An Analysis of the Impact of Value Added Tax (VAT) in Delhi

Komal

Sirifort College of Computer, Technology & Management,
Delhi Research Scholar, M.D.U., Rohtak.

Abstract

From the broad view Value Added Tax has replaces the already existing sales tax thus it passed on to the customers without affecting the business processes. The major concern of the govt. is with respect to the smooth enforcement, collection of the tax & regulation of the tax. But for an enterprise, VAT is not just a replacement of sales tax but an information input for their business which can change the whole picture of business decisions. It is a change in business strategies & affects every walk of life in business whether it is wholesalers, Retailers, Chartered Accountants, Tax officials or consumers in India. Government regulations constitute a vital element in the external environment of business & business executive or the manager can’t afford to ignore this vital element. He has to work out the strategies in such a way as to fulfil the govt.’s regulations as well as business needs. He will have to incorporate this information into their business system. The business processes which were tunes according to the old system of sales tax would have to be altered according to the new system of VAT. This research paper is focused on the impact of VAT on Business enterprises, Wholesalers, Retailers, Chartered Accountants, Tax officials and Consumers in Delhi and to come up with practical & viable suggestions for better implementation of VAT.

Keywords: Value Added Tax, Cascading effect.
1. Introduction
Sales tax was first introduced in 1939 by the Tamil Nadu Government and was subsequently adopted by many states. 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 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.

2. Objective of the Study
1. To analyse the perceptions of Business Enterprises, Wholesalers, Retailers, Chartered Accountants, Tax officials and Consumers regarding the VAT.
2. To identify viable suggestions for better implementation of VAT.

3. Data Collection
The study is based on primary data. The primary data is collected from the Business Enterprises, Tax Officials, Chartered Accountants, Wholesalers, Retailers and Consumers with the help of Questionnaire. A questionnaire with three sections was developed and finalized. The first part of the questionnaire comprises demographic factors with optional questions. The second part contains the general viewpoint about Value Added Tax. The final part of the questionnaire consists of the statements relating to perception of Value Added Tax, Areas of Improvement and suggestions to increase the effectiveness of Value Added Tax. In the present study non probability technique is used and the Judgemental Sampling method is followed to gather the data from the respondents.
4. Sample Size
A sample size of 409 respondents is used for completion of this project.

5. AERA of Sampling
As it is impossible to examine the whole universe, the responses sought from the Business Enterprises, Tax Officials, Chartered Accountants, Wholesalers, Retailers and Consumers located in Delhi.

6. Review of Literature
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 sale 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 BST/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 TiruchendurTaluk 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.

Sunder and Jain (2013) concluded that although the VAT figures in the present research on impact of VAT on automobile industry are near about equal to the sales tax figures but VAT amount will definitely increase in the next stage and will benefit the government revenue. On the observation basis researcher concluded that although the overall tax burden figures in the research are decrease to the final consumer and it will definitely more decrease in the next stage and will benefit the consumer. VAT introduces the uniform tax rates across the state so that unfair advantages cannot be taken while levying the tax on Auto products. A general survey reveals slashing of prices on items like medicine, automobile products, cosmetics, paper etc. due to downward revision of tax rates and abolition of surcharge and because of availability of the facility of set off of tax paid on inputs as well as capital goods against tax payable on finished products under VAT scheme eliminating the cascading effect, the cost of
production of commodities are likely to fall not only making the product of the local industries competitive on one hand, but it will also benefit the consumers by way of resultant reduction in prices of the commodities on the other.

**T-TEST**
The respondents expressed their perception about implication of VAT and its influence over the marketing and its business activity. These perceptions are identified through different characteristics effects and optimistic impact on business establishment. The consumers and marketers expressed their perception in likert’s five point scale which range from strongly disagree.

### 7. Opinion on Implementation of VAT
The application of t-test exactly ascertains the opinion of implementation of VAT on Consumers, Retailers Wholesalers, Chartered accountant and Tax officials. The following are the results of the t-test.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>T(lower)</th>
<th>Sig (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Evasion</td>
<td>409</td>
<td>3.7115</td>
<td>1.02177</td>
<td>.5052</td>
<td>14.082</td>
<td>.000</td>
</tr>
<tr>
<td>Transparency</td>
<td>409</td>
<td>3.5844</td>
<td>.90929</td>
<td>.04496</td>
<td>12.997</td>
<td>.000</td>
</tr>
<tr>
<td>Improved Exports</td>
<td>409</td>
<td>3.9511</td>
<td>.78750</td>
<td>.3894</td>
<td>24.425</td>
<td>.000</td>
</tr>
<tr>
<td>Government Profits</td>
<td>409</td>
<td>3.7873</td>
<td>1.03760</td>
<td>.05126</td>
<td>15.358</td>
<td>.000</td>
</tr>
<tr>
<td>Material Cost</td>
<td>409</td>
<td>4.0416</td>
<td>.89154</td>
<td>.4408</td>
<td>23.627</td>
<td>.000</td>
</tr>
<tr>
<td>Response towards VAT</td>
<td>409</td>
<td>4.0342</td>
<td>.84238</td>
<td>.04165</td>
<td>24.830</td>
<td>.000</td>
</tr>
<tr>
<td>Difficulties are found in the instruction of VAT system than sales tax</td>
<td>409</td>
<td>3.9584</td>
<td>.73480</td>
<td>.03633</td>
<td>26.379</td>
<td>.000</td>
</tr>
<tr>
<td>Inflation</td>
<td>409</td>
<td>3.8411</td>
<td>1.02979</td>
<td>.05092</td>
<td>16.518</td>
<td>.000</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>409</td>
<td>3.1345</td>
<td>1.19804</td>
<td>.05924</td>
<td>2.270</td>
<td>.024</td>
</tr>
<tr>
<td>Tax aspects</td>
<td>409</td>
<td>3.3447</td>
<td>1.13801</td>
<td>.5627</td>
<td>6.126</td>
<td>.000</td>
</tr>
<tr>
<td>Sales tax</td>
<td>409</td>
<td>3.5012</td>
<td>1.256660</td>
<td>.06213</td>
<td>8.067</td>
<td>.000</td>
</tr>
<tr>
<td>Benefits to the customers and Govt.</td>
<td>409</td>
<td>3.3765</td>
<td>1.21673</td>
<td>.6016</td>
<td>6.528</td>
<td>.000</td>
</tr>
<tr>
<td>Approach for the wholesalers and retailers</td>
<td>409</td>
<td>3.5452</td>
<td>1.29423</td>
<td>.06400</td>
<td>8.520</td>
<td>.000</td>
</tr>
<tr>
<td>Tax revenue to the government increased rapidly</td>
<td>409</td>
<td>3.4621</td>
<td>1.25212</td>
<td>.06191</td>
<td>7.464</td>
<td>.000</td>
</tr>
<tr>
<td>Economic situations</td>
<td>409</td>
<td>3.3790</td>
<td>1.11612</td>
<td>.5519</td>
<td>6.867</td>
<td>.000</td>
</tr>
</tbody>
</table>
From the above table it is found that checking the tax evasion and transparency possess the mean values of 3.71 and 3.58 respectively with significant t-values of 14.082 and 12.997. Therefore it is concluded that the implementation of VAT is useful checking for the tax evasion and transparency is abundantly found in the implementation VAT system.

VAT improved exports and It increases government profits possess the mean values of 3.95 and 3.78 respectively with significant t-values of 24.425 and 15.358. Therefore it is concluded that the implementation of VAT is useful is improved for the exports and increases government profits found in the implementation VAT system. It reduces the material cost and Comparing VAT system with erstwhile sales tax gives more favourable response towards VAT possess the mean values of 4.0416 and 4.0342 respectively with significant t-values of 23.627 and 24.830. Therefore it is concluded that the implementation of VAT is reduces material cost and comparing with the sales tax is abundantly found in the implementation VAT system.

More difficulties are found in the instruction of VAT system than sales tax and Inflation increases due to VAT implementation programmes possess the mean values of 3.9584 and 3.8411 respectively with significant t-values of 26.379 and 16.518. Therefore it is concluded that the implementation of VAT is more difficulties are found in the instruction of VAT system and increases inflation is abundantly found in the implementation VAT system. VAT implementation improves the revenue growth and VAT implementation increases the confidence of the customers on their tax aspects possess the mean values of 3.1345 and 3.3447 respectively with significant t-values of 2.270 and 6.126. Therefore it is concluded that the implementation of VAT improves the revenue growth and increases the confidence of the consumers on their tax aspects. It curtails sales tax at different stages and it gives mutual benefits to the customers and government possess the mean values of 3.5012 and 3.3765 respectively with significant t-values of 8.067 and 6.258. Therefore it is concluded that the implementation of VAT is curtails sales tax at different stages and mutual benefits to the consumers and government.

It sets smooth approach for the wholesalers and retailers possess the mean value 3.5452 with significant t-value of 8.520. Therefore it is concluded that the implementation of VAT smooth approach for the wholesalers and retailers. The total collection of tax revenue to the government increased rapidly and it is more suitable for the Globalised Economic Situations possess the mean values of 3.4621 and 3.3790 with significant t-values of 7.464 and 6.867. Therefore it is concluded that the implementation of VAT is increases total collection of tax revenue and more suitable for the globalised economic situations.

8. Opinion on Suggestions for Effective Implementation of VAT
VAT implementation is an indispensable phenomenon to give mutual benefit to the Consumers, Retailers, Wholesalers, Chartered accountant and Tax officials. The application of t-test exactly ascertains the opinion of suggestions for effective
implementation of VAT on Consumers, Retailers Wholesalers, Chartered accountant and Tax officials. The following are the results of the t-test.

<table>
<thead>
<tr>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>T(lower)</th>
<th>Sig (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uniform product classification</td>
<td>409</td>
<td>3.3374</td>
<td>.89036</td>
<td>7.664</td>
<td>.000</td>
</tr>
<tr>
<td>Input tax credit</td>
<td>409</td>
<td>2.6308</td>
<td>1.46298</td>
<td>-5.104</td>
<td>.000</td>
</tr>
<tr>
<td>Practical approach to VAT</td>
<td>409</td>
<td>2.6308</td>
<td>1.36953</td>
<td>-5.452</td>
<td>.000</td>
</tr>
<tr>
<td>Single Window assessment</td>
<td>409</td>
<td>3.5183</td>
<td>1.03861</td>
<td>10.093</td>
<td>.000</td>
</tr>
<tr>
<td>Complete abolition of CST</td>
<td>409</td>
<td>3.6259</td>
<td>.94683</td>
<td>13.369</td>
<td>.000</td>
</tr>
</tbody>
</table>

From the above table it is found that Introduction of uniform product classification across the country possess the mean value 3.3374 with significant t-value 7.664. Therefore it is concluded that the implementation of VAT is uniform product across the country. Extension of input tax credit to central sales taxes also possesses the mean value 2.6308 with significant t-value -5.104. Therefore it is concluded that the implementation of VAT is extends of input tax credit to central sales taxes. Adoption of a practical approach to VAT audits for assessment possesses the mean value 2.6308 with significant t-value -5.452. Therefore it is concluded that the implementation of VAT practical approach to VAT audits for assessment. Introduction of single window assessment process for all taxes possess the mean value 3.5183 with significant t-value 10.093. Therefore is concluded that the implementation of VAT is single assessment process for all taxes.

9. **Suggestion of the Study**

1. VAT features are highly competent to allot benefit to the government. So, the channel of distribution and flow of VAT must be reformed.
2. A transparent approach to Rate of Tax, Refund Procedure, Maintaining and improving accounting procedure are the immediate need for an hour.
3. The percentage of the Raw Material (4 per cent) and Finished Goods (12.5 per cent) are in difference with 8.5 per cent. It is very difficult to pay. So the percentage can be reduced to the rate of Raw Material and it should be equalized.
4. The uniform rate of VAT for all the products should be maintained throughout the country.
5. The consumer should get the bill for their every purchase. So the government will be benefited through the VAT. And also the public is benefited.
10. Conclusion
The Value Added Tax makes an evasive attempt on perception level as well as execution level. The study reveals that the requirement of transparency in VAT is needed in all the states of India. It is found that equal channel of distribution of VAT is prevailing among Wholesalers, Retailers and Consumers. 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 followed 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 introduction of Uniform Product Classification across the country is required to exhibit the perception process with effective return. The adoption benefits of purchasers and sellers equally. The single window system and Abolition of CST are indispensable to obtain the cent per cent success of VAT.

Bibliography


