

Guest Column

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Rethinking turnover tax

State governments have so far done little in terms of rationalising and simplifying the local taxes in order to achieve uniformity. Apart from the substantial inter-state variations in the tax rates, individual states levy certain taxes which serve no useful purpose. One such is the turnover tax (TOT) levied by some states in the south viz. Karnataka, Tamil Nadu.

In Karnataka, the TOT is 2 per cent on annual turnover exceeding Rs 10 crore. In Tamil Nadu, the rate varies depending on annual turnover, maximum rate being 3 per cent in respect of value exceeding Rs 300 crore. Although, no tax is leviable on turnover up to Rs 25 crore, the actuals invariably exceeds this level.

State governments have specifically legislated that TOT cannot be passed on to consumers through a corresponding increase in the selling price. Since last year, the approach of the Karnataka government has been marked by considerable flip-flop. For the period 13.10.1998 to 31.3.1999, it exempted sale of decontrolled phosphatic and potassic fertilisers from the TOT. However, urea was not exempt. This selective approach defies logic. Urea too is a fertiliser as important as P and K fertilisers — perhaps, even more — which supplies essential plant nutrients for increasing production of foodgrains and other agricultural crops. With effect from June 4, 1999, the state government restored the exemption on all P and K fertilisers. As regards the timeframe, initially, the exemption was available only up to August 31, 1999. What was so special about August 31? Why not September 30, which had some logic, being the end of kharif season. Meanwhile, another notification was issued on July 1, 1999, extending the exemption up to September 30, 1999.

Notably, neighbouring Andhra Pradesh does not levy a TOT. In Kerala, TOT is negligible at 0.6 per cent of sales tax. In Punjab, Maharashtra and Haryana, which do not levy sales tax, no TOT is being charged either. This is also the position in Madhya Pradesh and Orissa. West Bengal and Gujarat which were earlier collecting TOT have abolished it.

The immediate victims of the TOT are the manufacturers supplying materials in the states levying this tax. This is because neither can they pass it to farmers, nor,

is this allowed as additional subsidy under the retention price scheme (RPS) for urea or as a concession under the ad hoc concession scheme for decontrolled P and K fertilisers.

The GOI has its own compulsions in not allowing TOT as additional subsidy to producers. For, if it decides to reimburse, this would tantamount to diverting resources to states outside the jurisdiction of the Finance Commission. It would essentially mean using fertiliser subsidy for subsidising state governments. The Centre also fears that if this is allowed, other states would be tempted to levy a TOT.

The TOT does not even help the states in fully realising their immediate objective of increasing revenue. This is because, in the case of decontrolled P and K fertilisers, manufacturers have the option of diverting supplies to the states where this is not levied. Thus, the restoration of exemption vide the June 4 1999 order, in Karnataka may be viewed against the backdrop of the manufacturers' threat not to supply materials to TOT-imposing states.

The levy of TOT has led to a messy situation. There are concerns about the continued viability of manufacturers who have been paying TOT for several years without being compensated. The Centre fears a huge drain on its resources, in case, it decides to come to their rescue. Finally, the states levying this tax could face a shortage of material. Despite all this, the constitutional validity of TOT has been upheld by Supreme Court.

What then is the way out? How could the concerns of manufacturers/government of India be addressed? In a meeting of the ministry of finance some years back, the idea of increasing the selling price to reflect TOT in concerned states was mooted. However, this did not materialise because of opposition from the ministry of agriculture, which was keen to have a uniform price throughout the country. In view of the Supreme Court judgement, even as concerned state governments may be well within their constitutional powers to levy TOT, they need to do some serious thinking from an overall macro perspective and withdraw the tax voluntarily. The Centre, on its part, should continue to pursue the issue with the concerned states and utilise foras like Inter-state Council for driving home the point.