

**Issue of Consignment Tax is very material for the states, esp. Haryana. As Deputy Chairman Planning Board and even after his resignation in July, 89, how keen interest Shri Jain has been taking in the matter, is shown by the following letter written by him to all M.P.'s, to President National Front & to Shri Hegde then Deputy Chairman Planning Commissioner —Editor**

Deputy Chairman  
State Planning Board,  
Chandigarh

July 17, 1987

Dear friend, (To all M.P.'s)

In the year 1979, when I was Finance Minister in the Janta Government headed by Ch. Devi Lal, the State Government promulgated the Haryana Taxation (on certain goods carried by roads) Ordinance No. 2 of 1979. This Ordinance enabled the State Government to levy tax on the transfer of goods from Haryana. The background of the Ordinance was that a number of industrialists running their factories in Faridabad, Bahadurgarh and other towns of Haryana kept their head offices at Delhi and showed the goods produced in their factories as transferred to Delhi (to their head office). After that the sales of those goods were shown in their record from Delhi with the result that the State Government neither got the sales tax nor share of their income tax as income tax was also levied by officers functioning in the Union Territory. This was a very peculiar position resulting loss of huge amount of tax to Haryana and the above ordinance was to remedy this situation.

2. Ch. Devi Lal resigned in June, 1979 and the above Ordinance was allowed to lapse by the Bhajan Lal Government ostensibly on the ground that transfer of goods was not covered by the definition of "Sale" and "Purchase" and unless the Constitution was amended, such transfer of goods could not be taxed.

3. The same problem arose in other States also. Consequently the Central Government was approached for amending the Constitution. Ultimately, the Constitution was amended by the 46th Amendment in February, 1983. However, the power of levying tax on such transfers was given to the Union Government as this power was included in the Union List (by amending the 7th Schedule and by adding clause 92 (52) in the Union list). Thus tax on consignment goods could be levied only by the Central Govt. and it could be done either by amending the Central Sales Tax Act, 1956 or by passing another law on the subject. However, for the last 4 years the Union Government is not doing the needful despite repeated requests from various State Governments including Haryana. As stated earlier necessity for levying the tax on inter-state consignment arose in view of the fact that large scale evasion of tax was taking place in the garb of branch transfers consignment sales. The commodity flow surveys undertaken in Gujarat indicated that consignment transfers of ground-nut oil is upto 16 times of the Central Sales Tax yield of this item. In Kerala such studies have revealed that the turnover that escaped through consignment is 4 times of the Central Sales Tax yield from rubber and 30 times from tea. Even in a small State like Haryana the sales tax evasion on account of no consignment tax is of the order of about 50 crore rupees annually. The levy of consignment tax would help in checking this evasion.

4. The Conference of the Chief Ministers held on 28th May, 1984 at New Delhi approved by consensus the following course of action regarding levy of tax on the consignment of goods taking place in the course of inter-state trade and commerce :

- (1) Endorse the recommendations made by the the Group of Chief Ministers at the meeting held on 24th March, 1984 at New Delhi in respect of—
  - (a) Rate of tax;
  - (b) Machinery for collection of the proceeds of consignment tax; and
  - (c) Valuation.

- (2) As regards assignment of proceeds of consignment tax, 50% is to be retained by the collecting States and the remaining 50% to be placed in a divisible pool, the proceeds of which will be distributed amongst the States as per formula for distribution of basic Exercise duties or such formula as may be devised in future for this purpose by a Finance Commission. Since the Union Territories have their budgets funded wholly by the centre, this arrangement will not apply to the Union Territories.

5. This issue also came up for discussion in the joint meeting of four Regional Councils for Sales tax and State Excise Duties held on 30-9-1985 and 1-10-85. Representatives of almost all the States requested the Central Government to expedite legislation on this account. Since then, this issue is being discussed every year in the respective Regional Councils and States are pressing the Central Government to introduce the legislation on the above lines but as yet no such enactment has been introduced by the Central Government.

6. I have been further told that the Planning Commission as well as the National Development Council have also recommended to the Central Government to enact such a legislation. The question is why the Central Government is not doing its duty. I feel that vested interests have approached the Prime Minister and the requisite legislation has been blocked in his office, as my further information is that even the department concerned has sent the file several times to the office of the Prime Minister.

7. The above narration of facts is another glaring example of political dishonesty of the Congress Government. On the one hand, by amending the Constitution in the year 1983 (46th amendment) the Congress Government assured the Nation that the Congress Government was keen to check the evasion of tax as mentioned above; but, on the other hand, after the amendment of the Constitution no follow up action was taken! The Congress has thus favoured the big industrialists in the country to the tune of several hundred crores of rupees annually. Haryana alone is suffering more than 50 crores per annum due to non-enactment of the requisite law.

It seems Members of Parliament of the Opposition side had not been briefed in this matter, otherwise Union Congress Government could have been taken to task for delaying the passing of the requisite legislation. This important matter could be raised through questions, discussion, on the budget and in so many other ways in both Houses of the Parliament. However, to my knowledge no such thing has happened. This note is being sent to you with a view to expose the Union Government in and outside Parliament on this important issue. In my opinion, though hidden, this too is a great scandal I shall be grateful if the matter is raised in and outside the Parliament in any manner you think best.

With regards,

Yours sincerely,  
Sd/-

To All Members of Parliament

(Mool Chand Jain)