CHAPTER - II

REVIEW OF LITERATURE

Tax reforms have drawn the attention of researchers both in India and abroad. The implementation of VAT of comprehensive nature, or at central and state levels both, may also involve some elements of tax design. Most of the countries have introduced VAT in the last about 25 years. In India also indirect tax reforms have drawn attention only after introduction of economic reforms in the country. Therefore, the literature on VAT is of recent origin. The Value Added Tax does not have a long history admittedly, there is not as much literature available on this topic as other forms of tax system. An attempt has been made in this chapter to review the available literature on VAT.

The literature works collected and reviewed on VAT have been classified in different angles as given below.

A) Based On Nationality: Indian paper 14  Foreign paper 53

B) Based On Components

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Abehodie Yesegat (2008) This paper examines VAT administration in Ethiopia and identifies key problems including lack of sufficient number of skilled personnel and gaps in the administration in such areas as refunding, invoicing and filing requirements. To examine the VAT administration practices in Ethiopia and identify the main problems, data obtained through in-depth interviews with tax officials and surveys were used. The sample size for the taxpayer and tax practitioner surveys was 269 taxpayers and 33 tax practitioners. This paper suggests that in Ethiopia attempting to implement what is legislated in the main areas (such as refunds) deserves the government’s due attention. The study also emphasises the need to strengthen the administration capacity in general and the tax audit program in particular. The paper assesses the assignment of VAT revenue to regional governments and the decentralisation of its administration as a way forward for future research.

AiisanH Mansur (1991) This paper discusses methodologies related to three approaches to the estimation of revenue from the VAT system in Bangladesh. Starting from a heuristic approach, the authors used static Input-Output and a Computable General Equilibrium (CGR) model to determine the revenue effects of alternative VAT rates. The major conclusion is that, the VAT at the rate of 12 percent would be broadly revenue neutral and at 15 percent it would be moderately revenue augmenting. Comparison of alternative approaches indicates the superiority of CGE presentation, which projects a better disaggregated view from budgetary and accounting point of view, and a somewhat less buoyant revenue projection compared with the other two.

approaches. Secondary effects resulting from the response of producers and consumers to changes in the tax regime and the VAT rate and corresponding changes in relative prices, allows for a more realistic revenue estimation under the CGE approach. The paper also indicates that, by eliminating exemptions, multiplicity of tax rates and cascading effects, and by allowing for broadening of the tax base and cross checking, the VAT system, if administered properly, should lead to a much higher revenue projection than envisaged in this study based on static models.

Andrew M C Smith (2011)

This paper revisit the basic structure of VAT system of Bangladesh and attempt to analysis the contribution and performance of VAT in Bangladesh as comparing to other developing countries and also attempt to identify and provide some suggestions in possible area where attention and improved performance are required to enhance the contribution of VAT in economic development of Bangladesh.

The relevant data shows that the performance of VAT was quite satisfactory in the initial years - but subsequently VAT collection has remained stagnant at a certain level. As a result, VAT is unable to meet the objectives for which it was introduced. The reasons behind this performance are many, such as: a relatively small number of VAT tax-payers, a general lack of awareness, and a weak monitoring system etc. There is still scope for improving the revenue collection from VAT: by increasing the number of VAT taxpayers; reforming the VAT administration; creating intensive awareness among the people, revisiting the list of VAT exempted items and increasing the efficiency of the monitoring system.

Andrew M C Smith

Consumption Taxes in Developing Countries – The Case of the Bangladesh VAT
Anshu Jain (2013)4 Goods and Services Tax is a broad based and a single comprehensive tax levied on goods and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. In simple terms, GST may be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. India, being one of the largest democracies in the world, has to follow the convention of welfare state. This paper puts an attempt to explore the impacts, implications and policies of introduction of GST in India.

Arindam Das-Gupta (2011)5 The direct revenue impact was assessed by testing if VAT introduction increased VAT or state's own revenue (SOR) buoyancies or the VAT or SOR to GSDP ratios. The indirect impact of VAT introduction on the VAT base (proxied by GSDP) and base growth were also examined. No indirect impact of the VAT on its base was found. The direct revenue impact of the VAT was found to be positive in two-thirds of sample jurisdictions. A positive impact on SOR was however found only in Orissa and Haryana among 11 major states and 50 percent of other jurisdictions. The VAT may have had a negative revenue impact in Gujarat and Goa. The methodological weakness of this and earlier (international) studies are in assessing the VAT impact using dummy variables. This implies that results actually reflect differences between VAT and

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5 Arindam Das-Gupta, An Assessment of the Revenue Impact of the State Level VAT in India, October, 2011
pre-VAT periods rather than the impact of the VAT. Limited VAT revenue performance can partly be traced to large scale evasion given weaknesses in VAT administration identified in a 2009 performance audit by the Comptroller and Auditor General. Implications of this study for the planned move to a goods and services VAT (from the current goods only VAT) are drawn and a suggestion is made for a non-VAT goods and services tax which should be less vulnerable to tax evasion.

Asamnew Gebreselassie Gebremarium (2005) The prevalence of poverty in developing countries like Ethiopia demands improvising internal revenue generating projects particularly the tax administration to reduce dependence on foreign aid and borrowing. The goal of this study is to investigate tax assessment and collection problems and the causes with regard to Category “A” taxpayers found in Yeka sub city. To achieve this objective, the researcher used in-depth interview with selected tax officers of Yeka sub city Finance and Economic Development Bureau. Semi structured questionnaires was used in this study. The information gathered witnessed that there exist inefficiency and insufficient number of tax assessment and collection officers in the Yeka sub city Finance and Economic Development Bureau. The study observes that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of taxpayers do not know why they are paying taxes; what types of taxes are expected from them; and the applicable rules and regulations. Due to this and other factors mentioned in the analysis of this study, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

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6 Asamnew Gebreselassie Gebremarium, Tax assessment and collection problems of Category “A” taxpayers: A case of Yeka Sub City, School of Business and Public Administration, Addis Ababa University
Bagchi (1995), termed the operating sales tax system as unworkable. Different problems in the system including multiple cascading levies, numerous rates, drawing hair-splitting distinction among commodities, large number of exemptions which narrowed the tax base, ‘tax wars’ among the states which led to bizarre results, cumbersome laws and procedures resulting in thousands of cases pending before courts, etc. did not reflect comfortable picture about commodity taxation in India. He opined that simplifying sales tax and removing the drawbacks, was not the solution and stated that superiority of sales tax lay in taxing consumption of goods and services in the economy without needless interference with market forces and freeing of exports from domestic trade taxes in a way which was not otherwise possible. VAT also offered a buoyant but non-distortionary source of revenue for governments by virtue of wide base and structure. He cautioned that VAT should apply to all goods and services with minimum exclusions and should also strictly adhere to the principle of destination, following preferably tax credit method.

Bansal (2008) opined that as some states did not join the VAT system, the fractured implementation of VAT could cause some problems. She stated that CST and VAT were not compatible as CST was not VAT able and credit could not be claimed for CST. The producing states got considerable revenue from CST while consuming states did not get much revenue and some states hesitated in joining VAT system. Examining the Delhi experience of VAT, she reported that VAT needed honest and efficient government machinery for cross checking and linking production

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activities with tax liabilities of the firms but such machinery was lacking. VAT put additional burden on tax authorities, producers and shopkeepers to keep the records. There was no uniformity in rates in the states. The Empowered Committee covered only 550 commodities under VAT rates and left others to states to decide. As a result there were variations in rates even in neighbouring states. Further, she stated that co-operation of taxpayers was needed in self-assessment and keeping correct accounts but this co-operation was not forthcoming. As the government machinery was not able to do cross checking, there was lot of tax evasion. She termed the VAT procedure as complicated.

Bezborah and Singh (2005)\(^9\) pointed out the weaknesses of sales tax structure which included lack of uniformity in tax rates, multiplicity of rates, cascading nature, pyramiding effect and revenue loss due to incentives. While reporting essentials of good sales tax structure, they opined that VAT was a good alternative for sales tax. However, VAT also has some black spots. Further, they brought out implementation problems of VAT in India. They also discussed the issues of uniformity of rates, removal of CST, making service tax VATable, unification of taxes, threshold limit and refund mechanism; and concluded that implementation of VAT in India should not be delayed further.

Bisrat Alemayehu (2010) The VAT is simply a multistage sales tax that exempts the purchase of intermediate goods and services from the tax base. This study, focusing on the Ethiopian case will analyze the causes of noncompliance by VAT taxpayers. It will analyze the impact of low audit probability, the perceived fairness of VAT, dissatisfaction with the tax authority, and how business people think about the VAT money on tax compliance. To gather adequate information for analysis purpose, a combination of quantitative and qualitative methods is applied.

The final major factor studied was how business people think about the VAT money. These are taxpayers’ beliefs on the relationship between VAT money and their business fund, the equivalence of VAT payment with the value added by the business, and taxpayers’ contribution in the VAT collection. The findings of the study suggest these are not really a major problems concerning tax compliance.

Bird (2007), in the preliminary document, argued that in Canada, state value added tax was more likely to be the right way to tax state level sales. He gave three major reasons for introduction of VAT in place of retail sales tax (RST) which included taxing sales, taxing business and replacing other taxes. Discussing the economics of choice between VAT versus RST, he established the superiority of VAT because RST has cascading effect and subject to abuse. Further, he discussed the issues relating to revenue, eroding of revenue by exemptions, self-enforcing nature of VAT and reducing of tax evasion to establish the superiority of VAT. He pointed out

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10 Bisrat alemayehu, An Examination Of The Link Between Tax Administration And Value Added Tax Compliance In Ethiopia, A paper submitted to the school of graduate studies of Addis Ababa University, May 12, 2010

that even when VAT has to deal with much larger number of tax payers, its administration is still easier because the onus is on the taxpayer to keep the record to claim input tax credit to be presented to the authorities, if they doubt the legitimacy of the credit. Discussing the broader issues of states and exports, he stated that inter-state sales would not create more problems under VAT than under RST. He concluded that VAT is the best form of consumption tax both economically as well as administratively. He suggested that government should check unwarranted price increases, protecting the interests of low-income consumers and taxing services at discounted rate. He suggested that remaining states of Canada should also more seriously explore the possibility of adopting state VAT.

Burgess, Howes and Stern (1995)\textsuperscript{12}, in their study on value added tax options for India analyzed that the pressure of aggregate revenue, the requirement of a reduced role for customs duties for the liberalization of the economy, and the complexity and strains of the current system together point clearly towards the desirability of tax reform in India. Since domestic indirect taxes provide the major source of revenue, they deserve special attention. They argued that India would benefit from moving toward a system of value added taxation (VAT) and focused on the way in which a VAT (or VATs) can be best introduced into India given the country’s federal structure. Three different options are distinguished: a central VAT, dual VAT, and states’ VAT. They argued that the first is politically infeasible, that the second represents the best way forward in the short-term, and that the third deserves consideration as a long run option. Special attention is paid to the problems

that would arise under either a state's or a dual VAT with regard to taxing inter-
state trade.

Caroline Adams & Paul Webley (2001)\textsuperscript{13} The aim of this study is to gain an
understanding of the factors involved in the VAT compliance. It draws on previously
acquired social psychological knowledge in respect of income tax compliance. Three
groups of business people were interviewed 10 restaurant proprietors, 9 flooring
proprietor and 8 builders who are registered for VAT purposes. The findings show that
there are number of similarities with income tax compliance with factors such as equity
and sanctions emerging. Of some importance would also seem to be psychological
phenomenon of mental accounting. Some view it as belonging to the business whilst
other perceives it as money belonging to H.M Customs and Excise. It is possible that the
different ways of mentally accounting for VAT money influence compliance.

Christopher J. Green and Victor Murinde (2008)\textsuperscript{14} Taxation has potentially
important implications for corporate behaviour. However, there have been few studies of
the impact of taxation on companies in developing countries, and fewer still concerned
with unquoted companies. In this paper, we study the impact of tax policy on the
financial decisions of a sample of unquoted companies in India during the period 1989–
99 when tax rates were generally reduced as part of a wider programme of financial
liberalization. We examine the impact of the tax regime on company financing decisions,
within the context of a model of company leverage, controlling for non-tax influences
suggested by the theory of corporate finance. The analysis is carried out using a balanced

\textsuperscript{13} Caroline Adams, Small business owners’ attitudes on VAT compliance in the UK, Journal of Economic
Psychology 22 (2001) 195 – 216
\textsuperscript{14} Christopher J. Green (2008): The impact of tax policy on corporate debt in a developing economy: a
study of unquoted Indian companies, The European Journal of Finance, 14:7, 583-607
panel consisting of the published accounts of 97 Indian unquoted companies, which reported continuously during 1989–99.

**Empowered Committee (2005)**\(^{15}\) laid down the roadmap of state-level VAT in India in the White Paper, which consisted of three parts. In Part-I, justification of VAT and background were discussed. Problems of double taxation and multiplicity of taxes were cited as the major drawbacks of sales tax structure. The merits of VAT were reported to be input tax credit, abolition of other than VAT taxes, rationalization of overall tax burden, self assessment by dealers, transparency and higher growth in revenue. These points included: input tax credit, its coverage and carrying over; treatment of opening stock; compulsory issue of tax invoice, cash memo or bill; registration; small dealers and composition scheme; tax payer’s identification number; return; procedure of self-assessment of VAT liability; audit; declaration form; incentives; other taxes; penal provisions; coverage of goods under VAT; VAT rates and classification of commodities. Implementation of VAT to the extent of 100 per cent of loss in the first year, 75 per cent in the second year and 50 per cent of the loss in the third year of introduction of VAT. Other related issues discussed were: phasing out of Central Sales Tax (CST), need for including imports under VAT chain, decision on collection and appropriation of service tax, need for close interaction with trade and industry, and comprehensive campaign at state level to communicate the benefits of VAT to common people, traders and industrialists in simple and transparent manner.

Glenn p. Jenkins & chun-yam kuo (2000)\textsuperscript{16} the paper develop a model to simulate policies and revenues for a value-added taxes (VAT) system in countries that have an indirect tax system containing sales, excise taxes, and tariffs. An application of the model is carried out for Nepal, which has recently introduced the VAT to replace its sales tax system and rationalize its excise and tariffs systems. The study shows that, in a developing country, tax policies that might seem very realistic and politically noncontroversial are likely to yield a very narrow tax base. If a government of a developing country wants to rely more on the VAT over time, it must move aggressively to broaden the base and enhance compliance.

M. Govinda Rao (2005)\textsuperscript{17} Indian tax system has come a long way from the narrow based, complicated and confiscatory to the one that is far more efficient. Over the years, the thrust and direction of reforms have been to improve revenue productivity while minimising distortions. The reform to convert the state level sales tax into VAT this year is a major initiative. The recent focus on tax administration promises rich dividends. Despite reforms since 1991, much remains to be done to make the tax system broad-based, productive and efficient. In corporate tax, excise, customs and sales taxes, revenue concentration on diesel and petrol has high efficiency costs. The personal income tax continues to be narrow based. The reforms in tax administration promise increased revenues and, hopefully, that will provide the elbow room necessary for calibrating future reforms.

Grant Richardson (2008) This study builds on the work of cultural dimensions and tax evasion across countries using multiple measures of tax evasion to gain additional evidence on the subject. Moreover, this study extends the preliminary international tax evasion model The relation between national cultural dimensions and tax evasion. To examine, along with culture, the impact of legal, political, and religious variables on tax evasion across countries. Based on data from 47 countries, and after controlling for economic development, the regression results indicate that the higher the level of uncertainty avoidance and the lower the level of individualism, legal enforcement, trust in government, and religiosity, the higher is the level of tax evasion across countries. These findings remain robust to multiple measures of tax evasion. Government policymakers should find the results of this study useful in assessing the likelihood of tax evasion from cultural, legal, political, and religious perspectives, and in developing tax reform policies to reduce tax evasion.

Hailemariam Mamo (2011) This study was focused particularly on identifying and assessing the problems rose in association with the implementations of VAT by the Ethiopian Revenue and Customs Authority. The researcher used both qualitative and quantitative descriptive research designs and a sample of taxpayers and employees of the authority were selected using stratified random sampling method. The researcher used questionnaires, Interviews and relevant documents to collect primary and secondary data from the data sources. Pie charts, graphs, table, Percentages were used in analyzing the


19 Hailemariam Mamo, Implementation Of Value Added Tax And Its Related Problems In Ethiopia” (The Case Of ERCA), Addis Ababa University School Of Business And Public Administration MBA Program, June 2011
collected data. VAT is a tax system that has replaced the sales tax in Ethiopia and has applied a uniform rate of 15% on most consumption of goods and services. VAT is applied on the value added at each stage of production and distributions. The main problems that encountered are: misunderstanding of the public in general and business community in particular regarding the VAT laws, resistance against registrations for VAT by some traders, administration inefficiency from ERCA, provisions of understated financial statements, and non-issuance of invoices or issuance of illegal invoices exercised by registered business enterprises. The study recommends that the authority should train the taxpayers about the rules and regulations of VAT continuously, recruiting new employees and give nonstop training for the existing once, delegate the tax authority to regional and city administration and it should also increase its follow-up and investigation to control noncompliance enterprises, as well as effectively and efficiently performing the tasks of identification of VAT taxpayers, processing of returns, controlling collections, making refunds on time, auditing taxpayers, recognizing genuine taxpayers and levying penalties to tackle the problems it has encountered.

James Giesecke and Nhi Hoang Tran (2012) find the measures of Value Added Tax (VAT) compliance rates are valuable for identifying problem areas in VAT implementation. They are also essential for meaningful cross country and crosstime comparisons of VAT compliance. They present a comprehensive and general framework for calculating VAT compliance rates at both the economy wide and detailed sectoral levels. Unlike existing measures of VAT compliance, our framework isolates a compliance measure from the effects on VAT receipts of detailed features of VAT.

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systems as actually implemented by tax authorities. These features include multiple VAT rates, exemptions, registration rates, refund limitations, informal activity, taxation of domestic nonresidents and undeclared imports. By implement our comprehensive VAT compliance measure for Vietnam, a country with a complex VAT system. Our estimate of Vietnam’s VAT compliance rate is about 13 percentage points higher than that calculated by the most popular measure of compliance, Collection Efficiency (CE). Their method facilitates decomposition of the difference between CE and VAT compliance measure into individual contributions by the statutory and structural features of Vietnam’s VAT regime.

Joshua Aizenmana and Yothin Jinjarak (2007)  

This paper evaluates the political economy and structural factors explaining the collection efficiency of the Value Added Tax (VAT), where the collection efficiency is determined by the probability of audit and by the penalty on underpaying, and implementation lags imply that the present policy maker determines the efficiency of the tax system next period. Theory suggests that the collection efficiency is affected by political economy considerations – greater polarization and political instability would reduce the efficiency of the tax collection, and collection is impacted by structural factors affecting the ease of tax evasion. They evaluate the VAT collection efficiency (VAT revenue over the aggregate consumption divided by the standard VAT rate) in a panel of 44 countries over 1970–99. A one standard deviation increase in durability of political regime, and in the ease and fluidity of political participation, increases the VAT collection efficiency by 3.1% and 3.6%,

A one standard deviation increase in urbanization, trade openness and the share of agriculture, changes the VAT collection efficiency by 12.7%, 3.9% and –4.8%, respectively. Qualitatively identical results apply for the ratio of VAT revenue to GDP divided by the standard VAT.

**John Pointon And Derek Spratley (1998)** The aims of this paper are first, to review the background to the harmonization of VAT rates within the European Union and second, to model the financial impact of the risks surrounding structural changes in VAT rates. The underlying sales upon which VAT is based is modelled by a geometric Brownian motion. By contrast the timing of a VAT rate change, consistent with a negative exponential distribution, implies a Poisson jump if and when the VAT rate changes. By combining the geometric Brownian motion with a Poisson jump, a model is developed which requires the solution to a second-order ordinary differential equation. This provides a framework to quantify the effects of VAT risk upon firm values. By using market interest rates and an estimate of an overall market premium the impact of VAT harmonization risk on companies within several EU countries is analysed.

**N.Kanimozhi (2013)** Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The general public should be taxed according to their ability to pay, and the people in the same financial position should be taxed in the same way without any discrimination. Tax is classified into two categories—Direct Tax & Indirect Tax. The objective of study is to determine the perception of VAT on satisfaction over the marketers as well as Consumers. 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.

Kent Matthews And Jean Lloyd-Williams (2001) It has been claimed that an increase in the ratio of VAT reclaimed to VAT paid is an indicator of increasing non-compliance. By examining this ratio, this paper evaluates the potential for VAT non-compliance in the Restaurant and Take-out, Clothing and Footwear, Furniture and Floor-coverings, and Hairdressing markets. Estimates of aggregate expenditure are used to estimate potential gross VAT payments. These are compared with actual gross payments as an indicator of the extent of non-compliance. The model of the VAT-evading firm presented in the appendix suggests that an increase in non-compliance is causally related to an increase in the ratio of VAT reclaimed to VAT paid. Therefore even if the underlying reason for the increase in the ratio of VAT claims to VAT paid is due to an increase in the proportion of inputs that are VAT reclaimed, this would still be indicative of an increase in non-compliance.

A. Krishnamoorthy (2011) To accelerate the pace of economic development it is necessary that the state Government should raise increasingly larger resources. One of the thorniest problems facing State financial system today in its inability to generate adequate resources for carrying a expanding activities. In the Indian federal set up, the states play an important role in accelerating and sustaining growth. The Indian

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constitution assigns important responsibilities to state in many sectors such as agricultural development, infrastructure, poverty alleviation, water supply and irrigation, public order, public health and sanitation. In addition, they have concurrent jurisdiction in several areas like education, electricity, economic and social planning and family planning. The composition of receipts and expenditure of the government sector in India reveals that while the state government collect about one-third of the total government sector receipts, they incur more than three-fourth of the total expenditure on social service and more than half of the total expenditure on economic services. The states ability to undertake and perform the development functions adequately and effectively in critically determined by their fiscal position.

**Krithika Babu (2008)** Value added tax which has come into force in almost all Indian states and union territories, is a multiple system of tax on sale of goods. The scope of the study is limited to Madurai district. The target respondents are the users of pharmaceutical products irrespective of the gender. The sample size for this study is restricted to 30 respondents. The sampling method that is adopted for this study is convenience sampling structured questionnaire was administered on the respondents. The study finds that the respondents are aware about the concept of Value Added Tax this shows that the awareness level is very high among teaching and the non teaching community. Among the respondents most of them have found changes in the prices of the pharmaceutical products which they say have been increased to a certain extent.

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Mara Manente (2010)\textsuperscript{27} The paper tests the effects on the Italian economy of a fiscal measure aimed at lowering the VAT rate from 10% to 5% in the Italian ‘Hotels and Restaurants’ sector. The analysis focuses first on the impacts in terms of tourism consumption, investments of the sector and public budget. Thereafter, by means of a multiregional multisectoral input–output model, the increase on the total employment levels by sector and by region has been estimated. Based on a tourism demand elasticity of \(-1.06\) and a supply elasticity of 2.0, tourist nights would increase by a maximum of 3.15% and total tourism consumption by 4.4%, while gross fixed investments by the sector would increase by 2.17%. As for the budget constraint, they have calculated the final ‘cost’ of the fiscal measure for the Treasury. Concerning the macroeconomic effects in terms of employment, the fiscal measure would produce a total increase of almost 100,000 jobs.

Michael Keen (2008)\textsuperscript{28} his paper explores the implications of a distinctive feature of the value added tax (VAT) that is stressed by practitioners but has been largely overlooked by theorists: that it functions, in part, as a tax on the purchases of informal operators from formal sector businesses and, not least, on their imports. It also stresses the potential importance of the withholding taxes that are levied by many developing countries which have also been ignored. It is shown, in a simple model of informality, that if both of these instruments are optimally deployed then the usual prescription that a small economy should not deploy tariffs remains valid even in the presence of an informal sector; and a simple strategy is established generalizing the standard


prescription developed in models without informality for deploying these instruments so as to preserve government revenue and increase welfare in the face of efficiency-improving tariff cuts. Conditions are established under which a VAT alone is fully optimal, precisely because it is in part a tax on informal sector production. But they are restrictive: in general, an efficient tax structure requires deploying both a VAT and withholding taxes.

Michael W Nicholson (2012) This paper discusses the trade implications of value-added taxes (VATs) that refund domestic taxes paid by exporters of domestic production while imposing taxes on imports of foreign production. VATs are used by over 140 countries of the world, including every member of the Organisation for Economic Co-operation and Development except the United States. An investigation of the implications of border adjustable taxes on the U.S. trade balance suggests that VATs positively affect trade competitiveness but with differing impacts by sector. These results do not necessarily extend to the conclusion that a U.S. VAT would increase U.S. exports; such a prediction requires economic forecasting and appropriate simulations. The present results do imply that the adoption of VATs by other countries appears to have benefited U.S. trade. Panel data over 20 years, 29 industries, and 145 countries is used to conduct the analysis.

Michael Keen & Ben Lockwood (2010) This paper identify the causes and consequences of the remarkable rise of the value added tax (VAT), asking what has shaped its adoption and, in particular, whether it has proved an especially effective form

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of taxation. It is first shown that a tax innovation, such as the introduction of a VAT, reduces the marginal cost of public funds if and only if it also leads an optimizing government to increase the tax ratio. This leads to the estimation, on a panel of 143 countries for 25 years, of a system describing both the probability of VAT adoption and the revenue impact of the VAT. The results point to a rich set of determinants of VAT adoption, and to a significant but complex impact on the revenue ratio.

Michael (2000)\textsuperscript{31}, in his paper titled, “VIVAT, CVAT and All That : New Forms of Value Added Tax for Federal Systems in 2000” stated that conventional wisdom has it that the value added tax is not a suitable instrument for lower-level jurisdictions (‘provinces’) in a federal system. The problems that arise when it is so used have become a serious constraint on the development of the VAT and closer economic integration in Brazil, the EU, India and elsewhere. In his study, he describes and compares two recent proposals for forms of VAT intended to alleviate these difficulties: the VIVAT and CVAT. Both enable the VAT chain to be preserved on inter-provincial trade without compromising the destination principle (allowing provinces to tax consumption at different rates) or introducing new scope for game-playing by the provinces. The key difference between them is that the CVAT requires sellers to discriminate between buyers located in different provinces of the federation, whereas VIVAT requires them to discriminate between registered and non-registered buyers.

Misra (2005)\textsuperscript{32} opined that Value Added Tax was a measure to broad-base the tax net and countries all over the world have adopted this miracle tax. He pointed out that the superiority of VAT lay in the fact that it prevented cascading effect of taxation and reduced tax evasion. Cross verification of accounts of all the enterprises has been made possible with the help of computers under VAT and as such accounts could not be manipulated. VAT could lead to capital formation in the country when depreciation is made deductible from tax base and tax on capital goods is offset against VAT liability. VAT could also improve balance of payments of the country as exports are zero-rated. However, VAT might not be suitable for a large country with a strong federal system. The author stated that for introduction of VAT, existing tax rates be rationalized, tax credit system be introduced in place of incentives and steps be taken to abolish CST.

Mohd Rizal Palil (2011)\textsuperscript{33} the introduction of GST in Malaysia has called many arguments from various parties including academics, professionals and the nation (would become the taxpayers) on how GST affect goods prices increase or decrease. Data was collected through a structured survey among middle income earners. This study is expected to suggest a proposal to the relevant authorities on the social and economy impacts on those groups so that the authorities could develop strategies in order to reduce the financial burden of middle income earners in Malaysia if GST is implemented. This


\textsuperscript{33} Mohd Rizal Palil, \textit{The Impacts Of Goods And Services Tax (Gst) On Middle Income Earners In Malaysia}
study is also expected to make a contribution to the tax administration and policy developments literature by demonstrating the impact of a new tax policy in a developing country in order to facilitate low income earners to survive in competitive environment. This study further contributes by providing comprehensive overview on consumer readiness, perceptions and acceptance of GST in a developing country, particularly in Asian countries that were previously under researched.

Mohammad nayeem abdullah Kamruddin parvez (2012)\textsuperscript{34} ‘VAT’ has assumed different meanings over time. Government requires enormous amount of money in the discharge of its constitutional responsibilities. Although there are many sources of such revenue, tax is an important aspect. It can affect the economy in a number of ways ranging from national and local economic growth to how individuals manage their personal finances. Although taxation itself is pervasive, whether taxes have a positive or negative effect on the general economic condition of the country is the subject of much debate. A country like Bangladesh where 31.5\% of its population is beyond poverty line the income tax plays relatively a small role in the country’s tax system. Thus the distributional impact of VAT is of concern. Here, in this paper we are going to focus what effects tax and VAT have in the economy of Bangladesh.

B. Muthukrishnan (2013)\textsuperscript{35} the purpose of this study was to assess the attitude of Pharmaceutical Retailers towards VAT in Tiruchendur Taluk of Tuticorin District. The researcher study 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.

Muhammad Aamir (2011)\textsuperscript{36} The objectives of this paper is to comparing these types of taxes in India and Pakistan, they have taken a sample of tax revenue collected under the heads of direct and indirect taxes. This sample ranges from 1999-2000 to 2008-2009. The results show that Pakistan is generating more tax revenue through indirect taxes whereas India is from direct taxes. By comparing the two regression equations and the standardized betas, we come to know that in Pakistan, more revenue is charged by levying indirect taxes where as India is on the opposite side of it. The results of these two types of fiscal policies can be very different and the more the indirect taxes in country, the more will be increasing gap between rich and poor and thus the more will be the exploitation of labor class.

Murti (1995)\textsuperscript{37}, stated that a comprehensive VAT covers value added at all the three levels of business activities, i.e., manufacturing, wholesaling and retailing.

\textsuperscript{36} Muhammad Aamir, Determinants of Tax Revenue: A Comparative Study of Direct taxes and Indirect taxes of Pakistan and India, International Journal of Business and Social Science, Vol. 2 No. 19 Issue - October 2011

He distinguished between three types of VAT, and opined that a comprehensive VAT with consumption base, the tax credit method, following destination principle to determine VAT on international and inter-state trade flows could be an ideal commodity tax structure for India. There could be ideally two types of tax regimes in India with central and state VATs. There could be parallel central and state VATs on the same base from manufacturing to retailing or central VAT up to manufacturing stage and the state VAT at wholesaling and retailing stages. He further pointed out that VAT system with one or two rates might have to be supplemented by special excise and subsidies to take care of the problems of equity, environment and social bads like tobacco and alcohol.

Mukhopadhyay (2002)\textsuperscript{38} examined the issue of implementation of VAT going wrong in India. Providing details of revenue from CST to the states in India during the period 1990 to 2002, he reported that Maharashtra, Tamil Nadu, Andhra Pradesh, Haryana, Uttar Pradesh and West Bengal were to lose a lot of revenue if CST was abolished. As there was no consensus and no attempt to reach compromise in the interests of the states, VAT was introduced in an imperfect manner in the states. No enough thought had gone into drafting of the Acts in this context. He concluded that if it was pointed where exactly the efforts went wrong, it would not be difficult to improve matters.

Mukhopadhyay (2005) brought out the global experiences of VAT and practical difficulties in introducing it in India. He presented VAT design along with central excise and sale tax structure. While bringing out the evolution of VAT, the author brought out the variations indefinitions, procedures and statutes in Indian states despite Empowered Committee’s efforts to provide common platform. He also brought out the major constraints in adopting VAT in India. In the origin and destination principles, inter-state trade posed a major problem. He advocated removal of CST with introduction of VAT. The author also explained administrative and procedural requirements for introducing VAT.

Nii Torto Quao (2009) This study is a contribution to the ongoing debate over the appropriate mechanisms for expanding the tax base in developing countries. It explains the difficulties faced in constructing a culture of compliance especially among informal or partially formal. The study used ordinary least regression and correlations to analyse the impact of VAT on revenue generation in Ghana. The evidence demonstrates that the VAT scheme has had considerable impact on the overall tax system and revenue performance in Ghana, especially in recent times. According to the regression results, the estimated buoyancy ratio for the study period was 1.98. This outturn signifies that VAT has an increasing proportion of tax mobilisation to the incremental GDP in the study period. Notwithstanding these positive developments, there are some challenges in the area of the VATs and needs further consideration.

40Nii Torto Quao, assessing the impact of the value added tax (vat) scheme on the revenue generation capacity in ghana.
Nisreen Salti (2009) This paper examines the impact of a rise in the Value Added Tax (VAT) on poverty and inequality in Lebanon. To this end, the paper develops an empirical model based on consumer demand theory and uses only household survey data on expenditures and spatial price indexes. The simulation results using an Almost Ideal Demand System show that the projected VAT rate increases will have a limited impact on extreme poverty, due to the mostly progressive nature of current exemptions. However, overall poverty will be significantly affected, as households just above the national poverty line might fall into poverty as a result of the rate increases.

Nour and Pramanik (2005) stated that VAT is a multi-point turnover tax imposed at each stage of production and distribution on sales minus cost incurred. From the methods of computing, they brought out that VAT helped in reducing tax evasion, whereas sales tax had considerable scope for evasion. They suggested that for better administration of VAT, each taxpayer be allotted a master file and Tax Identification Number (TIN). They concluded that VAT would help in improving allocative efficiency, growth and balance of payments; avoiding cascading effect; providing less scope for vertical integration; and facilitating accuracy of tax refunds on exports.

R. Oberholzer (2005) The primary aim of this research paper is to provide an overview of the perception on taxation under previously disadvantaged South Africans and to compare their perceptions with the budgeted Government expenditure. The
information was collected by means of a perception survey among previously disadvantaged adult South Africans in order to determine what their perceptions are and whether a need for additional education amongst the previously disadvantaged individuals in South Africa exists. A significant percentage of the respondents are of the opinion that the Government should be transparent in the utilization of taxpayers’ money; 11.4% of the respondents mentioned that it would be useful if the Government can supply the public with a summary of actual expenditure on a regular basis.

Okoye, E.I (2013)⁴⁴ This study aimed at evaluating the influence of revenue generated through Value Added Tax (VAT) on wealth creation in Nigeria. In an effort to accomplish this objective, secondary data were generated from Federal Inland Revenue Service and Federal Bureau for Statistics which were analyzed with the aid of table and simple percentages while the hypotheses formulated were tested using Product Moment Correlation Coefficient and Student T test. The findings revealed that revenue generated through VAT has a significant influence on wealth creation in Nigeria and also that revenue generated through VAT has a significant effect on total tax revenue in Nigeria. However, it has been recommended among others that Federal Inland Revenue Service should pay attention to the informal sector of the economy by creating VAT offices at the Local communities so as to generate more revenue and to fully achieve the objectives of wealth creation through VAT. Equally there should be constant review of existing laws every four months as done in the United State of America and other advanced economies to create room for flexibility in line with the changing economic circumstances.

D. Olu Ajakaiye (1999)\textsuperscript{45} This study analyses the impact of value added tax on key sectoral and macroeconomic aggregates, using a CGE model considered suitable for Nigeria. A survey of VATable Nigerian manufacturers, distributors, importers and suppliers of goods and services, organizations was conducted to gain insights into the way VAT is treated by these organizations. The survey shows that a majority of the VATable organizations treat VAT in a price cascading manner by regarding it as cost contrary to expectations.

The simulation results show that if VATable organizations treat the VAT in the expected non-cascading manner and the VAT revenue is reinjected via increases in sectoral government consumption expenditure, the general price level will increase by 5\%, total private consumption expenditures will fall by over 128, total consumption expenditure inclusive of government component will fall by only 6.7\%, total gross output and GDP will fall by about 3\% and 5\% respectively, but the share of wages in total factor income will increase lightly. It turns out that where VAT will have the most adverse effects on price, consumption, output, employment and income best approximates the Nigerian situation.

Pawan Kumar Chugan (2012)\textsuperscript{46} The costs of doing business internationally are many. Economizing on such costs is essential to be globally competitive. In this context, a rather overlooked area of cost reduction is the refund of global VAT incurred abroad on business expenses. A large number of exporters across the world do not claim such refunds either due to ignorance or because of legal and complex procedures involved in


\textsuperscript{46} Pawan Kumar, \textit{Global Vat: A Refundable Cost Of Doing International Business (An Exploratory Study Of Awareness And Experiences Of Exporters From Gujarat State Of India)}, Global Business and Technology Association (GBATA), New York, USA, July, 2012, pp. 128-135
applying for such refunds. In this regard, this paper presents an exploratory attempt to understand the awareness and experiences on global VAT refunds from the exporters of Gujarat State of India vis-à-vis aims at creating awareness amongst the exporting community for availing such legitimate refunds and sets out an agenda for future detailed research on this hitherto unexplored subject.

Petar Sopek (2012)\textsuperscript{47} The main aim of this paper is to provide a systematic overview of value added taxation in Croatia along with main changes in relevant legislation and to estimate total amount of tax expenditures. It concluded that the Croatian value added taxation system is efficient in this way, as was additionally shown by an analysis according to which Croatia in 2010 had better efficiency indicators than all the observed EU member states. It has been suggested that a detailed analysis of the overall value added taxation system should be initiated, with the aim of optimizing cost-benefits. The main focus should be placed on the determination of the optimal VAT registration threshold, the costs and benefits of the introduced reliefs and exemptions in the tax system and the potential effects of the repeal of the zero rate.

Purohit (1982)\textsuperscript{48} examined the fiscal importance of sale tax in the state finances in India. Overall, the share of sales tax in own revenue of the states increased from about 31 percent in 1960-61 to 57 percent in 1978-79. He presented economic analysis of sales tax structure in India and pointed out that wide variations prevailed among different states in the rates of sales tax. There was multiplicity of

\textsuperscript{47} Petar Sopek, Tax expenditures and the efficiency of Croatian value added tax, financial theory and practice , 36 (3) 269-296 (2012)
rates and in certain states there were as many as 17 different rate categories, which had no justification. He pointed out that states should follow Orissa pattern, where there were only four rates. While examining the taxation of inputs, he suggested elimination of the tax on inputs or full set-off of the tax paid on raw materials. Examining the arguments for and against first and last-point tax, he suggested a mixture of different systems. He also highlighted the need to tax the services. Further, examining the impact and incidence of sales tax, he concluded that sales tax might not always be regressive because progression could be introduced through rate variations, exemptions and adoption of physical- ingredient rule. He concluded that as sales tax had a significant role in fiscal structure of the states, the tax structure should be reformed to make it economically rational and administratively expedient.

Purohit (1993) examined the system of commodity taxation in India and discussed the problems which could arise in introducing VAT in view of the federal structure of the country. He pointed out that the prevailing system of commodity taxation in India was unintegrated and gave rise to many problems like multiplicity of levies, complexity of structure, high tax rates, cascading effect, lack of transparency, vertical integration and narrow base, etc. He emphasized the need for immediate tax reforms like reducing the number of rates, reducing tax incidence, sales tax reforms, adoption of VAT and broadening the tax base by bringing services under tax net. He brought out the documentary and accounting obligations under MODVAT.

Purohit (1995)\textsuperscript{50}, in his another study, examined the structure and administration of sales taxation in India. He expressed the opinion that failure to administer the sales tax properly could defeat its purpose and threaten the canon of equity. It could create parallel economy due to increased tax evasion. He brought out the features of sales tax administration, examined its operational requirements, which included management information system (MIS) and suggested certain improvements in the operation and administration of sales tax. He opined that tax administration has important role in achieving the objectives of tax policy. He emphasized the need for strengthening sales tax administration to pave way for adoption of VAT in place of sales tax.

Purohit (2001)\textsuperscript{51} examined the evolution of sales tax in India and the efforts at introducing VAT. He discussed different categories of sales tax according to coverage, legal basis and total turnover. The treatment of inputs varied from state to state. Levy of surcharges, additional sales tax and tax on resellers aggravated the complexities in the structure of sales tax. He suggested short-term and medium-term measures to reform the sales tax, and the major medium-term measure was to introduce state- VAT. Further, when the states adopted VAT, he suggested important changes in CST and existing system of taxation. He pointed out that certain reforms were to be carried out in sales tax for introduction of VAT, which included registration of dealers, raising exemption limit, smooth processing of returns, simplified payment procedures, and prompt and proper assessment. He also suggested some reforms in


the governance of state–VAT, which included mechanism to oversee its operation, separation of duties of different functionaries of VAT department, integrated management information system, procedure for risk management and reducing interaction of dealers with the department.

Qamruz Zaman (2011) This paper is aimed at analyzing the impact of VAT when enforced in an underdeveloped country such as Pakistan. Using household survey data, the paper tries to grasp the effect this tax would have on social and economic life of the populace. Results suggested that VAT would disturb economic order of the society and hence the concept was inappropriate in current state of affairs.

Ranjit Singh, Sweety Agarwal (2012) The objective of the study was to identify similarity and dissimilarity in the perception of the taxpayers regarding the returns and assessment aspects under VAT in Assam and to locate the issues of similarity and differences in the perception. The study was based on the primary data collected from the taxpayers of Tinsukia town of Assam by the means of questionnaire. The scale used was two-point as well as nominal in nature. The questionnaire was tested and again re-tested on a small group of respondents to test its reliability and validity. In the study, non-parametric tests such as Cochran’s Q test, Binomial test are used. It was found that the perception of the taxpayers regarding the returns and assessment aspect is equally divided, favorable for certain aspects and unfavorable for certain aspect. Thus, there is a

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52 Qamruz Zaman, Value Added Tax-Theoretical Aspects and Empirical Evidence for Pakistan, Journal of Managerial Sciences, Volume VI Number 1
need for social marketing tool to educate the taxpayers in respect of the items of which their perception is unfavorable.

Rao (2004)\textsuperscript{54} tried to examine the extent of gain or loss to the states from the introduction of value added tax, having features of uniform design, tax credit for inputs, extension of tax base to transactions beyond the first-point sale and zero-rating of inter-state trade and international exports. The effects of introduction of VAT were classified into four parts, i.e., loss from providing input tax credit, loss from reduced value of output, loss from removal of CST, and gains from taxing second and subsequent sales within the state. With certain assumptions, she estimated the losses, gains and net impact on different states for the year 1997-98. With 15 per cent rate of VAT, the impact (loss) varied from Rs. 932 crore for U.P. to Rs. 1054 crore for Maharashtra. The losses could be avoided by changing the VAT rates and structure but this could be a hindrance in the formation of a common internal market. She cautioned that Central Government’s assurance for compensation in case of losses in revenue from introduction of VAT could invite negative response from states in terms of slackness of efforts in collection of VAT.

Seyyed Rahim Sadegi Azizloo & Mohammad Feizi (2013)\textsuperscript{55} The main purpose of this study, is surveying the organizational barriers of Value Added Tax full implementation according to Ardabil city’s tax officials view. Population of the study is all Ardabil city’s tax officials. They determined the amount of the sample size with the


\textsuperscript{55}Seyyed Rahim Sadegi Azizloo, Surveying the organizational barriers of Value Added Tax full implementation according to Ardabil city’s tax officials view, \textit{Journal of Business Management & Social Sciences Research (JBM&SSR)} Volume 2, No.2, February 2013.
used of Cochran sampling method which the statistical sample is 132 of these tax officials which have been selected through the simple random sampling method. To gathering of data, they used questionnaire that its stability was 82% according to Cronbach alpha. In order to analyze the data resulted from collected questionnaires deductive and descriptive statistical methods are used, and to display some statistical data were used column diagram and in deductive level to test the hypothesis of the research they used one-sample t-test and Friedman test. The results show that organizational barriers are preventing the full deployment of VAT. And organizational barriers are not equally important in the establishment of the VAT.

Sei (2000)\textsuperscript{56}, in his article on political liberalization and the implementation of Value Added Tax in Ghana, examined an aspect of Ghana’s political economy in the 1990s, covering its transition to democracy from military dictatorship and how this change process impacted in its attempt to implement a VAT. It assesses the claim that political transition from autocracy to democracy improves policy-making and policy outcomes. Ghana’s experience of implementing VAT typifies an inherent problem in African governance, that of lack of adequate capacity for improved policy-making and for the institutionalization of inclusive politics and public accountability. The VAT case served in the end to impose a previously absent level of public accountability on the Ghanaian growth.

Sameer R. Rege (2002)\textsuperscript{57} Indian industry is under pricing pressure after the government cut tariffs in a phased manner as per the WTO agreements. In order to be competitive, the consensus opinion in government, academics and industry is the implementation of a VAT in India. The paper evaluates the welfare implications of a VAT in the static and a sequentially dynamic context after accounting for the political and administrative constraints facing the Indian government in implementing a VAT. Replacing the old indirect tax structure with a VAT is welfare worsening. The increase in final consumer prices on account of reduced tax base leads to higher price of essentials, causing welfare loss. Zero rating v/s exemption plays an important role on welfare, with lower welfare loss if essential commodities are exempt from VAT. Agriculture sector unambiguously plays a crucial role in welfare.

Shahabuddin m. Hossain (1995)\textsuperscript{58} This paper investigates the income distributional implications of different value-added tax (VAT) schemes in Bangladesh. The results indicate that a revenue-neutral uniform VAT is regressive (relative to the pre-reform situation) in its impact on the income of different households. This paper explores the income distributional impact of an alternative policy package, consisting of a basic rate of VAT with exemptions and excise taxes for certain commodity groups, chosen on the basis of their distributional characteristics. The welfare consequences of the alternative package are found to be superior to those of the uniform VAT.

\textsuperscript{58} Shahabuddin M. Hossain, The Equity Impact of the Value-Added Tax in Bangladesh, Palgrave Macmillan Journals and International Monetary Fund, Vol. 42, No. 2 (Jun., 1995), pp. 411-430
Shyam Sundar (2013)\(^59\) his research paper deals with the Value Added Tax (VAT) on automobile industry from 2009 to 2012 is becoming important source of revenue. Data were collected from both primary and secondary sources. Regression, discriminant analysis were used in testing the hypothesis. We found out that VAT allocation revenue increased with application of VAT in automobile industry. VAT allocations to the state within the said periods were very significant. The facts obtained via secondary data attest to a very significant VAT on automobile industry but data obtained from primary sources suggest minimum VAT impact.

Sharma (2005)\(^60\) opined that VAT emerged as one of the most fundamental component of ambitious process of implementation of VAT in India since 1991 but the process of implementation faced constraints in a federal country like India as the experience of Brazil suggested. The major constraint in implementation of dual VAT in India was that mutual co-operation between centre and states was quite low. The fear of revenue loss as a result of introduction of VAT and phasing out of Central Sales Tax (CST) was the major difficulty in implementing dual VAT. The author opined that ‘no tax credit’ in case of inter-state trade, as laid down in White Paper of the Empowered Committee (2005) undermined the basic benefit of enforcing VAT system, i.e., removing the distortion in movement of goods across the states. The integration of national VAT and state VAT into GST was also stated to be a distant dream. The author highlighted the need to develop a ‘federal friendly model’ of VAT that could be implemented in India without compromising federal principles.

R.Sithanamoorthy (2009)\textsuperscript{61} This article examines the reach and effectiveness of a nationwide VAT publicity campaign carried out by the government of India with the aim of educating the of VAT, and explores the perception that stakeholders in a developing economy have of VAT. These aspects are examined in the context of the nationwide VAT publicity campaign initiated by the central government before the introduction of state VAT, which gradually started from 1 April 2005. A metropolitan city, namely Chennai, the capital of the state of Tamil Nadu, has been selected as a representative sample to analyze the study objectives. The study revealed that the penetration of the central government's publicity campaign on VAT was indeed conclusion applied to the White Paper VAT.

Smith (2006)\textsuperscript{62} Examined The VAT on manufacture of goods (CENVAT) and the tax on services are levied by the Central Government whereas the States levy VAT on sale of goods. The co-existence of the powers of taxation between the Central and State Governments is typical in a federal country such as India. The survey was designed to document the experience of the respondent companies and to identify the unfinished agenda for making the VAT regime. The results of the survey are expected to be very revealing for the State Governments and other stakeholders to gain an insight as to where we are on VAT implementation today, the further changes that are required in the VAT regime and the manner of realization of the integrated GST.

\textsuperscript{61} R. Sthanumoorthy, \textit{Effectiveness of Publicity Campaign on ValueAdded Tax in India}

\textsuperscript{62} VAT Survey 2006\textit{Smooth transition}, unfinished agenda, PricewaterhouseCoopers
Sthanumoorthy (2005)\textsuperscript{63} reported that states in India carried out a path-breaking tax reform by replacing defective sales tax with Value Added Tax (VAT). The author pointed out that sales tax system suffered from many structural weaknesses, including multiplicity of sales tax rates and commodity categories in each state; entry tax and octroi; complicated and wide variety of tax rules and widespread tax evasion. Even when policy-makers were advocating replacement of sales tax with VAT, the attempts were initiated in early 1990s. The process was delayed due to several implementation problems and finally Central Government persuaded majority of the states to switch over to VAT with effect from 1.4.2005. The author discussed important issues and challenges in implementation of VAT and in this context experience of some of the Indian states and countries operating VAT system was reported.

Thomas Taraschewski (2010)\textsuperscript{64} This Study on Taxpayers’ Satisfaction was carried out jointly by the Inland Revenue Department (Ministry of Finance) and the German Technical Cooperation (GTZ). The survey’s purpose was to determine the satisfaction level of Nepalese taxpayers regarding existing tax policy, the quality of services and tax documents, tax procedures and administrative mechanisms, and the overall performance of the tax administration. Based on the findings, the study comes up with recommendations for potential policy reform measures. A total of 312 taxpayers have been interviewed for the survey, representing ten of the 22 Inland Revenue Offices


\textsuperscript{64} Krishna P. Devkota A Study on Taxpayers’ Satisfaction Level in Nepal, Revenue Administration Support Project (RAS), A joint project of the Inland Revenue Department (IRD)- Ministry of Finance and the German Technical Cooperation (GTZ), August, 2010
(IRO) (five within and five outside the Kathmandu valley) and almost all types of business entities (individuals, proprietors, partnerships, private limited and public limited companies, and public corporations). The findings of the study have been compared with those of a similar study carried out in the year 2002/03. Based on the major findings of the study, it was concluded the tax administration in Nepal has been improving over the past seven years. As contributing factors for the improvement, the GTZ-ITAC and RAS, Danida VAT, and RAS projects. It is very encouraging to note that the overwhelming majority of the respondents see paying taxes to the government as their duty. When taxpayers are not satisfied, the tax authorities have to identify the reasons for their dissatisfaction and take corrective measures.

**Tjaart J Steenekamp (2007)**65 Market integration and the abolition of border controls increase the mobility of consumers and cross-border shopping. This makes it difficult to maintain a destination-based VAT. Because of differences in the size of countries, governments of different sizes may engage in inefficient tax competition. Such externalities result in a call for tax coordination and a review of VAT regimes most suitable to a globalised world. When the critical factors that may impact on VAT policy are viewed together with SACU’s long history of customs cooperation, a form of clearing-house regime seems appropriate. However, this may not be politically appropriate, thus clearing the way for a more conventional approach, such as the transitional EU-VAT regime.

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Wollela Abehodie Yesegat (2009) this study examines the operating costs of, and intentional compliance with, the value added tax (VAT) in Ethiopia. The study focuses on assessing the magnitude and nature of operating costs, identifying areas in the design and administration of the tax that contribute to the operating costs and the problems in the operation of the tax at large, and also on the link between VAT compliance costs and intentional output VAT reporting compliance decisions. The study adopts a mixed methods research approach to test a series of hypotheses. Specifically, the study uses surveys of taxpayers and tax practitioners, experimental design, interviews with tax officials and documentary analysis. The study statistically analyses the data elicited from the surveys and experimental design. It also analyses the results of in-depth interviews with tax officials and examination of documents held by tax authorities and other institutions.

Yasmin (2004) examined sales taxation in Jammu & Kashmir with respect to its structure, fiscal significance, feasibility of replacement by VAT; and suggested some policy prescriptions. She found sales tax to be highly elastic and buoyant in the State. The tax base had been widened considerably, but there was still scope to widen the base and coverage of sales tax as there was a long list of exempted goods, which could attract at least 4percent tax. There was prominence of first-point single stage sales tax. Though first-point sales tax had administrative advantage but the tax base became narrower. She opined that VAT appeared to be better alternative for extending tax base but suggested gradual introduction, starting with select items. She stated that VAT could cover some of the deficiencies of first-point sales tax.

66 Wollela Abehodie Yesegat, Value added tax in Ethiopia: A study of operating costs and compliance, A thesis submitted to the Faculty of Law of the University of New South Wales, January 2009
2.1 RESEARCH GAP

From the review of available literature, it is inferred that the topics undertaken in these limited research studies mainly focus on the drawbacks of sales tax and make justification for the introduction of VAT. Similarly, problems which could arise in introducing VAT have also been explored in some studies. There are only few studies which explore the effects of VAT after its introduction. Significance of this study lies in the fact that it empirically examines the introduction of VAT after the replacement of sales tax in the states. The review of literature exposes that many studies were done on VAT rates & Industrial Service Sector units. Hence, this study focuses contributions of VAT towards economic development of the Tamilnadu state.

This study has undertaken an in-depth analysis of VAT contribution on Tamilnadu Economy and recommends measures needed to improve revenue collection from VAT. It takes into consideration the secondary data as well as primary data collected from the traders. Thus, the present study is much more comprehensive as compared to the earlier studies.

Hence, this study becomes valid and pioneering and will open up new vistas and areas of future researches. The research is associated with VAT & marc economic variables and there is a need for the discussion and analysis of the concept of VAT and the following chapter is overview of Value Added Tax.