



**COMMERCIAL TAXES AND REGISTRATION
DEPARTMENT**

DEMAND NO. 10

COMMERCIAL TAXES

POLICY NOTE

2011-2012

Agri.S.S.KRISHNAMOORTHY

**Minister for Commercial Taxes
and Registration**

(C)

Government of Tamil Nadu
2011

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Introduction

Government of Tamil Nadu is in the forefront among the States of India in implementation of welfare measures for its citizens which is reflected in high health, education and nutrition indicators among its population. In addition, sustained public investment in infrastructure has ensured growth in all the three economic sectors, viz. Agriculture, Industry and Services. Commercial Taxes Department plays a key role in mobilization of resources for these development and welfare programmes of the State Government, by contributing more than two-thirds of the State's own Tax Revenue. The Department functions with the aim to widen the tax base and prevent any tax evasion without causing any harassment to the dealers.

2. Administrative Structure

Commissioner of Commercial Taxes is entrusted with the responsibility of administering the Department. In this task he is assisted by 5 Additional Commissioners, 3 Joint Commissioners and other officers. The Department consists of four wings:

- (1) Assessment Wing: This wing comprises 319 Assessment Circles across the State, including 2 Fast Track Assessment Circles at Coimbatore. Each Assessment Circle is headed by Deputy Commissioner / Assistant Commissioner / Commercial Tax Officer. These Assessment Circles come under the control of Territorial Deputy Commissioners at the District / Zone level and the Joint Commissioners at the Division level. There are forty

Territorial Deputy Commissioners and ten Divisional Joint Commissioners in the State. Apart from these regular Assessment Circles, one Large Taxpayers Unit (LTU) headed by a Joint Commissioner is functioning at Chennai.

- (2) Audit Wing: One internal audit party consisting of one Assistant Commissioner and one Commercial Tax Officer is functioning in each Commercial Taxes District / Zone. Quarterly audits as per the audit programme fixed by the Territorial Joint Commissioners are undertaken by these internal audit parties. Apart from this, Accountant General also undertakes the audit of assessments and refunds every year.

- (3) Appellate Wing: The first appeal lies with the jurisdictional Appellate Deputy/Joint Commissioner. There are 20 Appellate Deputy Commissioners and 2 Appellate Joint Commissioners in the State. Second appeal lies with the Sales Tax Appellate Tribunal, with main bench at Chennai and additional benches at Chennai, Coimbatore and Madurai.
- (4) Enforcement Wing: This wing consists of eight regular Enforcement Divisions and one Inter State Investigation Cell, each headed by a Joint Commissioner. The field formations of enforcement wing consists of Groups, Roving Squads and officers at the Rail Heads and the Goods Yards. The enforcement wing detects the evasion of taxes

through raids and inspections in the business locations. The enforcement wing officers also conduct field audits of the business premises after prior intimation to the dealers.

One major instrumentality to detect evasion of tax is the check posts. There are 28 check posts in the State, of which 15 are major and 13 are minor. All these check posts are border check posts. Documents collected at the check posts are sent to concerned assessment circles for cross-verification with the accounts of the dealers. Recently, 35 Handheld Terminals (Personal Digital Assistants) have been provided to the Enforcement formations in Chennai and Coimbatore areas at a cost of ` 9.91 lakh. Recurring expenditure on these devices will be

2.54 lakh per annum. These devices connect to the Central Server and help the roving squads to verify the genuineness of the consignor and consignee.

3. Statistics and Research Cell

Data Analysis is very important for planning and decision making in Commercial Taxes Department. For this purpose, a Statistics and Research Cell headed by a Joint Director of Statistics is functioning in the office of the Commissioner of Commercial Taxes. To ensure proper collection of data from the field offices, one Junior Research Officer is available in each Territorial Division and one Statistical Inspector in each CT District / Zone.

Following reports are brought out by the Cell:

- (i) 'Commercial Taxes Department – At a Glance' – Annually
- (ii) Selected Indicators on Commercial Taxes Department (Folder) - Annually
- (iii) Time series report on "Statistical Compendium on Commercial Taxes Department" - Annually
- (iv) Revenue Analysis of Top 100 dealers for all Divisions and for the State - Monthly
- (v) Revenue Analysis of maximum revenue fetching commodities for all Divisions and for the State - Monthly
- (vi) Report on Act-wise and Division-wise revenue - Monthly
- (vii) Report on Performance of Divisions - Monthly

- (viii) Conduct of Commodity Oriented Studies to assess tax evasion and reporting – As needed
- (ix) Reports on Evasion Prone Commodities – As needed
- (x) Monitoring and reporting of prices of about 260 VAT commodities to assess the impact of VAT on prices – Monthly

4. Commercial Taxes Staff Training Institute

This institute which was started in 1982 is headed by a Director in the cadre of a Joint Commissioner. The objective of the institute is to equip the department staff with knowledge in various Acts administered by the Department and other matters of taxation. With increased role of Information Technology in functioning of the Department, the institute also acts as a resource center to train the

staff in computer applications related to their functioning.

Earlier VAT and now GST when implemented, mark a significant shift in the methodology of indirect taxation in the country. In view of this, the role of the institute to enable the staff to assimilate the new tax regime and function effectively has become even more important.

5. Acts Administered

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 (upto 31.12.2006)
2. Tamil Nadu Additional Sales Tax Act, 1970 (upto 31.12.2006)

3. Tamil Nadu Value Added Tax Act, 2006 (with effect from 1.1.2007)
4. Central Sales Tax Act, 1956
5. Tamil Nadu Entertainments Tax Act, 1939
6. Tamil Nadu Betting Tax Act, 1935
7. Tamil Nadu Tax on Luxuries Act, 1981
8. Tamil Nadu Tax on Entry of Motor Vehicles into Local Areas Act, 1990.
9. Tamil Nadu Tax on Entry of Goods into Local Areas Act, 2001

(This Act was struck down by the Madras High Court by its order dated 23.3.2007 – An appeal against this order is pending in the Supreme Court of India)

10. Tamil Nadu Advertisement Tax Act, 1983

6. Revenue Collection

Revenue Collection by the Department under the Acts administered by it is indicated below:

Year	Revenue collection (` in crore)	Growth rate %
2005-2006	16,615	19.47%
2006-2007	19,217	15.66%
2007-2008	19,952	03.83%
2008-2009	22,570	13.12%
2009-2010	24,819	09.96%
2010-2011	31,117	25.37%
2011-2012 (upto July)	11,722.08	19.73%

As is clear from the table above, the revenue collection has shown a healthy growth of approximately 20% in first four months of the current financial year when compared to the corresponding period of previous year.

7. Act-wise Revenue over the years

Act-wise revenue collection details over the past six years are tabled below:

(` in crore)

	Act	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012 (Upto July)
1.	TNGST	13658	13416	429	293	218	520	65
2.	TNVAT	--	2290	16472	19440	21477	26389	10045
3.	CST	1799	2033	1744	1653	1773	2263	865
4.	Entertain- ments Tax	44	25	16	12	13	15	10
5.	Betting Tax	6	6	6	6	7	6	2
6.	Luxury Tax	92	128	160	170	169	216	82
7.	Entry Tax on Vehicles & Goods	1016	1319	1125	996	1162	1708	653
	Total	16615	19217	19952	22570	24819	31117	11722

8. Cost of Tax Administration

The details of revenue receipts and cost incurred for the Commercial Taxes Department over the last six years are indicated below:

(` in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1. Receipts	16615	19217	19952	22570	24819	31117
2. Expenditure	110.44	128.52	143.73	187.27	205.10	196.45
3. Percentage of expenditure to receipts	0.66%	0.79%	0.72%	0.83%	0.83%	0.63%

9. Removal of VAT on LPG for Domestic Consumers

Government of India increased the price of cooking LPG by ` 50 per cylinder from 24.06.2011 midnight. These days LPG cylinder is being used for cooking even by lower middle class

families and this increase in price has affected them adversely. In order to mitigate the hardship of home makers, the Government decided to remove the VAT levied at the rate of 4% and totally exempt the domestic LPG in the State with effect from 01.07.2011. This measure has helped in reducing the price per cylinder by ₹ 14.73 and continues to benefit more than 1.36 crore domestic LPG consumers in the state. The Government also decided not to levy any VAT on this item in future. Through this measure, the State has foregone a revenue of ₹ 120 crore per annum.

10. Removal of VAT on Agricultural Implements, Sprayers, Sprinklers, Drip Irrigation Equipments, Chemical Fertilizers, Insecticides, Pesticides, Rodenticides, etc.

Earlier Agricultural Implements, Sprayers, Sprinklers, Drip Irrigation Equipments, Chemical Fertilizers,

Insecticides, Pesticides, Rodenticides, etc. were included in Part B of the First Schedule of TN VAT Act, 2006 and taxed at the rate of 4%. With an objective of reducing the overheads in farming, the Government has granted exemption to these items from payment of VAT and included them in the list of exempted items in Part B of Fourth Schedule of the TN VAT Act. The Government has foregone a revenue of more than ` 87 crore per annum in extending this benefit.

11. Change of Criteria for Exemption from Entertainment Tax to Tamil Films

Earlier, exemption from Entertainment Tax was being granted to Tamil films with Tamil titles, with the purported objective of encouraging Tamil film industry and to promote interest in Tamil language. As a result, many substandard films with no regard for Tamil Culture and Dignity

got exemption from payment of Entertainment Tax. In order to rectify the situation, orders have been issued stipulating additional eligibility criteria such as 'U' certificate from Censor Board of Film Certification, storyline with explicit elements promoting Tamil language and Tamil culture, etc for grant of exemption from levy of Entertainment Tax. A Screening Committee comprising of distinguished persons from different walks of life and officers from Tamil Development, Art and Culture and Commercial Taxes Departments will be constituted for viewing the films for their eligibility for exemption from payment of Entertainment Tax.

12. Extension of membership of Tamil Nadu Traders' Welfare Board to small dealers and Removing the Annual Renewal Requirement

Tamil Nadu Traders' Welfare Board is functioning with an objective

of providing assistance to the traders and their families through various welfare schemes. An initial amount of ` 2 crore was made available to the Board by the Government for implementation of these schemes. The Government is also providing a matching grant of ` 500/- per member at the time of enrolment of new members.

Earlier the membership of the Board was restricted to dealers registered under Tamil Nadu VAT Act or those paying profession tax, thereby denying the benefits of the Board's welfare schemes to small dealers. There was also a cumbersome requirement of renewal of membership every year by paying a fee of ` 100. In order to ensure that the benefit of the Board's schemes reaches the small dealers, orders have been issued extending the membership to small dealers who are engaging in their business by obtaining necessary

license from the concerned local bodies, even if they are not registered under TN VAT Act, 2006 / are not paying Profession Tax. The Government has also done away with the requirement of annual renewal of membership. Now, the traders need not renew their membership every year by paying ` 100 each time and get a life time membership of the Board by paying one time membership fee of ` 500/-.

As on 31.7.2011, there are 46,129 members enrolled in the Board and a total of 508 members have been provided assistance to the tune of ` 100.82 lakh under various schemes like Family Assistance, Medical Assistance, Educational Assistance, Fire Accident Relief, etc.

13. Samadhan Scheme

During the pre-budget meeting conducted on 01.08.2011 with various traders' associations and bodies, several representations were received for re-introduction of 'Samadhan' scheme for settling the old arrears. Accepting the demand, it has been decided to implement the scheme for settlement of arrears under TNGST and connected Acts from 01.10.2011 to 31.03.2012. A bill for this purpose will be introduced in this session of the Assembly. The scheme is expected to mobilize ` 83 crore.

14. Goods and Services Tax (GST)

For the last few years, Government of India has undertaken steps for implementation of Goods and Services Tax (GST) which will be a major comprehensive reform in the indirect taxes area. For the process of consultation with the States, the

Empowered Group of Finance / Taxation Ministers, which was entrusted with the task of smooth implementation of VAT, has continued for the purpose of GST and acts as a forum for the States to voice their opinions and suggestions and as a body to raise and resolve these issues with Government of India.

The Constitution (115th Amendment) Bill, 2011 has been introduced in the budget session of the Parliament as a first step towards implementation of GST. This Bill has been referred to the Parliamentary Standing Committee on Finance, which has sought the remarks of the States on the Bill.

While Government of Tamil Nadu is committed to tax reforms that improve economic efficiency, encourage economic activity and benefit the common man, at the same time it endeavours to ensure that such

steps do not compromise the State's fiscal autonomy as enshrined in the Constitution of India. In line with this policy, views of the State have been communicated to the Parliamentary Standing Committee on Finance. In view of the far reaching implications of the Amendment Bill, Hon'ble Chief Minister has also addressed Hon'ble Prime Minister in this regard. With an objective of ensuring co-ordinated action by the States on this comprehensive indirect tax reform proposal, Hon'ble Chief Minister has also addressed Chief Ministers of many other States.

15. Compensation of Revenue Loss on account of introduction of VAT

VAT was introduced in Tamil Nadu from 01.01.2007 and the State is eligible to get compensation from Government of India at the rate of 75% for the year 2007 and 50% for

the year 2008. For these two years, a total of ₹ 4011.80 crore has been claimed from Government of India as compensation, but only an amount of ₹ 3361.36 crore has been received till date and balance amount of ₹ 650.44 crore is still pending. The issue is being followed up with Government of India to get the balance amount due to the State.

16. Compensation of Revenue Loss on account of phasing out Central Sales Tax (CST)

As a roadmap towards introduction of GST, the Government of India decided to phase out CST. Accordingly, the CST rate was reduced from 4% to 3% with effect from 01.04.2007 and from 3% to 2% with effect from 01.06.2008. In order to compensate the States for the loss of revenue due to the CST rate reduction, Government of India agreed to provide compensation. It also

permitted the States to levy tax on tobacco, which was done by Tamil Nadu by levying VAT on some of the tobacco products. Recently Government of Tamil Nadu brought the tobacco and tobacco products under non-VAT items (other than Beedi and Beedi tobacco which are taxed at 14.5% under VAT) and has imposed a levy of tax at the rate of 20%.

With respect to receipt of compensation, a large amount of compensation is yet to be received from Government of India, as detailed below:

(` in crore)

Year	Net Amount Payable	Amount Received from Gol	Shortfall
2007-2008	1052.27	647.54	404.73
2008-2009	1623.71	643.24	980.47
2009-2010	1512.40	1286.80	225.60
Total	4188.38	2577.58	1610.80

Even though Government of India is yet to issue guidelines for disbursal of CST compensation for the year 2010-2011, a compensation claim proposal for ` 2309.24 crore has been sent to them based on the guidelines adopted in the previous years.

17. Information Technology

Commercial Taxes Department was one of the first departments of Government of Tamil Nadu to make use of Information Technology for analytical purposes. Way back in 1988, the Department established its own Data Centre which generated MIS reports for the Budget exercise. Since then several steps have been taken to introduce IT for improving the interface with the mercantile public and making the department processes more efficient.

A major step was taken in 2003, when all the offices of the department

were provided with computers. All these offices were linked through a Wide Area Network for transferring data to the Central Server at Chennai.

As on date, the Wide Area Network of the Department is implemented through TNSWAN and all the 215 locations (more than 500 offices) of the Department are connected through 2 MBPS leased lines to the nearest POP (Point of Presence) of TNSWAN.

17.1. e-services

Presently following e-services are available online to the dealers while interfacing with the Department:

17.1.1. Registration of Dealers

Any new dealer can submit his/her application for new registration online. After processing in the concerned assessment circle, TIN

certificate will be generated and sent to the dealer by registered post.

17.1.2. e-filing of monthly Returns

For all the dealers filing monthly returns under TN VAT and CST, it has been made mandatory to do so online. As a result, more than 2.57 lakh such dealers are filing monthly returns online through the Department's website www.tnvat.gov.in. At present the compliance by dealers is about 81% and efforts are being taken to ensure cent percent compliance.

17.1.3. e-payment

The Department has extended the on-line payment facility to the dealers through its website www.tnvat.gov.in. Currently, five banks, viz. State Bank of India, Bank of Baroda, Indian Bank, Indian Overseas Bank and Canara Bank have been authorized for this purpose.

In the month of July 2011, more than 60% of the tax amount has been collected through the e-payment mode. Now, steps have been taken to get concurrence of the Reserve Bank of India for including seven more banks, namely Vijaya Bank, IDBI Bank, Corporation Bank, United Bank of India, UCO Bank, Union Bank of India and Punjab National Bank for providing this facility.

17.1.4. e-request for saleable forms

This facility enables the dealers to make requests online to their Assessment Circle for saleable forms viz. C, E1, E2, F, and H. They are informed via email regarding the date when they can visit the Assessment Circle office to collect their requirement of forms.

17.1.5. e-filing of refund Form-W

Form W for refund claims by exporters can be filed electronically through the Department's website. These claims are processed online by the department officials and refunds are issued. Steps are now being taken to issue refunds through ECS.

17.1.6. Other online services

Following services have been made available to the dealers through the website of the Department:

- (1) Information on various Acts and Rules, Forms, Circulars, Clarifications, Government Orders and Notifications
- (2) Details of his/her payment history and profile
- (3) Information on tax rates of various commodities
- (4) Information on registration status of other dealers

The Department would shortly launch the following facilities for the dealers:

- (1) e-filing of annual returns
- (2) e-filing of revised monthly return
- (3) e-filing of entry tax returns
- (4) issue of form C on line, based on the data furnished by the dealer in his returns

17.2. Information Technology in Departmental processes

Following important facilities have been provided to the Department Officials to enable them to use IT for ensuring better compliance and monitoring:

- (1) Reports on dealers who have filed / not filed returns at the circle / zone / division level
- (2) MIS reports on tax payment details, ITC adjustment details,

category wise ITC claim details, etc. for monitoring excess credit and refund claims

- (3) Profile of a dealer
- (4) Return scrutiny and Return audit reports
- (5) Reports on Movement of Goods/Vehicles at the Check posts

17.3. End-to-end Computerisation

While there is no denying the contribution this step-by-step approach has made in improving the functioning of the Department, it has also resulted in difficulties like two parallel architectures, inability to handle the increased number of transactions, lack of fool-proof disaster recovery, etc. In order to overcome these disadvantages and to have a more holistic e-governance approach focusing on process re-engineering, improvement of dealer

interface with the department and plugging the tax evasion, the Department has engaged M/s Accenture Services Pvt. Ltd. as Project Consultants to support the Department in conceptualizing and implementing an end-to-end IT solution. The implementation partner will be selected through a transparent bidding process and will be responsible for design, implementation and maintenance of the system for the duration of the contract. The one time cost of procurement, deployment and commissioning of IT infrastructure has been tentatively worked out as ` 78.73 crore and the recurring cost for the first year has been worked out as ` 21.45 crore.

Under the National e-Governance Plan, the Government of India in order to achieve a certain degree of standardization thereby ensuring uniformity and free exchange of information across the states, has

included Commercial Taxes Department among the Mission Mode Projects (MMP). Under MMP, the Government of India has approved a total outlay of ` 45.37 crore which has to be shared between the Centre and the State. The Central share is ` 31.26 crore and the State share is ` 14.11 crore. The end-to-end solution proposed is being formulated keeping in mind the already sanctioned MMP by Government of India.

17.4. Data Retrieval Lab

On many occasions the traders are engaging in malpractices using sophisticated tools of Information Technology. As it is very difficult for the Department to engage a technical consultant every time for retrieval of data from the computers of traders, and also in order to maintain confidentiality, orders have been issued for establishing a Data Retrieval Lab at Chennai at a cost of ` 21.37 lakh.

18. Right to Information Act, 2005

The Department attaches importance to transparency in its functioning while dealing with the mercantile public. Right to Information Act enables the common citizen to access information on the Department. During the year 2010, i.e. from 1.1.2010 to 31.12.2010, 303 applications under this Act were received by the Department and action was taken on them promptly.

19. Part II Scheme for the Year 2011-2012

Under Part II Scheme, following new schemes have been approved for the Commercial Taxes Department for the current financial year:

- (1) Upgrading facilities in 9 offices of the Department by providing Xerox machines, Fax machines and Laser Printers at a cost of ₹ 15.24 lakh

- (2) Upgradation of facilities in the classrooms in Commercial Taxes Staff Training Institute at a cost of ` 12.00 lakh
- (3) An amount ` 12.16 lakh has been provided for Generators for 16 check posts in the Enforcement Wing of the Department
- (4) Provision of 2 High End Digital Multi Function Device Model Photocopiers to the office of Commissioner of Commercial Taxes at a cost of ` 4.18 lakh
- (5) Furniture to 6 offices of the Department at a cost of ` 5.72 lakh
- (6) Intercom facilities to the Vellore Division at a cost of ` 0.70 lakh.

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