



PROBLEMS OF VAT-ROADMAP FOR GST

Mrs. Ann Abraham

Assistant Professor, Department of Commerce, CMS College, Kottayam, Kerala

ABSTRACT

One of the most significant reforms initiated in India post independence in the field of tax is the implementation of VAT. Value added tax is a multi point destination based system of taxation with tax being levied on value addition at each stage of transaction in the production/distribution chain. VAT was introduced to ensure a hassle free, effortless, costless tax compliance structure. However, the system of VAT is not defect free. This paper highlights the issues and concerns faced by the various stakeholders associated with VAT and whether introduction of GST (Goods and Service Tax) will bring a change in the existing sales tax system.

Keywords: VAT, GST, Sales Tax

Introduction

Value Added Tax, popularly known as VAT, is a multiple turnover tax levied on the value added to a commodity or service as it passes through different stages of production and distribution, until it reaches the final consumer. In this scheme of taxation, tax is payable by each link in the supply chain on the value addition made by it on the product or service.

In contrast to the system of taxation of goods and services at single or multiple points, Value Added Tax is a tax levied on the commodity, service at each point of value addition. Under this system, tax is collected on a commodity or service on a piecemeal basis starting from the producer to the retailer. The total tax collected by the government on a commodity/service

under the VAT system will be exactly equal to the tax collected on the retail selling price of the product or service by the retailer.

At each stage, starting from the producer, tax will be collected on the selling price at the rate applicable to the commodity. From the tax so collected, the seller will retain that amount of tax paid on purchases and remit the balance alone to the government. This process is continued till the commodity or service reaches the final consumer. In this system, tax remitted to the government at each stage will be tax on the value addition of the product to service made by the seller. Thus Value Added Tax (VAT) is a tax on sale or purchase of goods, with a provision to deduct tax paid or payable on purchase from tax collected on sale.

Replacement of Sales Tax by Value Added Tax has been the most important tax reform measure in India in the recent past as it has uniformed the tax structure across the country. VAT was introduced in the nation with effect from 1.4.2005. At present, all the states and union territories have a VAT system in place. The state of Kerala also shifted towards VAT with effect from 1.4.2005.

VAT is basically a state subject, for which the States are sovereign in taking decisions. The State governments through the taxation departments are carrying out the responsibility of levying and collecting VAT in the respective States. While the Central Government plays the role of the facilitator for the successful implementation of VAT, the Ministry of Finance is the main agency for levying and implementing VAT at the Central and State level.

Statement of the Problem

- VAT was introduced to ensure a hassle free, effort less, cost less tax compliance structure. However, the system of VAT is not defect free. A number of issues and concerns are consistently being raised and opined by the various stakeholders associated with VAT.
- In this context an attempt is made to analyze the issues in VAT implementation faced by government and traders and also to assess whether GST can bring about a change in the current scenario.

Objectives of the Study

- To study the impact of VAT on government revenue.
- To identify the problems in the implementation of VAT.
- To study the opinion of traders about VAT & the problems faced by them in the existing system of VAT
- To analyze whether there is any need for the implementation of GST.

Review of Literature

Sebastian (1989) in his study reported that because of interdependency of economic activities between the states, inter state tax competition was an emerging problem which needed to be immediately dealt with.

The CII (2005) stated that the VAT system implemented currently is only an intermediate stage and the ultimate objective should be to have a single, common, harmonized system of taxation throughout the country.

A report on “Transition from KGST to VAT in Kerala” by the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2009, revealed that though the revenue has been increasing in absolute terms during the pre-VAT as well as post-VAT periods, the percentage of growth of revenue during the pre-VAT and post-VAT period has been showing an inconsistent trend.

John (2010) in his study stated that many traders found it difficult to file returns and other forms by themselves. They often had to depend on tax consultants for filing returns and other forms which in turn increased their expenses.

Gupta (2012) in his article concluded that the economic return in terms of revenue and efficiency gains to the expenditure incurred on VAT implementation is at best zero for the country as a whole.

Sarkar (2014) observed that although VAT is a significant source of revenue in the system was burdened by legal, administrative and structural problems that resulted in a tremendous loss of tax revenues.

Kapoor (2014) opined that implementing a national GST coupled with a state GST will rationalize indirect taxes while preserving states financial autonomy. This will ensure seamless taxation throughout the chain of production and distribution and include goods and services at both the Central and state levels.

Methodology

Type of data

For the purpose of the study, both primary and secondary data were used. The state of Kerala was chosen as the unit of the study.

Tools of data collection

The data for the study of the first objective was obtained from the audit reports of the revenue of the state of Kerala as per the website of the Comptroller and Auditor General of India. The data required for the other objectives were obtained through questionnaires.

Sample size

Hundred traders in the state of Kerala were taken as the sample units for the study using convenience sampling technique.

Analysis of data

Statistical tools such as t-test and chi-square test have been used to test the hypotheses.

Limitations of the study

The study is subject to the following limitations:

1. The study is limited to only five categories of traders. Thus, the demerits of the sampling technique apply to the study.

2. Research work is limited to the state of Kerala. So the findings may not be applicable to other parts of the country.

Findings of the study

Pre-VAT and Post-VAT tax collection

Year	Actual Value	% of growth	Year	Actual value	% of growth
2001-2002	4440.85	2	2005-2006	7037.97	5.03
2002-2003	5343.15	20.32	2006-2007	8563.31	21.67
2003-2004	5991.43	12.13	2007-2008	9371.76	9.44
2004-2005	6071.05	11.84	2008-2009	11377.13	21.40
Average growth		11.57			14.39

Source: CAG REPORT

- The Comptroller and Auditor General (CAG) report for the year ended 31.03.2013 revealed that even though revenue has been increasing in absolute terms, the percentage of growth of revenue has been showing an inconsistent trend in the state of Kerala.
- The report further observed that even though the number of dealers was increasing in the state year after year, there was no substantial increase in the VAT collection figures.
- Inability of the Commercial Taxes Department in locating cases of tax avoidance, failing to bring unregistered dealers under the tax net and not being able to detect the anomalies in the tax rates charged on exchange of goods and services resulted in a loss of about 800 crores to the department in the state.

Limitations of VAT-from the point of view of traders

- Traders find it difficult to determine the tax rates applicable to a given item without referring to the legislative schedule.
- The traders opine that multiple VAT rates are a source of complexity and dispute
- Many traders still face problems in return filing , due to improper format of the forms for filing returns. the server access is not possible at certain times due to the server complaints.

- They also complain that the refund of VAT takes around 12-15 months during which period they face acute liquidity crunch.

Conclusion of the study

The difficulties faced by the government as well as the traders give enough reason for the implementation of GST. Goods and Services Tax (GST) will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services. It will simplify India's tax structure, broaden the tax base, and create common market across states. It will also lead to increased compliance and increase India's tax-to-gross domestic product ratio.

Recommendations of the Study

The government should implement GST at the earliest as it solve many problems faced by the various stakeholders associated with the current system of VAT. Moreover GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent. It also aims at equitable division of tax burden between the manufacturing and services. GST on introduction will be implemented concurrently by the central and state governments as the Central GST and the State GST respectively. Taking into consideration all these merits, the introduction of this reform is recommended at the earliest.

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