CHAPIER - VI  

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS  

Land revenue has lost its significance in the tax structure of Punjab and Haryana and its percentage contribution to state's own tax revenue has also declined whereas, VAT/sales tax has became the major source of revenue in both the state's. Around 50 per cent of state's tax revenue comes from VAT/sales tax in both the states with a view to generate more revenue. A slight revenue improvement in the VAT/sales tax collection would generate more revenue then any major improvement in other tax spheres. Therefore, it is immensely important to study the structure of value added tax in the state's of Punjab and Haryana. This study is an attempt at an in-depth study of value added tax as a growing source of revenue.

The study was undertaken with the following objectives:

1. To trace the historical development of VAT as a means of state tax revenue.
2. To study the tax structure of Punjab and Haryana.
3. Comparison of revenue from VAT in Punjab and Haryana.
4. To identify the factors responsible for an increase in revenue from VAT in Punjab and Haryana.
5. To identify problems faced by traders and other stake-holders after implementation of VAT in Punjab and Haryana.
6. To solicit the views of consumers regarding VAT.
The study has been organized into six chapters. First chapter is introductory in nature and provides a detailed information about the topic under study. It also highlights the objectives formulated for the study. Second chapter provides an overview of various aspects and issues of this study through the review of existing literature. Third chapter concentrates on the tax structure of Punjab and Haryana states. Fourth chapter analyses the revenue collection from VAT in the states of Punjab and Haryana. A comparative study as to growth of revenue from VAT in both the states has been undertaken. Fifth chapter demonstrates the results of sample survey. The present chapter provides the summary, conclusions and suggestions emerging from the study.

The study is based on both primary and secondary data. The secondary data was taken from various publications of Government of India, Reserve Bank of India, Centre for Monitoring Indian Economy, State Budgets of the Punjab and Haryana Governments, Statistical Abstracts of Punjab and Haryana, Excise and Taxation Departments of Punjab and Haryana and NSS Consumer Expenditure Survey 60th Round, 2004. The primary data was collected from 100 VAT-paying units each located in Patiala and Panchkula districts of Punjab and Haryana respectively selected. The dealers were classified into different categories, i.e., production, trading and others. A stratified random sampling technique was used for the purpose of selecting units from each category. Thus 8 units located in Rajpura, 5 in Patiala and 2 in Nabha were selected for the survey under the production category in Patiala district of Punjab.
Further, 27 units situated in Rajpura, 41 in Patiala and 16 in Nabha were selected for the survey under the trading category. Similarly, 9 units located in Panchkula, 6 in Barwala and 1 in Kalka were selected for the survey under the production category in Panchkula district of Haryana. Further, 42 units situated in Panchkula, 24 in Barwala and 15 in Kalka were selected for the survey under the trading category. The data was collected through two sets of well-structured and pre-tested questionnaires. One set was used for the respondent traders and the other for the customers. The sample of the study consisted of 200 respondents each from both the categories. Apart from the simple tabular analysis, an attempt was made to study the relative importance of different taxes by computing their compound growth rates; and the results were interpreted accordingly.

As far as finances of Punjab state are concerned, receipts on revenue account in Punjab increased with the growth rate of 14.12 per cent per annum. Similarly, tax revenue increased with the growth rate of 12.80 per cent per annum. The growth rate of tax revenue was the highest, i.e., 13.86 per cent per annum during the third period of study. It was maximum (79.73 per cent) in 1989-90 and minimum (49.41 per cent) in 1991-92. Non-tax revenue of Punjab increased with the growth rate of 16.90 per cent per annum. Non-tax revenue has increased at a higher rate than tax revenue (12.80 per cent per annum) during the last 28 years. During the second period, non-tax revenue in Punjab increased at a higher rate (14.03 per cent per annum) as compared to tax revenue (11.77 per cent per annum). It was
maximum (50.59 per cent) in 1991-92 and minimum (20.27 per cent) in 1989-90. Owing to a series of measures undertaken by the state, its finances showed some improvement.

In Punjab, revenue from own tax sources increased with higher growth rate (13.00 per cent per annum) than the share from central taxes (11.74 per cent per annum) over the study period. But during the third period, state’s share in central taxes increased with higher rate (22.01 per cent per annum) than state’s own tax revenue (12.70 per cent per annum).

As far as Punjab’s own tax revenue is concerned, overall growth rate of electricity duty (23.13 per cent per annum) is higher than registration fee and stamps (15.67 per cent per annum), sales tax/VAT (13.91 per cent per annum), state excise duty (10.98 per cent per annum), motor vehicle tax and passenger tax (13.15 per cent per annum), and land revenue (7.12 per cent per annum). The overall growth of entertainment tax is negative (6.84 per cent per annum).

The non-tax sources of Punjab indicate that overall growth rate of receipts from general services (27.87 per cent per annum) is higher than other non-tax sources such as interest receipts & dividends and profits (13.30 per cent per annum), social services (11.79 per cent per annum), and economic & fiscal services (8.34 per cent per annum).

While studying the finances of Haryana, it has been observed that receipts on revenue account in the state increased with a growth rate of 14.19 per cent per annum. Tax revenue increased with a growth rate of 14.55 per cent per annum. The growth rate of tax revenue was the highest (15.95 per cent per
annum) during the third period of study. It implies that the states under study have been put on the fiscal correction path. But the share of tax revenue in the total revenue has decreased over the study period in both the states. It was maximum (75.34 per cent) in 1981-82 and minimum (37.48 per cent) in 1994-95. Non-tax revenue of Haryana increased with a growth rate of 13.47 per cent per annum. Non-tax revenue increased at a higher rate (17.00 per cent per annum) as compared to the tax revenue (15.95 per cent per annum) during the third period of study. Thus, the percentage share of tax revenue to total revenue was increasing in both the states after the introduction of economic reforms in 1991. It increased in absolute terms as well as in relative terms although percentage share of non-tax revenue did not follow any consistency but it improved over the study period in both the states under study. In Haryana, it was maximum (62.52 per cent) in 1994-95 and minimum (24.66 per cent) in 1981-82.

In Haryana, revenue from own tax sources increased with higher growth rate (15.20 per cent per annum) than the share from central taxes (12.37 per cent per annum) over the study period. But during the third period, share from central taxes increased with higher rate (21.29 per cent per annum) than state's own tax revenue (14.65 per cent per annum). This shows that in both the states, state's own tax revenue has acquired more prominence and the states relied less on share from central taxes.

While analyzing Haryana's own tax revenue, overall growth rate of registration fee and stamps (17.59 per cent per annum) is
higher than sales tax/VAT (17.06 per cent per annum), land revenue (8.69 per cent per annum), state excise duty (12.13 per cent per annum), motor vehicle tax and passenger tax (11.90 per cent per annum), electricity duty (2.67 per cent per annum), and entertainment tax (1.94 per cent per annum). Taxes like entertainment tax and land revenue have been losing significance in the tax structure of both Punjab and Haryana states under study, and their percentage contribution to state's own tax revenue has declined over the study period, whereas taxes like registration fee and stamps, sales tax/VAT have become a major source of revenue.

The study of non-tax sources provides that overall growth rate of receipts from social services (22.30 per cent per annum) is higher than interest receipts & dividends and profits (10.41 per cent per annum), general services (14.51 per cent per annum) and economic services (10.30 per cent per annum). It is found that as compared to tax revenue, non-tax revenue has contributed less. It means that both the states have failed to give due consideration to non-tax revenue heads which can also be explored for revenue mobilization.

The analysis of the growth of sales tax/VAT from different groups of commodities does not reveal any consistent trend. In Punjab, the highest growth rate (14.06 per cent) has been observed in respect of commodities with elasticity >1 & <2, followed by those with elasticity 2, and <1 registering an overall growth rate of 13.87 per cent and 13.76 per cent respectively.

While in Haryana, the highest overall growth rate (18.71 per cent) has been observed in respect of unclassified
commodities followed by those having growth rate of 18.44 per cent those with elasticity 2. The higher growth rate of unclassified goods in Haryana can be attributed to the reasons that there has been tremendous industrial growth in the state; and after the implementation of VAT, the state government collected lumpsum tax from various industries as it decided not to make further classification of commodities.

The analysis of sales tax versus VAT in India hinted at some drawbacks in the structure of sales tax which included: No uniformity in point of levy, no uniformity in tax rates, multiplicity of tax rates, exemptions without any scientific basis, cascading nature, pyramiding effect, non-neutral nature of sales tax structure, promotion of vertical integration, disincentives for improving technique of production and adverse effect on competitiveness. In view of the drawbacks, sales tax structure in the country needed to be reformed. In the short period, only some patch work was possible, which would have led to minor amendments in the system and not the whole structure. Therefore, the medium-term reform was to replace the single point sales tax with value added tax (VAT) at the level of the states.

The Central government was able to persuade the states to adopt VAT and 21 states introduced VAT on April 1, 2005. Later on, other states followed and by January 2008, all states adopted VAT system. As the addition method of VAT is complicated, India also adopted subtraction method for VAT. Under VAT, tax was levied at each stage of production and supply chain of the commodities.
The Empowered Committee (EC) of the Finance Ministers of the states in the White Paper recommended VAT for India with the features of replacing sales tax along with all related taxes and surcharges etc., provision of input tax credit, adjustment of tax credits against tax payable, mainly two rate structure of 4 per cent and 12.5 per cent besides exempted and special rate categories, critical inputs to be taxed at 4 per cent, allowing the facility of turnover tax (TOT) up to ceiling of Rs. 50 lakh turnover and 22 points of convergence in terms of different provisions and procedures in the VAT Acts of different states.

Further, exports were to be zero-rated for improving competitiveness; cascading effect was expected to be eliminated due to provision of input tax credit; distortions in choices were expected to be eliminated; self-assessment was expected to promote voluntary compliance and at the same time improve efficiency in tax administration; the tax system was expected to ensure transparency; the tax system involving largely two rates was expected to be simplified; the incentive for vertical integration was expected to be eliminated; and voluntary tax compliance was expected to reduce tax evasion.

However, VAT structure in India still suffered from certain shortcomings, which included: Non-inclusion of services under VAT regime, complicated nature and increased administrative burden, possibility of rise in prices due to multi-stage nature of VAT and merging of sales tax rates in higher categories of VAT rates, regressive nature due to imposition of VAT even on necessities, possibility of increase in working capital requirements, losses to states due to phasing out CST and
elimination of other taxes, and scope of frauds and evasion even under VAT.

The Punjab Value Added Tax Act, 2005 and Haryana Value Added Tax Act, 2003 include provisions for registration of dealers and specify limits for registration as a taxable person under VAT and TOT. These also include the schedules of tax rates for different categories. In Punjab Value Added Tax Act, 2005 Schedule ‘A’ contains a list of tax free goods, Schedule ‘B’ those taxable at 4 per cent (5 per cent w.e.f. January 2010), Schedule ‘C’ those taxable at one per cent, Schedule ‘D’ those taxable at 20 per cent, Schedule ‘E’ those taxable at special rates, Schedule ‘F’ those taxable at 12.5 per cent, Schedule ‘G’ contains list of organizations which are entitled to claim input tax credit and Schedule ‘H’ contains list of those goods which are taxable at first purchase. Similarly, in Haryana Value Added Tax Act, 2003 different rates of tax on different goods are specified in Schedule ‘A’, Schedule ‘B’ contains list of tax free goods, Schedule ‘C’ those taxable at the rate of 4 per cent (5 per cent w.e.f. 01.04.2010), Schedule ‘D’ contains list of goods of any description sold to the government subject to tax calculated at the rate mentioned against such goods, otherwise, calculated at 4 per cent, Schedule ‘E’ contains goods not eligible for input tax credit. However, Schedule ‘F’ is omitted w.e.f. 30.06.2005, Schedule ‘G’ contains list of levy of tax on retail price/face.

With the introduction of VAT, the immediate gain was the rapid increase in the number of registered dealers and tax revenue of the State. In the very first year of the introduction of VAT, the tax revenue from it increased in both Punjab and
Haryana. The category-wise collection of VAT in Punjab and Haryana states hinted that higher rate of VAT as compared to sales tax and better collections could be the reasons for higher VAT revenue.

However, VAT created more problems than expected. Rather than leading to reduction in prices of the commodities due to elimination of cascading effect, prices of commodities increased in the initial year of introduction of VAT. This could be due to multi-stage nature of VAT, which created impression that tax was imposed on all stages of business. Further, the benefit of ITC might have not been passed on to consumers by reducing the basic price. Another reason could be that lower rate of sales tax commodities might have been shifted to higher rate VAT categories (4 per cent or 12.5 per cent).

Second, the provision of input tax credit for purchases made within the state deprived it of all-India character and led to not passing on the benefit of ITC to consumers in other cases as well. Third, services were not included under VAT, due to which cascading effect was not eliminated to full extent. Fourth, there has been delay in refund of VAT, when it arose. Fifth, practical difficulties and loopholes deprived VAT of the merit of reducing tax evasion. Last, VAT is still considered to be complicated than sales tax and dispute settlement mechanism is faulty. Thus, state VAT is afflicted with several problems which deprived it of its rationale and its benefits appear to be of theoretical interest only.

The results of the sample survey of VAT-paying units, besides bringing out the general characteristics, showed that the
VAT paid by the sample units varied from less than Rs. 25 lac to Rs. 1 crore and above in 2009-10. Further, 72 per cent sample units in Punjab and 74 per cent in Haryana made purchases from within the State and, hence, could get the benefit of ITC, which varied from less than Rs. 50,000 to Rs. 4 lakh and above.

Further, the study showed that 91 per cent of the sample units in Punjab followed by 89 per cent in Haryana got VAT returns prepared from CAs or other private tax practitioners. The amount paid to VAT advisors/consultants varied from less than Rs. 2000 to Rs. 6000 and above. The sample units had to spend more time for meeting VAT formalities.

The sample units faced difficulties about ITC as it was not given on all purchases, not given to full extent and there has been delay in VAT refund. After the introduction of VAT, profits of 6 per cent units in Punjab and 8 per cent units in Haryana increased and of 87 per cent units in Punjab and 90 per cent in Haryana remained constant. The increase in profit could be largely due to not passing on the benefit of ITC to consumers. It was reported that even after 4-5 years of introduction of VAT, difficulties about maintaining records and different rates for different commodities continued cropping up.

When asked about the reasons for increase in prices after the introduction of VAT, the owners of 48 per cent sample units in Punjab and 45 per cent in Haryana opined that this was due to VAT, being a multi-stage tax, while 24 per cent owners of the units in Punjab and 27 per cent in Haryana opined that benefits of ITC were not passed on to the consumers. Another 23 per cent owners of the units in Punjab and 19 per cent in Haryana opined
that under VAT lower sales tax categories were merged into higher VAT rate categories, thereby increasing the tax burden on the consumers.

While seeking the opinions of the owners of sample units, it was observed that most of the units termed VAT as more complicated, involving more paper work, adversely affecting cash flow, delay in VAT refund and as such they were not happy with VAT regime. The study pointed out that VAT has the merits of avoiding tax evasion, reducing cascading effect, provision of ITC and avoiding multiplicity of rates. The demerits include: it is complicated; involves higher rates of tax; causes difficulty in record keeping; and leads to inflation.

The results of survey of selected consumers showed that 81.00 per cent consumers in Haryana followed by 78.00 per cent in Punjab were well aware of VAT system.

When asked to point out the difficulties faced by them under the sales tax system, most of the consumers focused on: no uniformity in tax rates; multiplicity of tax rates; and exemptions without any scientific basis. They further suggested to increase the rate of tax; increase its coverage; and discourage tax evasion to enhance the revenue through VAT.

**Recommendations**

The following recommendations emerge out of the findings of the present study:

(i) About half of state’s tax revenue comes from VAT/Sales tax in both the states. The efforts of both states require appreciation but so much dependence on a single tax is not a good proposition. An enhancement in other forms of
taxes like revenue from the registration fee and stamps, motor vehicle tax, etc. is necessary to strengthen the economy of both the states under study.

(ii) There is an urgent need to plug the loopholes in stamp and registration fee to increase the productivity from this tax. This tax has a very good revenue potential because of growing economic activities, the increasing level of land prices, and increase in number of transactions in land and property.

Similarly, motor vehicle and passenger tax also has a good revenue potential. The state government should reconstruct and rationalize the rate structure of motor vehicle and passenger tax to generate more revenue.

(iii) In this age of science and technology, when more and more new techniques of entertainment are emerging, the government should consider to evolve a new form of entertainment tax so as to mobilize more revenue from this source.

(iv) The existing provisions in the VAT Act/Rules of Punjab need to be reviewed to see whether additional revenue can be generated by making the desired amendments as have been incorporated by the State of Haryana in the VAT Act/Rules keeping in view the massive revenue generated in Haryana during the process of assessments.

(v) During the field survey, it was observed that even in this age of computers some of the units are not still making use of the computers for keeping their accounts and rely more on the traditional system of maintaining the accounts in
ledgers only. For greater efficiency and transparency, VAT records should appear in a computerized form and e-filing of returns be promoted.

(vi) There is need to handle more accounts books for VAT than Sales Tax, largely because of getting the benefit of input-tax-credit. For the effective implementation of VAT, the procedures to be followed in the process should be simplified.

(vii) As found in the study, VAT has its own demerits also. These indicate that the sample size of the dealers to be audited every year should be increased. Computer experts be appointed in the the Taxation Department for cross-checking the transactions and detection of bogus firms issuing invoices and counterfeit documents.

(viii) It has been found that VAT refunds are generally delayed. Therefore, there is a need to have a re-look on the issue. The refunds, need to be made to the traders within a reasonable time without any difficulty. Provision of refund related to ITC needs special attention to avoid the inadmissible refunds.

(ix) It has been witnessed that the major factor responsible for increase in price of commodities is that the benefit of input-tax-credit is not passed on to the consumers as the profit margin is calculated both on the basic cost and VAT paid by the traders. Therefore, there is an urgent need to devise such a system by which the benefit of input-tax-credit must reach to the consumers at the time of sale of goods. Profit margin should be calculated on the basic cost of commodities only.
(x) It has been found that VAT adversely affects the cash flow as VAT is paid by the firms at the time of making purchases, but input-tax-credit paid in excess is refunded quarterly. Therefore, it should be refunded on monthly basis to the traders instead of the prevalent practice of paying it quarter.

(xi) There have been different VAT rates for different commodities ranging from 1% to 25% under the provisions of VAT Act/Rules. Sometimes, it creates confusion even among the traders. The number of categories for various items imposing different VAT rates should be curtailed so as to simplify the VAT structure.

(xii) The study provides that despite having knowledge about the VAT system, majority of the customers do not bother to get the bill for the items purchased from the shopkeepers, thus, giving them a fair chance to evade tax. Further, in some cases, even under billing is done by the shopkeepers. This also leads to evading of tax though partially. There is a need to create awareness among the customers that demanding no bill for the items purchased by them not only puts the government in loss but it also deprives them of all their rights like warranty/ guarantee against the items purchased. The Excise and Taxation Departments in both the states under study should take a serious note of any complaint received in this regard and punish the guilty shopkeepers by imposing hefty fines on them. Curtailing tax evasion would mean more revenue to the state exchequer from VAT.