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AN ANALYSIS OF THE IMPACT OF VALUE ADDED TAX (VAT) IN RAJASTHAN

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ABSTRACT

Value Added TAX (VAT) is a type of Indirect Tax that is imposed on goods and service. The much awaited, discussed, debate and deferred several times. Value Added Tax (VAT) supposedly, out of the biggest India tax reform since independence, got introduced o April, 2005 in 21 states. Vat is an integral part of the GDP of our country. While VAT is levied on sale of goods and services and paid by producers to the Government, the actual tax is levied from customers or and users who purchase these. The preset paper tries to analyze the impact of VAT on Revenue in Rajasthan.

***KEYWORDS**: Value Added TAX (VAT), Indirect Tax, Impact of VAT, Revenue,* Multipoint Levy*.*

Introduction

Value added tax (VAT), a fiscal innovation of early 1950s has gained worldwide attention as more and more countries are adopting it in varying degrees to reform their system of commodity taxation. "Value added tax is a tax on consumption. It is a multipoint levy collected in installments at each stage of production and distribution." The final and total burden of this tax is borne by the domestic consumers of goods and services. Value added tax is levied on the sales of goods and services based on value added at a particular stage of production or distribution. In other words inputs of a firm are not taxed. At each point the firm is reimbursed the tax, which it has already paid at the time of purchasing the inputs, thus there is no cascading effect. Indirect system plays an important role in the economic development of a country by influencing the rate of production and consumption. The Government of India after committing to the World Trade Organization (WTO) regime, decided to modernize and streamline its indirect taxation system in the light of the experience of other countries covered by WTO. The Government has availed of the services of the International Management Consulting countries. In India, introduction of VAT would be a historic reform of the domestic trade tax system. It is expected to facilitate the State and Union Territories to transit successfully from the sellers, while sales tax system to a modern domestic tax system. Value Added Tax (VAT) is unanimously acknowledged to be a major reform in the indirect taxation system because of the following benefits:

- It eliminates the cascading effect of taxes,
- It promotes competitiveness of exports,
- It has a simple and transparent structure, and
- It improves compliance.

In recent time, more and more countries have been adopting VAT for taxation of commodities and services, and presently there are more than 120 countries where VAT is in force. Only USA and India are amongst the more popular countries that do not have a VAT. Economists have generally shared the view that VAT is best suited as a Federal or Central tax, and not at the State-level. However, States and

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Provinces in a few large federal countries like Brazil, and, to a lesser extent, Canada, have adopted VAT, with varying degrees of success. By adopting VAT the country would soon be joining the majority of the countries and hopes to derive the advantages there of in like manner.

Considering that the implementation of VAT is closely linked to the administration of other indirect taxes and impacts the tax to GDP ratio, it has become necessary to examine the relevant issues. In this direction the Task Force has the benefit of meeting with the Empowered Committee of the Finance Ministers of the states, constituted for the purpose of implementing a Nation-wide State-level VAT. The Empowered Committee is indeed a unique experiment in federal fiscal planning and has achieved much in terms of building a consensus on many of the critical issues relating to implementation of VAT in a relatively short spell of time. Most countries have taken several years to implement VAT. As was learnt, decisions have been taken on the important features of VAT relating to replacement of the Sales Tax levied by the states (though some other local taxes like octroi, mandi cess etc. may continue); the Revenue Neutral Rate and other rates; the tax to be a multi-point levy, with the tax paid on inputs within the State being set off against the tax payable on the dealer's sales (subject to a threshold limit); phasing out of CST in 4 years; adoption of uniform classification, etc. Mostly all vital areas have been covered by the Empowered Committee and neither it would be appropriate, nor is it considered necessary for this Task Force to re-examine these issues. The Task Force would like only to highlight few issues to ensure successful implementation of VAT, and its continuity and stability in a dynamic sense. These matters assume importance in view of the limited time now left for the proposed implementation of State VAT, since 1st April, 2003.

Objectives of Study

- To study the impact of VAT on state revenue.
- To study the important of VAT in India Economy.
- To examine the procedural aspect and difficulties in implementation of VAT.

Research Methodology

Research Methodology is well planned programme of process which is a base of all the research work. This study based on primary as well as secondary data. The primary data have been collected by visiting sales tax department through fulfilling the questionnaire. While the secondary data have been collected through published information as well as websites and sales tax department. The period taken for the study is 1998-99 to 2005-06 is pre VAT period and 2006-07 to 2016-17 is post VAT period. To analysis of data, techniques of statistics have been used and its test the hypothesis t-test.

The Impact of Value Added Tax in India

VAT is certainly a more transparent and accurate system of taxation. The existing sales tax structure allows for double taxable thereby cascading the tax burden. For example, before a commodity is produced, inputs are first taxed, the produced commodity is then taxed and finally at the time of sale the entire commodity is taxed once again by taxing the commodity multiple times, it has ineffective purchased the cost of goods and therefore the price has to be paid by the end consumer. The transaction chain under VAT assuming that a profit of Rs. 10 is retained during each sales.

Table 1: Tax Implication Under Value Added Tax Act

Seller	Buyer	Selling Price (Excluding Tax)	Tax Rate	Invoice Value (Including Tax)	Tax Credits	Net Tax Outflow
A	B	200	4%CST	208	0	8
B	C	228	12.5%VAT	256.50	0	28.50
C	D	248	12.5%VAT	31	28.50	2.50
D	Consumer	268	12.5%VAT	33.50	31	2.50
Total to Government					VAT CST	41.50

*NOTE: CST paid cannot be claimed for credit CST is assumed to remain the same though it could be reduced to 2 per cent when VAT is introduced and eventually phased out.

"VAT can be considered as a multipoint sales tax with set off tax paid on purchases (input) and capital goods what this means is that dealers can actually deduct the amount of tax paid by him for purchase from the tax collected on sales, thereby paying just the balance amount to the government."

Calculation of (Value Added Tax) VAT

VAT Computation Value Added Taxation works under chain system and creates incentives for each participant from production to sale and clearly identifies his role, because he is only taxable for paying on VAT on addition in value generation. It is a multipoint tax system with input tax credit available for tax paid on corresponding purchases. Full tax is charged at each transaction, but tax is paid to Government after 60 considering input tax credit. Thus indirectly tax is charged on value addition only. Therefore, it is called Value Added Tax or VAT. Since VAT is a very versatile tax, it offers several methods to calculate the quantum of tax payable. The commonly used methods of calculation are addition, subtraction and tax credit. (a) Addition Method in 'addition method', all factor payments including profits are aggregated to arrive at the total value accommodate exemptions of intermediate firms. It is also difficult to exempt exports and do correct valuation of imported goods. Another drawback is that it does not facilitate matching of invoices for detecting tax evasion. (b) Subtraction Method This is the simplest method for computing tax liability. The value added by a firm is calculated by subtracting total purchase from sales. Tax is easily ascertained by applying the rate on the value addition. Under the subtraction method, value added is measured as the difference between an enterprise's taxable sales and its purchases of taxable goods and services from other enterprises. At the end of the reporting period, the VAT rate is applied to this difference to determine the tax liability. The subtraction method differs from the credit invoice method principally in that the tax rate is applied to a net amount of value added (sales less purchases), rather than to the gross sales, with credits for tax paid on gross purchases. (c) Tax credit or invoice Method VAT operating countries mostly employ the tax credit or invoice method for computing the actual tax payable. It is widely used in conjunction with comprehensive VAT. In this method, deduction of taxes paid on inputs is 61 allowed from the taxes payable on sales on the basis of the aggregates of the taxes indicated on all invoices. The invoices received for the purchase of inputs and sale of value added commodities give correct indication of the actual tax liability. it eliminates the distortion caused by a differential rate structure.

After VAT implementation the revenue of the states are increased. Here after covering the VAT related information. I have study the effect of VAT in Rajasthan. VAT has been implemented in Rajasthan since 1-04-2006 since its inception the general optimism about the growth in revenue collection has been achieved in the state without facing any major opposition from the state holders. I have collected data from Rajasthan state. Revenue data are taken and analysed collected. Government sales and commercial department. Now I have present effect of t-test which have been included in this study.

Table 1: Statistic Analysis and Test of Hypothesis

Year	Sales tax collection	Indices base on	Year	Sales tax collection	Indices base on
1995-96	1399.66	100	2006-07	6720.71	100
1996-97	1598.85	114.47	2007-08	7750.73	115.32
1997-98	1826.19	130.75	2008-09	8904.50	132.49
1998-99	2058.76	147.40	2009-10	10163.53	151.22
1999-00	2424.52	173.59	2010-11	12629.59	187.92
2000-01	2821.21	201.99	2011-12	15766.43	234.61
2001-02	3069.03	219.74	2012-13	18574.65	276.37
2002-03	3437.89	246.15	2013-14	21215.51	315.67
2003-04	3985.43	285.35	2014-15	24169.91	359.63
2004-05	4797.53	343.50	2015-16	26344.77	391.99
2005-06	5593.64	400.50	2016-17	2854.79	424.78

$$t = \frac{\bar{X}1 - \bar{X}2}{s\sqrt{\frac{1}{n_1} + \frac{1}{n_2}}} \quad \text{or } t = \frac{\bar{X}_1 - \bar{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

$$S = \frac{\Sigma\left(X_T - \bar{X}_1\right)^2 + \Sigma\left(X_2 - \bar{X}_2\right)^2}{\left(n_1 - 1\right)\left(n_2 - 1\right)} \quad \text{or} \quad S = \frac{\Sigma d_1 + \Sigma d_2}{n_1 + n_2 - 2}$$

Table 2

X_1	$d_1(X_1-X_1)$	d_1^2	X_2	$d_2(X_2-X_2)$	d_2^2
100.00	-114.85	13192.82	100.00	-144.50	20891.81
114.47	-100.39	10076.81	115.32	-129.22	16697.81
130.75	-84.86	7073.80	132.49	-112.05	12555.20
147.40	-67.46	4550.05	151.22	-93.32	8708.62
173.59	-41.27	1702.87	187.92	-56.62	3205.82
201.99	-12.87	165.46	234.61	-9.93	98.60
219.74	4.88	23.82	276.37	31.83	1013.15
246.15	31.29	979.12	315.67	71.13	5054.48
285.35	70.49	4969.45	359.63	115.09	13245.71
343.5	128.64	16548.30	391.99	147.45	21741.50
400.50	185.64	34462.65	424.78	180.24	32486.46
2363.48		**93745.16**	**2690**		**135704.17**

$$\bar{X}_1 = \frac{\sum X_1}{n_1} = \frac{2363.48}{11} = 214.862$$

$$\bar{X}_2 = \frac{\sum X_2}{n_2} = \frac{2690}{11} = 244.545$$

d.f. = $n_1 + n_2 - 2 = 11 + 11 - 2 = 20$

$$S = \sqrt{\frac{93745.16+135704.16}{11+11-2}} = \sqrt{\frac{229449.33}{20}}$$

$$S = \sqrt{11472.467}$$

S = 107.109

$$t = \frac{\bar{X}_1 - \bar{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

$$\frac{214.862 - 244.545}{107.109} \text{ x } \sqrt{\frac{11\text{x}11}{11+11}}$$

$$\frac{29.683}{107.109} \text{ x } 2.34$$

$$0.277 \text{ x } 2.34 = 0.648$$

Above table show calculated value of t-test the tabulated value at 20 degree of freedom is 5% on its complementary stage and value at 2.09. The calculated value of t-test is less than tabulated value. Therefore, the difference is meaningless. There come no difference between sales tax revenue or value added tax revenue. That means no significant change in state revenue due to implementation of VAT is place of Sales Tax.

VAT (Value Added Tax) Criticisms

The “value added tax” has been criticised as the burden of it relies on personal end of consumer of products and is therefore, as any sales tax based on the consumption of essentials a regressing tax (the poor pay more, in comparison than the rich). French President **Jacques Chirac** has often pleaded for a reduction of European VAT concerning catering on order to win favour from this sector. Revenues from a value added tax are frequently lower than expected because they are different and costly to administer and collect. In many countries however, where collection has been more successful than other types of taxes, “VAT has become more important in many jurisdictions as tariff level has fallen worldwide due to trade liberalisation whether the cost and distortions of value added taxes are lower than the economic inefficiencies and enforcement issues (*e.g.* smuggling) from high imports tariff is debated, but theory suggests value uniform tax structure will present India a single market to the manufacture within as well as outside the country. Finally, we conclude that if VAT system is not property implemented, then the substation in situation may turn over more damaging not only for the concerned section of the society but also for the consumers as well as traders. It is better for the trader that they have accepted VAT on their commodities for the interest of the society, consumers and government.

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