

CHAPTER – I

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CHAPTER – I

INTRODUCTION

1.0 TAX - A general introduction

The origin of taxation dates back to the period of Kulapathy when primitive men assembled together, settled down to a place and started living together¹. In ancient texts there are references to taxation. The great works, the Mahabharata of Vyasa and Arthashastra of Kautilya (also known as Chanakya and Vishnugupta), refers to taxes as 1/6 of the produce raised as share of the King. Taxes in ancient India levied both in cash and in kind were collected by local officers. Major sources of revenue for the king included land tax, octroi, taxes on liquor shops, gambling houses and on professionals like dancing girls. In his work 'Raghuvamsa', Kalidasa, the greatest poet and dramalist of ancient India, observed, "just as the sun extracts water from the reservoirs and gives it back in the form of showers, so does the ruler extract tax from his subject and give it back to them in the form of prosperity"². At present taxation has developed to new dimensions and many kinds of taxes are now levied. A modern State, barring certain oil rich countries, cannot exist without taxation and taxes have their relation to civilization besides meeting the expenses of the State administration³. "It is said that there are only two certainties in life, death and taxes. Both are inevitable. We meet both unwillingly"⁴. Unfortunately the comparison ends there. Death relieves the person from all earthly worries. Taxation on the other hand, neither fully kills the persons nor lets them live in peace. There is one more thing in favour of death over taxes—death doesn't get worse every time the budget is presented by the finance minister.

Historical records explain that taxes have been levied by rulers from time immemorial. There are evidences in the 'Holy Bible' that tax was an important source of revenue of the then existed economic system and tax collectors were a separate caste group of the then existed social system. "And they asked Jesus, is it against our law to pay taxes to the Roman Emperor or not? And he said to them to pay to the Emperor what belongs to the Emperor and pay to God what belongs to God"⁵. For a long time after the downfall of Rome, taxes were levied by the rulers in the form of

goods and services. But gradually with the rise in money economy, payment in goods and services were replaced with money payments. The tax system which developed gradually stands now as an integral part of the economic system, backed by sufficient legislation. In the words of Lord Holmes “Taxes are what we pay for a civilized society. I like to pay taxes, with them I buy civilization⁶”.

Tax is one of the major sources of public revenue. According to Seligman “tax is a compulsory contribution from a person to the Government to defray the expenses incurred in the common interest of all without reference to special benefit conferred⁷”. Tax is levied by the State by virtue of its sovereign power. Tax is an important and most significant source of revenue of the Government. It is a crucial macro-economic policy instrument which contributes to ensure social justice and reduce the inequalities of income and wealth in the economy. A tax can be defined simply as a payment to support the cost of Government. A tax differs from a fine or penalty imposed by a Government because a tax is not intended to deter or punish unacceptable behaviour. On the other hand, taxes are compulsory; anyone subject to a tax is not free to choose whether or not to pay. A tax differs from a user’s fee because the payment of a tax does not entitle the payer to a specific good or service in return. In the abstract, “citizens receive any number of Government benefits for their tax dollars. Nevertheless, the value of Government benefits received by any particular person is not correlated to the tax that person is required to pay as the Supreme Court explained⁸, “A tax is not an assessment of benefits. It is a means of distributing the burden of the cost of Government. The only benefit to which the tax payer is constitutionally entitled is that derived from his enjoyment of the privilege of living in an organized society, established and safeguarded by the devotion of taxes to public purposes.⁹”

The constitutional frame work of taxation, types of tax, recent trends in Indian taxation etc are detailed in Chapter III.

1.1 Tax administration

An effective Tax system must fulfill the administrative requirement with speed, it should cost less than any other way of achieving the same results; it should be

adoptable to changing conditions; it should conform to the organizational structure, policies and other systems in the organizations. Economy in administrative systems and procedures is achieved by making changes, additions and deletions in such a way as to increase the net differences between the benefit produced and cost incurred. It is important to keep all the possibilities in mind while seeking to improve a tax system. Wastages in the form of excessive expenditure or failure to derive the potential benefits of a tax system are typical. The former is due to unnecessary procedure and poor methods and the latter is due to ineffectiveness and inadequacy of administrative system. An effective system of taxation should be a continuous process in order to reduce waste and evolve better methods.

The main functions of a Tax administration, in dealing with taxpayers, aside from actual tax collection or sanctioning non-compliance, largely involve gathering or processing information. The first information related function is identification of taxpayers followed by their registration as taxpayers and, for most major taxes, the assignment of giving taxpayers identification numbers. Other information functions include, at the preliminary stage, collection of information from third party sources including, importantly, tax withholders, accessing asset ownership information (such as cadastral records), engaging in taxpayer education and providing taxpayer services to keep their compliance burden low. Verification of the correctness of tax payments starts with return filing control followed by assessment of tax liability of the taxpayer. Some of the major types of assessment activities are valuation and tax audit, the latter activity typically being the most important function of Tax administrations from the perspective of resource use. To establish tax evasion or to facilitate identification of non-filers investigation and inspection are also necessary. If prima facie non-compliance is established, then penalties and prosecution of tax offenders may be required. Actual tax collection is divided into two functions, mechanical collection of taxes from those who pay voluntarily on time and collection of delinquent taxes. In some countries a substantial part of the capacity of Tax administrations is absorbed by the execution of non-tax related functions, such as the collection of user charges and fees for other government agencies. Those kinds of responsibilities should be critically reviewed to allow the Tax administration to concentrate on its main function. In several countries, amnesties are declared for different reasons. Amnesties,

of course, must be administered and not just enacted. The final function of Tax administrations covered here, again largely information related and becoming increasingly important, is international tax cooperation with other administrations¹⁰.

1.2 Commercial Taxes Department in Kerala [CTD]

Commercial Taxes Department of Kerala, which administrates the sales tax laws of the State, is under the control and general supervision of the Commissioner, Commercial Taxes Department. He is assisted in his function by the Joint Commissioners, Deputy Commissioners, Inspecting Assistant Commissioner and Sales Tax Officers. There are 35 Deputy Commissioners at the district level and 126 Inspecting assistant Commissioners at the sub-division level. Each district is divided into several regions. A Commercial Tax office is the smallest administrative unit in the department. The major work of the department constitutes registration of dealers, assessment and collection of sales tax and agricultural income tax, recovery of arrears of tax, prevention and detection of tax evasion and disposal of appeals and revision petitions. A selected number of assessments involving high turnover are dealt with in the special regions by Assistant Commissioners and others in ordinary regions by Commercial Tax Officers. Assessment of works contract is made by the Commercial Tax Officers attached to the Deputy Commissioners in each district. There are Departmental Tribunals and Appellate Authorities. The department also controls 44 permanent check posts.

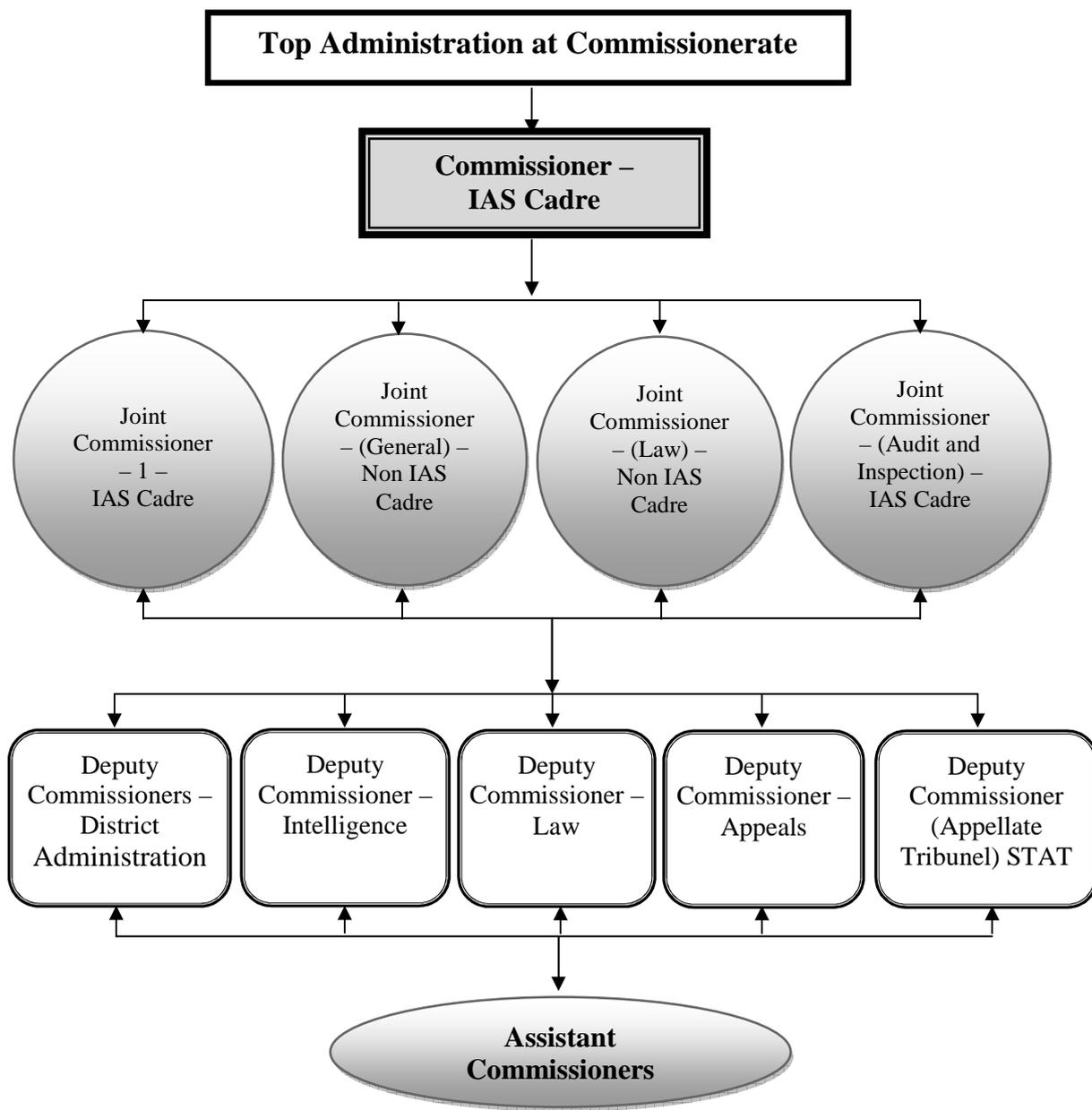
The Commercial Taxes Department is a tax revenue earning department presently administering levy and collection of tax revenue under Sales Tax/Value Added Tax, Central Sales Tax, Luxury Tax on residential accommodation, and Entertainment Tax. For the purpose of proper control and administration, the State of Kerala has been divided into fourteen district offices. The overall Tax administration is controlled and monitored by its head quarters at Thiruvananthapuram.

District offices are headed by Deputy Commissioners. Further, Deputy Commissioners and Assistant Commissioners are appointed as appropriate assessing/appellate authorities and CTO's/ASTO's are appointed as assessing authorities under Sales Tax /VAT, CST and Luxury Tax.

The district department having Assistant Commissioners, who have been appointed as first appellate Authorities, take up the appeals. Additional Commissioner is in charge of general administration, first appellate authorities for major cases, in charge of enforcement cell, and entertainment cell, audit, refunds and recoveries. He assists the Commissioner on drafting and enforcement of law, amendment etc.

Chart No. 1.1

Organizational chart of Commercial Taxes Department at Top Level



1.3 Statutes monitored by CTD

The main revenue oriented statutes such as the Kerala General Sales Tax Act 1963 (Act 15 of 1963), Kerala Agricultural Income Tax Act 1991 (Act 15 of 1991), Central Sales Tax Act 1956 (Act 74 of 1956), Kerala Money Lenders Act 1958 (Act 35 of 1958), Kerala Surcharge on Taxes Act 1957 (Act 11 of 1957), Kerala Taxes on Luxuries Act (Act 32 of 1976), Value Added Tax Act 2003 (Act 30 of 2004) are at present administered and monitored by the Commercial Taxes Department¹¹.

Till 1998, the department was known as the Department of Agricultural Income Tax and Sales Tax with the Board of Revenue. Consequent to the abolition of the Board of Revenue by the Board of Revenue Abolition Act 1998, the Department was renamed as the Department of Commercial Taxes and the member of the Board of Revenue in charge was redesignated as the Commissioner of Commercial Taxes. A change in the Commercial Taxes Department happened at the time of introduction of VAT. In response to the new opportunities and challenges the department and its manpower need to be equipped to meet the emerging systematic needs. That means a reengineering of the department is happened¹².

When a new tax is suggested and its actual design is shaped in the legislative process based on public opinion, and it becomes a tax designed by the legislature. The desired objectives of a tax cannot be achieved unless it is properly administered. In fact, failure to properly administer the tax defeats its very purpose and threatens the canon of equity because full compliance of tax is then made only by those who cannot avoid it. But the officials of the department in every State frankly admit that efficiency is at very low ebb & evasion of tax is rampant. The assessee/dealers who bear the impact of the tax come into contact with tax officials corroborate the fact and voice their demand for abolition of tax partially or completely on the grounds of corruption in the department.

Improvement in the administration of the tax department is therefore of paramount importance. This could be attempted by developing an atmosphere which is conducive with effective leadership qualities at all levels of the tax department. Commercial Taxes Department of Government of Kerala contributes nearly more than 80% of the

revenue to the State exchequer. Therefore the scope of this piece of research work is focused on the administrative activities of the Commercial Taxes Department with special reference to Value Added Tax administration.

The tax revenue of Kerala has been growing at a robust rate of 25% per annum with VAT collection exceeding the national average for the last two years; Former State finance minister Thomas Isaac (2010-11 period), said. Efficient treasury management is set to bring down the homogeneous revenue deficit of the State to zero by 2010. Isaac disclosed that the State is working towards online Tax administration by computerising all points to increase compliance. Computerisation of border check posts would be speeded up and cross verification of the online data would unearth tax evasion. The ratio of tax revenue to GDP is also likely to increase to 16% from the present 13.5%. The ratio of revenue expenditure to GDP would be brought down to 17% by 2010 from the present 19.5%¹³.

1.4 Statement of the problem

Efficient Tax administration in Commercial Taxes Department will not only determine the performance of the Department but will contribute much towards the functional automation of the State exchequer. Since the Commercial Taxes Department of Kerala occupies a predominant position among the various State Government Departments, in terms of revenue earnings, the effective management of the Commercial Taxes Department is of utmost importance. It is often felt that the major reason behind the inefficient Tax administration is the poor Tax administration practices followed in the Department of Commercial Taxes. Therefore, the efficient Tax administration of the Commercial Taxes Department may help to smoothen the Tax administration and overall performance of the Department along with increased collection of the tax revenue to the State Government. At this juncture, it is high time the Tax administration practices followed in the Commercial Taxes Department evaluated and examines especially in the following areas:

- 1 Filing of return by dealers
- 2 Scrutiny of returns
- 3 Tax assessment
- 4 Tax compliance and measures
- 5 Audit and inspections
- 6 Training and development of employees
- 7 Disposal of pending cases, appeals...etc
- 8 Return data management
- 9 Management Information system (MIS)
- 10 Dealer awareness programmes
- 11 Periodical statutory amendments
- 12 Rules and procedures
- 13 Computerization.
- 14 Check post movement of goods.
- 15 Re –engineering of department.
- 16 Assessee grievance redressal system.
- 17 Employee grievance redressal system.

1. 5 Need & Importance of the study

The taxes are levied by the Government from a pool of resources to be used for the collective benefit of the public. The taxation structure of the country can play a very important role in the working of the economy. Sometimes back the emphasis has shifted to decrease in rates of taxes and withdrawals of incentives. But recently the emphasis has shifted to decrease in rates of taxes and withdrawal of incentives. While designing the taxation structure, it has to be seen that it is in conformity with our economic and social objectives. It should not impair the incentives to personal savings and investment – flow and at the same it should not result into decrease in revenue for the State.

During the past two decades revenue from Commercial Taxes Department has increased manifold and has come to occupy a pivotal place in tax armoury of State administration. Currently over 60 percent of the total revenue of the Kerala State is derived from different taxes and duties levied and collected by the Government of Kerala. Out of the total tax revenue collected by the State Government, Sales tax constitutes more than 70 percent.

In the absence of proper and effective administration the object of levying a tax cannot be achieved and that every purpose of such taxation in particular as well as the fiscal policy of the State in general is defeated. The canon of equality is also threatened because full payment of tax is made by the honest tax payers only. Unscrupulous tax payers are always in search of loopholes to take advantage of administrative weakness and limitations in the tax system so as to avoid or evade payment of taxes. In such conditions the morale of the honest tax payers is affected and that too tries to take advantage of administrative weakness and the limitations of the tax system.

An effective Tax system must fulfill the administrative requirement with speed, it should cost less than any other way of achieving the same results; it should be adaptable to changing conditions; it should conform to the organizational structure, policies and other systems in the organizations. Economy in administrative systems and procedures is achieved by making changes, additions and deletions in such a way as to increase the net differences between the benefit produced and cost incurred. It is important to keep all the possibilities in mind while seeking to improve a tax system. Wastages in the form of excessive expenditure or failure to derive the potential benefits of a tax system are typical. The former is due to unnecessary procedure and poor methods and the latter is due to ineffectiveness and inadequacy of administrative system. An effective system of taxation should be a continuous process in order to reduce waste and evolve better methods.

The proper administration of the Commercial tax requires a well designed defect- free system along with trained staff and sound information system. Owing to the weakness of the existing Tax administrative system and due to the ineffective information system, the administration of Commercial tax in the State is far below the optimum

and tax delinquency is of a substantial magnitude. This is evident from the fact that the Department gets more than 75% of tax revenue from admitted tax and only a very small fraction from the enhanced demand arising from the assessment done by the department.

Though Commercial tax plays a predominant role in the State Exchequer, administratively it faces many problems. Therefore it is high time the existing system of Sales/Value Added Tax evaluated and examined by analyzing the following strategic areas;

- ✧ Evaluation of present Tax administration System.
- ✧ Functional performance of Commercial Taxes Department.
- ✧ Methods and procedures of Collection of Taxes.
- ✧ Evaluation of Tax Information System

Therefore, it is imperative for the Commercial Taxes Department to pay adequate attention to hiring and training the employees and to their development activities and undertake systematic Tax administration practices on a long term basis.

A serious handicap in the study of Tax administration practice in Commercial Taxes Department is the dearth of literature relative to the general and specific problems of Tax administration in Commercial Taxes Department. A comprehensive study emphasising the importance of utilizing the Tax administration in an appropriate manner in Commercial Taxes Department or in any of the State Government Departments has not been made so far. The present study therefore, strives to bridge the gap by focusing attention on important aspects of Tax administration practices like Levy and collection of tax, Audit and inspection, Training and development, Check post management, Tax reforms and amendments...etc. Such a comprehensive study is the need of the hour and the researcher has undertaken the study with a view to filling this vacuum. Thus, the present study is broad based, comprehensive and it gives due weightage to all important aspects of Tax administrative practices in the Commercial Taxes Department of Kerala.

1.6 Review of related studies

Several studies were conducted in India and abroad on Management Practices and its various functional areas in the past few decades. But most of these studies were related to the private and public sector undertaking and co-operative organisations. A survey of existing literature reveals that no study has been made so far relative to the administrative practices either in any of the Central Government or State Government departments. Some of the important studies conducted on Administrative Practices and its various functional areas are reviewed here. Administrative leadership is not a passive status or the mere possession of some combination of traits. Ralph M. Stogdill¹⁴ says it “appears rather to be a working relationship among members of a group in which the leader acquires status through active participation and demonstration of his capacity for carrying co-operative tasks through to completion”.

George M.M¹⁵ conducted a study on Human Resource Management in Commercial Taxes Department. He analysed the Human Resource Management practices in Kerala through various selected factors. Under his study it is clearly specified that Human Resource Management followed in Commercial Taxes Department is appreciable. George M. M¹⁶ draws attention to “the State of CTD in the context of the present world. He observes that the present performance appraisal system in the department is inadequate and hence it should be modified. The past performance of employees should be considered at least at the time of giving promotions and transfers to the employees”.

Bhabatosh¹⁷ conducted field studies in Indian organisations in public and private sectors between 1979 and 1981. The views of trade union leaders, office bearers of different management associations and Government officials were also taken into consideration for the study by administering questionnaires. The responses were also obtained through personal interviews. In all, 637 respondents of different categories were covered by the study. The study mainly focused on the participative management. Rurabasavaraj¹⁸ made an attempt to study personal management practice in a cross section of public, private and co-operative enterprises. The study covered 32 organisations in the public sector, 12 in the co-operative sector and 14 in

the private sector. The study threw light on various aspects of personal recruitment, selection, training, policies of promotions, transfers, performance appraisal and career development, communication within the organisation, employee morale, wage and salary administration, employee welfare and services, union management relations and interpersonal relations.

Rejesh M. N¹⁹ in his study on “Impact of Value Added Tax on the Financial and Tax management practices of the VAT assesses of Kerala” has found that the VAT system of taxation has a significant impact on investment decisions of the different categories of the VAT assesses. These decisions have long term implication for the business because they affect the future profitability and cost structure. It influences the rate and direction of a firm’s growth. Therefore the VAT assesses should be very careful and vigilant in taking investment decisions and should avoid overinvestment and under investment in fixed assets. And he suggest that the present turnover limit for “Compulsory Audit System” prevailing under the VAT system is not rational and satisfactory. So this limit should be enhanced upto rupees two crores.

Biju²⁰ conducted a study on Administrative leadership potential: A study on the taxes department of Government of Kerala. He analysed various Administrative leadership potential on the basis of various leadership theories. He found that Recruitment, Training, Salary, Promotion and Transfer policies affects the leadership potential to a great extent. He suggest the importance of revision of pay scale to the employees and also suggest the need and importance of transparent transfer policies.

Richard M Bird²¹ has observed that “since the quality of Tax administration is such an important constraint on the possibility of tax reforms, it would appear logical to suggest tax reform which can be administered by a poor administrator”. Tax policy must be framed on the basis of a realistic understanding and appraisal of the capabilities of the Tax administration. Bird²² continues to say that a less than ideal tax structure designed for a poor administrator may work better – its effects may be more in line with these desired – than a ‘good’ tax badly administered. Therefore the administrative leadership at all levels of a department is important for achieving the

objectives for which it is set up. It defends the selection of the study of Administrative leadership potential of Commercial Taxes department.

Gopalji²³ made an attempt to examine the place of personnel as a function in Indian manufacturing industries and to survey the enterprise practice related to various personnel related functions. The study was made in 31 private and public sector manufacturing industries of 10 years existence and had a paid up capital of Rs. 50 lakhs or more in northern region of India. Suryakumar & Srivastava²⁴ conducted a study covering 100 employees of Hindhustan Aeronautics Limited (HAL) to examine the effect of various internal and external factors on the employees' levels of job satisfaction. These employees were administered on job satisfaction scale. Prasad²⁵ studied the Administrative Practices in the Textile Industries in Kerala.

Anuradha Sharma²⁶ analysed in her study a number of psychological factors that are related to the level of job performance of the skilled workers in Indian Industrial Organisation. Sapru examined the role of banking institutions in public sector and how the personnel management within them can be revamped for the improvement of their performance. It examined the organisational set up, recruitment, in service training, discipline and service condition and industrial relation in the banking industry. According to David and Stephen²⁷, since every organization is made up of people, acquiring their service, developing their skills, motivating them to high levels of performance and ensuring their commitment to the organisation are essential to achieving organisational objectives. Anand Kumar Sinha²⁸ examined the factors, which influence job satisfaction. The study was undertaken to analyse the nature of relationship between various psychological factors and job satisfaction of the bank employees. It is a comparative study of the private and public sector banks and it tries to examine four clusters of factors in relation to job satisfaction of the bank employees, organisational factors, individual and background factors, social environment of the employees, and workers' perception of the job and expectation from it in terms of desired and attained job characteristics. Apparao²⁹ aimed at studying the methods that are usually followed by the small industries for selecting different categories of employees, the training facilities available for the employees, the wage structure differentials, the welfare measure provided, nature and extent of

absenteeism among the workers, the problem of labour turnover, the nature and extent of unionization among the workers and the causes and results of strikes in small industries.

Dayanandan³⁰ studied the effectiveness of Human Resource Management practices in the central co-operative banks in Kerala and reached the conclusion that the Human Resource Management Practices followed there are less effective in attaining its objectives. Jyothi³¹ made an attempt to study the personnel management practices and industrial relations in selected co-operative enterprises in Vishakapatnam district. Taiyab Sheikh³² studied the personnel administrative policies and practices of 20 urban co-operative banks in Bombay and Pune. Vadivelu³³ made an attempt to study the personnel management policies and practices in selected central co-operative banks in Tamil Nadu. Sivaprakasam³⁴ also examined personnel management practices in Central Cooperative banks in Tamil Nadu.

Panandikar³⁵ reviewed the existing method of recruitment to the jobs in Government departments and recommends the development of improved techniques for assessing the personnel skills and qualities, which are directly related to functions involved in the job itself. Indeed with the expansion of the scope and function of Government bureaucracy, recruitment to the different position in this structure will exert considerable impact on the national economy. Dhar³⁶ discusses the advantages and disadvantages of direct recruitment and promotion from within to fulfill management positions. Exclusive adherence to promotion from within causes narrowness of outlook and stagnation in the organisation where as reliance on recruitment alone leads to severe morale problems. There is urgent need to make a judicious use of both methods.

Prasad³⁷ describes the principles of recruitment for all the public enterprises in the country. Bhalerao³⁸ analyses the working of public service commission providing useful information about the origin and history of public service commission, its composition, functions and allied aspects. Chowdhary³⁹ discusses recruitment methods of Union Public Service Commission. According to Article 309 of the constitution of India, the power to frame rules regarding recruitment to public services

is vested in the legislatures. However, the legislatures have not framed any law regarding recruitment. The existing position is that the executive provides the method of recruitment for its various public service commissions for comments and notification purposes. However, the ultimate power for formulating policies and methods lies with the executive. As soon as the recruitment rules, syllabus and other admission requirements are determined, they are published in government notifications and gazettes. The commission then issue advertisement in several news papers in the country. Only the examinations, interviews and announcement of results are the responsibilities of the commissions. Prasad⁴⁰ also describes selection procedure in the public sector. As soon as the applications are screened by a selection committee, the selected candidates are invited for interview. The selection committee makes its recommendations on the basis of candidates' performance in personal interview, group discussions and the tests and prepares a common merit list in order of performance for consideration of the authority concerned. Chatterjee and Mukerjee⁴¹ provide a brief outline of the objective methods of selection and rationale behind them, discuss the nature of objective tests and cite several validity studies showing the efficiency of objective tests and selection in public and private sector organisations in India. Chaterjee⁴² conducted a study to assess the extent of application of psychological tests in India. The study revealed that nearly one half of the public sector and over four fifth of the private sector enterprises did not use psychological tests and only one fourth of the public sector and a little over two fifth of the private sector enterprises viewed that the psychological test could be used for good advantage. Chatterjee⁴³ further observe that the management in Indian Industries has recently recognized the importance of psychologists in selecting the right man for right jobs. Unfortunately, because of the penalty of standerdised selection techniques and tests, the management could not use them in selecting the personnel for a long time. However, the situation has improved substantially now and attempts are being made to devise standerdised tests for selecting the personnel for different jobs.

Dayal⁴⁴ presents a comprehensive survey of studies on training in India. He observes most of the issues confronting the field of training in India are not dissimilar to those felt abroad. Attempts have been made to examine general issues such as conditions conducive to effective training, techniques for assessing effectiveness of training,

extent of utilisation of training in practice and the extent to which training method influences learning. He thinks that training is effective only if the company is capable of using it. Other conditions of effective training are willingness of the chief executive and senior managers to go for training, preparedness of the company for experimentation and the capabilities of the trainees to learn. Vakil⁴⁵ emphasizes the need for determining the extent of effectiveness of management education and training offered by the different institutions has been utilized in actual practice. Grinshaw⁴⁶ attempts to explain several issues related to measurement of effectiveness of training and involvement of subjective elements in qualitative assessment of the programme. Chandra⁴⁷ indicates some of the basic factors in management development which are ignored in view of over stress on system and techniques. The effectiveness of the programme is a function of the appropriateness of the methods chosen, the skill with which they are applied and the capability of the members of the organisation to understand the programme and belief in its objectives. Rudrabasabvaraj⁴⁸ examines the need, problems, objectives and some fundamentals of management development.

1.7 Objectives of the study

The objectives of the study are as follows:-

1. To explore the various factors/factors affecting the effectiveness of Tax administration practices in Commercial Taxes Department in Kerala.
2. To examine how the employee designation affecting the perception regarding Tax administration effectiveness.
3. To evaluate the responses of the different categories of employees about effectiveness of the Tax administration of Commercial Taxes Department
4. To ascertain the impact of the tax reforms and amendments on levy and collection of tax.
5. To make suggestions and recommendations for the improvement of the existing Tax Administrative practices of Commercial Taxes Department in Kerala

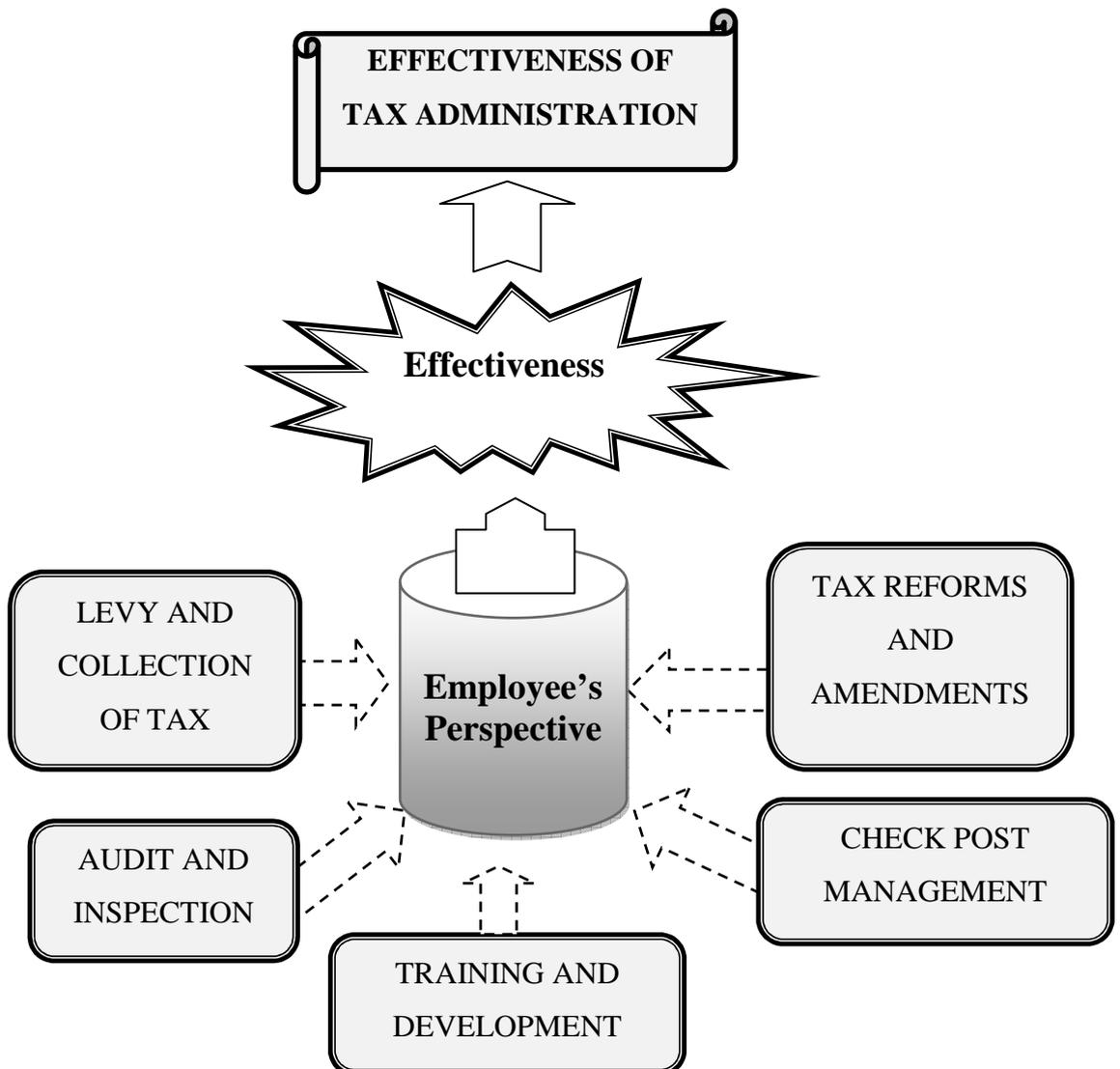
1.8 Hypothesis of the study

The hypotheses designed for the study are as follows:-

1. There is no variation in different factors of CTD among different areas and category of employees.
2. The discriminant functions between Southern, Centre and Northern regions in the Tax administration practices are not valid.
3. Levy and collection of tax is not dependent on tax reforms and amendments.

Chart No. 1.2

Chart model showing the Effectiveness of Tax administration in CTD



1.9 Methodology

The study is exploratory in nature and hence designed as an empirical one based on interview method.

1.9.1 Sources of data

The data for the study were collected from both the primary and secondary sources. The primary data were collected by interview schedule method and the secondary from various books, articles, journals, websites and working papers.

1.9.1.1 Secondary data

The secondary data required for the study were collected from various Books, Journals, News papers, Booklets, Circulars published by the Government, NIPFP, GIFT, Sales-tax authorities, Tax practitioners associations, other associations/agencies, study report of expert committees and commissions, seminar reports, working papers, records maintained in the various offices of the Commercial Taxes Departments of Kerala and other Published & unpublished sources.

1.9.1.2 Primary Data

The primary data were collected from the selected respondents (350 respondents) by using a structured interview schedule. The entire text of the interview schedule is given in Appendix I. The opinion survey data collected were analysed and interpreted to find answer for the selected objectives. Interview schedule was designed for tax authorities to obtain information which were mentioned in the objectives of the study. A pilot study was conducted for finalizing the interview schedule. The schedule was pre-tested to measure the reliability of the data. The primary data were collected during 1st April 2010 to 31st March 2011.

1.9.1.3 Pilot testing and validation of research factors

The interview schedule is pre – tested to measure the reliability of the study. Prior to the survey, the research instruments were validated. The first level of validation was done by a few eminent employees in the department from assessment wing and intelligence wing respectively and second round of validation was jointly done by experts from an autonomous institute under the Government of Kerala and higher

officials of Commercial Taxes Department. The research instruments were tested with a pilot run of approximately 20 respondents from each level. The pre-test was conducted to verify the appropriateness and clarity of the questions. The modifications were made in the interview schedule format based on the suggestions from pilot run. The data for the study were collected from both primary and secondary data.

1.9.2. Reliability analysis

Table No. 1.1

Table showing ‘Reliability Statistics’ of different factors selected for the study

Factor. No.	Factors	No. of Statements	Reliability- Cronbach’s Alpha
1	Levy and Collection of tax		
1.1	Filing of return by dealers	6	0.989
1.2	Scrutiny of return	12	0.938
1.3	Return Data Management	6	0.921
1.4	Tax Assessment	9	0.968
1.5	Appeals, revision...etc	9	0.901
1.6	Management Information System (MIS)	8	0.988
1.7	Computerisation	7	0.991
2	Audit and Inspection		
2.1	Audit and Inspection in dealers premises	10	0.899
2.2	Inspection of goods in transit	11	0.823
2.3	Internal and A.G. Audit	11	0.913
3	Training and development		
3.1	Department training practices	9	0.890
3.2	Area of training	8	0.944
3.3	Training results / achievements	5	0.810
4	Check post Management		
4.1	Check post authorities	7	0.920
4.2	Vehicle checking procedure at check post	10	0.946
4.3	Collection of advance taxes, penalty and scrutiny	6	0.934
5	Tax reforms and amendments	8	0.967

As per table no. 1.1 Cronbach's Alpha is greater than 0.8, it can be concluded that, all the 142 items included for evaluating the effectiveness of Tax administration in Commercial Taxes Department in Kerala, can give more than 80 percentage coverage of the factors and are reliable. The researcher at this stage proceeds to test the effectiveness of Tax administration in Commercial Taxes Department in Kerala by using different tools and techniques.

1.9.3 Population of study

The population of study was the full time employees of the Commercial Taxes Department in Kerala. It includes the different types of employees in these departments including Lower level employees, Middle level employees and Top level employees but does not include Last grade staff. Table No.1.2 presents the position of the different categories of employees in the Commercial Taxes Department in Kerala.

Table No. 1.2

Organizational Strength of the Commercial Taxes Department of Kerala

Sl. No.	Name of the post	Total strength
I	Top level employees	
1.	Commissioner	1
2	Joint Commissioner	1(IAS) 3 (Non IAS)
3	Deputy Commissioner	35
4	Assistant Commissioners	126
Total		166
II	Middle level employees	
5	Commercial Tax Officers	553
6	Assistant Commercial Tax Officer/Junior Superintendent	981
7	Confidential Assistant	73
Total		1607
III	Lower level employees	
8	Head Clerks	52
9	Upper Division Clerks	635
10	Lower Division Clerks	635
Total		1322
IV	Employees under deputation	
11	Finance Officer (Deputation)	1
12	Statistical Officer (Deputation)	1
13	Senior Research Assistant (Deputation)	1
14	Research Assistant (Deputation)	1
15	Junior statistical Inspector (Deputation)	1
Total		5
V	Last Grade employees	
16	Selection grade Typist	68
17	Senior Grade Typist	67
18	Fair Copy superintendent	2
19	Upper Division Typist	136
20	Lower Division Typist	136
21	Drivers	130
22	Clerical Attenders	215
23	Peons	757
24	Lift Operators	1
25	Night Watcher	1
Total		1513
Grand Total		4613

Source: Compiled from the records maintained at the office of the commissioner of Commercial Taxes Department, Government of Kerala.

1.9.4 Sample Size and Stratification

Census and multistage stratified random sampling method were followed for the selection of the respondents. Altogether 4613 employees were working in the CTD of Kerala, out of which 1513 employees' last grade staff, were under this category, which included selection grade typist, fair copy superintendent, upper division typists, lower division typists, drivers, clerical attenders, peons, lift operators, night watchers and as such they were not included in this study. Similarly the officials working in CTD under deputation (5 officers) were also excluded from the study. The remaining 3095 respondents were selected as a sample size for the study. Out of the sample size, 350 respondents (11.30%) were selected at random for the purposes of this study, the number of samples were determined as per research methods⁴⁹. At the first stage, to ensure the adequate geographical representation of sample respondents, the employees were grouped into three regions Viz., Northern Kerala (comprising the employees of the department in the districts of Kasargodu, Kannur, Wayanadu, Kozhicode, Malappuram and Palakkadu), Central Kerala (Comprising the employees of the department in the district of Trissur, Ernakulam, Idukki and Kottayam), and the Southern Kerala (comprising of employees of the department in the districts of Pathanamthitta, Alappuzha, Kollam and Thiruvananthapuram). A detailed list of offices in Kerala were attached in Appendix II. The region – wise classification of employees in the department is given in Table No.1.3.

Table No. 1.3

Region – wise classification of employees

Name of the Region	No. of Offices of the Dept. in the region	No. of employees in the region	Sample Selected			Total
			Top level employees	Middle level employees	Lower level employees	
Northern Kerala	116	1761	17	13	5	35
Central Kerala	103	1607	28	92	47	167
Southern Kerala	77	1245	60	80	8	148
	296	4613	105	185	60	350

Source: Compiled from the records maintained at the office of the commissioner of Commercial Taxes Department, Government of Kerala.

At the second stage, the population was classified into three categories Top level employees (Stratum I), Middle level employees (Stratum II), Lower level employees (Stratum III) and Last grade staff (Stratum IV).

The Top level employees were selected by two methods, census and multistage stratified random sampling to administration. The stratas were included Commissioner, Joint Commissioners (J.C), Deputy Commissioners and Assistant Commissioners. The procedure adopted for identifying the respondents is shown in the table below.

Chart No. 1.3

Sample selections – Top level employees

		Population	Sample	%
T O P L E V E L E M P L O Y E E S	Commissioner	1	1	100%
	Joint Commissioners (JC)	4	4	100%
	Deputy Commissioners	35	35	100%
	Assistant Commissioners	126	65	51.58
	TOTAL	166	105	63.25

Middle level employees were selected by multistage stratified random sampling. The stratas were Commercial Tax Officers, Assistant Commercial Tax Officers, Junior Supernatant and Confidential assistant.

Chart No. 1.4

Sample selection – Middle level employees

		Population	Sample	%
M I D D L E L E V E L E M P L O Y E E S	Commercial Tax Officers (CTO)	553	61	11.03%
	Assistant Commercial Tax Officer/Junior Superintendent	981	114	11.62%
	Confidential Assistant	73	10	13.70
	TOTAL	1607	185	11.51

Lower level Employees were also selected by multistage stratified random sampling. The stratas were, Head clerks, Upper clerks, and Lower division clerks. The sample is selected by way of simple lottery method.

Chart No. 1.5

Sample selection – Lower level employees

	Population	Sample	%	
L O W E R L E V E L E M P L O Y E E S	Head Clerks	52	5	9.62%
	Upper division clerks	635	32	5.04%
	Lower division clerks	635	23	3.62%
	TOTAL	1322	60	4.54%

1.9.5 Collection of data

The opinion of the employees regarding Tax administration in the department was collected by conducting interviews. The researcher had developed a five point Likert rating scale for collection of data. The respondents were also asked to give information on five point rating scale. Viz., 5 = Highly effective, 4 = Effective, 3 = Can't say, 2 = Less effective and 1 = Least effective.

Before the commencement of interview, a sample schedule was given to each respondent and a brief explanation regarding the study was given to the respondents. Researcher got an authorization letter from the Commissioner of Commercial Taxes

Department was so helpful in this situation. Commissioner itself communicated it to all the Commercial Tax Offices including check posts. So introduction was not at all necessary in most cases. In all cases each question or items in the schedule was asked by the interviewer to the respondent employees. Special care was taken to give sufficient time to the employees to reflect and answer the questions. The respondents were encouraged to talk freely and frankly about their opinions and suggestions on Tax administration practices in the department. Throughout the interview, the respondents were given the assurance that it was an independent and unbiased study and that their response would not be disclosed to any one so as to enable them to be honest and coherent in their opinion. The respondents were interviewed taking into consideration their time and availability. Very much time was spent in waiting for the employees to be interviewed, though time had been fixed for their interviews in advance.

All the responses were collected by the researcher personally moving from one office of the department to another. This further ensured the secrecy of the responses as also the privacy of identities of persons giving responses.

1.9.6 Identification of factors and items coming under each factor

The attitude of employees towards administration was determined by analysing the extent of their satisfaction in each of the selected sub factors under the five main independent factors identified for the purpose. There are no set methods or clear cut formulae to identify the factors determining the effectiveness of administration in any type of departments in Kerala. For selecting the factors, the researcher has carefully investigated and looked in to the various theories, models research reports, and seminar reports on the topic. Apart from these, the characteristic features of the Commercial Taxes Department are also considered. After a close perusal of the above Stated factors the various aspects that influenced the administrative practice in the department have been identified, and broadly classified into five factors. The identified factors and sub factors are given in the following table.

Table No. 1.4

Research Factors: Identified main- factors and sub - factors

Sl.No.	Independent main factors	Sub – factors & sub items of the main factors
1.	Levy & Collection of tax	7 sub factors & 57 sub items
2.	Audit and inspection	3 sub factors & 32 sub items
3.	Training and development	3 sub factors & 22 sub items
4.	Check post management	3 sub factors & 23 sub items
5.	Tax reforms and amendments	8 Sub items
Total		16 sub factors & 142 sub items

The name of sub factors and the sub items identified for the study are given in the Interview Schedule (Appendix I). There are 16 sub factors which are again subdivided into 142 sub items. Taken as a whole, the 142 sub items have been incorporated in these five independent factors for predicting the Effectiveness of Tax administration of Commercial Taxes Department apart from 10 items for comparing the profile of the sample employees in the first part. Table No. 1.4 shows the number of identified sub factors and their sub items. Apart from the factors and the items mentioned above, nine items, viz., (1) Gender, (2) Designation, (3) Academic & Professional Qualification, (4) Total Experience in the Department, (5) Total Experience in the present post, (6) Mode of reaching the present post, (7) Frequency of transfer, (8) District of present place of work and (9) District preferred to work, were asked to determine the profile of the respondent employee.

1. 9.7 Techniques of Analysis

This was the second stage of analysis. In this stage, different items come under the main independent factors were considered for analysis. The collected primary data have been statistically processed, classified and tabulated by using appropriate methods. Tables, figures and statistical results have been derived with the help of

computer software package called SPSS (Statistical Package for Social Science). The statistical tools used for analysis are profile analysis, Percentage score, All other descriptive statistics, Two - way ANOVA, MANOVA Model, Multiple Discriminant Analysis (MDA), Correlation, Simple Linear Regression and Multi Dimensional Scaling (ALSCAL) Model.

The analysis of the data was done in the following manner:

1. At the first stage the researcher analysed the profile of respondents in terms of the ten demographic factors given in the interview schedule.
2. At second percentage analyses were made for all the factors that contributed to the effectiveness of Tax administration.
3. Two - way ANOVA and MANOVA Model was also done to examine the influence of area and designation over different factors on effectiveness of Tax administration.
4. The Correlation and Regression were also done to ascertain the strength of relationships found in the previous analyses.
5. The data further examined by using Multi Dimensional Scaling (ALSCAL) Method.

1. 10 Limitations of the study

In spite of the researcher's genuine efforts, this study was not completely free from limitations. The limitations were as follows:

- 1 The list of 142 items identified and grouped under five factors was not exhaustive. Though they were selected on the basis of various models, seminar/study reports, working papers...etc. and of the characteristic feature of the Government Departments.
- 2 The selection of independent factors and their subcomponents was purely based on the characteristic features of the employees of the CTD of Government of

Kerala. Hence, the developed Interview schedule is more applicable to the CTD of Kerala only. The application of the framed Interview schedule in the CTD of other States or in other departments in Kerala itself would need modification and contextualization. However, the factors used here are more or less of similar application in all the public service activities.

- 3 This study is an individual effort; the primary data required for the study were collected from 350 respondents (around 11.30% of the population) only and are subjected to such normal errors inherent in social surveys. Similarly, last grade employees in the department were excluded from the purview of this study because they have comparatively very little to contribute towards the Tax administration in the Department.
- 4 The study is to be based on the expressed information / opinion of the respondents which might have its own limitations. The attempted objectives were naturally constrained by the extent of the respondent's readiness to give real/factual information. Possibility of hiding certain facts on the part of respondents could not completely be ruled out, although all possible efforts had been made to elicit authentic information.
- 5 The tax revenue of the Government of Kerala comes from the commercial taxes, motor vehicle tax, registration, State excise...etc. The scope of the study is limited to the administrative practices of the Commercial Taxes Department only due to its major contribution to the State ex-chequer. The administrative efficiency of other tax departments is not attempted in this study.
- 6 Under this study comparison of Commercial Taxes Departments in other States were excluded and also not considered the view points of dealers and tax associations.
- 7 To the best of the researchers' knowledge, the study is one of the pioneering studies of its kind in Kerala touching Tax administrative practices in Commercial Taxes Departments. Hence the primary aim of this research is to focus attention on the broader aspects and other dimensions of the Tax

administrative practices in the Commercial Taxes Departments and it is hoped that the present study will provide a basis for formulating hypotheses to further researches.

The above limitations, the researcher would like to point out, are not, in nature, so serious as to vitiate the findings. Most of them are also beyond the purview of the scope for the study.

1. 11 Period of the study

The study was conducted during 2009 to 2012 by using interview schedule and data was collected from the respondents and from various publications.

1. 12 Presentation of the report

The study is presented in five chapters, as described below;

Chapter I is an introductory one containing a discussion of the problems under study, need and importance of the study, the objectives drawn and the hypothesis framed. In order to study the objectives provided, how the data were collected and analysed have also been detailed in the methodology part. The chapter also provides the period of study and the limitations of the study.

Chapter II contains a detailed overview of Commercial Taxes Department in Kerala.

Chapter III deals with the theoretical frame work of Tax administration.

Chapter IV deals with the analysis of data collected through the survey. It contains a detailed analysis of the data pertaining to the various aspect studied and a discussion of the result arrived at.

Chapter V contains the discussion of major findings, conclusions, and suggestions emerging from the findings, recommendations and the scope for further research.

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