CHAPTER 1

Introduction
INTRODUCTION

In a democratic set up, a government has to perform innumerable functions to improve the socio-economic welfare of the people. The successful performance of these functions is possible only when sufficient finance is available, because a substantial amount of expenditure is involved. Besides, an efficient and organized planning system used as an effective instrument of economic development, largely depends on adequate resources in absence of which planning will be futile. According to Planning Commission of India, the major concern for Indian planning is "resource mobilization" (Dar, 1987). The availability of resources is very crucial to the growth and development process particularly of a region which is lacking in basic infrastructural facilities. The Indian planning process is inhibited by resource crunch at the national level. The resource crunch adversely affects the development activities in various states and regions. Conversely, the failure of various states and regions to mobilize internal resources adversely affects the overall resources at the national level (Yasmeen, 2004).

For the purpose of mobilization of resources, the Constitution of India vide schedule VII has defined a sound and an independent fiscal structure both for the Centre as well as for the states with a view to meeting the ever-growing public expenditure and using the revenue as a potent device to finance the budgets. Under this arrangement, the resources
mobilized by the central authority are transferred to the states as grants-in-aid, loans and subsidies. Conversely, the resources mobilized by the states and regions are transferred to the central authority. Thus the national and the regional growth patterns are inter-dependent and complementary. Internal resource mobilization assumes importance for all the states and regions of the country. From the economy vide perspective; it is imperative that the states and the regions adopt such policies and measures as to raise more resources so that the national cake grows. This will have a beneficial impact on overall national development and well being. Accordingly, apart from various other sources enumerated in list I of schedule VII of the Constitution” Taxation” is the major source of revenue to the government. Taxation is not only an important means for financial resource mobilization, but also an instrument of fiscal policy to reduce inequalities in income, wealth and assets. It is a compulsory contribution of a citizen to the state exchequer without the expectation of any specified benefit in return (Lekhi, 2005). It is what Justice Oliver Wendoll has described as “the price we pay for the civilization”. Besides being an important source for economic transformation and socio-economic cohesion, it is a sharp-edged weapon to assault on the social and economic ills (Dhingra, 2005).

Not for the Centre only, but for the states as well, taxation forms a major source of revenue. As enumerated in list II and III of the Schedules to the Constitution, taxes within the jurisdiction of states comprise:

i) Taxes on Agricultural income;
ii) Land revenue;
iii) Excise duties on manufacture of liquors, narcotic drugs, medicinal plants and toilet preparations;
iv) Duty on consumption of electricity;
v) Taxes on sale and purchase of goods other than newspapers;
vi) Taxes on goods and passengers;
vii) Toll Tax;
viii) Taxes on luxuries including entertainments and amusements;
ix) Taxes on advertisements except on those published in newspapers;
x) Stamp duties and registration fees;
xi) Income from irrigation and forests;
xii) Capitation fees etc.

Among these taxes, till the recent past, sales tax continued to occupy
a dominant position in terms of revenue generation in the tax system of
states before the introduction of Value Added Tax (VAT). In almost all the
states sales tax was being used as an instant fiscal tool to help mobilize
resources for the planned economic development. However, despite its
crucial role in the overall financial structure, the states failed to exploit it
fully to tap the additional resources (Dar, 1996). Attempts were made from
time to time in different states to improve their sales tax system. Besides,
the successive five year plans persistently assumed massive efforts on the
part of the State Governments to mobilize adequate internal resources.

In view of the weaknesses of the sales tax system such as cascading
effect, lack of transparency, un-competitiveness, narrow base, multiplicity
of rates, inter-state competition, poor compliance, numerous exemptions
and concessions etc, a need was felt to make some major reforms in the
commodity tax system. With this objective in view, the economists and the
fiscal experts examined several alternatives and it was concluded that in
order to sustain a continued economic growth, the rational alternative
would be the introduction of Value Added Tax. Based on its features such
as economic efficiency, higher level of compliance, reduction in
evasion/avoidance of tax by virtue of its self-policing effect as felt by some
countries across the world and also by some states in India (which had
earlier experimented with this system before its formal launch),
Government of India after thoroughly debating for fairly a long-time about some major reforms in the field of commodity taxation, made a land mark with the introduction of VAT, w.e.f April 1, 2005 when 21 states and some union territories adopted it. The adoption of VAT in India at the state level was advocated not only by various individual experts but also by various committees and commissions constituted for this purpose by the government from time to time.

With respect to the state of Jammu and Kashmir, the Godbole Committee (1998) on economic reforms constituted by the then State Government, amongst various other measures, had recommended for a smooth transit to VAT as an effective measure for the reformation of the State’s tax system. Similarly a study conducted by the Institute of Social Sciences in 2002 on Jammu and Kashmir State Development under the aegis of Planning Commission of India, had also advocated for the substitution of sales tax system by the Value Added Tax system. Moreover, some individual researchers like Dar (1996), Yasmeen (2004), Joo (2004), etc, had also favoured the implementation of VAT in the state. However, due to the infancy of this system of taxation, no attempt has been made so far to conduct a formal empirical research on the system as far as its design, social and economic effects, administration, implementation and other important dimensions are concerned. It is against this back drop that the present study has been undertaken to fill up this gap and make a modest contribution in the field.

OBJECTIVES OF THE STUDY

The study attempts to achieve the following objectives:

i) appraise the fiscal significance and other important issues connected with some prominent taxes being levied by the Government in the State of Jammu and Kashmir;
ii) examine the facts/principle causes underlying the desirability of adoption of VAT in the state;

iii) study the perception of potential stakeholders viz-a-viz the structure, social, economic, administrative and other important dimensions/aspects of VAT in the state;

iv) examine how far VAT justifies the canons/Principles of a sound tax system; and

v) suggest the appropriate policy prescription for incorporating the necessary measures to bring about the improvement in the implementation and administration of VAT and other state taxes in the light of the findings of the study.

DESIGN OF THE STUDY

Based on the objectives outlined above, the study has been organized into eight chapters as explained below:

1. **Introduction:** This chapter is introductory in nature. It introduces the present research problem and also outlines the objectives of the study.

2. **Review of Literature:** In this chapter, a survey of existing literature on the subject has been made and the need for the present study has been highlighted.

3. **Research Methodology:** In this chapter, the methodology followed for the purpose of completion of the study has been discussed. A brief mention of the model used for the study has also been made. Besides, the data bases, sample of the study and various statistical tools used to arrive at the logical conclusion, have also been briefly explained in this chapter.
4. **Tax Structure of Jammu & Kashmir**: In this chapter, an appraisal in respect of fiscal significance, administration and other important issues concerning some prominent state taxes has been made. In addition, this chapter also presents the conceptual/theoretical framework of Value Added Tax System.

5. **VAT System in Jammu and Kashmir: Perception of Consumers**: In this chapter, an attempt has been made to appraise the perception of consumers of the sample cities in relation to various dimensions of Value Added Tax.

6. **VAT System in Jammu and Kashmir: Perception of Dealers**: This chapter has been devoted to the appraisal of the perception of sample dealers about various constructs of VAT.

7. **VAT System in Jammu and Kashmir: Perception of Administrators**: This chapter focuses on the appraisal of various dimensions of VAT from the point of view of Tax Administrators.

8. **Conclusion and Strategic Action**: This chapter summarizes the main findings and conclusion of the study. It also brings forth the major recommendations and strategic action for the policy and decision makers to ensure effective and efficient administration, enforcement and compliance of VAT and other fiscally important taxes being levied presently in the state of Jammu and Kashmir.
REFERENCES


