CHAPTER IV

HYPOTHESIS

4.1 - INTRODUCTION

TAXING problem of octroi is such that there has been a rare display of solidarity between sections of trading and business communities and industrialists which for most of the time are unrelated at best and who are antagonistic at worst. The factors that has come to haunt industry and trade circles in Maharashtra for a long time, and the factor which is responsible for bringing the diverse community in industry, business and trade together is: Octroi. The industrial workers, rugged truck operators, burly traders and giant industrialists have come together for the first time on a common platform and leading personalities like Mr. Nalin K. Vissanji, Mr. Ramkrishna J. Bajaj, Dr. Ram S. Tarneja, Mr. Pratap Bhogilal, Smt. Sharayu Daftary, Mr. Aditya Birla and Mr. Nani A. Palkhiwala have shown the rare unanimity of opinions on the current issue of octroi abolition. The captains of industry, the board
room directors and blue collar workers also joined the rally and meeting organised for renewal of their demand for the abolition of octroi against the confusing stance by the State Government.

4.2 PROBLEMS OF OCTROI ABOLITION

The octroi abolition has been long urged by the traders, business leaders, truck operators and also mathadi workers. The fundamental reason for the demand for abolition of the historical check post levy like octroi, is that it is amenable to corruption and racketeering. It also creates such administrative problems as holding up of business traffic, as the system of collection and refund of octroi is an outdated process.

Apart from administrative lapses other arguments in favour of octroi abolition are - trade and traffic obstructions, the oil and fuel wastage as a result of idling and stoppages at check post. Ultimately creating pressure on prices, and resulting burden on the consumer - five times a single rupee of octroi.
Several academic studies have been conducted on the issue of abolition of octroi. Over 30 Committees, Commissions and Study Groups appointed by the Central and State Government have unanimously recommended the total abolition of octroi. The Kasbekar Committee concluded that the octroi, ought to be replaced by an entry tax, which is an accounts based levy doing away with check-post levy. Perhaps, this may be, the result of the recommendations made by the Expert Committees, the election manifestos of Congress (I) Party and Janata Party who promised to abolish it. It should, however be noted that the proposal to abolish octroi has not been unanimously accepted in certain sections of retailers represented by the Grain Dealers Association and civic employees of Local Municipal Bodies, on the grounds that the entry tax - the alternative to octroi, shall be more burdensome and that the autonomous status of Local Municipal Bodies in tapping octroi as a major source of revenue has not been taken into consideration. Moreover without making a comparative study, on the basis of revenue potential and
incidence of octroi and other alternative taxes like Goods Tax, Professional Tax, Turnover Tax etc, many State Governments like Andhra Pradesh, Gujrat, Karnataka and Madhya Pradesh hastened their action in abolishing octroi and replacing it by entry tax, without taking into consideration the implications of their immediate action. The basic issue was that of making a time-bound commitment while fresh alternatives to octroi can still be suggested.

The State Government of Maharashtra has postponed such hasty action of abolition of octroi on the ground that unless a suitable proposal giving as much tax revenue as that given by octroi to the local municipal bodies is found out. The loss of revenue to the local bodies resulting from octroi abolition would only imply introduction of new other taxes other than octroi for making up the loss of revenue. Thus, the ultimate implication would be increasing incidence of taxes - whether it be octroi or other alternatives, on the consumers. If the interest of trade, commerce and industry can be safeguarded by octroi abolition, they
can be safeguarded at the cost of the ultimate consumers. This means that the 1805 octroi tax system should or should not survive into the 21st century, is a highly controversial issue involving conflicting interests and any firm commitment in respect of octroi abolition must be made in the light of divergent issues. Therefore, the Maharashtra Government under the able leadership of Mr. S. B. Chavan, accepted Kasbekar Committee's recommendations and promised to initiate action. An entry tax bill was also drafted for the legislators in the Assembly in 1988. However in Bombay and Nagpur sessions the State Government backed away from its introduction principally because of the fear of opposition from two important sections viz. Local Municipal Bodies and Retailers - Grain Dealers Association. Thus, commitment given by the Chief Minister of Maharashtra to the business and trading community remains pending. Obviously the State Government cannot ignore such problems created by octroi abolition as the adverse impact of octroi abolition on the jobs of four lakhs employees of
Local Municipal Bodies, the loss of revenue of hundreds of crores of rupees per year to the Local Municipal Bodies, the small retailers involvement in tax payments, maintenance of up-to-date accounts and high burden of entry tax etc. One way of looking at the problem is whether the Entry Tax bill can be so amended as to introduce some exemption limits or whether the property tax can be so rationalised as to ensure adequate revenues for civic bodies. It is estimated that rationalisation of property tax would yield revenues to the extent of Rs. 300 crores. The problem is whether such measures would induce State Governments to completely abolish octroi.

The whole account of octroi abolition movement gives us certain clues to the following theoretical issues:

1) What are the basic reasons for the survival of octroi during the last 186 years right from 1805?
2) Is the survival of the age-old octroi tax system relevant in the 21st century?

3) Is the basic problem administrative or financial?

4) Assuming that the basic problem is financial would it be appropriate to indulge in the academic exercise of replacing one tax system by another only in name with a new assurance that financial loss entailed in abolition of one tax is made good for introducing other alternatives to the previous tax system?

5) If no important purpose is served by abolition of one tax system and replacing it by another, would administrative reforms in the existing tax system suffice?

6) Would the decision to abolish a tax or to maintain status-quo be based on the unanimous demand of the majority of the persons
involved in the tax payment and tax collection or whether it should be based on certain academic standard?

4.3 - HYPOTHESIS AND ITS ASSUMPTIONS

All the above academic, administrative, financial and political considerations lead to the inference that.

The present horse-trading going on between the various sections of the business and trading communities, the local municipal authorities and the Government, for abolition of octroi and its replacement by entry tax indicates that there is no unanimity of opinion among the protagonists for the retention of octroi duty who feel that octroi is not that bad and the government which is not serious about keeping its promise for abolition of octroi with effect from 31st May, 1988. The implication is that though octroi is described as one of the most obnoxious tax which needs to be abolished, during the first half of the century the socio-economic structure of the country is not
such as to permit abrupt abolition of octroi which is the only flexible source for the municipal authorities and which is vital for preservation of the autonomy of local municipal authorities.

It is argued that after the abolition the State Government will give adequate compensation for the loss of revenue and would also give an yearly increase in the compensatory grant to the local bodies. However this is a doubtful proposition. The fact remains that, for the local municipal bodies octroi has been a direct, flexible and an elastic source of income having growth potential. Even the Kasbekar Committee which has recommended the Entry Tax, has described octroi as the most flexible and liquid source of revenue. Under the circumstances abolition of octroi and its replacement by entry tax or turnover tax or any other tax,

* As it has been experienced in the State of Karnataka bodies that the local municipal have received much less compensatory grants than the octroi revenue which otherwise could have been raised.
which can prove to be perfect substitute for octroi will be only an unfruitful exercise leading to problems not only in the field of tax administration but also other problems like unemployment, encroachment on the autonomy of the local body and creating another statutory framework, inefficient administration of Entry Tax as experienced by Gujrat State Government.

The Theorem that -

"Octroi has no perfect substitute, it should not be abolished but octroi administration should be reorganised by introducing suitable administrative reforms",

can be proved on the basis of following assumptions :-

1) Octroi is one of the indirect taxes which is collected at the entry of a town.

2) It is charged specifically on the basis of the value of commodity i.e. at the percentage rate.

3) Octroi is the principal source of revenue of all the local municipal bodies in India giving 50% to 80% revenue to the Local Self Government.
4) Octroi as the definite, flexible and liquid source of revenue to Local Self Government is greatly facilitated provision of certain social, economic and welfare services to the people.

5) The argument that the State Government will give adequate compensation and yearly increase in the compensatory grant, for the loss of revenue resulting from octroi abolition is not valid. The experience in the States like Andhra Pradesh, Gujrat, Karnataka and Madhya Pradesh can not substantiate this argument.

6) On and often octroi has been criticized as susceptible to corruption, waste of time and fuel in transport, creation of obstacles in smooth traffic and distribution, heavy cost of collection (ratio of collection to cost being 1:5) as a result of abolition of octroi has been experimented in States like Andhra Pradesh, Gujrat, Karnataka, Madhya Pradesh etc. However the experiment of the replacement of octroi by a substitute tax like entry tax has not been totally successful. Although the entry tax appears to be an
alternative to octroi there are certain issues which should be given serious consideration. One of the major economic ill effects of entry tax arises from the protection given to the manufacturers operating within urban local limits. On the other hand there is absence of marketing infra-structure outside major urban jurisdiction. This induces units located outside the urban route agglomeration to \( \mathbb{L} \) their products through major urban centres and thus coming within the tax bracket. The tax differential or the difference of incidence of tax on the units located within and beyond major agglomerations, creates a strong gravitational pool on the industrial units outside urban areas to drift to urban areas creating problems of concentration of industrialisation viz. overcrowding slums, pollution and severe strain on local public services. Octroi has not contributed to aggravation of the problems of social degradation because octroi is a specific levy and its rates have so far been kept relatively low.

7) Any move against octroi abolition is protested by Mayors, Corporators and Civic Employees because
octroi finances as much as 60% of the civic expenditure on various projects. Octroi has high revenue potential which is more than a proved thing. The total revenue from octroi for one of the leading Bombay Municipal Corporation increased from Rs.32.58 crores in 1975-76 to Rs.392.07 crores in 1989-90. No substitute like Turnover Tax is a solution to the problem of raising large revenues for civic projects.

3) Thus the hue and cry over octroi and demand for its abolition is made on flimsy grounds. Substitution of octroi by entry tax or any other tax is not an attractive relief proposal for - trading and business community. Administrative lacuna and other evils are likely to be there for any tax with whatever the name. Incidence of any tax is going to fall on the ultimate consumer. Thus, if any tax is to be accepted as a necessary evil, octroi should not be objected to by either businessmen or traders or consumers or transporters and obviously if abolition is objected by those institutions for whom it is a source of great revenue, under
the circumstances what can be logically done is reforms in the administration of octroi tax rather than its total abolition.