



**COMMERCIAL TAXES DEPARTMENT**

**DEMAND NO. 10**

**COMMERCIAL TAXES**

**POLICY NOTE**

**2005-2006**

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**MINISTER FOR EDUCATION AND**  
**COMMERCIAL TAXES.**

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**Government of Tamil Nadu**  
**2005**

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**1. INTRODUCTION**

Commercial Taxes Department, a major revenue earning department, through prudent reform measures and improved tax collection methods, is poised to achieve a record tax collection during 2004-2005. In the budget for 2004-2005, the Government have not levied new taxes. However, the tax revenue has recorded an impressive growth rate of 18.49% on account of the dedicated work of the officers and staff of the department. The total revenue collection, which was Rs.8905 crores in 2001-2002, now stands at Rs.12,575 crores for the first 11 months of this year (upto February, 2005).

**2. ORGANISATION OF THE DEPARTMENT**

The administration of the Department is vested with Commissioner of Commercial Taxes. The Commissioner is assisted at the head quarters by Joint Commissioners, Deputy Commissioners, Joint Director (Statistics & Research ), Assistant Commissioners and Administrative Officers. The various wings of the department are as follows.

**2.1 ASSESSMENT WING :**

The Assessment Wing consists of Assessing Officers in the cadre of Commercial Tax Officer, Deputy Commercial Tax Officer and Assistant Commercial Tax Officer. There are 323 Assessment Circles in the State, out of which, 236 circles are headed by Commercial Tax Officers and 81 by Deputy Commercial Tax Officers. Six Fast Track Assessment Circles (four in Chennai and two in Coimbatore) are headed by Assistant Commissioners. The Assessing Officers are under the control and supervision of the Territorial Assistant Commissioners at district / zonal level and the Deputy Commissioners at the Division level.

**2.2 AUDIT WING :**

Each Commercial Taxes District has one internal audit party which consists of one Commercial Tax officer and one Deputy Commercial Tax Officer under the control of the Territorial Assistant Commissioner. It takes up audit of assessments, receipts and refunds on quarterly basis as per the programme charted by the Territorial Deputy Commissioner. Rectification of audit para is watched by the respective Territorial Assistant Commissioners and Deputy Commissioners .

Test audit of assessments and refunds is also undertaken by the Accountant General every year. Rectification / settlement of the objections is primarily attended to by the Assessing Officers. This important work is being supervised and monitored at the state level by the Joint Commissioner ( Audit ) in the office of the Commissioner of Commercial Taxes, Chennai.

### **2.3 APPELLATE WING :**

The Appellate Assistant Commissioner is the first Appellate Authority. There are 20 Appellate Assistant Commissioners and two Appellate Deputy Commissioners in the State. The Departmental Representatives in the cadre of Commercial Tax Officer are appointed to represent/defend the Department's case. Second Appeal lies with the Sales Tax Appellate Tribunal. The Main Bench is at Chennai, with one additional bench each in Chennai, Madurai and Coimbatore.

**The Tamil Nadu Taxation Special Tribunal** has been abolished by Act 34/2004 .

### **2.4 ENFORCEMENT WING:**

There are seven Enforcement Wing divisions in the State each headed by a Deputy Commissioner. There is a separate Inter-State Investigation Cell (ISIC) headed by a Deputy Commissioner.

There are ten Assistant Commissioners in the Enforcement wing with 14 Commercial Tax Officers. Under each Assistant Commissioner and Commercial Tax Officer, there are Groups consisting of Deputy Commercial Tax Officers and Assistant Commercial Tax Officers, besides Roving Squad, and officers at Rail Heads and Goods yards.

The Enforcement Wing conducts raids and inspections in business premises besides house searches on warrant, to detect evasion of taxes. The Roving squads and Rail Head officers prevent evasion

of tax by collecting invoices and other transport documents and cross verifying them. Inter-state Investigation Cell gets details of business transactions from other States and verify the same with the accounts of dealers of our State to detect evasion of tax, if any.

In 2003-2004, a total number of 6466 shops were inspected detecting 5094 cases of tax evasion collecting Rs. 35.18 crores as compounding fee and tax. In the current year 2004-2005 upto February 6,830 inspections were conducted, resulting in collection of Rs. 26.88 crores.

### **2.3 CHECK POSTS:**

Twenty six border Checkposts and three internal checkposts are functioning in the State. Border checkposts comprise of ten major checkposts and sixteen minor checkposts. All the three internal checkposts are major checkposts. The Commercial Tax Officer is the Head of office in five major checkposts. Assistant Commercial Tax Officers are manning the Checkposts, with complimentary staff like Upper Division Inspectors, Record Clerks, Office Assistants and Loadmen. A sum of Rs.33.97crores of composition fee and advance tax has been collected during the current financial year 2004-2005 upto February.

### **2.4 STATISTICS AND RESEARCH CELL:**

The Statistics and Research Cell at the headquarters is headed by Joint Director of Statistics. Each Division has a Junior Research Officer and each Zone/CT District has a Statistical Inspector.

The Statistics and Research Cell brings out two annual publications viz **'Commercial Taxes Department - At a Glance'** and **'Commercial Taxes Department-Selected Indicators' ( Folder )** besides several special reports periodically. It also undertakes the job of analysing reasons for fall in revenue in respect of **top 100 dealers** and **top 50 commodities** every month.

### **3. ACTS ADMINISTERED BY THE DEPARTMENT**

The Commercial Taxes Department is administering the following Acts and enforcing collection of taxes under the respective heads :

1. Tamil Nadu General Sales Tax Act, 1959
2. Tamil Nadu Additional Sales Tax Act, 1970
3. Central Sales Tax Act, 1956
4. Tamil Nadu Entertainment Tax Act, 1939
5. Tamil Nadu Betting Tax Act, 1935
6. Tamil Nadu Tax on Luxuries Act, 1981
7. Tamil Nadu Tax on Entry of Motor Vehicles into Local Areas Act, 1990
8. Tamilnadu Tax on Entry of Goods into Local Areas Act, 2001
9. Tamil Nadu Advertisement Tax Act, 1983

#### **4. TREND IN REVENUE COLLECTIONS COMPARED TO PAST 4 YEARS**

The revenue collections under all Acts are tabulated below :

<b>Year</b>	<b>Revenue collections (Rs. in crores)</b>	<b>Growth rate %</b>
2000-2001	8664	17.38 %
2001-2002	8905	2.78 %
2002-2003	10200	14.55 %
2003-2004	11757	15.27 %
2004-2005 (upto February).	12575 *	18.49 %

\* Not yet reconciled with Treasury figures.

#### **5. ACTWISE REVENUE FOR CURRENT YEAR AND PAST 4 YEARS**

The Act wise revenue collection is as below :

<b>Acts</b>	<b>(Rs. in crores)</b>				
	<b>2000- 2001</b>	<b>2001- 2002</b>	<b>2002- 2003</b>	<b>2003- 2004</b>	<b>2004-2005 (upto February)</b>
1. Tamil Nadu General Sales Tax	7354	7541	8507	9790	10371
2. Central Sales Tax	862	904	982	1186	1344
3. Entertainment Tax	74	68	71	75	55
4. Betting Tax	6	6	5	5	5

5. Luxury Tax	92	89	82	63	71
6. Entry Tax on Vehicles & Goods	276	297	553	638	729
<b>Total</b>	8664	8905	10200	11757	*12575

\* Not yet reconciled with Treasury figures.

## **6. RECEIPTS AND EXPENDITURE**

The details of revenue receipts and expenditure for the Commercial Taxes Department are indicated below :

(Rs. in crores)

Minor Head	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005 (upto January 2005)*
1. Receipts	8664	8905	10200	11757	11351
2. Expenditure	98.57	94.23	93.27	93.70	90.94
3. Percentage of expenditure to receipts	1.14%	1.06%	0.91%	0.80%	0.80%

\* Not yet reconciled with Treasury figures.

## **7. TAX CONCESSIONS DURING 2004 - 2005.**

- To mitigate the hardships faced by the film industry compounding system of Entertainment Tax collection was abolished with effect from 4.10.2004. Tax rates have been reduced from 25% and 15% for new film and old film respectively to 20% and 10% . Besides these, tax exemption on leasing of Cinematographic and related cine equipments has been ordered



not only prospectively but also for earlier years. As a result of this relief penalty and interest payable on such Leasing will be waived.

- Tax payable on purchase of diesel by fishermen for use in motor boats has been exempted .
- To encourage foreign bound vessels to draw bunker fuels from Tamil Nadu Ports, sales tax on High Speed Diesel, Light Diesel Oil and Furnace Oil payable by Public Sector Undertaking oil companies on their sales to foreign bound vessels was reduced to 4% with effect from 29.12.2004.
- To encourage local industries, exemption from payment of Additional Sales Tax was granted in respect of motor cycles, tractors and bicycles manufactured within the State.
- Luxury Tax on jewellery payable at 1% was abolished with effect from 29.12.2004.
- To encourage manufacture of IT Products in the State, the rate on inter-state sale of computers with its peripherals and spares was reduced from 4% to 2% with effect from 29.12.2004.
- To encourage the manufacturers within the State, levy of entry tax on the direct import of scheduled goods for use in the manufacture was exempted with effect from 1.10.2004 in tune with the Tamil Nadu New Industrial Policy.

- To encourage manufacturers of 100% Export Oriented Units and Units situated in Special Economic Zone levy of entry tax on the direct import of scheduled goods for use in the manufacture was exempted with effect from 1.10.2004 in tune with the Tamil Nadu New Industrial Policy.

## **8. COMMERCIAL TAXES STAFF TRAINING INSTITUTE**

Commercial Taxes Staff Training Institute was started in the year 1982. The objective is to train the departmental personnel, equip them with current and upto-date information in the matters of taxation under all Acts administered by the Department. Since computerisation has been introduced in all important areas, this institute also provides training to departmental staff in all cadres in computer operational methods.

The following are the types of training currently organised by this institute.

Course	Trainees	Duration
Foundation Training in Concepts of Taxation	1. Assistant Commercial Tax Officers on selection by transfer and direct recruitment. 2. Deputy Commercial Tax Officers on selection by transfer. 3. Commercial Tax Officers on selection by direct recruitment.	30 working days.

In-Service Training in concepts of Taxation	1. Commercial Tax Officers 2. Deputy Commercial Tax Officers	12 working days
Statistical Training	1. Statistical Inspectors 2. Junior Research Officers (Statistics)	5 working days
Computer Training	1. Assistant Commissioners 2. Commercial Tax Officers 3. Deputy Commercial Tax Officers 4. Assistant Commercial Tax Officers 5. Statistical Inspectors 6. Assistants 7. Junior Assistants	----

The Institute functions under a Director in the cadre of Deputy Commissioner(CT). Two Senior Lecturers in the cadre of Assistant Commissioners, one Lecturer in the cadre of Commercial Tax Officer and one Assistant Director (Statistics) assist him in conducting the training programmes.

Four Hundred and Ninety three officials have been trained during the year 2004-2005. It is also proposed to conduct special training programmes in **E-GOVERNANCE** to the officers of the department in the cadre of Deputy Commissioners and Assistant Commissioners, and **E-COMMERCE** to the Commercial Tax Officers in this Institute. It is further proposed to conduct **Short Term (2 days) courses** to the personnel deputed from the Public Sector undertakings and co-operative institutions engaged in business.

## **9. COMPUTERISATION OF THE DEPARTMENT**

Computerisation was introduced as early as 1973 in this Department. In 1988 department's own computer centre was established in Greams Road, Chennai and the 3 sub-centres at Tiruchy, Madurai and Coimbatore came in 1994.

### **PHASE-I**

In G.O.Ms.No.421, Commercial Taxes and Religious Endowments Department dated 08.10.1997 a sum of Rs.357.74 lakhs was sanctioned for implementation of the project. In this phase, 140 Assessment circles, 18 Zonal Assistant Commissioner offices, 5 Deputy Commissioner offices, 9 Border checkposts, Secretariat Department and the Commissioner's office were linked to Greams Road Computer Centre.

### **PHASE-II**

The Government appointed Tvl. Pallavan Transport Consultancy Service, Chennai as consultant on turnkey basis, to execute the computerisation project of the department.

#### **Under Phase II,**

- 781 computers.
- 21 computer servers.
- 425 printers.
- 313 Uninterrupted Power Supply units

were bought and installed in 483 locations throughout the State.

Software has been developed for the following applications and installed in the respective sites:-

- a. Dealer Master Maintenance Module (Installed in all the 323 circles)
- b. Check-post Module (Installed in all the 29 Checkposts)
- c. Enforcement Module (Installed in all the 23 AC/CTO (Enft.)Offices)
- d. Appellate Wing Module (Installed in all the 26 Departmental Representative /State Representative /Additional State Representative offices)
- e. Territorial wing Module (Installed in all the Circles throughout the State)

Wide Area Network has been established for the department's exclusive use. The department has also launched its own website in the internet with the address "www.tnsalestax.com ". Useful and upto-date information to the traders are available in this site. Various statutory forms like Registration application, Monthly Returns can be downloaded and used by the trade. The rates of tax for almost all goods are also indicated in alphabetical order.

### **PHASE - III**

It is proposed to provide Very Small Aperture Terminal (VSAT) connectivity for the twenty nine checkposts. For upgrading to multiuser environment, necessary software will be procured. Except for statutory matters, all other office functions will go paperless in this ambitious Phase -III.

## **10. TRADERS' WELFARE BOARD**

Keeping the interest of the trading community in mind, the Tamil Nadu Traders Welfare Board was constituted by the Government in G.O.Ms.No.725, Commercial Taxes and Religious Endowments Department, dated 25.9.1989 to extend various kinds of assistance to the Traders. This Board was lastly re-constituted in G.O.Ms.No.74, Commercial Taxes Department, dated 27.6.2003 with the Honourable Chief Minister of Tamil Nadu as the Chair person and the Honourable Minister of Commercial Taxes as the Vice - Chairman. Besides the official members, 16 non official members have been nominated to the Board.

All registered dealers can enroll themselves as members of the Board on payment of enrollment fee of Rs.250/-. The total number of members as on 31.12.04 is 40,881 and the total enrollment fee collected is Rs.74.38/- lakhs.

Traders' Welfare Board has extended the following assistance to the members upto 31.12.04:

<b>Sl. No.</b>	<b>Assistance</b>	<b>Numbers</b>	<b>Amount ( Rs. in Lakhs )</b>
1.	Family Assistance at Rs.20,000/- to legal heirs of the deceased members	252	65.15
2.	Medical Assistance upto Rs.25,000/- to the members only	29	6.46

3.	Educational Assistance at Rs.3,000/- to the children of the members	73	1.86
4.	Sports Assistance at Rs.3000 to Rs.25000/- to the children of the members	2	0.15
5.	Fire Accident Assistance at Rs.5000/- to the members' shop / godown	29	1.45
6.	Handicapped Assistance upto Rs.20,000/- to the members	2	0.15
7.	Assistance to the children of the members who secured high marks upto Rs. 5000	6	0.20
	<b>Total</b>	<b>393</b>	<b>75.42</b>

## **11. SALES TAX ADVISORY COMMITTEES**

In G.O.Ms.No.19 Commercial Taxes and Religious Endowments Department Dated 2.01.1997, a District Level Sales Tax Advisory Committee headed by the District Collector with the Assistant Commissioner (CT ) as Secretary has been constituted. The members consist of representatives of various trades selected by the District Collectors. Every quarter, meeting of the committee is called for to discuss the problems and difficulties faced by the traders in the respective districts. Issues relating to policy matters are referred to the Government for appropriate decision.

In G.O.Ms.No.17, Commercial Taxes and Religious Endowments Department Dated 11.1.96, a State Level Advisory Committee headed by the Hon'ble Chief Minister and Co-chaired by Hon'ble Minister for Commercial Taxes has been constituted. The Secretary to Government, Commercial Taxes Department is the Secretary of the Committee and Commissioner of Commercial Taxes is the Convenor of the Committee meetings. The representatives of the Traders, Chambers of Commerce & Members of Legislative Assembly are appointed by the Government as members. Hon'ble Ministers and Secretaries of allied departments are also co-opted as members.

## **12. ASSISTANCE TO LOCAL BODIES**

In order to augment the finances of the local bodies, 60% to 70% (depending upon the status of the local bodies) of the total collection of Entertainment Tax was paid to all local bodies such as Corporations, Municipalities and Panchayats till 31.3.1997. Subsequently, the allocation to these local bodies was uniformly increased to 90% from 1.4.97. During the year 2003-04, the amount apportioned to local bodies was Rs.58.28 crores (as on 31.3.2004).

## **13. GRIEVANCE CELL**

A grievance cell is functioning from the year 1999 in the Office of the Commissioner of Commercial Taxes to provide a forum for traders to represent their grievances. The cell is headed by Joint Commissioner (administration) as Chairman and Joint Commissioner (Suo Moto Revision) & Joint Commissioner (Public Relations) as members.



### **13.1 INTERACTIVE VOICE RECORDING SYSTEM**

To receive suggestions, grievances and complaints for better administration of the Department and to receive details of tax evasion, an Interactive Voice Recording System, sanctioned in G.O.Ms.No.246, Commercial Taxes Department, dt.17.12.2003 at a cost of Rs.2 lakhs, has been installed in the chamber of the Commissioner of Commercial Taxes. The system was inaugurated by the Honourable Chief Minister on 20.02.2004. A separate direct telephone line with No.044-28520535 has been provided for this purpose.

## **14. HIGHLIGHTS - SPECIAL STEPS TAKEN FOR EFFICIENT FUNCTIONING OF COMMERCIAL TAXES DEPARTMENT**

### **14.1 INTEGRATED CHECKPOST**

To arrest evasion of tax and to monitor movement of goods, it has been proposed to establish one or two integrated checkposts on experimental basis in the State. In pursuance to the orders issued in G.O.Ms.No.60, Commercial Taxes Department, dt. 17.6.2002, appointment of a consultant for setting up of the Integrated Checkposts in Tamil Nadu is under process.

### **14.2 CASH AWARD**

In November 2003, a scheme of cash awards to six best performing officers of the department (Rs.25,000/- each) along with a certificate of merit was

announced. In the year 2003-04, Departmental officers were decorated with this honour.

### **14.3 CASH REWARD**

A scheme to reward private citizen coming up with valuable information on tax evasion and tax fraud is in place with a corpus fund of Rs. 1 lakh operated by the Commissioner of Commercial Taxes. Under the scheme, valuable information received are mainly processed by the Enforcement Wing for using it in the assessments. The valuable information received under this scheme is kept confidential.

## **15. VALUE ADDED TAX - PREPAREDNESS**

In the meeting of Chief Ministers of all States convened on 16th November, 1999 by the then Union Finance Minister, it was decided to initiate steps to introduce VAT at State level. Pursuant to this decision, Empowered Committee of State Finance Ministers was set up. This Empowered Committee, after several rounds of discussions, with a majority decision drew up a time table to usher in Value Added Tax system in all States on 01.04.2005. The formula for compensation for loss of Revenue if any suffered by individual States on account of Value Added Tax, at the rate of 100% for the year 2005-2006; 75% for 2006-2007; and 50% for 2007-2008 has been announced by the Government of India.

Since this is a major tax reform, a consensus among all sections of the society should be achieved. The salient features of the proposed Value Added Tax system are as follows :

- There is no tax on tax.
- Tax paid on purchases in the state is given full set off against tax payable on local sale and Inter State Sale.
- Tax paid on local purchases can also be given set off over and above 4% for consignment sale or branch transfers to other States.
- Tax paid in the State on inputs will be given refund for Exporters.
- Other levies such as Additional Sales Tax, Surcharge and Resale tax will be abolished when VAT is implemented.
- In VAT system the number of tax rates will be three, that is 1%, 4% and 12.5%, as against the present eight different tax rates in Tamil Nadu General Sales Tax Act.
- Registration turnover limit of Rs.3 lakhs under the Tamil Nadu General Sales Tax Act will be increased to Rs. 5 lakhs under VAT. It will benefit about 76,000 small dealers.
- Compounding tax scheme for resellers upto a turnover limit of Rs.50 lakhs is available in VAT. They have to pay only 1% on the total turnover. This will benefit about 74,000 small dealers.
- In VAT system, the facility of self assessment will be made available to all the dealers.
- Penal provisions will be the same as under Tamil Nadu General Sales Tax Act, 1959

- Local taxes paid on the opening stock held on the date of introduction of VAT will be given credit and allowed set off against VAT payable.
- In VAT system local taxes paid on purchase of capital goods by manufacturers and traders will be given set off against VAT payable.
- Entry tax paid on goods and vehicles will be given full set off for manufacturers and traders.
- Petrol, Diesel, LDO, Kerosene outside the Public Distribution System, Sugarcane and IMFS will be outside the scope of VAT system and will carry special tax rates.

In the proposed Value Added Tax System, 46 commodities of local importance **including rice**, will be exempted from tax. As per decision of the Central Empowered Committee for implementation of VAT, this exemption on rice will be reviewed after one year on introduction of VAT. About 88 commodities will be taxed at the rate of 4%. Other commodities, excluding those outside the scope of VAT, will attract 12.5% tax.

Training on VAT is being given to officers of the department and representatives of the Trade and Manufacturers Associations. Intensive training has been imparted to select officers who will function as Resource Persons for training the others.

The State Value Added Tax is a replacement of the Sales Tax which is well within the domain of the State. A broad consensus has to be established within the State if this system is to be introduced.

**16. Part-II Schemes 2005-2006.**

The following new schemes have been approved under Part.II Schemes for 2005-2006:-

1. Construction of Commercial Tax Office Buildings at Sivakasi, Virudhunagar District at the cost of Rs.52 lakhs.
2. Purchase of Fax Machine to the Office of the Deputy Commissioners (Enforcement) Trichy, Salem and Tirunelveli at the cost of Rs.75 thousand.
3. Purchase of Photocopier to the Office of the Deputy Commissioners (Commercial Tax), Trichy, Deputy Commissioner (Enforcement), Inter-state Investigation Cell and Commercial Tax Staff Training Institute, Chennai at the cost of Rs.2.70 lakhs.
4. Construction of Garage for 2 parking vehicles in the Commercial Tax Complex, Nagercoil at the cost of Rs.2 lakhs.
5. Digging of Borewell at Commercial Tax Buildings at Erode at the cost of Rs.1.53 lakhs
6. Provision of 400 Additional Telephone lines for Computerisation NetWork (Wide Area Network) Connectivity to the Commercial Taxes Department at the cost of Rs.22.40 lakhs .

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