History of Sales Tax in Karnataka

The imposition of transaction tax can be found through much of the ancient and medieval civilizations. Tomb paintings depict tax collectors in Egypt as early as 2000 BC, and sales taxes on individual commodities, such as cooking oil, can be traced to that time. Egypt, Athens, and Rome were all known to have general sales taxes. Indeed, the Romans were responsible for taking sales taxes to the rest of Europe, including to both Spain and France. Later, Spain had a national sales tax in place from 1342 until the 18th century, with rates that ultimately reached 10 to 15 percent. Specific commodity taxes were so broadly imposed during the U.S. civil war, that when combined, they nearly formed a general sales tax.

Similarly taxation of commodities has also a long history in India and Karnataka too. Kautilya, a great Indian statesman in the Mourya kingdom, more than two thousand years ago anticipated classical economic thought in international trade, taxation and labour value. Kuatilya wrote "Arthashastra" an epic treatise on the art of good governance and views on increasing the monarch's wealth and realm. Kuatilya enunciates a set of principles of taxation remarkably similar to modern day criteria first formulated by Adam Smith as "Canons of taxation" in his Wealth of Nations. Kautilya's discussion of taxation gave expression to three principles: taxing power should be limited; taxation should not be felt as heavy or excessive; tax increases should be graduated. Kuatilya recognises that the ideal tax system should embody the following: easy to calculate, inexpensive to administer, fair (equitable in its burden), non-distortive of economic behavior in its impact (neutral), and in general not inhibit economic growth and development. Unfortunately, for the development of economic thought, Kautilya's writings were not discovered until twentieth century.

Historically, the Kadamba Rulers of Banavasi (now in Uttara Kannada District), who ruled in 3rd century A.D, were stated to be the first to levy and collect sales tax in southern States. Land tax was not more than one-sixth of the total produce and was the main source of revenue to the State. Inscriptions speak of taxes like Perjunka (levy on loads), Bilkode (sales tax), Kirukula (levy on retail goods on transit), taxes on betel leaves and professional taxes on the barbers, oilmen, blacksmiths, carpenters and so on.

In modern India, The Madras General Sales Tax Act, 1939 (Madras Act IX of 1939) is said to be the first sales tax law. Entry 48 of List II of the VII schedule to the Government of India Act, provided for levy and collection of tax on the transactions of sale or purchase of goods. As per the above field of legislation available to the provincial legislatures, the provincial legislature of Madras had enacted the "The Madras General Sales Tax Act, 1939.

Before reorganization of our State, there were different sales tax laws which were in force in old Mysore, Mangalore, Coorg, Bombay Karnataka and

Hyderabad Karnataka areas of the State.

Consequent upon coming into force of the Constitution of India with effect from 26-01-1950, Article 246(2) of the said constitution empowered the legislature of any State in any of the matters enumerated in List II in the Seventh Schedule referred to as the State List. The field of legislation available to the States, to enact laws providing for levy and collection of tax on the transactions of sale or purchase of goods, is Entry 54 of List II of the VII Schedule to the Constitution of India, which reads as follows:

> "Taxes on the sale or purchase of goods other than news papers, subject to provisions of Entry 92-A of List I"

As stated earlier, five different sets of laws on Sales Tax were in operation in the areas forming the new Mysore State. This had led to administrative inconveniences as well as inconvenience to the dealers. Therefore, there was obvious need for unification of the Sales Tax laws in the new State. Accordingly, the Mysore Sales Tax Act, 1957 was enacted by the Mysore State Legislature in the Eighth Year of the Republic of India and first published in the Mysore Gazette on the Thirtieth day of September; 1957.The name of the State "Karnataka" is adapted for "Mysore" by Adaption of Law Order 1973. The Commercial Taxes Department is administering the renamed Karnataka Sales Tax Act, 1957 right from commencement of the said enactment. Multipoint tax system was prevalent in the State until early eighties. Subsequently, more and more number of commodities were identified for levy of tax at a single point mostly at the first or earliest of the successive sales or purchases in the State. After Forty-sixth amendment to the constitution, tax on transfer of property in goods involved in works contract, transfer of right to use, on hire purchase, any system of payments by installments, etc. was introduced from 1-4-1986. Turnover tax, additional tax and re-sale tax etc. were also being levied and collected in addition to basic tax. The Government of Karnataka had formulated several packages and incentives in the form of tax exemption and deferral to attract and encourage new investments in industrial, tourism, Infrastructure and other sectors in the State.

After the decision in the meeting the Chief Ministers and Finance Ministers of States and Union Territories held on 16-11-1999, sales tax related incentives and concessions were discontinued with effect from 1-1-2000. However the incentives in the form of exemption or deferral were continued for the units that had already been offered and committed by the Government until the expiry of the period or quantum of eligibility. Similarly all the States and union Territories arrived at a consensus to fix the minimum rate of tax for most of the commodities which was called as 'floor rate' to end 'rate wars' among the States which was evading tax base of the states. It was, indeed, a beginning of an era of rationalization of commodity taxation. The concerted efforts of the State paved way for introduction of the Value Added Tax System with effect from 1-4-2005 in the place of the conventional Sales Tax System. After introduction of the Karnataka Value Added Tax Act, 2005, the commodities that continued to be taxed under the provisions of the Karnataka Sales Tax Act are: Petrol, Diesel, ATF (Air Turbine Fuel) and Sugarcane. All other commodities were exempted from payment of tax under the provisions of the Karnataka Sales Tax Act and brought under the Karnataka Value Added Tax Act.2003.

The Indian Parliament exercising its powers under Article 146(1) of the Constitution enacted the Central Sales Tax Act, 1956 and brought it into force from 22-12-1956. It was very essential to formulate principles for determining when a sale or purchase of goods takes place in the course of inter-State trade or commerce or outside a State or in the course of import into or export from India to avoid multiple levies by different states and interstate sales of goods. Further, the Central Sales Tax Act provided for the levy, collection and distribution of taxes on sale of goods in the course of inter-State trade or commerce and declaration of certain goods to be of special importance in inter-State trade or commerce. The Central Sales Tax Act also specified the restrictions and conditions subject to which the State Laws could impose taxes on the sale or purchase of such goods of special importance. Although the Central Sales Tax Act, 1956 is a Central Act, the same is being administered by the Department of Commercial Taxes. The general rate on interstate sales of goods was initially @1% but later increased to 4% which was continued till March.2007. This general rate has been reduced to 3% from April 2007 and 2% from June 2008. With effect from 1-4-2007 the rates of tax applicable to the goods not covered by the C Form are the rates applicable to such goods under the VAT Laws of the appropriate State as compared to earlier higher rate of 10%. Further the scheme of concessional rate of tax against Form D on interstate sale of goods to Government departments has been abolished with effect from 1-4-2007.

The Entertainments Tax Act was enacted in the State Legislature in the and first published in Karnataka Gazette, Extraordinary, dated 5-5-1958 and such tax was since levied only on cinematograph shows. Gradually different kinds of entertainments were brought under the purview of the Entertainments Tax Act. Now, the entertainments liable to tax are: entertainment provided through Cinematograph shows, Horse Races, Cable TV, pageants performance Amusements, Pageants, Performance, Recreation parlours , etc.

The Agricultural Income Tax Act, 1957 was enacted in order to levy and collect tax on the income derived from agricultural crops. This Act has been repealed.

The Mysore Betting Tax Act,1932, provided for levy of tax on the bets placed on horse race.

The Karnataka Tax on Professions, Trades, Callings and Employments Act, 1976 was enacted in the year 1976 and is being administered by the Department of Commercial Taxes since then. Salaried employees and specified self-employed persons are liable to tax under the provisions of this Act with the highest tax payable per annum being Rs.2500/-.

Octroi was abolished in the State, as it was causing great hardship to transport operators and trading community. The abolition of octroi resulted in loss of revenue to the local authorities. The State Government, in order to make this loss of revenue considered it necessary to levy a tax on the entry of goods into local areas. The Karnataka Tax on Entry of Goods Act, 1979 was enacted and first published in the Karnataka Gazette, Extraordinary on 01-06-1979.

The Karnataka Tax on Luxuries Act, 1979 authorised the State to levy and collect tax on luxuries provided in the hotel, marriage halls, conference halls, clubs, hospitals, etc.

As mentioned earlier, the State of Karnataka shifted to Value Added Tax system with effect from 1-4-2005 till 30-6-2017on most of the goods in place of sales tax system. One of the many reasons underlying the shift to VAT in the country was to have a uniform system of commodity taxation all over the states. In the earlier sales tax structure tax is not levied on all the stages of value addition or distributors. VAT system widened the tax base by levying tax on sale of goods at every point of sale and makes the levy of tax transparent and removes cascading. In the VAT system the tax paid on inputs purchased within the State was provided to be rebated against goods sold within the State, in the course of inter-State trade and in the course of export out of territory of India.

Introduction of GST is a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it mitigates the ill effects of cascading and pave the way for a common national market. For the consumers, the biggest gain would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST also makes our products competitive in the domestic and international markets. Studies show that this would instantly spur economic growth. There may also be revenue gain for the Centre and the States due to widening of the tax base, increase in trade volumes and improved tax compliance. Last but not the least, this tax, because of its transparent character, would be easier to administer.

The GST replaces the following taxes levied and collected by the Centre: a. Central Excise duty b. Duties of Excise (Medicinal and Toilet Preparations) c. Additional Duties of Excise (Goods of Special Importance) d. Additional

Duties of Excise (Textiles and Textile Products) e. Additional Duties of Customs (commonly known as CVD) f. Special Additional Duty of Customs (SAD) g. Service Tax h. Central Surcharges and Cesses so far as they relate to supply of goods and services

State taxes that are subsumed under the GST are: a. State VAT b. Central Sales Tax c. Luxury Tax d. Entry Tax (all forms) 3 e. Entertainment and Amusement Tax (except when levied by the local bodies) f. Taxes on advertisements g. Purchase Tax h. Taxes on lotteries, betting and gambling i. State Surcharges and Cesses so far as they relate to supply of goods and services.

The Karnataka legislature passed the KGST Bill on 19th June 2017 and it received the assent of the Governor on 27th June 2017.

The Department of Commercial Taxes, Karnataka, is of the firm belief that the Information Technology should be utilised to usher in an era of electronic governance aimed at demystifying the role of Government simplifying procedures, bringing in transparency, making need based, good quality and timely information available to all dealers and providing all services in an efficient and cost-effective way. National Informatics Centre (NIC), Bangalore is developing and supporting the application software, required for the Commercial Taxes Department.