

IMPACT OF LOCAL BODY TAX (LBT) ON UNORGANIZED TRADERS IN MAHARASHTRA



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Abstract:-In India both organized and unorganized sectors co-exists in all sectors. This division is clearly visible in retail sector also since 2005 onwards. The organized retail shops operate in each and every city. It is said that the overhead expenses of the organized retailers are less burdensome compared to the unorganized retailers. The same is the case with the payment of taxes. Government of Maharashtra abolished Octroi and introduced Local Body Tax last year. This paper is about the implementation of LBT, its impact on unorganized local traders and concerns of the local bodies.

Keywords:India, organized retail shops, Local Body Tax, Unorganized retailers, Maharashtra, Implementation, Impact.

INTRODUCTION :-

Organized retail shops are giant shops run by corporate companies, having branches all over the country selling variety of commodities of different companies. The emergence of organized retail shops in Indian cities marked since 2005 onwards. Now there are minimum five to ten organized shops operates in each city. Organized shops deal with a variety of commodities like grocery, vegetables, consumer durables, lifestyle goods etc. On the other hand, there are many retail shops operate in an unorganized manner like family business, independent shops, owner manned shops etc. There is a strong competition in the retail sector after the entry of organized retail shops. The unorganized retail shops are struggling to survive by competing with the corporate giants. The introduction of Local Body Tax by the Government of Maharashtra after replacing Octroi, was another hit to the unorganized traders. There is a lot of confusion among the traders regarding the new levy. After almost a month long strike, the unorganized traders finally compromised with the LBT. This research is confined to the retail traders operate in Pimpri-Chinchwad municipal corporation area belongs to Maharashtra state. The government of Maharashtra is trying to convince the unorganized traders by introducing certain changes in LBT but the traders are not comfortable with it.

DIFFERENCE BETWEEN LBT AND OCTROI-

LBT is the tax on entry of goods for use / consumption within the areas of the local civic bodies. It is a self assessment or account based method of paying local tax, where the businessmen or trader himself declares his tax liability. Unlike in the octroi regime, trucks carrying goods will not be subjected to physical checking at check posts. The octroi charge is payable by the recipient at the time of delivery on daily basis. Any product due for delivery in a location that falls under the octroi zone will attract applicable government duties, which are the octroi charges. Octroi has been levied on the entry of goods into the municipal limits of Maharashtra by the municipal corporations of the states since 1965. The check post authorities were empowered to assess and collect the octroi. The authority's powers included detention of the vehicles, determination of fair value of goods imported and so on. Maharashtra has implemented a local body tax in lieu of octroi from last fiscal year and with this India became an octroi - free country. Most Municipal Corporations of Maharashtra introduced LBT since April 1, 2013. LBT is a lump sum amount charged on the value of goods, payable within 40 to 50 days of bringing goods into the city. The main idea behind the introduction of LBT is to remove the bottlenecks in the movement of goods.

OBJECTIVES-

1. To study the meaning and implications of Local Body Tax introduced in Maharashtra.
2. To study the impact and burden of LBT on unorganized retailers.
3. To study the trends in LBT collection and financial concerns of the local bodies.

RESEARCH METHODOLOGY-

This research study is based on both primary and secondary data. Primary data includes the information collected from 15 unorganized retail traders' deals with consumer durables, operating in the study area and the municipal corporation authorities. Secondary data source consists of the revenue reports of the local authority published in the newspapers, Municipal corporation website and news paper articles.

IMPORTANCE OF THE STUDY-

LBT is introduced to replace the corruption ridden and very tedious Octroi tax, a tax levied on the entry of goods into a municipal area. LBT is imposed on the purchase of goods. But traders opposed initially due to lack of conceptual clarity. Now every trader is supposed to maintain accounts, give assessment and submit returns to municipal corporations. So it is important to study how the traders managed to adjust with the new tax system.

Protest against LBT is growing louder in Maharashtra even now. In Mumbai, thousands of traders have taken to the streets saying LBT will increase costs, cause harassment and reduce growth. Maharashtra is the only state in India where octroi was still working which was a tax that dates back to Roman Empire. The levy of octroi was introduced in Maharashtra in 1965, with 21 Municipal corporations levying the tax

on the entry of goods in their respective municipal areas. Octroi entailed physical verification of goods making it a cumbersome, time consuming and inefficient process. Moreover the levy being paid in cash, the system had been prone to leakages, corruption and political intervention. In 1987, a committee under Maharashtra's former chief secretary, P.D.Kasbekar recommended a Local Body Tax in place of Octroi. After 17 committees and 25 years of deliberation, Maharashtra government finally implemented LBT in 2013. In this context it is interesting to study about the new tax clearly.

LBT is the main source of revenue of local bodies in Maharashtra. After completion of one year of implementation of LBT it is important to study the trends in revenue of local bodies. Many states have over the last decade replaced octroi with other taxes. For instance, Tamil Nadu imposes a flat rate of 2% as entry tax. In Punjab the octroi gave away to no new tax. In West Bengal - Kolkata has adopted various initiatives to offset the loss in revenue from abolishment of Octroi. Revenue from entertainment tax and 16% of Sales Tax and the Development Grants are advanced to the local municipal corporation by the state government. Rajasthan has imposed a surcharge on sales tax while most recently, Gujarat abolished Octroi and instead hiked VAT rates by 1%. In Maharashtra, municipal corporations heavily dependent on revenue raised through Octroi. For instance, in Pune, for the Financial Year 2012-13, the total Octroi collections estimated was Rs. 6900 crores, which was over 45% of the total targeted revenue receipts of Rs.15200 crores. This is another aspect to study, by evaluating the progress in the implementation and revenue collection from LBT to justify Maharashtra government's decision.

LIMITATIONS OF THE STUDY-

It has been few months from now that LBT has started operating seriously; the traders are opposing and are still protesting against LBT. The researcher has faced difficulties while collecting primary data from the local traders, as many traders are not interested to speak about LBT. They are in expectation of a rethink from the part of the state government. They again called for a strike to protest against it. The local authorities are not ready to give relevant information regarding the total revenue collected after implementation of LBT. They also concerned about LBT, because it is the main source of their revenue. Times news network conducted survey and published the status of LBT revenue collection by Pune and Pimpri-Chinchwad local bodies. This was the only authentic data available.

REVIEW OF LITERATURE-

Adv. Kishor Lulla, (2013) explained the difference between LBT and Octroi. It also includes, the Details of Act, Rule, Schedule A (taxable goods), Schedule B (Tax free goods), Circulars, Internal Guidelines etc. Some suggestions mentioned by him regarding proper implementation of LBT are decisions to be displayed on website once in a month and the registration limit should be Rs. 5 lakhs as available under MVAT Act. The Rules are not properly worded. There is wide scope for discretion and interpretation. A committee should be formed to study the anomalies in the LBT Rules and a one day workshop for officers & traders to be arranged by the Commissioner for smooth implementation of LBT.

According to Yashwant Mane, Deputy Commissioner of LBT, the main reason for the dip in LBT income is that the LBT rates are lower as compared to Octroi. Another reason is that the traders are required to self assess and pay LBT after 50 days so they get more time to pay the tax.

LBT Norms-

It is a tax which can be collected by Corporations on the basis of books of accounts like VAT. Any goods which are brought into the Corporation area (import) from outside Corporation area for use, consumption or sale are liable for LBT. It is a tax on purchase and not on the sale of goods. It is a self assessment account based tax. If goods are purchased inside the Corporation area from an unregistered dealer LBT is payable. Goods include consumption goods, capital goods and also include animals. Importer means a person who brings or causes to be brought any goods into the limits of city from any place outside the area of the city for use, consumption or sale there in. Dealer means any person who whether for commission, remuneration or otherwise imports, buys or sells any goods in the city for the purpose of business or in connection with or incidental to his business. Dealer includes factor, broker, commission agent, and auctioneer, Central & State Government, Society and Club, Port Trusts, Railway etc. Non-resident dealers like petrol, diesel and oil companies and their dealers, traders doing temporary business like sale, exhibitions are also covered. Any individuals who imports goods for his exclusive consumption or use and a department of State & Central Government not engaged in business shall not be a dealer. Business includes any trade, commerce, profession, consumption or manufacturing carried on with a motive to gain or profit and whether or not any gain or profit accrues and whether or not there is a volume,

frequency, continuity or regularity in such trade.

REGISTRATION:

A dealer who is an importer of goods and the value of goods imported by him / her throughout the year is not less than Rs. 1,00,000/-, in any other case, a trader who is not eligible to pay LBT and his / her turnover (of sale and purchase) during the year is not less than Rs.5,00,000/- is liable for registration.

Temporary Registration: If a dealer is carrying on a business in the city on a temporary basis, then he shall be liable for temporary registration under the Act & Rules, irrespective of turnover of Sales & Purchases.

Purchase and Sale outside the Corporation Area: - If the goods imported are not brought in Corporation area and directly sent to go down/ office/ branch and sold directly from outside Corporation limit then LBT is not payable. Proper recording in books of accounts, inward – outward register, delivery challans and dispatch proofs are required.

Interest-

If a dealer liable to pay LBT does not pay the LBT on or before the due date, then he shall be liable to pay simple interest, in addition to the amount of LBT, a sum equal to

- 1) 2% per month of such LBT for first 12 months after due date, and
- 2) 3% per month of such LBT for each month thereafter during the time dealer continues to make default in the payment of LBT.

Penalty-

If a selling dealer fails to issue to the purchasing dealer, a bill, invoice or a cash memo, a penalty of a sum not exceeding double the amount of LBT may be levied.

In any Proceedings under the LBT rules, if a dealer failed to apply for registration, a penalty of sum not exceeding ten times of the amount of the LBT payable may be levied.

If he failed to comply with any notice under the Rules, a penalty of sum not exceeding Rs.10, 000/- may be levied.

If he failed to disclose any entry of goods or claimed inaccurate deduction, refund or failed to disclose true material fact, a penalty of a sum not exceeding 5 times the amount of LBT payable may be levied.

A penalty for production of false bill, cash memo, declaration or document, shall be not exceeding twice the amount of LBT due for first occasion and not exceeding five times the amount of LBT due for second or any subsequent occasion. A penalty for furnishing false declaration or certificate shall be not exceeding five times the amount of LBT due. A penalty for late filing of return shall be not exceeding Rs. 5,000/- for each return.

Fair Market Price–

The Commissioner of Corporation has wide powers under the LBT Act. He can determine the fair market price if he feels that the cost of purchase is undervalued. He can inspect the goods in transit. The rates of LBT are decided by State Government which is usually recommended by Commissioner of Corporation.

Appeals-

The appeals under this Act shall be heard and determined by the judge. If the demand notice is raised by any officer, the appeal shall lie to Deputy Com and if demand notice is raised by Deputy Com then appeal shall lie to the Commissioner. Full payment of disputed tax has to be made for entertainment of appeal.

Government relaxation of Local Body Tax rules-

The state urban development department (UDD) issued the amended notification and also changed the act, naming it The Maharashtra Municipal Corporations (local body tax) Rules 2013 instead of

the Bombay Provincial Municipal Corporations (local body tax) Rules 2010. Traders importing goods for sale to other cities will not be made compulsory to pay LBT. A major relaxation among the 12 amendments is the exemption from filling of returns to the traders with a turnover of or below 10 lakhs per annum who had to go for lump sum system.

The payment date extended to 20th of every month. The ten times penalty reduced to five times for LBT evasion. Similarly, delay payment interest also reduced to 2% instead of 3% after 12 months period. For non-compliance of notice, the penalty amount reduced to 5,000 from 10,000

Civic chief has the powers to verify and impose LBT for the goods taken outside city limit for processing and again brought into city limit for sale. Earlier, it was compulsory for many products.

Trends in the collection of LBT-

The Pimpri Chinchwad Municipal Corporation has suffered a revenue shortfall of Rs.306.23 crores through the local body tax, due to initial protests and poor response by the traders. The civic body earned Rs 850.96 crores through LBT for the financial year 2013-14, as against Rs 1157.19 crores earned through octroi in 2012-13. Pimpri-Chinchwad is an automobile hub, and large number of big and small automobile companies are operating here. There was 30% recession in automobile sector last year. This also affected LBT collection.

How to Pay LBT?

After registration, the traders need to prepare a list of items they deal with and write the sum of gross value for the month against each item (commodity). The standard rate list is available in the corporation website. Detailed instruction about the preparation of a challan, monthly or half yearly LBT payment and interest charge are mentioned in all local body's websites. All the registered dealers have to pay LBT before 10th of every month by way of challan and amount to be deposited in the bank account of the municipal corp. In case of late payment of LBT even for one day, 2% interest will be charged.

Impact of LBT on unorganized traders-

Maharashtra state witnessed a series of incidents after the introduction of LBT. Many small unorganized traders got affected. It has created a negative impact among the traders. Much confusion like it may increase their work load, may cause harassment from the tax officials made them to agitate. Now they have to maintain record and bill of each and every item they import. For uneducated traders it becomes difficult to get registered and make the payment on time. They have to depend on a middle man to get their work done.

The researcher has done a survey among the local traders and evaluated their opinion and viewpoints on LBT. The sample population includes 15 unorganized traders' deals with consumer durables operate in the study area. Most of them are against LBT. Out of 15 shops only two traders supported LBT. They are of the opinion that LBT is efficient because there is less corruption involved and evasion of tax can't be done. Other 3 traders said neither LBT nor octroi is efficient, both should be removed, instead the tax should be included in VAT itself. The remaining 10 retailers are not ready to accept LBT.

The registration procedure is very simple and user friendly. All the traders registered for LBT. Octroi did not have any strict rules so it was easy to evade. Out of 15 shops 10 shopkeepers find it more beneficiary than LBT. Municipal corporation officers are not providing adequate information to traders. Percentage of tax paid by these traders is around 2% - 12% overall. It is different for different commodities. Most of the shops pay LBT monthly; it is according to the government's recommendation. From this survey the researcher found that most of the small and unorganized traders are unhappy after the introduction of LBT. In LBT evasion is not possible, because the traders have to maintain the records of bills and receipts of each purchase properly. The traders want it to be included in VAT itself, it saves time and energy and also prevents corruption and tax evasion to a greater extent.

The unorganized retailers face tough competition from the organized retailers. Organized retailers are not very much concerned about the LBT because they do centralized purchase for a chain of shops together. Favourable consumer behavior and financial security are some other advantages of organized retailers. In the study area many organized shops operate. For them burden of LBT is less. They have well managed system to deal with tax payment. They only concentrate in business and try to capture the market. The unorganized traders are not able to compete with the organized traders.

State Government's plans and financial concerns of local bodies-

The state government under tremendous pressure from the trader and merchant community, thinking of various options to replace LBT, such as increasing Value Added Taxes. VAT is collected by the state government and it then transfers that money to the local bodies in the form of grant. There are many grants to various local bodies pending with the state government. Revenue from LBT forms nearly 40% of total revenue of the local bodies like Pune and Pimpri-Chinchwad municipal corporations. If the state government plans to increase VAT, it would hamper the financial autonomy of the local bodies because they can't depend on the state for 40% of their annual budget.

SUGGESTIONS-

1. In LBT, there should be a separate desk for different sections of traders and proper guidance and information should be provided to the traders.
2. Unnecessary and unproductive paper works to be avoided to ensure canon of convenience.
3. There should be a Committee of trading Organizations and consumer bodies under the chairmanship of Commissioner who should discuss to solve the common problems of traders, once in a month.
4. The administration should ensure protection to the traders who have registered for LBT and take necessary steps to avoid tax evasion.
5. If state government plans to scrap LBT by increasing VAT, it should ensure an amount equal to LBT earnings to be transferred to the local bodies. So that the local bodies can function without hampering their financial autonomy.
6. As most of the traders are against LBT and some are against of both LBT and Octroi the researcher thinks that it should be included in VAT. This will help to protect the interests of the unorganized retail traders.

CONCLUSION-

Implementation of LBT in Maharashtra raised a lot of protests from traders across the state they feared that it will add to harassment by officials, maintaining accounts will increase their workload and financial burden. Local bodies are trying to convince the traders. After a yearlong effort, they complied with the LBT norms. The LBT department has been taking various steps to help the traders like conducting meetings on every Thursday, opening LBT payment counters in banks etc. But still the traders are not satisfied due to unnecessary checks and raids on shops and houses of the traders. Meanwhile the state government is studying the possibility of abolition of LBT to pacify the traders ahead of assembly elections. This becomes a cause of worry for the local bodies, that it may hamper their financial autonomy.

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