodies. Collections are passed on to the local library authority.

*Sugarcane cess* is levied on sugarcane brought to sugar factories for crushing and collections transferred to Sugarcane Cess Fund, utilised for road development in sugar factory areas.

A local cess and a local cess surcharge is collected on land revenue, the collection from which, along with a matching grant, are passed on to local bodies, part of it being for expenditure on education.
Tax System in Brief: Uttar Pradesh

Land Revenue

Land revenue in U.P. is levied under several enactments such as *U P Land Revenue (Amendment) Act 1929*, *UP Zamindari Abolition and Land Reform Act 1950*, and *Kumaon and Uttarakhand Zamindari Abolition and Land Reforms Act 1960*.

The land revenue rates valid at present are those which came into effect from July 1, 1976. For the plains, the minimum and maximum rates are Rs. 10 and Rs. 20 per acre for irrigated land, and Rs. 5 and 10 for unirrigated land. In hill areas, 1.5 acres are taken to be equal to 1 acre. In two districts (Pauri Garhwal and Chamoli), the minimum and maximum rates are about half of those in the plains. For about 5 months in 1977, the rates were substantially lower due to two ordinances to that effect, which were not ratified subsequently. Tenure holders holding land up to 3.125 acres are exempted from land revenue.

There is no consolidated assessment of land revenue along with irrigation rates or cesses.

There has been no revenue settlement since 1945.

Agricultural Income Tax

This tax was levied up to 1978-79, when the revenue declined to Rs. 2.56 lakhs from Rs. 31.05 lakhs in 1962-63 mainly due to imposition of ceiling on land holding, under the *U.P. Vrihat Jot Kar Adhiniyam*. It was abolished from July 1, 1979.

Urban Immovable Property Tax

There is no tax levied by the State on urban land, nor is there any premium on conversion of agricultural land into non-agricultural land.

Local Taxation and Land and Buildings

The municipal boards / municipal corporations / N.A.C.s. / town area committees can levy property tax under the relevant Acts.

 Corporations must (under *U. P. Nagar Mahapolika Adhiniyam 1959*) levy a property tax consisting of a combination of one or more of the following: general or house tax, water tax, sewerage tax (in areas provided with a sewer system) and a conservancy tax (when a specialised service is undertaken). However, since the *Jal Sansthans* (water corporations) have taken over water supply in corporation and other local areas under *U.P. Water Supply and Sewerage Act 1975*, water and sewerage tax is collected along with property tax and passed on to the *Jal*...
Overview of Tax Systems

**Sansthans.** This Act fixes the limits of water rate between 6 and 14 per cent of the annual value of the property and those of sewerage tax between 2 and 4 per cent. The basis of tax is the annual value, either based on actual/reasonable rent or depreciated present capital value. The rate of property tax including water and drainage tax varies within the prescribed limits of 15 - 25 per cent. Government buildings, certain buildings used for public purposes, and buildings with annual value of less than Rs. 60 are exempted from the tax. Owner occupied houses are taxed at concessional rates.

Under the *U.P. Municipalities Act 1916 and the U.P. Town Area Act 1914*, municipal boards and Town Area Committees respectively may levy house tax. Since the levy itself is optional, no limits of tax rate have been prescribed. However, these bodies are levying house tax at rates ranging between 5 and 15 per cent. The tax base is essentially the same as in municipal corporations, i.e., annual value of property.

**Stamp Duties and Registration Fees**

A part of the total collection from stamp duty is through a Central Act, the other through the State Act. The Central Act was last revised in 1976 with respect to rates while the U.P. Government has been making revisions from time to time.

The rates of stamp duties are almost invariably fixed in nominal terms, with some progression built in. Conveyances have to bear duty at *ad valorem* rates (Rs. 95 for the first Rs. 1,000 of market value/ value of consideration, whichever is higher, and Rs. 47.50 for every subsequent Rs. 500 or part thereof). Bonds are also taxed at *ad valorem* rates of Rs. 47.50 for the first Rs. 1,000 of the amount secured and Rs. 23.75 on every subsequent Rs. 500 or part thereof. Court fees are also fixed in nominal terms.

Registration fees are also mostly specific duties, with occasional *ad valorem* rates. The rate for all non-testamentary documents is Rs. 21 for the first Rs. 1,000 of the consideration and Rs. 5 for every subsequent Rs. 500 or part thereof. Other fees for copying, comparison, safe custody, translations etc. of documents and certain other miscellaneous fees are also changed.

**State Excise**

Excise duty, levied under the *United Provinces Excise Act 1929* as amended from time to time, consists of basic duties (including export duties and countervailing duties), licence fees from vendors, revenue from sale of alcohol as motor fuel, duties on medicinal and toilet preparations containing alcohol, licence fees for the same, rents, fines and forfeitures, tree tax etc.

Prohibition is in force in six Hill districts and non-urban areas of Nainital, as well as most of the places of religious significance. Since October 1986, sale of *charas*, opium, *ganja*, and poppy-straw for non-medicinal use is prohibited.
The State employs different systems of collection for different dutiable goods as outlined below:

(a) **Uniform Surcharge fee system**: Licence fee is collected as a uniform surcharge payable along with basic duty. This system applies to manufacturing and sale of *tari* (toddy) at shops under the tree tax system.

(b) **Fixed fee system**: A fixed fee is collected for the right to vend. This system applies to a variety of licences for special uses of intoxicants.

(c) **Tender-cum-auction fee system**: This system is used in the settlement of vends of country liquor and IMFL (F.L. 5). Tenders are invited for retail shops and these are also auctioned. Tenders are opened after auction and shops are settled with the highest bidder or tenderer, whichever is higher.

(d) **Auction system**: Retail shops of *Bhang* are settled through auctions with the highest bidder.

(e) **Tree tax system**: This relates to manufacturing and sale of *Tari*. Under this system revenue is collected through (i) a tree tax on date and palm trees tapped or (ii) a surcharge and tree tax per tree to be paid by the vendor.

Both import and export of excisable items (from/ into the State) are taxed within the State. Excise is also levied on transport of these goods either in the district from which it is being transported or at the bonded warehouse where it is issued for sale. In the case of spirit or beer a rate is charged on the quantity produced or issued from a bonded warehouse.

Important rates of excise duty are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country Spirit</strong></td>
<td></td>
</tr>
<tr>
<td>36 per cent v/v, spiced</td>
<td>Rs. 12 per BL</td>
</tr>
<tr>
<td>25 per cent v/v, plain</td>
<td>Rs. 8 per BL</td>
</tr>
<tr>
<td><strong>IMFL</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rs. 40 per AL</td>
</tr>
<tr>
<td>(AL: Alcoholic litre)</td>
<td></td>
</tr>
<tr>
<td><strong>Military Rum</strong></td>
<td></td>
</tr>
<tr>
<td>(a) within prescribed limits of quantity in the border areas</td>
<td>Rs. 17.25 per AL</td>
</tr>
<tr>
<td>(b) above the limit or in other areas</td>
<td>Rs. 30.00 per AL</td>
</tr>
<tr>
<td><strong>Beer (strength &lt;7 per cent)</strong></td>
<td>Rs. 2 per BL, or Rs. 1.50 per bottle.</td>
</tr>
</tbody>
</table>
Overview of Tax Systems

The role of the government in the production and distribution of liquor is limited to regulation. Prices are, however, fixed by the government.

Motor Vehicles Taxes

The present system of motor vehicle taxation in U.P. is based on the *U.P. Motor Vehicles Taxation (Amendment) Ordinance 1988*. It is a specific duty on all types of motor vehicles. Cars are taxed according to unladen weight. The rate on a passenger vehicle (taxis, stage carriages etc.) depends on seating capacity, unladen weight and the type of tyres used, while rates on goods vehicles are fixed according to the authorised payload. The tax also differs according to the type of route it is intended to be used on (3 types: A, B and C). Vehicles owned by the government are exempt.

Owners of non-transport vehicles registered on or after 1.1.1988 must pay a one time tax and those registered before the said date have a choice of paying the annual tax or the one time tax.

For two-wheelers, the annual tax is either Rs. 35 or Rs. 55 while the one time tax is either Rs. 350 or Rs. 750. For cars (unladen weight below 1270 kg.), the annual tax is Rs. 138 while the one time tax is Rs. 2500. For other cars the rates are Rs. 182 and Rs. 2500 respectively. The annual tax on three-wheeler taxis is Rs. 303 (three-seater)/ Rs. 605 (four-seater), on four-wheeler taxicabs Rs. 757, on 52-seater stage carriage Rs. 4471, and on trucks Rs. 2933 (payload of 10 tonnes)/ Rs. 3479 (payload of 12 tonnes).

The tax is collected by the Registering authority, i.e., the Regional Transport Officer in advance for the calendar year (or for all times, in the case of one time tax).

Passenger tax is currently levied under the provisions of *U.P. Motor (Yatri Kar) Adhiniyam 1962* @ 16 per cent of the fare with an additional tax of 10 paise for each journey in a carriage plying outside city/town limits also, and a surcharge of maximum 5 per cent of the tax plus additional tax for the purpose of providing relief to passengers in case of accident. There is an option for compounding with a minimum liability based on fares, number of trips and tax rates applicable.

Under the *U.P. Motor Gadi (Mal Kar) Adhiniyam 1964* a goods tax is levied on goods vehicles, the base of which is the freight charge. The rates are now 8 per cent and 10 per cent depending on the type of permit. The statutory ceiling rate is 15 per cent.

There is also an entry fee on transport vehicles entering the State at a flat rate per vehicle, to compensate local bodies for abolition of octroi since May 1, 1979. The rate at present is Rs. 60 per vehicle.
Electricity Duty

This is a tax on sale or consumption of electricity, specified either per unit or as a percentage of tariff. As far as this tax is concerned, there is no direct differentiation between domestic and commercial/industrial use except in the case of energy consumed being generated from own source, where industries pay at a lower rate. Energy sold to the Central Government, to the railways and to agricultural users is exempt from the duty. While the tax is collected along with the electricity tariff, it is not built into the basic tariff but is calculated separately.

Entertainment Tax

Entertainment taxes in the State are levied under the *U.P. Entertainment and Betting Tax Act 1979*. Basic entertainment tax is usually levied on the admission charges with a progressive rate structure. For "interior" cinemas, weekly rates are fixed in nominal terms. The rates otherwise vary from 30 per cent to 150 per cent. Cinema show tax is levied by the local bodies. Certain types of entertainment including circuses are exempt. Betting tax including totalisator tax is levied on the amount of total bet at 10 per cent.

Other Taxes and Duties

a. **Purchase Tax on Sugarcane**: This tax is levied per quintal of purchase of sugarcane by sugar factories. Purchases by *Khandari* units are taxed at a slightly lower rate.

   No profession tax is levied by the State. Local Bodies levy this tax.

Cesses/ Surcharges

None in the State, nor for the local bodies.