COMMERCIAL TAXES AND
REGISTRATION DEPARTMENT

DEMAND NO.10

COMMERCIAL TAXES

POLICY NOTE
2012-2013

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Law,
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INTRODUCTION

Tamil Nadu, a progressive State, has always been a pioneer in implementation of various welfare and development programmes. Many of these programmes have been emulated by several other States and Government of India. In order to maintain the leadership position of the State and to give governance that strives towards actuating the expectations of its people, **Vision 2023** document, a strategic plan for development of the State over a time frame of ten fiscal years has been prepared under the guidance of **Hon'ble Chief Minister**. Commercial Taxes Department, as one of the important revenue mobilisers for the State, fully appreciates the critical responsibility that devolves on it for raising resources for making the vision a reality.

During the financial year 2011-2012, despite the general economic slowdown, Commercial Taxes Department has achieved a gross revenue collection of ₹ 39,544.73 crore, indicating an over-all growth of 27.09% over the previous year. The Department, while striving to maintain the momentum during this financial year, will keep in mind that the role of a good tax administration is not simply to maximize revenue, but to minimize the tax gaps (evasion of taxes) and to increase customer (which for the Department is the mercantile public) satisfaction. Here, it is pertinent to quote *Bird* and *Jantscher* from their work *'Improving Tax Administration in Developing Countries'* where they have said, *'The best tax administration is not simply one that collects the most revenue. How that revenue is raised … effect on equity … and … economic welfare may be equally important.'*

2. ADMINISTRATIVE STRUCTURE

Office of the Commissioner of Commercial Taxes, who is the administrative head of the Department, is located in Ezhilagam building at Chennai. In discharge of his responsibilities, the Commissioner is assisted by Additional Commissioner (Public Relations) who looks after Act Amendments, Tax Rate Clarifications, Waivers, Exemptions, etc., Additional Commissioner (Revision Petition) who looks after Court Cases, Analysis of orders of Tribunal and High Court, Disposal of Review Petitions, etc., Additional Commissioner (Suo Motu Revision) who deals with Deferral / Waiver Schemes and section 16-D TNGST cases, etc., Additional Commissioner (VAT) who monitors CST/VAT compensation, GST related works, etc., and Additional Commissioner (Audit) who monitors revenue collection, audit objections by Accountant General, Public Accounts Committee meetings, etc. The Department has a wide network of offices spread all over the State. In his work '*Tax Shastra – Administrative Reforms in India, United Kingdom and Brazil*', *Parthasarathi Shome* states, '*A modern tax administration that places tax payers, or customers, at the centre of its activities needs to structure its department along functional lines'.* The offices of Commercial Taxes Department which are grouped into four wings from the point of view of their functionality are in line with this principle. These four wings are described below:

2.1 Assessment Wing

319 Assessment Circles of this wing constitute the main interface of the Department with the registered dealers. Based on the importance from the point of

view of tax potential, number of dealers, complexity of business activities, etc., these Assessment Circles are headed by Deputy Commissioner / Assistant Commissioner / Commercial Tax Officer. The Assessing Officers are under the control and supervision of Territorial Deputy Commissioners (40 officials) at District / Zone level and the Joint Commissioners (10 officials) at Division level. Apart from these Assessment Circles, for the Large Tax Payers (top 100 tax payers) of Chennai region, four Deputy Commissioners functioning under the control of a Joint Commissioner discharge the assessment and other statutory functions.

2.2 Audit Wing

Role of proper audit in a revenue collecting department cannot be overemphasized and is critical for ensuring compliance with prevalent rules and procedures. For this purpose, 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. Further, audit of assessments is also undertaken independently by the Accountant General periodically.

2.3 Appellate Wing

The jurisdictional Appellate Deputy Commissioner / Joint Commissioner is the first Appellate Authority. There are 20 Appellate Deputy Commissioners and 2 Appellate Joint Commissioners in the State. A Departmental Representative in the cadre of Assistant Commissioner represents the case of the Department before the Appellate Deputy Commissioners and Joint Commissioners (Appeals). Against the orders of the First Appellate Authority, second appeal lies with the Sales Tax Appellate Tribunal with Main Bench at Chennai and three Additional Benches at Chennai, Madurai and Coimbatore. A State Representative in the cadre of Joint Commissioner and Additional State Representative in the cadre of Deputy Commissioner represent cases of the Department before the Main Bench and the Additional Benches, respectively.

2.4 Enforcement Wing

There are eight Enforcement Divisions and one Inter-State Investigation Cell in the State, each headed by a Joint Commissioner. Each Joint Commissioner is assisted by at least one Deputy Commissioner or Assistant Commissioner in supervision of enforcement activity. Normally, enforcement activity consists of checking the transport vehicles and inspection / audit of the place of business to detect evasion of tax, if any. To monitor the inter-State movement of goods vehicles, 28 border checkposts have been established on State borders with Andhra Pradesh, Karnataka, Kerala and Puducherry which function round the clock on shift basis. In addition, 8 checkpoints have been established at Air Cargo Complex (Chennai Airport), Harbour Wharf (Chennai), Concor Terminal (Chennai), Royapuram Goods Yard, Central Parcel Office (Chennai), Egmore Goods Yard, Salt Cotaurs (Chennai) and Tuticorin Port. Of these, the Checkpoint at Air Cargo Complex at Chennai Airport has been started recently in view of the suppression of import purchases and clandestine diversion of goods from there. As announced, while moving the demand for grants of Commercial Taxes Department for the year 2011-2012, a proposal for modernization of 27 checkposts [Puzhal incoming has not been included in view of sanction of Integrated Checkpost through Home (Transport) Department] and 8 checkpoints has been prepared at a non-recurring cost of ₹ 28.95 crore and annual recurring cost of ₹ 4.41 crore.

Checkposts are static locations where inter-State movement of vehicles is monitored. In order to monitor movement of goods within the State, 55 Roving Squads have been established across the State and they are provided with modern gadgets like Hand-held Terminals to view the profile and status of dealers who are transporting the goods. In addition, there are groups available under each Deputy Commissioner (Enforcement) to carry out surprise inspection of the place of business to detect evasion of tax. The same group officers also carry out the annual audit in the business premises after prior intimation to the dealer.

The Inter-State Investigation Cell which is headed by a Joint Commissioner mainly coordinates with the officers of

other States to control evasion of tax on inter-State transactions and exchanges data with them for further processing to arrest tax evasion.

3. STATISTICS AND RESEARCH CELL

Analytical methods play a useful role in formulation and implementation of any tax administration policy. The Department is able to generate significant amount of information which needs to be analysed for formulation of specific tax administration strategies and better implementation policies. Towards this end, a Statistics and Research Cell headed by 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 attached to each division and a Statistical Inspector is attached to each CT District.

The Statistics and Research Cell brings out the following reports regularly:

i) ‘Commercial Taxes Department – At a Glance’ – Annually

ii) 'Selected Indicators on Commercial Taxes Department' – Annually

iii) Time series 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) Report on Evasion Prone Commodities – As needed

ix) Monitoring and reporting of prices of VAT commodities to assess the impact of VAT on prices – Monthly

Statistics and Research Cell also conducts Commodity Oriented Studies to assess tax evasion as and when required.

4. COMMERCIAL TAXES STAFF TRAINING INSTITUTE

The Staff of the Department need to keep themselves updated on any changes in tax procedures and tax structure. Along with this, introduction of VAT regime, likely introduction of Goods and Services Tax (GST) as and when it happens, increased usage of Information Technology in Departmental processes, etc., further make it important to train and update the knowledge of staff on a regular basis. To take care of the training needs of the Department, the Commercial Taxes Staff Training Institute, headed by a Director in the cadre of Joint Commissioner (CT) is functioning at Chennai. The institute imparts "In-Service Training" as well as "Refresher Course Training" to all the officials from the cadre of Ministerial Service to State Service on various Acts and related Rules being administered by the Commercial Taxes Department. Training is also given at Vellore, Salem, Coimbatore, Tiruchirapalli, Madurai and Tirunelveli to the Enforcement and Territorial Wing Officers.

5. ACTS ADMINISTERED

Following Acts are administered by the Commercial Taxes Department:

1. Tamil Nadu Value Added Tax Act, 2006 (with effect from 1.1.2007)
2. Central Sales Tax Act, 1956
3. Tamil Nadu General Sales Tax Act, 1959 (upto 31.12.2006)
4. Tamil Nadu Additional Sales Tax Act, 1970 (upto 31.12.2006)
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 and Growth Rates achieved by the Commercial Taxes Department under all the Acts for the last six years is indicated below:

Year	Revenue collections (₹ in crore)	Growth Rate
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	39,545	27.09%

Revenue collection has shown a healthy growth during the last financial year 2011-2012 despite slowdown in economy due to various Revenue Augmentation Measures like increase in lower VAT rate from 4% to 5%, increase in upper VAT rate from 12.5% to 14.5%, change in rate of tax on tobacco, tobacco products, vegetable oil, etc., implemented by the Department from 12.7.2011.

7. ACT-WISE REVENUE FOR THE PAST SIX YEARS

Details of revenue collection by the Department under various major Acts administered by it are indicated below:

(₹ in crore)

	Act	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
1.	TNVAT	2290	16472	19440	21477	26558	33997
2.	CST	2033	1744	1653	1773	2263	2819
3.	TNGST	13416	429	293	218	350	259
4.	Entertainments Tax	25	16	12	13	16	59
5.	Betting Tax	6	6	6	7	6	7
6.	Luxury Tax	128	160	170	169	216	256
7.	Entry Tax on Vehicles & Goods	1319	1125	996	1162	1708	2148
	Total	**19217**	**19952**	**22570**	**24819**	**31117**	**39545**

8. COST OF TAX ADMINSTRATION

The details of revenue receipts and cost incurred for the Commercial Taxes Department are indicated below. As the growth in revenue collection is at a higher pace compared to the growth in expenditure on the Department, ratio of expenditure to receipts has gone down during the last financial year 2011-2012.

(₹ in crore)

Head	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
1. Receipts	19,952	22,570	24,819	31,117	39,545
2.Expenditure	143.73	187.27	205.10	196.45	224.05
3.Percentage of expenditure to receipts	0.72%	0.83%	0.83%	0.63%	0.57%

9. Tax / Gross State Domestic Product Ratio

The ratio of revenue collection to the Gross State Domestic Product when seen in the light of the prevailing VAT / Non-VAT tax rates serves as an indicator of the efficiency of tax administration. The details of State's Gross Domestic Product as compared to gross collections of Commercial Taxes Department are indicated below. The improvement in gross collection as a proportion of State's Gross Domestic Product is partly due to the increase in tax rates from 12.7.2011 and partly as the Department has been able to reduce the tax gap to some extent.

(₹ in crore)

Year	Gross collection by Commercial Taxes	GSDP	Percentage ***[(2)/(3) x 100]***
(1)	(2)	(3)	(4)
2006-2007	19,217	3,10,526	6.18 %
2007-2008	19,952	3,50,819	5.68 %
2008-2009	22,570	4,01,336	5.62 %
2009-2010	24,819	4,73,519	5.24 %
2010-2011	31,117	5,18,576	6.00 %
2011-2012	39,545	5,81,635 (Revised Estimate)	6.79 %

10.0 TAX EXEMPTIONS, TAX REFORMS AND MEASURES FOR BETTER TAX COMPLIANCE

10.1 TAX EXEMPTIONS

In order to get suggestions and opinion of Trade and Industry, a pre-Budget meeting was conducted with various Associations from all over the State on 22.3.2012, by Minister for Finance and Minister for Commercial Taxes and Registration, Law, Courts and Prisons. Based on the representations received during the meeting and otherwise, following tax exemptions and reductions were announced in the Budget speech, and were implemented with effect from 1st April, 2012:

(a) Exempted Items:

- Wheat
- Oats
- Insulin of all types
- Hand made locks
- Feeding Bottles and Nipples
- Helmets

(b) Items for which tax was reduced from 14.5% to 5%:

- Electrically operated two wheelers (E-bikes)
- Splints and veneers for matches
- Sanitary Napkins and Diapers
- Compact Fluorescent Lamps and Compact Fluorescent Tubes

10.2 TAX REFORMS

During various interactions, certain difficulties and anomalies in TNVAT Act, 2006 were pointed out by the trading public. In order to remove these, the Government over the last few months have brought about the following amendments to the Act:

10.2.1 Amendment to section 3(4) relating to Compounding Provision upto ₹ 50 lakhs

As per clause (b) of sub-section (4) of section 3 of the TNVAT Act, 2006, if the turnover relating to taxable goods of a dealer who had exercised his option to pay tax under the compounding scheme (at the

rate of 0.5%), in a year reached ₹ 50 lakhs at any time during that year, such dealer was liable to pay tax at the rates prescribed in the concerned Schedules on all his sales, i.e. up to ₹ 50 lakhs and also above ₹ 50 lakhs. This led to hardship to the dealer, because even though he had not collected any tax on turnover relating to taxable goods below ₹ 50 lakhs, still he was required to pay tax even for that turnover.

In order to rectify this anomaly, sub-section (4) of section 3 of the TNVAT Act, 2006 has been amended so that if the turnover relating to taxable goods of a dealer paying tax under the compounding scheme, in a year, reaches ₹ 50 lakhs at any time during that year, such dealer is liable to pay tax at the rates prescribed in the Schedules only for his sales of taxable goods over and above ₹ 50 lakhs. This has been brought into force from 1st April, 2012.

10.2.2. Constitution of Clarification and Advance Ruling Authority

Under the erstwhile Tamil Nadu General Sales Tax Act, 1959, the

Commissioner of Commercial Taxes was empowered to issue clarification to a registered dealer on any point concerning the rate of tax under the Act. No such provision was available in the TNVAT Act, 2006. Considering the advantages of the concept of Advance Ruling (as is available in the Income Tax and Excise Departments of Government of India), the Government have constituted a State Level Authority for Clarification and Advance Ruling comprising of Commissioner of Commercial Taxes, Additional Commissioner (Public Relations) and Additional Commissioner (Revision Petition) to clarify any point concerning the rate of tax on an application by a registered dealer. The Authority has started functioning from 31st October, 2011.

10.2.3. Provision of Input Tax Credit (ITC) to small dealers

Earlier, if any person collected any amount by way of tax (in anticipation that his turnover for the financial year will cross the threshold limit of ₹ 5 lakhs in general and ₹ 10 lakhs for dealers engaging in only local sales) and his turnover for the year fell short of the taxable limit specified, the

sum so collected was to be remitted to the Government and forfeited wholly as per section 41 of the TNVAT Act, 2006. In order to give relief to the small dealers, the Government have amended the said section 41 to the effect that the amount collected as tax by any person or registered dealer will be forfeited to the Government only after deducting the eligible input tax credit claim, if any, on the corresponding purchases, if his turnover for the year falls short of the threshold specified in the Act. This Amendment has been brought into force from 1st April, 2012.

10.2.4. Amendment to section 22(2) of TNVAT Act , 2006 for making provision for Deemed Assessment

As per the existing provisions of sub-section (2) of section 22 of the TNVAT Act, 2006, the Assessing Authority shall accept returns submitted for the year by the dealer and if the returns are accompanied by the proof of payment of tax and the documents prescribed, the Assessing Authority is required to pass an assessment order. In line with the general principles of Value Added Tax wherein it is envisaged that there will be no compulsory assessment at the end of each year, the Government decided to dispense with the existing procedure of passing an assessment order by the assessing authority and to replace it with a system of deemed assessment. The intention of the Government in this regard was announced while moving the demand for grants of the Commercial Taxes Department in August 2011. Accordingly, a draft Bill has been prepared in consultation with the Law Department and will be introduced in the ongoing session of the Assembly. This measure once implemented will go a long way in making the interface of the trading public with the Department more simple and transparent. At the same time in order to avoid misuse by potential tax evaders, the current system of detailed scrutiny of twenty percent of the cases selected at random by the Commissioner of Commercial Taxes regarding the correctness of the returns submitted by the dealers, will continue.

10.2.5. Enhancement of powers of assessment of the Deputy Commercial Tax Officer

The powers of assessment of the Deputy Commercial Tax Officers (erstwhile Assistant Commercial Tax Officers) were last revised in 2002, and hence were posing administrative difficulties due to lack of any revision for many years. In view of this, while moving the demand for grants of the Commercial Taxes Department for 2011-2012, it was announced that the assessment powers of Deputy Commercial Tax Officers will be revised to Total Turnover (including exempted items and turnover under the CST Act) not exceeding ₹ 75 lakhs, subject to total tax effect not exceeding ₹ 75,000 per annum from the existing limits of ₹ 20 lakhs and ₹ 30,000 per annum respectively. This has been brought into effect from 5th September, 2011.

10.3 MEASURES FOR BETTER TAX COMPLIANCE

10.3.1. Stipulation of Transit Pass for Petroleum Products

It was noticed that petroleum products invoiced for sale to dealers in Puducherry by the Oil Companies were being unloaded and sold in Tamil Nadu itself. These unaccounted local sales of petroleum products which were intended for inter-State sales were leading to loss of substantial tax revenue due to the State. This aspect was also pointed out by Accountant General in their report. In order to prevent this evasion of tax, Government have included Petrol with or without additives, High Speed Diesel and Light Diesel Oil in the Sixth Schedule of TNVAT Act, 2006. Through this the Government have made Transit Pass mandatory for inter-State movement of these petroleum products. This requirement has been brought into force from 1st November, 2011.

10.3.2. Removal of conditional exemption limit on turnover in vegetable oils

Under the TNVAT Act, 2006, vegetable oils are taxable at 5%. However, exemption from VAT was available till 11.7.2011 in respect of tax payable on the sale of vegetable oils by any dealer whose turnover on the sale did not exceed ₹ 500 crore in a year. This exemption was conditional and was applicable to TNVAT Act, 2006 only. Therefore, inter-State sales of vegetable oils were taxable under the CST Act, 1956, irrespective of the turnover limit. Till the end of the assessment year 2010-2011, none of the dealers in Tamil Nadu crossed the total turnover limit of ₹ 500 crore per year prescribed under the Act and hence no tax was collected under TNVAT Act, 2006 for vegetable oil during that year. When the Revenue Augmentation Measures were considered for funding of various innovative welfare and development programmes of the Government, it was decided to reduce the turnover limit on vegetable oils for sale under the TNVAT Act, 2006 to ₹ 5 crore from the existing limit of ₹ 500 crore and this was given effect from 12.7.2011.

While analyzing the impact assessment of this measure, it was noticed that the revenue realization from this measure was not to the expected level as some unscrupulous dealers were evading payment of tax by resorting to practices like multiple Registration Certificates and deliberately not declaring turnover above ₹ 5 crore. In order to tackle this tax evasion, Government have removed the conditional turnover limit of ₹ 5 crore, with effect from 1st April, 2012.

11. TAMIL NADU TRADERS WELFARE BOARD

Tamil Nadu Traders Welfare Board is implementing various schemes like Family Assistance, Medical Assistance, Educational Assistance, Fire Accident Relief, etc., for the benefit of traders and their families. As on 31.3.2012, 46,518 members have been enrolled by the Board and 511 members have received assistance of ₹ 102.42 lakhs from the Board. In order to simplify the process of membership and availing of benefits, Government have done away with the requirement of annual renewal of membership by paying ₹ 100/- every year and also extended the

membership of the Board 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 the TNVAT Act, 2006 / are not paying Professional Tax.

Details of various schemes implemented by Traders Welfare Board are available at www.tn.gov.in/tntwb.

12. SAMADHAN SCHEME

As announced in the Budget Speech for 2011-2012, a Samadhan Scheme was introduced for a six month period from 01.11.2011 to 30.04.2012. Arrears pertaining to the assessment years up to 2006-2007 for which assessment had been made prior to the 1st day of August, 2011 under the TNGST (including allied Acts) and CST Acts were eligible for settlement under the scheme. The scheme provided for payment of 100% of the admitted tax and 40% of the disputed tax along with interest at 7.5% thereon. The penalty was waived in full. When only penalty and interest were in arrears, 10% of the penalty and 25% of interest amount were payable.

13. GOODS AND SERVICES TAX (GST)

Union Finance Minister had announced in the Central Budget (2007-2008) that GST would be introduced from 1.4.2010 and the Empowered Committee of State Finance / Taxation Ministers will be requested to work with the Government of India and prepare a road map for introduction of GST in India. Since then, the Empowered Committee, which had played a crucial role in implementation of VAT across the country, has emerged as a platform for the States to voice their opinions and concerns with regard to various aspects of GST and its implementation.

Government of India had introduced the Constitution (One Hundred and Fifteenth Amendment) Bill, 2011 in the Lok Sabha during the Budget Session in March 2011, and the Bill has been referred to the Parliamentary Standing Committee on Finance. Chairman of the Parliamentary Standing Committee on Finance had addressed the States requesting their views on various provisions of this Constitution Amendment Bill. While Government of Tamil Nadu is committed to

any tax reform which provides an impetus to economy and benefits the common man, trade and industry, at the same time any such tax reform should not encroach upon the powers vested with the States by the Constitution of India. The State Governments, being closer to the people, have greater responsibilities in terms of providing basic services and implementing developmental schemes. Sales Tax is the only major and buoyant revenue source available to the States and this source should not be adversely affected or tampered with in the name of tax reform.

Accordingly, Government of Tamil Nadu has communicated its concerns especially on provisions like GST Council, GST Dispute Settlement Authority, status of Entertainments Tax, Tobacco and Tobacco Products, etc., to the Parliamentary Standing Committee on Finance. **Hon'ble Chief Minister** has also addressed the **Hon'ble Prime Minister** seeking his personal intervention to ensure continuance of consultative process for arriving at a broad consensus on the key issues with regard to GST before consideration of the Constitution Amendment Bill.

14. COMPENSATION OF REVENUE LOSS ON ACCOUNT OF INTRODUCTION OF VALUE ADDED TAX (VAT) AND REDUCTION IN THE RATE OF CENTRAL SALES TAX (CST)

In order to avoid double taxation and multiplicity of taxes thereby leading to cascading tax burden, major indirect tax reform was introduced in the form of VAT. While Tamil Nadu was committed to any tax reform that helped in simplifying business processes and reduced cost of compliance, it had reservations on potential loss of revenue on introduction of VAT. Responding to apprehensions of various States including Tamil Nadu regarding loss of revenue on introduction of VAT, the Government of India had worked out a compensation package for VAT in consultation with the States. VAT was introduced in Tamil Nadu from 1.1.2007 and according to the VAT compensation package, 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 ₹ 4,011.80 crore was claimed by Tamil Nadu. Government of India calculated the due compensation as

₹ 3,361.36 crore and has released this amount to the State. Of the balance amount of ₹ 650.44 crore, main component relates to arrear collection of ₹ 924.12 crore and ₹ 179.13 crore (deferred taxes relating to the TNGST period) for the years 2007 and 2008 respectively, which has been wrongly taken as revenue gain by the Government of India accrued during the VAT period. The issue of pending compensation amount is being pursued with Department of Revenue, Government of India.

One of the underlying principles of Goods and Services Tax (GST) is functioning of a common market all across the country and hence levy of CST on inter-State sales is not in tune with GST regime. As a road map towards implementation of GST, the CST rate was reduced from 4% to 3% with effect from 1.4.2007 and from 3% to 2% with effect from 1.6.2008. It was envisaged to completely phase out CST from 1.4.2010, when the GST regime was expected to be in place. As the States were faced with a situation where they will lose a substantial amount of revenue due to CST rate reduction, it was decided that they will be compensated through measures such as abolition of Form D, permitting the States to levy tax on tobacco, sugar and textiles, transfer to the States of total revenue of 33 services currently subject to tax by Government of India and 44 new services as and when taxed, and any remaining loss of revenue was to be compensated by Government of India till introduction of GST.

Accordingly, Tamil Nadu had submitted a claim for ₹ 4,188.38 crore upto 2009-2010, of which Government of India released ₹ 2,577.58 crore. As GST was not introduced as planned from 1.4.2010, Government of India rightly agreed to release compensation for the year 2010-2011, but against Tamil Nadu's claim of ₹ 2,309.34 crore, released a paltry sum of ₹ 58.92 crore, citing non-increase of the lower VAT rate from 4% to 5% during that year as a reason. This unreasonable condition which was not stipulated in any of the guidelines for CST compensation is being vehemently opposed by all the States through the Empowered Committee. To further aggravate the matters, Government of India has stated that no CST compensation will be paid to the

States from 2011-2012 onwards, even though the States continue to lose revenue on account of CST rate reduction and GST regime is yet to be put in place. While the Government of Tamil Nadu is continually taking up the issue with Government of India through the Empowered Committee and also individually, **Hon'ble Chief Minister** has also addressed the **Hon'ble Prime Minister** requesting that:

(i) Non-implementation of GST from 1.4.2010 should not be taken as a ground to stop the CST compensation and the Government of India have to provide compensation till GST is introduced as the revenue loss suffered by the States is substantial and permanent.

(ii) Revision of VAT rate from 4% to 5% should not be linked to the CST compensation for 2010-2011, as it was not part of the original compensation package and the VAT revision had nothing to do with the CST

(iii) If further delay is expected in implementing the GST, then the CST rate must be restored immediately to the original 4%.

15. INFORMATION TECHNOLOGY

Commercial Taxes Department is one of the pioneers among departments of Government of Tamil Nadu which established its own Data Centre way back in 1988. Monthly Returns from entire State were entered in this Data Centre and processed for generation of MIS Reports. These MIS reports were used for decisions relating to tax administration policies.

Improvement in Information Technology capabilities of the Department continued over the years, but a major step was taken in 2003 when all the offices of the Department were provided with computers and connectivity to the Central Server at Chennai.

Presently, all the offices of the Commercial Taxes Department have been provided with Computer Systems along with required printers including Multi-Function Devices. All the 215 locations of the Department are connected through 2 Mbps Leased Lines to the nearest Point of Presence (POP) of TNSWAN establishing the Wide Area Network for the Department.

The Department has its own website namely www.tnvat.gov.in for the mercantile public through which they can access various e-services presently provided by the Department like applying for new registration, e-filing of monthly returns, e-payment for online payment, fast track clearance system at check posts, online issue of transit pass, e-request for statutory forms, e-request for refunds to exporters, etc. In addition, the Department has an intranet website www.tnct.gov.in that helps the Departmental officials by providing them access to various application modules relating to Assessment Circles, Check posts, Enforcement Wing, Appellate Wing, etc. Some of the facilities provided by the intranet online application for the Departmental officials are as follows:

- Live report on revenue collection under various Acts with drill down facility from State level to Circle level

- Report on the performance of various offices of the Department

- MIS reports like return filed status, return audit, input versus output and return scrutiny of the data already entered in the offices
- Online cross-verification of ITC availed by the dealers
- Online notice generation for wrong claims of ITC
- Integration of Territorial and Check post modules which enables the Assessing Officers to cross-verify the data furnished by the dealers in the monthly returns along with the movement of goods through Checkposts

During the past few months the Government have taken major initiatives by taking up a comprehensive End to End Computerisation Project and also improved the e-payment facility available to the dealers, which are detailed below:

(a) End to End Computerisation Project

The Commercial Taxes Department has embarked upon its next phase of e-Governance by taking up End to End

Computerisation Project, which was announced in the Budget Speech for 2011-2012. Accordingly, a Detailed Project Report was prepared with assistance from M/s Accenture Services Pvt. Ltd. who are the Project Consultants to the Department for conceptualizing and implementing the project. The key components of the Project are as follows:

(i) Procurement, Deployment, Operationalisation and Maintenance of IT infrastructure at all Departmental Locations

(ii) Design, Deployment and Implementation of a centralized web-based application and dynamic departmental portal for providing e-services to the taxpayers and automating internal core tax functions under various Acts administered by the Department

(iii) MIS reports and Business Intelligence

(iv) Provisioning of a 24x7 Helpdesk for support to the staff and taxpayers on any technical or informational queries

(v) Training to all staff from time to time to aid the adoption of re-engineered processes and the new Application

(vi) Disseminating awareness and imparting training to the taxpayers in use of the new system

(vii) Third Party Audit and Certification of the entire system

(viii) Migration to GST including modifications/enhancements to the Application, migration of existing data, etc., as and when required

(ix) Business Continuity and Disaster Recovery

Administrative and financial sanction has been accorded in GO (Ms) No.13, Commercial Taxes and Registration (D1) Department, dated 18.1.2012, to implement the Project at a total cost of ₹ 230.96 crore over a period of five years. For regular monitoring of the Project, the Government have also constituted an Empowered Committee

under the Chairmanship of the Chief Secretary to the Government, with Principal Secretary (Finance), Secretary (Information Technology), Secretary (Commercial Taxes and Registration), Commissioner of Commercial Taxes and Joint Commissioner (Computer Systems) in the office of the Commissioner of Commercial Taxes as members.

The tender documents (Request for Proposal) for selection of System Integrator through tender process are ready and tenders will be invited soon.

(b) e-Payment

Facility for online payment was made available to the dealers through the website of the Department, www.tnvat.gov.in from October 2009 onwards. Initially, this facility was made available only through State Bank of India, and subsequently Bank of Baroda, Indian Bank, Indian Overseas Bank and Canara Bank were included. The facility of online payment, while ensuring prompt realization of tax revenue into the Government account and easy reconciliation of accounts with banks, also reduces the interaction of the dealers with the Department officials thereby bringing in better transparency. In view of this 9 more Banks, viz. Punjab National Bank, Union Bank of India, ICICI Bank, HDFC Bank, Axis Bank, United Bank of India, Corporation Bank, IDBI Bank and UCO Bank have also been included after getting accreditation from the Reserve Bank of India.

16. CONSTRUCTION OF OWN BUILDINGS

Normally the visiting trading public and staff functioning in the offices working from private buildings face a lot of hardship because many of these buildings are not specifically designed for housing a Government Department office. Hence in order to alleviate the situation, the Government have sanctioned construction of 15 buildings for housing 34 different offices of the Department at a cost of Rs 20.15 crore as follows:

(₹ in lakhs)

S. No	Division	Details of offices	Amount sanctioned
1.	**Tiruvannamalai**	1. DC (CT), Tiruvannamalai 2. AC (CT), Tiruvannamalai-I 3. AC (CT), Tiruvannamalai-II 4. CTO (Enft.), Tiruvannamalai	143.99
2.	**Tiruchirappalli**	1. AC (CT), Mayiladuthurai-I 2. CTO, Mayiladuthurai-II 3. CTO (Enft.), Mayiladuthurai	203.50
		4. CTO, Lalgudi	19.00
		5. DC (CT), Pudukottai 6. AC (CT), Pudukottai-I 7. CTO, Pudukottai-II 8. CTO (Enft.), Pudukottai	165.00
		9. Staff Training Institute	250.00
		10.DCTO, Nannilam	35.00
		11. AC(CT), Srirangam	80.00

3.	**Madurai**	1. DC(CT), Sivagangai 2. AC (CT), Sivagangai 3. CTO (Enft.), Sivagangai	138.60
		4. AC (CT), Dindigul	33.88
4.	**Salem**	1. DC (CT), Sithode 2. AC (CT), Periya Agraharam 3. Appellate AC(CT) 4. Department Representative, Erode	155.10
5.	**Coimbatore**	1. DC (CT), Valparai 2. Staff Quarters, Valparai	235.00
		3. AC (CT), Peelamedu North 4. AC (CT), Peelamedu South 5. AC (CT), Aavarampalayam 6. AC (CT), Thudiyalur 7. AC (CT), Velandipalayam	293.70
		8. AC (CT), Mettupalayam	88.00
6.	**Tirunelveli**	CTO, Kovilpatti	25.00
7.	**Vellore**	1. CTO, Panruti (Town) 2. DCTO, Panruti (Rural)	149.60
Total		**34 offices**	**2015.37**

17. RIGHT TO INFORMATION ACT, 2005

In a department like Commercial Taxes which has regular interaction with the mercantile public, it is especially important that department processes are simple and transparent. Towards this objective, the Department attaches special importance to any requests received under the Right to Information Act, 2005. During the year 2011, i.e. from 1.1.2011 to 31.12.2011, 255 applications under Right to Information Act, 2005 were received by the Department and action was taken and replies were furnished to the applicants promptly.

18. PART-II SCHEMES FOR THE YEAR 2012-2013

Following new schemes have been approved for Commercial Taxes Department during the current financial year:-

(₹ **in lakhs**)

Sl.No.	Name of the Scheme	Amount
1.	Purchase of 1 Water Purifier with Storage Device (150 litres) and 2 Fax Machines for the office of Commissioner of Commercial Taxes	1.05
2.	Purchase of Rain Coats, Light Batons to the Checkpost Staff and Water Cooler to the Office of the Vellore (Enforcement) Division	1.35
3.	Purchase of 2 Generators (63 KVA) for Vellore and Tiruchirapalli divisions and one Generator (30 KVA) for Tirunelveli Division	13.95
4.	Purchase of 6 Steel Filing Cabinets and 10 Godrej Compactors for various Offices of Commercial Taxes Department	4.60
5	Upgrading facilities in the Offices of the Commercial Taxes Department by provision of Photo copier machines, Fax machines and Water Purifiers (150 litres)	10.25
6.	Purchase of 35 Laser Printers and 3 UPS (5 KV capacity)	9.30
7.	Purchase of one iPad	0.56
	Total	**41.06**

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