

## CHAPTER-IV

### SUMMARY AND CONCLUSIONS

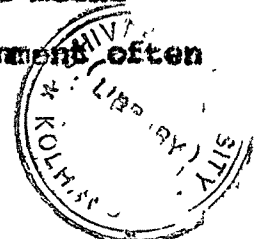
#### 4.1 Entertainment is nece-luxury :

Entertainment is an important need of human beings particularly in a civilized society. In India entertainment of cinema type has become the source of relaxation for majority of the people. With the introduction of the cinematograph and the host of other technological changes, entertainment has assumed a more public and commercial character, has become distinct and indirect in nature, however, at the same time individually more accessible. This has rendered cinema entertainment more and more amenable to taxation by the State.

Entertainment becomes taxable when it satisfies the following conditions :

- i) It is public.
- ii) Admission to it is priced.
- iii) It has a commercial purpose.

On the one hand cinema has become a necessity for a large number of people because the other private means of entertainment requiring initial investment and recurring expenditure are beyond their reach. For the large majority of the poor people cinema entertainment provides a means of cheap, regular and locally accessible entertainment often



of an escapist nature. On the other hand, for the rich people it is a cheap luxury giving them an opportunity to enjoy, from a distance, their own style of living and at the same time sympathise from a distance, with the harsh life of poverty and problems depicted in the so-called art and surrealistic films. Therefore, we call it a necessity-luxury.

#### **4.2 Justification for the Entertainment Tax :**

Entertainment tax can be justified on the following grounds :

- i) Non-essential nature of the want.
- ii) Sumptuary taxation.
- iii) Increased revenue for the Government.
- iv) Compensation for the social costs.
- v) Resource Reallocation.
- vi) Price-inelastic and income-elastic nature of the want.

#### **4.3 An entertainment tax - An Indirect tax :**

In the case of entertainment tax, the shifting of the tax burden is very much evident, immediate and complete because the amount of the tax is included in the price of admission ticket, thus shifting the whole burden to the ultimate consumer. It partakes the nature of sales tax because the proprietor of the cinema sells a kind of a

service from which the consumers derive a certain satisfaction in the form of relaxation. As an indirect tax, entertainment tax has following features :

- i) Convenience
- ii) Fiscal illusion
- iii) Difficult for avoidance and evasion
- iv) Productivity
- v) Broad coverage.

#### 4.4 Shifting, Incidence and Effects of Entertainment tax :

Theoretically, shifting of the entertainment tax will be mostly forward because the demand for entertainment is price-inelastic and income-elastic. In other words, incidence of entertainment tax will invariably be on the cinegoers. However, the differential incidence of entertainment tax with higher and higher rates of entertainment tax will become more and more regressive as increasing expenditure on entertainment will constitute a decreasing proportion of income. Moreover, the supply of cinema entertainment is more or less oligopolistic in nature as a result of which forward shifting becomes easier. So far as effects of entertainment tax on film-distribution and film-production are concerned it is difficult to make generalizations.

Entertainment tax as it is in practice in most of the areas seems to have taken into consideration the aspect of equity, because higher classes of tickets attract higher rates of entertainment tax making it progressive. But this equity in entertainment tax is precariously dependent on the assumption that people from lower income groups purchase low priced tickets and people from higher income groups purchase high priced tickets.

#### 4.5 Empirical Findings :

4.5.1 In case of all the States under consideration and All-States model absolute revenue from entertainment tax has shown a strong consistent rising trend.

4.5.2 Revenue significance of entertainment tax shows, either a gradually rising trend or fluctuations in a limited range being highest in Tamilnadu. But in no case does it show a definitely decreasing trend. Similar trends are seen even when revenue significance of entertainment tax with reference to total tax revenue and own tax revenue is considered.

4.5.3 Level of entertainment tax both in macro and micro sense shows a constantly rising trend in both senses and is the highest in Tamilnadu.

4.5.4 Percapita burden of entertainment tax has also increased considerably in case of every State under consideration and is highest in case of Maharashtra.

4.5.5 Excepting in case of Karnatak the revenue account developmental significance of entertainment tax shows a gradually decreasing trend in the last phase of the period. In case of Maharashtra it is significantly greater than in case of other States. From capital account point of view the developmental significance of entertainment tax is much greater compared to developmental significance of entertainment tax on revenue account. However, it is highest in case of Tamilnadu.

4.5.6 The cost of collection ratio for the entertainment tax shows a declining trend with minor fluctuations during the period. The same trend is seen in case of West Bengal and All-States model. Excepting in case of Gujarat, it seems that collection efficiency is increasing.

4.5.7 Entertainment tax shows high values of buoyancy and income-elasticity in case of every State under consideration and greater in case of All-States model excepting West Bengal. It can be said that entertainment tax will give, even without discretionary changes, an increasing amount of revenue to the Government.

4.5.8 A scrutiny of the rate structure of the entertainment tax in the States under consideration gives us following findings :

- i) The rate of tax is given either as % of the gross value of ticket or as @ % of the net price of admission ticket.
- ii) Higher rates of entertainment tax for each class of ticket are prescribed in case of places having larger population.
- iii) The burden of entertainment tax is compounded by additional levies like surcharge, additional surcharge and some specific cesses.
- iv) Touring cinemas are taxed at a lower rate.
- v) Colour films are subjected to higher rates of additional surcharges.
- vi) The overall average rate of entertainment tax in States under study is 71.13% and is the highest in case of West Bengal 110% and the lowest being in Karnatak 70%.
- vii) In certain cases a flat rate on the assumption of useful capacity is applied but this rate is relatively very low.

#### **4.6 Findings of the Survey :**

##### **(A) CINEMA-OWNERS :**

4.6.1 In case of cinema-owners entertainment tax is the largest tax related to their business.

4.6.2 The price of the admission ticket is fixed in such a way that it covers the operating cost including a fair rate of return. The prices of different classes of ticket vary according to the facilities provided. In this regard, population, economic conditions, social culture and the number of cinemas located in a place also become relevant factors. However, there seems to be no clearcut relationship between the net price of the cinema ticket and the rate of entertainment tax. Most of the cinema-owners want discontinuation of additional levies and reduction in the rate of entertainment tax. They also want that the rate of entertainment tax should be expressed as a percentage of net price of admission ticket.

4.6.3 In the opinion of the cinema-owners demand for cinema entertainment is definitely price-inelastic and income-elastic because increased entertainment taxation leading to higher prices, does not decrease demand for entertainment.

4.6.4 According to the cinema-owners increasing rate of entertainment tax reduces the net earnings per seat.

4.6.5 The effects of high level of entertainment tax on film-production are not very clear.

(B) CINEGOERS :

4.6.6 Two visits to the cinema per month seems to be the norm for most of the people.

4.6.7 Most of the people belonging to lower income groups also prefer to purchase balcony tickets.

4.6.8 Most of the people prefer to go for the third show.

4.6.9 Most of the people are aware of the entertainment tax and its incidence.

4.6.10 In case of majority of the families the monthly expenditure on cinema entertainment may be around Rs. 40/-.

4.6.11 The responses of the cinegoers also indicate that the demand for cinema entertainment is price-inelastic and income-elastic.

4.6.12 Most of the respondents want a reduction in the rate of entertainment tax.

4.6.13 In case of further increase in entertainment taxation, assuming a decrease in cinema entertainment the amount released may be used for savings, increased expenditure



on routine household needs, other types of entertainment, pleasure trips and better education and purchase of books in that order.

(C) FILM-DISTRIBUTORS :

4.6.14 As we got only one response from film-distributor no observation of a generalization type can be made.