Chapter 1

INTRODUCTION

Taxation is one of the principal sources of public finance and an effective tool for the government to utilize the taxation revenues for equality and justice. Over the years, taxation laws have become unwieldy, procedure ridden and an impediment in its effective administration, developing into a regressive element in trade and industry. New laws are expected to bring simplicity in understanding and compliance, and effectiveness in administration and enforcement (Singhvi, F.R, 2001). The rapid development in areas of science coupled with socio-political growth has raised aspirations of the people. We live in an era where the developments have given us a standard of living distinctly better than any of our preceding generations. To fulfill this need of ours, businesses are bound to become complex which in its turn has led the taxation structure towards its own peril, because it failed to keep pace with the aforesaid changes. This warranted a revision of the existing taxation system to broaden the base for taxation. The need for reforming the existing taxation structure by the states with a view to broadening the tax base, minimizing distortionary effects and increases in cost and at the same time improving the equity of the system has been recognized by the Committee of State Finance Ministers who gave their recommendation to adopt the Value
Added Tax (VAT) principle at their meeting at Delhi in August 1995. VAT is, therefore, introduced as a measure of tax reforms.

**Concept of Tax**

“A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to Legislative Authority and is any contribution imposed by the government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply or other name” (Black’s Law dictionary).

The Constitution of India empowers government to levy tax. Taxes are broadly classified into two categories, viz. direct and indirect taxes. Direct taxes are levied directly on the income of a person, whereas indirect taxes are those, whose incidence is borne by individuals upon purchase for consumption of goods and services (Ramakrishnan, T.G, 2002).

A tax is, says the Supreme Court, a compulsory extraction of money by public authority for public purpose, enforceable by law. Several kinds of taxes came into being. Sales tax was one (Muhammed kutty, 1988).

It is generally agreed that since taxes are unilateral payments for which there is no direct quid pro quo, citizens should be required to pay taxes on the basis of a rule of equity; and that rule may be the principle of ability to pay.
An individual’s ability to pay can be measured on the basis of his income or his consumption (Raja J. Chelliah, 2001).

**Concept of Sales Tax**

Sales tax is a tax levied when goods are either sold or purchased. It is a tax on proceeds of sale or purchase. The sales tax is levied on and collected from the seller or the purchaser. In fact sales tax is a tax on a single transaction; sale and purchase are merely two sides of the same coin. The only difference is that sales tax is levied on the seller while purchase tax is levied on the buyer. The buyer may be a manufacturer or the last purchaser within the state effecting sales to outside the state. Whether the tax is collected from the seller or buyer, its ultimate burden or incidence falls on the consuming public. The reason is that the tax element is added to the price, tax being an addition to the cost (Muhammed kutty, 1988).

Venkata Rayudu, A (2002) states that among all kinds of indirect taxes, sales tax occupies a significant place, because in democracies, government will be reluctant to change the structure of taxation for fear of losing votes and public sympathy.

Thus, sales tax is an indirect form of tax, wherein it is the responsibility of the seller of the commodity to collect and recover the tax from the purchaser.
Reforms in Sales Tax Structure

No comparable reforms have taken place in the area of state sales taxes. Over the years, the uncoordinated and independent development of the sales tax systems by the different states led to greater complexity, rate and procedural differences, tax exportation and tax competition. Economic efficiency considerations had little role in the formulation of the structure (Raja J. Chelliah, 2001).

Tax on the sale of goods within the state is a state subject. Over the period of time, many distortions have appeared in taxation due to various reasons. Many steps were taken to remove the distortions and rationalize the tax structure from time to time.

The concept of VAT in the Indian context can be traced as back as 1974 when the L.K. Jha Committee had for the first time discussed the cascading effect of taxes and the need to remove the same. The Central Board of Excise and Customs (CBEC) introduced the Modified Value Added Tax (MODVAT) system in the year 1986 on the inputs used in the manufacture of goods.

The Raja Chelliah Committee constituted in the year 1991 recommended the introduction of VAT in India. Thereafter, the Empowered Committee of the State Finance Ministers was formed in the year 1999 and was entrusted the task of implementing VAT across all the states in India. The implementation of VAT was postponed thrice- in 2000, 2002 and in 2003.
Finally, it was announced that all states had agreed to introduce VAT effective from 1st April 2005. A White Paper was released by Asim Das Gupta, Chairman of Empowered Committee, on 17th January 2005. The White Paper is a policy document indicating the basic policies to be adopted by the states in formulating VAT Act and Rules.

**Value-Added Tax**

Value Added Tax (VAT) as the term suggests, is a tax on the value added to the commodity at each stage in the production and distribution chain. The production-distribution chain, popularly known as supply chain in the modern day system, starts from manufacturer producing an item. This item passes through various agencies like distributor, wholesaler and retailer, before it reaches the final consumer. The value added at each stage in the supply chain is determined by the difference in the sale prices of that entity and purchase values of bought out items of that entity.

In contrast to the existing system of taxation of goods and services at single or multiple points, VAT is a tax levied on the commodity or 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 or 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 sale price at the rate applicable
to the commodity. From the tax so collected, the seller will retain the amount of tax paid on purchases and remit the balance alone to the government. This process will continue till the commodity or service reaches the final consumer. In this system, the tax remitted to the government at each stage will be the tax on the value addition to the product or service done by the seller. Thus, a value added tax is a 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.

**Review of Literature**

Very few researches have been made by the scholars in the subject sales tax and value added tax. Available literatures on the subject of sales tax and value added tax have been studied to understand the main issues involved in the sales tax structure with special reference to VAT in Kerala.

Mohammedkutty, K.B. (1988) in his research study in tax law observed that a tax is a compulsory extraction of money by public authority for public purpose enforceable by law. He also stated that an impost similar to sales tax existed in ancient India. A tax of one per cent was levied in ancient Rome on sales. Sales tax was levied in one form or the other in Egypt and Rome and was noted as old as pyramids of Egypt. Confucius opposed its imposition in China. Sales tax in its modern form came to the forefront immediately after the World War II. It was introduced to tide over the post-war financial crisis. In
Germany, France and U.S sales tax was in vogue during this period. Again, the inauguration of modern welfare state quickened the process of taxation.

Jose Sebastian (1989) in his study stated that the Todd Hunter Committee appointed by the British Government recommended retail sales tax as a measure to augment revenue for the state. The Committee evaluated the advantages of the system including its elasticity in revenue. The government did not immediately act upon the report. However, in the White Paper issued in 1933, sales tax was shown as revenue for the provinces in India which was accepted by the Select Committee. Thus, in the Government of India Act, 1935, in the Seventh Schedule as entry 48, levy of tax on the sale of goods was shown as a provincial legislative subject. Based on this, the Central Provinces and Bihar were the first to move for a levy of sales tax on Motor Spirit. A full fledged general sales tax levy covering all goods was first introduced in Madras by the Rajaji Government in 1939. The simplicity and elasticity of the system of levy encouraged other Provinces also to adopt this system of taxation.

Venkata Rayidu, A (2002) states “Indirect taxes just like sugar-coated pills are concealed in the prices of the commodities and they do not invite any political trouble or any public opinion in the short run. This is the main reason for the growing importance of sales tax in the tax structure of developing countries. Other reasons for the growing importance of sales tax in the developing countries are its simplicity and easiness in operation.”
According to Agarwal, B.N. and Abin Sarkar (2006) “Today’s global economy demands a consistent, legal and regulatory tax framework to support the electronic transactions across the state, national and international boundaries. Free flow of investments, cross border transactions, gradual melting down of trade barriers are areas that have given rise to several problems concerning taxation. Thro VAT business should become cost effective and competitive and the system should be simple and easy to comply with and resolve the industries innumerable problems which the present tax system could not take care of.”

Singhvi, F.R. and S.Venkataramani (2005) stated that “The VAT law should be interpreted in its widest amplitude to ensure that its objective is met. The principle of utres magis valeat quampareat which means “it is better for a thing to have effect than to make it void” should be kept in mind so far as the implementation difficulties pertaining to VAT are concerned”.

Vaitheeswaran, K. (2002) in his article “Overview of Value Added tax and The Indian Perspective” observed that “The polarization in the political structure of our country has resulted in a significant role for regional parties. Economic agenda and fiscal reforms are topics of debate both at the central and state level. The Empowered Committee of State Finance Ministers has worked out a broad consensus on the scope and ambit of VAT. However, much remains to be unfolded and the possibility of revenue based proposals cannot be excluded, since there is a history of uniform floor rates of taxes not being
implemented”. According to him, VAT is a complicated system and the existing machinery of the department must be completely trained so that the law is viewed as a facilitating legislation and not as a new legislation for increasing revenue collection.

Ramakrishnan, T.G. (2002) in his article “VAT in the Indian Context” stated that “India’s indirect tax system is unique in that under the Constitution, the central government has the authority to impose a broad spectrum of excise duties on production or manufacture, while the states are assigned the power to levy sales tax on consumption. In addition, states are empowered to levy tax on many other goods and services in the form of entry tax, octroi, entertainment tax, electricity duty, motor vehicles tax, passengers and goods tax and so on. Owing to this dichotomy of authority under the Constitution, India has been rather slow in the adoption of VAT, and it has created an obstacle in introducing the European style VAT in India, although over the years, tax reform committees have recommended that central excise duty, sales tax and other domestic trade taxes be replaced by a comprehensive VAT that could tax all commodities and services and enhance the competitiveness of Indian Industry”.

Again, he stated that implementation of VAT would help to bring down the incidence of tax in various sectors of the economy and improve the cost competitiveness of the industry on the whole. Corporates too have increasingly realized the need to manage indirect taxes. He concludes that the battle for
VAT cannot be won in conference halls and meetings of committee. It has to be won at ground level and at various markets which have to be involved in the implementation of VAT and the success of VAT depends upon the homogeneity in the states.

Ramadas, N. (2002) in his article “Value Added Tax Vs Central Sales Tax” stated that “VAT is a self enforcing method in the sense that it encourages traders to demand invoice from their suppliers for the reason that then only can they claim the credit for the tax paid on their purchase against their total liability on their sale. Under this system the possibilities for tax evasion can take place only when all dealers in the production and distribution chain act in collusion to conceal their sales. The chances for such collusion are very remote. However, the states are of the view that the administrative cost will increase consequently under VAT regime. So also accounting cost may go up, particularly for smaller firms. These two adversities can be overcome. The recurring administrative cost can be reduced by computerizing the records relating to dealers registration, tax returns, arrears list and random selection of cases for audit. The burden of small firms in respect of maintenance of accounts can be overcome with a reasonable high exemption limit and simplified accounting procedure.”

According to him, the successful implementation of VAT will be feasible only after free movement of goods, persons, services and capital is
ensured without barriers of taxation. Only then the concept of unified market under VAT system will be effective.

Naresh Kumar (2003) in his study on “Introduction of Value Added Tax in India: Vital Issues” observed that the introduction of VAT is both an opportunity and challenge to streamline and rationalize the indirect taxes. It will facilitate single market in India. He also observed that for achieving the proclaimed objectives, much will depend on how efficiently and effectively the VAT regime is implemented by the Sales Tax Department.

Dutta, B.C. (2003) in his article “VAT (Value Added Tax): A Self-Contained Code of Comprehensive Taxation Scheme” stated that since many States were not able to gear up the administrative Machinery, including clearing up the VAT bills for due implementation of the VAT system, its introduction had to be postponed. He also stated that a problem may arise in case of refund of VAT on inputs acquired by manufacturers from outside the state. According to him the problem could be eased out by arranging a fair degree of coordination among the State Governments. He concludes that as most of the States have general sales tax rates higher than the VAT rate of 12.5 per cent, the prices are likely to come down with the imposition of VAT.

Arvind, D. (2005) in his article “Proposed Value Added Tax-Features and Issues” observed that while the intention of any VAT system is to create an environment for free movement of goods across the country, the existence of
CST and the non-VATable Entry Tax/Octroi is a serious impediment to that intention. CST and Entry tax should be made vatable and there should be some formula and clearing mechanism among the states to share the CST. He also observed that the successful implementation would depend on the compensation that would be made available to states where the goods originate.

Agarwal, N.P. and Sonia Agarwal (2002) in their study “Value Added Tax- Theories of Justification” stated that VAT is a broad-based tax covering the value added to a commodity by a firm at each stage of production and distribution. There are several objectives associated with VAT, foremost being its revenue raising quality, due to inclusion of items such as wages, interest, profits etc., in its base. They also stated three theories to justify the imposition of VAT-General Welfare Theory, Social Expediency Theory and General Benefit Theory. Of these, the General Benefit Theory makes for an ideal basis of justifying VAT.

Ravi Kumar (2002) in his article “Value Added Tax- Issues and Concerns” states that VAT is a multi-point tax system, but without the effect of double taxation. The relevance of VAT in the changed economic scenario cannot be overemphasized. Introduction of VAT shall bring in more discipline in the indirect tax regime. It goes without saying that VAT takes care of the cascading effect of the existing system. The manufacturer must be only too happy to welcome it. How far VAT regime will get the endorsement from the
trader community is a question. Their apprehensions are genuine and ought to be addressed accordingly.

A detailed note submitted by the Institute of Chartered Accounts of India (2003) to The Empowered Committee for Implementation of VAT Law suggests that a uniform VAT law should be evolved to be used by all the states. This will ensure the proper legal evolution of VAT, its uniform judicial interpretation and hassle-free application in the case of assesses having multi-state operations. Again, the VAT law should be so drafted that the various State governments should not be allowed to tinker with the fundamental provisions which would distort the uniform evolution of the law. To achieve this objective the state’s role should be restricted to the prescription of different ceiling limits and the rates of tax applicable to different commodities.

Agarwal, N.P. and Sonia Agarwal (2003) in their study on “Fundamental Aspects and Scope of Value Added Tax in India” observed that the indirect tax system plays an important role in the development of an economy and also on the rate of production and consumption in an economy. With the growing maturity of our industrial sector and specially the need to become internationally competitive, it is necessary to restructure the tax system to eliminate tax evasion, cascading effects in production, vertical integration of firms, bureaucratic control and allow greater play to entrepreneurial decision making, subject to the normal disciplines of market competition. They concluded their study with the remark that the government should understand
that any further delay in introducing VAT will affect the competitiveness of the Indian industries at the domestic level as well as the global level, especially after the removal of quantitative restrictions and reduction of custom duty.

Uttam Kumar Dutta and Rambilas Mahapatra (2003) in their study “Value Added Tax: More Disciplinary Approach in the Indirect Tax Regime” stated that the relevance of VAT in the changed scenario cannot be over emphasized. Introduction of VAT will bring in more discipline in the indirect tax regime. It will take care of the cascading effect of the existing indirect tax system. Again, in India VAT will, in due course, result in gaining the competitive advantage. Good VAT regime expects to do away with multiple levies. There is no room for any other kind of taxes outside the VAT regime. So it is imperative that implementation of VAT should not be delayed further.

Umasankar Saha (2003) in his article “Effective Leveraging Social Effect of VAT System” observed that under the VAT regime, both poor and rich class of people will come under tax network. Tax honesty increases up to the expected level of tax revenue collections. Tendency to conceal taxable revenue is almost impossible under the pressure of competitive scale of productions and the principle of marketing mix strategies. He also observed that the manufacturers should come forward to initiate steps for the comprehensive introduction of VAT in India.
Chanchal Kumar Sharma (2005) asserts “political compulsions have led the government to propose an imperfect model of VAT”. Again, the “Indian VAT system is imperfect” to the extent that it ‘goes against the basic premise of VAT’. India seems to have an ‘essence less VAT’, because the very reason for which VAT receives academic support has been disregarded by the VAT-Indian style, namely, removal of the distortions in the movement of goods across the States and uniformity in tax structure. Again, Sharma clearly states, “Local or State level taxes like octroi, entry tax, lease tax, workers’ contract tax, entertainment tax and luxury tax, are not integrated into the new regime, which goes against the basic premise of VAT, which is to have uniformity in the tax structure. The fact that no tax credit will be allowed for inter-State trade seriously undermines the basic benefit of enforcing a VAT system, namely the removal of the distortions in movement of goods across the States.” The greatest challenge in India, asserts Sharma, is to design a sales tax system that will provide autonomy to sub national levels to fix tax rate, without compromising efficiency or creating enforcement problems.

On the basis of the review of these studies it can be deduced that there are loopholes in the imposition of indirect tax in India. Again, a great deal of studies showed that the imposition of VAT system is pragmatic to the largest possible extent. It is beneficial in the socialistic pattern of society. There is a need for more specific studies using scientific methodologies so that the problem of indirect taxation and also the impact of VAT on different stake
holders could be understood in the larger context of taxation. This can then become the basis for designing interventions to assuage this problem.

**Statement of the Problem**

Reforming of the domestic trade taxes in India has been engaging the attention of the government of India for nearly a decade. The anxiety of the Union government to initiate reforms of domestic trade taxes was reflected in the budget speech of the Union Finance Minister for 93-94 as follows:

“Our long-term aim should be to move to a Value Added Tax system. However, a nationwide Value Added Tax system cannot be introduced overnight. There has to be a broad agreement among the Centre and the States on the design of such a system. In order to promote informed discussion and debate, I am requesting the National Institute of Public Finance and Policy, New Delhi (N.I.P.F.P.) to prepare the design of a possible Value Added Tax system”. The N.I.P.F.P. conducted a study on this and submitted its report in 1994 recommending introduction of VAT in the country. Since then this issue had been the subject matter of discussion throughout the country.

The N.I.P.F.P. study identified several shortcomings in the present system of levy of sales tax. They include:

1. Taxation at the manufacturer level or at the first point of sale encounters several problems as the term manufacture is not easy to define.
2. Determination of manufacturing value is troublesome. Manufacturers often sell their products through their own distributors or wholesalers and sometimes directly to consumers. Sales between related entities also posed problems.

3. Besides, taxation of sales at the first point increases the risk to revenue in that the entire tax burden is concentrated at one stage. Rate of tax also has to be higher to raise the given amount of revenue. Higher tax rates induce evasion which calls for stringent anti-evasion measures which are not easy to enforce.

4. When the purchaser uses the inputs to produce outputs, the tax paid on the input gets embedded into the price of the output. When the output is taxed, not only the value of the output, but also its inputs together with the tax on the input which has already been paid, are taxed again, since the tax paid on the input is incorporated in the output price. This has the result of applying a tax on the earlier paid input tax. This tax on tax is called “cascading”. Cascading leads to the following consequences:

a) Increase in costs resulting in higher levels of costs of production. Higher costs imply higher prices for the output. This puts domestic industry artificially at a disadvantage position against imports and the exports market; thus the international competitiveness of the industry is adversely affected.

b) Tax exportation. With cascading, the taxes on inputs get embedded into the costs of production and the price of output is correspondingly higher.
Consequently, in the event of sale of such commodities outside the State, either through exports out of the country or through interstate trade, the taxes on inputs are ultimately borne by the purchaser outside the State. In other words, there is “tax exportation” even when the commodity (the final output) being exports is not subjected to tax.

5. With a narrow base, the rates have to be high to raise the same amount of revenue. Finding it difficult to raise the level of sales taxes at the first point any further, the States resort to additional levies like turnover tax, additional sales tax, surcharge and so on, making the system totally non-transparent and tax incidence leads to tax evasion and generate pressure for exemptions or concessions. Concessions based on classification of commodities and sectors beget the breeding ground for disputes.

6. Complexity in legislation enlarges the scope for disputes and uncertainty. Conflicts arise not only over whether or not certain sales/activities should be subject to the tax, but also over which tax rates should be applicable. Judicial ruling generates piecemeal changes, without necessarily addressing the root cause. In some instance it also compounds procedural complexity. In the process a system with high cost of compliance and enforcement gets generated with high uncertainty both for the tax authority and the tax payer.

7. The lack of harmony in the tax structure promotes tax competition. In order to attract trade and industry, Union Territories and some States reduce the rates of tax below that prevailing in the neighbouring areas
and offer tax holidays and other fiscal incentives. This has resulted in a negative sum game.

The non-rebatable origin-based Central Sales Tax (CST) at the rate of four per cent also has a significant adverse effect on the economy. The study arrived at the conclusion that the present State sales tax system was caught in vicious circles and that a major overhauling of the present system was imperative. Again, the reform of the sales tax has to concentrate on the following:

a) Total removal of cascading through full rebate of tax on inputs.

b) Following it, zero-rating of inter-state sales.

c) Reduction in the number of rates and adoption of at least uniform floor rates for specified groups of commodities.

d) Reducing the number of exemption to a few goods.

e) Phasing out sales tax incentives to be replaced by capital subsidies, if needed with agreement on capping such subsidies and

f) Extending the tax to resellers on a value added basis.

In a country like India with a federal Constitution, the constituent States have to adopt a consumption (or destination) type of indirect tax. This taxation can ensure a common market in the country, avoid cost escalation and also minimize inter-State tax exportation. It is these objectives with which Value Added Tax system was introduced. Since the VAT system was introduced in Kerala recently (i.e. 2005) no methodological studies to the best of the
knowledge of the researcher have been conducted to examine the effect of VAT on the manufacturers/traders, consumers, VAT officials and also the government. Besides, no attempt was made to assess the working of VAT machinery in Kerala. It is in this backdrop that the present study titled “Reforms in Sales Tax Structure – A Study with Special Reference to VAT in Kerala” has been taken up.

Significance of the Study

The need for a major reform by State to garner revenues has been the topic of a lively debate for a fairly long time. Globalization of trade, investments and services necessitated reforms in the economic structure of the State. The combined incidences of Central and state taxes in India come to more than 30 per cent. In other countries, the burden of domestic taxes is around 18 per cent. The burden of such taxes needs to be brought down especially since we have integrated our economy with the global economy.

Tax reform is an integral part of the economic reform programme. This is because in the pre-Reform era, tax policies in India, as in many other countries, had retarded growth as a result of creating distortions in the allocation of resources and adversely affecting incentives. The tax systems that had evolved over the years had also become complicated, while there was no sufficient modernization of the tax administration. Consequently, tax compliance and tax enforcement had become extremely difficult. Much of the
national resources were being used up for compliance as well as for enforcement.

The Central government took up the task of reform of the central tax system in right earnest from 92-93 onwards. Substantial structural changes were brought out in the direct and indirect tax systems in the succeeding years. MODVAT (Modified Value Added Tax) was introduced to central excise laws from 1994, whereby the excise duty paid on the input material was set off against the excise duty payable on the output or final product by the manufactures. At the State level, there has been very little structural tax reform or modernization of tax administration. The Committee of State Finance Ministers that considered sales tax reform came to the consensus that the existing sales tax systems should be converted into a harmonized system of State level Value Added Tax. The underlying principle in the new system of VAT and its forerunners, MODVAT and CENVAT is identical.

The Government has time and again emphasized the need for buoyant revenues to satisfy the State’s requirements of funds for its developmental activities. The present system of sales taxation is highly saturated, addressing only limited resource mobilization capabilities without leading to tax buoyancy except when tax rates are enhanced and the industry is adversely affected leading to flight of trade, evasion, suppression and unhealthy competition among States. Various States have studied the impact of present taxation system and have felt the need for a major reform in the existing system of
taxation. The States now propose to shed the complexities of the existing tax structure and are on the threshold of the VAT era. Introduction of VAT, indeed, is a move towards more efficiency, equal competition and fairness in the taxation system. In this context a study on the reforms in the sales tax structure with special reference to introduction of VAT in Kerala is helpful to measure the effectiveness and also to assess the impact of VAT on the common people, manufacturers/traders and the government.

**Objectives of the Study**

The object of this study is to assess the reforms in sales tax structure with special reference to Value Added Tax in Kerala. More specifically, the study aims at:

1. Enquiring into the reforms in sales tax structure.
2. Assessing the perception of manufacturers/traders, consumers and government officials on Value Added Tax in Kerala.
3. Studying the working of Value Added Tax machinery in Kerala.
4. Assessing the impact of Value Added Tax in Kerala.

**Hypotheses**

In line with the objectives, the following hypotheses were set.

**H01.** Value Added Tax system is not simple compared to the earlier levy under KGST and hence it is not easy for manufacturers/traders to have a good understanding.
H02 The existing machinery under Value Added Tax is not sound enough for its successful administration as well as curbing tax evasion.

H03. The introduction of Value Added Tax has not led to a decrease in the prices of goods.

Variables Used for the Study

I. Reforms in Sales Tax Structure

(i) Existing system of indirect taxes

(ii) Consequence of cascading

(iii) Distortions of production decisions

(iv) Transparency

(v) Problems of tax competition

(vi) Problems of compliance

(vii) Problems of administration

(viii) Theories of taxation

(ix) Objectives of VAT

(x) Advantages of VAT

(xi) White paper on state level VAT

(xii) Tax rates under VAT

(xiii) Exempted category

(xiv) 4 per cent VAT category

(xv) 12.5 per cent VAT category

(xvi) 1 per cent special VAT rate

(xvii) Non-VAT goods
(xviii) Goods and Services Tax

II. Perception of VAT in Kerala

(i) Awareness of VAT system

(ii) Difficulty in understanding VAT system

(iii) Demanding of bills

(iv) Issue of bills

(v) Filing of return and other forms

(vi) E-filing of return

(vii) Period of filing return

(viii) Default in filing return

(ix) Defaults and punishments

(x) Comparison of VAT with KGST

(xi) Benefits of VAT

(xii) Input tax credit

(xiii) Refund benefit

(xiv) Positives in VAT system

(xv) Shortcomings in VAT system

(xvi) Working of self assessment system

(xvii) Favour of VAT to customers

(xviii) Favour of VAT to dealers

(xix) Favour of VAT to government

(xx) Dealers compliance with VAT system

(xxi) Go back to KGST
III. Working of VAT Machinery in Kerala

(i) Awareness of machinery under KGST

(ii) Awareness of machinery under VAT

(ii) Friendliness of officers with assessees

(iv) Time to give assistance

(v) Collusion with tax evaders

(vi) Issue of certificates

(vii) Refunds

(viii) Delay in the assessment

(ix) Discretionary power of officers

(x) Penalties

(xi) Verification of return

(xii) Input tax credit

(xiii) Benefit of Machinery to end users

(xiv) Overburden of work of officers

(xv) Punishment of small and big dealers

(xvi) Degrading the role of authorities

(xvii) Periodic training to officials

IV. Impact of VAT in Kerala

(i) Sales tax collection before VAT

(ii) VAT collection

(iii) Non-VAT collection

(iv) Price
(v) Appeals filed during pre-VAT period

(vi) Appeals filed during post VAT period

**Methodology**

The study is descriptive and analytical in nature. Both the primary and secondary data were used for the study. The primary data were collected from the sample manufactures/traders, consumers and VAT officials in Kerala with the help of scientifically pre-tested structured interview schedules (given in Annexure I, II and III)

For collecting the primary data the State of Kerala was first divided into three zones - south, central and north. From these zones one district each representing south, central and north has been selected based on the larger number of VAT registered manufacturers/traders in the district. Accordingly, Thiruvananthapuram, Ernakulam and Kozhikode were selected. Of the three sample category-manufacturers/traders, consumers and VAT officials-manufacturers/traders were first selected from the list of registered manufacturers/traders maintained by the Department of Commercial Taxes, government of Kerala.

There were in all 29729 registered manufacturers/traders in the selected districts of Kerala (8377 in Thiruvananthapuram, 10502 in Ernakulam and 10850 in Kozhikode) as on 31st March 2008. From a total of 150 manufacturers/traders, 50 each from the three districts were chosen by the
method of Systematic Random Sampling. The manufacturers/traders category consists of the manufacturers/traders of consumer and industrial goods located in urban, semi-urban and rural areas.

A total of 450 consumers, 150 each from the three districts (three consumers from the each selected manufacturers/traders) were selected systematically. One consumer in the morning (from 10 a.m. to 12 noon), one in the afternoon (from 12 noon to 3 p.m.) and one in the evening (from 3 p.m. to 5 p.m.) was the basis for selecting the three consumers from each manufacturer/trader. The consumers consist of males and females.

Out of 109 VAT Officials in the three districts selected, 30 Officials (10 each from each district) were selected systematically. The officials consist of Commissioners, Assistant Commissioners and Assessing Officers (Table 1.1).

The secondary data were collected from books, periodicals, Committee Reports, official records, government publications and the internet.

The data collected were classified and analysed with the help of a computer keeping in view the objectives of the study. For the purpose of analysis, statistical tools, viz. average, percentages, weighted mean, chi-square test and confidence limit were applied. The weighted mean was applied to determine the relative order of preference of the respondents. The chi-square
test was applied to examine the differences in the distribution of respondents in
the three zones of Kerala. The confidence limit is used to estimate the
population parameters.

Period of the Study

The study is based on data relating to sales tax during the period from
2001-02 to 2004-05 and VAT during the period from 2005-06 to 2008-09.

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<th>Ernakulam</th>
<th>Kozhikode</th>
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<td>50</td>
<td>10502</td>
<td>50</td>
</tr>
<tr>
<td>Consumers</td>
<td>*</td>
<td>150</td>
<td>*</td>
<td>150</td>
</tr>
<tr>
<td>VAT Officials</td>
<td>22</td>
<td>10</td>
<td>59</td>
<td>10</td>
</tr>
</tbody>
</table>

*Total number of consumers not estimated.

Limitations of the Study

The limitations which influenced the study are listed below:

1. The co-operation of respondents is very much required for a survey-
based research. The co-operation of a few respondents did not come up
to the expectations.

2. The secondary data on a particular aspect supplied by the various
machineries under VAT are found to be different.
3. It is found that the officials in various capacities interpret the VAT law differently in different situations. This makes the analysis rather difficult.

4. The study is purely based on the present Value added Tax system. The findings may require some alterations with the introduction of the proposed Goods and Services Tax.

In spite of the above limitations, maximum care has been taken to make the study accurate and meaningful.

**Presentation of the Study**

The present study is divided into six chapters.

Chapter I  Introduction-contains review of literature, statement of the problem, significance of the study, objectives of the study, hypotheses, variables used for the study, methodology, period of the study, definition of the terms used in the study and limitations of the study.

Chapter II  Reforms in sales tax structure- contains an assessment of the reforms in sales tax structure.

Chapter III  Perception of manufacturers/traders, consumers and officials on Value Added Tax in Kerala- contains the perception of manufactures/ traders, consumers and VAT officials on VAT system in Kerala.
Chapter IV  The working of Value Added Tax Machinery in Kerala- contains the working of VAT Machinery in Kerala and also the perception of manufactures/traders, consumers and VAT officials on its working.

Chapter V  Impact of Value Added Tax in Kerala- assesses the impact of VAT on manufactures/traders, consumers, VAT officials and also the state revenue.

Chapter VI  Summary of findings and recommendations-is set apart for summing up the findings and recommendations based on the study.