Sales Taxes in Countries of the Far East

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THE GREAT VARIETY of sales taxes employed by Far Eastern countries provides an unusual opportunity for comparative analysis. The 12 countries examined here [1] employ the major forms of sales taxes, and the experience of the Indian States illustrates the successful application of different sales taxes within a federal system of government.

Taxes on production and sales may be grouped into four major classes: special excises, import duties, export duties, and sales taxes. The major concern of this paper is with sales taxes—both general and selective—as distinguished from the other three classes. A distinction is drawn between a sales tax and an excise duty, although the difference is not always clear cut. An excise duty is frequently based on production rather than sales, the rate of duty is usually specific (i.e., not based on value), and it is levied at the final point in the production process. Although the conventional excise taxes on beer, liquor, tobacco, gasoline, etc., are excluded, selective systems of commodity taxes covering these products are included as a form of sales tax.

A sales tax can be levied at single or multiple stages in the chain of production and distribution of a commodity: single-stage taxes are imposed on the sale of goods at the manufacturing, wholesale, or retail level, while multistage taxes are imposed on sales of goods and services at all or selected stages of the production and distribution process. Among the variants of multistage sales taxes examined below are two-stage taxes and modified forms of value-added taxes.

Section II describes the sales tax systems in effect in selected countries and the Indian States according to the nature of their sales tax base, rate structure, and exemptions. Section III considers the factors affecting the country's choice of a sales tax from the standpoints of revenue yield,

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[1] Ceylon, Republic of China, India, Indonesia, Japan, Korea, Malaysia, Nepal, Pakistan, Philippines, Thailand, and Viet-Nam.

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economic effects, distribution of the burden, and administrative feasibility.

I. Summary and Conclusions

Far Eastern countries have adopted a variety of approaches to the taxation of sales. They range from single-stage systems of selective commodity taxes (e.g., in China, Korea, and Japan) and single-stage systems of taxes on general sales, typically at the manufacturing level (e.g., in Indonesia, Pakistan, the Philippines, Viet-Nam, and certain Indian States), to multistage systems (e.g., in Ceylon and certain Indian States). Nepal and some Indian States also have single-stage taxes at the retail level. Many of these taxes have been introduced since the end of World War II, while others have evolved over a long period—those in the Philippines since 1904. Korea and China have both commodity taxes and multistage turnover taxes.

The Indian States have a diversity of sales tax systems, including single-point and multipoint taxes at different stages, and a combination of the two. In addition to excise taxes levied by the Union Government, the Central Sales Tax Act of 1956 provided for a levy on interstate sales administered by the States, which retain the revenues.

Only one country covered—Viet-Nam—has a uniform tax rate on all taxable sales; all others have a range of rates on different commodities and services.

Revenue importance

The relative importance of sales tax revenues varies widely among the countries covered. In 1966 it ranged from 2.1 per cent of Ceylon's total tax revenues and 3.8 per cent of Japan's to 33 per cent in the Indian States and about 23 per cent in Thailand. The extent of the tax effort ranged from 2.6 per cent of gross national product (GNP) in Thailand to 0.05 per cent in Ceylon, but was within a narrow limit of 1.5–1.8 per cent for four countries (China, the Indian States, Korea, and the Philippines).

The revenues of an adequate sales tax system should increase with the growth of the economy. The sensitivity of a tax to economic growth may be measured by its elasticity—the average percentage change in sales tax revenue that accompanies a 1 per cent change in GNP. Computations over a ten-year period for a number of countries indicate that only Korea's sales tax revenues have not increased at a faster rate than GNP; China's and Japan's sales taxes have been only slightly elastic,

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while those of Pakistan, the Philippines, India, and Thailand had a fairly high elasticity, ranging between 1.9 and 2.4. However, the experience of most of the countries has reflected legislative changes in the tax base and tax rates, as well as uneven enforcement, and these ratios should not be interpreted as measures of built-in elasticity.

The revenue importance of sales taxes and their sensitivity may be explained largely by the broadness of their coverage of imports as well as domestic sales and services. In some of the countries (e.g., Indonesia, Korea, Pakistan, the Philippines, and Nepal) imports comprise a substantial part of taxable sales, but in others (e.g., Viet-Nam, Japan, and India) imports are not taxed or are relatively unimportant. Similarly, the coverage may range from the more limited commodity type of tax (e.g., in China, Japan, and Korea) to one of very broad coverage of goods and services, including agricultural products and raw materials (as exemplified by the systems of Ceylon, Indonesia, and Thailand). The single-stage systems of Pakistan and some Indian States are also comprehensive in their scope.

The significance of sales tax revenues also is a function of tax rates. Despite the relatively narrow base of China's commodity tax and the Philippines' single-stage tax (although both cover imports), their high rates contribute very substantial revenues. On the other hand, the low rates of Ceylon's multistage tax, considering the monetary exemption and income limitation, have accounted for its small revenues.

The choice of a sales tax system

The choice of a sales tax system depends much on the stage of a country's development. Several of the countries first introduced low-rate multiple turnover taxes as most suitable from the standpoint of compliance and enforcement. But a multistage tax becomes increasingly complex as modifications in rates and tax base are introduced, and its administrative advantages tend to be increasingly outweighed by economic unneutralities. As a result, some countries have replaced their multistage systems with single-stage taxes.

A high rate multistage sales tax with broad coverage of goods (including imports) and services clearly has the greatest inherent revenue potential. Such a system, however, creates serious inequities and distortions because of the cumulative effect of the taxes levied at different stages of the production and distribution process, and encourages tax avoidance through vertical integration and other devices. The cascade effect of multiple turnover taxes may be mitigated by the use of low tax rates on materials and semifinished goods, as in Thailand, or the exemption of raw materials, as in Ceylon. The ultimate solution to such

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a cascade effect is a tax on value added by each producer and distributor of goods; this is generally realized by crediting each taxpayer with the tax paid on purchases.

A similar cascade problem may arise with a turnover tax at the manufacturing level. This can be avoided by taxing only sales of producers at the final point of production, through a licensing system, or by taxing only the value added. In Pakistan, manufacturers are entitled to obtain raw materials free of tax; in Viet-Nam, the law provides for the deduction of the production tax paid in prior stages; and in the Philippines, the tax is based on the selling price of finished goods after deducting the cost of materials.

Incidence

A sales tax may be shifted backward to the factors of production, shifted forward to consumers, or shared among the different sectors depending on the elasticities of demand and supply, but the consensus is that it is borne primarily by the final consumer. Whether a sales tax is regressive or progressive in its relationship to the size of household income depends on the commodities and services taxed and their rates. By the use of household budget inquiries the pattern of expenditures at different levels of income can be ascertained and the tax rates adjusted to eliminate regressivity. Studies of Indian sales taxes suggest that their burden tends to be distributed progressively with respect to the size of consumer expenditures. A tax burden study of the Philippine sales tax indicates a regressive distribution with respect to income, while the over-all burden of the Korean commodity tax tends to be progressive.

Administration

Like other taxes, sales taxes are not self-enforcing, and techniques have to be developed for their effective assessment and collection. Among other things, this requires licensing of taxpayers, provision for periodic payment to the treasury, and regular auditing of accounts. Properly designed and administered, a sales tax can effectively contribute to the mobilization of resources for the government without undesirable effects on production or undue inequities among consumers.

II. Description of Sales Tax Systems

The following description of Far Eastern sales tax practices is organized around four basic sales tax forms:

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(1) Single-stage selective systems
(2) Single-stage general systems
(3) Multistage systems
(4) Combined single-stage and multistage systems (India)

(Table 1 presents the first three of these forms.)

TABLE 1. SELECTED FAR EASTERN COUNTRIES: SALES TAX SYSTEMS AND RATES

Country	Tax Rates (*per cent*)	Stage at Which Levied
Single-stage selective systems [1]		
China, Republic of	5–100	Manufacturing, import
India (Union Government)	3 [2]	Manufacturing, wholesale
Korea	5– 70	Manufacturing, import
Japan	5– 40	Manufacturing, import
	10– 20	Retail
Single-stage general systems		
Certain Indian States	1–20	Generally manufacturing, wholesale, and export
Indonesia	5–50 [3]	Processing, manufacturing, import, and service
Nepal	5– 7	Retail and some manufacturing
Pakistan	15–20 [4]	Manufacturing, import, wholesale, and export
Philippines	7–50 [5]	Manufacturing, import
Thailand	0.5–25 [6]	Manufacturing, import, and service
Viet-Nam	6 [7]	Manufacturing, processing
Multistage systems		
Ceylon	1–10	All stages
China, Republic of [8]	0.6– 6.0	All stages
Certain Indian States	0.25– 3	All stages
Korea [9]	0.3–20	All stages
Malaysia [10] (repealed)	0.5	All stages

[1] Commodity tax; in India, excise tax.
[2] Basic ad valorem rate.
[3] The most common rate is 10 per cent.
[4] Plus 25 per cent defense surcharge.
[5] Rates on automobiles range up to 100 per cent.
[6] The rate mostly applicable is 5 per cent.
[7] Plus 20 per cent surcharge.
[8] Business tax. Rates subject to 25 per cent surcharge.
[9] Business activities tax (gross receipts); a 20 per cent surcharge is levied by local governments.
[10] In effect only for 1965; replaced by a 2 per cent tax on imported goods in 1966, and repealed in 1967.

SINGLE-STAGE SELECTIVE SYSTEMS

The systems of commodity taxation in China, Japan, and Korea are similar in that the tax is imposed at different rates on selected categories of goods. The three systems differ, however, with respect to

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coverage, tax rates, exemption structure, and (to a certain extent) the stage at which the tax is levied. Their relative revenue importance also varies widely.

Republic of China

China's commodity tax originated in 1931 as a levy on five commodities: cotton yarn, matches, cement, wheat flour, and cigarettes. It has since been extended to 31 categories of imported and locally produced goods, at the manufacturer's (importer's) level (Table 2).[2] The taxable

TABLE 2. REPUBLIC OF CHINA: COMMODITIES AND TAX RATES

Commodities	Per Cent	Commodities	Per Cent
Cosmetics	100, 80, 20	Plastics	23
Sugar (brown sugar, 48 per cent)	60	Sheet glass	23
Saccharin	60	Rubber tires and tubes	20
Petroleum products		Matches	20
Gasoline	55	Electric bulbs	20
Compressed natural gas	48	Motorcycles	20
Diesel oil	32	Foreign timber	15
Kerosene	20	Leather	15
Liquefied gas	15	Refrigerators	15
Fuel oil	10	Air conditioners	15
Natural gas	10	Electric fans	15
Carbonated water	36	Electric meters	15
Fruit juices	30	Automobiles	15
Flavoring essence	29	Television sets	10
Cement	30	Radios	10
Woolen yarn and worsted	30	Sewing machines	10
Rayon fiber and synthetic yarn	20	Structural steel	10
Mixed yarn	20/25	Paper	5
Cotton yarn	15		
Hemp yarn	10		

Source: Industrial Development and Investment Center, *Taxes in Taiwan* (revised edition, Taipei, 1965).

value of any commodity is fixed at the monthly average wholesale price prevailing in the market near its place of origin, including the cost of packaging but excluding transport charges and the amount of tax already paid on raw materials.[3] Taxable value corresponds to the fixed price of those commodities for which the prices are controlled by the Government. For newly manufactured articles, factory prices are taken as taxable value, and necessary adjustments are made later when wholesale

[2] China also has a business turnover tax; see pages 542–43.
[3] "Statute on Commodity Tax" (as amended and promulgated on August 14, 1962), Bank of China, *Economic Review*, January–February 1963, pp. 23–38.

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prices become available. The tax on imported commodities is based on the value assessed by the customs officials and a prescribed markup.

Exemption is provided for raw materials used for the manufacture of taxable commodities, exports, cement and lumber used for defense construction projects, and goods donated to improve morale among the military forces.

Japan

In Japan taxes are levied on sales of retailers, manufacturers, and importers of 59 different commodities. Unlike taxable commodities in Korea and China, those in Japan are principally consumer durables and finished products. The commodity tax law defines three general classes of goods. The tax on Class I (e.g., precious stones, pearls, carpets, and fur products) is payable at the retail level on the basis of the sales price.[4] The tax on Class II goods (e.g., automobiles, sporting equipment, electrical equipment, television sets and radios, furniture, and cosmetics) is assessed at the time of removal from the factory or bonded area. The tax base for goods included in Class II is the manufacturer's sale price or the c.i.f. cost of imported goods, and for goods in Class III (matches) it is the quantity shipped or imported. A monetary exemption applies separately for each type of commodity.

Class I commodities (except carpets) are taxed at 20 per cent of retail value; Class II rates range between 5 per cent (toilet preparations, beverages, microphones, loudspeakers, and motorized bicycles) and 40 per cent (luxury automobiles, boats, golf equipment, and clocks and watches). Matches (Class III) are taxed at ¥ 1 per 1,000 sticks. (A more complete schedule is shown in the Appendix, Table 12.)

Korea

Korea levies a commodity tax, which now covers about 80 categories of imported and locally manufactured and processed commodities, also at the manufacturer's (importer's) level.[5] The base of the tax is the commercial price of the commodity at the time of either removal from the factory or delivery from the bonded area. In the latter case, the price is determined by including the amount of import duty and a standard markup, i.e., the c.i.f. price plus the import duty plus 10 per cent.

Rates range from 2 per cent on paper to 70 per cent on gambling and

[4] Ministry of Finance, *An Outline of Japanese Taxes, 1967* (Tokyo, 1967), pp. 120–24.

[5] As amended by Law No. 1967, November 29, 1967. Ministry of Finance, *Major Tax Laws* (Seoul), January 1, 1968, pp. 301–21. Korea also has a business turnover tax; see page 543.

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sporting goods, semiprocessed wool, and imported yarn. Rates on yarns and fibers range between 10 per cent and 70 per cent; rates on electrical equipment range between 5 per cent and 50 per cent; passenger cars and parts are taxed at 10 per cent. (See the Appendix, Table 13, for a complete rate schedule.)

Exemptions are given mainly for commodities used in the manufacture of another taxable commodity; exports; commodities sold to the United Nations and military forces of the Republic of Korea; commodities donated by foreign countries for religious, scientific, and charitable purposes; and commodities used for the production and development of nuclear reactors and for the production of fishing nets, ropes, and mooring.

SINGLE-STAGE GENERAL SYSTEMS

In Indonesia, Nepal, Pakistan, the Philippines, Thailand, and Viet-Nam, sales taxes are also imposed at a single stage, but the coverage is sufficiently broad to allow a classification as general rather than selective. (Indian States are treated separately below, pp. 544–50.)

Indonesia

Indonesia first introduced a sales tax in January 1951. Modeled on the Netherlands' turnover tax structure, it was a multistage levy of 5 per cent (10 per cent on luxury goods) on imported and domestic sales of goods. Because of criticism by businessmen and a desire on the part of the Government to avoid multiple taxation of goods used at later stages of the production process, the tax was modified (October 1951) so as to limit it to imports and manufacturers' sales. To prevent double taxation of certain commodities, the law authorized the Minister of Finance to exempt the sale of raw materials and certain supplies and to provide a refund of the tax paid on the purchase of raw materials and supplies that were not exempted.

In January and August 1960 the law was amended to (1) eliminate the credit for turnover taxes paid on previous transactions, (2) repeal the tax on imported goods, (3) extend the tax to cover certain services,[6] and (4) increase the rates from 5 per cent (10 per cent on luxury goods)

[6] Services carried out independently by the following are subject to turnover tax: notaries, solicitors, consultants, administrative officers, accountants, brokers, commission agents, auctioneers, contractors other than food or foodstuff contractors, planning bureaus, repair and maintenance shops, those who provide physical care accommodations, insurers other than those who provide transport insurance, those who lease movables, those who lease accommodations other than for dwelling, advertising bureaus, laundries, and travel agencies.

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to 10 per cent (20 per cent on luxury goods) and introduce a reduced rate of 5 per cent on essential goods.

In January 1966 the standard rate was doubled to 20 per cent, the rate on luxuries was increased to 50 per cent,[7] and a reduced rate of 10 per cent was introduced in addition to the 5 per cent rate. To reduce the cascade effect, the Minister of Finance was authorized to extend the list of both tax-exempt producer goods and goods subject to a reduced rate. Finally, in March 1968, the tax on imported goods was restored; it is based on the c.i.f. value plus customs duties.

Presently Indonesia's turnover tax is imposed at differential rates on imports, gross sales of goods by agricultural processors and manufacturers, and on a broad list of services, including professional services. Basic foodstuffs, other essential goods, goods intended for export, and tobacco products subject to excise tax are exempt. Certain raw materials, semifinished goods, and supplies, as authorized by the Minister of Finance, are also exempt from the turnover tax on domestic deliveries.

During 1968 about 67 per cent of domestic sales tax collections were at the reduced rate of 10 per cent and 31 per cent were at the 20 per cent standard rate. The 5 per cent reduced rate applies to 431 imported items but to only three classes of goods produced domestically: singlets, rubber products, and tea.

Nepal

Nepal's general sales tax act was codified in 1966. Though designed primarily as a retail sales tax, it is imposed as follows at the wholesale (import) level on nonregistered vendors and on manufacturers of specified goods: (1) registered vendors are required to issue a receipt to all nonregistered purchasers and to collect the amount of tax that is stated separately; (2) petty vendors who are not required to register must pay the tax to their suppliers, based on the purchase price plus freight and a markup to cover distribution costs; and (3) manufacturers collect the tax on sales of manufactured jute goods, tobacco products, stainless steel goods, alcoholic beverages, and matches. The following sales are exempt: purchases by the royal family and those with diplomatic privileges, exports, used goods, and raw materials purchased by industries whose products are subject to sales tax.

The sales tax of Nepal is levied at rates of 5 per cent and 7 per cent,

[7] These include certain jewelry, goods made from reptile and fish skins, radios with four or more bands exceeding Rp 500 in price, television sets and cabinets, phonograph records, electrical household appliances, four-wheeled motor vehicles, yachts, firearms, clothing made of wool and imitation wool, carpets, and curtains not made from coconut fiber, jute, or sisal.

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depending on the class of commodities; certain necessities, including foods, are exempt. The 5 per cent rate applies to such items as cotton cloth and clothing, carpets, gasoline and oil, metal goods, glass products, musical instruments, soap, cement, and cement products. The 7 per cent rate applies to less essential articles, such as leather goods, stoves, electrical appliances, radios, record players, jewelry, cutlery, films, automobiles, motorcycles, cosmetics, paints, watches, curios, and arms and ammunition. The separate tax on hotel bills (including meals) was repealed in 1966 but restored in December 1967 at a 5 per cent rate.

Pakistan

Sales taxes in Pakistan were originally levied on a multistage basis, with a monetary exemption, and some were payable (at the import stage) on imports for personal use.[8] The multistage system caused widespread dissatisfaction in trade circles, and large evasions were reported. In 1949 the multistage levy was supplemented by a single-stage tax on selected commodities, e.g., textiles.

A sales tax committee appointed in 1950 recommended replacing the multistage system by a single levy at the first stage of sale—at the customs stage for imports and exports and at the manufacturer's or producer's stage for locally processed and manufactured goods. The Sales Tax Act of 1951 (effective July 1951) substantially followed these recommendations, and a single-stage sales tax is now in effect on imported goods and goods produced or manufactured in Pakistan, including those exported.

The tax on manufacturers is payable on the basis of the sales price, and the manufacturer is entitled to obtain raw materials free of sales tax. Exempt categories of goods include cottons, locally made furniture, sports goods, writing ink, penholders, paint and color boxes, ice, washing soap, kerosene stoves, and certain export items.

The general rate is fixed at 15 per cent; luxury goods are taxed at 20 per cent, and various rates apply to other categories of goods. Since 1964 all taxable goods (except exports) have been subject to a 1 per cent rehabilitation surcharge, and since 1965/66 to a defense surcharge of 25 per cent of existing sales tax rates.

Philippines

The Philippines' sales tax was first imposed under the Revenue Law of 1904, when it was levied on all merchants at a flat rate of ⅓ of 1

[8] Taxation Enquiry Committee, *Interim Report* (*Cental Taxation*), (Karachi, 1959), pp. 51–55.

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per cent. Because of administrative difficulties and undesirable economic effects (primarily distortions in relative prices), certain major modifications were introduced in 1939.

Manufacturers and importers are now subject to a "percentage tax" on sales levied under Sections 184, 185, and 186 of the National Internal Revenue Code.[9] For purposes of establishing a rate schedule, commodities are classified first as imported or locally manufactured, and then as luxury, semiluxury, or ordinary. The tax on imported goods (referred to as an advance sales tax) is payable by importers on the basis of the c.i.f. value, plus customs duties and similar charges, plus a markup of 100 per cent for luxury goods, 50 per cent for semiluxury goods, and 25 per cent for ordinary goods. In determining taxable sales a manufacturer is permitted to deduct the cost of materials on which tax at the same rate has been paid.[10] No deduction is allowed for taxes on materials subject to a different tax rate or for goods that are not physical ingredients of the finished product. Imported articles for personal use or consumption are subject to a compensating tax, which is equivalent to the corresponding sales tax and payable before the articles are withdrawn for consumption. Agricultural products are exempt.

The rate structure is defined in terms of four classes of goods: ordinary, semiluxury, luxury, and automobiles. If ordinary items (e.g., refrigerators, air conditioners, and coolers) are classified as integrated manufactured products, the rate is 7 per cent, but if they are classified as nonintegrated manufactured products, the rate is 15 per cent. On semiluxury articles (e.g., watches, clocks, television sets, phonographs, electric fans, luggage, and cooking appliances) the rate is 30 per cent; on luxury articles (e.g., perfumes and toiletries) the rate is 50 per cent. The rates on automobiles are 50 per cent on those with a selling price below ₱ 7,000, 75 per cent on those with a selling price between ₱ 7,000

Thailand

Prior to 1961, Thailand imposed a turnover levy of 1.5 per cent on the gross receipts of all businesses. Partly because of widespread evasion, this was abandoned in favor of a mixed single-point and multipoint business tax system with differential rates. With the exception of the precious metals business, the tax is assessed at the manufacturer's or

[9] A separate tax of 3 per cent is levied on a broad range of services, including contractors' services; firms with monthly gross receipts under ₱ 200 are exempt.

[10] Joint Legislative–Executive Tax Commission, *A Short Guide to Philippine Taxes* (Manila, 1964), pp. 19–21.

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importer's level, and all retailers are outside the scope of the tax. Various services are also covered. A differential rate schedule is specified for 12 categories of business (Table 3).

TABLE 3. THAILAND: BUSINESS CATEGORIES AND APPLICABLE BUSINESS TAX RATE SCHEDULES

Business Category	Trader Liable to the Business Tax	Tax Rate as a Percentage of Gross Receipts
Sale of goods		2.0–25.0
Not specified [1]	Importer or manufacturer	2.0–5.0
Refrigerators, watches, television sets, cameras	Importer or manufacturer	12.0
Electric lamps, motorcycles	Importer or manufacturer	10.0
Automobiles	Importer or manufacturer	20.0
Alcoholic beverages	Importer or manufacturer	25.0
Printed materials manufactured in Thailand	First-stage seller	2.5
Precious metals	Sellers at all levels	3.0
Sheet rubber	Exporter	4.0
Rice milling and sawmilling	Operator	3.5 or 4.0
Hire of work	Contractor	2.0
Letting of property	Persons letting out property	2.5
Warehousing	Operator	2.5
Hotel and restaurant	Operator	2.0–10.0, depending on nature of establishment
Transport	Operator	0.5
Pawnbrokerage	Operator	2.5
Brokerage agency	Broker or agent	5.5
Dealing in immovables	Seller	3.5
Banking	Operator	2.5–10.5
Insurance	Insurer	2.5 or 3.0

Source: Revenue Department, *The Revenue Code as Amended up to October 1966* (Bangkok).
[1] A Royal Decree of 1966—(No. 21) BE 2509 F. 21—specifies a rate of 1.5 per cent for raw materials.

Some attempt is made to adjust for cascade effects by levying a uniformly lower rate (1.5 per cent) on raw materials. Otherwise, the differential rates are based upon some notion of the social and economic importance of certain commodities. Similarly, certain social and economic objectives are apparent from the list of exemptions, which includes (1) a hawker's trade or a farmer's trade in his own products, (2) the operations of the Government and of registered educational institutions, (3) the trade of persons who raise livestock and poultry for household benefit, and (4) the sale of whisky, tobacco, and silverware produced in Thailand and exported, (5) the sales of firms engaged in the distribution of electricity and water from waterworks, and (6) sales of secondhand goods other than antiques and objects of art.

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Thailand's turnover tax rates vary from 1.5 per cent to 25 per cent, with 5 per cent the most common rate. Since April 1966 the rates on nonfinished goods, previously all taxed at 1.5 per cent, have been between 1.5 per cent and 5 per cent. The business tax rate on restaurants is 2 per cent on the first B 5,000 of gross receipts and 5 per cent on receipts in excess of this amount.

Viet-Nam

In 1957 Viet-Nam replaced three separate sales taxes with a single-stage sales tax modeled on France's *taxe à la production*. Known as the production tax, it is levied at a uniform 6 per cent rate on sales by producers of agricultural, forestry, fishing, mining, and manufacturing products but excludes services (except electricity and water).[11] In 1968 a surcharge of 20 per cent was introduced, raising the rate to 7.2 per cent. To avoid the cascade effect, the law provides for the deduction of the production tax paid in prior stages of production, thereby converting it to a tax on value added through the processing stage. Exemptions are provided for rice milling, government monopolies, products subject to other taxes, books, newspapers, magazines, and exports. Another group of products is exempt because it is subject to special indirect taxes; it includes meat, rice, paddy converted to alcohol, and precious metals. Initially, small producers were exempted from tax, but this exemption has been removed. Producers with a yearly turnover of VN$300,000 or less are taxed under the *forfaitaire* system.

Prior to the 1962 reforms, the production tax applied to imports (c.i.f. value plus other import duties and taxes) at rates of 15 per cent for goods classified as prime necessities and 35 per cent for luxuries. At that time it was replaced by higher taxes on imports.

MULTISTAGE TAXES

Ceylon, China, Korea, and certain Indian States levy multistage taxes on gross sales, as did Malaysia for a brief period. The basic features of these systems are summarized below.

Ceylon

Ceylon introduced a single-stage sales tax in 1962,[12] but repealed it after one day in favor of a 20 per cent increase in import duties. However, revenue losses owing to import controls forced a search for other

[11] Ronald Geddes, *A Practical Guide to Taxes in Viet-Nam* (Saigon, 1969), pp. 42–43.
[12] Finance Act No. 65 of 1961.

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alternatives, and in 1963 a turnover tax was enacted at rates of 1 per cent on nonmanufacturing businesses and 5 per cent on manufacturing firms.[13] In 1964 these rates were replaced by the following schedule:

	Per Cent of Gross Receipts
Certain specified manufactured products	10
Building materials other than asbestos products, barbed wire, and plywood	3
Certain hand-fabricated articles	1
Other manufactured and processed articles	5
Other businesses	1

A taxable business was defined to include any trade or vocation except professions, agriculture, exports, finance and insurance, and any other business exempted by the Finance Minister and approved by the House of Representatives.[14]

Until October 1, 1968, the turnover tax had the unusual provision that the maximum amount of tax charged a business for any year of assessment shall not exceed 80 per cent of the net income of that business. Enterprises with a taxable turnover of less than Rs 100,000 are not taxed; if, at the end of the year, total turnover is less than Rs 100,000, taxes paid are refunded. An important result of this provision is that the tax is not generally levied on retail transactions.

In 1968 several revisions were introduced that greatly broadened the tax base: [15] the list of articles subject to the 10 per cent rate was expanded; professions and services were included, at a 1 per cent rate; the 80 per cent of the net income limitation was removed; exemption of agricultural products was clarified; and the tax was imposed on the aggregate turnover of all businesses under one ownership, instead of on each branch.

Republic of China

In addition to its commodity tax, China imposes a business tax on the gross business receipts of all profit-seeking firms, which yields about 30 per cent of the revenue of the commodity tax. Revenues are shared by the provincial governments and the localities where collected.

[13] Finance Act No. 11 of 1963.

[14] Exemptions include businesses that produce agricultural and industrial machinery, toddy and arrack, animal foods, bread, cigarettes, books, magazines, newspapers, rice, matches, ginger, wheat flour, and processed or manufactured agricultural products.

[15] Minister of Finance, *Budget Speech, 1968–69* (Colombo, August 2, 1968), pp. 59–61.

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The tax is payable monthly at rates ranging from 0.6 per cent to 4.0 per cent on the following categories of business:

	Per Cent of Gross Receipts
Trading, handicraft, agriculture and forestry, animal husbandry, fisheries, manufacturing, publishing, and mining (on monthly sales over NT$3,000)	0.6
Contracting, printing, public utilities, restaurants, amusements, photographic studios, decorating, advertising, transport (on monthly sales over NT$3,000)	0.7
Repair shops, processing, cleaning, hotels, service contractors, barber shops, rentals (on monthly sales over NT$1,500)	1.5
Banking, insurance, pawnshops, brokers, technical and design business (on monthly sales over NT$1,000)	4.0

Reduced rates are imposed on grain dealers (0.3 per cent), foodgrain processors (0.75 per cent), and foodgrain brokers (1.5 per cent). On July 1, 1968 all business tax rates were increased by an educational surcharge of 25 per cent. There is a wide range of exemptions—which include sales (except at the retail level) of manufacturers, processors, producers, and importers—on which commodity taxes have been paid. Export sales are also exempt.

Korea

In addition to its commodity tax, Korea has long had in effect a business activity tax, which is imposed at different rates on different classes of business. This is a multistage turnover tax with rates on gross receipts ranging between 0.3 per cent (electricity and gas, insurance, Class A manufacturing, and Class A wholesaling) and 2.0 per cent (high-class restaurants and amusements). Class B manufacturers, Class B wholesalers, banks, and warehouses are taxed at 0.7 per cent of gross receipts, and retailers at rates of 0.5 per cent and 1.0 per cent, depending on their classification. These rates are subject to a 20 per cent surtax levied by the local governments. A complete rate schedule is shown in the Appendix, Table 14.

Exemptions are provided for the publishing of periodicals, broadcasting, salt manufacturing, the sale of agricultural and forestry products produced or raised by the seller, vessels and aircraft on international routes, export businesses, tourism, and sales and services to UN and U.S. forces in Korea.

The tax is assessed on a six-month basis, with quarterly interim payments due within 30 days of the end of the payment period.

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Malaysia

The 1965 budget of Malaysia introduced a turnover tax, payable at ½ per cent on gross sales of all trades, businesses, and professions (subject to certain exemptions). The tax was described as a measure to increase revenues with minimum disturbance to the economy and without requiring elaborate and expensive administrative machinery. Further, it was felt that the turnover tax form would provide a check on income tax evasion, since it is somewhat more difficult to hide gross earnings than net income. The turnover tax, like the income tax, was levied on the basis of a previous year. Earlier the Government had examined and rejected on administrative grounds the alternatives of a retail sales tax and a purchase tax.[16]

In 1966 the Malaysian turnover tax was replaced by a flat-rate (2 per cent) single-stage levy on domestic sales of certain imports; direct imports by consumers were excluded. If imported raw materials were used by local manufacturers, the tax was levied only on that part of the selling price which related to the import content of the goods. No distinction was made between an importer/wholesaler selling to another wholesaler, to a retailer, or to a consumer. Marketing channels thus were completely ignored for tax purposes. This tax was repealed with effect from January 1, 1967 and was replaced by a 2 per cent surtax on imports.

INDIA: SINGLE-STAGE, DOUBLE-STAGE, AND MULTISTAGE TAXES

The Indian Constitution empowers the State Governments to impose a tax on sales or purchases of goods—other than sales made in the course of interstate trade. Therefore, unlike those countries in which the central government levies a sales tax under one law, the nature of the tax within each Indian State is governed by the sales tax act of that State. A separate law, the Central Sales Tax Act, 1956, governs taxation of sales in interstate trade, which is administered by the States. The constitutional power to levy and to collect separate excise duties on all goods manufactured or produced in India (except alcoholic liquors for human consumption and opium, Indian hemp, and other prohibited narcotics) is vested in the Union Government.

Initially, the sales tax was adopted to combat inflation and to replace the loss of revenue resulting from a policy of prohibition and abolition of internal customs in some princely States. However, as the need for revenues for developmental purposes increased, States began exploiting more fully the potentialities of the sales tax. Hence, coverage and rates

[16] Ministry of Finance, *1965 Budget* (Kuala Lumpur, 1964), pp. 42–43.

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as well as systems of sales tax have undergone considerable changes since their introduction. As a result, the tax systems, which started as fairly simple ones, have become increasingly complex over the years.

State sales tax structures

Madras was the first Indian State to adopt a general sales tax (1939). A multistage system with few exemptions and low rates was considered most feasible for Madras's then predominantly rural economy. West Bengal (then Bengal) was the next State to introduce a sales tax (1941), but it chose to adopt a higher rate single-stage system, a decision occasioned essentially by its large urban trade sector and major industrial interests. Maharashtra, which had a similar trade structure and economic base, followed Bengal's example. By 1948 five other States had introduced a sales tax, and presently all Indian States have a sales tax.

State sales taxes vary from single-stage to multistage and a combination of the two (Table 4). In the States of Andhra Pradesh, Bihar, Kerala, Madras, Mysore, Uttar Pradesh, and West Bengal, the sales tax is a multipoint system, while in Assam, Haryana, Jammu and Kashmir, Madhya Pradesh, Orissa, Punjab, and Rajasthan, a single-point system is used. For all States in the latter group, except Rajasthan and Madhya Pradesh, the tax is levied primarily at the retail stage. The two remaining states, Maharashtra and Gujarat, use a dual-stage system to cover certain commodities and a single-stage levy to cover others.

There is no uniform method of treating raw materials for tax purposes in the Indian States. Current practice varies from complete exemption to a concessional rate to no exemption; and since the tax is levied under State Acts, the exemption lists (including monetary exemption limits) are not uniform. For example, in some States food is exempt only if the producer himself goes to the market and sells. Although exports are exempt, transactions prior to the final export are often taxable under certain State laws, and interstate sales of export items are often taxed.

Interstate sales

The constitutional restriction imposed on the State's power to tax interstate sales has created problems, e.g., revenue loss in States that had adopted a single-point tax system because traders register in one State and sell direct to unregistered dealers and consumers in another. Faced with the avoidance problem and with growing revenue needs, State Governments modified their tax systems. Some States changed from a single-point to multipoint system, some levied a tax on materials previously exempt, and others introduced a purchase tax in addition to a

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TABLE 4. INDIA: STATE SALES TAX RATES

	Basic Rate [1,2] (*per cent*)	Remarks [2]
Multipoint taxes		
Andhra Pradesh	2	Also single-point tax of 0.5 per cent to 10 per cent on certain scheduled goods.
Bihar	0.5	Also special tax of 2 per cent to 10 per cent on certain scheduled goods. Sales of raw materials to registered dealers taxed at the concessional rate of 1 per cent.
Kerala	3	Also single-point tax at the point of first sale or last purchase on certain specified goods—1 per cent to 12 per cent.
Madras	3 (1 for certain items)	Also single-point tax on specified goods at the point of first purchase or sale or last purchase—0.5 per cent to 12 per cent.
Mysore	2 (1 to 1.5 for certain items)	Also single-point tax on the first dealer—0.5 per cent to 15 per cent.
Uttar Pradesh	2 (0.25 to 1 for certain items)	Also single-point tax on sale by importer/manufacturer or dealer to consumer—0.5 per cent to 10 per cent.
West Bengal	0.5	Also single-point tax on certain scheduled goods—0.5 per cent to 12 per cent.
Single-point taxes		
Assam	5	Rates range between 1 per cent and 10 per cent.
Haryana	6	Rates range between 0.5 per cent and 10 per cent.
Jammu and Kashmir	7	Rates range from 1 per cent to 10 per cent.
Madhya Pradesh	7	Rates range from 0.5 per cent to 11 per cent. Rates for raw materials—2 per cent.
Orissa	5	Single-point tax at first point on scheduled items—1 per cent to 10 per cent.

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Punjab	6	Rates range from 0.5 per cent to 10 per cent; purchase tax on certain items.
Rajasthan	7	Single-point levy on certain scheduled goods—1 per cent to 15 per cent.
Delhi (Territory)	5	Rates range from 2 per cent to 10 per cent.
Mixed—single-point and double-point		
Gujarat	5	Tax on sales [3] ranging between 0.25 per cent and 15 per cent. Retail sales tax on certain items also levied at 0.25 per cent.
Maharashtra	5	Same as Gujarat.
Central sales tax	3	

Source: Compiled from State laws.

[1] Does not cover (1) declared goods assessed at the rate ranging between 1 per cent and 10 per cent and (2) other specified goods, such as gasoline and liquor, which are generally taxed at higher rates.

[2] Rates of tax indicated here incorporate tax proposals made by the State Governments for fiscal year 1969/70.

[3] On purchase if goods purchased (1) are not from a registered dealer and (2) are not sold within a specified period.

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sales tax. One State withdrew the minimum taxable turnover limit fixed for importers, while another levied a carrier tax on its main exportable raw material, and yet others began levying a tax on nonresident dealers.[17]

The Taxation Enquiry Commission in 1953–54 recommended legislation to regulate the taxation of interstate sales.[18] Accordingly, the Constitution was amended, and the Central Sales Tax Act of 1956 was enacted to provide for a levy on interstate sales, with ceilings on the tax rate for goods considered of special importance in interstate commerce.[19] Although the tax is levied under a Central Government Act, it is administered by State Governments, which retain the proceeds.

Union excise duties and State sales taxes

The States' power to impose a sales tax overlaps the exclusive power of the Union to levy excises, since the distinction between an excise levied on selected goods and a sales tax is often unclear. The Union's excise duties and the State's sales taxes both are taxes on commodities. In fact, selective excise duties levied at the manufacturer's stage in India do not differ essentially from selective commodity taxes levied in China, Japan, and Korea. However, because of constitutional provisions, it is held that an excise is a levy at the point of production, whereas a sales tax touches a commodity at one or more points of sale between the stages of production and final consumption. Hence, a commodity in India may be liable to both excise duty and sales tax. In order to reduce compliance costs, reduce evasion, and equalize the rates in the various States so as to reduce uneconomic movement of goods, an intergovernmental agreement was implemented through the Additional Duties of Excise (Goods of Special Importance) Act, 1957.[20]

[17] Ministry of Finance, *Report of the Taxation Enquiry Commission, 1953–54,* Vol. III (New Delhi, 1955).

[18] *Ibid.,* pp. 1–33, for a detailed discussion.

[19] Coal, cotton, cotton fabrics, cotton yarn, hides and skins, iron and steel products, jute, oilseeds, rayon and artificial silk fabrics, sugar, tobacco, and woolen fabrics.

[20] *Report of the Finance Commission, 1965* (New Delhi, 1965), pp. 22–23. The Union excise duties are levied as follows:

(1) basic excise duties on a large number of articles levied under the Central Excises and Salt Act, 1944, as amended;
(2) cesses or excise duties levied on certain products under special Acts, the proceeds of which are earmarked for specified uses;
(3) additional duties in lieu of sales tax under the Additional Duties of Excise (Goods of Special Importance) Act, 1957;
(4) additional duties of excise on certain articles under the Mineral Oils (Additional Duties of Excise and Customs) Act, 1958;
(5) special duties of excise on certain goods levied in 1963 in the form of surcharges on basic duties on certain items;
(6) regulatory duties of excise levied under the Finance Acts.

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An additional Union excise duty was levied on mill-made textiles, sugar, and tobacco in lieu of the sales tax then levied by State Governments, with the net proceeds of these duties accruing to the States (after retention of a portion representing the share attributable to Union Territories). Twenty per cent of net collections under Union basic excise duties is also distributed among the States. An independent Finance Commission determines the shares of each State.

Of more than 80 items now on the Union excise list, the problem of joint excise and sales taxation does not arise for 19 items, which account for approximately 45 per cent of the aggregate excise revenue. These items include goods on which additional excise duties in lieu of sales taxes are being levied, and also goods subject to prescribed maximum rates as fixed under the Central Sales Tax Act, 1956.[21] Therefore, the question of joint State-Federal taxation remains unresolved for 49.[22]

Rates

Under the sales tax acts in India, the prime responsibility for paying tax is that of a dealer, who has to be registered under the Acts. Any sale by a registered dealer to another registered dealer is exempt from tax. In the States having a single-point levy it is the sale by a registered dealer to a consumer or unregistered dealer that is taxable. In a double-point system, it is the point of purchase by a registered dealer and the sale to a consumer or an unregistered dealer at which the tax is levied. Nearly always the actual sale price is the base of the tax. If the sales records of small dealers are difficult to maintain, their purchase price is taken as the tax base.

In the States of India, the general multipoint rate is either 2 per cent or 3 per cent, except in Bihar and West Bengal where it is 0.5 per cent (Table 4). In certain States a special multistage rate of 1 per cent is imposed on the sale of foodgrains, and a rate of 3 per cent is set for food and drinks sold in hotels, restaurants, etc. The basic rate in the two States with a mixed single-point and two-point system is 5 per cent. As expected, rates under multipoint levies are lower than under single-point levies. For example, where the gasoline sales tax is assessed at a single point, rates sometimes are as high as 20 per cent.[23] For luxury goods, on which higher rates are normally imposed, an attempt has been made in recent years to make the rate uniform in all States. The rate

[21] *Ibid.*, pp. 38-44.

[22] *Ibid.*, pp. 44–45, for details of the issues involved. See also *Report of the Finance Commission, 1969* (New Delhi, 1969), pp. 38–42.

[23] In some States a sales tax on gasoline is levied under a separate act, while in others it is imposed under the General Sales Tax Act, 1956.

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structure is designed to lend a degree of progressivity by taxing luxury goods at higher rates and either exempting or imposing a lower rate on necessities, e.g., food.

The central sales tax rate cannot exceed 3 per cent on certain goods involved in interstate trade. On other goods, when the sales are to persons other than a dealer registered under the Central Sales Tax Act, 1956, or to a government, the maximum rate is 10 per cent—unless the rate under a State sales tax act is higher than 10 per cent, in which case the higher rate applies to the interstate sale.

III. The Choice of a Sales Tax System

The sales tax systems in Far Eastern countries have evolved over many years, many of them modeled on systems in effect in other countries of the world. They reflect also adaptations to changing economic and political conditions, and what might be suitable for one stage of development is not necessarily appropriate for another. Although no system of sales tax satisfies all the criteria of a good tax and is uniquely optimal for all developing countries, it is useful to compare the sales tax experience of the selected countries in terms of (1) revenue yield, (2) economic neutrality, (3) equity, and (4) administration, insofar as the relevant information is available.

Adequacy of Yield

Revenue importance

The relative importance of sales tax revenue varies widely among the countries covered. In 1966 the percentage of sales tax revenue in relation to total tax revenue ranged between 2.1 (Ceylon) and 32.9 (average for Indian States):

	Percentage of Sales Tax Revenue in Relation to	
	Total Tax Revenue	GNP
Indian States (average)	32.9	1.6 [24]
Thailand	23.9	2.6
Philippines	18.9	1.5
Korea	18.3	1.7
China, Republic of	13.8	1.8
Indonesia	8.3	. . .
Viet-Nam	8.3	. . .
Nepal	5.5	0.02
Japan	3.8	0.4
Ceylon	2.1	0.05

[24] Per cent of national income (1965).

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The relative revenue importance of sales taxes is reflected by their ratio to GNP. The outstanding performance in this respect was Thailand's ratio of 2.6 per cent, while the Philippines, the Indian States, Korea, and China also showed considerable sales tax effort, with ratios between 1.5 per cent and 1.8 per cent. This range might therefore be taken as an appropriate standard of reference for the level of sales taxes for other countries in the same stage of development. The countries at the lower end of the scale are highly dependent on customs duties and, with the exception of Japan, would not appear to have as high a sales tax potential, except for taxes on imported commodities.

Commodity taxes in Japan remained a relatively constant and minor fraction of total taxes over the period 1957–66 (Table 5). Because the Japanese tax is essentially a levy on consumer durables (which are generally income elastic), and because per capita income has increased rapidly in Japan over the period in question, it is not surprising that tax revenues from this source have kept pace with other tax revenues.

In China, the secular behavior of the commodity tax revenue share has been much more uneven. The decline between 1961 and 1962 reflects an absolute decline in sales tax collections; however, during the period 1963–66 when sales tax collections were increasing rapidly, their relative importance remained approximately constant at slightly under 14 per cent. (Beginning in 1967 the revenue share increased significantly and by fiscal 1969 reached 17.5 per cent.)

The revenue experience of Korea's commodity and business activity taxes has been erratic. The relative importance of commodity taxes has experienced a long-term decline. The decrease after 1961 coincides with a revision of the Korean commodity tax law, which reduced the number of commodity groups subject to tax.[25] On the other hand, the declining importance of the business activity tax was arrested in 1962, and since then its relative share of total tax revenues has increased. In November 1967 the Government of Korea broadened the coverage of its commodity tax and raised many of the rates so as to enhance its revenues.

Of the four countries levying a single-stage general sales tax, only the Philippines shows a clearly discernible trend toward increased reliance on this source of revenue (Table 5); between 1959 and 1964, sales taxes nearly doubled as a percentage of total tax revenue, without any major reform in rate or base structure. While the Philippines and Pakistan show a similar average reliance on sales taxes, Pakistan's long-term average increment in revenue share has been considerably smaller and more erratic.

[25] Ministry of Finance, *Year Book of Tax Statistics, 1961* (Seoul, 1962), pp. 50–52.

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TABLE 5. SELECTED FAR EASTERN COUNTRIES: SALES TAX REVENUE, 1957–66

A. Sales Tax Revenue as a Percentage of Total Tax Revenue

Fiscal Year Ended	Ceylon	China	India [1]	Japan	Korea [2]	Nepal [3]	Pakistan	Philippines	Thailand	Viet-Nam
1957	—	9.9	24.7	3.2	15.5 (21.0)	—	16.2	. . .	10.4	. . .
1958	—	11.3	24.8	4.0	14.6 (19.8)	—	16.1	13.8	10.4	31.2
1959	—	11.9	23.1	4.5	13.5 (17.9)	—	14.4	11.0	12.4	29.5
1960	—	10.9	23.7	4.6	15.9 (19.6)	—	14.6	12.8	12.2	29.0
1961	—	11.9	25.4	4.8	19.1 (23.2)	—	19.2	15.7	12.8	29.9
1962	—	10.0	27.4	4.3	14.5 (20.5)	—	19.1	16.8	20.7	8.4
1963	—	12.9	26.3	4.5	10.5 (17.6)	—	18.7	18.2	20.8	8.1
1964	1.2	13.9	28.6	4.5	7.9 (15.6)	—	19.6	20.8	21.6	10.1
1965	2.5	13.6	31.1	4.2	12.0 (19.8)	2.3	18.0	20.8	21.8	9.7
1966	2.1	13.8	32.9	3.8	10.6 (18.3)	4.8	18.2	18.9	23.9	8.3

B. Sales Tax Revenue as a Percentage of Gross National Product

Fiscal Year Ended	Ceylon [2]	China	India [1, 4]	Japan	Korea [2]	Nepal [3]	Pakistan	Philippines	Thailand
1957	—	1.5	0.9	0.4	1.0 (1.4)	—	1.0	. . .	0.9
1958	—	1.6	1.0	0.4	1.2 (1.6)	—	0.9	1.0	1.0
1959	—	1.6	1.0	0.5	1.5 (2.0)	—	1.2	0.8	1.1
1960	—	1.5	1.1	0.5	1.8 (2.2)	—	1.0	1.0	1.2
1961	—	1.6	1.1	0.6	1.7 (2.0)	—	1.3	1.2	1.3
1962	—	1.4	1.2	0.5	1.4 (1.9)	—	1.4	1.4	2.3
1963	—	1.7	1.4	0.5	0.8 (1.3)	—	1.4	1.6	2.2
1964	0.02	1.7	1.6	0.5	0.5 (0.9)	—	1.6	2.0	2.3
1965	0.04	1.8	1.6	0.4	0.9 (1.4)	0.01	1.6	1.8	2.4
1966	0.05	1.8	1.5	0.4	1.0 (1.7)	0.02	1.6	1.5	2.6

For footnotes, see page 553.

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The most substantial decline in relative dependence on the sales tax is observed for Viet-Nam; this may be explained by the exclusion of imported goods in 1962. It may be observed that during each of the periods 1958–61 and 1962–66, however, the sales tax revenue share remained approximately constant.

Thailand's sales tax revenue experienced the greatest increase over this period—from 10.4 per cent of total taxes in 1957 to 23.9 per cent in 1966. However, with the exception of a substantial increment that resulted from internal tax reform in 1961, the growth in revenue importance has been modest and fairly consistent. Under the 1961 reforms Thailand's flat-rate turnover tax was replaced with an essentially single-stage manufacturer's (or importer's) sales tax with differential rates. It is interesting that, although the latter form increased the level of the sales tax revenue share, the rate of increase in the revenue share was about the same for the two systems.

Since the turnover tax in Ceylon has been operative only since 1964, it is not amenable to quantitative analysis. In 1966 sales taxes accounted

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Footnotes to Table 5

Sources: Ceylon: *Accounts of the Government of Ceylon for the Financial Year 1966–67;* GNP is from International Monetary Fund, *International Financial Statistics.*

Republic of China: *Statistical Abstract of the Republic of China 1964* and *1966.* GNP is from *IFS Supplements.* Data include only commodity tax revenue. Total tax revenue includes that of the provinces, principally Taiwan.

India: Includes State Governments only. Sales tax includes general sales tax, Central Government sales tax, and sales tax on gasoline. Total tax revenue includes States' share of Central Government taxes. Sales tax taken as ratio of national income. Reserve Bank of India, *Report on Currency and Finance for the Year 1959–60* and *Report on Currency and Finance for the Year 1966–67.*

Japan: For 1957–63, Ministry of Finance, *An Outline of Japanese Taxes, 1966;* for 1964–66, Ministry of Finance, *Fiscal Statistics* (*Japanese edition, 1967*); for 1965 and 1966, revised budgets.

Korea: Ministry of Finance, *Year Book of Tax Statistics, 1965,* and other data.

Nepal: Ministry of Finance, Budget Speeches.

Pakistan: Includes Central Government, East Pakistan Government, and West Pakistan Government. Revised estimate for 1966. Ministry of Finance, *Pakistan Economic Survey, 1966–67.*

Philippines: Sales tax includes gross revenue from sales under Sections 184, 185, and 186 of the NIRC and compensating and advance sales tax. Treasury Department, Bureau of Internal Revenue, and Central Bank of the Philippines, *Statistical Bulletin,* March 1967.

Thailand: Budget Bureau, *Government Revenues.* GNP is from *IFS Supplements.*

Viet-Nam: U.S. Agency for International Development—Viet-Nam, *Annual Statistical Bulletin.*

[1] Fiscal year ending March 31 of the following year.

[2] The first column includes only the commodity tax; the figures in parentheses cover both commodity tax and business activity tax.

[3] Gross domestic product.

[4] Per cent of national income.

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for only 2.1 per cent of Ceylon's total tax collections, the smallest fraction observed among the 10 countries. Moreover, Ceylon's general sales tax accounts for less than 10 per cent of total domestic taxes on goods and services.

Sales tax collections of the Indian States and their share of total tax collections have been rising steadily since 1951/52 (Table 6). Between

TABLE 6. INDIAN STATE GOVERNMENTS: GENERAL SALES TAX REVENUE, LAND REVENUE, AND TOTAL TAX REVENUE, 1951/52–1965/66

	General Sales Tax [1]	Land Revenue	Total State Tax Revenues [2]	General Sales Tax as a Percentage of Total Tax Revenues	Land Revenue as a Percentage of Total Tax Revenues
	←	(million rupees)	→		
1951/52	589.3	479.9	2,810.5	21.0	17.1
1952/53	572.0	574.1	3,049.2	18.8	18.8
1953/54	656.8	707.3	3,303.0	19.9	21.4
1954/55	736.6	725.8	3,372.2	21.8	21.5
1955/56	816.0	780.1	3,561.4	22.9	21.9
1956/57	976.0	832.0	3,957.0	24.7	21.0
1957/58	1,172.2	877.2	4,719.8	24.8	18.6
1958/59	1,238.7	918.5	5,370.6	23.1	17.1
1959/60	1,368.3	951.5	5,774.2	23.7	16.5
1960/61	1,587.4	971.9	6,247.8	25.4	15.6
1961/62	1,814.4	952.3	6,625.8	27.4	14.4
1962/63	2,088.7	1,200.7	7,939.5	26.3	15.1
1963/64	2,683.1	1,234.2	9,390.6	28.6	13.1
1964/65	3,184.2	1,197.9	10,224.2	31.1	11.7
1965/66	3,677.9	1,119.3	11,177.5	32.9	10.0

Source: Reserve Bank of India, *Report on Currency and Finance for the Year 1966–67*.

[1] Includes general sales tax, Central Government sales tax, and sales tax on gasoline.

[2] Includes share of Central Government tax collections.

1952 and 1966, general sales tax revenues increased by six times, and their revenue share grew from approximately one fifth to one third of total tax revenue. By contrast, over the same period the proportion of land revenues declined from 17 per cent to 10 per cent of total tax revenues.

The relative dependence of the Indian States on sales taxes varied (in 1965/66) from 46.1 per cent of total tax revenues in Maharashtra to 11.2 per cent in Jammu and Kashmir (Table 7); however, the ratios for 12 of the 15 States covered ranged between 25 per cent and 40 per cent. There does not appear to be any consistent relationship between interstate differences in degree of reliance on the sales tax and interstate differences in industrial structure or levels of urbanization. By the same token, there is no evidence here to suggest that the choice of a sales

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TABLE 7. INDIAN STATE GOVERNMENTS: ECONOMIC AND DEMOGRAPHIC FACTORS

States	Area, 1961 (*square miles*)	Population, 1967 (*thousands*)[1]	Urban Population as a Percentage of State Population, 1961	Working Population as a Percentage of State Population, 1961	Per Capita Gross Value of Agricultural Production, 1958/59 (*rupees*)	Per Capita Value Added by Manufacturer, 1961 (*rupees*)	Per Capita Electricity Generated, 1961/62 (*kilowatt-hours*)	Number of Literate Persons per 1,000 Population, 1961	Sales Tax as a Percentage of State's Tax Revenue, 1965/66	Per Capita Sales Tax, 1965/66[1] (*rupees*)
Andhra Pradesh	106,286	35,983	17.45	51.87	114.1	7.68	29.91	212	26.9	6.8
Assam	47,091	11,873	7.69	43.26	145.5	22.97	3.63	274	26.0	6.7
Bihar	67,196	46,456	8.43	41.40	82.6	14.46	32.52	184	25.8	4.6
Gujarat	72,245	20,633	25.76	41.07	82.1	48.82	65.71	305	40.0	13.1
Jammu and Kashmir	86,023	3,561	16.66	42.80	55.0	2.89	20.21	110	11.2	2.1
Kerala	15,002	16,904	15.11	33.31	75.2	14.11	40.74	468	36.5	10.8
Madhya Pradesh	171,217	32,372	14.29	52.30	123.2	8.80	20.92	171	29.3	6.2
Madras	50,331	33,687	26.69	45.57	93.3	23.93	74.78	314	39.4	12.2
Maharashtra	118,717	39,554	28.22	47.90	82.1	67.35	91.33	298	46.1	17.8
Mysore	74,210	23,587	22.33	45.47	74.9	14.47	46.39	254	32.2	8.3
Nagaland	6,366	369	5.19	59.35	. . .	. . .	. . .	. . .	. . .	. . .
Orissa	60,164	17,549	6.32	43.65	62.9	6.87	33.87	217	30.3	5.7
Punjab[2]	47,205	20,307	20.13	34.97	104.3	11.93	90.98	242	28.1	9.8
Rajasthan	132,152	20,156	16.28	47.55	90.0	5.22	7.00	152	29.5	7.0
Uttar Pradesh	115,654	73,746	12.85	39.12	103.7	8.44	18.38	176	20.6	3.7
West Bengal	33,829	34,926	24.45	33.17	99.5	58.24	75.68	293	38.3	13.0
All States	1,203,688	431,663	17.64	43.00	102.0	22.47	44.60	239	32.9	8.5

Sources: *Report of the Finance Commission, 1965;* Reserve Bank of India, *Report on Currency and Finance.*
[1] Estimated mid-year population, 1967.
[2] Now divided into two States—Punjab and Haryana.

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tax system is dictated primarily by the structure of the local economy. For example, in the 4 most highly urbanized States, Maharashtra and Gujarat have mixed single-stage and multistage sales tax systems, and Madras and West Bengal have single-stage and multistage systems. In the 4 least urbanized States, Assam and Orissa impose single-stage sales taxes, and Bihar and Uttar Pradesh impose single-stage and multi-stage taxes.

Elasticity of yield

An adequate sales tax system should yield revenue that increases with the growth of the economy, without frequent rate adjustments. A commonly employed measure of the sensitivity of tax yield to economic change is the average relationship between sales tax revenues and income over a period of time.[26] A simple approach to estimating this relationship empirically involves fitting a simple trend line between sales tax collections and GNP. The slope of this linear function, the "flexibility coefficient," may be interpreted as the average change in sales tax revenues per unit change in GNP. The results, computed for 7 countries, show the average changes to range from 0.41 per cent of GNP in Japan to 4.2 per cent in Thailand (Table 8).[27] The flexibility coefficients thus tend to vary with the relative importance of sales taxes.

A more commonly employed index of sensitivity measures the elasticity of tax revenues with respect to economic growth. It is estimated by fitting a trend line between the logarithmic transformations of sales tax revenues and GNP; the slope of the function is the "elasticity coefficient" and indicates the average percentage change in sales tax revenues that has accompanied a 1 per cent change in GNP.[28] These data do not accurately measure the built-in elasticity of the sales tax system because no adjustment is made for changes in rates, coverage, exemptions, and

[26] An alternative method employing the covariability between the tax base and GNP was employed in estimating the income elasticity of a hypothetical sales tax for Colombia. See Jonathan Levin, "The Effects of Economic Development on the Base of a Sales Tax: A Case Study of Colombia," *Staff Papers,* Vol. XV (1968), pp. 48–60.

[27] Ceylon, Indonesia, Nepal, Malaysia, and Viet-Nam are excluded either because of inadequacy of GNP data or because the sales tax experience in these countries was of too short duration to estimate the functional relationship.

[28] The elasticity coefficient is equal to the flexibility coefficient divided by the ratio of sales tax revenue to GNP. It should be noted here that the linear and double logarithmic estimates of the sales tax/income coefficient require a different set of assumptions about the income elasticity and income flexibility of the sales tax. The linear fit would hold that the flexibility is constant over all levels of GNP, while the elasticity changes with GNP. Conversely, the exponential fit requires the assumption that the elasticity is constant over all levels of GNP and the flexibility is variable.

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TABLE 8. SELECTED FAR EASTERN COUNTRIES: AVERAGE RESPONSE OF SALES TAX REVENUES TO CHANGES IN GROSS NATIONAL PRODUCT, 1957–66

(In per cent)

	Flexibility [1]	Elasticity [2]
Korea		
Commodity tax	0.66	0.58
Commodity tax plus business activity tax	1.38	0.82
Japan	0.41	1.06
China, Republic of	1.95	1.13
Pakistan	2.39	1.87
Philippines [3]	2.41	1.93
India	2.05	2.16
Thailand	4.20	2.43

Source: See Table 5.

[1] Computed by least-squares fit of

$$ST_i = a + b_1 GNP_i + e$$

where ST_i = sales tax revenues in the ith year
GNP_i = GNP in the ith year
b_1 = sales tax flexibility coefficient
e = stochastic component.

[2] Computed by least-squares fit of

$$\log ST_i = \log a + b_1 \log GNP + e$$

where b_1 = sales tax elasticity coefficient.

[3] 1958–66.

enforcement. Moreover, where large jumps have occurred because of tax reform (e.g., in Thailand), the conclusions suggested by this approach are misleading. Nevertheless, the elasticity coefficient may provide some evidence of the historical capability of governments to expand reliance on the sales tax as national income increases. On the basis of these computations, only Korea's sales tax revenues have not been income elastic, that is, revenues have not increased at a greater rate than has GNP. However, the record has been distorted by changes in legislation, and there is no inelasticity inherent in, for example, the base of the business activity tax. China's and Japan's sales taxes were only slightly elastic, while those of Pakistan, the Philippines, India, and Thailand had a fairly high elasticity. The high coefficients of the latter two can be explained in large part by the legislative increases in the sales tax base and rates.

Determinants of base expansion

Although the elasticity coefficients described above reflect a myriad of rate, exemption, enforcement, and base effects, it is desirable to

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examine and compare two major considerations affecting the adequacy of the sales tax base: (1) import coverage and (2) commodity composition and domestic coverage.

Import coverage. The revenue importance of sales taxes as well as their fluctuations may often be explained by the coverage of imports. Sales tax revenues derived from imported goods account for about 9 per cent of total sales tax collections in China, 36 per cent in Korea,[29] 42 per cent in Pakistan,[30] about 60 per cent in the Philippines,[31] and an estimated 90 per cent in Nepal. Budget estimates for 1969/70 indicate that Indonesia expects to realize about 50 per cent of its sales tax revenues from the newly enacted coverage of imported goods. No comparable data are available for the other countries.

Viet-Nam withdrew its production tax on imports in 1962. The sharp reduction in the importance of production tax revenues in 1962, from 30 per cent to 8 per cent of total tax revenue, emphasizes the comparative significance of imports in the sales tax base.[32]

The importance of imports for sales tax collections was recognized by the Government of Pakistan when it made the sales tax a Central Government levy, and in 1951–52 receipts increased substantially because of a liberal import policy. Conversely, the relative constancy of sales tax revenues after 1951–52 is attributable to a decline in revenues derived from levies on imported and exported goods. It was found that the extension of the sales tax to domestic manufacturers would barely compensate for the loss from these other sources.[33]

Commodity composition and domestic coverage. The composition of the main commodity (and service) components of the sales tax varies from country to country because of differences in coverage, consumption patterns, etc. Although few quantitative breakdowns are available, it is of some interest to know the principal revenue carriers.

Where the sales tax yield is dependent primarily on local production, the coverage of the tax is narrow, and when new products are nontaxable during the growth period, expansion in domestic production may not be accompanied by a corresponding increase in sales tax collections. For

[29] Ministry of Finance, *Year Book of Tax Statistics, 1965* (Seoul, 1965), p. 240.

[30] Ministry of Finance, *The Explanatory Memorandum of the Budget* (Rawalpindi, 1966).

[31] In 1964/65 the percentage was 71.1 and in 1965/66, 67.8; estimates for 1966/67 show a decline to about 60 per cent (Treasury Department, Republic of the Philippines).

[32] Imports were subject to a 15 per cent rate on necessities and 35 per cent on luxuries based on c.i.f. values plus import duties. In 1962 the sales tax on imports was replaced by the new austerity tax on imports.

[33] A.H.M. Nuruddin Chowdhury, "The Predictability and the Flexibility of Tax Revenues in Pakistan," *The Pakistan Development Review,* Vol. II (1962), pp. 207–208.

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example, in China, where the commodity tax has a narrow base, products of many growth-oriented industries have been virtually excluded from the tax net. The commodity tax base includes only a limited list of manufactured commodity groups and completely excludes agricultural raw materials. Four classes of goods—petroleum products, cement, motor vehicles, and sugar—now contribute over 60 per cent of the revenue. The tax on textiles is levied on yarn but not on raw cotton or finished fabrics; in the past only about one half of the gross product of the food-processing, textile, and rubber industries has been taxed, and only about two thirds of the products of the lumber industry.[34] Despite periodic extension of the list of taxable goods, China's failure to keep pace with a variety of new products accompanying economic growth may largely explain the relatively low income elasticity of its commodity tax over the period examined. Since 1966, however, the ratio to GNP has risen significantly.

The commodity tax in Japan shows relative stability of revenue, even though four commodities—passenger automobiles, television sets, electric refrigerators, and cameras—have accounted for about 56 per cent of its revenues.[35] In Korea, a limited list of commodities, such as cotton yarn, semifinished wool, cement, filament raw silk, resin, synthetic rubber, raw sugar, artificial rayon yarn, and chemical fiber, account for the bulk (about 90 per cent) of commodity tax revenue.[36] With effect from January 1, 1968, the scope of the tax was expanded to cover a larger number of consumer durable goods. About 27 per cent of Viet-Nam's revenues are derived from excisable commodities—beer, carbonated beverages, tobacco, and sugar—and about 35 per cent from textiles, chemicals, electricity, and building.

Estimates for Indonesia indicate that about 59 per cent of all domestic turnover tax revenues are currently derived from the manufacturing sector, about 24 per cent from agricultural processing, and 15 per cent from services. The Indonesian luxury tax base, subject to a 50 per cent rate, is relatively small and yields little revenue. Similarly, for 1960 the Philippines' tax on semiluxuries and luxuries is estimated to account for about only 3 per cent of tax revenues.[37]

One of the virtues of the multistage type of tax is its broadness of coverage. Although only two of the single-stage selective or general

[34] Shun-Hsin Chou, *The Impact of Fiscal Incentives on the Development of Manufacturing Industries in Taiwan* (mimeographed, UN Industrial Development Organization, February 1966), Table 4.1.

[35] *An Outline of Japanese Taxes, 1967* (cited in footnote 4), p. 120.

[36] *Year Book of Tax Statistics, 1965* (cited in footnote 29), p. 240.

[37] Joint Legislative–Executive Tax Commission, *A Study of Tax Burden by Income Class in the Philippines* (Manila, 1964), p. 83. It is believed that this percentage is much higher now.

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sales tax systems covered embrace services (Indonesia and Thailand), all of the multistage variety do. No data are available on the revenue contributed by services (except for Indonesia), but the greater comprehensiveness of their coverage should ensure not only greater revenue potential but also greater stability.

No detailed data are available for the revenue collection by commodities in India. The revenue importance of different commodities varies among the States owing to differences in the system of levy, structure of economy, pattern of trade and consumption, and perhaps the degree of monetization. The Taxation Enquiry Commission made a limited survey of this situation and found that in Madras items that yielded substantial revenue were paddy and rice, provision stores, and mill cloth; in Mysore, provision stores, cotton cloth, oilseeds and vegetable oils, coffee, and hand-loomed cloth; in Orissa, coarse and medium cloth, cotton and cotton yarn, and vegetable oils.[38] In Andhra Pradesh it was estimated that about 22 per cent of total sales tax collections (in 1959/60) was derived from ten major agricultural commodities: rice, pulses, millet, groundnuts, chilies, coconuts, jute, turmeric, cotton, and jaggery.[39] In Maharashtra (during 1960–61), 54 per cent of the registered dealers were dealing in such commodities as food items, soaps, tobacco, oilseeds, vegetables, perfumes, restaurant and bakery goods, lubricants, and all types of cloth including garments, cotton wool, silk yarn, and staple fiber. In spite of many exemptions provided under the tax law, the "food categories" accounted for 29 per cent of sales and 23 per cent of total sales tax collections of the State. Luxury items—radios, phonographs, photographic equipment, clocks, watches, all types of ornaments, jewelry, etc.—accounted for less than 4 per cent of the total sales tax collected in the State.[40]

The revenue collected in each State is not always a burden on its own consumers but rather on its producers. In some States (such as Andhra Pradesh)[41] the bulk of the sales tax collections is from exports of agricultural products to other States, while in others (e.g., Kerala) a substantial portion of sales tax revenues is derived from exports of fish, cashew nuts, coir, and tea.[42]

[38] *Report of the Taxation Enquiry Commission* (cited in footnote 17), pp. 36–37.

[39] P.S. Lokanathan, *Sales Tax System in Andhra Pradesh: A Review* (National Council of Applied Economic Research, New Delhi, 1963), pp. 43 and 56.

[40] D.S. Kulkarni, "A Report on the Sales Tax Survey in Maharashtra State for the Year 1960–61 (Part I)," *Quarterly Bulletin of Economics and Statistics* (Government of Maharashtra, Bureau of Economics and Statistics, Bombay), Vol. VI, No. 1, April–June 1965, pp. 5–59.

[41] Lokanathan, *op. cit.*, p. 8.

[42] Ministry of Commerce, *Report of the Committee on Sales Tax* (New Delhi, 1964), p. 32.

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No clear-cut relationship between per capita sales tax collections and various socioeconomic factors emerges from the data for the States of India (Table 7). However, States with the highest percentage of urban population and highest per capita value added by manufacturing (e.g., Mysore, Punjab, Madras, Gujarat, Maharashtra, and West Bengal) tend to have the highest per capita sales tax revenue, and those with the lowest ratios tend to have the lowest per capita sales tax revenue.

Economic effects

Diversion of resources

A sales tax is a tax on consumption, and it channels resources from private to public purposes. Its effect is to restrict the consumption of particular commodities in different ways. Without adequate information about price elasticities, income distribution, and consumption patterns, it would be extremely difficult to arrive at any meaningful conclusion as to the sumptuary effects of a sales tax.

The introduction (or increase) of a selective sales tax may divert resources from taxed to nontaxed sectors and thus cause unemployment of resources in the former sector. The nature and extent of the sales tax impact on the displaced worker would depend in such cases upon the speed with which he is absorbed by the other fields of employment. If the job opportunities are limited or if he is required to acquire new skills to get a new job, the sales tax would impose substantial burdens. However, the impact of a sales tax on consumers and producers is hard to determine because of the uncertainty of consumer behavior and producer response.

Impact on exports

In order to ensure their competitiveness in the international market, exports of finished goods are generally exempt from sales tax, and in some countries basic raw materials used in the manufacture of goods for export are also exempt.[43]

In India, exports are exempt from State sales taxation under the Constitution, and some States exempt sales of export items prior to the stage of final export. However, there is no uniform practice in this respect under State sales tax laws; hence the sales tax burden on exports varies among the States.[44] Some exports are subject to a Central Government sales tax in the course of interstate trade. In some States (e.g., West

[43] Pakistan taxes a few export items, and Indonesia taxes exports of some processed agricultural products, including rubber.

[44] *Report of the Committee on Sales Tax* (cited in footnote 42), pp. 19–22.

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Bengal), all transactions that take place through a chain of registered dealers and result in final export are free from sales tax, while in others (e.g., Gujarat and Maharashtra) only two sales prior to final export are exempt from tax. Sometimes provision is made for rebates or exemption of sales preceding the point of final export.

State sales tax rates range between 2 per cent and 10 per cent on most commodities, and the Central Government sales tax on most export commodities is normally limited to 3 per cent. However, in States levying a multipoint sales tax and where several intrastate and interstate transactions occur prior to export, the cumulative burden may be substantially higher than the legal rates.[45] If the sale of any commodity is unconditionally exempt under a State sales tax act, it would be similarly exempt in the course of interstate sales originating in the same State.[46]

Economic neutrality

An optimal tax system should be economically neutral in the sense of avoiding as far as feasible unnecessary and unintended changes in relative prices and methods of doing business. The unnecessary and unintended changes may be classified as distortions, as distinguished from other changes in relative prices and resource allocation that are brought about by taxation. The following analysis explores conceptually the distortions that are attributable to alternative forms of sales tax and evaluates the practices of the countries under study in terms of economic neutrality.

Price effects. Of the various sales tax systems, only a uniform tax at the retail level (including a tax on value added) is capable of providing complete economic neutrality in the sense of avoiding price effects that may cause a reallocation of consumer expenditures. At the opposite end of the spectrum is a multipoint turnover tax. Because the tax is levied on gross sales at each point in the chain of production and distribution, it may be cascaded forward onto the final consumer; and because the production and distribution process varies in different industries, relative prices will be affected by the tax. If the tax is levied at differential industry rates, the distortions may become even more severe than if a uniform rate is applicable.

Between these two extremes lie the alternatives of the single-stage manufacturer's or wholesaler's sales tax and the two-stage sales tax.

[45] *Ibid.*, pp. 19–22 and 41–42; also, Ministry of Finance, *Report of the Central Excise Reorganisation Committee* (New Delhi, 1963), pp. 7–15 and 60–64.

[46] The Committee on Sales Tax recommended some ad hoc reliefs in respect of export goods. Such rebates tend to compensate more than necessary where the sales tax burden is lower, and inadequately where the actual burden is higher than the amount of the rebate. *Report of the Committee on Sales Tax* (cited in footnote 42), pp. 19–32.

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In general, the two-stage levy on gross sales is but a variant of the turnover tax and also is subject to the objection that relative prices are affected. The problem of cascading arises even with a single-stage tax at the manufacturer's or wholesaler's level unless special provision is made for the exemption of purchases of raw and semifinished materials. This is recognized by several of the countries studied.

A tax levied at any stage below the retail level also tends to be pyramided by reason of the profit margins based on costs to the seller. A single-stage levy at the manufacturer's level offers a potential for greater pyramiding than a single-stage levy at the wholesaler's level, since the increment varies directly with the size of the margins between the point of impact of the tax and the final retail price.

As an alternative to the multistage turnover tax, some countries—e.g., France, Denmark, Germany, Sweden, and Uruguay—have turned to the value-added system of taxing sales. As was indicated above, many countries with a single-stage tax below the retail level incorporate the value-added principle by providing a credit for taxes paid by their suppliers. Under a value-added system, the tax may be imposed on each transaction, with due allowance (or credit) for taxes paid on previous transactions. A value-added tax extended through the retail level should produce about the same revenue as an equal-rate, single-stage retail sales tax, and would provide the same distribution of burden if the tax were shifted forward in full at each stage. If the value-added tax extends only through the wholesale level, it should yield about the same revenue as that of a wholesale sales tax with an equal rate.

Effects on methods of doing business. A retail sales tax and a value-added tax through the retail level are also preferable to other forms of sales tax on grounds of neutrality in the treatment of different systems of production and distribution. Again, a multistage turnover tax introduces the greatest distortions. Because it is paid on sales at each stage in the production process, it may be avoided through vertical integration or through consignment arrangements where title to the goods does not pass. Vertical integration jeopardizes the position of independent producers and puts them at a cost/price disadvantage by the amount of the tax saved. Neither are single-stage taxes levied at the manufacturer's and wholesaler's levels neutral in terms of tax treatment of businesses. A single-stage manufacturer's tax discriminates against forward integration, and a single-stage wholesale tax favors the retailer that makes quantity purchases directly from the manufacturer.

Comparative neutrality of sales tax systems. Although a multistage turnover tax is, in general, the least neutral form of levy on sales, specific practices of different countries result in varying degrees of economic dis-

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tortion. This is true especially of the multistage systems in effect in Ceylon, China, Korea, and some of the Indian States. Ceylon's turnover tax system provides for the exemption of agricultural products and their processing. On the other hand, neither China's nor Korea's business tax allows the deduction of taxes paid on raw materials, but the rates are sufficiently low to be unobjectionable.

Countries with manufacturers' sales taxes have attempted to eliminate their cascade effect by exempting purchases of raw materials and semi-finished goods (e.g., China, Korea, Pakistan, and the Philippines) or by allowing a deduction for the production tax paid in a prior stage (e.g., Viet-Nam). Indonesia's system engenders substantial price distortions because of multiple taxation of many products at the raw material and intermediate processing stages. Attempts to reduce these distortions have been made by exempting raw materials and supplies of some goods and by reducing the rates on other materials and supplies. Some of these countries, e.g., China and Indonesia, have been considering the replacement of their present sales taxes with value-added taxes.

Only Nepal among the countries levying a single-stage tax has a retail sales tax. (Some Indian States also have retail taxes.) Even here, however, the substitution of a wholesale base for goods bought by small retailers has introduced a serious problem of discrimination, which is not entirely removed by the wholesale markup assumed for tax purposes.

In summary, the economic impact of a sales tax depends upon its mode, coverage, and rate. A general sales tax with a standard rate on all goods and services levied at the stage that is near the final consumer is relatively neutral in its economic effects. The further the stage of the tax is removed from the final consumer, the greater is the discrimination introduced in the marketing channels used. The relative competitiveness of various products also is seriously affected if there are numerous rates and exemptions for different categories of goods. A selective commodity tax system clearly introduces greater distortions than a general sales tax with uniform rates and complete coverage of goods and services.[47]

EQUITY

A sales tax may be shifted forward (to consumers), backward (to the factors of production), or shared among the manufacturing, distribut-

[47] High Authority of the European Coal and Steel Community, *Report on the Problems Raised by the Different Turnover Tax Systems Applied Within the Common Market,* 1953; European Productivity Agency of the Organization for European Economic Cooperation, *The Influence of Sales Taxes on Productivity* (Paris, 1958); *Report of the Royal Commission on Taxation, Volume 5: Sales Taxes and General Tax Administration* (Ottawa, 1966); *Report of the Taxation Enquiry Commission* (cited in footnote 17).

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ing, and consuming sectors, depending on the elasticities of demand and supply and on the distribution methods used.[48] It is a consensus that sales taxes are borne primarily by final consumers.

Current data on market structures and consumption patterns are not available for all the countries covered here. However, for India, Korea, the Philippines, and to a lesser extent for Japan and Ceylon, there is some qualitative and quantitative evidence of substantial variation among countries in the incidence of sales taxes on different income groups. The distribution of the burden by income groups is discussed below for India, the Philippines, and Japan and Ceylon.

India

In India the dealer pays the tax initially and, depending on the elasticity of demand and the state of knowledge, shifts it to producers or consumers; the producer's imperfect knowledge of alternative market possibilities may enable the dealer to shift the burden backward. For example, in Andhra Pradesh it was found that where goods are subject to multipoint and single-point taxes levied at the last point of sale, dealers are able to pass on the burden to consumers. On the other hand, where goods are subject to a single-point levy at the point of first purchase, i.e., on agricultural commodities, the dealer has tended to shift the tax back to the producer. The provisions of the Sales Tax Act exempt farmers who sell their produce themselves on the nearest market. But if they sell on the spot to brokers, middlemen, agents, or processors, they generally get a price less the amount of tax. The burden on goods exported to other States and liable to tax at the last purchase is probably passed on to consumers in the other States.[49]

A study of the incidence of indirect taxes in India for the years 1953/54 and 1958/59 is based on the assumption that the full amount of the tax is shifted to the final consumer. The results of this research are summarized in Table 9. The study shows that the increase in the over-all burden of the sales tax, from 0.9 per cent of household expenditures in 1953/54 to 1.3 per cent in 1958/59, was accompanied by a

[48] For a discussion of the question of the incidence of the sales tax, see John F. Due, *Sales Taxation* (University of Illinois Press, 1957) and *The General Manufacturers Sales Tax in Canada* (Canadian Tax Foundation, Toronto, 1951); *Report of the Royal Commission on Taxation* and *The Influence of Sales Taxes on Productivity* (cited in footnote 47); *Report of the Taxation Enquiry Commission* (cited in footnote 17); U.S. Congress, House, *Excise Tax Compendium: Compendium of Papers on Excise Tax Structure Submitted to the Committee on Ways and Means,* Parts I and II (88th Congress, Second Session, June 15 and 16, 1964); G. Schmölders, *Developments in Taxation Since World War I, IV: Turnover Taxes* (International Bureau of Fiscal Documentation, Amsterdam, 1966).

[49] Lokanathan, *op. cit.,* pp. 6–7.

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TABLE 9. INDIA: SALES TAXES AND ALL INDIRECT TAXES IN RELATION TO CONSUMER EXPENDITURES

Monthly Household Expenditure (*in rupees*)	Sales Taxes			All Indirect Taxes		
	Rural	Urban	All	Rural	Urban	All
	← (*in per cent*) →					
			1953/54			
1– 50	0.4	1.3	0.6	2.2	2.6	2.4
51–100	0.6	1.5	0.7	2.4	4.5	2.7
101–150	0.6	1.5	0.7	2.6	5.1	3.1
151–300	0.7	1.5	0.8	2.8	5.1	3.3
301 and above	0.7	2.3	1.1	4.1	8.2	5.5
All households	0.6	1.7	0.9	2.9	5.9	3.6
			1958/59			
1– 50	0.5	1.7	0.7	2.5	5.8	3.1
51–100	0.7	2.2	1.0	3.6	7.1	4.3
101–150	0.8	2.4	1.2	4.1	8.0	5.1
151–300	1.0	2.4	1.3	4.8	9.0	5.9
301 and above	1.2	3.3	2.0	6.9	13.8	9.3
All households	0.8	2.5	1.3	4.4	9.3	5.7

Sources: Ministry of Finance, *Report of the Taxation Enquiry Commission, 1953–54,* Vol. I (New Delhi, 1955), pp. 45–84, and *Incidence of Indirect Taxation, 1958–59* (New Delhi, 1961).

more progressive distribution across the five selected expenditure groups of rural and urban households. In 1958/59, sales taxes ranged from 0.7 per cent of consumer expenditures in the lowest bracket to 2.0 per cent in the highest bracket. For rural households, the range was between 0.5 per cent in the lowest bracket and 1.2 per cent in the highest bracket, while for urban households it was 1.7 per cent and 3.3 per cent, respectively. The average burden of the sales tax on urban households in 1958/59, at 2.5 per cent of expenditure, was about three times that for the rural household (0.8 per cent), whereas in 1953/54 these proportions were 0.6 per cent for rural households and 1.7 per cent for urban households.[50]

Thus the burden of the sales tax in India (as well as the burden of all indirect taxes) was distributed in a progressive manner with respect to expenditures, within both rural and urban households.

In 1958/59 the relative tax burden of households in the highest expenditure bracket was almost three times greater than that of households in the lowest bracket, against twice as great in 1953/54. But the increase in sales tax for the lowest expenditure group of rural house-

[50] Between 1953/54 and 1958/59, the relative burden of the sales tax on all urban households increased slightly more than that on rural households. Lokanathan, *op. cit.,* Statements 1 (p. 4) and 2 (p. 19) and pp. 8–9.

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holds in 1958/59 was only 0.1 percentage point over that for 1953/54, against an increase of 0.4 percentage point for the corresponding urban household. This increased progressivity is partially due to a selective extension of coverage and certain rate adjustments. More specifically, the factors contributing to this increased progressivity are (1) the declines in the proportions of the value of nontaxable home-produced goods that accompany increases in the level of consumer expenditures, (2) the higher rates on luxury and semiluxury articles whose consumption tends to increase with rising expenditure levels, and (3) the tax exemption or low rate of taxation of many essential or near-essential items. (Foodgrains consumed by rural households are untaxed, and even urban consumption of cereals and pulses are tax free in several States and subject to low rates in others.)

Philippines

A study of tax burden in the Philippines based on 1960 data indicates a regressive distribution with respect to income.[51] The percentage of tax in relation to income (Table 10) declined from 2.5 for the lowest income group (less than ₱ 500) to 1.0 for those in the highest income bracket (₱ 10,000 and over). If luxury and semiluxury goods are examined apart from other commodities, a modest degree of progressivity is observable. For example, the tax burden on these items increased from 0.05 per cent of income for the lowest income bracket to 0.10 per cent for the highest income group. However, since taxes collected on luxury and semiluxury items were estimated to comprise only about 3 per cent of total sales tax collections in 1960, their impact on the over-all progressivity of the sales tax structure was negligible.[52]

It should be noted that the Philippine relationships are not comparable with those employed in India because of the difference in the base used. The ratio of sales taxes to expenditures is less regressive than the ratio of sales taxes to income, since low-income families tend to be dissavers while higher income families tend to save part of their incomes. Therefore, measurement of tax burden on a basis of consumption results in a higher average rate and a less regressive distribution than would a comparable analysis measured in terms of income. It is likely, however, that many people remain in a dissaving situation only temporarily, and pay consumption taxes on purchases either from past income (i.e., savings) or from income of future years (i.e., credit).

[51] *A Study of Tax Burden by Income Class in the Philippines* (cited in footnote 37), p. 83.

[52] All taxes on production and sales also show no progressivity; the over-all burden is estimated at 14.6 per cent, and drops from 21.3 per cent on the lowest income group to 12.2 per cent for the highest one. *Ibid.*, p. 89.

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Table 10. Philippines: Family Sales Tax Burden in Relation to Income, by Income Class, 1960

Income Class	All Taxes on Production and Sales	Sales Tax: Luxury and semiluxury goods	Sales Tax: All other commodities	Sales Tax: Total
(pesos)	←	*(per cent)*		→
Less than 500	21.3	0.05	2.41	2.47
500– 999	16.7	0.03	2.01	2.04
1,000–1,499	14.1	0.03	1.72	1.74
1,500–1,999	14.4	0.04	1.81	1.84
2,000–2,999	15.5	0.04	1.72	1.76
3,000–3,999	15.0	0.05	2.05	2.10
4,000–4,999	13.9	0.06	1.84	1.90
5,000–5,999	12.8	0.04	1.44	1.48
6,000–6,999	10.5	0.03	1.37	1.40
7,000–7,999	11.4	0.04	1.32	1.36
8,000–8,999	10.7	0.05	1.22	1.27
9,000–9,999	12.7	0.04	1.64	1.68
10,000 and over	12.2	0.10	0.86	0.96
All income classes	14.6	0.05	1.68	1.73

Source: Joint Legislative–Executive Tax Commission, *A Study of Tax Burden by Income Class in the Philippines* (Manila, 1964), pp. 83 and 89.

Korea

In Korea the results of a budget survey of 1,720 sample households selected from 30 urban areas are the basis for a quantitative analysis of tax burden.[53] The sample is grouped into low-income, middle-income, and high-income classes on a basis of the percentage of income spent for food; low income is defined as that of which more than 70 per cent of monthly expenditures is for food, middle income is that with food expenditures between 50 per cent and 70 per cent, and high income is that with food expenditures about 50 per cent. Table 15 in the Appendix shows the commodity tax burden (taxes per won of income) by specific types of commodity for the income classes.

The results of this analysis indicate that in total the Korean commodity tax is progressive as to income (see the first line of Table 15).

[53] Korean Development Association, *A Study of Internal Consumption Tax Burden by Income Class in Korea* (Seoul, 1966). The calculation of effective tax rates is based on the assumptions common to most empirical tax burden studies: (1) that the burden of internal consumption taxes is borne by a family in proportion to the sum of its expenditures on taxable goods, (2) that internal consumption taxes are shifted forward entirely to final consumers, and (3) that consumers do not change their consumption behavior because of the internal consumption tax burden, nor do they operate under a money illusion.

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The effective rate on taxation of luxury goods varies with the income level—wardrobe items, coffee, and sugar showing some degree of progressivity. For luxury goods in the aggregate, the pattern of effective rate is consistently progressive. For semiluxury goods—soft drinks, sewing machines, etc.—the heaviest burden falls on families with a monthly income of more than W 6,000. Among the middle-income and higher income brackets, no systematic variation between income level and effective rate is observable. For daily necessities, the pattern of effective rate is roughly progressive up to an income of W 10,000. While for sliding-door paper and wallpaper expenditures (both closely related to housing costs) the effective rate structure is progressive, that for cotton sheeting and poplin (both closely related to clothing costs) is markedly regressive beyond the lower income and middle-income classes. The rates on cotton yarn, other housing materials, plywood, and plate glass show an effective rate pattern that is regressive, while that for galvanized iron sheet is progressive.

Japan and Ceylon

Although sales taxes in Japan and Ceylon comprise but a small fraction of the total national budget, an examination of their respective tax burden patterns is nevertheless of interest. Japan's single-stage commodity tax is sharply progressive for incomes up to about ¥ 35,000, but for higher incomes it is approximately proportional.[54] This rising tax/income ratio over the lower income brackets is expected, because of the monetary exemption and the luxury base under Japan's tax. However, the proportionality across higher income classes is less than expected because the selective rate structure and tax base are designed to bear most heavily on the higher income brackets.

The structure of effective tax rates is not available for Ceylon's turnover tax; however, estimates of the relative size of the tax base by income class are available (Table 11).[55] The composition of the tax base indicates a pattern that is approximately proportional, with the exception of the lowest and highest income groups. Since the tax is levied at rates of 5 per cent to 10 per cent on first sales by manufacturers and 1 per cent on other businesses, effective tax rates may not diverge much from the pattern shown in Table 11.

[54] Ryuichiro Yakata and Tatehiko Watanabe, *Economic Growth, and Public Finance and Banking* (1965), p. 69, as reported in *A Study of Internal Consumption Tax Burden by Income Class in Korea* (Korean Development Association, Seoul, 1966), pp. 42–44.

[55] Based on Central Bank of Ceylon, Department of Economic Research, *Survey of Ceylon's Consumer Finances, 1963* (Colombo, 1964).

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TABLE 11. CEYLON: TAX BASE FOR TURNOVER TAX IN RELATION TO TOTAL CONSUMPTION AND INCOME, 1963

Family Income (*in rupees*)	Tax Base [1] as Percentage of	
	Total consumption	Family income
0–300	13.2	17.7
300–600	16.7	20.4
600–1,200	17.8	20.3
1,200–2,400	19.4	21.0
2,400–4,800	20.9	22.2
4,800–9,600	23.5	21.5
9,600–12,000	26.6	24.4
12,000–18,000	28.0	22.3
Over 18,000	30.4	25.5

Source: Based on Central Bank of Ceylon, Department of Economic Research, *Survey of Ceylon's Consumer Finances, 1963, Part II* (Colombo, 1964).
[1] Tax base is consumption of milk products, cooking oil, nonalcoholic beverages, clothing, transportation, fuel and light, and consumer durable goods.

ADMINISTRATIVE CONSIDERATIONS

Multistage versus single-stage taxes

In a less developed country where vendors are numerous and small, a multipoint sales tax system with low rates and few exemptions may be feasible in terms of ease of compliance and enforcement. Accounts that traders must keep are minimal, and evasion is relatively easy to check. Burma, Indonesia, Japan, Malaysia, Pakistan, the Philippines, and Viet-Nam first adopted low-rate multistage sales tax systems, and multistage systems are still in effect in China, Ceylon, and Korea.

But a multistage system becomes increasingly complex as modifications in rates and coverage are introduced, and its administrative advantages tend to be increasingly offset by economic unneutralities. Japan and Malaysia abolished their multistage taxes, and Pakistan and Burma replaced theirs by a single-stage levy at the first point of sale. The action by Pakistan and Burma was taken mainly on the grounds of administrative feasibility; because fewer taxpayers are involved, a first stage, single-point sales tax system minimizes evasion, enables the enforcement of better accounts, and may be extended to the rural community more easily than a final stage levy, which may have to be confined to urban consumers.[56]

The first Indian State to levy a general sales tax, Madras, introduced a multipoint system with low rates and few exemptions, mainly on grounds of administrative ease. The State of West Bengal, with a rela-

[56] Taxation Enquiry Committee, *Interim Report* (cited in footnote 8), pp. 52–56; *Report of the Commercial Taxes Advisory Committee, 1951* (Rangoon, 1952), pp. 28–29.

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tively large industrial sector and a high degree of urbanization, followed by introducing a single-point levy at the retail stage. However, as the need for more revenue appeared, rates on certain articles were revised and exemption limits were modified to conform to economic and social objectives. Further, sales on certain articles were made taxable at the first stage, and there were adopted single-point and multipoint systems with high-low rates and separate higher rates for luxury goods.[57]

The administrative feasibility of the various systems of sales tax was examined in detail by the Indian Taxation Enquiry Commission. This examination was undertaken in response to the complaints of traders and merchants about the difficulties of maintaining books to the satisfaction of assessing authorities.[58] These businessmen expressed a preference for a single-stage levy, and some preferred replacing the sales tax with excise duties levied at the manufacturing stage; however, the Commission concluded that restricting the tax to selected commodities at high rates of levy at the first point would not be advisable. Because of interstate variations in consumption and trade patterns, the Commission did not find it possible to recommend adoption of any one system of general sales tax for all States. The evidence was not convincing that a single-stage, first-point tax would confine the tax to a limited number of dealers.[59] The alternative—the replacement of the sales tax with excise duties levied by the Central Government—would mean limiting the sales tax to domestically produced goods and would pose administrative as well as constitutional problems.[60] The number of establishments to be dealt with under a single-stage excise levy would be large.[61] It was argued that replacement of the sales tax with excises levied at the manufacturer's level would greatly reduce the tax base, since by their very nature excise duties must be selective. Accordingly, rates would have to be substan-

[57] *Report of the Taxation Enquiry Commission* (cited in footnote 17), pp. 18–30.

[58] *Ibid.*, pp. 34–53.

[59] For the year 1960/61, in Maharashtra State, 38 per cent (21,978) of the total registered dealers (58,306) were retailers and the rest were manufacturers, wholesalers, exporters, etc. The retailers accounted for only 10 per cent of total sales and 6 per cent of the sales tax paid in the State. See Kulkarni, *op. cit.*, p. 52, Table 5.20.

[60] At present over 80 items are taxable under excise duties levied by the Government of India. In 1957/58 a step was taken to replace with excise duties the sales tax on a few articles, in consultation with the State Governments. Industry and trade welcomed this move, as they were not required to maintain elaborate books to satisfy different State Governments, particularly for interstate transactions. Further replacement of sales tax with excise duties has not been possible because of resistance by the State Governments. *Report of the Finance Commission* (cited in footnote 20), pp. 21–45.

[61] The number of licensed premises where excisable goods are manufactured and have to be assessed for duty in India rose from about 4,000 in 1953 to about 40,000 in 1961. *Report of the Central Excise Reorganisation Committee* (cited in footnote 45), p. 68.

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tially higher to obtain equal revenue. Further, since excise taxes on manufacturers do not include in the tax base the costs of distribution subsequent to the production stage, they introduce a bias toward certain methods of doing business. Primarily because of differing economic, trade, and consumption patterns, the States of India have adopted a variety of sales tax systems, each thought to be the most appropriate to the particular economy.

Enforcement techniques

In Japan, Korea, and China, the patterns of commodity taxation and payment schedules are similar. In Japan, every retailer or manufacturer of taxable commodities is required to file a return with the chief of the national taxation office by the end of the month following sale, giving the description of commodities shipped or sold and the corresponding amount of tax. Retailers must pay the commodity tax at that time, and manufacturers must pay within a month thereafter. The recipient of imported goods from the bonded area must file a report with the chief of the customs house concerned, describing the quantity of commodities to be received and the corresponding amount of commodity tax. The recipient is required to pay—upon the receipt of commodities—a tax determined by the customs officials.[62]

In Korea, a manufacturer of taxable goods is required to file a return by the tenth day of the month following the month in which the commodities were removed from the factory. The tax must be paid by the end of the month in which the return is due. For imported goods, the return must be filed at the time of declaration of customs clearance, and the tax must be paid when the customs import clearance is obtained by the recipient. If the return is not filed in accordance with the law, the Government is authorized to determine the quantities removed from the bonded area, or received.[63]

In China, government officials are posted at factories or plants to effect collection at the time the commodities are shipped. Payment is evidenced by the affixing of stamps on the taxed commodities. The tax on imported goods is collected by the customs officials at the time of the levy of customs duties, and fines are assessed for failure to comply with the rules and regulations framed by the Ministry of Finance. A government-appointed price assessment committee adjusts the selling prices of taxable commodities, compiles price indices, and effects revision and assessment of taxable value.[64]

[62] *An Outline of Japanese Taxes* (cited in footnote 4), p. 123.
[63] Ministry of Finance, *Outline of National Tax as of March 1966* (Seoul), p. 53.
[64] China, *Selected Laws and Regulations Affecting Industry* (Council for U.S. Aid, Taiwan, 1960), pp. B-58–B-63.

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In the Philippines, the manufacturer is required to file a monthly return showing gross receipts, and to pay the tax within 20 days after the end of each month. Sales taxes on imported goods are payable before release from customs custody.

Administration in India

The administration of the sales tax in most States of India is in the hands of a separate department. The Central Government sales tax is administered by the sales tax authorities of the States, which generally exercise the same powers of levy, collection, and enforcement as under their respective State sales tax acts. Procedures for filing returns and payment of taxes, assessment, appeals, revision of assessments, and rules regarding maintenance of accounts vary considerably from State to State.[65]

The year of assessment is generally the fiscal year, April 1 to March 31, although in some States it is the business accounting year in accordance with the practices observed by the dealers. Normally, assessment is made for the entire year. For certain categories of dealers, shorter periods of assessment are also provided in some State laws.

Since the dealers from whom tax is to be collected are numerous and geographically scattered, a system of dealer[66] registration has been adopted for administrative convenience. Every registered dealer is liable to tax on the aggregate amount of the sale price of taxable goods, but sales by one registered dealer to another registered dealer are not taxable. Under a multipoint system, the act of registration provides a measure of control over the dealer, while under the single-point system it also helps to fix the point of tax liability.[67] The payment of tax is confined to the amount of tax on the turnover, excluding sales of exempt articles and sales to registered dealers. Returns are required periodi-

[65] For detailed discussion, see *Report of the Taxation Enquiry Commission* (cited in footnote 17), in particular pp. 14–16 and 63–76; *Report of the Committee on Sales Tax* (cited in footnote 42), pp. 35–47; and Kulkarni, *op. cit.,* pp. 5–59.

[66] "Dealer" is defined in most Acts as a person who carries on the business of selling or supplying goods in the States concerned. A cooperative society or club or an association that sells goods to its members is also treated as a dealer. In some States, a local authority or a State Government carrying on the business of selling is also treated as a dealer.

[67] For dealers trading in "single-point" goods, registration is compulsory regardless of the level of turnover; if there is a prescribed minimum monetary level of turnover, registration is required for dealers trading in general goods who have turnover above that limit. Sometimes two registration certificates are needed by a dealer trading in general goods and single-point goods. Lokanathan, *op. cit.,* pp. 31–37.

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cally—every quarter in most States, half-yearly in some, and monthly in a few.

The two-point system is applicable to goods that pass through organized points but possess large tax evasion potentialities. It aims at catching the goods at possible points of exit. As the dealers at the intermediate stages are either wholesalers or exporters, a licensing system enables them to make tax-free purchases. Licensing is preferred to a refund system because it does not affect the liquidity of intermediate dealers. Interstate traders and exporters have to take out authorizations to make tax-free purchases.

Taxpayers are required to keep accounts to satisfy assessing authorities. The returns submitted must show separately classified turnovers of different categories, e.g., sale to registered dealers, sales of goods dispatched to outside the State, sales of goods exempt and excluded under the Act or rules, sales of goods liable to varying rates of tax, and sale of export items and raw materials (on which refunds are claimed). In order to help the small dealers, most States do not prescribe any specific forms of accounts, thereby permitting small dealers to adhere to customary bookeeping methods. Further, some States require small dealers to maintain only systematic purchase accounts with supporting vouchers.[68]

[68] *Report of the Taxation Enquiry Commission* (cited in footnote 17), pp. 67–70.

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APPENDIX

TABLE 12. JAPAN: COMMODITY TAX RATE SCHEDULE AND EXEMPTIONS

Commodity Description	Tax Rate (*per cent*)	Taxable Minimum (*in yen*)
A. Class I		
Precious stones, semiprecious stones, and their products	20	15,000
Pearls and their products	20	15,000
Precious metal products and gold or platinum products	20	15,000
Tortoise-shell products, coral products, amber products, ivory products, and cloisonné products	20	15,000
Fur products	20	15,000 10,000
Carpets	10	400–5,000, per square meter
B. Class II		
Automobiles		
High-class passenger automobiles	40	
Passenger automobiles	30	
Small passenger automobiles	15	
Air conditioners for automobiles	15	
Passenger tricycles and bicycles, motorized	5	
Boats, amusement goods, and sporting goods		
Motorboats, yachts, and their hulls	40	
Golf clubs, golf balls, and golf bags	40	3,000, for bags
Goods for billiards	30	
Rifles	30	
Game requisites	20	4,000
Small motorboats, small yachts, sculls, and their hulls	10	
Engines for ships	10	
Electric, gas, or liquid-fuel instruments		
Room coolers	20	
Refrigerators	20	
Radiators	20	
Electric cushions	20	
Water heaters	20	
Electric washers	20	
Lighting equipment	20	2,400
Small refrigerators	15	5,500
Electric fans	15	
Television and sound apparatus		
Television braun tubes and chassis	20	
Television and braun tubes of small size	15	
Phonographs and record players	15	4,200
Ensemble-type record-playing units	15	
Phonograph records	15	11,000
Radio sets and their chassis	10	7,000
Sound recorders and reproducers	10	5,000
Microphones, amplifiers, and loud-speakers	5	11,000
Musical instruments and parts and accessories thereof	15	8,000 5,000
Photographic or cinematographic apparatus, parts, and accessories thereof and films, dry plates, and sensitive paper	15	1,100 1,000
Furniture	20	43,000 4,000
Clocks and watches		
Precious metal, tortoise-shell, coral, amber, ivory, cloisonné, precious stone, or semiprecious stone products	40	4,000 3,500
Clocks and watches and their movements and cases	10	2,500 600
Articles for smoking—bags, trunks, and pouches	20	12,000 450
Cosmetics		
Perfumery and manione	10	
Toilet preparations	5	100-525, per 100 kg.
Beverages for taste	5	420, per 100 kg. 7, per 0.001 liter
C. Class III		
Matches		1 yen per 1,000 sticks

Source: Ministry of Finance, *An Outline of Japanese Taxes, 1967* (Tokyo, 1967).

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TABLE 13. KOREA: THE COMMODITY TAX LAW, AS AMENDED BY LAW NO. 1967, NOVEMBER 29, 1967

Commodity	Tax Rate (*per cent*)
Class I	
Category 1	
1. Jewels and manufactures thereof	50
2. Pearls and manufactures thereof	40
3. Tortoise shells, coral, amber, and ivory	40
4. Manufactures of precious metals	10
5. High-class furniture and safes	30
6. Lacquer ware	30
Category 2	
1. Slot machines and apparatus for recreational purposes	70
2. Target-shooting machines	70
3. Hunting guns and rifles	70
4. Gunpowder and bullets	70
5. Playing cards	70
6. Billiards and golf requisites	70
7. Motorboats and yachts	50
8. High-class fishing requisites	30
Category 3	
1. Manufactures of fur-skins and feathers	70
2. Wigs	50
3. High-class smoking articles	40
4. High-class watches and clocks	30
5. Special cosmetics and toilet requisites	20
Class II	
Category 1	
1. Air conditioners and parts (except industrial)	50
2. Television receivers and parts	
a. Large television receivers	50
b. Small television receivers	40
3. Electric refrigerators and parts	50
4. Electric laundry machines and parts	50
5. Electric cleaners and parts	50
6. Electric ovens	50
7. Electric blankets	50
8. Phonographs and parts	50
9. Phonograph records	30
10. Sound recorders and reproducers	50
11. Tapes for sound recorders and reproducers (except raw tape)	50
12. High-class carpets	40
13. Electric space heaters	30
14. Illuminating appliances and apparatus	30
15. Electric fans and parts	20
16. Musical instruments and parts	10
17. Mixers and juicers	20
18. Passenger automobiles, motorized bicycles, and parts and accessories	
a. Passenger automobiles	10
b. Motorized bicycles	5
19. Telephone sets and parts	10
20. Other high-class glassware (except laboratory apparatus)	10
21. Radio receivers and parts	5
22. Sewing machines and parts	5
Category 2	
1. High-class cameras and parts	50
2. Movie cameras, projectors, and parts	50
3. Sensitized materials	30
4. Slide projectors and parts	50
5. Binoculars and monoculars	50
6. Accounting machines and parts	10
7. Typewriters and parts	10

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TABLE 13 (*concluded*). KOREA: THE COMMODITY TAX LAW, AS AMENDED BY LAW NO. 1967, NOVEMBER 29, 1967

Commodity	Tax Rate (*per cent*)
Class III	
Category 1	
1. Plywood	
a. Ordinary plywood	10
b. Special plywood	20
2. Corkboard, hardboard, chipboard, and other similar board	20
a. Corkboard	20
b. Hardboard, chipboard, and other similar board	10
3. Marble (including artificial marble)	20
4. Plate or sheet glass	10
5. Stainless steel and imported manufactures thereof	10
6. Aluminum chassis	10
7. Zinc-coated steel plates	5
8. Cement and imported manufactures thereof	5
Category 2	
1. Crocodile skins, saurian skins, and imported manufactures thereof	50
2. Raw hides and imported leather and manufactures thereof	10
3. Raw rubber, synthetic rubber, and imported manufactures thereof	20
4. Resins and imported manufactures thereof	10
5. Aluminum and imported manufactures thereof	10
6. Cellophane and imported manufactures thereof	10
7. Chemicals	10
8. Paper	
a. High-class paper	5
b. Other paper	2
c. Imported paper manufactures	5
Category 3	
1. Chemical fibers	
a. Regenerated fibers	10
b. Other fibers	20
2. Raw wool, semiprocessed wool, and imported wool yarn	
a. Raw wool	60
b. Semiprocessed wool and imported wool yarn	70
3. Other yarns (except silk, domestic woolen, and processed filament)	20
4. Tire cord, tire-cord yarn, and imported tire cord	
a. Tire cord and tire-cord yarn	10
b. Imported tire cord	20
5. Cotton yarn	10
6. Hemp yarn	10
7. Rayon staple fiber yarn	10
8. Imported fabrics, knitted fabrics, lace, and felt	40
Class IV	
1. Deerhorn	70
2. Coffee and cocoa	50
3. Sugar	40, but 35 won per kilogram if the cost is not more than 80 won per 600 grams
4. Molasses	30
5. Nutritive preparations and stimulants	
a. In liquid form	30
b. In tablet form	10
6. Artificial sweeteners	20
7. Glutamic-acid soda (seasoning)	10
8. Soft beverages and taste beverages	20
a. Soft beverages	10
b. Taste beverages	20

Source: Ministry of Finance, *Major Tax Laws* (Seoul), January 1, 1968.

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TABLE 14. KOREA: BUSINESS ACTIVITY TAX RATE SCHEDULE, 1966

Type of Business	Tax Rate as Percentage of Gross Receipts [1]
Electricity and gas	0.3
Insurance	0.3
Fishing	0.5
Mining	0.5
Tramway, elevated cableway	0.5
Mutual financing	0.5
Manufacturing	
Class A	0.3
Class B	0.7
Wholesale	
Class A	0.3
Class B	0.7
Banking	0.7
Forwarding and warehousing	0.7
Retail	
Class A	0.5
Class B	1.0
Construction	1.0
Bathhouse, barbershop, and beauty parlor	1.0
Pawnshop	1.0
Eating house	1.5
Other services	1.5
Restaurant	2.0
Recreation services	2.0

Source: Ministry of Finance, *An Outline of National Taxes as of March 1966.*
[1] Increased by 20 per cent for local governments.

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TABLE 15. KOREA: COMMODITY TAX BURDEN AS A PERCENTAGE OF FAMILY INCOME BY TYPE OF COMMODITY AND BY INCOME CLASS (OF ALL HOUSEHOLDS), 1965

		Income Group No. 1			Income Group No. 2						Income Group No. 3
Item	Average	Less than W 2,000	W 2,000 to W 4,000	W 4,000 to W 6,000	W 6,000 to W 8,000	W 8,000 to W 10,000	W 10,000 to W 12,000	W 12,000 to W 14,000	W 14,000 to W 20,000	W 20,000 to W 30,000	More than W 30,000
All goods	0.108	0.023	0.022	0.028	0.051	0.064	0.098	0.105	0.106	0.164	0.262
(except sugar)	(0.050)	(0.010)	(0.008)	(0.015)	(0.018)	(0.027)	(0.038)	(0.040)	(0.054)	(0.095)	(0.198)
Luxury goods	0.089	0.013	0.013	0.017	0.035	0.049	0.083	0.086	0.095	0.147	0.246
Sugar	0.058	0.013	0.013	0.013	0.032	0.037	0.060	0.064	0.052	0.069	0.064
Coffee	0.012	—	—	—	—	0.003	0.002	0.004	0.034	0.029	0.045
Wardrobe	0.018	—	—	0.004	0.003	0.010	0.019	0.018	0.008	0.047	0.077
Television sets	—	—	—	—	—	—	—	—	—	—	0.060
Propane gas	0.001	—	—	—	—	—	0.002	—	0.001	0.002	0.001
Semiluxury goods	0.005	—	—	—	0.003	0.001	0.003	0.004	0.002	0.006	0.002
Soft drinks	0.001	—	—	—	0.001	0.001	0.000	0.001	—	—	0.002
Fruit juices	—	—	—	—	—	—	—	0.001	—	—	0.001
Radio sets	0.003	—	—	—	0.002	0.000	0.002	0.002	0.002	—	—
Sewing machines	0.001	—	—	—	0.001	0.000	0.000	—	—	0.006	—
Daily necessities	0.011	0.008	0.008	0.009	0.011	0.011	0.010	0.009	0.006	0.003	0.010
Wallpaper	0.000	—	—	—	0.000	0.000	0.000	0.000	0.001	0.000	0.001
Sliding-door paper	0.000	—	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000
Cotton sheeting	0.002	—	—	—	0.002	0.002	0.001	0.001	0.000	0.000	0.004
Poplin	0.007	—	0.006	0.007	0.007	0.006	0.006	0.006	0.004	0.002	0.005
Cotton yarn	0.001	0.004	0.002	0.001	0.001	0.001	0.001	0.001	0.000	0.000	0.000
Drawing paper	—	—	—	—	—	—	0.000	0.000	0.000	0.000	0.000
Newsprint	0.001	0.004	—	0.001	0.001	0.001	0.001	0.001	—	0.000	0.000
Other housing materials	0.003	0.002	—	0.001	0.002	0.002	0.002	0.006	0.003	0.008	0.003
Plywood	—	—	—	—	—	—	—	—	—	0.001	0.000
Flat glass	—	—	—	—	—	—	—	0.001	—	0.000	0.000
Cement	0.002	0.002	—	0.001	0.002	0.002	0.001	0.005	0.003	0.002	0.002
Galvanized sheet iron	0.001	—	—	—	0.001	0.000	0.001	0.001	—	0.004	—

Source: Korean Development Association, *A Study of Internal Consumption Tax Burden by Income Class in Korea* (Seoul, 1966), p. 18. The table was prepared by the Association on the basis of survey data on family budgets, from the Research and Statistics Bureau, the Economic Planning Board.

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Les taxes sur le chiffre d'affaires dans les pays d'Extrême-Orient

Résumé

Les pays d'Extrême-Orient ont adopté diverses méthodes de taxation du chiffre d'affaires. Ces méthodes vont du système de taxe unique sur certains produits (par exemple, en Chine, en Corée et au Japon) ou sur le chiffre d'affaires, généralement au niveau de la fabrication (par exemple, en Indonésie, au Pakistan, aux Philippines, au Viet-Nam et dans certains états de l'Inde), au système de taxes en cascade (par exemple, à Ceylan, en Thaïlande et dans certains états de l'Inde). Le Népal et certains états de l'Inde appliquent également des taxes uniques au niveau de la vente au détail.

Les recettes provenant des taxes sur le chiffre d'affaires vont de 2,6 pour cent du PNB en Thaïlande à 0,05 pour cent à Ceylan et se situent dans une marge étroite de variation de 1,5 à 1,8 pour cent en Chine, dans certains états de l'Inde, en Corée et aux Philippines.

Sur une période de dix ans seulement les recettes provenant des taxes sur le chiffre d'affaires en Corée n'ont pas augmenté à un rythme plus rapide que le PNB; en Chine et au Japon, les taxes sur le chiffre d'affaires n'ont montré qu'une légrère élasticité alors qu'en Inde, au Pakistan, aux Philippines et en Thaïlande le taux d'élasticité a été assez élevé, se situant entre 1,9 et 2,4. Toutefois, les résultats obtenus par la plupart des pays traduisent les modifications apportées à l'assiette et au taux de l'impôt.

L'importance des recettes provenant des taxes sur le chiffre d'affaires et l'élasticité de leur rendement peuvent s'expliquer en grande partie par l'étendue de leur champ d'application en ce qui concerne les importations et les ventes et services intérieurs. Une taxe en cascade à taux élevé et à large champ d'application (y compris les biens importés) offre les plus grandes possibilités de rendement. Un tel système, toutefois, crée de graves distorsions par suite de l'effet dit de "cascade" des taxes perçues à différents stades du processus de production et de distribution. Cet effet de cascade peut être atténué en appliquant des taux plus faibles sur les matières premières et les produits semi-finis, comme en Malaisie, ou en appliquant à la fois des exemptions et des taux faibles, comme en Indonésie. En dernier ressort, la solution à apporter pour remédier à cet effet est l'adoption d'une taxe sur la valeur ajoutée à chaque stade, comme au Viet-Nam, en donnant aux contribuables un crédit d'impôt correspondant à la taxe perçue à chaque stade sur les marchandises achetées.

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Los impuestos sobre las ventas en países del Lejano Oriente

Resumen

Los países del Lejano Oriente han adoptado diversos métodos de tributación de ventas. Entre éstos se encuentran desde sistemas de una sola etapa basados en gravámenes impuestos sobre determinados productos (por ejemplo en China, Corea y el Japón) y los que gravan las ventas en general, típicamente al nivel de fabricación (por ejemplo, en Indonesia, Paquistán, Filipinas, Viet-Nam y ciertos Estados de la India), hasta sistemas basados en una tributación en mútiples etapas (por ejemplo, en Ceilán, Tailandia y ciertos Estados de la India). Nepal y algunos Estados de la India cuentan también con impuestos de una sola etapa que se recaudan al nivel de ventas al por menor.

Los ingresos provenientes de los impuestos sobre las ventas varían entre el 2,6 por ciento del producto nacional bruto (PNB) en Tailandia y el 0,05 por ciento en Ceylán, pero oscilan dentro de estrechos límites, que son del 1,5 por ciento al 1,8 por ciento, en el caso de China, los Estados de la India, Corea y Filipinas.

En el transcurso de un decenio, las únicas recaudaciones del impuesto sobre las ventas que no aumentaron a un ritmo superior al del PNB fueron las de Corea; en China y el Japón dichos impuestos fueron apenas elásticos, pero en la India, el Paquistán, Filipinas y Tailandia estuvieron dotados de un alto grado de elasticidad, pues oscilaron entre coeficientes de 1,9 y 2,4. Sin embargo, la experiencia demuestra que en la mayoría de los países ha habido reformas de orden legislativo en la base imposible y en las tasas tributarias.

La importancia que los impuestos sobre las ventas revisten desde el punto de vista de las rentas tributarias y su elasticidad-ingreso pueden explicarse en gran parte por la amplitud de la cobertura impositiva de las ventas y servicios internos. Una tasa tributaria elevada sobre las ventas, imponible en múltiples etapas y que grave un gran número de bienes (incluidas las importaciones) y servicios, encierra mayores posibilidades desde el punto de vista de la recaudación de rentas. Sin embargo, los sistemas de esta naturaleza causan graves distorsiones debido al llamado efecto de cascada de los tributos que se imponen en diversas etapas del proceso de producción y distribución. Este efecto de cascada se mitiga imponiendo tasas bajas sobre los materiales y bienes semiterminados, como en Malasia, o mediante una combinación de exenciones y tasas bajas, como en Indonesia. La única otra alternativa para evitar dicho efecto de cascada es la adopción de un impuesto sobre el valor agregado en cada etapa, como en Viet-Nam, en cada una de las cuales se acreditan a los contribuyentes los tributos sobre los bienes que han adquirido.

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