

Design of a Value Added Tax for Tamil Nadu

G P Shukla and Pawan Aggarwal
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1. Introduction

There has been a growing interest among the Indian States for replacing their complex sales tax systems with a modern value added tax (VAT). This stems, at least partly, from the success of 'modified value added tax (MODVAT)' at the Central level, a kind of manufacturer's VAT that has been in place since 1986-87. The government of India has been continuously motivating the state governments to reform their tax structures and enhance their own tax revenues. Several states, the state of Tamil Nadu being one of them, have taken concrete steps, including the introduction of VAT, for modernizing their tax systems. Andhra Pradesh is planning to introduce VAT after two years of preparation under the Economic Restructuring Project of the World Bank, with technical assistance from the Department for International Development (DFID) of the government of UK. Madhya Pradesh is preparing for VAT with technical assistance from Asian Development Bank (ADB).

The state of Maharashtra introduced a version of VAT from October 1, 1995, though it had a limited coverage. The first point sales tax was converted into a VAT by bringing into the tax net the re-sellers with annual turnover exceeding Rs.1 Crore. Its coverage was broadened subsequently by lowering the VAT threshold to Rs.50 lakh with effect from October 1, 1996 and to Rs.40 lakh with effect from May 15, 1997. Such re-sellers were taxed based on the principle of VAT. Maharashtra, however, abolished VAT with effect from April 1, 1999, owing to protests by resellers because of the complexity in account keeping under the multi-rate VAT. This is a cause of concern for the states contemplating introduction of VAT. Maharashtra has not ruled out the possibility of reintroduction of VAT and it may do so with better preparation, including a more aggressive programme for the education of taxpayers, representatives of trade as well as tax officials. An analysis of the operations of VAT in Maharashtra can throw some light on the problems likely to be faced by state governments in implementing VAT.

Accordingly, the states contemplating introduction of VAT can take steps in advance for avoiding certain pitfalls in a smooth launching and functioning of the VAT system.

The objective of this study is to appraise the existing system of sales tax in Tamil Nadu (TN) and suggest a feasible design of VAT for TN. A brief description of the sales tax system in TN is given in section 2. Its ramifications are discussed in section 3. Directions for reform are outlined in section 4. Basic structures of the proposed special additional tax (SAT) and VAT for TN are developed in section 5. Implementation of the basic structures of SAT and VAT would require certain constitutional amendments. Until such amendments are made, only a restricted version of SAT and VAT accommodating the current constitutional provisions can be put in place. The modifications in the basic structures of SAT and VAT necessitated by the constitutional constraints are discussed in section 6. A possible tax rate structure for VAT in TN is analyzed with its implications for revenues and tax incidence in section 7. To facilitate smooth flow in reading, some of the details are relegated to Annexes.

2. The Current Sales Tax System in Tamil Nadu

In TN, the sales tax system comprises General sales tax (GST), tax on luxuries in hotels and lodging houses (Luxury tax), additional sales tax, and Central sales tax (CST).¹ GST is levied on all goods unless specifically exempted. The point of levy of GST is the first sale or purchase of a good by a manufacturer or an importer. There are ten sales tax rates varying from 2 to 70 per cent. Besides 2 and 70 per cent, the other rates are 4, 8, 11, 16, 20, 24, 30 and 40 per cent. Only a few commodities are subject to 30, 40 or 70 per cent rate. A description of goods subject to varying tax rates along with a comparative picture in the neighboring states is at Annex 3.

Re-sales of the tax paid goods are exempt from GST. In general, services are beyond the ambit of sales tax. However, a few selected services such as works contracts, leases of goods, services provided by hotels and entertainment are taxed under the Sales Tax Act or certain other Acts such as The Tamil Nadu Luxuries in Hotels and Lodging Houses Act 1981

and entertainment is taxed under the Entertainment Act. The principle of single point taxation is applied to the goods involved in the execution of works contracts.

Dealers dealing in lottery tickets or jewelry, hotel owners and works contractors are given the option to pay a compounded levy in lieu of normal tax. The amount of levy per draw of a lottery varies from Rs.10,000 to Rs.60,000 depending on the type of the draw.² For a jewelry dealer with turnover of gold and silver jewelry not exceeding Rs.50 lakh, the annual compounded levy increases from Rs.61,000 to Rs.84,000 with the turnover. For hotel owners with turnover not exceeding Rs.50 lakh, the annual levy increases from Rs.24,000 to Rs.48,000 with the turnover, while other hotel owners have to pay tax at 2 per cent of the total turnover. Works contractors can pay compounded levy at the rate of 4 per cent of the total contract value, with effect from April 1, 1999.³

2.1 Luxury tax

Luxury tax is charged on accommodation tariffs in a hotel or lodging house at the rate of 20 per cent. Accommodation tariffs include the charges for air-conditioning, television, radio, music, extra beds etc., and exclude the charges for food, drinks and telephone calls. The tax becomes applicable, if the room charges exceed Rs.200/- per day.

A luxury tax on luxury tobacco products like cigarettes excluding beedis, at the rate of 5 per cent, has been introduced with effect from March 1999. The main objective of this tax is to curb consumption of cigarettes.

2.2 Additional sales tax

¹ Prior to July 17, 1996, all sales tax payers were also liable to pay a surcharge and an additional surcharge. The former was applicable in notified local areas and the latter was applicable in all areas. These levies were charged as a percentage of the basic levy of sales tax.

² Fortnightly, monthly, bumper or special/festival draw.

³ Prior to April 1, 1999, the facility of paying a compounded levy was available to only civil works contractors.

Additional sales tax is levied in the form of turnover tax. The rate of turnover tax rises from zero to 3.0 per cent with the taxable turnover of the dealer.⁴ The rate depends on the taxable turnover bracket of the dealer, but it applies to the total taxable turnover. It is also provided that in respect of declared goods the sales tax together with additional tax payable shall not exceed 4 per cent of the sale or purchase value of such goods. The dealers are prevented from charging additional tax separately from their buyers. The rates of turnover tax are given below in Box 1.

Box 1	
Taxable turnover bracket	Rate of additional tax (Per cent)
Does not exceed Rs.25 crore	0.0
Exceeds Rs.25 crore but does not exceed Rs. 50 crore	1.5
Exceeds Rs.50 crore but does not exceed Rs.100 crore	2.0
Exceeds Rs.100 crore but does not exceed Rs.300 crore	2.5
Exceeds Rs.300 crore	3.0

2.3 Central sales tax (CST)

CST is a Central levy that is charged on inter-state sales. It is collected and retained by the exporting state. Goods sent to other states on consignment or branch transfers are not subject to GST or CST. For a given good, the rate of CST is the same as that of GST, subject to a ceiling rate of 4 per cent if the sale is made to a registered taxpayer, and subject to a floor rate of 10 per cent if the sale is made to an unregistered person. However, in the case of sale of a declared good to an unregistered person, the CST rate is twice the GST rate in the exporting state.

⁴ For this purpose, taxable turnover of a principal selling or buying goods in this State through agents shall be the aggregate taxable turnover of all his agents relating to the sale or purchase of the goods of such principal within the State.

2.4 Limits on the scope of GST

The sales tax system is subject to certain restrictions. The rate of GST for certain goods that are of special importance in the inter-state trade or commerce, commonly known as 'declared goods', is subject to a ceiling rate equal to the maximum rate of CST (i.e., 4 per cent), and such goods can be taxed only once. In TN, most of the declared goods are taxed at 4 per cent while a few others are taxed at 1, 2 and 3 per cent. A description of declared goods along with the tax rates is at Annex 1. Goods sold in inter-state trade are beyond the scope of GST. Goods sent out of the state on consignment or branch transfer basis are outside the ambit of GST or CST.

As per the agreement between the Center and the states, the latter had foregone its right to tax three goods, namely, textiles, tobacco and sugar. These goods are subject to additional duty of excise, in lieu of sales tax, by the Central government and the revenue proceeds are devolved among the states. A description of these goods along with rates of additional duty of excise in lieu of sales tax is at Annex 2.

2.5 Exemptions

Many goods are exempt from sales tax resulting in a narrow tax base. In general, exempted goods include unprocessed foods, the goods that are largely consumed by the poor, agricultural implements and spare parts, contraceptives, student's stationary, specified life saving drugs, blood and plasma of blood, and wind mills. These goods are listed in Annex 3.

With effect from April 1, 1999, all persons with turnover less than 3 lakh need not register for sales tax.⁵

2.6 Treatment of inputs (raw materials and capital goods)

The registered manufacturers can buy raw materials, consumables, processing materials, packing materials and labels by paying tax at a concessional tax rate of 3 per cent.⁶ However, there are some exceptions and this concession is not available in respect of specified inputs.

⁵ This threshold was raised from Rs.75,000 to Rs.150,000 with effect from April 1, 1998. The current hike in the exemption threshold makes the limits for registration and assessment the same.

Similarly, concession is not available in respect of inputs that are used for the manufacture of specified goods.

The concessional rate of tax is available only for the manufacture of goods mentioned in the First Schedule, “declared goods” falling under the Second Schedule and exempted goods falling under Part-B of the Third Schedule. It is not available in respect of manufacture of the following goods:

- a. Goods falling under Part-A of Third Schedule.
- b. Goods falling under Sixth Schedule.
- c. Ethyl alcohol, absolute alcohol, methyl alcohol, rectified spirit, and denatured spirit, coming under the First Schedule

The following inputs are not eligible for the concessional rate of tax:

- a. High speed diesel oil.
- b. Light diesel oil.
- c. Molasses.

In the case of capital goods, a manufacturer is allowed to buy the following specified capital goods by paying tax at a concessional rate of 3 per cent for installation of and use in a factory site situated within the State for manufacture of any good including generation of electricity.

- a. Power driven pumps other than 3 or 5 h.p
- b. Furnaces and boilers.
- c. Machinery of all kinds other than those operated by human or animal labour.
- d. Oil engines.
- e. Power factor and shunt capacitors.
- f. Generators, generator sets, transformers and non-electronic voltage stabilizers.

⁶ With effect from July 17, 1996, this is allowed under section 3(3) on producing Form XVII.

- g. All electrical transformers other than small transformers used in electronic equipment.

If a dealer purchases such a capital good but fails to install and make use of it or disposes it of within a period of five years, the concession is withdrawn with retrospective effect. Such a dealer would be liable to pay tax calculated on the original purchase value of the capital good at a rate equal to the difference between the normal and the concessional rate.

In case of goods sent out of the state on consignment or branch transfer, the tax concession is partly reduced through a purchase tax of 1 per cent on the purchases of raw materials actually used in the manufacture of goods disposed of in such a manner.⁷

Registered export oriented units or units located in Madras Export Processing Zone are allowed to claim refund of the tax paid on inputs used in the manufacture of goods actually exported.⁸ Such a unit may buy inputs at the normal or concessional rate.

2.7 Industrial incentives

Various industrial incentives in the form of capital subsidies, sales tax waivers or deferral and reduction in electricity tariffs are offered to enterprises setting up new industrial units or undertaking expansion of their existing industrial units or for locating industrial units in industrially backward areas. A brief description of such incentives offered to industrial units is described in Box 2.

a. Location-based incentives

Box 2

⁷ The rate of purchase tax was 2 per cent prior to April 1, 1999.

⁸ Such a unit shall file their claim for refund in the new Form-A5 with the following particulars:

- (a) Particulars of goods exported, details of export and proof of export and shipment.
- (b) Certificate from the selling dealer in regard to payment of tax.

Eligible units	Sales tax waiver/deferral for specified number of years	
	New units	Existing units
71 most backward blocs, select SIPCOT Industrial complexes and other areas	5 Waivers, 9 deferrals, up to the total investment made in fixed assets	5 Waivers, 9 deferrals, up to the total investment made in fixed assets
216 backward blocs, select SIPCOT Industrial complexes and other areas	9 deferrals, up to the total investment made in fixed assets	9 deferrals, up to 80% of investment made in fixed assets
Other areas	5 deferrals, up to a maximum of 60% of total investment made in fixed assets	5 deferrals up to a maximum of 50% of additional investment made in fixed assets

b. Incentives for Mega Projects

Incentives for setting up mega projects are available regardless of their location. The period of concession is limited by the value of the fixed assets.

Investment range of project	Sales tax concession period	
	Waiver	Deferral
Between Rs. 50. – 100 crore	5	10
Between Rs. 100 – 300 crore	6	12
Above Rs. 300 crore	7	14

c. Incentives for super mega projects

For projects with investment exceeding Rs.1500 crores (Rs.1000 crores in the case of automobile projects), the waiver period is 14 years.

3. Problems of the Current Sales Tax System in Tamil Nadu

The salient features of the sales tax system in TN are as follows:

- Complex tax structure with a variety of designs of different components of the tax (GST, TOT, SC and CST), restrictions on taxation of “declared goods”, textiles, tobacco and sugar,
- Narrow tax base with first point levy
- Many tax rates
- Large number of exemptions and other tax concessions, proliferation of industrial incentives
- High tax rates for most commodities
- Low tax rates on some goods due to tax rate competition among the states/Union territories
- Causes tax cascading and pyramiding effects. As a result, the tax system creates the following undesirable impacts:
 - Raises prices by more than the element of tax due to the design of the tax
 - Becomes a source of distortion in production processes because of tax induced vertical integration and changes in relative prices of factors of production
 - Creates distortions in consumer choices because of changes in relative prices of goods of final consumption
 - Results in tax export to consumers in other states because of input taxation and CST
 - Encourages high-cost small scale production within the state by discouraging specialization that generally requires large scale production, because of tax barriers (CST, input taxation and claw back provisions) in the movement of goods across state boundaries
 - Affects adversely the competitiveness of exporters from the state in the international market as exports are not fully relieved of sales tax; particularly no relief is available in respect of taxes on inter-state purchases of inputs
 - The system lacks transparency, i.e., it results in an unknown incidence of tax

In a nutshell, some elements of the current tax system impose unnecessary tax burden on the dealers. For example, a dealer is prevented from charging turnover tax from the buyers separately. Further, the turnover tax puts larger tax dealers at a tax disadvantage affecting their competitiveness vis-à-vis smaller tax dealers subject to a lower rate of turnover tax

It also renders the tax administration less effective because of the complexities in the tax system and increases the scope for wide spread tax evasion.

4. Directions for Reform

Small changes in the tax system are unlikely to bring any substantial improvements in the fundamental nature of the tax, as these are generally not supported by necessary administrative and other supplementary reforms. A successful reform requires major changes in tax policy, administrative practices and taxpayer response, which is difficult to bring about without a clear break from the past. The international experience supports the fact that only comprehensive reforms can bring about the required changes in fiscal policy, tax administration and the level of compliance by taxpayers and dealers. Two feasible alternative reform proposals that can address the weaknesses of the current sales tax system are: (i) retail level sales tax (RST), and (ii) value added tax (VAT). Both these modes of taxation are free from most of the above mentioned ill effects of the current system of sales tax. The choice between the two methods of taxation depends on the administrative capacity of the state.

Experience of Indian states in implementing a retail level sales tax is not encouraging. Currently, retail level sales tax is in place in three states, namely, Delhi, Haryana and Punjab. These states have experienced difficulties in enforcing the tax at the retail level and consequently, have moved many commodities back to the first point taxation.⁹

Thus, the preferred solution to the problems created by the current sales tax system in TN is to substitute it by a suitable VAT system. It would be important that this is done after adequate prior preparation and with full appreciation of its likely impact on the tax yield in the

⁹ In fact, most of the Indian states have experimented in the past with retail level and double point taxation and ultimately settled for the first point levy.

first few years after the change. Also, there are major implications both for the tax department and the taxpayers that should be clearly understood.

4.1 Lessons from Maharashtra Experience

The experience of Maharashtra with a limited VAT approach has not been encouraging and efforts must be made to avoid similar mistakes in Tamil Nadu. The simple lesson that emerges from the Maharashtra experience is that the state failed to carry its VAT system to its logical end. As a result, it has been abandoned with effect from April 1, 1999 after experimentation for about three and a half years though the reasons indicated for this decision do not fully justify this drastic step. The Finance Minister, in his budget speech, had drawn attention to the difficulties and harassment faced by the small dealers in keeping records that are complex in nature because of a multi-rate VAT system. The following guiding principles emerge from the experience of Maharashtra.

- For economic efficiency and administrative simplicity, a VAT should have very few rates, preferably a single rate on most goods and a zero rate on some goods that deserve special treatment. The state level VAT is generally applied to a large number of small traders dealing in many goods and, therefore, this principle becomes all the more important.
- The tax base should be broad with very few exemptions. Narrow tax bases and high tax rates encourage tax evasion.
- In deciding a rate of VAT, loss of some revenues during the transition period of first one or two years because of the application of set off in respect of inventories in the operation of VAT should be anticipated. Such a loss will be minimized if the tax base is extensive and the tax rate is not set at an unduly high level.
- There is a need for maintaining a distance between taxpayers (particularly small taxpayers) and tax officials to avoid potential harassment of the former. A self-assessment system accompanied by suitable summary assessment scheme for small dealers can go a long way in establishing this objective.

- The procedures for registering, paying taxes and filing tax returns should be really simple. This can be ensured if there is adequate preparation with full involvement of traders and dealers.
- It will be useful to set in place a mechanism for monitoring prices set by manufacturers who should pass on the benefit of full set off in respect of input taxes, to the traders down the chain. Otherwise, manufacturers will reap higher profits that will either push up the general price index in comparison to that in the pre-VAT regime or cut into profit margins of retailers. This is especially true for goods marked with maximum retail price (MRP).
- Education of taxpayers as well as tax officials before implementing a VAT system is a pre-requisite for its success. A taxpayer education program should focus on the advantages that the VAT system offers to traders and manufacturers, besides their rights and responsibilities under the new tax system. Education of tax officials should focus on changing their attitude towards traders who should be looked upon as respectable clients providing the service of collecting tax for the government. Such educational programs would help overcome resistance from traders and induce voluntary compliance.

5. Basic Structure of VAT for Tamil Nadu

In the recent past, many countries have switched from a turnover type of sales taxes to a value added tax. The rich international experience in the design and operation of VAT should be made use of in implementing a VAT for TN. Among the countries operating a VAT, it is the general practice to levy a special additional tax (SAT) on demerit goods with negative spillover effects due to their production or consumption and/or luxury goods of final consumption. Generally no set off in respect of SAT is available under the value added tax system since SAT is an additional levy and not a substitute for VAT. The objective of SAT is to raise the prices of selected goods to discourage consumption of these goods because production of these goods has external costs to the society or consumption of these has ill effects on the health of consumers. Also, SAT lowers revenue demands on the VAT by generating a significant amount of revenue, and tends to compensate for the regressive character a VAT. The contribution of SAT makes it feasible to adopt a simple design of VAT that cuts across the compliance costs.

Therefore, the current sales tax system in TN should be replaced by a combination of SAT and VAT.

5.1 Structure of SAT

SAT may be imposed at the first point of sale, following the destination principle, on demerit goods and a few luxury goods of final consumption. In the context of the state, demerit goods should include motor fuels (petrol and high speed diesel oil), aviation turbine fuel, motor vehicles, tobacco and products thereof, and liquor (alcohol). The luxury goods of final consumption subject to SAT may include cosmetics, sanitary wares, aerated and soft drinks, readymade garments and furniture (including office equipment). All these products will, of course be subject to VAT also.

SAT should have a fewer number of rates not exceeding two. No input rebate will be available for SAT. Since SAT would apply on the destination principle, it would not apply to inter-state trade and exports.¹⁰ For enforcing the destination principle, special provisions would be needed where the inter-state sale or export is effected by a dealer beyond the first point of sale (by a re-seller). This will relieve these transactions from the burden of SAT suffered at the first point of sale (on purchases by the re-seller). A re-seller should be given a refund for the SAT paid on the purchases that have been exported or sold in inter-state trade to a registered dealer in the importing state.

5.2 Structure of VAT

The design of VAT for TN should take into account the constitutional constraints, though some of the constraints may be removed by the time the new tax system is put in place. Therefore, the VAT design is outlined for situations with and without constitutional constraints. For simplicity, the basic structure of VAT is outlined below without constitutional constraints

¹⁰ In principle, SAT could be applied to inter-state trade or exports, where the goods in question impose external costs in the jurisdiction of production because of processes of production. But this will not be so for luxury consumption or where the consumption causes ill effects on the health of consumers. Accounting for these variations would tend to make the tax system complex.

and subsequently, deviations from the basic structure to accommodate constitutional constraints are specified in section 6.

The basic structure of VAT should follow a classical design. Accordingly, it should have the following characteristics.

- Consumption type of VAT with comprehensive tax base (covering all goods and services)
- Minimum exemptions
- Low registration threshold
- Single VAT rate with a zero rate for exports and items going out of the state on inter-state trade (including consignment and branch transfers) as well as a few items considered essential such as unprocessed food¹¹
- Full taxation of imports and items coming into the state on inter-state trade (including consignment and branch transfers)
- Full input tax rebate, including capital goods, for manufacturers and re-sellers
- Credit-invoice method for computation of VAT
- No special industrial incentives such exemptions or deferral of VAT¹²

It is the consumption type of VAT that is most suited to replace an indirect tax like sales tax. Also, this is the only type of VAT that fully relieves inventories from the burden of input taxes.

Exemptions, besides eroding the tax base, result in an increase in scope for evasion, and cause tax cascading where an exempted good utilizing taxable goods, is an intermediary for the production of a taxable product. Therefore, it is desirable to provide minimum possible exemptions.

A low threshold avoids the disadvantages of high threshold (such as competitive disadvantages of the large dealers subject to VAT vis-à-vis small dealers not subject to VAT)

¹¹ Different countries treat differently the items considered essential such as unprocessed food, life saving medicines, educational aids etc. In some countries these items are exempt while in others they are zero-rated.

¹² The practice of deferral is widely prevalent among several tax jurisdictions and its impact may not be fully appreciated by the governments. The tax deferral doubly reduces the real value of tax revenues. For instance, a two year deferral will reduce the real value of revenues by one fourth even when the inflation rate is low (say 8%) and the opportunity cost of funds is taken as 5%.

and the need for allowing voluntary registration that increases work load for the administration without commensurate gains in revenue. The choice is between high threshold with provision for voluntary registration and low threshold with no provision for voluntary registration. The latter appears to be a better choice. It provides broad tax base and economic neutrality, and avoids voluntary registration by very small persons who are not easy to monitor.

Single rate of VAT has many advantages over a multi-rate VAT. Book-keeping and administrative requirements multiply with the number of rates. Single rate VAT can be operated with a low threshold while with a multi-rate VAT, it would be desirable to have special treatment of small dealers to avoid their hardships.

Full relief from input taxation is the basic character of VAT that imparts efficiency in production. This requires full tax rebate to manufacturers and re-sellers in respect of taxes paid on inputs including the capital goods.

The credit-invoice method generates a trail of invoices that permits better auditing and hence makes it a self-enforcing system. It is much easier to operate with the credit-invoice method as compared to the subtraction method in a multi-rate regime of VAT. Also, the subtraction method calls for special provisions to deal with purchases effected from persons not covered under VAT and those effected from outside the state. Thus, credit-invoice method is a preferred option compared to the subtraction method.

Zero-rating of exports is considered desirable to maintain competitiveness of our products in the international market. By the same token, inter-state trade should be zero-rated. This would encourage large-scale production in the state because it removes tax barriers in the movement of goods. The expanded industrial base will add to income and consumption in the state and thereby to growth of revenue from not only VAT but also from other categories of taxes.

Imports as well as goods brought into the state on inter-state trade should be subjected to VAT to put these goods at par with local purchases, otherwise local manufacturers would suffer competitive tax disadvantage. Inflow into the state forms part of consumption of residents of the state and, therefore, should form part of the consumption tax base of the state.

Tax incentives are known to have some impact on location of industries but there is no evidence that they influence overall industrial investment. On the other hand, they add to complexity of the tax system and hence add to administrative and compliance costs, besides causing huge revenue losses to the states. Experience of other countries shows that after the exemption or deferral period are over, many of the industrial units are not traceable. There is a growing realization that tax incentives are not an appropriate policy tool for industrial growth. Moreover, with a classical VAT system, there is no need for special tax incentives because it has enough built-in incentives for growth. For example, tax incentive provisions under the current sales tax system provide rebate of input taxes, exemption or deferment of CST applicable to inter-state trade and exemption or deferment of tax on local sales. The former two provisions are automatic in a system of VAT. In the case of local sales, rebate on intermediate goods is also automatic under VAT. It is only the local sale of final consumption goods for which VAT does not provide a comparable rebate. Therefore, removal of existing industrial incentives should not pose any problem provided the concerned enterprises develop a proper understanding of the operation of VAT.

The merits of a classical VAT outlined above are well known. These include: broad base and low rate, simple tax structure and low cost of compliance, neutrality to production processes (no built-in tax incentive for vertical integration), tax burden being imposed on those who are supposed to benefit from its spending (no tax export to the residents of other states), transparency in tax incidence (no tax cascading), price rise only to the extent of element of tax (no pyramiding effects), encouragement to voluntary compliance (simplicity, low cost of compliance, and dealers viewed as collecting agents and no tax imposed on them by tax design), and lesser scope for evasion (credit-invoice method of VAT with self-enforcing character where buyers would insist for the invoice for availing the input tax rebate), no adverse affect on the competitiveness of our products in international markets (exports fully relieved from the burden of VAT), and conducive for growth (no tax burden on producing goods in the state and sending them out of the state, and no tax cost of holding inventories of inputs or finished products).

It is clear that the classical model of VAT, outlined above, can not be adopted under the current environment. Many of the constitutional constraints are an impediment in adopting such an ideal model of VAT. But the classical model of VAT can be effectively used to design a VAT within the constitutional constraints. The deviations from the ideal model should be justified in light of the constitutional constraints, and specifically documented. This will help define a plan of action that should follow a relaxation in the specific constitutional constraints.

In the Indian context, the removal of constitutional constraints is a long drawn out process. It requires co-ordination at two levels: (i) among the states, and (ii) between the Center and the states. While some of the constraints can be removed or avoided unilaterally by the Center or a state (individually or through a co-ordination by all states), others involve complex issues and evolving a consensus on these may take a long time. Tax reforms at the state level, particularly in respect of sales tax that is a major source of their own tax revenues for all states, cannot and should not wait for these larger issues to be resolved.

6. Required Modifications in the Design of SAT and VAT because of Constitutional Constraints

The constitutional constraints that have a bearing on the design of SAT or VAT include the following:

- Single point taxation of declared goods with a ceiling rate of 4 per cent
- Exclusion of textiles, tobacco and sugar from the tax base of the state, because of the taxation arrangement between the Center and the states under which the Center imposes an additional duty of excise on textiles, tobacco and sugar in lieu of sales tax and distributes the revenue among the states
- Exclusion of services from the tax base although this will narrow down the tax base substantially
- Prevalence of CST on inter-state sales

These constraints make the following modifications mandatory in the designs of SAT and VAT:

- Declared goods can be subject to SAT as these have to be exempted under VAT. As soon as the Central government allows multi-point taxation of these goods, these can be covered under VAT by excluding them from the ambit of SAT.
- All the three goods subject to additional duty of excise, namely, textiles, tobacco and sugar have to be kept out of the ambit of SAT and have to be exempted under the VAT. Suitable treatment can be accorded as soon as taxation agreement on these goods is modified to facilitate taxation of these goods by the states. This may involve subjecting tobacco to SAT besides subjecting all the three goods to VAT.
- Services have to be exempted under VAT until some agreement is reached between the Center and the states to facilitate taxation of some selected services by the states.
- CST can be unilaterally waived by the exporting state, though the exporting state may like to collect CST as long as it exists or at least in the initial years of introduction of VAT as a revenue safeguard. Subsequently, as the revenue growth accelerates, CST can be phased out by the state unilaterally. In this sense, CST is really not a constraint.

A little action on the part of the Central government in respect of relaxing some of these constraints can facilitate a smooth transition to the VAT by avoiding some of the pitfalls caused by these constraints. The Central government can take some of these decisions unilaterally. It can allow multi-point taxation of declared goods as long as full rebate is given for the tax paid on purchase of these goods. Similarly, it can allow taxation by states of textiles, tobacco and sugar, subject to a ceiling on the rate applicable to declared goods (i.e., 4 per cent). This should be allowed without depriving the states of their shares in the additional duties of excise on these goods which may be continued with a corresponding reduction in the duty rates.

States may be allowed to tax some of the services particularly those that are integral with sale of goods; such as in the case of work contracts, repairs involving spare parts, food served at restaurants, and film processing and printing.

If the Center adheres unilaterally to the above mentioned line of action, then the list of exemptions can be reduced by covering declared goods, textiles, tobacco, sugar as well as the selected services under the VAT. This will go a long way in improving compliance through

simplicity and administrative efficiency. As the ceiling rate on these goods will be 4 per cent, the VAT rate has to be 4 per cent and clearly that will not generate adequate amount of revenue. Therefore, it will become necessary on the part of a state to go beyond a single rate.

Subsequently, as and when the Center evolves a consensus between the Center and the states and removes additional duties of excise in lieu of sales tax and abolishes restrictions on declared goods, the states can fully integrate these goods into their SAT and VAT systems.

7. Tax rates

It appears that in the beginning it may be feasible to select a combination of three SAT rates along with two VAT rates for TN, without substantial changes in the incidence of tax on major commodities or losses in tax yield. The SAT rates selected for this exercise are 4, 12 and 20 per cent while the relevant VAT rates are 4 and 8 per cent.

The revenue implications of the proposed rates of SAT and VAT are illustrated with the help of a simple simulation exercise based on tax yield from 50 major commodities for the year 1997-98 (Table 4). For these goods, actual GST rates are given in column 2 while the proposed SAT and VAT rates are given in columns 3 and 4 respectively. Twelve items are subject to SAT: 4 at 20 per cent, 3 at 12 per cent and 5 at 4 per cent. This would yield revenue of about Rs.1845 crore (column 7) that is more than 50 per cent of GST collected during 1997-98. Gross revenue from VAT works out to Rs.3026 crore. Allowing for an input rebate to the extent of 30 per cent¹³ of gross revenue would give net revenue of Rs.2118 crore. Thus, the total revenue from SAT and VAT works out to Rs.3963 crore that is about 11 per cent higher than the revenue raised from GST in 1997-98 that was Rs.3556 crore. This does not take into account the increase in revenue that is expected to accompany the improvement in tax administration and compliance, the removal of industrial incentives, an accelerated industrial growth and capturing of value added beyond the first sale. The growth in revenue due to all these factors would enable the reduction of SAT to one or two rates and adoption of a single VAT rate in the long run.

¹³ This extent of rebate can be supported on the basis of available studies on this subject such as Aggarwal, Pawan K. (1997). "MODVAT reforms and Revenue Productivity" in Shome, Parthasarathi: A Progress Report, Centax Publications Pvt. Ltd. (1997), Value Added Tax in India, and Aggarwal, Pawan K and A.V.L. Narayana (1995), Revenue implications of Alternative VAT Rates and Derivation of Revenue Neutral Rates. Technical Note, NIPFP, New Delhi.

Annex 1
Declared goods under CST Act

Under Section 14 of the Central Sales Tax Act (CST Act) certain goods are declared to be of special importance in inter-state trade or commerce. These goods are subjected to tax restrictions and conditions specified in Section 15 of the CST Act. Overtime, there has been some additions and deletions in the list of declared goods. As on 1.4.1998, the following are the declared goods along with the rates of sales tax applicable in Tamil Nadu: 1998-99.

List of declared goods

Sr.No.	Description of goods	Rate of Sales tax in Tamil Nadu
(1)	(2)	(3)
1.	Coal including coke in all its forms (but excluding charcoal.)	4%
2.	Cotton, that is to say, all kinds of cotton (indigenous or imported) in its unmanufactured state, whether ginned or unginned, baled, pressed or otherwise but not including cotton waste	2%
3.	Cotton yarn, but not including cotton yarn waste	3 or 4%
4.	Crude oil, that is to say, crude petroleum oils, and crude oils obtained from bituminous minerals (such as shale, calcareous rock, sand), whatever their composition, whether obtained from normal or condensation oil deposits or by the destructive distillation of bituminous minerals and whether or not subjected to all or any or following processes : (1) Decantation; (2) De-salting; (3) Dehydration; (4) Stabilisation in order to normalise the vapour pressure; (5) Elimination of very light fractions with a view to returning them to the oil deposits in order to improve the drainage and maintain the pressure; (6) The addition of only those hydrocarbons previously recovered by physical methods, during the course of the above mentioned processes; (7) Any other minor process (including addition of pour point depressants or flow improvers) which does not change the essential character of the substance.	4%

List of declared goods

Sr.No.	Description of goods	Rate of Sales tax in Tamil Nadu
(1)	(2)	(3)
5.	Hides and skins, whether in raw (dressed) state	4(2)%
6.	<p>Iron and steel, that is to say, -</p> <p>(i) Pig iron and cast iron, including ingot moulds, bottom plates, iron scrap, cast iron scrap, runner scrap and iron skull scrap;</p> <p>(ii) Steel semis (ingots, slabs, blooms and billets of all qualities, shape</p> <p>(iii) Skelp bars, tin bars, sheet bars, hoebars, and sleeper bars;</p> <p>(iv) Steel bars (rounds, rods, square flats, octagons and hexagons, plain and ribbed or twisted, in coil form as well as straight lengths);</p> <p>(v) Steel structural (angles, joints, channels tees, sheet piling sections, Z sections, or any other rolled sections);</p> <p>(vi) Sheets, hoops, strips and skelp, both black and galvanised, hot and cold rolled, plain and corrugated, in all qualities, in straight lengths and in coil form, as rolled and in revetted condition;</p> <p>(vii) Plates both plain and chequered in all qualities;</p> <p>(viii) Discs, rings, forgings and steel castings;</p> <p>(ix) Tool, alloy and special steels of any of the above categories;</p> <p>(x) Steel melting scrap in all forms including steel skull, turning and borings;</p> <p>(xi) Steel tubers, both welded and seamless, of all diameters and lengths, including tube fittings;</p> <p>(xii) Tin plate, both hot dipped and electrolytic and tin-free plates;</p> <p>(xiii) Fish plate bars, bearing plate bars, crossing sleeper bars, fish plates, bearing plates, crossing sleepers and pressed steel sleepers, rails-heavy and light crane rail;</p> <p>(xiv)Wheels, tyres, axles and wheel sets;</p> <p>(xv) Wire road and wires-rolled, drawn, galvanised, aluminised, tinned or coated such as by copper;</p> <p>(xvi) Defectives, rejects, cuttings or end pieces of any of the above categories</p>	4%
7.	<p>Jute that is to say, the fibre extracted from plants belonging to the species Corchorus Capsularis and Corchorus Oiltorius and the fibre known as mesta or bimli extracted from plants of the species Hibiscus Cannabinus and Hibiscus Subdariffa Var altissima and the fibre known as Sunn and Sanna or extracted from plants of the species Crotalaria Juncea whether baled or otherwise.</p>	4%

List of declared goods

Sr.No.	Description of goods	Rate of Sales tax in Tamil Nadu
(1)	(2)	(3)
8.	Oilseeds, that is to say, - (i) Groundnut or Peanut (<i>Archis hypogaea</i>) (ii) Sesamu or Til (<i>Sesamum orientale</i>) (iii) Cotton seed (<i>Gossypium Spp.</i>) (iv) Soyabean (<i>Glycine seja</i>) (v) Rapeseed and Mustard – (1) Toria (<i>Brassica compestria var toria</i>) (2) Rai (<i>Brassica Juncea</i>) (3) Jamba Taramira (<i>Eruca Sativa</i>) (4) Sarson, yellow and brown (<i>Brasica compestris</i> Varsarson) (5) Banarsi Rai or True Mustard (<i>Brassica nigra</i>) (vi) Linseed (<i>Linum usitatissimum</i>) (vii) Castor (<i>Ricinus communis</i>) (viii) Coconut (i.e. Copra excluding tender coconuts) (<i>coco nucifera</i>) (ix) Sunflower (<i>Helianthus annus</i>) (x) Nigar seed (<i>Gizotia abyssinca</i>) (xi) Neem vepa (<i>Azadirachta indica</i>) (xii) Mahua, ilupai, Ippe (<i>Madhuca indica</i> , <i>M. Latifolia</i> , <i>Basisa</i> , <i>Latifolia</i> and <i>Modhuca longifolia</i> Syn. <i>M. Longifolia</i>) (xiii) Karnja, Pongarm, Honga (<i>Pongamia pinnata</i> syn. <i>P. Glabra</i>) (xiv) Kusum (<i>Schleichera olcosa</i> , syn. <i>S. Trijuga</i>) (xv) Punna, Undi (<i>Calophllum inophyllum</i>) (xvi) Kokum (<i>Carcinina indica</i>) (xvii) Sal (<i>Shorea robusta</i>) (xviii) Tung (<i>Aleurities foridii</i> and <i>A. montanna</i>) (xix) Red Palm (<i>Elacis guinensis</i>) (xx) Safflower (<i>Carthamus tinclorius</i>)	4%
9.	(i) Fabrics, (ii) Sugar, and (iii) Tobacco,	4%

as defined from time to time, in Section 14 of the Central Sales Tax Act 1956, but excluding those covered by entry 15 of Schedule A.

Source: Anand, M. L. (1998-99) (ed.), The Bombay Sales Tax Act, M T J Publications.

**Goods subject to Additional Excise Duty
in Lieu of Sales Tax under CST Act**

The Additional Duties of Excise (Goods of Special Importance) Act, 1957 (Act No.58 of 1957) came into force on December 14, 1957. Parliament passed this Act to levy additional duties of excise on the following goods in lieu of sales tax by different states as recommended by the Second Finance Commission.

- (a) Cotton fabrics, rayon and artificial silk fabrics and woolen fabrics
- (b) Sugar; and
- (c) Tobacco.

The net proceeds collected on the above commodities by way of additional excise duty would be distributed among the State in pursuance of the principles of distribution formulated and the recommendations made by the Finance Commission from time to time. By Section 7 such goods were also declared as goods of special importance in inter-State trade or commerce and it was specially provided that every sales tax law of a State shall, in so far as it imposes or authorises the imposition of a tax on the sales or purchases of declared goods, be subject as from the 1st day of April, 1958, to the restrictions and conditions specified in Section 15 of the Central Sales Tax Act, 1956.

List of Goods by Headings in the Central Excise Tariff Act, 1985			
Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
17.01	1701.31	Sugar, other than khandsari sugar required by the Central Government to be sold under clause (f) of sub-section (2) of section 3 of the Essential Commodities Act, 1955 (10 of 1955)	Rs.25 per quintal
	1701.39	Other sugar, other than khandsari sugar	Rs.45 per per quintal
17.02	1702.11	Palmyra sugar	Nil
24.01	2401.00	Unmanufactured tobacco; tobacco refuse	10%

List of Goods by Headings in the Central Excise Tariff Act, 1985			
Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
24.02	2402.10	Cigars and cheroots of tobacco or of tobacco substitutes	Nil
	2403.21	Cigarillos of tobacco	Rs.350 per thousand
24.04	2404.11	'Gudaku' bearing a brand name	5%
	2404.12	'Gudaku' not bearing a brand name	Nil
	2404.13	Cut tobacco	Nil
	2404.19	Others	75%
	2404.21	Hookah tobacco bearing brand name	5%
	2404.29	Other	Nil
	2404.31	Biris of tobacco in the manufacture of which any process has been conducted with the aid of machines operated with or without the aid of power	Rs.2.50 per thousand
	2404.39	Other biris	Rs.2.50 per thousand
		Chewing tobacco including preparations Commonly known as 'Khara Masal'; 'Kimam', 'Dokta', 'Zarda', 'Sukha' and 'Surti'	
	2404.41	Chewing tobacco bearing a brand name	10%
	2404.49	Other chewing tobacco	10%
	2404.50	Snuff of tobacco	10%
	2404.60	Preparations containing snuff of tobacco in any proportion	10%
50.05		Woven fabrics of silk or of silk waste	
	5005.10	Fabrics of noil silk	Nil
	5005.20	Other fabrics, containing 35% or more by	

	weight of silk or of silk waste other than noil silk	Nil
5005.90	Other fabrics	Nil

List of Goods by Headings in the Central Excise Tariff Act, 1985

Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
51.10		Woven fabrics of wool excluding hair belting	
	5110.10	Not subjected to any process Subjected to the process of milling, raising, blowing, tentering, dyeing or any other process or any one or more of these processes	5%
	5110.21	Bleached woven fabrics	5%
	5110.22	Dyed woven fabrics	5%
	5110.23	Printed woven fabrics	5%
	5110.29	Other woven fabrics	5%
51.11		Woven fabrics of wool excluding hair belting	
	5111.10	Not subjected to any process Subjected to the process of milling, raising, blowing, tentering, dyeing or any other process or any one or more of these processes.	5%
	5111.21	Bleached woven fabrics	5%
	5111.22	Dyed woven fabrics	5%
	5111.23	Printed woven fabrics	5%
	5111.29	Other woven fabrics	5%
52.07		Woven fabrics of cotton containing 85% or more by weight of cotton	
	5207.10	Not subjected to any process Subjected to the process of bleaching mercerising, dyeing, printing, water-proofing, shrink-proofing, organdie processing or any other process or any one or more of these processes;	Nil
	5207.21	Bleached woven fabrics	20%
	5207.22	Dyed woven fabrics	20%

5207.23	Printed woven fabrics	20%
5207.29	Other woven fabrics	20%

List of Goods by Headings in the Central Excise Tariff Act, 1985

Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
52.08		Woven fabrics of cotton containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibers	
	5208.10	Not subjected to any process Subjected to the process of bleaching mercerising, dyeing, printing, water-proofing, shrink-proofing, organdie processing or any other process of any one or more of these processes;	Nil
	5208.21	Bleached woven fabrics	20%
	5208.22	Dyed woven fabrics	20%
	5208.23	Printed Woven Fabrics	20%
	5208.29	Other woven fabrics	20%
52.09		Other woven fabrics of cotton	
	5209.10	Not subjected to any process Subjected to the process of bleaching mercerising, dyeing, printing, water-proofing, shrink-proofing, organdie processing or any other process of any one or more of these processes;	Nil
	5209.21	Bleached woven fabrics	20%
	5209.22	Dyed woven fabrics	20%
	5209.23	Printed Woven Fabrics	20%
	5209.29	Other woven fabrics	20%
54.06		Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading No. 54.04	
	5406.10	Not subjected to any process	Nil

	Subjected mercerising, to the process of bleaching dyeing, shrink-proofing, tentering, heat setting, crease-resistant processing, or any other process or any one or more of these processes;	
5406.21	Bleached woven fabrics	20%
5406.22	Dyed woven fabrics	20%
5406.23	Printed Woven Fabrics	20%
5406.29	Other woven fabrics	20%

List of Goods by Headings in the Central Excise Tariff Act, 1985

Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
54.07		Woven fabrics of artificial filament yarn, including woven fabrics obtained from materials of heading No.54.05	
	5407.10	Not subjected to any process Subjected to the process of bleaching dyeing, printing, shrink-proofing, tentering heat setting crease-resistant processing or any other process or any one or more of these processes;	Nil
	5407.21	Bleached woven fabrics	20%
	5407.22	Dyed woven fabrics	20%
	5407.23	Printed Woven Fabrics	20%
	5407.29	Other woven fabrics	20%
55.11		Woven fabrics of synthetic staple fibers, containing 85% or more by weight of synthetic staple fibers	
	5511.10	Not subjected to any process Subjected to the process of bleaching dyeing, printing, shrink-proofing, tentering heat setting crease-resistant processing or any other process or any one or more of these processes;	Nil
	5511.21	Bleached woven fabrics	20%
	5511.22	Dyed woven fabrics	20%
	5511.23	Printed Woven Fabrics	20%
	5511.29	Other woven fabrics	20%

55.12		Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton	
	5512.10	Not subjected to any process subjected to the process of bleaching dyeing, printing, shrink-proofing, tentering heat setting crease-resistant processing or any other process or any one or more of these processes;	Nil
	5512.21	Bleached woven fabrics	20%
	5512.22	Dyed woven fabrics	20%
	5512.23	Printed Woven Fabrics	20%
	5512.29	Other woven fabrics	20%

List of Goods by Headings in the Central Excise Tariff Act, 1985

Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
55.13		Other woven fabrics of synthetic staple fibres	
	5513.10	Not subjected to any process Subjected to the process of bleaching dyeing, printing, shrink-proofing, tentering heat setting crease-resistant processing or any other process or any one or more of these processes;	Nil
	5513.21	Bleached woven fabrics	20%
	5513.22	Dyed woven fabrics	20%
	5513.23	Printed Woven Fabrics	20%
	5513.29	Other woven fabrics	20%
55.14		Woven fabrics of artificial staple fibres	
	5514.10	Not subjected to any process Subjected to the process of bleaching dyeing, printing, shrink-proofing, tentering heat setting crease-resistant processing or any other process or any one or more of these processes;	Nil
	5514.21	Bleached woven fabrics	20%
	5514.22	Dyed woven fabrics	20%

	5514.23	Printed Woven Fabrics	20%
	5514.29	Other woven fabrics	20%
58.01		Woven pile fabrics and chenille fabrics, other than fabrics of heading No.58.02 or 58.06	
	5801.11	Not subjected to any process	5%
	5801.12	Subjected to the process of milling, raising, blowing, tentering, dyeing or any other process or any one or more of these processes of cotton	5%
	5801.21	Not subjected to any process	Nil
	5801.22	Subjected to the process of bleaching, mercerising, dyeing, printing, water-proofing, shrink-proofing, organdies processing or any other process or any one or more of these processes	20%
		Of man made fibres :	
	5801.31	Not subjected to any process	Nil
	5801.32	Subjected to the process of bleaching, dyeing, printing, shrink-proofing, tentering, heat setting, crease resistant processing or any other process or any one or more of these processes.	20%

List of Goods by Headings in the Central Excise Tariff Act, 1985

Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
58.02		Terry toweling and similar woven terry fabrics, other than narrow fabrics of heading No.58.06; tufted textile fabrics, other than products of heading No.57.03	
		Terry toweling and similar woven terry fabrics of cotton :	
	5802.21	Not subjected to any process	Nil
	5802.22	Subjected to the process of bleaching, dyeing printing water proofing, shrink-proofing, organdie processing or any other process or any one or more of these processes	20%
		Terry toweling and similar woven terry fabrics of man-made fibres:	
	5802.31	Not subjected to any process	Nil
	5802.32	Subjected to the process of bleaching, dyeing printing, shrink-proofing, tentering, heat setting,	20%

		crease-resistant processing or any other process or any one more of these processes	
		Tufted textile fabrics :	
	5802.51	Not subjected to any process	5%
	5802.52	Subjected to the process of bleaching, dyeing printing, shrink-proofing, tentering, heat setting, crease-resistant processing or any other process or any one or more of these processes	20%
58.03	5803.00	Gauze, other than narrow fabrics of heading No. 58.06	5%
58.04		Lace in the piece, in strips or in motifs In or in relation to the manufacture of which any process is ordinarily carried on with the aid of power or steam :	20%
	5804.11	Of cotton	20%
	5804.12	Of man-made-fibres with power :	Nil

List of Goods by Headings in the Central Excise Tariff Act, 1985

Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
58.05		Embroidery in the piece, in strips or in motifs Manufactured with the aid of vertical type automatic shuttle embroidery machines operated	
	5805.11	Embroidery without visible ground	Nil
	5805.19	Other	Nil
58.06	5806.00	Narrow woven fabrics (other than tulle, other net fabrics and goods of heading No.58.07, 58.08, 58.09 and 58.10)	
59.01		Textile fabrics coated with gum or amylaceous substances, of a kind used for the outer covers of books or the like; tracing cloth; prepared painting canvas; buckram and similar stiffened textile fabrics	
	5901.10	Textile fabrics coated with gum or amylaceous substances, of a kind used for the outer covers	20%

		of books or the like	
	5901.90	Other	20%
59.02		Tyre cord fabric of high tenacity yarn of nylon or other polyamides, polyesters or viscose rayon	
	5902.10	Of nylon or other polyamides	5%
	5902.20	Of polyesters	5%
	5902.20	Other	5%
59.03		Textile fabrics of cotton and man-made textile materials impregnated, coated, covered or laminated with plastics, other than those of heading No.59.02	
	5903.10	With polyvinyl chloride	5%
	5903.20	With polyurethane	5%
	5903.90	Other	5%
59.07		Fabrics covered partially or fully with textile flock or with preparation containing textile flocks	
	5907.11	On base fabrics of cotton	5%
	5907.12	On base fabrics or man-made textile material	5%

List of Goods by Headings in the Central Excise Tariff Act, 1985

Heading No.	Sub Heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)
60.01		Pile fabrics, including 'long pile' fabrics and terry fabrics, knitted or crocheted	
		'Long pile' fabrics	
	6001.11	Of cotton	20%
	6001.12	Of man-made fibres	20%
		Looped pile fabrics	
	6001.21	Of cotton	20%
	6001.22	Of man-made fibres	20%
		Other	

	6001.91	Of cotton	20%
	6001.92	Of man-made fibres	20%
60.02		Other knitted or crocheted fabrics	
	6002.10	Of a width not exceeding 30 cm, containing elastomeric yarn or rubber threads	10%
		Other, of a width not exceeding 30 cm	10%
	6002.20	Of a width exceeding 30 cm, containing elastomeric yarn or rubber threads	10%
	6002.30	Other fabrics, warp knit :	
	6002.42	Of cotton	20%
	6002.43	Of man-made fibres	20%
		Other	
	6002.92	Of cotton	20%
	6001.93	Of man-made fibres	20%

Annex 3 (Pages 46-49)

Commodities exempted from General Sales Tax Act in Tamil Nadu

Agricultural Implements and Spare parts
Ambar Charka and its parts
Animals
Appalams
All Refined Oils
Bacterial Culture (for agricultural purpose)
Bajra
Ball point pens, refills
Bangles (other than those made wholly & partly of any metal)
Barley
Basket making industries products
Beatles
Black sugar cane for human consumption
Broomstick
Bulls
Bullocks
Bullock Carts
Blood and plasma of Blood
Black Board
Charcoal
Cholam and its products
Cloth rags
Coconuts, copra and Tender coconuts (other than those millers falling under II schedule)
Coconut thatches
Coir dust
Colour pencils
Common salt (Sodium chloride for human consumption)
Condoms
Contraceptives – all kinds
Copy book
Cotton seeds for seeding purpose
Cows
Crabs (Fish)
Crutches for handicapped
Cumbu and its products
Cycle rickshaw without motor
Country Drugs (10 items)
Computers Software (individual need oriented Part B-96)
Coconut Oil
Computer Software, licensed
Coconut Milk Powder
Deccan hemp fibre (hemp products excluding deccan)
Desicrated Coconuts
Dissection Boxes
Dry leaves

Dusters
Ebonite pens
Ebonite ball point pens
Eggs
Electrical hearing-aids and accessories
Electoral Rolls (sale by Govt.)
Erasers
Electrical energy
Flowers
Flower seeds
Fire wood
Fish
Fruits (fresh)
Frogs and froglegs
Garlic
Geometric boxes
Goat
Green tea leaves
Green Grass
Green manure seeds
Gauze or Bondage Cloth (if the t.o. is less than Rs.50/- lakhs)
Gingelly Oil
Groundnut Oil
Hand Kerchief (Stitched) – Handloom & Mill made
Hay or straw
Handmade embroidery products
Horse shoes and horse shoe nails
Hand pounded rice
Indigeneous raw silk
Indigenous products of Sericulture
Intra-ocular lenses
Korai grass and Korai mats
Kudiraivalli and its products
Kungumam in all its forms
Khajal
Kasinikeerai Powders
Life Savings Drugs – namely
Cyclosporin, Bleomycin
Cytosina arabinoside
Pentosifylline, Nitroglycerine.
Maize, Maize products
Meat
Millet's products (like: Brokens & Bran of cholam, Cumbu, Flour Kudiraivalli, Maize, Rice, Ragi samai, Thinai and Varagu)
Milk, recombined milk, Fresh milk
Monkey feed
Mala-N
Mala-D
Nirodh advertisement & publicity materials
Note books (Student)
Paddy (D.G. II Notification)

Puffed rice, hand-pounded rice
Palmyra fibbers and stalks
Palm jaggery
Pencil sharpeners
Pens
Physically handicapped-crutches, wheel chairs support sticks, Three wheelers with or without motor
Pickles weighing below fifty grams (Packed)
Pigs and pig feed
Plants
Plantain leaves
Pottery (baked clay and stone ware)
Poultry
Poultry feed
Prawns
Potatoes

- (a) Pulses and Grams, the following including Broken, Splits, Husks and Dust thereof:
- i) Gram or Gulab Gram (*Cicerarietinum L*)
 - ii) Tur or Arhar (*Cajanus Cajan*)
 - iii) Moong or Green Gram (*Phaseolus Aureus*)
 - iv) Masur or Lentil (*Lens Esculenta Moenchlens Culinaris Madic*)
 - v) Urad or Black Gram (*Phaseolus Mungo*)
 - vi) Moth (*Phaseolus Acolitifolius Faco*)
 - vii) Lakh or Kehsari (*Lathyrus Sativus L*)
- (b) Chillies, Tamarind, Coriander, Turmeric, Pepper and Shikkakai
(c) Jaggery and Gur including Jaggery Powder and Nattusakkarai
(d) Asafoetida
(e) Jeera including Black Jeers (Cumin seeds)
(f) Palmyrah Sugar Candy

Partly handmade and partly mechanized wax matches
Ragi and its products
Raw silk (Indigenous)
Reading books including text books
Renewable energy equipments and saving devices designed for use solar, biomass and wind energy
Rice products (Rice Flour & Rice bran)
Rice
Rice bran
Readymade Thali made of gold – weighing upto 8 gms. Without charge)
Refined Palmoil
Refined Cottonseed Oil
Refined Ricebran Oil
Samai and its products
Sheep
Slates and Salte pencils
Stainless Steel nibs
Straw
Students Note books & copies books
Support stick for handicapped

Sunflower Oil
Thinai and its products
Three wheelers with or without motor for handicapped
Toddy
Unicef Greeting Cards and Calenders
Vadams
Varagu and its products
Vegetables
Vegetable seeds
Water (other than water sold in bottles, sachets, jugs, jerry cane and distilled water or mineral water sold in any form of containers)
Wheat (other than wheat products)
Wheel Chairs for handicapped
Wind Mill