

# **COMMERCIAL TAXES AND REGISTRATION DEPARTMENT**

## **DEMAND NO.10**

### **POLICY NOTE 2006 – 2007**

#### **COMMERCIAL TAXES**

இயற்றலும் ஈட்டலும் காத்தலும் காத்த  
வகுத்தலும் வல்ல தரசு.

- திருக்குறள்

**(A Good Government is the one which plan the resources properly, increase the revenue to the exchequer and to spend it for plans and schemes for the welfare of the people).**

#### **1. INTRODUCTION**

The people of Tamil Nadu are aware that immediately after the new Government assumed office on 13<sup>th</sup> May, 2006 under the leadership of Dr. Kalignar, steps are taken expeditiously to implement the welfare programmes and development schemes announced by the new Government. The Commercial Taxes Department plays a significant role in mobilizing the financial resources required to implement successfully the programmes and schemes.

Sales tax was introduced in Tamil Nadu for the first time in India in the year 1939. In the current financial year 2006 – 2007, during the first three months of April, May and June, the revenue from tax collection is Rs.4,705 crores. This revenue collection, when compared with the collection during the same period in the previous year has witnessed a growth rate of 21.40%.

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

The Commercial Taxes Department is administering the following Fiscal Acts under which taxes are levied and collected:-

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 Entertainments 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. Tamil Nadu Tax on entry of Goods into Local Areas Act, 2001
9. Tamil Nadu Advertisement Tax Act, 1983

### 3. REVENUE

#### Trend in Revenue Collections

Year	Revenue collections (Rs. in crore)	Growth rate %
2000 – 2001	8664	17.38%
2001 – 2002	8905	2.78%
2002 – 2003	10200	14.55%
2003 – 2004	11757	15.27%
2004 – 2005	13907	18.29%
2005 – 2006	16616	19.47%
2006 – 2007 (Upto June)	4705	21.40%

#### Actwise Revenue – Current Year compared with Previous Years

(Rs. in Crore)

Acts	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007 (Upto June 2006)
1. TNGST including AST	7354	7541	8507	9790	11462	13658	3846.29
2. CST	862	904	982	1186	1495	1799	506.54
3. Entertainment Tax	74	68	71	75	59	44	9.84
4. Betting Tax	6	6	5	5	6	6	1.23
5. Luxury Tax	92	89	82	63	78	92	28.33
6. Entry Tax on Vehicles & Goods	276	297	553	638	808	1016	312.82
<b>Total</b>	<b>8664</b>	<b>8905</b>	<b>10200</b>	<b>11757</b>	<b>13908</b>	<b>16615</b>	<b>4705</b>

## **Receipts and Expenditure**

The administrative expenditure of the Commercial Taxes Department is less than 1% of the Revenue Receipt.

### **4. REDUCTION OF SALES TAX ON PRICE HIKE ON DIESEL ANNOUNCED BY GOVERNMENT OF INDIA ON 06.06.2006**

The Hon'ble Chief Minister has announced on 11.06.2006 that the State Government would forego sales tax on the increased portion of the diesel price announced by Government of India on 06.06.2006. In pursuance of the above announcement, the Government issued notification on 11.06.2006 reducing the rate of tax on diesel from 25% to 23.43% w.e.f. 12.06.2006. Consequently, the price of diesel was reduced to Re.0.45 per litre.

### **5. TAX CONCESSIONS ANNOUNCED IN THE BUDGET 2006 - 2007**

- Re-sale Tax will be abolished with effect from 1<sup>st</sup> January, 2007.
- Based on the policy that tax should not be levied on basic food products and to restore the position prevailed during 2002, full exemption from levy of sales tax on pulses grams and edible oils has been ordered with effect from 22.07.2006.
- In order to enable the local manufacturers to compete with the manufacturers of outside the State, set off is given on Entry Tax paid on the raw materials imported from other States. A notification has been issued to this effect on 22.07.2006.
- The concession of set off of Entry Tax facility available to HDPE has been extended to LDPE from 21.03.2003. A notification has been issued on 22.07.2006.
- The rate of Tamil Nadu General Sales Tax has been reduced from 4% to 1% and Central Sales Tax from 2% to 1% in respect of Tea sold in the auction centres of "Tea Serve". In respect of other auction centres at Coimbatore and Coonoor the rate of TNGST has been reduced from 8% to 4% and CST from 4% to 2%. Additional Sales Tax and Surcharge have also been exempted on sales effected at these auction centres. The reductions and exemptions have been given effect from 22.07.2006.
- Full exemption from levy of sales tax on Hank yarn has been ordered with effect from 22.07.2006.

- Exemption has been granted with effect from 22.07.2006 on interstate sale of waste paper from CST, provided it has suffered tax under the TNGST Act.
- As an environment friendly measure, exemption from levy of sales tax on the purchase of Fly Ash by brick manufacturers has been granted with effect from 22.07.2006.
- Exemption from levy of Sales tax on the licensed Tamil software has been granted with effect from 22.7.2006.
- Exemption from levy of Sales tax on Sambirani has been restored with effect from 22.7.2006.
- The scheme of Industrial incentive to the extent of 90% of tax payable by the hosiery manufacturers in respect of sales effected to unregistered dealers outside the State has been extended for the period from 13.05.2002 to 03.04.2005 by way of waiver.
- With a view to encouraging Film Industry and promotion of Tamil Language full exemption from Entertainment Tax has been given with effect from 22.07.2006 to new films if the title is in Tamil.
- Based on the request of Fishermen, exemption from sales tax on diesel provided upto a limit of 1000 litres per month for 5000 mechanised boats each has been increased to 1500 litres with effect from 01.08.2006.
- Special concession will be granted to companies that come forward to establish factories in Tamil Nadu for the manufacture of computers. Exemption will be given from the General and Central Sales Tax without any limit on the sale of computers manufactured by companies with an investment exceeding Rs.100 crores in the Special Economic Zones in Tamil Nadu.

## **6. SAMADHAN SCHEME**

The Government have decided to introduce a new Samadhan Scheme which will be available to all dealers who are in arrears of Sales Tax. Necessary legislation indicating details of the scheme will be introduced in the current session.

## **7. VALUE ADDED TAX**

In our country Value Added Tax system has been introduced by all States except Tamil Nadu, Pondicherry and Uttarpradesh.

The manufacturing and trading community of this State have been making repeated representations to the Government for an early decision on introduction of Value Added Tax in this State. After examining the matter thoroughly and after ascertaining the views of the trading community in the pre budget meeting held on 5<sup>th</sup> July 2006 with representatives of manufacturers and traders, this Government have decided to introduce the system of Value Added Tax in the State with effect from 1<sup>st</sup> January 2007.

The objectives of VAT are to simplify tax structure, to create uniform common market within the Country which will bring down prices that would enable Indian producers of goods to reduce costs, face competition from abroad and to increase exports.

VAT will help common people, traders, industries and also the Government. The beneficial features of VAT are as follows:-

### **Rates of Tax**

Under the present tax system, the tax rates are 1%, 4%, 10%, 12%, 12.5%, 16% and 20%. Surcharge at 5% on tax, Additional sales tax and Resale Tax at 1% are also levied. There will be only three rates of 1%, 4% and 12.5% under VAT.

Gold and Silver bullion and jewellery will be taxed at 1%. Goods and commodities of basic necessities such as medicine and drugs, all agricultural and industrial inputs, capital goods and declared goods will be taxed at 4%. All other items will be taxed at 12.5%.

### **Levy of Tax**

Under the present tax system, tax is levied on inputs at concessional rate of 3% which is not refunded. Manufactured product is taxed at various rates ranging from 4%, 10%, 12%, 16% and 20% at the first point of sale. Resale tax at 1% is collected at second and subsequent sale points. Besides the above levy, the manufacturer has to pay surcharge at 5% on tax and Additional sales tax at 1% to 3% depending upon the turnover in the year. The seller can collect the tax from the buyer and pay to Government. But he cannot collect Additional sales tax. The tax burden under the present system will be more due to the fact the tax is levied on the input tax paid and again resale tax is collected on the entire value of the product.

VAT is payable only on the value added to the product at every point of sale and not on the entire value of the goods. Under VAT there will be no Additional sales tax, surcharge and resale tax. Hence, the tax burden will be less in VAT. Due to the less tax burden it is expected that the prices of goods will fall.

## **Input Tax Credit (Set-off)**

Under present tax system, tax on inputs (raw materials, consumables, etc.) is collected at concessional rate of 3% for use in manufacture. This tax on inputs is not refunded or given set off against tax payable on sale of finished products.

Under VAT, rate of tax on industrial inputs will be at 4%. The manufacturer will be given the facility of deducting the input tax paid by him against the tax payable on sale of finished product.

Similarly, the traders will also be given the facility of deducting the tax paid on their purchases of goods against the tax payable on the sale of the said goods.

- Input tax credit will be given for traders also for purchase of goods meant for resale
- For all exporters to other countries tax paid within the State will be refunded in full within three months. Units located in Special Economic Zones (SEZ) will be eligible for refund of input tax paid
- Entry Tax paid on inputs procured from other States will be eligible for tax credit
- Input tax credit is based on Tax Invoice showing tax separately
- Tax paid on goods held as closing stock, out of purchases made one year prior to the date of introduction of VAT, will be eligible for tax credit.

## **Self Assessment under VAT**

Under the present tax system, every dealer is assessed to tax by assessing officers of the department after check of accounts, registers, documents and various declaration forms of the dealer.

Under VAT, dealers will file simplified monthly returns showing purchases and sale of goods along with payment of tax after deducting the tax credit. VAT liability will be self-assessed by the dealers themselves in terms of submission of monthly returns after deducting tax credit (set-off).

Assessments will not be made by department officers by check of accounts of the dealers. However, assessments not exceeding 20% randomly selected for an assessment year by the Commissioner of Commercial Taxes will be verified.

## **Registration as dealer**

Under the present tax system, dealer whose annual turnover does not exceed Rs.3 lakhs is exempted from registration and tax liability.

Under VAT the exemption limit is raised to Rs.10 lakhs.

## **Compounding tax for certain category**

Under the present tax system, payment of tax at compounding rates is allowed for Works Contract, Hotels and Restaurants which sell food and drinks with annual gross turnover not exceeding Rs.50 lakhs.

The compounding tax payment for Works Contract and Hotels and Restaurants will continue under VAT.

Under VAT, small dealers with annual gross turnover not exceeding Rs.50 lakh shall have the option to pay tax at the rate not exceeding 1% as compounding rate. Dealers opting for payment of compounding tax will not be eligible for input tax credit.

## **Tax incentives granted to Industries (Exemptions, Waiver, Deferral etc.)**

Existing tax incentives like deferral, exemptions and waiver already enjoyed by the industries will be continued in VAT also, till the end of the period of incentive granted.

## **Goods covered under VAT**

All goods (other than Petrol, Diesel, Aviation Turbine Fuel, IMFL and Sugarcane) including declared goods will be covered under VAT and will get benefit of input tax credit.

## **Goods not covered under VAT**

Petrol, Diesel, Aviation Turbine Fuel, Indian Made Foreign Liquor and Sugarcane will not be taxed under VAT. They will be taxed at different rates.

## **Continuance of Entry Tax**

Entry tax will continue. Entry tax paid will be given set-off against VAT payable on sale of the goods.

## **VAT preparation in Tamil Nadu**

As regards preparations to introduce Value Added Tax in this State, a draft Tamil Nadu Value Added Tax Bill has been prepared. It is proposed to introduce the VAT Bill in the current session of the Assembly.

### **Compensation for revenue loss on account of introduction of Value Added Tax.**

Government has embarked upon extensive welfare programmes for all sections of society. Our Hon'ble Chief Minister has addressed the Union Finance Minister to compensate the revenue loss on account of introduction of VAT.

### **Phasing out of Central Sales Tax**

Tamil Nadu is a major manufacturing State. It is estimated that revenue from the Central Sales Tax may be around Rs.2000 Crores for the year 2006 – 2007. The Government of India is considering to reduce the present rate of 4% CST by 1% every year and to phase out CST at the end of fourth year. The Government of India has been requested to compensate the loss of CST revenue.

## **8. ORGANISATION OF THE DEPARTMENT**

The administration of the Department is vested with the Special Commissioner and Commissioner of Commercial Taxes. The Special Commissioner is assisted at the Head Quarters by 1 Additional Commissioner (Administration), 5 Joint Commissioners, 5 Deputy Commissioners, 1 Joint Director (Statistics & Research), 4 Assistant Commissioners.

## **9. THE WORK OF THE COMMERCIAL TAXES DEPARTMENT IS CARRIED OVER BY THE FOLLOWING WINGS :**

### **Assessment Wing**

There are 323 Assessment Circles in the State. The Assessing Officers are under the control and supervision of 40 Territorial Assistant Commissioners at district / zonal level and 10 Deputy Commissioners at the Division level.

### **Audit Wing**

Each Commercial Taxes District has one internal audit party.



## **Appellate Wing**

The first appeal is filed before 20 Appellate Assistant Commissioners and 2 Appellate Deputy Commissioners in the State. Second Appeal lies with the Sales Tax Appellate Tribunal. The Main Bench of the Tribunal is at Chennai, with one additional bench each in Chennai, Madurai and Coimbatore. These Sales Tax Appellate Tribunals are functioning under the Chairmanship of District Judge.

## **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.

## **Check Posts**

Twenty six border Checkposts and three Internal Checkposts are functioning in the State.

## **10. 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 upto date information in the matters of taxation under all Acts administered by the Department.

In the Computer Centres at Chennai, Madurai and Coimbatore computer training is imparted to all categories of Staff.

## **11. COMPUTERISATION**

In this Department, computerization was introduced as early as in 1973. Initially the facilities available in Government Data Centre, Guindy were used. In 1988 department's own computer center was established in Greams Road and the 3 sub-centres at Tiruchy, Madurai and Coimbatore were established in 1994.

At present, computerization at all stages has been extended through out the State in all Commercial Taxes Offices (including Checkposts) through intranet. Data entries, information are exchanged through this network. With a view to benefit the Public and the traders, information regarding various Acts being implemented by the department, downloadable Forms, Tax rates on various goods, important orders of the Government and Commissioner of Commercial Taxes, Notifications, Circular instructions are posted in website viz. [www.tnsalestax.com](http://www.tnsalestax.com).

After introduction of VAT it is proposed to facilitate the traders for e-registration, e-filing of returns, e-payment of tax and to get self-assessment orders under e-Governance policy through this website.

## 12. **TRADERS WELFARE BOARD**

Keeping the interest of the trading community in mind, the Tamil Nadu Traders Welfare Board was constituted by this Government in 1989. At present in order to provide more benefits for the dealers it is proposed to reconstitute the Traders Welfare Board.

Traders' Welfare Board has extended the following assistance to the members upto 31.03.2006.

<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	279	70.55
2	Medical Assistance upto Rs.25,000/- to the members only	33	7.36
3	Educational Assistance at Rs.3,000/- to the children of the members	77	1.98
4	Sports Assistance at Rs.3000 to Rs.25000/- to the Children of the members	2	0.15
5	Marriage assistance (now not in existence)	2	10.00
6	Fire Accident Assistance at Rs.5,000/- to the member's shop / godown	29	1.45
7	Handicapped Assistance upto Rs.20,000/- to the members	2	0.15
8	Assistance to the children of the members who secured high marks at Rs.5,000/-	6	0.20
	<b>TOTAL</b>	<b>430</b>	<b>91.84</b>

13. **PART – II SCHEMES 2006 - 2007**

The following "New Schemes" have been approved by the State Planning Commission / Standing Finance Committee under Part – II Schemes for the year 2006 – 2007.

- (1) Construction of Commercial Taxes Office Building at Hosur at a cost of Rs.154 lakhs.
- (2) Erection of Lift to the Commercial Taxes Office building at Trichy at a cost of Rs.30 lakhs.

14. **CITIZEN'S CHARTER**

It is proposed to place the "Citizen's Charter" relating to Commercial Taxes Department on the Floor of the House for the year 2006 – 2007.

**S.N.M. UBAYADULLAH**  
Minister for Commercial Taxes.