



COMMERCIAL TAXES DEPARTMENT

DEMAND NO.10

**COMMERCIAL TAXES
POLICY NOTE
2002-2003**

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MINISTER FOR INDUSTRIES
AND
COMMERCIAL TAXES**

**(c)
GOVERNMENT OF TAMIL NADU
2002**

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1. INTRODUCTION

1.1 Commercial Taxes earn the highest tax revenue for the Government of Tamil Nadu. In order to meet the increasing requirement of funds for Welfare and Development Schemes, the taxation policy of the Government aims to mobilise higher revenues and also widen the tax base so that the commodities where the tax rates are already high, are not over burdened with taxation.. At the same time, care is also taken not to over burden the common man. The underlying emphasis of the whole taxation policy is to improve the pace of economic development.

1.2 ACTS ADMINISTERED BY THE COMMERCIAL TAXES DEPARTMENT

The Tamil Nadu General Sales Tax Act, 1959
The Tamil Nadu Additional Sales Tax Act, 1970
The Central Sales Tax Act, 1956.
The Tamil Nadu Entertainments Tax Act, 1939
The Tamil Nadu Local Authorities Finance Act, 1961
The Tamil Nadu Betting Tax Act, 1935
The Tamil Nadu Tax on Luxuries Act, 1981
The Tamil Nadu Tax on Entry of Motor Vehicle into
Local Areas Act , 1990
The Tamil Nadu Advertisements Tax Act, 1983.
The Tamil Nadu Tax on Entry of Goods into Local
Areas Act 2001

2 ORGANISATION AND FUNCTIONS OF THE DEPARTMENT:-

The Commercial Taxes Department at the field level is headed by the Commissioner of Commercial Taxes who is assisted in the Head Quarters by a team of Joint Commissioners, Deputy Commissioners, Assistant Commissioners in charge of different wings of the Department. There are 10 Territorial Divisions and 8 Enforcement Divisions (including one Inter State Investigation Cell) in the Department.

2.1 ASSESSMENT WING:

For the conduct of assessment, levy and collection of taxes payable under the various Acts administered by the Department, there are 10 Commercial Taxes Divisions in the State. Each Division is headed by a Deputy Commissioner. These Divisions are further divided into 40 Commercial Taxes Districts; in Chennai and Coimbatore the Commercial Tax Districts are designated as Zones. There are 323 assessment circles, including 6 Fast Track Assessment Circles (4 in Chennai and 2 in Coimbatore headed by Assistant Commissioners). Out of the 323 assessment circles, 6 are headed by Assistant Commissioners, 236 by Commercial Tax Officers and 81 by Deputy Commercial Tax Officers.

2.2 AUDIT WING:

Internal audit is very important in a taxation department. For this purpose there is an internal audit wing consisting of 40 Audit Parties. All the assessment records are audited both by the Internal Audit and the Accountant General. Follow up on the audit reports of Internal Audit and Accountant General Audit are attended to by a separate cell

under the supervision of Joint Commissioner (Audit) in the Office of the Commissioner of Commercial Taxes. The work done by the Audit Wing during the year 2001-2002 (up to February, 2002) is as follows:-

	2001-2002 (upto Feb 2002)		
	Old	New	Total
No.of defects pointed out by the internal audit	29962	35206	65168
No.of defects rectified in internal audit	18198	16633	34831
No. of A.G audit paras pending settlement	13365	3549	16914
No.of audit paras settled	2204	338	2542

2.3 ENFORCEMENT WING:

In order to prevent tax evasion, there is an Enforcement wing consisting of 7 Deputy Commissioners, 10 Assistant Commissioners and 15 Commercial Tax Officers in seven Enforcement Divisions. There are twenty nine Commercial Tax check posts and 48 Roving Squads under the control of the Enforcement set up. There is also one Deputy Commissioner who heads the Inter State Investigation Cell. This wing undertakes inspection of shops, cinema theatres, checking of vehicles etc.

3. APPELLATE FORUMS

3.1 FIRST APPELLATE AUTHORITY

The first layer of appeal consists of 20 Appellate Assistant Commissioners and two Appellate Deputy Commissioners - one in Chennai and the other in Coimbatore. These Appellate Assistant Commissioners and Deputy Commissioners function under the administrative control of the Chairman, Sales Tax Appellate Tribunal. The number of appeals disposed of by the Appellate Assistant Commissioners and Deputy Commissioners during 2001-2002 is 14,556.

3.2 SALES TAX APPELLATE TRIBUNAL:

Appeals arising out of the orders of the Appellate Assistant Commissioners and Appellate Deputy Commissioners, are dealt with by the Sales Tax Appellate Tribunal. There are four Benches of the Sales Tax Appellate Tribunal. The Main Bench is at Chennai and the three Additional Benches are at Chennai, Coimbatore and Madurai.

The Main Bench at Chennai comprises of a Chairman in the cadre of a District Judge, a Departmental Member in the cadre of Joint Commissioner and a Second Member from the Indian Audit and Accounts Service. The Additional Benches are headed by the Additional Judicial Member in the cadre of Sub-Judge and an Additional Departmental Member in the cadre of Deputy Commissioner.

The number of cases disposed of during the year 2001-2002 is 3831.

3.3 TAMIL NADU TAXATION SPECIAL TRIBUNAL:

The Tamil Nadu Taxation Special Tribunal functions at Chennai. The Tribunal consists of a Chairman, Vice-Chairman, Judicial Member and Administrative Member. The number of cases filed and disposed of during the year 2001-2002 are 1613 and 446 respectively.

4. COMMERCIAL TAXES STAFF TRAINING INSTITUTE, CHENNAI :

For training of Departmental Officers and staff, there is a Commercial Taxes Staff Training Institute which started functioning at Chennai from 1982. The Institute conducts refresher courses and special lectures in areas of tax administration. It also provides training in computers and on Value Added Taxation. The Institute has a teaching faculty headed by a Deputy Commissioner of Commercial Taxes, assisted by two Assistant Commissioners of Commercial Taxes and one Commercial Tax Officer. The computer training faculty is headed by an Assistant Director of Statistics.

The performance of the Institute is given below: -

Name of Training course	No. of Courses conducted	Category of Officials covered	No. of officers trained in 2000-2001	No. of officers trained in 2001-2002
1	2	3	4	5
In-service training	5	Commercial Tax Officer	91	77
		Deputy Commercial Tax Officer	18	59
		Assistant Commercial Tax Officer	61	76
Computer Training	42	Commercial Tax officer	--	83
		Deputy commercial + tax officer	--	82
		Assistant Commercial Tax Officer	---	85
		Assistants and Junior Assistants	700	--

5. TRENDS IN REVENUE COLLECTIONS :

5.1 During the financial year 2000 -2001, the total collections were Rs.8663.72 crores. In the financial year 2001-2002, the collections have been Rs. 8904.68 crores. Details of revenue realised under different Acts administered by this Department, for the last five years, are as follows:-

Sl. No.	Name of the Act	Revenue Collection (Rupees in crores)				
		1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
1.	Tamil Nadu General Sales Tax Act, 1959	4963	5455	6185	7354	7541
2.	Central Sales Tax Act, 1956	707	779	813	862	904
3.	Tamil Nadu Entertainments Tax Act, 1939	109	91	86	74	68
4.	Tamil Nadu Betting Tax Act, 1935	7	5	5	6	6
5.	Tamil Nadu Tax on Luxuries Act, 1981	65	69	71	92	89
6.	Tamil Nadu Tax on Entry of Motor Vehicles into Local Areas, Act 1990.	213	183	221	276	297

The Tamil Nadu Tax on Entry of Goods into Local Areas Act, 2001 was introduced with effect from 1.12.2001 on 6 commodities and the collection of revenue for the period up to February 2002 under the above Act is, **Rs.1841.36 lakhs**

6 REVENUE AND EXPENDITURE OF THE COMMERCIAL TAXES DEPARTMENT

(Rs In Crores)

YEAR	REVENUE	EXPENDITURE
1997-98	6063	68.65
1998-99	6583	92.42
1999-2000	7381	99.76
2000-2001	8664	98.57
2001-2002	8905	84.07 (Upto Feb 2002)

7. UNIFORM FLOOR RATES OF TAXATION

7.1 At the Conference of State Chief Ministers held at New Delhi in November 1999, it was agreed to conform to a discipline of Uniform Floor Rates of Sales Taxes. This was done as a measure of tax reform. Government of Tamil Nadu adjusted the Sales tax rates on 40 items effective from 23.1.2000, on 25 items with effect from 18.8.2001 and on 4 items with effect from 1.12.2001, to conform to the Uniform Floor Rates.

7.2 VAT (VALUE ADDED TAX)

As per the latest decision of the Empowered Committee of State Finance Ministers, all States should move to a VAT system on 1.4.2003. In tune with such a recommendation, the Commissionerate of Commercial Taxes of Tamil Nadu has put on the Departmental Website a "Discussion Paper" on the implementation of Value Added Tax. In addition, training is also being imparted to the officials of Commercial Taxes Department and as well as to the dealers. So far, training has been imparted to 7 Joint Commissioners, 16 Deputy Commissioners, 38 Assistant Commissioners and 5 Commercial Tax Officers.

The Budget 2002-2003 has therefore been designed to be a preparatory stage for introduction of Value Added Tax. VAT implies fewer commodity taxation rates, set off of tax paid at every stage or multi point value added tax. The proposed tax rates under VAT would consist of:-

- (a) list of a few exempted items;
- (b) a few items of basic necessity for consumption and industrial inputs to be taxed at 4%;
- (c) a floor rate of 1% for bullion and jewellery and
- (d) a Revenue Neutral Rate.

Items like petro products, IMFL, sugarcane are not planned to be in VAT. However, unless the exempted items are limited, the Revenue Neutral Rate will be very high. In this budget, to facilitate movement towards VAT, inputs purchases against Form XVII (other than fuel), spare parts, components in respect of paper industry taxed at 10%, Electric and Electronic goods taxed at 12%, machine made matches taxed at 10%, Hand made soaps

taxed at 12%, Printed materials (limited to paper and ink only) taxed at 10% have been given full set off. Resale tax has been introduced and the 8% slab dismantled. Exemptions in respect of certain items have been withdrawn.

8 CHANGES IN RATE OF TAXES

8.1 The tax rate is 2% on rice and wheat. (Sale through Public Distribution System is however exempted from tax)

- There is a 4% tax on jaggery, pepper, pulses and grams, siddha and unani medicines, gum benzoine, instant sambrani, stitched hand-kerchiefs, renewable energy conservation devices, (other than solar cookers, municipal waste conversion devices for producing energy and energy saving Chulas), cloth rags and desiccated coconut.
- Rice, Wheat, Pulses and Grams, IMFL, Petro products, other declared goods and dealers paying compounded tax have been excluded from payment of tax on resale. Rice, Wheat, Kerosene, LPG, IMFL and declared goods have been exempted from Surcharge.
- Increase in rate of tax from 8% to 10% on aluminium, arecanut, cashew, cement flooring stones, dyes, inks other than writing inks, PVC pipes, tubes, fittings, printed materials, machine made matches, medicine, photo albums, rubber, sewing machines, typewriters and timbers etc.,.
- Rice, Wheat, pulses and grams are exempted from AST.
- Increase in rate of tax from 4% to 12% on articles and equipment for gymnastics including health fitness equipments, non stick utensils and television antenna

- Tax rate increased to 12% on metallic wares other than domestic utensils, pressure and heat resistance cookware, fans, electronic finished goods, dumpers, earth moving machinery.
- Consequent to regrouping of electric and electronic goods, computers, computer peripherals, software and notified electronic items are taxed at 4%, all electric and electronic components and accessories including shunt and power capacitors are broad banded for taxation at 10% and other electrical and electronic goods are taxable at 12%.
- Certain imported and other items will be included in the XI Schedule.

8.2 REDUCTION IN RATE OF TAX

- Reduction of tax from 8% to 4% on bamboos, bottle caps, unbranded toffees and confectionery, unbranded foods including unbranded cakes and ice-creams, cotton yarn waste, handicraft articles, jute bags which are laminated, palm fatty acid, bleach liquid, HDPE and PP woven strips and woven fabrics, umbrellas, tin containers, light roofing sheets and unregistered biscuits.
- Reduction in rate of tax from 20% to 12% on spark plugs
- Rate of tax reduced from 16% to 12% on asbestos cement sheets
- Rate of tax reduced from 16% to 10% on chips of all kinds branded and unregistered.

8.3 EXEMPTION FROM PAYMENT OF TAX

- Cotton seed husk, neem oil cake, fish net, rubber play balloons, earlier taxed at 4%

- Unbranded butter (earlier exempt at last point of purchase)
- Branded and packed fresh vegetables and fruits, earlier taxed at 12%

8.4 The rate of tax is 24% for OPC Grade cement and PPC Grade cement. the selling prices (inclusive of tax) of which is more than Rs 145/- and Rs. 135/- respectively per bag of 50 Kg and the tax on every sale other than first sale in the State for the above is 5%. The rate of tax, however, continues at 16% for these Grades of cement, the selling prices (inclusive of tax) of which is not more than Rs. 145/- and Rs. 135/- respectively per bag of 50 Kg and the tax on every sale other than first sale in the State for these, is 1%.

9. MEASURES TO GENERATE ADDITIONAL REVENUE;

- 9.1 Tax on resale at 1% payable by second and subsequent sellers. The levy is applicable to all commodities other than rice, wheat, pulses and grams, IMFL, Petroleum products and other declared goods. No tax on resale will be levied if the turnover of a dealer does not exceed Rs.10 lakh per annum.
- 9.2 An additional compounding slab of Rs.12,000/- per annum in respect of hotels whose turnover is between Rs.10 lakhs to Rs.25 lakhs.
- 9.3 Luxury tax of 1% on silk sarces if purchase value exceeds Rs.3,000/- per piece.
- 9.4 An infrastructure surcharge of 5% on sales tax paid under the TNGST Act on all items other than rice, wheat, kerosene, LPG, IMFL and declared goods.

10. STATUTORY AND PROCEDURAL CHANGES

10.1 SELF ASSESSMENT SCHEME:

The self assessment scheme has been modified and extended to dealers upto a turnover of Rs 10/- Crores per annum, subject to fulfilment of certain conditions. The conditions applicable to all dealers are:-

- i) Filing the returns with declaration on or before 31st October
- ii) Not being in arrears of tax uncovered by appeals, revisions and writs
- iii) Not doing business for the first or last year
- iv) Not less than 10 % increase in the taxable turnover over the preceeding year in respect of assessees.

However, in respect of dealers having a turnover of Rs. 40/- Lakhs to Rs.1 Crore, in addition to fulfilment of the above conditions, the accounts should be certified by a Cost Accountant / Chartered Accountant. In respect of dealers having turnover of Rs 1 Crore and above in addition to fulfilment of all the conditions, there should be 15 % increase in tax paid over previous year. The new provisions are effective from the assessment year 2001-2002 onwards.

10.2 RENEWAL OF REGISTRATION CERTIFICATE

- ♦ It is proposed to revise the Registration Certificate fee structure and make provision for renewal of Registration Certificate for the succeeding year before 31st March of the current year and with penalty upto 30th April.
- ♦ For the year 2002-2003 renewal can be upto 30th April, without fine and 31st August with fine

10.3 The TNGST Act is being suitably amended to provide for payment of 25% of disputed tax by dealers (as against the present 12.5%) in respect of appeals filed before first appellate authority.

10.4 The provision now available to a dealer or the Department to file a second appeal under the TNGST Act against the remand orders of the first appellate authority is proposed to be removed. In addition, the orders of first appellate authority staying collection of disputed taxes in respect of appeals filed before it shall stand automatically vacated in 180 days if no final order is passed by then on the appeal filed by a dealer.

10.5 The powers of Assessing Officer with regard to assessments finalised under the principle of Best of Judgement are proposed to be streamlined so as to reduce the scope for arbitrary assessments and the resultant accumulation of arrears. As a sequel to this, the Assessing Officer will be hereafter required to get the concurrence of the Deputy Commissioner concerned before passing a Best of Judgement order if the tax is proposed to be enhanced by Rupees One lakh and above. A Committee consisting of Secretary, Commercial Taxes, Secretary, Finance and Commissioner of Commercial Taxes, is also proposed to be vested with necessary powers of review in this regard.

The following measures are proposed to safeguard revenue:-

- 10.6 It is proposed to make Form XX issued by the department compulsory for the movement of Interstate sales and notified goods.
- 10.7 In respect of Works Contract, provision will be made in the Act to recover tax from the awarder who fails to deduct tax or fails to remit the tax deducted.

11 PROPOSALS TO DEAL WITH SPECIFIED CATEGORY OF ARREARS

11.1 Samadhan Scheme 2002:-

A new Samadhan Scheme for disputed amounts under TNGST and CST Acts will be introduced to be in force for 3 months period.

11.2 Settlement Commission:-

The Commission will deal with the arrears of tax, surcharge, additional sales tax and penalty in respect of the following categories :-

- (i) Arrears of tax payable by dealers who stopped business prior to 1.4.1995 without any appeal pending as on 28.2.2002.
- (ii) Arrears of lottery dealers relating to assessment years prior to 1.4.1996
- (iii) Disputes relating to Public Sector Undertakings, Government Companies / Corporations, Central Government Oil Companies and CPCL.
- (iv) Pending requests of waiver of tax payable for assessment years prior to 1.4.1999 without an appeal pending as on 28.2.2002.

12. CONCESSION TO TRADE AND INDUSTRY

- 12.1 As a preparatory measure for Value Added Tax, it has been decided to allow set off of tax paid against Form XVII purchases in respect of raw materials, consumables (other than fuels), spares and parts, packing materials and labels against tax payable under TNGST and CST Acts for the following products/ Industries:-

- (i) Products of the Paper industry taxed at 10%
- (ii) Printed materials (Limited to paper and ink only) taxed at 10%
- (iii) Electric and Electronic goods taxed at 12%
- (iv) Machine made matches taxed at 10%
- (v) Hand made soaps taxed at 12%

No set off is available for consignment sales. In the case of CST Sales, set off is available upto 50% of Tax paid at the full CST rate of 4%. Set off is also not available for concessional sales both under TNGST and CST.

The following concessions have also been announced:-

- 12.2. Compounding Option of 3% of the value of the transactions, irrespective of whether it is a sale or works contract, in respect of printing materials but with no set off.
- 12.3. A 4% concessional rate for sale of any goods in the First Schedule other than petrol, diesel and cement to State Government Departments of Tamil Nadu and, the following State Government Public Sector/ Autonomous Agencies subject to restrictions specified in the Notifications:-

- i) TNEB
 - ii) TWAD Board
 - iii) Chennai Metro Water Supply and Sewerage Board
 - iv) All transport corporations (Direct purchase only)
 - v) Tamil Nadu Medical Services Corporation (Direct purchase only)
 - vi) NLC (Direct purchase only)
- 12.4. A 4% concessional rate of tax on turnkey contracts supply to TNEB, TWAD and Metro water.
- 12.5 Reduction in rate of tax to 20% on sales of molasses to notified molasses based pharmaceutical and chemical industrial units in the State for use in the manufacture, subject to filing of a declaration.
- 12.6 To assist the rubber industry, tax paid on the inter state sale of raw rubber shall be adjusted against tax payable under the TNGST Act
- 12.7 Exemption to Tvl. Sago Serve , Salem from payment of the AST. However, the rate of tax on the sale of Sago and Starch is increased from 2% to 4%.
- 12.8 Set off of purchase tax to the extent of 7% on lube base oil by oil companies
- 12.9 Paraffin wax purchased by SIDCO to be taxed at 4% to benefit small units.
- 12.10 Concessional rate of 3% on electrical control panels as capital goods

13. OTHER FEATURES

- 13.1 It is proposed to clear back log of assessments pending upto the assessment year 1998-1999, in the case of compliant dealers. The scheme will be applicable to all such dealers who have paid tax as per the returns and who are not in the first or last year of business. In addition, they should not have arrears of tax in the previous years, uncovered by appeals, revisions, and writs and should have filed, pending declarations and certificates before 30.9.2002. In case of non availability of declarations, submission of alternative proof, as notified will be permissible and a condonation fee of 2% will be collected over and above the CST rates. In the case of non assessee upto the assessment year 2000-2001, dealers will be permitted to file an annual return before 30.9.2002 and get assessments completed, failing which the Registration Certificate will be cancelled.
- 13.2 After deleting 'cement including white and refractory cement', an item earlier notified under the Tamil Nadu Tax on Entry of Goods into Local Areas Act ,2001, 17 new group of commodities have been added to the schedule to the above Act.
- 13.3 a) Entry tax reduced to 3% in respect of LSHS import by Independent Power Producers for a period of one year.
b) Exemption under Entry Tax Act for specified Oil Companies who bring the Scheduled goods for re-sale or interstate sale

- 13.4 A separate Tax Deduction at Source Cell will be formed to enable awarders of works contract to remit the Tax Deducted at Source in one central place in Chennai city and the due date for remittance will be the 12th day of the succeeding month of the deduction.
- 13.5 Expanding the scope of the Advertisement Tax, Act will be examined.

14 OTHER HIGHLIGHTS OF THE DEPARTMENT.

14.1 COMPUTERISATION .

There are 323 Assessment Circles of which 140 Assessment Circles, and 18 Zonal Offices of Assistant Commissioners, 5 Offices of Deputy Commissioners, 6 border check posts, Office of Secretary to Government, and Commissionerate of Commercial Taxes have been computerised so far at a cost of Rs. 3.57 crores. A comprehensive proposal for computerisation of the entire department is under the active consideration of the Government. General information regarding the Commercial Taxes Department, registration procedures, tax payment and the current tax rates of commodities are available in the Website at www.tnsalestax.com.

14.2 INTEGRATION OF CHECKPOSTS.

A proposal to form integrated modernised Check posts by co-ordinating among the Departments like Commercial Taxes, Transport etc, is under the active consideration of the Government.

14.3 SALES TAX ADVISORY COMMITTEES AT STATE AND DISTRICT LEVELS

Sales Tax Advisory Committee are constituted by the Government at the State level and at District level. At State level the Committee is headed by Honourable Minister for Commercial Taxes with members drawn from trade circles and officers from Commercial Taxes Department. At District level the Committee is headed by the concerned District Collector with members drawn from trade circles and officers from Commercial Taxes Department. Issues pertaining to provisions of Acts administered by the Commercial Taxes Department and problems faced by traders are generally discussed in the respective Committees. Proposals to reconstitute the Committees at State level and at District level are under consideration of the Government.

14.4. GRIEVANCE CELL :-

A grievance cell is functioning in the Office of the Commissioner of Commercial Taxes to provide a forum for traders to represent their grievances. The Cell is headed by the Joint Commissioner (Administration) as chairman, and consists of Joint Commissioner (Suo-Motu Revision), and Joint Commissioner (Public Relations) as members.

15 TAMILNADU TRADERS WELFARE BOARD :-

The Tamil Nadu Traders' Welfare Board is functioning for the welfare of the traders and to provide certain forms of assistance. The Board has 39616 members as on 31.3.2002. At present the membership fee (one-time) is Rs.250 /-. The total collection of fees by way of subscription has been

Rs.70.65 lakhs. The Board gives assistance to its members in the form of assistance towards family benefit, education, medical treatment, accident relief etc. The Government's contribution to the Board is Rs.2 Crores at the time of formation of the Board. Further a sum of Rs.35.49 lakhs has so far been sanctioned as matching grant. It is proposed to increase the membership of the board. The services and assistances provided by the Board will be reviewed and improved wherever necessary.

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