

An assessment of implementation of VAT in West Bengal

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Abstract

Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The general public should be taxed according to their ability to pay, and the people in the same financial position should be taxed in the same way without any discrimination. When the government operates on a budget surplus or wants to increase its revenue in order to finance its budget deficit. A question that arises is whether value added tax has been a boon or misery for a developing country like India. India has finally agreed to implement value added tax from 1st April, 2005 at a rate of 12.5%. After of its much delayed the tax rate is fixed by meeting of different state level Finance Minister, in New Delhi, designed to make accounting more transparent, to cut short trade barriers and boost tax revenues. The West Bengal government's problem of tackling a cash crunch seems to have partially eased. As per expectations of the state finance minister and architect of the value-added tax (VAT) Asim Dasgupta, the state's revenue collections got a fillip in the post-VAT regime, which came into being in the state since April 1, 2005. Validating Mr Dasgupta's claim that VAT is a superior tax system than sales tax for states' revenue generation, West Bengal has generated 17% more revenue in 2006-07, the second year after VAT's introduction in the state. Introduction of VAT appears to have come as a boon to the state ever since it was introduced here. Despite some teething trouble in bringing all registered dealers and manufacturers under the tax net, the state has realised Rs 3,665.3 crore from VAT in 2005-06, the first year of its implementation. With this, its total collections from VAT, sales tax and central sales tax has increased 7% to Rs 6,119 crore in the year, against Rs 5,721 crore in 2004-05. This paper will focus on the basic problems faced by the business organisations and the consumers after implementing the VAT in West Bengal which otherwise it would be a fantastic aim of generating revenue in the state.

Key-words: Sales tax, Value Added, Revenue Generation.

1. Introduction

The system of sales tax suffered from many problems such as cascading effects, tax evasion by concealing sales by traders etc. VAT was the solution to the above problems. It is to be noted that France was the first country to adopt VAT in 1954. Subsequently, about 160

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countries including Pakistan, Bangladesh, Sri Lanka and Nepal have introduced VAT. In 1999, the empowered Committee of State Chief Ministers opened up the subject of VAT. Though VAT was going to be introduced in 2003, certain developments including a careful study of the problem of CST delayed its introduction. Finally, in January 2005 Mr P Chidambaram released a White Paper on VAT, documenting a roadmap to levy uniform state-level tax across majority of the states from April 1st 2005. India has a well-developed tax structure with clearly demarcated authority between Central and State Governments and local bodies. Central Government levies taxes on income (except tax on agricultural income, which the State Governments can levy), customs duties, central excise and service tax. Value Added Tax (VAT), stamp duty, land revenue and tax on professions are levied by the State Governments. Local bodies are empowered to levy tax on properties and for utilities like water supply, drainage etc. In last 10-15 years, Indian taxation system has undergone tremendous reforms. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of rationalization of tax administration is on-going in India.

Value Added Tax (VAT) was introduced in Orissa w.e.f. 1.4.2005 by replacing the erstwhile Sales Tax Act. The VAT scheme immediately expanded the tax base after its inception due to the fact that it eliminates cascading i.e. tax on tax because of set off tax paid on inputs and capital good. Reduction in cost of domestic product because of inbuilt system of input tax credit makes domestic products competitiveness helps growth of industries, increases marketability of products having perspective impact on employment generation. Now, the VAT system has been stabilized further in the sphere of almost all economic activities in the State.

In the existing sales tax structure, there are problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden. For instance, in the existing structure, before a commodity is produced, inputs are first taxed, and then after the commodity is produced with input tax load, output is taxed again. This causes an unfair double taxation with cascading effects. In the VAT, a set-off is given for input tax as well as tax paid on previous purchases. In the prevailing sales tax structure, there is in several States also a multiplicity of taxes, such as turnover tax, surcharge on sales tax, additional surcharge, etc. With introduction of VAT, these other taxes will be abolished. In addition, Central sales tax is also going to be phased out. As a result, overall tax burden will be rationalized, and prices in general will also fall. Moreover, VAT will replace the existing system of inspection by a system of built-in self-assessment by the dealers and auditing. The tax structure will become simple and more transparent. That will improve tax compliance and also augment revenue growth. Thus, to repeat, with the introduction of VAT, benefits will be as follows:

- A set-off will be given for input tax as well as tax paid on previous purchases;
- Other taxes, such as turnover tax, surcharge, additional surcharge, etc. will be abolished;
- Overall tax burden will be rationalized prices will in general fall
- There will be self-assessment by dealers
- Transparency will increase.
- There will be higher revenue growth

The VAT will therefore help common people, traders, industrialists and also the Government. It is indeed a move towards more efficiency, equal competition and fairness in the taxation system.

The essence of VAT is in providing set-off for the tax paid earlier, and this is given effect through the concept of input tax credit/rebate. This input tax credit in relation to any period means setting off the amount of input tax by a registered dealer against the amount of his output tax. The Value Added Tax (VAT) is based on the value addition to the goods, and the related VAT liability of the dealer is calculated by deducting input tax credit from tax collected on sales during the payment period (say, a month).

If, for example, input worth Rs. 2,00,000/- is purchased and sales are worth Rs. 4,00,000/- in a month, and input tax rate and output tax rate are 4% and 10% respectively, then input tax Credit/set-off and calculation of VAT will be as shown below:

(a) Input purchased within the month: Rs. 2, 00,000/-

(b) Output sold in the month: Rs. 4, 00,000/-

(c) Input tax paid: Rs. 8,000/-

(d) Output tax payable: Rs. 40,000/-

(e) VAT payable during the month: Rs. 32,000/-

After set-off/input tax credit [(d) – (c)]

2. Objectives of the Study

- To determine the impact of VAT on satisfaction over the marketers as well as consumers.
- To identify the problems and prospects consumers point of view in Implementation of VAT

3. Review of Literature

K. Narayana (2005) in his study the state empower committee in India is planning to introduce VAT system at state level from 1st April 2005. As many as 21 states have reiterated their commitment to introduce value added tax (VAT) to replace sales tax from 1st April 2005. The remaining states i.e., U.P., tamilnadu and five other BJP ruled states have expressed their apprehension about the efficacy and revenue loss by introducing VAT. The VAT system of taxation does not encourage vertical integration of firms as it is independent of number of stages in the production and distribution channel. The experiences of many developing countries have shown that if properly designed and implemented the VAT may prove a better resources mobilizer than the present sales tax systems. The apprehensions of the 7 states are illogical and political rather than genuine economic reason.

L. Sathees kumar and Dr. V. Selva raj (2009) in their study introduction of VAT and the relevant legislation has far reaching implications for industry and trade. Adjusting to a VAT regime would require realignment of business strategies, distribution channels and logistic requirements. It is, therefore, important that VAT is implemented with detailed legislation and rules at least four months in advance giving time to trade and industry to adjust.

Kapoor and Dhaliwal (2009) discussed the various procedural reforms under VAT in India with special reference to Punjab Value Added Tax Act 2005. It studied the working of value added tax, incidence of tax, input tax credit mechanism, payment of VAT, filing of returns and refund procedure under VAT. The paper attempted to study and compare the present state value added tax and earlier state tax on the basis of incidence of tax and other procedural requirements. Under earlier sales tax structure, before commodity was produced, inputs were first taxed and then taxed again with input tax load after commodity was

produced thus causing an unfair double taxation with cascading effects. On the other hand, under the VAT, set-off is given for input tax as well as tax paid on previous purchases. Further, there was multiplicity of taxes in several states like turnover tax, surcharge on sales tax, additional surcharge etc. But with introduction of VAT, these other taxes have been abolished resulting in overall rationalization of tax burden. Moreover, VAT has replaced the earlier system of inspection by a system of built-in self-assessment by the dealers. The study concluded that the present state value added tax system of taxation is more simple and transparent as compared to the earlier state sale tax system of taxation.

Tripathi et al. (2011) evaluated that Value Added Tax would change the nature of trade in the coming years, but the medium level of trade would face problems. Similarly, small retail dealers would be required to maintain more accounts or pay composition money which cannot be collected from the customers. The present provision of central sales tax and Value Added Tax cannot go together. After the abolition of central sales tax the direct marketing concept may gain ground and the necessity of having warehouse, go downs etc. in all states may decrease or finish.

Value added tax in India has been introduced in modified variants over the past two decades. However, Value Added Tax in its original form is yet to be introduced in India, at Central or State level. After the negative and positive impact on the Indian consumers, Value Added Tax has been identified as the real goal maker by the Indian government in the coming years to foster growth and prosperity in the country. The change in the standard of livings has increased the purchasing power of the high class society but the medium and the poor class society has to work hard in order to achieve their living and meet extravagances.

Deshmukh (2012) analysed the impact of VAT on profitability of manufacturing Industries in Maharashtra. This paper revealed that the share of VAT has increased from 52.2 per cent to 64.8 per cent during 2001-02 to 2009-10 in sales tax revenue gross receipts of the Maharashtra. MST and CST has become the second and third largest contributor after BST/VAT in sales tax revenue gross receipts of Maharashtra. This paper suggested that it would be in the interest of both state governments and tax payers to have uniform laws and procedures for tax administration. In the medium term, a consensus tax administration act will greatly reduce the cost & will lead to increase in the profitability of an organization. The existing VAT system has increased the tax revenue as well as the profitability of the organization. VAT has simplified the paper work, proved to be user friendly, reduced transaction costs and time since e- registration has been made compulsory for every dealer. It is suggested and emphasized that VAT reduces the cascading effect. Therefore, rather than prescribing different rates for different goods, a uniform VAT will improve economic efficiency. It is suggested to prepare the infrastructural setup requisite for adequate automation in tax administration before the GST implementation.

Muthu and Senthil (2013) assessed the attitude of Pharmaceutical Retailers towards VAT in Tiruchendur Taluk of Tuticorin District. The researcher study was about the concept and structure of VAT, identify the practical problems encountered by under VAT and find out what are the beneficial aspects enjoyed by pharmaceutical retailers under VAT. A sample sizes are 55 Pharmaceutical Retailers, using the purposive sampling techniques. The primary data was gathered using interview schedule and analysed by use of percentage method, T – Test, Analysis of Variance (ANOVA) and F – Test were used in the appropriate places. The researcher conclude that Value Added Tax is a new tax format for all pharmaceutical retailers with the introduction of VAT, there are some new formalities and hidden problems for them.

But most of the retailers showed favourable attitude towards VAT implementation. The problems like daily maintenance of opening and closing stock, bill maintenance, self-assessment, computerizing the account should be sympathetically viewed by the Government for considering the development of the pharmaceutical retailers.

4. Research Methodology

4.1. Sampling Plan and Data Collection

The study is based on both primary and secondary data. The primary data is collected from the Tax Officials, Chartered Accountants, Wholesalers, Retailers and Consumers. The questionnaire comprises three broad categories namely business profile, tax implementation stage, tax output stage and its impact over marketers and consumers. The secondary data must be studied in the form of VAT collection for state governments from the date of implementation.

4.2. Sampling Techniques

The Convenient Random Sampling technique is exploited to obtain the responses from the required domains of VAT.

4.3. Sample size

Sample sizes of 200 respondents have been selected for the study amongst Tax Officials, Chartered Accountants, Wholesalers, Retailers and Consumers. All the respondents are from Jalpaiguri, Darjeeling, Medinipur, Cochin, Maldah, Howrah, and Kolkata.

4.4. Questionnaire

- 1) Tax evasion stopped after VAT.
- 2) VAT implementation has made more transparent the whole system.
- 3) Vat benefits to the customers.
- 4) VAT has increased the revenue to the Government.
- 5) Complications are more than the Sales tax in case of VAT (cost perspective).
- 6) There is a scope of self assessment.

5. Data Analysis

All the questions have asked on five point scale. For each question for strongly disagree 1, disagree 2, neither Agree or disagree 3, Agree 4 and strongly agree 5 have given.

Out of the 200 respondents only 170 have returned the respondent sheet out of 170, 10 sheets were incomplete so I have excluded those incomplete sheets for analysis purpose. So, ultimately there are total 160 respondents who have returned the sheet with complete response.

For the first question 50 respondent replied with strongly disagree, 20 disagree, 40 neither agree nor disagree, 20 agree and 30 strongly agree.

For the second question 45 respondent replied with strongly disagree, 25 disagree, 35 neither agree nor disagree, 30 agree and 25 strongly agree.

For the third question 55 respondent replied with strongly disagree, 20 disagree, 30 neither agree nor disagree, 25 agree and 30 strongly agree.

For the fourth question 10 respondent replied with strongly disagree, 10 disagree, 20 neither agree nor disagree, 30 agree and 90 strongly agree.

For the fifth question 30 respondent replied with strongly disagree, 35 disagree, 10 neither agree nor disagree, 50 agree and 35 strongly agree.

For the sixth question 80 respondent replied with strongly disagree, 50 disagree, 10 neither agree nor disagree, 15 agree and 05 strongly agree.

6. Findings

The major findings of the study are as follows:

- a) At the same time, the systems suffer from substantial compliance gaps.
- b) The complexities under the State VAT relate primarily to classification of goods to different tax rate schedules. Theoretically, one might expect that the lower tax rates would be applied to basic necessities that are consumed largely by the poor. This is not the case under the State VAT. The lowest rate of 1% applies to precious metals and jewellery, and related products—hardly likely to be ranked highly from the distributional perspective. The middle rate of 4% applies to selected basic necessities and also a range of industrial inputs and IT products. In fact, basic necessities fall into three categories – exempted from tax, taxable at 4%, and taxable at the standard rate of 12.5%. The classification would appear to be arbitrary, with no well accepted theoretical underpinning. Whatever the political merits of this approach, it is not conducive to lower compliance costs.
- c) Most retailers find it difficult to determine the tax rate applicable to a given item without referring to the legislative schedules.
- d) Many of the administrative processes are still manual, not benefiting from the efficiencies of automation. All this not only increase the costs of compliance, but also undermines revenue collection.
- e) Tax cascading remains the most serious flaw of the current system .It increases the cost of production and puts Indian suppliers at a competitive disadvantage in the international markets.
- f) There is no refund easily from the department for the advance Tax (if any).
- g) There is no similarity between manual system still in some cases and e-system.

7. Suggestions

Since the Consumers and Retailers are Unaware of certain Implementation process of Value added tax. It is suggested the government should come with transparent norms to enlighten the retailers and consumers. The study ascertained maximum benefit to the government through Value Added Tax system. So it is strongly recommended to have innovative slab system suitable for Wholesalers, Retailers and Consumers.

8. Conclusions

Value added tax has a number of advantages, e.g. free movement of goods and services, neutrality of taxation, universal character of application or multi-phase character of the tax. On the other hand, it has also some disadvantages, and administrative cost for taxpayers and for the state is one of them. Owing to the subject of research, we will further pay attention only to the economic effectiveness of paying the tax for businesses, i.e. we will deal with value added tax from the microeconomic point of view.

The tax applicability and e-filing plays a vital role in the VAT system. It gives mutual benefits to the Consumers and Government. Service tax, sales tax and other taxes can be easily vivid due to its Implementation process. But the transparency is required at all the level in order to obtain effective functioning in the VAT system in all the states of India.

The move towards the VAT regime is a welcome step for the Indian Economy, but to get the complete benefits of this VAT, it is necessary that the whole nation should understand the issues and concerns of the trade and the industry at large in evolving a common system of taxation across the country. The states, who have not yet implemented the VAT, have to understand the problems being faced by the trading community at large and should implement the VAT as quickly as possible so as to reduce the concerns of trade. This would pave the way for initiating the steps for the introduction of the GST in a near future.

As already steps have been initiated in integrating the taxation on goods and services at the central level (already inter-sectoral credit has been introduced), it would be necessary to initiate the steps for ensuring a uniform value added tax law across the country which would then pave the wave for implementation of a common GST across the country.

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