TAXATION ADMINISTRATION IN MIZORAM: STRUCTURAL AND FUNCTIONAL DIMENSIONS

A Dissertation submitted to Mizoram University

for the award of the Degree of Master of Philosophy

in Public Administration

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AIZAWL, MIZORAM

2011

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CERTIFICATE

Certified that Ms. Lalnunhlui, a student of M.Phil programme in the Department of Public Administration, Mizoram University has prepared the present dissertation titled 'Taxation Administration in Mizoram: Structural and Functional Dimensions'. This is an original work of research which has not been used previously and which has not been submitted to any other university for any purpose. It covers the topic of research adequately.

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ACKNOWLEDGEMENT

I would like to express my sincere gratitude to my supervisor Prof. Srinibas Pathi, for his guidance and supervision. His kind and helpful advice, valuable comments and suggestions has enriched this work and I am truly indebted to him for his abled supervision throughout the course of the research.

I would like to express my sincere gratitude to Dr. Lalrintluanga, Head of Department of Public Administration, Mizoram University for giving me the opportunity to undertake this work.

I would also like to thank all the faculty members in the Department of Public Administration for their help and support.

I would also like offer my utmost gratitude to my family for their love and support. I would also like to thank Mr. Lalthangliana Varte, Mr. JH Rodinga, Ms. Mona Zote and other staff of the Taxation Department for providing me with vital information and materials.

Finally, I thank God for giving me strength and for his continued blessings.

(Lalnunhlui)

MZU/M.Phil/41 of 12.04.2011

LIST OF ABBREVIATIONS

CAG	Comptroller-Auditor General
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise and Customs
CBR	Central Board of Revenue
CCA	Chief Controller of Accounts
DA&T	Directorate of Accounts & Treasuries
FRBM	Fiscal Responsibility and Budget Management
GNP	Gross National Product
IAS	Indian Administrative Service
IF&SS	Institutional Finance & Small Savings
I&PR	Information & Public Relations
MF&AS	Mizoram Finance & Accounts Service
MNF	Mizo National Front
ZBB	Zero Based Budgeting

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PREFACE

The dissertation is divided into five chapters. The first chapter is the Introduction. The second chapter is titled 'Taxation- Meaning, Concepts and Dimensions', the third chapter is 'Financial Administration in India- A Conceptual Study'. The fourth chapter is titled 'Financial Administration in Mizoram with special reference to the Taxation Department'. The fifth and final chapter is the Conclusion.

The first chapter introduced in brief the whole content of the work, the subject of the study, the methodology used for the study and it also highlights the aims and objectives of the study. This chapter discusses the reason for the present topic of study being chosen.

The second chapter deals with the conceptual study of taxation. It tries to define the meaning of taxation, its different types and the characteristics. The theories of taxation, the various principles which give and shape the characteristics of a tax and the objectives of taxation have been discussed in this chapter.

The third chapter deals with the study of financial administration in India. This chapter throws light on the broader picture of the financial administration and also the taxation administration at the union level. This chapter briefly discusses the budgetary cycle, the agencies involved and the different forms of budget.

The fourth chapter discusses the financial administration in Mizoram with special reference to the Taxation Department. The chapter briefly describes the origin and the evolution of the Finance Department, its present organisational structure and main functions. It also discusses the origin and development of the Taxation Department, it studies the organisational structure and also the functions of the department.

The final chapter is the Conclusion. It is divided into two parts. The first part consists of the summary of all the previous chapters. The second part of the chapter contains the findings and suggestions for the improvement of the workings of the Taxation department, with which the research is concluded.

CONTENTS

CHAPTER I

INTRODUCTION

Since the Independence of our country, the financial requirements of the central and the state governments are increasing very rapidly to meet the increasing responsibilities of our country being a welfare state. Financial administration does not function in a vacuum. An efficient financial system must be in consonance with the internal and external environment. There is a great need to understand the ecological factors which affects the performance of the financial system. The ecological factors do not limit the performance of the financial system but their understanding helps the financial administration in making changes in the policies and plans. The modification of ecology may also be needed to ensure best results. It has been observed that many financial administrators, when faced with failures blame the ecology rather than admitting their own weaknesses in not considering the ecological factors and planning suitable action which will influence the administration.[1]

The present study has been started with a view to helping improve the taxation potential of the state thus contribute to improve the economy of the state at least to a certain degree with its findings.

Though the state of Mizoram has improved significantly in its tax returns to the government, the full potential has not been achieved. This can be a result of the lack of awareness among the people of Mizoram and it could also be because of numerous difficulties faced by the Taxation Department. The main objectives of the study are to

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[1] See SL Goel, *Public Financial Administration*, New Delhi: Deep&Deep Publications, 2002

highlight the present financial administration of Mizoram, to study the administrative structure and to study the functions of the Taxation Department in Mizoram. It is also the aim of the present study to suggest ways and means to improve the workings of the department.

Taxation is one of the core functions of government, so relevant information and data from the available literature like books, articles and government documents have been collected. Some of these materials have been presented below-

M.M. Sury (2006) in his book *Taxation* in India 1925-2007 has given an insight into the taxation history in India. He has dealt with the Pre-Independence tax system including taxes in ancient India, taxes during the Mughal period and taxes during the British rule. He has also given the Constitutional provisions pertaining to taxes.

S.L. Goel (2008) in his book *Public Financial Administration* has discussed the financial administration in India. He has given concrete suggestions to make use of the finances efficiently to ensure financial stability and development, as well as face the forces of globalization, privatization and debureaucratisation. He has also given an account of financial administration at the state level- functions, organizational set-up, working of state finances among others. He has also discussed the structure of tax administration at the union level.

R Jayaprakash Reddy (2004) in his book *Taxation* has explained the concepts of taxation, tax administration, and administrative set-up of Central Excise and the Income Tax Authorities.

B.S. Sreekantaradhya (2000) in the book *Structure and Reform of Taxation in India* focuses on post-1991 tax reforms in respect of some of the important taxes against the background of the tax system that prevailed in the pre-1991 period. It analyses the tax structure prior to 1991 and describes the changes that have taken place in the post-1991 period. It presents a broad picture of the reform that has been implemented in respect of taxation as a part of economic reforms during the period of 1999-2000.

Public Finance (2008) by HL Bhatia has discussed generalized theoretical aspects of public finance in Part I of the book. Part II of the book examines the application of the theories and principles of public finance to the fiscal set-up and issues relating to it. He has given an account of public revenue which covers the meaning of tax, principles of taxation, objectives of taxation, and effects of taxation. He has also described the salient features of Indian tax system and state finances under Indian public finance.

Even though these books have presented different aspects of the taxation system in India, no significant book on taxation system in the state of Mizoram has been published. Hence, the present study has been taken up to study the structural and functional dimensions of taxation administration in Mizoram.

The present study has attempted to answer the following research questions:

i. What is the present status of financial administration in Mizoram?
ii. What are the significant features of the structure and functions of Taxation department in Mizoram?
iii. How can the taxation activities and collection of taxes be improved in Mizoram?

The methodology used for the study includes collection of data from the personnel of the Taxation Department and the Finance Department. Personal interviews were conducted with the officials of both these departments. These interviews have been conducted with structured as well as unstructured questions.

While studying the financial system as well as the taxation administration in a historical context, we have found that with the end of the British rule in India in 1947 and being an integral part of India, Mizoram previously known as the 'Lushai Hills' was included as one of the districts of the state of Assam with a separate autonomy. It came to have a District Council of its own from 1953.

After the 1986 signing of the Historic Memorandum of Settlement between the Government of India and the Mizo National Front (MNF), Mizoram was granted Statehood on February 20, 1987 (as per the Statehood Act of 1986). Mizoram became the 23rd State of the Indian Union. The capital of Mizoram is Aizawl. The Mizoram State Legislative Assembly has 40 seats. Mizoram is now represented at the Parliament by two Members of Parliament, one in the Lok Sabha, and the other in the Rajya Sabha.[2]

Mizoram has witnessed vast constitutional, political and administrative changes in recent years. The traditional chieftainship was abolished and the District and Regional Councils (created under the Sixth Schedule of the Constitution of India) gave a substantial measure of local control. Today the Lais, Maras, and the Chakmas have

[2] *Mizoram State Profile*, www.india.gov.in (as on 10.12.2011)

separate Autonomous District Councils. The Village Councils are the grassroots of democracy in Mizoram.[3]

With this development, levy of taxes through authorisation of laws began to take its modern form and the revenues so generated were assigned with and credited to the accounts of the District Council. It therefore took the form of municipal taxes and however small in amount, the taxes collected were utilised funding the budgetary requirement of the District Council.[4]

The need to augment the internal revenue was not felt so urgent even after Mizoram was granted a Union Territory status in 1972. This could have been caused by the ignorance of the people towards the service one needs to offer to the state being a citizen. During that period, the attempt to mobilise revenue in any way could not make a difference and make changes among the general public. Most of the funds needed for administration were borne by the Central government at that time.

Apart from nominal amount of taxes collected under the Lushai Hills District (Taxes) Regulation, 1953, the Lushai Hills District (Revenue Assessment) Regulations 1953 and the Mizo District (Professions, Trades, Callings and Employments Taxation) Regulation 1963 during the district council which continue to be in force for some time by virtue of enactment of the Adaptation of Laws Act in 1974, only one tax Law namely, the Mizoram (Sale of Petroleum and Petroleum Products including Motor Spirit and

[3] *Mizoram State Profile*, www.india.gov.in (as on 10.12.2011)
[4] *Interview with Ms. Mona Zote*, *Inspector of Taxes*, Taxation Department, Government of Mizoram

Lubricants) Taxation act, 1973 was introduced during the entire period of union Territory until Mizoram attained statehood in 1987.[5]

Before the bifurcation of the Department of Excise and Taxation Department, the subject of taxation at the initial stages after attaining the status of a Union territory, the subject of taxation in Mizoram was allocated under the Land Revenue and Settlement (LR&S) Department. It was looked after by a handful of field and clerical staff. The Director of the LR&S Department functioned in the capacity of ex-officio Commissioner of Taxes till 1988.

Presently, the Taxation department collects different taxes under the following Acts-

i. The Mizoram Value Added Tax Act,2005
ii. The Mizoram (Sales of Petroleum and Petroleum Products including Motor Spirit and Lubricants Taxation) Act,1973
iii. The Mizoram Professions, Trades, Callings and Employments Taxation Act, 1995
iv. The Assam Amusement and Betting Tax Act, 1939 (adapted in Mizoram) and
v. The Central Sales Tax Act,1956[6]

Mizoram is a mountainous region which became the 23rd State of the Union in February 1987. It was one of the districts of Assam till 1972 when it became Union Territory.

World-renowned for their hospitality, the Mizos are a close-knit society with no class distinction and no discrimination on grounds of sex. The entire society is knitted

[5] *Interview with Ms. Mona Zote, Inspector of Taxes*, Taxation Department, Government of Mizoram
[6] *RTI Manual*, Department of Taxation, Government of Mizoram, Aizawl:2007

together by a peculiar code of ethics *'tlawmngaihna'*, an untranslatable term meaning on the part of everyone to be hospitable, kind, unselfish and helpful to others.

The dissertation is concerned with taxation in general, its principles, its objectives, and its effects. Specifically, the nature and purposes of taxation, classes of taxes, the history of taxation, canons and criteria of taxation, and shifting and incidence of taxation have been briefly discussed.

Taxation is imposition of compulsory levies on persons or other entities by governments. Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well.

In modern economies taxes are the most important source of governmental revenue. Taxes differ from other sources of revenue in that they are compulsory levies and are unrequited—i.e., they are not paid in exchange for some specific thing, such as the sale of public property or the issue of public debt. While taxes are presumably collected for the sake of the welfare of taxpayers as a whole, the liability of the individual taxpayer is independent of any benefit received.

During the 19th century the prevalent idea was that taxes should serve mainly to finance the government. In earlier times, and again today, governments have utilized taxation for other than merely fiscal purposes.

The present study for better understanding of the administration of taxation in the state of Mizoram has dealt with financial administration. The study of financial administration in India and of the state i.e. Mizoram, enables one to better understand the importance of efficient and effective taxation administration to improve the financial status of the state.

Financial administration consists of those operations, the object of which is to make funds available for the governmental activities. It also needs to ensure the lawful and efficient use of these funds. The following agencies perform these operations:

i. The Executive
ii. The Legislature
iii. The Finance Ministry, and
iv. The Audit system.

Financial administration operates through the instrument of 'Budget' and encompasses the entire 'budgetary cycle', that is formulation of the budget, enactment of the budget, execution of the budget, accounting and audit.[7]

The present study has been mainly concentrated on the Taxation department in Mizoram. It broadly covered the origin and development of taxation administration, and the administrative structure and functions of the department. It also covers a brief study of the Finance Department in Mizoram to understand the present financial status of the state. The dissertation covers the structural and functional dimensions of the Finance Department, Government of Mizoram.

The whole work is divided into five chapters. The first chapter is the Introduction. The second chapter is titled 'Taxation- Meaning, Concepts and Dimensions', the third chapter is 'Financial Administration in India- A Conceptual Study'. The fourth chapter is titled 'Financial Administration in Mizoram with special reference to the Taxation Department'. The fifth and final chapter is the Conclusion.

[7] M Laxmikanth, *Public Administration*, New Delhi: Tata McGraw-Hill Publishing Company Ltd,2007, p.348

The first chapter introduced the whole content of the work, the scope of the study, the methodology used for the study and it also highlights the aims and objectives of the study. It gives a brief introduction to the financial status of the state of Mizoram. The study was started with a view to help improve the taxation potential of the state thus improving the economy of the state at least to a certain degree with its findings.

The second chapter deals with the conceptual study of taxation. This chapter contains necessary information needed to understand taxation to further study the administration of taxation of a state. It explains the different kinds of taxes and the common characteristics of taxes. It also describes the important principles a sound tax system must adhere to, to achieve its objectives. The different theories of taxation to guide the levying authority to achieve justice and equity, put forward by different economists have also been briefly discussed. It also describes the main objectives of taxation in a developing country.

The third chapter deals with the study of financial administration in India. This chapter throws light on the broader picture of the financial administration and also the taxation administration at the union level. This chapter briefly discusses the budgetary cycle, the agencies involved and the different forms of budget.

The fourth chapter discusses the financial administration in Mizoram with special reference to the Taxation Department. The chapter briefly describes the origin and the evolution of the Finance Department, its present organisational structure and main functions. It also discusses the origin and development of the Taxation Department, it studies the organisational structure and also the functions of the department.

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CHAPTER II

TAXATION- MEANING, CONCEPTS AND DIMENSIONS

The previous chapter has introduced the concepts of taxation and the need for the conceptual study. In this chapter, we will discuss the meaning and definitions of taxation, its characteristics, important principles and theories needed to understand to frame a good tax policy.

Taxation plays a vital part in the process of development of a country. Its role in resource mobilization and distribution and allocation is truly significant. A sound tax system is necessary to have public finance on a strong foundation without which rapid development of an economy is impossible.

Taxes are as old as civilizations. Taxation is not a new concept rather as old as the history of economic science and the state exchequer. The origin of taxation begins from the very beginning of the concept of state financial management. But from the ancient time to modern age, the concept has witnessed multi-pronged transformation. In its origin, taxation was a means to sustain the survival of the state, but in the current financial management, it has become a means to vitalize the economic development.[1]

To tax is to impose a financial charge or levy upon a taxpayer, an individual or a legal entity by a state or the equivalent of a state, such that failure to pay is punishable by law. Taxes consist of direct tax or indirect tax, and may be paid in money or as its labour equivalent. "A tax" is not a voluntary payment or donation, but an enforced contribution,

[1] SM Jha, *Taxation and the Indian Economy*, New Delhi: Deep&Deep Publications, 1990,p.24

exacted pursuant to legislative authority" and is "any contribution imposed by government whether under the name of toll, tribute, duty, custom, excise, subsidy, aid, supply, or other name."

The legal definition and the economic definition of taxes differ in that economists do not consider many transfers to governments to be taxes. For example, some transfers to the public sector are comparable to prices such as tuition at public universities and fees for utilities provided by local governments. Governments also obtain resources by creating money, through voluntary gifts, by imposing penalties, by borrowing, and by confiscating wealth. From the view of economists, a tax is a non-penal, yet compulsory transfer of resources from the private to the public sector levied on a basis of predetermined criteria and without any reference to specific benefit received.

Taxes are imposed so that a government may perform its traditional functions like defence and maintenance of law & order. The government also undertakes welfare and developmental activities and makes provision for public goods to satisfy collective needs of the people. It has also to pay for its own administration. It needs financial resources for these purposes and taxation is one method of transferring money from private to public hands.[2]

Taxes are the major source of sustaining our development plans and socio-economic growth through mobilization of resources. Taxes also aim at building a socialistic society.

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[2] MM Sury, *Taxation in India 1925-2007 (History, Policies, Trends & Outlook)*, New Delhi: New Century Publications , 2006, p.1

MEANING OF TAXATION

The term ‘tax’ is defined as ‘money that you have to pay to the government so that it can pay for public services. People pay tax according to their income and businesses pay tax according to their profits. Tax is also often paid on goods and services’.

‘Taxation’ is defined as ‘money that has to be paid as taxes’, it can also be defined as ‘the system of collecting money by taxes’.

Taxation has been compared to a bee gathering honey from flowers. Taxation has always constituted an important source of state revenue and taxation is required to provide decent services to the people through developmental functions. According to Prof. Seligman, a tax is “a compulsory contribution from a person to the government to defray the expenses incurred by the government in the common interest of all without reference to special benefits conferred”[3]

Taxation is defined in many ways. Commonly heard definitions include the followings:

1. It is the process by which the sovereign, through its law making body, raises revenues used to defray expenses of government.
2. It is a means used by the government in increasing its revenue under the authority of the law, purposely used to promote welfare and protection of its citizenry.
3. It is the collection of the shares of individuals and organizational income by the government under the authority of the law.

[3] SS Mookerjee, *Financial Administration in India*, Delhi:Surjeet Publications, 1980, p. 23

A tax is a compulsory levy payable by an economic unit to the government without any corresponding entitlement to receive a definite and direct quid pro quo from the government. 'Quid pro quo' means something given or taken as an equivalent to another.[4] A tax is not a price paid by the tax-payer for the services rendered by the government or for a commodity supplied by the government. The benefits received by the tax-payers are not related to their being tax-payers. A public receipt containing an element of compulsion does not necessarily become a tax, rather in order for it to be a tax, quid pro quo must be absent.[5]

CLASSIFICATION OF TAXES

Taxes may be classified on the basis of form, nature, aim and methods of taxation.

1. **Single and multiple taxes:** A tax system which comprises of only one tax is called a single tax system. This system has been advocated in the past. An example of the single tax system is the head tax which is when a person is imposed a tax upon because he is there in the society and not because he has an income, or wealth. [6]

   In a multiple tax system, more than one tax is being levied by the government.
2. **Direct and indirect taxes:** A tax is said to be direct tax when impact and incidence of a tax are on one and same person, that is when a person on whom the tax is levied is the same person who finally bears the burden of the tax. For

[4] HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006, p. 37
[5] Ibid, p.37
[6] JK Chopra, *Unique Quintessence of Economics*, New Delhi: Unique Publishers, 2010, p.322

example, income tax is a direct tax because the impact and the incidence fall on the same person.[7]

Indirect taxes are those taxes which are paid in the first instance by one person and then are shifted on to other persons. The impact is on one person but the incidence is on the other. Indirect taxes affect the income and property of persons through their consumptions. Sales tax and service tax are examples of indirect taxes.[8]

Taxes can also be classified on the basis of their effect on the distribution of wealth and income.

i. A proportional tax is that kind of tax that imposes more or less the same burden on all tax payers. A tax is called proportional when the rate of taxation remains constant as the income of the tax payer increases. In this system all incomes are taxed at a single uniform rate, irrespective of whether tax payer's income is high or low.
ii. A progressive tax is a kind of tax that takes a larger percentage of income from high-income groups than low-income groups, and is based on the concept of the ability to pay. The rate of taxes goes on increasing with every increase in income.
iii. A regressive tax is a tax which takes a larger percentage of income from low-income groups than the high-income groups.

Thus, progressive tax reduces the inequality of income distribution while regressive tax increases it.

[7] See JK Chopra, *Unique Quintessence of Economics*, New Delhi: Unique Publishers,2010
[8] Ibid

CHARACTERISTICS OF A TAX

There are few common characteristics of a tax which are listed as follows:[9]

i. A tax is a compulsory contribution levied by the government. The refusal to pay tax may lead to punishments. The government may charge prices for services or goods supplied and these prices may contain an element of compulsion. The individuals pay voluntarily for the purchases of such goods, but the element of compulsion can always be there. There may also be some goods or services regarding which the customers have no choice. For example, a municipal corporation may provide street lighting and charge every household for them. However, a relaxation takes place when a tax is levied on a commodity. For example, when a tax is levied on a television set, the government can compel a person to pay the tax only when he buys the television set.

ii. A tax is not a payment for a specific service rendered by the government to the tax-payer, it is also not a payment for any special benefit. However, there are taxes which are which are paid only by a particular class of people who enjoy a definite service.

iii. A tax is a payment for defraying the expenses incurred by the government in the common interest of the people.

iv. Every single citizen is dependent on the government in a numerous way and the government exists for the common good of its entire citizen. The taxes are imposed on all citizens so that the common burden may be shared.

v. There are also cases such as special assessment which may be defined as a special charge levied on certain members of a community who are beneficiaries of government projects. For example, for creating parks and other

[9] See HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006

facilities in an area, the residents of that area may benefit in different ways and the land values in that area may go up. For such benefit, the government may choose to levy taxes.

vi. Special purpose taxes may be sometimes imposed on the people. For example, a special tax on property may be imposed on property holders only. The revenue derived may be used for the repayment of a public debt in stead of investing on the improvement of the locality.

vii. Fines such as court fines are also compulsory payments without any direct equivalent but they differ from taxes because fines are not imposed to get revenue for the state. Similarly, import and export duties may be imposed to get revenue for the state, in such case, they become taxes.

viii. Profits from paper currency may also be a compulsory levy upon the public. This is so because the public is forced to use the currency at its face value which is much higher than the actual cost of producing the actual currency.

THE BASE OF A TAX

The base of a tax is a legal description of the object with reference to which the tax is payable. The base of a tax has to be defined legally and it is to be quantified for the purpose of determining the tax liability of an individual tax payer. A tax base may also have dimensions.[10]

[10] See JK Chopra, *Unique Quintessence of Economics*, New Delhi: Unique Publishers,2010

BUOYANCY AND ELASTICITY OF A TAX

An increase in tax revenue on account of a growth of its base is termed its buoyancy.[11] If the revenue of a tax increases with the growth of its base, without extension of the tax coverage, then the tax is said to be buoyant.

The yield of a tax may also increases due to the extension of its coverage or a revision of its rates, such characteristic of a tax may be called its elasticity. The elasticity of a tax is its responsiveness to the steps taken in increasing its yield through extension of coverage o revision of its rates.[12]

PRINCIPLES OF TAXATION

A tax system to achieve certain objectives adheres to a certain principle which gives and shapes its characteristics. A good tax system must be designed on the basis of appropriate set of principles. However, objectives of taxation often conflict and a compromise is needed. In order to overcome this conflict, important objectives should be selected to work out a sound principle to which the tax system must adhere to.

Adam Smith was interested in the ways by which an economy can increase its productive capacity and therefore achieve a higher rate of growth. The private sector undoubtedly is more effective and efficient than the public sector and therefore, the primary responsibility of economic growth should rest with the private sector with maximum possible responsibility and freedom for efficient functioning. Adam Smith also

[11] HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006, p. 40
[12] Ibid,p.40

subscribed to this view. He also thought that the public sector should be left with the maintenance of the state, for defence and for maintaining law and order and an equitable distribution of wealth.

Adam Smith laid down principles of taxation called Canons of Taxation. The four canons of taxation are the followings:[13]

1. **CANON OF EQUALITY OR ABILITY:** Canon of equality or ability is considered to be a very important canon of taxation. The principle aims at providing economic and social justice to the people. According to this principle, every person should pay to the government depending upon his ability to pay. The rich class people should pay higher taxes to the government, because without the protection of the government authorities, they could not have earned and enjoyed their income. Adam Smith argued that taxes should be proportional to their income. Equality does not mean equal amount of tax, but equality in tax burden. Canon of equality implies a progressive tax system.

2. **CANON OF CERTAINTY:** According to Adam Smith, the tax which an individual should pay must be certain, not arbitrary. The tax payer should know in advance how much tax he has to pay, at what time he has to pay the tax, and in what form the tax has to be paid to the government. In other words, every tax should satisfy the canon of certainty. At the same time, a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax.[14]

   The application of this principle is beneficial to both the government and the tax payer.

[13] See HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006
[14] See JK Chopra, *Unique Quintessence of Economics*, New Delhi: Unique Publishers,2010

3. **CANON OF CONVENIENCE:** By this canon, Adam Smith means that the tax should be levied at the time and the manner which is most convenient for the contributor to pay it. For instance, if the tax on agricultural land is collected in installments after the crop is harvested, it will be very convenient for the agriculturists to pay it. As such, the government of India also collects the income tax at the time when the tax payers receive their salary. Similarly, property tax, house tax, etc. should be realized at a time when the taxpayer is expected to receive income. Convenient tax system will encourage people to pay tax and will increase tax revenue.
4. **CANON OF ECONOMY:** This principle states that there should be economy in tax administration. It implies that the expenses of collection of taxes should not be excessive. They should be kept as little as possible, consistent with administration efficiency. The cost of tax collection should be lower than the amount of tax collected. It may not serve any purpose, if the taxes imposed are widespread but are difficult to administer. Therefore, it would make no sense to impose certain taxes, if it is difficult to administer.

Activities and functions of the government have increased significantly since Adam Smith's time and modern economists have added the following canons of taxation to the former four.[15]

1. **CANON OF PRODUCTIVITY:** It is also known as the canon of fiscal adequacy. According to this principle, the tax system should be able to yield enough revenue for the treasury and the government should have no need to resort to deficit financing. This is a good principle to follow in a developing economy.
2. **CANON OF ELASTICITY:** According to this canon, every tax imposed by the government should be elastic in nature. In other words, the income from

[15] See HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006

tax should be capable of increasing or decreasing according to the requirement of the country. For example, if the need more income at the time of crisis, the tax should be capable of yielding more income through increase in its rates.

3. **CANON OF FLEXIBILITY:** It should be easily possible for the authorities to revise the tax structure both its respect to its coverage and rates, to suit the changing requirements of the economy. With the changing time and conditions the tax system needs to be changed without much difficulty. The tax system must be flexible and not rigid.
4. **CANON OF SIMPLICITY:** The tax system should not be complicated which makes it difficult to understand and administer and results in problems of interpretations and disputes. In India, the efforts of the government in recent years have been to make the system simple.
5. **CANON OF DIVERSITY:** This principle states that the government should collect taxes from different sources rather than concentrating on a single source of tax. It is not advisable for the government to depend upon a single source of tax, it may result in inequity to the certain section of the society and uncertainty for the government to raise funds. If the tax revenue comes from diversified source, then any reduction in tax revenue on account of any cause is bound to be small.

THEORIES OF TAXATION

The economists have put forward many theories or principles of taxation at different times to guide the state as to how justice or equity in taxation can be achieved. The main theories in brief are:

1. **BENEFIT THEORY:** According to this theory, the state provides various goods and services to the members of the society and they contribute to the cost of these

supplies in proportion to the benefits received. The relationship between the state and the taxpayer is in quid pro quo terms. It is on exchange relationship.[16]

This theory suggests that the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. This theory has been subjected to severe criticism on the following grounds. Firstly, if the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of the tax. A tax is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct quid pro quo in the case of a tax. Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens. It is not possible to estimate the benefit enjoyed by a particular individual every year. Thirdly, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it is against the principle of justice.[17]

2. **THE COST OF SERVICE THEORY**: This approach is very similar to the benefits received approach. It emphasizes the semi-commercial relationship between the state and the citizens to a greater extent. The implication is that the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof.[18]

Some economists were of the opinion that if the state charges actual cost of the service rendered from the people, it will satisfy the idea of equity or justice in taxation. The cost of service principle can no doubt be applied to some extent in cases where the services are rendered out of prices and are a bit easy to determine,

[16] JK Chopra, *Unique Quintessence of Economics*, New Delhi:Unique Publishers, 2010, p.325
[17] HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006
[18] Ibid p.69

for example, postal, railway services, supply of electricity, etc. But most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined. For instance, the cost of service of the police, armed forces, judiciary, etc., to different individuals cannot be measured. Dalton has also rejected this theory on the ground that there is no quid pro quo in a tax.

3. **ABILITY TO PAY THEORY:** According to this theory, the tax burden is divided among the people on the basis of their ability to pay. Originally suggested by Adam Smith, it recognises the importance of the ability principle. Adam Smith said "the subject of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, i.e., in proportion to their revenue they enjoy under the protection of the state."[19]

The ability to pay principle requires that the total tax burden be distributed among individuals according to their capacity to bear it, taking into account all of the relevant personal characteristics in such a way that the relative loss in economic capacity resulting from the tax is equal. The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. There are two approaches to determine the ability. The subjective approach in which the burden is felt by the taxpayer and a certain element of sacrifice is undergone by him in paying the tax. John Stewart Miller suggested the equal sacrifice principle for every taxpayer for the objective approach.[20]

[19] SS Mookerjee, *Financial Administration in India*, New Delhi: Surjeet Publications, 1980, p.27
[20] See HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006

4. **THE DIFFUSION THEORY:** The French writers propounded this diffusion theory and stated that the taxes do not concentrate on one particular class but tend to scatter or diffuse through the society.[21]

   According to diffusion theory of taxation, under perfect competition, when a tax is levied, it gets automatically equitably diffused or absorbed throughout the community.

5. **THE CONCENTRATION THEORY:** This approach maintains that there is an inherent tendency for the taxes to be absorbed by certain income classes. Any tax, wherever and on whomsoever it may be levied upon, according to this theory, tends to ultimately gravitate towards or concentrate upon one particular class of tax payers.[22]

6. **FINANCIAL THEORY:** The financial theory of taxation mainly aims at getting maximum amount of revenue. It does not give prior importance to proper distribution of the burden of taxation. The danger in this theory is that the burden may fall greatly on the poor and the voiceless rather than on the rich community.[23]

THE FOUR Rs OF TAXATION

Taxation has four main purposes or effects. They are revenue, redistribution, repricing, and representation.

[21] See JK Chopra, *Unique Quintessence of Economics*, New Delhi: Unique Publishers,2010
[22] See HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006
[23] Ibid

The main purpose is revenue. Taxes raise money to spend on roads, schools and hospitals for instances, and on more indirect government functions like good regulation or justice systems. This is the most widely known function.

The second is redistribution. Normally, this means transferring wealth from the richer sections of society to the poorer sections. This function is widely accepted in most democracies, although the extent to which this should happen is always controversial.

The third purpose of taxation is repricing. Taxes are levied to address externalities. For example, tobacco is taxed to discourage smoking, and many people advocate policies such as implementing a carbon tax.

The fourth consequential effect of taxation in its historical setting has been representation. The American revolutionary slogan "no taxation without representation" implied that the rulers tax citizens and in turn citizens demand accountability from their rulers. Several studies have shown that direct taxation such as income taxes generates the greatest degree of accountability and better governance, while indirect taxation tends to have smaller effects.

OBJECTIVES OF TAXATION

As taxes can produce favourable effects, they can also adversely affect an economy if they are not properly devised. It is said that the power to tax also involves the power to destroy. Tax policy is a vital instrument which plays a decisive role for good or bad.

An underdeveloped country like India's primary objective of taxation is not directly related to instability of income and employment. India faces a plethora of problems such as economic growth on one hand and removal of poverty on the other. Additional problems of chronic unemployment and regional disparities add to the problems.

The basic objective of taxation is to raise revenue for the state. There may be different objectives such as follows:

1. **Objective of raising revenue**: The basic and primary objective of taxation is raising revenue. Enormous amount is needed by modern governments for national defence, creation of infrastructure and social upliftment schemes make regular and systematic resource mobilization compulsory.

2. **Regulatory objectives**: Taxation performs an important regulatory role in different socio-economic aspects.
    a. Regulatory consumption: Any government can discourage consumption of harmful and undesirable goods by levying prohibitive rates of tax.
    b. Regulatory production: Production may be encouraged by exempting new industries from tax for someone, reducing tax on capital goods, increasing tax on imported goods to encourage local production, etc.
    c. Regulating imports and exports: Imports of undesirable products can be curbed by imposing prohibitively high import duties. Exports can be encourages by cutting duties and taxes on exports.

d. Regulating effects of inflation, depression etc: Raising tax rates can reduce consumption of goods and the demand in general. High levels of taxation can reduce the purchasing power of people and the funds collected can be used by the state for productive purposes to increase supply of goods, thus stabilising supply and demand equation.

3. **Developmental objectives**: Taxation can be used as an effective tool to achieve higher levels of economic development and employment.
   a. Economic development: Economic development is measured in terms of Gross National Product (GNP) i.e. the output achieved in all the major sections of the economy. Taxation can be used as a stimulant to any one or all the three sectors by changes in the tax rates.
   b. Capital formation: Indian household savings rate is around 26%, and one of the highest in the world. Savings can be channelled into investment through appropriate policy measures. Taxation plays a major role in high level of savings by providing different kinds of exemptions from tax on contribution to provident funds, insurance premium, etc.
   c. Increasing employment opportunities: Small and medium enterprise usually have maximum potential for employment, industrial estates, special economic zones, export oriented parks, etc., have high employment potential.

4. **Objectives of reducing inequalities**: Inequalities are common in several aspects.
   a. Inequalities in economic disparities: Income levels of individuals very wildly in India. It is claimed that rich are becoming richer and the poor are becoming poorer year by year. Taxation can be a powerful weapon in tackling income disparities.

b. Reduction in regional imbalances: Some regions may become well developed compared to others in a country. Tax incentives and exemptions to start industries in the backward regions can be a good method of dealing with the problem.

Different objectives of taxation, each one of them desirable by itself, can pull in different directions. The state should formulate a comprehensive and cohesive tax system which can balance the different objectives in view of its own requirements and goals.

BRIEF HISTORY OF TAXATION

Patterns of taxation can be explained by administrative considerations. Import duties were amongst the earliest taxes because it is easier to tax imports than to tax domestic outputs. Head and land taxes can be considered the first direct levies. Taxes played a relatively mi or role in the ancient world. Taxes on imported goods were of more importance than internal excises in terms of generation of revenue. In times of war, taxes on property were also introduced to generate revenue. During the middle ages, the scope of taxation and the uses of taxes gradually spread.[24]

Taxes, even before they generate a sizeable share f the national income, they have been a subject of political controversy. The American colonies' rebellion against Great Britain and the French Revolution of 1789 were caused by the refusal to pay taxes and the inequitable distribution of tax burden respectively.

[24]See HL Bhatia, *Public Finance*, New Delhi: Vikas Publishing House Pvt Ltd, 2006

In the nineteenth century, scholars explained and dealt with the problems of taxation and advocated for the need for simplicity of taxation, so that people know what and why they are required to pay. Since then the pattern of taxation got wider coverage. The sixteenth and seventeenth century witnessed the period of great economists such as Adam Smith which gathered wider application. The end of the nineteenth century and the beginning of the twentieth century paved new ways for the development of welfare concept as the economists and the social scientists advocated for the integration of development concept with the welfare concept. A new trend developed also due to the changes in the socio-economic conditions which initiated transformation in the social set-up and in the political set-up. These resulted in a change in the perspective of modern theories of taxation.

The classical and modern thoughts did have ideological differences. The classical economists believed that the best of taxes was which is least in amount, which is not supported by the modern economists. Taxation has enlarged its areas of imposition now. It is not important how the taxes are minimised on an individual, but what is more important is that the burden is equitably distributed to minimise the burden.

The classical as well as the modern thinkers realised that taxation should not act only as a source of generating revenues but should also operate as an instrument of minimising or contracting the economic inequity or channelizing the programmes of economic welfare. Now taxation acts not only as a source or media of adding financial strength to the state exchequer but also proves its worth as a pace setter, especially by maintaining economic balance in the society or by minimising the inflationary pressure.

Thus, taxation emerged as an engine of social transformation or worked as a social carrier.[25]

[25] SM Jha, *Taxation and the Indian Economy*, New Delhi: Deep&Deep Publications, 1990, p.34

CHAPTER III

FINANCIAL ADMINISTRATION IN INDIA:

A CONCEPTUAL STUDY

The importance of finance can never be underestimated and it is an immense task to define it. For a smooth and efficient functioning of a state, what is important is to have a sound financial system. This chapter discusses the general concepts of the financial administration in India.

Finance is the fuel of administration. Finance moves the machinery of government. Sound financial administration is the crux of the efficient administration of government operations. Whatever may be the system of government- capitalist, socialist or a mixed economy- the financial administration is very important to sustain these systems.[1] All the developmental efforts of a government are directly linked with the availability and utilization of financial resources.[2] The Economic Survey rightly states that "the financial sector is the centre of economic activity; its health affects the entire economy".[3]

Kautilya in his *Arthashastra*, states that the entire administration of the country can be controlled through financial administration and that is why the administrators in a country must give utmost priority to financial administration.[4]

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[1] SL Goel, *Public Financial Administration*, New Delhi: Deep&Deep Publications, 2002, p.1
[2] Ibid. p.2
[3] *Economic Survey*, 1991-1992, Part I, p.25
[4] Pundrik Ojha & Kiran Sharma, *Public Personnel and Financial Administration*, Jalandhar: Raj Publishers, 2010, p.208

Financial administration consists of those operations, the object of which is to make funds available for the governmental activities. It also needs to ensure the lawful and efficient use of these funds. The following agencies perform these operations:

i. The Executive
ii. The Legislature
iii. The Finance Ministry, and
iv. The Audit system.

Financial administration operates through the instrument of 'Budget' and encompasses the entire 'budgetary cycle', that is formulation of the budget, enactment of the budget, execution of the budget, accounting and audit.[5]

A sound budgetary system is primarily responsible for political and economic stability of a country. But preparing and finalising budget is not an easy process. [6]

According to L.D. White, "Fiscal management includes, as its principle sub-divisions, budget making followed by the formal act of appropriation, executive supervision of expenditure (budget execution), the control of the accounting and reporting system, treasury management and revenue collection and audit." So far, the best known machinery for fiscal management is the budget system.

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[5] M Laxmikanth, *Public Administration* , New Delhi: Tata McGraw-Hill Publishing Company Ltd, 2007, p.348
[6] N Jayapalan, *Indian Administration*, New Delhi: Atlantic Publishers and Distributors, 2001, Volume II, p.433

ASPECTS OF FINANCIAL ADMINISTRATION

The various aspects of financial administration have been divided into different areas.

I. **FISCAL POLICY AND PLANNING:** The area of fiscal policy and planning includes the following important factors.

1. Legislatures and its Committees: The final authority pertaining to financial matters is that of legislature. Legislature controls finances both directly and through its committees. In the representative democracy, elected representatives are the custodians of the interests of the people. The quality of financial legislation and responsiveness of financial administration depends upon the capability, capacity and interest of the elected representatives.[7]
2. Political Parties: Democratic governments function through the political parties. The party which runs the government is called the ruling party, while the other party is called the opposition party. Since the decisions of the government are dependent upon the informal decisions already taken by the ruling party, it becomes essential that the political parties work on sound lines to promote national development. This does not mean that the opposition parties view the national problems subjectively and in the political context only. They should examine the financial documents issued by the government from time to time and formulate issues based on facts for drawing the attention of the government. They are to point out the weaknesses of the financial system in order to put the government on the right path.[8]

[7] SL Goel, *Public Financial Administration*, New Delhi: Deep&Deep Publications, 2002, p.16
[8] Ibid, p.17

3. Citizens: in the sphere of financial administration, the government id influenced by the vested interests, interest groups and pressure groups.
4. Bilateral and Multi-lateral Agencies: Financial aid can be provided through bilateral of multi-lateral sources.

II. **EXECUTION**: The execution area of financial administration includes the following important factors.

1. Ministry of Finance: The Ministry of Finance is one of the most important ministries in the government of India. The ministry is responsible for the administration and management of the finances of the central government. It deals with the economic and financial matters affecting the country. [9]
2. Integrated Financial Advisors: These advisors are appointed within the administrative departments to examine the financial aspects of administration. They influence and help the execution of the financial system.[10]
3. Controlling officers: They are responsible for the execution of financial policies.
4. Treasuries: The treasury management is of great importance and significance for the execution of financial policies.

III. **CONTROL:**

1. Constitutional Law: The provisions of the Constitution of India dealing with the financial system, the financial powers, and the procedures keep

[9] See SL Goel, *Public Financial Administration*, New Delhi: Deep&Deep Publications, 2002
[10] Ibid

the financial system under control since the constitution is the highest law of the land.

2. Political Head: It is essential that the political head should have full legal and constitutional authority to administer the financial affairs of his ministry.
3. Ministry of Finance: The Ministry of Finance is one of the most important ministries in the government of India. The ministry is responsible for the administration and management of the finances of the central government. It deals with the economic and financial matters affecting the country.
4. Administrative Departments: The control of finances is carried out by the administrative departments along with the Ministry of Finance.

BUDGET

The term 'budget' is derived from a French word 'bougette' which means a sack or a pouch. It was a leather bag from which the British Chancellor of Exchequer extracted his papers to present to the parliament, the government's financial programme for the ensuing financial year. From that on, it came to mean the papers containing the financial proposals themselves.[11]

There have been different definitions of budget by various scholars. According to Dimock, "a budget is a financial plan summarizing the financial experience of the past stating current plan and projecting it over a specified period of time in future." Munro has

[11] See M Laxmikanth, *Public Administration* , New Delhi: Tata McGraw-Hill Publishing Company Ltd, 2007

defined budget as "a plan of financing for the incoming fiscal year. This involves an itemized estimate of all revenues on the one hand and all expenditures, on the other."

According to W.F. Willoughby, a budget comprises of the following three components:

i. A statement of the sums required for the due conduct of public affairs during the period to which such estimate relates
ii. An estimate of the probable income from revenue and loans on the basis of existing provisions of law regarding public dues and credit operations, and
iii. A statement showing conditions of treasury in terms of assets and liabilities.[12]

Thus, it is quite clear that budget is the corner stone of financial administration and the various operations in the field of public finance are correlated through the instrument of budget.

The budgetary responsibilities of a modern government are vast and grave. Article 112 of the Constitution of India refers to the laying of an 'Annual Financial Statement', which is a statement of the estimated receipts and expenditure of the government of India for the ensuing financial year. The Annual Financial Statement consists of-[13]

(a) Statement of Revenue

(b) Statement of Expenditure, and

(c) An overall statement.

[12] See Ojha, Pundrik & Kiran Sharma, *Public Personnel and Financial Administration*,Jalandhar: Raj Publishers, 2010
[13] See M Laxmikanth, *Public Administration*, New Delhi: Tata McGraw-Hill Publishing Company Ltd, 2007

This Annual Financial Statement shows the sums charged on the Consolidated Fund of India and the money required to meet other expenditures.

The budgetary process in India involves the following operations:

(1) Preparation of the budget

(2) Legislative authorisation of the enactment of the budget

(3) Execution of the budget

(4) Accounting, and

(5) Audit

The Government of India has two separate budgets, namely the railway budget and the general budget. While the former consists of the estimates of receipts and expenditure of only the Ministry of Railways, the latter consists of the estimates of receipts and expenditure of all the ministries of the Government of India except the railways. [14]

The railway budget was separated from the general budget in 1921 on the recommendation of the Acworth Committee. The reasons or objectives of this separation are as follows:

1. To introduce flexibility in railway finance
2. To facilitate a business approach to the railway policy

[14] M Laxmikanth, *Public Administration* , New Delhi: Tata McGraw-Hill Publishing Company Ltd, 2007, p.354

3. To secure stability of the general revenues by providing an assured annual contribution from railway revenues, and
4. To enable the railways to keep their profits for their own development.[15]

In India, the formulation of budget involves the following operations:

i. Preparation of estimates by the heads of offices
ii. Scrutiny and consolidation of these estimates by the departments and ministries
iii. Scrutiny of the revised estimates by the Finance Ministry
iv. Consolidation by the Finance Ministry, and
v. Final consideration by the Cabinet

The responsibility for the preparation of the budget estimates rests on the executive who is responsible for running the administration and is, therefore, in the best position to say what funds are required for it.

The Finance Ministry has the overall responsibility for the framing of the budget, but it is the administrative ministries which have the detailed knowledge of administrative requirements.

For incorporating the plan priorities in the budget, the Finance Ministry has to be in close touch with the Planning Commission. Also, the Comptroller and Auditor-General come into the picture since it is he who makes available the accounting skills so

[15] M Laxmikanth, *Public Administration*, New Delhi: Tata McGraw-Hill Publishing Company Ltd, 2007, p.354

necessary for the preparation of the estimates. The work in connection with the preparation of the budget estimates begins 6 to 8 months before the commencement of the next financial year. Since the Indian financial year commences on April 1, budget preparation begins in India in the month of September.

Scrutiny of the estimates by the Finance Ministry: The estimates received from the various departments are finally scrutinised by the Finance Ministry and, after such revision or modification as may be necessary, are consolidated together into the budget of the Government as a whole. Its scrutiny is different in character from that of administrative Ministry. It does not go into the policy of the expenditure — this is, in the main, the responsibility of the administrative Ministry itself. The scrutiny of the estimates by the Finance Ministry is from the financial point of view, i.e., of economy and availability of funds. It does not question the policy underlying the proposals of the administrative Ministries for which they themselves are responsible.

Enactment of the Budget: The budget is formally presented by the Finance Minister but it requires to be recommended by the President before it is presented to Parliament for legislative authorisation. In fact, it is an important step in the completion of the budget, as a control instrument of financial administration. It is a cardinal principle that no taxation can be levied and no expenditure incurred without the prior approval of Parliament in all parliamentary democracies.

In the Parliament, the budget goes through the following five stages:

1. Introduction in the Legislature: It has become customary in India to frame, introduce, and pass the budget in two parts — the Railway budget, and the General budget. The railway budget is regularised by rule 134 of the Rules of Procedure and Conduct of Business in Parliament, which makes provision for the submission

of budget in two or more parts, each part to be dealt within the same manner as if it were budget. The procedure in case of both is the same except that the railway budget is introduced and piloted by the Railway Minister while the general budget is introduced by the Finance Minister. The railway budget precedes the general budget.

2. The general discussion: The general discussion of the budget begins a few days after its presentation. Two or three days are allotted for it. It is confined to the general principles or policy underlying the budget. Details of the budget are, however, not discussed. There is no voting, nor are cut motions allowed. General discussion of the budget is a hang-over from the past when the Indian Legislature had no power to vote the budget but could only discuss it. Under the new dispensation, it serves some purposes — the members have an opportunity to discuss revenue estimates, the ways and means programme of the Government, and, what is perhaps the most important purpose is the 'charged' expenditure. To the Government, this stage provides a foretaste of the feelings of the House on budget proposals for taxes as well as expenditure. At the end of the debate, the Finance Minister gives a general reply, rebutting, as is to be expected, the various charges made by the members.

3. The voting of the demands for grants: Here voting is restricted to the votable parts of the expenditure; the 'charged' expenditure is not submitted to vote. The voting of demands is the exclusive privilege of the Lok Sabha. Lok Sabha at this stage examines the estimates thoroughly and much of the time is taken in the discussion of the estimates. The demands for grants are discussed and presented Ministry-wise. This arrangement facilitates the House to consider the demands and the working of each Ministry. The total number of days allotted for the voting of demands is 26 days in India. The Speaker, in consultation with the leader of the House fixes a time limit for each demand as well as for the entire expenditure part

of the budget. A demand is subjected to vote as soon as the time limit fixed for it, is reached. On the last day of the allotted period, the Speaker puts all the remaining demands to vote whether the discussion on the demand is complete or not.

4. The consideration and passing of the Appropriation Bill: When the House of People has voted all the demands, they, together with the demands for 'charged expenditure' are incorporated into a bill called the Appropriation Bill. The passage of this Bill is necessary to legalise the demands as voted and to authorise the withdrawal of money from the Consolidated Fund of India. Article 114 of the Constitution provides that no money can be withdrawn from the Consolidated Fund of India except under appropriation made by law. It follows the same procedure in the House of People as any other bill except that in this no amendment can be made to the Bill, as all the grants embodied in it have already been voted; the 'charged' expenditure is never put to vote. After being passed by the House of People it is certified by the Speaker as money bill and sent to the Council of States. The Council of States cannot amend or reject it; it returns the bill with its recommendations within 14 days. The House may accept or reject any or all of these recommendations. It is, then, sent to the President for assent, which is given as a matter of course. The purpose of passing the Appropriation Bill is to authenticate the supply voted by the House to facilitate the work of the Comptroller and Auditor - General.

5. The consideration and passing of the taxation proposals, i.e., the Finance Bill: With the passing of the Appropriation Act, the disposal of the expenditure part of the budget is complete. Money for expenditure, however, must come from somewhere and for that resort has to be had to taxation. Article 265 of the

Constitution lays down that no tax shall be levied or. Collected except by authority of law. Since Parliament is the law-making body, it is this august body which must give consent to the taxation proposals of the government, some of the taxes are permanent and their rates are fixed by the Government under the provisions of the Acts governing them. Others are to be authorised annually by the legislature as for example, the income tax, customs, etc.

EXECUTION OF BUDGET

A budget is of no use unless it is enforced, i.e., revenue and expenditure are regulated according to it. The execution of the budget is the responsibility of the executive Government, and therefore, the distribution of powers within the executive Government determines the procedure for the execution of the budget. Efficient execution depends on the extent to which financial control combines operational freedom and flexibility with accountability for performance. Besides, it requires strong central direction and control.

Control of expenditure within the terms of the budget is a far more complex affair than the collection of revenue and in budget execution, the primary emphasis is placed on it. The objects of control of expenditure are:

i. To see that it does not exceed the budgetary grant under any head, and
ii. To ensure that it is not improper, extravagant and wasteful.

The amounts voted in the budget are the maxima upto which the executive may spend for the specified purposes, and which must not be exceeded in any case without fresh legislative sanction. This does not mean that the executive may spend so much without due regard to necessity and economy. It is always implied that notwithstanding budgetary provision the executive shall spend on any object only the minimum amount absolutely necessary as an ordinarily prudent person does in private life.

The machinery of executive control over expenditure consists of:

1. The Finance Ministry: In India, the Ministry of Finance has been given the responsibility to exercise over-all control over the budget execution. As an instrument for carrying out the financial policies of the Government, the Ministry of Finance supervises the finances of spending authorities by checking over their expenditure at three stages. These are:
   - approval of programmes or policies in principle
   - acceptance of provisions in the budget estimates, and
   - prior concurrence to incurring of expenditure subject to such powers as may have been delegated to the administrative Ministries/ departments.

2. The Departmental Heads: Subject to the overall control of the Finance Ministry, the head of each administrative department is designated as the controlling officer in respect to the expenditure occurring in his department. It is the responsibility of the controlling officers to keep a continuous watch over the current and anticipated expenditure with an object to see that the amounts so placed at their disposal are spent on the specified purposes. The Accountant-General watches the progress of expenditure against the Parliamentary sanction under each detailed head.

Execution of budget rests on the following principles-

1. Proper Collection of Revenues: Collection of revenue is the first step and involves two major operations — assessment of revenue and its collection. Assessment is nothing but an act determining what amount is to be collected from various bodies or individuals in accordance with the authority given by the legislature. It requires a high sense of judgement and discretion. On the other hand, collection is the act of actually collecting the amount assessed. It requires a high degree of accuracy and integrity and the collecting agency cannot use its own discretion. In India, the Department of Revenue of the Finance Ministry exercises overall control and supervision over the machinery engaged in the collection of direct and indirect taxes. Such control is exercised through two Boards — the Central Board of Direct Taxes and the Central Board of Excise and Customs.

2. Custody of Funds: The main aim is to avoid all possibilities of embezzlement and misappropriation and to ensure convenience and promptness in money transactions. The financial administration of any country, from the custody point of view, depends upon its history, its area and the banking facilities. The Government Treasuries for the custody of Government funds are fast disappearing due to the emergence of the wide banking network.

   Through the use of the banking system it is no longer necessary to carry on all the financial transactions through cash as now most of the work may be done through cheques, drafts, and bank bills. The modern tendency is for governments to have their own Central or Reserve Banks. This has a number of advantages such as financial stability, safety and security and no dangers of corruption and malpractices.

3. Disbursement of Funds: The disbursement system in India is based upon the British system. A heavy duty lies on the disbursing officer who withdraws the money from the treasury and disburses it.

FORMS OF BUDGET

1. Balanced Budget: When the estimated amount of revenues and expenditures is equal, it is called a balanced budget. But if the anticipated revenues fall short of the anticipated expenditures, it is termed as a deficit budget. Conversely, if a budget shows more income than expenditure, it becomes a surplus budget. Most of the countries, however, resort to deficit budgeting. A deficit budget is an indication of the country's economic progress, but the deficit should not be too much.

2. Cash and Revenue Budgets: Wherein the estimate of income and expenditure is shown to be actually received and spent in one financial year, it is a cash budget. In U.K., U.S.A. and India there is a system of cash budgeting. If the income and expenditure, accruing in one financial year, are shown in the budget of that financial year but may not be actually realised, it is called a revenue budget.

3. Line-Item Budget: The budgetary system that evolved in England during the 18th and 19th centuries, was viewed primarily as a legal and accounting instrument, and the budget agency had the main responsibility for consolidating money estimates of expenditure needs from the various departments each year. This conventional pattern of Government budgeting serves the sole purpose of fiscal accountability and is a document for parliamentary control of the financial

operations of the government. The entire expenditure is presented for grants. Every Ministry presents one demand for its own requirements and separate demands for each of its subordinate organisations. The demands for grants thus follow the organisational pattern and the details in each of these demands are on the basis of object wise classification. This type of budget is known as the line-item budget with its focus on itemised classification of expenditure. It provides the basis for maximum control. We still adhere to this type of budgeting system to a great extent.

4. Zero-Base Budgeting (ZBB): It originated in U.S.A. It was developed by Peter A. Phyrr in the Texas Instruments Company. In 1977, the U.S. President Jimmy Carter adopted ZBB in the federal Government. ZBB can be defined broadly as an evaluation of all programmes and expenditures of every year requiring each manager to justify his entire budget request in detail. ZBB is a rational system of budgeting. Under this system, every scheme should be reviewed critically and rejustified totally from zero (scratch) before being included in the budget. [16]

5. Programme Budget: This budget is considered as a step towards performance budgeting. Here the focus was on achieving work results. In the U.S.A., it came to be known as the 'management approach' to budgeting rather than the accountant.

6. Performance Budgeting: After World War II, attempts to make the management approach effective were intensified and performance budgeting was urged. Much of the stimulus came from the first Hoover Commission. The commission recommended that "the whole budgetary concept of the federal Government should be refashioned by the adoption of a budget based upon functions, activities

[16] M Laxmikanth, *Public Administration,* New Delhi: Tata McGraw-Hill Publishing Company Ltd, 2007, p.352

and projects", and designated this 'performance budget'. A performance budget presents public expenditure in terms of functions, programmes and activities, and, thus, stands out from the line-item budget which only emphasises staff, furniture, equipments, etc.

The responsibility for tax administration is under the Ministry of Finance, Department of Revenue. Before 1963, there was only one board that is, the Central Board of revenue which exercises control over revenue matters, both direct and indirect taxes. To cope with the increasing work, under the Central Board of Revenue (CBR) Act, 1963, the Central Board of Revenue was bifurcated into two statutory boards, viz. the Central Board of Excise and Customs (CBEC) and the Central Board of Direct Taxes (CBDT).

CENTRAL BOARD OF DIRECT TAXES

The overall responsibility of administration of Direct Tax Laws lies with Department of Revenue which functions through the Income Tax Department and Central Board of Direct Taxes at its apex. The Board consists of a Chairman and five members and has several attached and subordinate offices throughout the country. The attached offices function under three Directors General of Income Tax. They are the Director General of Income Tax (Administration), Director General of Income Tax (Exemption) and Director General of Income Tax (Training). There are Chief Commissioners of Income Tax, who oversee the work of assessment and collection of direct taxes at regional levels. Besides, there are Directors General of Investigation, who are overall in charge of the investigation machinery on a regional basis to curb tax evasion and to unearth black money. The Chief Commissioners of Income Tax or Directors General of Income Tax oversee the works of the Commissioners or the Directors of Income Tax in their respective charges and have also been given certain powers under the Income Tax Act, regarding discovery, production of evidence by any person, to requisition of books of account, call for information etc. whereby they can issue summons. They are also empowered to authorise search and seizure operations.[17]

The Commissioners or Directors of Income Tax oversee the work of the Deputy Commissioners, Assistant Commissioners, Income Tax Officers and also have similar powers under the Act as given to the Chief Commissioners. Besides they are also empowered to set aside assessments, orders, prejudicial to the interests of revenue.[18]

The settlement Commission, which was constituted under the Income Tax Act with effect from April 1, 1976 provides a statutory remedy for protracted litigation between the assesses and the department. The Commission deals with the settlement of Income tax and Wealth tax cases on applications being made by the assesses declaring their intention to pay tax on undisclosed income discovered by the department.[19]

The direct taxes which are administered by the Central Board of Direct taxes are as follows:

1. Income tax
2. Wealth tax
3. Gift tax
4. Interest tax, and
5. Expenditure tax.

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[17] SL Goel, *Public Financial Administration*,New Delhi: Deep&Deep Publications, 2002, p.255
[18] Ibid p.255
[19] Ibid, p.257

This chapter has discussed the general concepts of the Indian financial administration. The study of the Indian financial administrative system is necessary to further study the financial system of the states of the Indian union. This chapter helps to provide necessary information for such.

CHAPTER IV

FINANCIAL ADMINISTRATION IN MIZORAM WITH SPECIAL REFERENCE TO TAXATION DEPARTMENT

With the creation of Mizoram Union Territory following the passing of the North Eastern Reorganisation Act, 1971, the Department of Finance came into being in 1972. The department of Finance has two attached offices namely- the Directorate of Accounts & Treasuries and the Institutional Finance and State Lottery.[1]

The Department of Finance was previously housed in two separate buildings, as of September 8th, 2008, the Department has since shifted to the new Civil Secretariat building at the New capital Complex, Khatla. The two attached offices remain at Chanmari and Tuikhuahtlang.[2]

The present organisation set up of Finance department in Civil Secretariat, Government of Mizoram consists of:

i. A Finance Secretary who is the administrative head of the department under the direction of the minister-in-charge of the department.
ii. A Secretary, Finance functions in parallel with the Finance Secretary.
iii. Two Additional Secretaries assist the financial commissioner in the making of decisions on various issues and in disposal of cases.
iv. Two Joint Secretary who assists the Additional Secretaries.

[1] *RTI Manual*,Aizawl: Finance Department, Government of Mizoram, 2005
[2] Ibid

v. Three Deputy Secretaries
vi. Six Under Secretaries, and
vii. Six Superintendents.[3]

THE SECRETARIAT

In the state Government of Mizoram, Finance Department plays a vital role. The Finance Department is responsible for all financial matters in the state government. It has to see the overall financial position of the state. It has to monitor the cash balance of the state in the Reserve Bank of India and without losing sight of the cash balance of the state, the Finance Department makes decisions and offers opinions on various matters concerning different Departments of the State government. It receives all the grants and loans from various Ministries of the Central government and places them in the State Budget as Plan, Non Plan and Centrally Sponsored Schemes and then gets them passed in the Legislative Assembly for appropriation in the respective heads of account.

The Department records the fiscal situation of the State government in terms of overall revenue deficit and fiscal deficit. Under its initiation various Fiscal Responsibility Legislations as recommended by the Twelfth Finance Commission were carried out by the State government such as the Mizoram Fiscal Responsibility and Budget Management (FRBM) Act, 2006 and the subsequent Amendment Acts. The Mizoram FRBM Act, 2006 aims at the elimination of the State's revenue deficit and reducing the fiscal deficit of the State at 3% of GSDP by 2008-09, which has been deferred by the

[3] See *RTI Manual*, Aizawl: Finance Department, Government of Mizoram, 2005

Thirteenth Finance Commission to be achieved by the end of 2014-15.[4] The Mizoram FRBM Act and its Amendment Acts and Rules thereof require the State government to observe strict fiscal discipline within their framework and try to bring about better governance at all levels of government through increased transparency and accountability. The Department also monitors the Debt Stock of the State government which ceiling has been fixed by the aforesaid FRBM Act, 2006 at a certain percentage of the State's GSDP.

Finance Department prescribes the financial rules and regulations to be followed by all the Departments. Certain financial powers are delegated to all the Administrative Heads of Departments, Heads of Departments and other subordinate officers. All other financial powers not expressedly delegated vest in the Finance Department. All expenditure sanctions not delegated to other authorities have to be concurred to by the Finance Department and all matters having direct or indirect bearing on financial implications such as post creation, filling up of vacant posts, promotion, pay revision, establishment of new offices, purchase of vehicles, fixture, etc. require prior approval of the Department. And even a Cabinet Memorandum to be placed before the Council of Ministers has to be vetted by the Department.

DEPARTMENTS

Finance Department has various representatives in most of the major Departments who are designated as Finance & Accounts Officers, Deputy Directors of Accounts and Joint Directors of Accounts. These Accounts Officers exercise their own respective

[4]*Recommendation of the Thirteenth Finance Commission Vol.I,* Para 9.80, p.139

powers, duties and responsibilities which are delegated to them by the Finance Department according to their respective grades. Their main functions are to assist the Heads of Departments in all financial matters and advise them on issues concerning finance and accounts. They are required to see that the Departments follow financial norms and that all the spending of public funds is well-disciplined. Thus, Finance Department can have a very good financial control over the whole State. However, there are still some minor or smaller Departments where there are no Accounts Officers like Fisheries, Social Welfare, Economics & Statistics, Sports & Youth Services, Horticulture, Fire & Emergency Services, Art & Culture, Cooperation, Excise & Narcotics, I & PR, Labour & Employment, Taxation, and Tourism.

DIRECTORATE OF ACCOUNTS & TREASURIES

The Directorate of Accounts & Treasuries headed by the Director started functioning since May 1975 which was initially manned by officers of All India Service and Central Service like IAS and IA&AS. Later the post and other subordinate posts were manned by officers of Mizoram Finance & Accounts Service (MFAS) after the first batch officers of MFAS were recruited in 1976. This Directorate has since been headed by the Chief Controller of Accounts (CCA) and under him are the Director of Accounts & Treasuries, Examiner of Local Fund Audit and other officers. The statutory and financial powers of the Head of the Department vest in the Chief Controller of Accounts since then.[5]

The Directorate or the Office of the Chief Controller of Accounts take up all matters concerning Entitlements of officers, Pension, General Provident Fund, Group Insurance, Fixation of pay and Revision of pay, and Local audit. Earlier these functions

[5] See *RTI Manual*, DA&T, Government of Mizoram

used to be under the purview of the Accountant General, Shillong for the States of Meghalaya, Mizoram, Arunachal Pradesh, etc. The work of authorisation of entitlements was taken over from the Accountant General w.e.f. 1.5.1980. Pension and other Retirement Benefits and GPF were also taken over w.e.f. 1.4.1983. The Group Insurance

Scheme, 1984 now replaced by Mizoram State Government Employees Group Insurance Scheme, 1992 was entrusted to this Directorate w.e.f. 1.1.1984.

There are 9 (nine) Treasuries in Mizoram which are under the control of the Chief Controller of Accounts. These Treasuries are the last check-gates of the Finance Department. All payments, both bills and cheques, have to go through the Treasuries where scrutiny is done to ensure that all codal formalities are followed. Recently, the cheques system has been introduced in the Aizawl North and South Treasuries for all the payments from the Treasuries which facilitate immediate settlement of claims for payment. Besides, the Finance Department has recently embarked upon computerization of Treasuries and a pilot project of the computerization has been taken up in the Aizawl South Treasury. For this project COMPACT software has been adopted. All other Treasuries will be covered subsequently in a phase manner. In short, Computerisation and Cheque system being introduced in the Treasuries are aimed at bringing about efficiency and better management of the finances of the State and delivering better services to the general public.

DIRECTORATE OF INSTITUTIONAL FINANCE & SMALL SAVINGS

Under the administrative control of Finance Department there is another Directorate called Institutional Finance & Small Savings (IF&SS) headed by a Director. This Directorate deals with matters relating to financial institutions and Banks, Small Savings and State Lotteries. The Directorate contributes a good amount of revenues to the state exchequer from the proceeds of lotteries. However, the sale and operation of the state lotteries have been presently discontinued due to some technical reasons. A certain portion of the net collection from Small Savings has been allocated by the Central government from the National Small Savings Fund to the state government as a loan which forms a part of the State's Annual Plan funding under the head of 'Budgetary Borrowings'. In this respect, the overall revenue contribution of the Directorate of IF&SS to the State government in proportion to the establishment cost is commendable.

TAXATION DEPARTMENT

Taxation administration in Mizoram has been quite well established and has come a long way since Mizoram became a Union Territory. Taxation department came into existence on the 20th May, 1988 in the event of bifurcation from the Excise Department. The sole purpose of this bifurcation was to augment the financial resources of the state government by generating revenue through taxes. The Taxation department is now functioning as a separate department headed by the Commissioner of Taxes having its headquarters at Aizawl.

ORGANISATIONAL STRUCTURE

The Secretary to the Government of Mizoram, Taxation Department is the ex-officio Commissioner of Taxes. The office of the Commissioner of Taxes is presently housed in a private building at Tuikual South, near Vanapa Hall on a monthly rent basis at the rate of Rs. 50,000/- p.m. The Department presently is having 346 (three hundred and forty six) sanctioned posts (including 4 staff from Firms & Societies) of different categories. [6]

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[6] *RTI Manual*, Aizawl: Taxation Department, Government of Mizoram , 2007

The following table shows the existing strength of the Taxation Department in Mizoram.

Table No. IV-1

Strength of the Taxation Department

Sl. no	**Name of the post**	**Number of posts**
1	Commissioner of Taxes	1
2	Joint Commissioner of Taxes	1
3	Deputy Commissioner of Taxes	3
4	Assistant Commissioner of Taxes	3
5	Superintendent of Taxes	20
6	Superintendent (OS)	1
7	Inspector of Taxes	60
8	Office Assistants	8
9	Upper division clerk	27
10	Lower division clerk	33
11	Stenographer	3
12	Computer Operator	5
13	Driver	16
14	Checker	97
15	Peons	45
16	Chowkidar	21
17	Sweeper	2
	Total	**346**

Source: **Citizen Charter**, Taxation Department, 2011

The headquarters office is headed by the Commissioner of Taxes who is supported by a Joint Commissioner of Taxes and three Deputy Commissioner of Taxes. They are supported by two Superintendent of Taxes, one office Superintendent, four Inspectors of Taxes and a number of ministerial and fourth grade staff.[7]

For overall improvement in the field of taxation administration and collection of revenue, the state of Mizoram is divided into 10(ten) zones. Among these zones, four zones are headed by Assistant Commissioner of Taxes and the remaining six zones are headed by the Superintendent of Taxes.[8]

In the four zones, Aizawl North zone, Aizawl South zone, Aizawl Central zone and Lunglei zone, the Assistant Commissioner of Taxes is supported by the Superintendent of Taxes, Inspector of Taxes and a number of ministerial staff. The remaining zones, headed by the Superintendent of Taxes, are supported by the Inspector of Taxes and ministerial staff.

The following are the ten administrative zones-

i. Aizawl North zone
ii. Aizawl South zone
iii. Aizawl Central zone
iv. Lunglei zone
v. Champhai zone
vi. Kolasib zone

[7] *Interview with Ms.Mona Zote, Inspector of Taxes*, Taxation Department, Government of Mizoram
[8] *RTI Manual*, Aizawl:Taxation Department, Government of Mizoram, 2007

vii. Lawngtlai zone
viii. Mamit zone
ix. Saiha zone, and
x. Serchhip zone.

The zone wise demarcation details are highlighted in brief in the following paragraphs.[9]

1. Aizawl Central zone (with its Headquarters at Aizawl): The Aizawl Central zone consists of the following areas-
   i. The whole area of Tlungvel Constituency excluding the following villages- Zero Point, Sesawng, CTI, Mualmam, Khawruhlian, Hmunnghak, Lailak and Khanpui.
   ii. The whole area of Saitual Constituency
   iii. An area comprising Central part of Aizawl city from Zarkawt Traffic point to Bara Bazar Bungkawn point. The boundary line of which will run as follows:-
      - From Bara Bazar Bungkawn point the boundary line will run straight towards the east following the boundary line of Tuithiang and Venghlui and further follows the boundary line of Armed Veng and Bethlehem Veng up to Chite stream.

      - From Bara Bazar Bungkawn point, the boundary line follows the Bara Bazar main road towards the north up to the junction near Millennium Centre.

[9] *RTI Manual*, Aizawl:Taxation Department, Government of Mizoram, 2007

- From the junction near millennium centre, the boundary line will run straight towards the west and will cover the areas of Jail Veng, Babutlang and the western part of the city such as Valvakawn, Dawrpui Vengthar, Hunthar, Zotlang, Chawnpui, Kanan, Zonuam, 7th Day Tlang, Luangmual, Tuivamit, Tanhril, Sakawrtuichhun, Rangvamual, Phunchawng, P.T.C, Lungverh, Sairang, Lengpui.

2. Aizawl North zone (with its Headquarters at Aizawl): The Aizawl north zone includes the following areas-

    i. The whole area of Ratu Constituency
    ii. The whole area of Suangpuilawn Constituency
    iii. An area comprising Northern part of Aizawl District and Northern part of Aizawl city up to Zarkawt traffic point. The boundary line of which will run as follows:-

        - From Zarkawt traffic point the boundary line run towards east following the step that leads to lower Zarkawt road and from the lower Zarkawt road, the boundary line will run towards south following the lower Zarkawt road upto V.L Bela Building and then further follows Sakawrpului upto Chite and then up to the crossing point of Aizawl-Lunglei Road and further runs up to zero point Manipur road up to Khanpui & Lailak.[10]

        - From Zarkawt Traffic point the boundary line follows the Zarkawt to Dawrpui Vengthar Road up to Vaivakawn and from there it further goes up to the Sairang main road up to Company Peng. From Company Peng it will further follow the National highway-54 up to

[10] *RTI Manual*, Aizawl: Taxation Department, Government of Mizoram, 2007

Buichali bridge. From the Buichali bridge it will further follow Tlawng River.[11]

3. Aizawl South zone (with its Headquarters at Aizawl): The Aizawl South zone covers the following areas-
   i. The entire area of Sateek Constituency.
   ii. The remaining southern part of Aizawl District which has not been covered by the Aizawl Central zone. [12]
4. Champhai zone: Champhai zone has its headquarters at Champhai and covers the entire Champhai district.

5. Kolasib zone: Kolasib zone has its headquarters at Kolasib and also covers the entire Kolasib district.

6. Lawngtlai zone: This zone has its headquarters at Lawngtlai and covers the areas under the Lawngtlai district.

7. Lunglei zone: This zone covers the entire Lunglei district and has its headquarters at Lunglei.

8. Mamit zone: The entire area covered by Mamit district comes under this zone with its headquarters located at Mamit.

9. Saiha zone: The areas which come under the Saiha district are covered in this zone which has its headquarters at Saiha.

[11] *RTI Manual*, Aizawl:Taxation Department, Government of Mizoram, 2007
[12] Ibid

10. Serchhip zone: The entire Serchhip district is covered by this zone and its headquarters is located at Serchhip.

With a view to prevent evasion of tax payable by dealers under the Mizoram Value Added Tax Act, 2005, the department has set up various Check-gates at different locations. These Check-gates are generally headed by Superintendent of Taxes who is supported by a number of Inspectors of Taxes and ministerial staff. The department has six check-gates across the state. They are as follows-

i. Bairabi Check-gate
ii. Kanhmun check-gate
iii. Lengpui Airport Check-gate
iv. Tlabung Check-gate
v. Vairengte Check-gate, and
vi. Zemabawk Check-gate.

The Vairengte, Zemabawk and Lengpui Check-gates are directly under the charge of the Commissionerate. Tlabung Check-gate is placed under Lunglei Zone, Melbuk Check-gate is under Champhai zone, the Bairabi Check-gate is under Kolasib zone and Kanhmun Check-gate is placed under Mamit zone.

POWERS AND FUNCTIONS

The duties, powers and functions of various Officers and employees of the Taxation Department are as follows:

1. Commissioner of Taxes: The Commissioner of Taxes is the authority empowered to exercise all the powers, and performs all the duties conferred upon him by the different Acts and Rules administered by the department. The Commissioner of Taxes may be subjected to such restrictions and conditions as may be prescribed. He may delegate any of his powers to any persons appointed to assist him in the due discharge of his functions. He is the Nodal Officer for all Supreme Court cases pertaining to the Taxation Department, Government. [13]

2. Joint Commissioner of Taxes: He assists the Commissioner of Taxes and is made responsible for overall supervision and exercises control, constant monitoring and effective supervision on the working of the Department within the State.[14]
3. Deputy Commissioner of Taxes, Administration: He is entrusted with general administration and supervision of the office of the Commissioner as well as the entire Department. He is the Drawing and Disbursing Officer of the office of the Commissioner of Taxes. He is also designated and appointed as Appellate Authority in the matters of all appeal cases against the orders of the assessing authorities which have been passed under the provisions of the Tax Laws. [15]

4. Deputy Commissioner of Taxes, Enforcement: He is assigned to with the works of enforcement of all Tax Laws. As he is designated as Deputy Registrar of Firms and Societies he looks after and administers the works of enforcement of Firms &

[13] *RTI Manual*, Aizawl: Taxation Department, Government of Mizoram, 2007
[14] Ibid
[15] ibid

Societies and the Indian Partnership Act. All cases relating to Firms and Societies are dealt by him.

5. Deputy Commissioner of Taxes, Investigation: He is assigned to with the works of investigation, inspection and field enquiry cases, audit assessments, tax audit, refund cases, Statutory Forms, vigilance works and check-gates.[16]

6. Assistant Commissioners of Taxes: There are three Assistant Commissioners of Taxes. They are the head of the Zone offices. The administration of taxes as well as general administration of the office under his jurisdiction is assigned to him. The powers and functions of the Commissioner are delegated to the Zone/District officers as required. They are declared as Assessing Authorities in all the Taxation Laws being enforced by the Department in their respective jurisdiction. Registration and cancellation of dealers other than dealers under the Central Sales Tax Act, 1956; assessments and collection of taxes, issue of different Forms and Permits amongst other is done by the Zone offices.

7. Superintendent of Taxes: There are twenty Superintendents of Taxes. Among these, two are posted at the office of the Commissioner and others are posted at Zone offices and check-posts. When they are posted in Zone offices the senior most is the head of office. But when they are posted in Zone offices where Assistant Commissioner is head of the office, they work under the Assistant Commissioner of Taxes of the concerned Zone office. The powers and functions of Commissioner are delegated to the Zone Officers. They are declared as Taxing Authorities in all the Taxation Laws being enforced by the Department in their respective jurisdiction. Registration and cancellation of dealers other than dealers

[16] *RTI Manual*, Aizawl: Taxation Department, Government of Mizoram, 2007

under the Central Sales Tax Act, 1956, assessments and collection of taxes, issue of different Forms and Permits, etc. is done by the Zone Offices in their respective jurisdiction.

8. Inspector of Taxes: Presently there are sixty numbers of sanctioned posts of the Inspector of Taxes. The Inspectors are the backbone of the Department. Specific area or jurisdiction is assigned to each of these Inspectors. They are empowered to exercise powers of investigations, surveys, verifications, examination of books of accounts etc. within their respective jurisdiction.

Other than execution of Taxation Laws, the normal daily official work in the office of the Commissioner is divided into six different sections, such as:

1. General/Establishment Section: This section deals with matters relating to general administration and service of all the employees including Gazetted and Non-Gazetted. Recruitments and promotions of the whole employees of Taxation Department are dealt with by this section.

2. Accounts Section: The Accounts Section deals with all financial matters of the Taxation Department.

3. Enforcement Section: The Enforcement section deals with matters relating to enforcement of different Taxation Laws.

4. I/T and Electronics Section: Deals with all matters relating to processing and entry of data into the Computer networks of the Department. The administration of taxes under the Mizoram Value Added Tax Act, 2005 and The Central Sales Tax Act, 1956 has been computerized. Above this system,

the Government of India is developing Information Exchange Network called Tax Information Exchange System (TINXSYS) to cover the entire country to enable every State of India to easily exchange information relating to tax matters. Taxation Department, Government of Mizoram also joined the system.

5. Firms and Societies Section: Deals with all matters relating to Firms and Societies including general service and administration under the establishment of Registrar Firms and Societies.

6. Diarist: Deals with receiving of all correspondences received from the government, also private as well as other agencies; it issues and distributes all correspondences to the government, privates as well as other agencies.

VARIOUS TAXATION LAWS IN MIZORAM

As the Taxation Department is the main agency for mobilizing revenue for the state of Mizoram, its main functions and duties is to mobilise resources and collect revenue in the form of taxes and to improve taxation administration in the state.

The different taxes and fees collected by the department are as follows:

i. **The Mizoram Value Added Tax Act, 2005 (VAT):** The Mizoram Value Added Tax is a tax levied on the value added to any product each time it changes hand or value. It is a tax on sales or purchase of a commodity at every point in the series of sales or purchase by the registered dealer with the provision of credit for input tax paid at the previous point of purchase of the commodity.[17]

ii. **The Mizoram Professions, Trades, Callings and Employments Taxation Act, 1995:** A tax collected under this Act is commonly known as Profession Tax. Every person who carries on a trade either by himself or by an agent or representative, or who follows a profession or calling or who is in employment, either wholly or in part within the State shall be liable to pay for each financial year a tax in respect of such profession, trade, calling or employment and in addition to any tax, rate, duty or fee which he is liable to pay under any other enactment for the time being in force. The tax payable by any person is determined with reference to his total gross income during the previous year from his profession, trade calling or employment or with reference to his standing in the profession, trade, calling or employment, as the case may be. The member of Armed Forces of India and Co-operative Society registered or deemed to have been registered under the Mizoram Co-operative Societies Act, 1991 are exempted from payment of this tax.[18]

iii. **The Mizoram (Sales of Petroleum and Petroleum Products including Motor Spirits and Lubricants) Taxation Act, 1972:** A tax commonly known as POL or Petroleum Tax under this Act on sale of petroleum and petroleum products including motor spirit and lubricants is collected from every dealer registered under the Act.[19]

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[17] *The Mizoram Value Added Tax Act, 2005 & The Mizoram Value Added Tax Rules*, *2005,* Aizawl: Department of Taxation, Government of Mizoram, 2005

[18] *The Mizoram Professions, Trades, Callings and Employments Taxation Act, 1995and The Mizoram Professions, Trades, Callings and Employments Taxation Rules*, *1996*, Aizawl: Department of Taxation, Government of Mizoram, 1996

[19] *The Mizoram (Sales of Petroleum and Petroleum Products including Motor Spirits and Lubricants) Taxation Act, 1973and The Rules,* (2002),Aizawl: Department of Taxation, Government of Mizoram,2002

Table No. IV-2

Rates of Goods Under Mizoram Petroleum Act, 1973

Sl. No	**Particulars**	**Rate**
1	Motor spirit (except diesel oil and internal combustion oils other than Petrol)	25%
2	Diesel oil and other internal combustion oil (other than Petrol)	15%
3	Lubricants	10%
4	Liquefied petroleum gas (LPG)	4%
5	ATF (a) From every dealer on his turnover from sale of ATF to a Turbo-prop Aircraft (b) From sale other than (a)	 4% 20%
6	Crude oil	NIL

Source: *Citizen Charter*, Taxation Department, 2011

iv. **The Assam Amusement and Betting Tax Act, 1939**: The tax collected under this Act is commonly known as the Entertainment Tax. Entertainment Tax is levied on all exhibitions, performances, amusements, games, sports, cinematograph shows or video shows to which persons are ordinarily admitted on payment. It also includes moving pictures or series of pictures which are viewed and heard on the television receiving set, with the aid of any type of antenna with a cable network attached to it or cable network for which persons are required to make payment by way of contribution or subscription or installation and connection charges or any other charges collected in any manner whatsoever at the rates specified at the next table.

Table No. IV-3

Rates under the Assam Amusement & Betting Tax Act, 1939

Sl.No	Particulars	Rates
1	in the case of games, sports, music or dramatic performances organised by a state body (or any other affiliated to it) which is either registered under the Societies Registration Act, 1860 or affiliated to an all India body constituted for similar purpose.	12.5% of such payment
2	In any other case where the payment of admission is (a) Rs. 2 or less (b) More than (a) upto Rs. 3 (c) More than (b)	 50% of such payment 75% of such payment Cent % of such payment
3	Cable television	Twenty per centum of the payment for admission (inclusive of connection charge) received by the proprietor per connection per month.

Source: *Citizen Charter,* Government of Mizoram, 2011

v. **Central Sales Tax:** Central Sales Tax or known in short as CST is levied on all sales of goods (other than electrical energy) effected in the course of inter-State trade or commerce.

vi. **Registration of Societies:** The Mizoram Societies Registration Act, 2005 which came into force wef.1st September, 2006 has been administered for registration of eligible societies and a fee of Rs 500/- is realised from each registered society.

vii. **The Indian Partnership Act, 1932:** A fee for registration of partnership firm is collected from every firm registered under the Act.

In this chapter, we have tried to study the origin, strength, powers and functions and activities of the Finance Department and the Taxation Department in Mizoram. We have also discussed various taxation laws in the state of Mizoram to highlight the present activities of the Departments concerned.

CHAPTER V

CONCLUSION

The final chapter is divided into two parts. The first part consists of the summary of all the previous chapters. The second part of the chapter contains the findings and suggestions for the improvement of the workings of the Taxation Department, with which the research is concluded.

PART I

The dissertation is has been divided into five chapters. The first chapter introduces the present study in brief. It starts with the reasons for the topic being chosen for study. It analyses the aims and objectives of the study. The main objectives of the present study include the study of financial administration in Mizoram, the study of the administrative structure and the functions of the Taxation Department. It is also the aim of the study to suggest ways and means to improve the workings of the department. This chapter also highlighted the methodology employed for the study. This chapter has also dealt with the profile of the state of Mizoram and has explained the administration of the state.

The second chapter deals with the conceptual study of taxation. To fully understand and study the taxation administration of any state, it is necessary to have a sufficient knowledge of taxation.

The term ‘tax’ is defined as ‘money that you have to pay to the government so that it can pay for public services. People pay tax according to their income and businesses pay tax according to their profits. Tax is also often paid on goods and services’.

‘Taxation’ is defined as ‘money that has to be paid as taxes’, it can also be defined as ‘the system of collecting money by taxes’.

This chapter deals with the characteristics of a tax and it differentiates and explains the different types of taxes such as direct and indirect taxes, multiple and single taxes, a proportional, a progressive and a regressive tax. The principles or canons of taxation put forth by the economist, Adam Smith. The various theories of taxation such as the Benefit theory, the Cost of Service Theory, the Ability to Pay theory, the Diffusion theory, the Concentration theory and the Financial theory.

The third chapter is the conceptual study of the financial administration in India. The importance of finance need not be defined. For any kind of an organisation to function, the availability of finance is a must. Apart from the availability of funds, the efficient and effective administration of it can be regarded most important. This chapter discusses the Indian financial administration. Financial administration operates through the instrument of ‘Budget’ and encompasses the entire ‘budgetary cycle’, that is formulation of the budget, enactment of the budget, execution of the budget. In India, the formulation of budget involves the following operations- preparation of estimates by the heads of offices, scrutiny and consolidation of these estimates by the departments and ministries, scrutiny of the revised estimates by the Finance Ministry, consolidation by the Finance Ministry, and final consideration by the Cabinet. The enactment of budget includes the introduction in the Parliament, the general discussion, the voting for demands for grants, the consideration and passing of the Appropriation Bill and the consideration and passing of the taxation proposals, i.e., the Finance Bill. The execution of budget has also been briefly discussed. The agencies involved in these processes have also been described. This chapter also deals with the different forms of budget such as

Performance Based Budgeting, Zero Based Budgeting etc. It also covers the Central Board of Direct Taxes (CBDT) and explains its administrative structures.

The fourth chapter deals with he financial administration in Mizoram with special reference to the Taxation department. The origin and developments, and the administrative structures and functions of the Finance Department are described in this chapter. The Finance Secretariat and the two attached offices namely, the Directorate of Accounts& Treasuries and the Directorate of Institutional Finance & Small Savings (IF&SS) are discussed. This chapter has also dealt with the evolution and developments of the Taxation Department. The administrative structure of the department has been described and the functions of the officers have been discussed. It has also explained the different Acts under which the Government of Mizoram levy taxes.

PART II

With the attainment of statehood in 1987, the general perception of the people on the policy of taxation softened greatly with the knowledge that greater power begets greater responsibility. With a view to narrow down the huge gap between receipts and expenditures of the state governments, the centre was keen on insisting that the states should mobilise maximum resources of its own and certain stringent measures were also put into application. A newly created Mizoram state was not given exception to this and the pressure for the introduction of sales tax for generating additional revenue was intensified by the centre. Sales Tax Law was drafted and passed by the legislature in 1989, almost two years after the attainment of statehood and the implementation took place amid strong opposition with effect from April 1, 1990.

The introduction of sales tax in the state was short lived and had to be discontinued from April 1, 1993 due to mass opposition. Partly, due to increasing pressure from the centre and the realisation that introduction of Sales Tax cannot be dispensed with any longer for one of the additional resources in the state, Sales Tax was reintroduced with effect from April 1, 1999 in the state after six years of suspension of operation and the goods taxable were limited to a few selected items consumed mostly by middle and higher income groups at low rates ranging from 2% to 8% which were at a later stage enlarged and later on, the rates were brought at par with other states in conformity with the Uniform Floor Rates prescribed for all the states.

The genesis of tax collection in Mizoram began soon after the inception of Union Territory under the administrative umbrella of the Land Revenue and Settlement Department by adopting rules and regulations in force during the erstwhile District Council. In 1983, a separate department known as Excise and Taxation Department was created by partial bifurcation at the Directorate level. Most of the tax laws which were made to post UT period by virtue of the provisions of the Mizoram Adaptations of Laws Order, 1972, have now been replaced by the laws framed to suit the requirements of the state. At present, the department collects a variety of taxes:

i. Profession tax
ii. Sales tax/ VAT
iii. Entertainment tax, and
iv. Passenger and Goods tax

The total revenue collected by the department increased to about Rs. 1139 lakhs in 2010-2011 from Rs. 4.50 lakhs in 1983-84. The expenditure as percentage of revenue collection in the year 2003-04 was 9%, that is, for every one rupee collected, the department spent 0.09 paise. Further reduction in the cost of collection will be achieved by way of creating proper infrastructure and strengthening of the tax collecting machinery and by widening of tax net as well.

Tax administration is carried out in the name of the Commissioner of Taxes, assisted by other taxing authorities, Deputy Commissioners, Assistant Commissioners, Superintendents of Taxes and Inspector of Taxes. For the purpose of administration, the state was previously divided into three zones, these zones were North zone and South zone, Aizawl, and Lunglei zone; six Circle office viz. Champhai, Kolasib, Lawngtlai, Mamit, Serchhip and Saiha; five check-gates viz. Vairengte, Bairabi, Melbuk, Lengpui and Zemabawk. More recently, upgradation of the circle office to zonal office was proposed and approved.

The Chief Ministers' Conference held in New Delhi on 19.11.1999 decided to the introduction of Value Added Tax system as recommended by the Raja J. Chelliah Committee to reform domestic trade tax in the country and to pave the way for improving the price competitiveness of the domestic products. As elsewhere in India, Mizoram switched over to VAT system with effect from 1.4.2005. Tax officials were given trainings on VAT long before the actual introduction and the trading communities were also trained on how to deal with VAT. Increase in both the number of registered dealers and the revenue so generated were seen under VAT regime.

From the previous paragraphs, it could be understood that taxation and its enforcement need various improvements. The people of Mizoram are quite ignorant of the importance of paying tax. The responsibility of a responsible citizen to pay his or her share of tax to the government by virtue of being a citizen has yet to be implanted in the minds of the general public. The study reveals that in a state where even the higher rung of the society do not pay income tax and other taxes worth the name, it is needed to inculcate awareness to pay taxes in the minds of the general public. As a responsible citizen, it is one's duty to pay taxes to the government.

The need to have a strong political will cannot be overemphasized without which a good tax policy contemplated by officials having insights and visions may not materialise.

It is also found that there have been many developments in the IT infrastructure, which have encountered quite a few problems due to the irregularities of the service providers. It is suggested that computerisation will help strengthen the Taxation Department. Introduction of the system of online payment of taxes will facilitate efficient collection of taxes. It is also suggested that the department should spend more on Capacity Building Programmes of officers and staff for better administration of the department and collection of more revenue.

In the state of Mizoram, the collection of the Entertainment tax is very low which needs more attention. The collection of Professional tax, a direct tax levied and collected by the state faces many problems. While in the public sector, the collection of the Profession tax does not create a problem, it is a serious issue in the case of private sector. The tax amounts are readily deducted from the salary of the employees of the government and government-aided institutions, which ensures easy collection and does not give room for evasion. But in the private sector, especially among the small business, there is a tendency for evasion of it. To check this, the taxation officials have to make extra efforts.

The Government of Mizoram has recently set up the State Finance Commission by appointing the Chairman and Member-Secretary. It is hoped that the Commission will function to augment resources and will be able to recommend and suggest various items for broadening tax base. The major purpose of this Commission is to suggest allocation of funds for the local self government institutions like the Aizawl Municipal Council. However, the Commission can also look into the issues and problems relating to taxation administration in Mizoram and can suggest necessary steps to bring in reforms.

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