

## **CHAPTER –V**

### **CRITICAL ANALYSIS REGARDING VIEWS ON OCTROI ABOLITIOB**

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# **CHAPTER 5**

## **CRITICAL ANALYSIS REGARDING VIEWS ON OCTROI ABOLITION**

### **5.1 INTRODUCTION :**

The finances of urban local bodies are sustained to a great extent by octroi as a source of tax revenue. In spite of its revenue significance. The administrations are data collection producer of octroi is the main centre for the general public opinion that demands its abolition. In the present chapter an analysis is made regarding the different opinions in this layered.

Octroi is an old tax. Mughal, Maratha, Sikh British rules and Indian local governments had levied this tax; Octroi revenue is the backbone of municipal finance. There has never been unique faring of views over the levy of Octroi. It is treated as an inhibiting factor in smooth growth of local economy in general, and industrialization, development of road transport in particular in addition to this ill effects, it is observed as a major source of delay and harassment.

Now a day, there is wide controversy regarding the contribution of Octroi as tax. The issue of abolishing Octroi has vital Public importance. In this context various factors of Octroi are examined below.

### **5.2. Arguments Against Octroi:**

Arguments against octroi can be grouped them under economics, administrative and trader's objectives:-

#### **1) Economics Analysis:-**

The economics analysis that octroi is regressive and its incidence is heavily on the poor is not substantiated by field studies or in comparison with commodity taxation of the union and state governments. The octroi rates, with a limit set by law are very low and cannot influence the prices. The local price of goods with the removal of octroi as in Karnataka in 1979, are not any less than when octroi was enforce the per capital incidence of octroi tax all octroi state, together is estimated to be Rs.0.01 per day in 1980. This has varied very little over the year.

The composition of octroi receipts is not similar in all municipal bodies. The essential goods like food, drinks and cotton fabrics are major octroi earners only in few municipalities. But in a large number, it is the industrial goods and metallic water. There has been no evidence of spillover effects of octroi or discouraging industrial location which always receive some consideration in the initial years of their establishment octroi does not add to the pyramiding effect of sales tax and excise duties as contended by some economists. Yet another point to be noted is that tax characteristics like progression or regression cannot be applied sectional or to a particular tax as such but to a tax system as a whole.

## **2) Administrative Analysis:-**

The real criticism of octroi is administrative. It is archaic, irksome irresponsible and indolent. These organizational deficiencies can be rectified by structural and personal adjustment. The grouse of the traders is more to this aspect of octroi.

## **3) Traders:-**

The trading community is always averse to octroi as to any other tax, the loss of time in transit, delay in refund etc. are partly due to none honest trading practices.

Octroi is the backbone of municipal finances. Admitting some of the disadvantages of the octroi levy, some of which are remediable, it is difficult to replace it with a better alternative within the framework of an autonomous and viable local financial system. The Madhya Pradesh local self-government committee said, 'It will be difficult it not impossible to replace octroi even the distant future. The only course, there fore for the present is to see that the drawbacks of octroi are eliminated so as to ensure fair collection without the importers being harkeshed.

Municipal sales tax on retails create the same difficulties as octroi both to administration and the traders now the traders has to keep two accounts:-

- i) Municipal sales**
- ii) Outside municipal sales**

Turnover tax will in addition to above result in cascading, as it would be a multipoint levy surcharge on sales tax would boost the revenues of

city municipal bodies at the cost of smaller ones. Further, sales tax base cannot be as wide as octroi because it cannot include the declared goods and those that are subject to central sales tax levy. The principles of distribution of surcharge on sales among local bodies will create problems of accounting and administration and leave room for complaints.<sup>1</sup>

### **5.3 VIEW OF VARIOUS ENQUIRY COMMITTEES AND OCTROI DUTY:**

#### **1) Kasbekar Committee (1967):-**

This in a way sums up the views of the earlier committees.

Octroi needs to be abolished because of its following defects:-

- 1) Octroi details vehicles at check posts.
- 2) It causes waste of fuel and time
- 3) It gives great scope to check posts personal to harass the transporters and traders that in turn leads to generation in corruption.

However, it is also essential to pinpoint the positive features of Octroi, which so far have ensured the continued of Octroi as the leading source of revenue for the local governments.

#### **These positive features of Octroi are:-**

- a) Octroi being a day-to-day source of revenue ensures perfect liquidity of resources to the local government
- b) Octroi is not beset with problem areas.
- c) Octroi is the most productive revenue source of local governments.
- d) It has shown high buoyancy.

When we realize that apart from being a regressive tax, Octroi has other defects mentioned, earlier, which together more than off-set its merits, it no more remains a controversy regarding whether it should be abolished or not, but just becomes a question of selecting the defects of Octroi but retains its positive features. In what follow, an attempt is made

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<sup>1</sup> Prof.Mahamuni .V.V (1987)-' A Study of Municipal Transport with Reference to Octroi in Kolhapur City'

to evaluate comparatively some of the alternatives so far suggested by various committees.<sup>2</sup>

Since abolition of Octroi is not likely to lead to downward revision of prices, traders and industrialists may get unintended benefits. This can be averted by imposition of additional sales tax. Kasbekar Committee (1967) had recommended, inter alia, substitution of Octroi by an additional sales tax. Also, according to rural-urban relationship committees (1966), Octroi should be replaced by a levy of surcharge on sales tax in quantum not exceeding 25% of sales tax. Such a measure would save on the cost of collection of tax revenue. This type of alternative taxation would, however, deprive the local bodies of their autonomy. Of course, comparing it with turnover tax, one finds that the former has distinctly an edge over the latter in the sense that turnover tax in effect amounts to repetitive taxation i.e., it may cause cascading. This is not the case with additional sales tax.

## **2) Taxation Enquiry Commission (1953):-**

The committee recommended that a strenuous endeavor should be made to get rid of indirect taxation in the shape of Octroi and terminal taxes to replace it, if not by taxation of property and persons, at least by something in the nature of tax on sales. The tax in its present form is one that is condemned by economists everywhere and there where and there are visible tendencies to develop into regular tax on transit.

## **3) State Transport Reorganization Committees (1959):- (M.R Mansani Committees)**

Octroi wheel taxes and other imports charged by Municipalities should be discontinued, Octroi being merged in the general sales tax or some other levy unconnected with motor transport.

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<sup>2</sup> Dr.Patil J.F (1988)-'Exit Octroi-Enter What?' Department of Economics, National Seminar Shivaji University, Kolhapur, Page No.1&2

#### **4) The Committee of Local Self-Government Ministers of Augmentation of Financial resources of Urban Local Bodies (1965):-**

The undesirable features of Octroi are firstly, that is incidence is regressive and falls mainly on necessities of life like articles of food etc. Secondly, the administration of the tax is very cumbersome and vexatious, as cumbersome barriers have to be erected for collecting the tax at the points of entry and a very complicated procedure of refunds has also to be followed. Thirdly, the Octroi system gives wide discretionary powers to low paid staff which leads to corrupt practices, and Fourthly, it is expensive to collect and hence wasteful. Octroi is certainly an undesirable tax from the point of view, Octroi in its present form should be gradually replaced by a turnover tax or by a surcharge on sales tax or by some other method which may cover the sphere of taxation which is being exploited for the purpose of levying Octroi but would be free from the evils of Octroi system.

#### **5) The Rural - Urban Relationship Committee (1966) –(A.P. Janis Committee)**

Octroi constitutes a major hindrance to the free flow of Traffic and trade and hence it retards the growths of commercial and industrial activities. It is in the national interest the Octroi and terminal taxes should go.

#### **6) The Report Of Road Transport Enquiry Committee (1967) -:(Keskar committee)**

For motor transport of today speed is essential, Octroi and similar check posts, which detain vehicles frequently, are impediments to the growth of the economy and the time they consume is a serious bottleneck in the way of quick turnaround. It adds unnecessarily to the cost of production and distribution, development requires smooth uninterrupted flow of transport. Octroi is a fertile source for corrupt practices. The cost of collection is also pretty high when compared to other taxes. The smaller the municipality the higher is the cost of

collection Octroi forms a very important part of the revenue of local bodies.

**7) The Report of the study group on Octroi (1971):-  
(Wankhede committee) –**

Octroi is an inhibiting factor to the growth of local economy, in general and industrialization and road transport in particular, besides being a major source of delay and needless harassment. Its deleterious effects on rural economy are far too obvious to be emphasized. Levy of Octroi on movement of agricultural produce by more than one local body takes a large slice of income of the cultivators, leaving and poorer. The effects of Octroi on industry are equally harmful. It is not uncommon to see large number of vehicles stand at Octroi nakas waiting patiently for verification of their goods or refund of the amount of the tax paid. Such a hold up, apart from being veracious and leading to general delay in movement of commercial goods and commodities in a developing economy and lowers industrial as well as other efficiency. The ultimate gain, therefore, far out weighs the dubious advantages of local bodied derived at present from the existence of Octroi. Viewed in this perspective, the entire abolition of Octroi has long been overdue.

In fact such a tax, which is a survival from a more predictive economy, has no place in an expanding economy such as ours, whose hallmarks are speed and efficiency.

**8) U.P. Taxation Enquiry Committee (1974)- (Lakdawala Committee)**

Favored the total abolition of Octroi in stages, but suggested as an immediate step, a partial abolition in the local bodies deriving less revenues from that source.

**9) The Indirect Taxation Enquiry Committee (1978) (Jha committee, part II):-**

While we have discussed various alternatives to Octroi, our main emphasis is on getting it abolishing rather than on any particular to replace it. Though the suggestions made above are not free from defects, the weaknesses and adverse effect of the Octroi system outweigh them.

We would urge that so long as state government agrees to the abolition of Octroi, they might be given reasonable latitude in the matter of devising alternatives. The Octroi revenue in certain areas may be so large that state government may hesitate to do away with them; however, strong the case may be for such action. The operation can be carried out in the municipal areas through which trunk road transport services operate in transit, while for the present, they could be allowed to function only in places like Bombay and Calcutta, which are largely terminal points. However, this can be put a temporary expedient.

**10) Sattanathan Committee on Madras Corporations:-  
(June 1978):-**

Committee recommended the introduction of Octroi duty. The committee was will aware of the current thinking among the public finance experts and also the governments against the duty. The scheme envisages elimination of the handing of cash at check posts and the collection of duty at the warehouse point possibly through banks. Goods should be weighed and certificates issued to the parties at check posts. This will go a long way in cutting down delay. The committee has recommended the imposition of the levy on a selective basis, in a phased manner. Estimates of revenue from the duty are placed at Rs.10 corers per annum after five years, once the Octroi is enforced, it will be possible to reduce dependence on property tax and keep this tax at comparatively low rates.

**11) Finances Minister's Budget Speech (1978-79):-**

The Octroi duty stands on a different footing. The revenue from Octroi duty is the order of Rs.250 corers. There has been a long-standing demand for the removal of this obnoxious levy that causes great inconvenience to trade and transport industry. All committee that have gone into the subject have, unanimously proposed the abolition. Studies have revealed that cost of collection of Octroi duty is unduly high. There can be no two opinions that the removal of Octroi duty will be widely welcomed since it s abolition will assist the orderly and healthy growth of the transport system and will considerably reduce freight costs. I therefore,



propose to request the state governments to introduce suitable legislation for removal of Octroi. The Octroi revenues are at present going to the local authorities. Quite understandably they will seek from the state governments a reimbursement for the loss of revenue and in turn the state governments for finding a satisfactory solution.

## **12) Study Group Of Finances of Local Bodies (1982):-**

- 1) Abolition of Octroi should not be considered in isolation from the total financial structure of local bodies.
- 2) Where Octroi has not been abolished, it should be abolished only after effective arrangement of alternative sources. It has been introduced until then procedure for collection should be streamlined to minimize leakage of revenues.

## **13) The Report of the Committee on Octroi (1985):-**

The report of the committee on Octroi constituted by the then ministry of urban development government of India, had made the following recommendation:-

a) Octroi might be retained in municipal corporations covering a population of three lakhs or more; the tax could be abolished in the smaller local bodies.

b) Octroi should be replaced with taxes the incidence of which would be on the transport sector. The alternatives in the case of smaller municipalities include surcharge on sales tax, entry tax, terminal tax, road tax, tax on motor vehicles etc. If the revenue realized on account of these taxes was inadequate, augmentation measure through property tax, entertainment tax, professional tax etc, might be considered, if the revenue still remains inadequate even after the imposition of these taxes, only then special grants in aid should be provided. Grants in aid should not be considered in isolation without augmentation of the tax base of the local bodies as this would take away their initiative and autonomy.

c) The procedure for payment of grants to the municipalities should be revised in so far as it related to the loss of Octroi revenue. They should be paid as a direct advance to the municipalities by the planning

commission at the time of plan allocation and should be adjusted the revenues due to the state governments.

d) The alternative sources of revenue to the local bodied in lieu of Octroi should not only yield revenue equivalent to the amount lost as a result of its abolition, but should be elastic enough to ensure future, revenue for the local bodies. Due regard should be paid to the potential of Octroi revenue while deciding the quantum of compensation.

#### **14) Eleventh Finance Commission:-**

The Eleventh Finance Commission also noted the following:-

Octroi has been the major source of revenue for the municipalities, and in some stated, even for the Panchayat's. Many state have, however, abolished Octroi with a view to remove impediments to the physical movement of goods, though several other new barriers have been created. Some stated have introduced a levy in lieu of Octroi, usually the entry tax, the net proceeds of which are transferred to the local bodies in the form of grant. During our interaction with representations of the local bodies, we were total that through the grant in lieu of Octroi, given to the local bodies was realised by certain percentage from year to year; it does not have as much buoyancy as the Octroi had. There have also been numerous complaints of delay in release of the compensatory grants. While we do not advocate reintroduction of Octroi. We do that is buoyant and can be collected by the local bodies. Taxes, such as entertainment tax, which has shown a very good growth, are potential source of increasing the revenue for the local bodies, given that they are linked to the consumption characteristic of good and hence also buoyant.<sup>3</sup>

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<sup>3</sup> Prof.Mahamuni V.V (1987)-' A Study of Municipal Transport With Reference To Octroi in Kolhapur City'

## **5.4 CRITICISM LEVELED AGAINST OCTROI AND ANSWERS GIVEN BY ALL INDIA COUNCIL OF MAYORS:**

Following are the criticism leveled against Octroi by different committees and associations and answers of it given by all India council of Mayors.

### **1) Criticism 1-:**

The administration of the tax is very cumbersome as numerous barriers have to be erected for collecting the tax at the point of entry and a very complicated procedure for refund has to be followed?

#### **Answers-:**

One barrier has to be erected at each entry point an import has to cross only one barrier tax is collected there and then, thereafter the matter ends, forever, it is much simpler procedure than that followed in case of many other taxes in which numerous prescribed forms and so many other for militias have to be completed. As for refunds, there are allowed for the benefit of the importers. Still the difficulties can be obviated or reduced in number of ways. e.g.

- 1) Introducing the system of Octroi without refunds.
- 2) Construction of storage goes down outside the limits of the city.
- 3) Exempting from tax particular articles brought within the limits of the city limits of the city frequently mainly if subsequent export.

### **2) Criticism 2-:**

It is expensive to collect and hence wasteful?

#### **Answers-:**

The collection charges are 5% to 8% generally. This is not high to forgo the rest of 92% also.

### **3) Criticism 3-:**

Octroi system gives wide discretion any powers to low paid staff that trades to corrupt practices?

#### **Answers-:**

No discretionary powers are given to lower staff besides arrangements are in variably made for lodging of complaint with high

authorities against misconduct on the part lower staff. In this respect the position is hardly different from that in case of any other tax. This can hardly be pleaded as a ground for abolition of the tax.

#### **4) Criticism-:**

Octroi is one of the greatest hindrances in the way of commerce and economics development of the country. Advanced countries realised it long ago and abolished Octroi, while we would leave to the state government. To choose the alternative that Octroi be abolished as quickly as possible?

#### **Answers-:**

Contrary to the 'Feeling' expressed by the committee it can be argued that Octroi helps in commerce and economics development of the country that by providing necessary funds to the civic bodies for maintenance of all the civic services and all the infrastructure that is so essential for the growth of commercial and economics activities and the centers of production and distribution of so many goods.

#### **5) Criticism-:**

There is delay and uncertainly of refunds. There is also scope for pulsation and false claims?

#### **Answers-:**

Delays can be eliminated by administrative measures. There is on uncertainly as the rules are clean scope for manipulation and false claims are there in almost all taxes.

### **5.5 CONCLUSIONS:**

The system exist today is suffering from several drawbacks and creates difficulties for transporters and trades as well as collection of octroi. The procedure is cumbersome and irksome to the payers and causes harassment inconvenience and delay. However the revenue significance of octroi cannot be neglected. Hence it is recommended that any other suitable replacement has to be as revenue as octroi or the urban local bodies will be in fiscal stress.

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