CHAPTER III

THEORY OF TURNOVER TAX

3.1 INTRODUCTION -

In this chapter we shall diseuss the theorotical issues relating to the Turnover Tax. The chapter deals with the concepts such as impact, incidence, shifting and effects of the tax.

3.2 IMPACT OF THE TURNOVER TAX -

As discussed in the previous chapter, the impact of this tax will be falling on all those traders who are liable to pay the tax as per the provisions of section - 9 of the Bombay Sales Tax Act, 1959.

Theoretically, impact of tax is felt at the point where the tax first comes in contact with the tax payers. Impact is always said to be on the first person or body which is statutorily liable to pay the tax into the government treasury.

In case of the Turnover Tax, therefore the dealers who are dealing with the commodities specified in schedule 'C' of the Bombay Sales Tax Act 1959 and whose annual turnover crosses the limit of Rs. 12 lakhs shall have to bear the impact of the tax.

3.3 SHIFTING AND INCIDENCE OF THE TURNOVER TAX -

Shifting of a tax is the act of passing the money burden of a tax to some other person or body. In case of certain indirect taxes, the shifting becomes possible.

As per the legal provisions of the Turnover tax, the money burdem of the Turnover tax can not derectly be shifted to any other person. or consumer. However, there are practical possibilities of shifting this tax which should be considered properly.

The turnover Tax is an 'ad valorem' therefore, larger would be the tax liability of the payer, In such a case, if a dealer tries to pass on the burden of the tax by increasing the price of the commodity, this in turn will increase his total turnover and hence the further tax liability. But this appears to be an acceptable proposition for the dealers, because, by shifting the burden of the tax through price-rise, he can totally escape through its payment.

While presenting the data to the tax authorities, the dealers are required to submit the information regarding their total turnover in an accounting year. By taking the total turnover as base, and after deducting the legitimate deductions the tax assessment is done by the authorities. The dealers have been informed not to mention the amount of turnover tax separatily and thus it is legely not permitted to shift the burden of the tax upon the ultimate consumers of the goods. However, without mentionning this explicity, the dealers can bring about a rise in the price of the concerned commodities and they shift the burden of the tax.

To conclude, therefore it may be said that, like any other indirect tax, it is very much possible for the dealer to shift the entire burden of the tax.

The shifting of any tax then results in making an incidence of the tax being felt by somebody else. Incidence of a tax is said to be on the ultimate taxpayer of any tax.

In case of turnover tax, as mentioned earlier, since the shifting of the tax is possible, the incidence of this tax may fall upon the ultimate consumer of the commodity without this knowledge.

Thus shifting and incidence of the turnover tax can be explained.

3.4 EFFECTS OF TURNOVER TAX -

Theoretically, effects of any tax are always explained and experienced in the spheres of production consumption and distribution of income in the society. We shall examine the effects of the turnover tax on these spheres one by one.

The turnover tax being an indirect tax just like the sale tax, the production those commodities which bear the turnover tax is likely to be affected adversely. This is an acount of the fact that a dealer will always bear at least a temparory burdon of the tax and hence the demand for such commodities may not be adequetely coming up. However, in view of the fact that at present the rate of the turnover tax is very neager at 1.25% the effect of this tax at least on production will not be very significant.

Since the burden of the tax is likely to be shifted upon the ultimate consumer of the commodities the consumption will be seriously affected by the tax. The dealers of the commodities are not permitted to show the amount of turnover tax separately on the price of the commodity. But the dealers, as already pointed out will raise the price by the amount of the tax. This increase in price may have an adverse effect on the demand for those commodities. It is felt however, that the extent to which the consumption demand for the tax bearing commodities would be affected, would certainly depend upon the elasticity of demand for the commodity concerned. Greater the elasticity of demand greater would be the impact on the consumption demand for the concerned commodity. As is the normal law in economics, in case of essential commodities and semy luxurrious commodities, the elasticity is very low. Any change in the price of such commodities does not bring about the change in demand which can be considered as a significant change. The commodities mentioned in schedule 'C' which bear the tax are mostly essential commodities and therefore the consumption demand of most of them is not likely to be affected by the imposition of a tax.

It is learnt from reliable source that the Government of Maharashtra is considering an upward revision of the present rate of turnover tax. As and when it materialise and if the rate goes up to 5% the consumption demand may be affected adversely.

The complaint by the traders regarding the burden of the tax if accepted to be a valid complaint, the effects of turnover tax may also be felt on the investment by the traders in their own business. This is became of the fact that the amount of turn-over tad, in their opinion, is paid from out of their margins of profits. When the profits are reduced because of such tax it is likely that the dealers may not be able to plough back a certain poportion of their profits into their business. This proportion of their profits into their business. This may have a multi-plying effect on the economic activities may have on the whole. Let us logically examine this possibility in order to bring out the possible effects of the tax. When the investment is affected because of a cut off from the profits, the capacity to produce the goods may not grow at the requisite rate. This may lead to a fall in the output or atleast a slower rate of growth of out-put of the concerned commodities, When the rate of growth of output falls dawn, the employment generating ability of certain activities will also be adversely affected. The income levels of the people who would get an employment in those activities may not improve. Thus this will be the ultimate multiplied effect of the imposition of a tax. One must consider lowerer, an important fact that so long on, the rate of tax is negligible it will not have any serious effects even on the profits, investment from the profits, output and employement.

It is pointed out by some of the representatives of the trading community that , the traders and particularly the commission agents making a business on a relatively smaller margine of 2 to 5% will be the main sufferors of the burden of the tax. This may result into the tax evasion by such traders. The small businessmen very often sale the commodities on credit but they will have to pay the tax immediately. Thus, a prt of the capital may be blocked into the payment of the tax.

The traders and businessmen who, are on the inter-state boundries may be inclined to shift their business to the neighoubring states because of differences in the taxes. For example, the turnover tax is applicable in Maharashtra but is not in existence in the state of Gujrat and M. P. The traders in Maharashtra on the boundries of those states, may therefore think of shifting their business to the neighoubring state of Gujrat and Madhya Pradesh. This will accentuate the problem of unemployment which is already mounting to intolerable height.

To conclude therefore it may be stated that though on smaller proportion the turnover tax is bound to be adversely affecting production, consumption, investment, employment etc. in respect of all the tax bearing commodities.
