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Pre GST indirect tax structure in Karnataka

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Abstract

The efficiency of tax system in promoting a country's development depends on the tax structure of a country or state at given time and place which depends on a set of available 'tax bases' level of development reached and also on the social and political factors, including the cultural style of the taxing governments. In the early stages of economic development of country/state the tax handle is scarce and the tax-GDP ratios are low. But as the economy advances to higher stages of development, the availability of tax bases increases and the extent of reliance on indirect taxation increases. So depending on the stage of economic development the tax structure varies from county to country to country. As per Indian constitution states also have power to levy and collect the tax revenue through the various Indirect taxes. Hence Karnataka also imposed some direct tax and indirect tax,

The major argument for indirect taxation in underdeveloped countries is the greater ease of administration. As a result, in most of the present day developing countries, indirect taxation has become a source of revenue for financing their developmental expenditure. Now let us examine the role of indirect taxation in the tax structure of Karnataka, Sales Tax, State Excise Duties, Motor Vehicle Tax, Entertainment Tax, Luxury Tax, Value Added Tax are the major indirect taxes of the state.

Introduction

The efficiency of tax system in promoting a country's development depends on the tax structure of a country or state at given time and place which depends on a set of available 'tax bases' level of development reached and also on the social and political factors, including the cultural style of the taxing governments.

In the early stages of economic development of country/state the tax handle is scarce and the tax-GDP ratios are low. But as the economy advances to higher stages of development, the availability of tax bases increases and the extent of reliance on indirect taxation increases. So depending on the stage of economic development the tax structure varies from county to country to country.

The feasibility of a particular tax structure depends on factors such as the country; the administrative ability to enforce the tax comprehensively and justly; the effect of different taxes on incentives; and the objective of a proper balance between short term revenue- raising measures for financing urgent development projects and for long run resources which will give steady encouragement to economic development over the longer pull. To be more precise, the tax system of different counties is not uniform and they differ widely from one other with the structure of the economy in which they are applied and with the climate of the public attitude towards taxation.

The significance of the study of tax structure follows logically and essentially from the growing significance of the role of the Government in accelerating the rate of economic development particularly in developing countries/states. These countries generally regard development as a process to be planned and guided by the state, taxation is considered as the most important source of development finance.

Tax structure reveals the composition of taxes and the relative significance of separate taxes levied by the government of nations/states. Tax structure, hence, mention to the mix of taxes imposed by the government of a nation/state indicating the relative significance of the constituents.

Definition of Tax Structure

The term 'Tax Structure' earned a wide familiar in recent literature on public finance. The term literally means "the manner in which a building or organise or other complete whole is constructed" it also refers to the "supporting framework or whole of the essential parts of something". Therefore, how taxes are, or should be imposed, are questions that relate to tax structure.

In the terminology of fiscal science, the edifice of tax structure is mainly built on tax base and tax rate. The elements of this structure are

- Number and variety of taxes
- The structure of each tax and
- The combination of several taxes.

The structure of each tax is concerned with its first one tax base and second one tax rate. The combination of several taxes indicates the size of contribution of each single tax to the revenue pool.

While giving a workable definition of tax structure, Ursula Hicks says that it consists in "the distribution of revenue between the different sorts of taxes" she however adds that this, of course, is not the only, nor even the most interesting way in which we might arrange the revenue. A more interesting arrangement would show how much of the revenue from each tax is derived from families in different economics circumstances. A study of tax structure, according to her, is ultimately a study of the relative importance of the different taxes in current fiscal practice.

3.6.2 Element of Tax Structure

In accordance with the definition given above the following are the chief elements of tax structure.

- Determination of the contribution made by the main types of taxes –those an increase, on capital, and on outlay to the revenue pool
- Determination of the contribution made by the different occupational classes-business classes, propertied classes, professional classes and working classes and
- Determination of the contribution of the various income groups, that is various families in different economic circumstances

3.6.3 Building of Tax Structure

A tax ladder can be contributed in two ways one represents the absolute amount of revenue contributed by each tax and the other to represent percentage contribution of all the taxes, the letter being the most important.

A tax structure of a county/state should be designed in such a way that it will be

- Capable of reaching most taxable sources example choosing the appropriate taxes that together make up the tax ladder so that significance proportion of the revenue pool are contributed by the desirable types of taxes
- Equitable both horizontally and vertically, example determining appropriate base and rates for each selected tax in the ladder. And
- Responsive to the changing economic conditions.

The aim should always be a tax structure that will be adequate, flexible and harmonious with the emerging pattern of economic activity.

The construction of a system of taxation like all works of art is the result of a combination of materials derived from different quarters. The attain sources it is necessary to bear in mind certain general facts relating to the economic structure of the society the aim of realising substantial justice in the apportionment of burdens must never be lost sight of ,and in addition the technical and financial conditions required to be daily considered.

The problem associated with the design and administration of various taxes differ with the structure of the economy in which it is applied and with its elevate of public attitude towards taxation. Tax structures manifestly differ markedly from country to country because of differences in history, political systems and attitude towards Government among other factors. A country's tax structure should be periodically reviewed. The relative dependence on various taxes and on evolving revenue administration must be continually modified. In general a developing county should obviously build on the tax system it, already has making sure that its major taxes do not got seriously out of date, are

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progressive in effect wherever possible and are within its administrative capability. A tax structure differ with stages of economic development, the idea that any particular tax structure is uniquely suitable to a particular stage of economic development is an illusion.

Pre GST Karnataka Tax Structure

Karnataka is one of most developed state in India, which is blessed with the rich and vast natural resources having large potential for economic growth and development. But despite its rich and potent natural resources base, the state has not been able to generate sufficient revenue from the own resources and has been facing serious financial problem from the beginning formation of the state hence government of Karnataka have been trying to reforming of indirect tax in a different condition or situation those discussed below,

1. **Sales Tax in Karnataka**

As stated earlier, five different sets of laws on Sales Tax were in operation in the areas forming the new Mysore State. This had led to administration inconveniences as well as inconveniences to the dealers; therefore, there was obvious need for unification of the Sales Tax laws in the new State. Accordingly, the Mysore Sales Tax Act, 1957 was enacted by the Mysore State Legislature in the Eighth Year of the Republic of India and first published in the Mysore Gazette on the Thirteenth day of September; 1957. The name of the state "Karnataka" is adopted for "Mysore" by adaption of Law Order 1973.

The Commercial Taxes Department is administering the renamed Karnataka Sales Tax Act, 1957 right from commencement of the said enactment. Multipoint tax system was prevalent in the State until early eighties. Subsequently, more and more number of commodities was identified for levy of tax at a single point mostly at the first or earliest of the successive sales and purchase in the State.

2. **Entertainment Tax in Karnataka**

Till the formation of the state of Karnataka the levy of entertainment tax in Karnataka region of the state was regulated by the Madras Entertainment Act 1939. In the Mysore area of the State,

The Entertainment Tax Act was enacted in the State Legislature in the first published in Karnataka Gazette, Extraordinary, Date 5-5-1958 and such tax was since levied only on cinematograph shows, gradually different kinds of entertainment were brought under the purview of the Entertainment Tax Act. Now the entertainments liable to tax are: entertainment provided through Cinematograph shows, Horse Races, Cable TV, pageants performance amusements, recreation parlours, etc.

3. **Luxuries Tax in Karnataka**

Act 22 of 1979 in order to augment the revenue of the State it is proposed to levy a tax on luxuries provided in hotels and lodging houses.

The Karnataka Tax on Luxuries Act, 1979 which initially authorised the State to levy and collect tax on luxuries provided in the hotel, is also administered by the Department of Commercial Taxes. Although in the beginning tax was levied only on the luxuries provided in the hotel. Now the tax is also being levied on the luxuries provided in marriage halls, conference halls, clubs, hospitals, etc.

4. Karnataka Luxury Tax Rate

In Karnataka, room rents within INR 500 to INR 1000 per night charged 4% as luxury tax, 8% luxury tax is lived on rooms with rents exceeding INR 1000 to within INR 2000 per night. As for the final category , any room with rent more than INR 2000 per night gets charged 12% per annum as luxury tax. Health clubs and congregational halls can have luxury rates ranging from 8% to 10% Karnataka pre GST Reform

5. Profession, Trade, Calling and Employments Tax in Karnataka

The Karnataka Tax on Profession, Trade, Calling and Employment Act 1976, in order to increase the revenues of the State, it is considered necessary to levy a tax on Profession, Trade, Callings and Employments. Salary and wage earners having a monthly income of Rs500 and above will be required to pay the said Tax, according to a graded scale. Self employed persons will be required to pay fixed amount ranging from Rs.50 to Rs.250 per year, the levy being based on broad criteria related to the earning capacity of different groups of profession. Provision is made for registration of employers and enrolment of self –employed persons and the procedure for the levy and collection of tax is laid down. Provision is made for appeals and other ancillary matters for the administration of the Tax. With levy of profession tax by the State Government, the powers which the local bodies to levy this tax have at present is proposed to be withdrawn. But, provision is proposed for reimbursement of the loss of revenue to such of the local bodies as are levying tax at present.

6. Betting Tax in Karnataka

Under the Karnataka betting tax act 1932, Government can notify the rate of totalisator and betting taxes subject to the condition that such rate does not exceed 25%.the Act does not provide for different rates of tax being notified in respect of collections at different races or classes of races. It is considered desirable to specify a lesser rate of tax in respect of specified classes of races which will be notified by Government. It is therefore, proposed to amend the Mysore Betting Tax Act, 1932 so as to empower the government to reduce the rate of tax in respect of certain classes of races.

Act 1974 government of Karnataka have permitted the Bangalore Turf club Limited. To introduced the system of "off-course Batting" through a reciprocal arrangement with the Royal Western India Turf Club Limited, Bombay, from 19th May,1973 off-course Batting would help to

- Reducing or eliminate illegal batting
- Create employment opportunities and encourage other indirect economic activity

- Increase the revenue of the State Government as well as that of the Bangalore Turf Club
- Develop horse breeding in the State
- Betting Tax will be collected by the Government of the State in which the bets are accepted. The club will earn revenue by way of Book-makers stall fees and commission of books bets
- It is expected that Government will get an Additional revenue of Rupees 5 lakhs a year
- Introduction of off-course Betting required amendment of Mysore Race Courses Licensing Act 1952 and Mysore Betting Tax Act 1932

7. Entry Tax in Karnataka

Entry tax in Karnataka is charged when goods are transported into the state from another state. the goods on which the tax is levied include those that are bought into the state for the purpose of either consumption or when you are transporting goods for consumption from a state to the other, in other words for trade as transporter for these goods an entry tax is charged. There are certain goods which are taxable under this. These goods fall under the first Schedule (of the KTEG Act. 1979. Entry Tax is charged on purchase value of specified goods on their entry into local area. It is levied on those goods which are purely meant for personal use or consumption and not for sale.

8. Motor Vehicles Tax

Before the first world war, the motor vehicles Tax Act was concerned with the regulation and control of Motor traffic and only incidentally with the taxing of motor vehicles. The motor vehicles tax was first levied on an all- India basis in the form of fees under the Indian Motor vehicles Tax Act 1914. The motor vehicles tax was collected for registration and transfer of ownership of motor vehicles, for licences issued for motor drivers certificate and badges to conductor in buses and certificate of fitness to transport vehicles, and the like after the first world war the increased motor traffic necessitated a large rise in the expenditure on road development by the state and local government.

9. Motor Vehicles Tax in Karnataka

Act 35 of 1957 with the reorganisation of the states on the 1st November 1956, the several laws dealing with levy of taxes and tolls on motor vehicles in force are being continued to be administered in the several integrating areas. The present bill is intended to bring into being a uniform rate structure throughout the new Mysore State. The bill is prepared keeping in view the relevant provisions contained in the respective laws in force in the integrated areas.

10. State Excise Duty in Karnataka

Excise department in Karnataka came into existence during the year 1968 after relaxation of prohibition in Karnataka state. Administration covers commodities such as spirit, Indian made liquor, beer, medicinal and toilet preparations etc.

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The State Excise Department is headed by the Commissioner Excise with the Headquarters located at Bangalore. From the organisation structure point of view, the state is divided into six division namely Bangalore, Belgaum, Gulbarga, Hospet, Manglore, and Mysore division, the wing of the department comprises, the Department is headed by the Excise Commissioner and 33 Deputy Commissioner.

11. Value Added Tax in Karnataka

Measure to reform the existing commodity taxation system in the states has been the subject of discussion. The government of Karnataka recognized the need to modernize its tax administration, adopt the best tax policy design to suit the requirements in the light of globalization of the economy. In Karnataka the first report of the Tax Reform Commission was presented on 12th February 2001 and the final report was presented on October 19, 2001. The main recommendations made in the final report towards the VAT are as follows:

- The commission recommended the proposal to extend central excises to the wholesale state and manage it through states.
- The commission also recommended a single simple VAT. The commission had formulated a complete frame of reference for Karnataka to tackle the fears and reservations of states. It has suggested bringing all commodities within the three floor rates of 4%, 8% and 12% removing exemptions. A special rate of 2% was retained only for bullion, specie and gold ornaments and 25% for petroleum products and alcoholic beverages.

Conclusion

The state government has always been looking out for new ways of augmenting its revenue, it has been striving hard to ensure a speedy economic development and help people to improve their living standards. It is with this intention that huge expenditure is incurred by the state on various public services and developmental projects. In this direction, the state government is in a constant search for handsome financial resources to execute these projects in time and hence for this purpose the state besides mobilising the resources internally through various tax sources, has been seeking implementing new taxes from the formation of Karnataka states and till today compromising with Union government under the Indian constitutional tax power

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