CHAPTER II

LITERATURE SURVEY

Most of us meekly accept the fact that taxation is an unavoidable human tragedy. It gets worse as your hard work for worldly achievements begin to bring in the deserving deserts. Having reconciled to the inevitable event of taxation, we have to look for the best tax instrument for its collection without too much of torture and tears. There are several conventional methods for tax collection like head counting, but most of them have already been abandoned as archaic even before the Second World War. No wonder that about 160 countries in the world have accepted VAT as the ultimate saviour. And no one has yet come out with another system that can outshine its attraction. The greatness of VAT is that it is the most modern and scientific method for collection of taxes. An important feature of VAT is its flexibility to adapt to the requirements of most socio-economic conditions, legal frameworks and the existing administrative institutions.

The introduction of State Level VAT is the most significant tax reform measure at state level. The State level VAT being implemented presently has replaced the erstwhile Sales Tax system of the states. VAT has introduced in Kerala w.e.f.1st April 2005. This new concept has changed the system of billing, price structure, tax rates, tax computation, return, assessment and other proceedings and even the approach of the tax collectors. Hence it is a revolutionary scheme that has created impact on the social and economic situation and even on the poor and labour class. VAT has made a significant impact on traders especially the VAT assessees in respect of their financial and tax management practices.

In this chapter the researcher makes an attempt to review the earlier studies on VAT and its impact and the literature published on the subject in the leading business and research journals. It is hoped that the review of earlier studies
will be helpful to identify the gaps in the works already done in this area and to determine the method that should be adopted for the present study. With these objectives the doctoral theses submitted to different universities and the study reports of various agencies have also been reviewed. There are a number of books and articles on VAT and its impacts. The authors of these books and articles deal with diverse aspects of the subject from different perspectives. The information gathered by the researcher from the available literature in the field is mentioned in the following sections.

2.1 Reports and Working Papers

John Mathai, N. Ramalingam and C.S Venkiteswaran¹ made an analysis that at present indirect taxation in the country is over dependent on goods despite the phenomenal growth of the service sector. This has created an imbalance in taxation and is inequitable apart from leaving a major area of revenue like services untapped. It also does not take adequate account of the fact that the manufacturing as well as the services sector used each other’s products in the form of goods and services. Hence, in order to be effective, the taxes on services and goods need to be integrated into a general VAT.

Thomas Joseph Thoomkuzhy² in his working paper “VAT Accounting Solution: A Software Support for VAT Regime” has suggested that, in the present context of VAT system, there is an urgent need to give effective and simple business solution with the help of a computer software package. At present, a full-fledged Accounting Package will cost more than ₹10,000/- which cannot be afforded by a small businessman. It is proposed to develop and market, an application software as Accounting Package including VAT solution for a price-ranging between ₹1500/- to ₹2000/- which can be marketed to all the business segments.
The Reserve Bank India\textsuperscript{3} has observed that the process of Sales Tax collections and tax administration in India suffer from lack of uniformity which has caused several anomalies to the detriment of the Government and the tax payer. Dealers operating in different states are required to comply with different forms, different set of rules which would rather discourage the dealer, expectedly busy with his normal business, to comply with the complicated rules and procedures.

The Institute of Chartered Accountants of India\textsuperscript{4} has assessed that VAT credit is considered to be the nature of a refundable tax. Therefore, tax paid on purchase of capital goods should not be included in the cost of such capital goods. VAT credit on capital goods may or may not be available immediately. To the extent VAT credit is available immediately, the amount in respect thereof should be debited to an appropriate account say “VAT Credit (Capital Goods) Receivable Account” and the balance which is not available immediately, should be debited to another appropriate account, say “VAT Credit Deferred (Capital Goods) Account.”

Empowered Committee of State Finance Ministers\textsuperscript{5} has observed that in the existing sales tax structure, there are problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden. In the VAT, a set-off given for input tax as well as tax paid on previous purchases. In the prevailing sales tax structure, there is in several States also a multiplicity of taxes, such as turnover tax, surcharge on sales tax, additional surcharge, etc. With introduction of VAT, these other taxes will be abolished. In addition, Central Sales Tax is also going to be phased out. As a result, overall tax burden will be rationalized, and prices in general will also fall. Moreover, VAT will replace the existing system of inspection by a system of built-in self assessment by the dealers and auditing.
Asim Dasgupta⁶ has expressed the view that, the ICAI stands alone as a premier institution in all matters of accounting and the Government has seen that the ICAI plays a crucial role in the whole process of implementation of VAT. He has further stated that the support of ICAI for the implementation of VAT is to be highly commended because the state level VAT will reduce the cascading effect of tax upon tax. He also appreciated that the guidance note of ICAI is quite comprehensive and addresses all the substantive accounting issues arising there from. He has observed that the Chartered Accountants have a crucial role to play in bringing about discipline and in streamlining the procedures for VAT credit.

The Institute of Chartered Accountants of India⁷ has reported that the input tax paid on purchase of inputs/capital goods which is available as VAT credit should not be included in the cost of purchase. The Guidance Note also requires that the VAT credit which will be available in future on the goods lying in stock at the inception of the VAT scheme should be credited to the Opening Stock A/c at the inception of the scheme itself. The Guidance Note recognises that VAT payable on sales is an indirect tax which is ultimately borne by the final consumer. The dealers collect VAT from their customers on behalf of the VAT authorities. The Guidance Note, accordingly, recommends that VAT collected from the customers should not be recognised as an income of the enterprise, i.e., it should not be included in the sales. Similarly, the payment of VAT should not be treated as an expense in the financial statements of the enterprise.

The Centre for Taxation Studies⁸ has revealed that commodity classification code for VAT Tariff is based on the Harmonised System of Nomenclature (HSN) adopted by the Customs Tariff Act, 1975. However, for the purpose of this Act, some modifications are made in the coding of the commodities keeping in view the rates specified by the Empowered Committee.
Thomas Isaac\textsuperscript{9} has reported in his Budget Speech that a rampant form of tax evasion is increasingly noticed in the stocking of goods in undeclared godowns. Registration of dealers giving addresses of all their business premises is already mandatory, but this provision is not being complied with. Hence he proposed to treat stock in undeclared godowns as stock outside their regular books of accounts. Further, all registered dealers will be required to display their TIN/ PIN on their signboard at all their premises including the godowns.

Thomas Isaac\textsuperscript{10} has pointed out that a number case have been detected where dealers have set up sister- concerns to indulge in circuitous trading to inflate input tax credit and reduce the net tax payable. It is proposed to take stringent action in such cases. No input tax credit will be allowed in respect of purchases by a dealer from his sister concern in case of bogus transactions where the goods have actually moved; the disallowance will be limited to 10 per cent of input tax credit claim. He reported that necessary amendments will be made for this purpose.

Empowered Committee of State Finance Ministers\textsuperscript{11} has observed that When VAT is introduced in place of Central Excise Duty, a set-off is given, i.e., a deduction is made from the overall tax burden for input tax. In the case of VAT in place of sales tax system, a set-off is given from tax burden not only for input tax paid but also for tax paid on previous purchases. With VAT, the problem of “tax on tax” and the related burden of cascading effect are thus removed.

\textbf{2.2 Ph.D Theses}

R.C.Saxena\textsuperscript{12} after individually analysing the Sales Tax structure of the States in India has reported the deficiencies regarding their widely varying rate structures, lack of uniformity in Sales Tax systems, differentiation in the category of the exempted goods and turnover limits and has pointed out the effects of the above...
differentiations on the intra-trade. The problems of inter-state sales and trade barriers particularly between the importing and exporting states arising out of the imposition of Central Sales Tax on inter-state trade are given special treatment. In view of the deficiencies noticed in the existing sales tax structures of the states, steps have to be taken for replacing the present mix of ad-valorem and specific excise duties, the corporate taxes, inter-state sales tax and sales tax structure based on the value-added form of sales taxation.

Basawaraj N Nimbur in his study titled “Value Added Tax for India” has reported that in these days, VAT has assumed a structure of the tax of our time. All over the globe there is a widespread interest for its adoption. It owes its quick popularity for manifold objectives. For instance, as a substitute for Corporate Income Tax, it would help to improve allocative efficiency, growth and balance of payments. Similarly, in place of a turnover tax, it would help to avoid cascading effects in production, providing no scope for vertical integration and facilitating accuracy in tax refund on exports.

Jose Sebastian in his study titled “Tax Performance: A case Study of Sales Tax in Kerala” has found that because of the interdependency of economic activities between States and the continuance of the phenomenon of trade diversion, inter-state tax competition has become an emerging problem in Indian fiscal federalism. The major forms of inter-state tax competition practiced in India are, reducing the tax rates of high value items within the State, giving exemption to Central Sales Tax, competitive offers of incentives to industries and discriminatory taxation of locally produced goods as against imported goods.

C.P. Manjula in her study titled “A Comparative Study of Sales Tax system in Southern States of India” has recognized that lack of uniformity in the rates, point of levy, exemption, incentives and administrative procedures have all
contributed significantly in creating tax differential among the four southern states (Andra Pradesh, Karnataka, Kerala and Tamil Nadu). Such a tax differential among the four states has encouraged the tendency of the states to indulge in inter-state competition causing trade diversion, tax exportation and vertical integration besides creating large scope of tax evasion and avoidance.

2.3 Articles

Mahesh C. Purohit\(^ {16} \) in his article “Roll out the Mat for VAT” has found that a major reform under VAT is the discontinuation of sales tax based incentives to new industrial units. Almost all Studies and Committees have argued against such incentives. When all States give incentives, they do not serve any useful purpose- sacrificing about 25 percent of the sales tax base in the process. In addition, these incentives take the form of tax competition and could be termed as a harmful practice.

Jeswant Singh\(^ {17} \) in his article “We don’t want VAT to be Vexatious” has the opinion that being an important step in reforming the tax structure; we do not want it to become a vexatious tax system with improper implementation. In VAT, we want to value add, and do not resort to vexation adding.

Mohan R. Lavi\(^ {18} \) in his article “VAT Went Wrong?” has stated that to the trader, the main benefit of this system would be self declaration. This would prevent unwelcome visits from the sales tax authorities who are given a free hand to assess taxable income according to their whims and fancies.

D. Murali\(^ {19} \) has pointed out that whether VAT would generate more commerce, whether the tax net would cover a higher percentage of transactions, whether revenue realizations would ring a happy bell in the government coffers,
whether credits and refund might alarmingly overtake collections, and whether information technology would get embedded in the whole system to capture the behaviour of the chain are all questions that may not get any immediate answers.

Bharatiya Udyog Vyapar Mandal\textsuperscript{20} has demanded that a provision should be made in the VAT Act for punishing those assessing officers who make wrong assessments willfully to harass the trade and industry. It is observed that this would reduce corruption to a great extent and enhance tax revenue to the Government. Vyapar Mandal has also demanded that the assessing officers should not be allowed to visit trading establishments to check account books as this will only activate corruption.

Ramesh Chandra\textsuperscript{21} has pointed out that the State tax (sales tax) collection is a major harassment to Indian trade and is one of the main sources for corruption. States lose over 50 per cent of their tax collection due to corruption. Introduction of VAT would not only enhance value for State Governments but also release them from various debt traps. He has found that a uniform tax reform would attract a lot of investors and help hassle-free goods movement within the country.

The Indian Paint Association (IPA)\textsuperscript{22} has pointed out that since credit on VAT paid on input will be allowed, it is generally expected that the VAT rate will be higher than the existing Sales Tax rates, and therefore, if CST is not available for credit against VAT, the overall taxation impact would be heavy.

R. Gopalakrishnan\textsuperscript{23} in his article “SSI in Non-VAT States Are at a Disadvantage” has assessed that in many cases, VAT could lead to new investment opportunities for small entrepreneurs. If a certain product, inclusive of VAT, costs much more to consumers in a location far away from the place of manufacture as a result of value added by transportation, storage and trade chain margins, this would
make it attractive for entrepreneurs to start a production facility near the last point of consumption and gain a share of the existing market.”

Abhijeet Virmani \textsuperscript{24} has predicted that implementation of the Value Added Tax regime will, change the logistics and supply chain management scene in the country. He reported that, currently, most companies have to maintain warehouses for Sales Tax purposes in most of all states. The cost inefficiencies in such an arrangement are very high as companies must plan warehousing space, deploy manpower, ensure its connectivity and maintain stocks at each location. In the new tax regime, the location of the stocking point will be governed by proximity to the consumers.

The Confederation of Indian Industries (CII) \textsuperscript{25} believes that the Value Added Tax system that most states have switched over to is only an intermediate stage and the ultimate objective should be to have a single, common, harmonized system of taxation throughout the country. CII also points out that VAT would surely take away the cascading effect of taxation and thus make industry more competitive.

Thangamuthu\textsuperscript{26} has suggested that as recommenced by the Raja J. Chelliah Committee, tax should be in the 0-8 percent range, except for luxury goods, which could be attractive, a revenue-neutral tax of 12.5 percent. He also points out that provision should be made for capital goods immediately instead of even a 36 month period.

Raja Chelliah\textsuperscript{27} has commented that since inputs are not taxed, the costs are minimized. This enhances the competitiveness of the whole economy. The acceptance of the principle of destination implies that in a federation it is the states
in which the consumption takes place that can tax a commodity and not the state where production takes place.

Parthasarathi Shome\textsuperscript{28} has pointed out that there is no reason for traders to fear that the VAT would make them liable to harassment at the hands of tax officials. He added that only handful of assesses would be picked for scrutiny. He also reports that the penal provisions in the new system would not be harsher than those under the existing State Sales Tax Acts. Even though other countries that have introduced VAT do indeed have harsh provisions, including imprisonment, it does not suit our culture.

Kerala Chamber of Commerce and Industry\textsuperscript{29} has expressed serious concern over the demand of heavy security amount by the Sales Tax officers for granting registration under the VAT Act. C.P. Jain, President of the Chamber has stated that this has created unnecessary loss of time and money of the business community and would cause severe hardships to them.

The Kerala State Small Industries Association (KSSIA) \textsuperscript{30} has pointed out several defects in the Value Added Tax system. The association president, Xavier Thomas Kondody has found that one of such defect is the invoicing system and subtractive methods of VAT calculation that would result in pyramiding effect of tax. The other defects that the Association points out are that, VAT at source collection method will be a difficult task, and that end product pricing at any stage is tedious and involves lot of work for the small entrepreneur or even to an expert cost accountant.

ASSOCHAM\textsuperscript{31} has pointed out that indigenous production suffers from cost disadvantage between 8 to 20\% as a result of the cascading effect of taxes. It has called for putting a definite plan of 3 to 5 years duration to introduce national
VAT so that the cascading tax impact on India’s national income is eliminated. It has also stated that VAT and CST cannot co-exist since CST on interest rate transaction is a tax barrier in the creation of a common Indian market. It also leads to adverse cascading tax impact on cost of production when inputs are sold by suppliers from one State to another.

Chitta Ranjan Sankar\textsuperscript{32} in his article “VAT: A Valuable Strategy to Combat Tax Hazards” has stated that with the offsetting of tax on inputs against that on output, VAT does away with tax on tax. Claiming input tax credit under VAT ensures proper invoicing. These features of VAT encourage voluntary disclosure of complete information on business turnover. Every business transaction carried on by individuals, partnerships and companies will come within the purview of VAT.

C.B. Thakar\textsuperscript{33} in his article “Input Tax Credit for Capital Goods and Opening Stock under VAT” has pointed out that one of the principles of VAT is that the dealer should be entitled to input credit on all his purchases. There cannot be exception in respect of capital goods. However, in the VAT introduced in India, differential treatment in respect of input tax credit is given to capital goods. He has found that there is also lack of uniformity on this issue in all states. The input tax credit on capital goods should be streamlined and should be allowed on all such goods barring very few notified items. He has stated that a major portion of capital assets is being kept out of set off net.

Ashok Chandak\textsuperscript{34} has found that traditionally all State Governments are using sales tax incentives as an important developmental tool particularly for industrial development. He has also pointed out that since any fiscal exemption from tax or subsidy is against the principles of VAT, incentive schemes were considered as major hindrance in the way of introduction of Value Added Tax.
Siddhartha Sankar Saha in his article “Implementation of VAT in India” has pointed out that the trading community in India had exploited the erstwhile sales tax system in adopting loopholes in the system administered by the State or the Centre. If a well-administered system comes in, it will close avenues for traders and businessmen to evade paying taxes. They will also be compelled to keep proper records of their sales and purchases. She has also stated that under the VAT system, no exemptions will be given and a tax will be levied at each stage of transaction of a product. At each stage of value addition, the tax levied on the inputs can be claimed back from the tax authorities. Industry experts argue that the VAT system, if enforced properly, forms part of the fiscal consolidation strategy in India. He has also expressed the view that any globally accepted tax administrative system will only help India integrate better in the World Trade Organization regime.

Sudhir Halakhandi in his article “VAT and CST: A Critical Study of the Problem” has pointed out that the last whole decade, especially the financial year 2002-2003 has been very much important in the process of introduction of VAT and that a lot of work has been done for the introduction of VAT in our country during this period. During this whole period, the problem of CST and the effect of value added tax have been studied very carefully but since the matter is very delicate considering federal system of economy in our country, no suitable solution was found. He has reported that the problem was further complicated by the fact that we have a purely unbalanced state wise economy in which some of the states are manufacturing states having considerable revenue from the CST but majority of states are consumer states. Hence the conflict regarding CST was inevitable.

Y. Ravikumar in his article ‘VAT in India – Issues and Concerns’ has remarked that even among the states that have implemented the VAT, there is no uniformity in the rates that is being followed. He has also pointed out that, the Empowered Committee covered only 550 commodities in two schedules of 4 per
cent and 12.5 per cent VAT, leaving out many items and more products to the whims and fancies of state tax administration. He has added that, the current rates as proposed in the White Paper, which are now implemented, differ with the rates existing in the State of Haryana, the pioneer state in introducing the VAT in the year 2003 itself.

J. Ravikumar\textsuperscript{38} has expressed the view that the trading community has the apprehension that with the implementation of VAT, they will be required to maintain all purchase bills and have to issue cash memo/sale invoices for each transaction. It would require an additional working hand and would add to their costing. The main worry of the trading community is the cost of compliance. He has also reported that another anxiety for the trading community is the need of continuous stock taking. He has pointed out that traders feel that the tax authorities will not allow input tax credit of inventory stocks without supporting documents. Another fear in the mind of the trading community is regarding the powers proposed to be given to the tax authorities. Ravikumar has recognized that VAT is not just a replacement of existing sales tax regime. It is a change in business strategies. It affects every walk of life in business models; say procurement policy, suppliers’ chain, distribution policy, selling and marketing strategies.

Shailendra Jain\textsuperscript{39} has stated in his article “Audit under Value Added Tax” that at the end of the audit, the auditor has to arrive at his conclusion on the matters to be reported in the audit report. The format of audit report is generally prescribed under the relevant VAT law and the auditor has to fill in all the columns of the audit report that are applicable. He says that the audit report will therefore have to be comprehensive commenting on each and every aspect which goes to the root of quantification of tax liability and the auditor is expected to give his opinion on the adequacy of accounting records, correctness and completeness and arithmetical consistency of returns filed. Further he has to state the basis of his opinion i.e. the
accounts, financial statements and the documents verified by him to arrive at the above conclusion.

The Kerala Chamber of Commerce and Industry\textsuperscript{40} has expressed their strong opposition to the stringent penal provisions and other adverse clauses in the proposed law on Value Added Tax. The Chamber has pointed that they are not against the implementation of VAT and that they actually welcome VAT. C. P. Jain, the President of Kerala Chamber of Commerce and Industry has stated that the accounting under VAT would be different from the existing tax system and the chamber has arranged classes on accounting under VAT regime recently for the benefit of traders.

T. Nazarudeen (2005)\textsuperscript{41} has expressed the anxiety that if these policies are implemented, there may be a situation where the small scale traders will lose their role in the market. In reality, the situation is becoming such that the whole market is totally controlled by the multi national companies. In the market there exists a tax named speculation tax, which is totally against the interests of traders. Traders in Kerala who do not import goods from outside the state are forced to remit 1per cent as speculation tax and 12per cent as VAT. So they have to remit 13per cent as tax. There may be wide difference between the traders who are registered in the VAT and the rest.

B. Prabhakara Menon\textsuperscript{42} has opinion that removing double taxation will reduce the price of essential commodities and medicine. Tax of 142 items will be reduced from 9.6 per cent to 4 per cent. At present, the existing tax system adopts a 20-layered method for incurring on products. Under the VAT system, the taxation method will come down to a 3-layered structure. He believes that this change will be beneficial to small scale business persons and consumers.
V. Gangadharan has pointed out that the main concern raised by the trading community is that the VAT will ultimately erode the small dealers spread out and pose serious unemployment problem to the dropouts by insisting such dealers to take registration and documentation by issuing invoices to each and every sale from their outlets. Traders apprehend that this will lead to the reign of supermarkets. He has also found that Out of 550 goods brought under the VAT, 270 would incur a mere 4 per cent tax and the rest would fall under the general VAT rate of 12.5 per cent. Around 46 commodities including 10 items flexibly chosen by the states were exempted, having social importance.

Srinivasan and S. Raju Durai in their article “The State of VAT” have found that state level VAT will be self-policing, improve the tax compliance and reduce price, which together will increase tax buoyancy. Though the Sales Tax rates are expected to be the same across state under state-level VAT, there is some flexibility. States are allowed to exempt 10 items of their choice from state-level VAT, and to incorporate slight changes in the tax laws and administration.

Jayavarthanavelu has revealed that the move to implement VAT would do a lot to enhance investor confidence and help industries in Tamil Nadu increase competitiveness.

Amit Suresh Tolani and Nandkishor Ramkrishna Udgiri in their article “Introduction to VAT” have found that the total effect of the VAT system will rationalize the tax burden and bring down, in general, the overall price level. This will also stop unhealthy tax-rate war and tax diversion among the states, which had adversely affected interest of all the states in the past. Moreover this VAT design will significantly bring in simplicity and transparency in the structure, thereby improving tax compliance and eventually the revenue growth.
The All India Skin and Hide Tanners and Merchants Association has welcomed the introduction of VAT as it would contribute to the competitiveness of the industry in the domestic and export markets. The Southern India Chamber of Commerce and Industry has announced that the introduction of VAT is a major relief to industry and manufacturers.

S. Shanumoorthy has pointed out that a major defect of the present state level VAT system has been the variations in tax rates between states. It is expected to result in diversion of trade, rate wars and a race to the bottom in rates. Hence, total uniformity in rates among the states has been stressed. However, this has attracted criticism because full uniformity would curb rate autonomy of States. He has suggested a uniform floor rate system as an alternative. However, this may be ineffective in eliminating rate differences among states. He has recommended that, an appropriate solution might involve rate autonomy for the states on commodities which are not prone to trade diversion and rate wars.

Cochin Chamber of Commerce and Industry has assessed that VAT was introduced in the country to avoid cascading of taxes and to foster a common Indian market. The Chamber has pointed out that by imposing VAT on MRP of packed goods the State Government is slowly, but steadily giving rise to a number of problems within the state. If the first sellers or manufacturers are compelled to levy VAT on MRP, the trade prices for most goods will become higher in Kerala alone. This would open the flood gates to illegal inter-state movement of goods.

R. Krishnakumar has pointed out that VAT regime is drastically different from the Sales Tax regime that existed in the state earlier. While officials determined the tax to be paid by traders in the earlier system, the VAT regime allows traders to file monthly returns on their own. He has assessed that the
successes of the VAT regime, therefore, depends on the scrutiny and audit of the returns filed by traders.

K. Sathish\textsuperscript{51} says that the key features of the VAT are, set-off of input tax and multi-point levy. In real terms on account of set-off of input tax, a dealer pays taxes only on the value addition at end of each chain of transaction. This feature has the capacity of reducing product prices which is not there in the erstwhile sales tax system. The other feature is of the multi-point taxation i.e. at every sale transaction, VAT is levied.

C.A Sudhir Halakhandi\textsuperscript{52} has stated that VAT has also been introduced in our country without abolishing the CST and even lowering the CST rates have been postponed several times. The basic reason behind this has been that some of the states that collect the major share of CST is not ready to compromise with their economic autonomy. VAT principally is also a central tax but in our country it has been introduced with some compromises and the states have agreed on it, though with some initial hesitation, because their economic autonomy was not touched.

Vivek Mishra\textsuperscript{53} has pointed out that in theory, a comprehensive VAT should have covered both goods and services. VAT should therefore replace Excise Duty, Sales Tax, Entry Tax, Octroi and Service Tax, thus creating a single tax on all value addition. However, in India, VAT has replaced only Sales Tax.

Deepshikha Sikarwar\textsuperscript{54} has reported that the Empowered Committee has permitted each state to exempt 10 items out of a list of about 50 items of ‘goods of local importance’ on which they impose an appropriate rate of VAT. But, most of the state governments have not adhered to the Empowered Committee’s prescribed level of 10 items. He has reported that, certain States such as Kerala have imposed a higher VAT rate of 20 per cent on certain luxury items.
Sandeep Jhunjhunwala\textsuperscript{55} has observed that the indirect tax system in India is extremely intricate with multifaceted taxes levied by the central and state governments at different levels in a supply chain; the Central Government levying customs duty on imported goods, excise duty on manufactured products, service tax on over a hundred services and the State Governments collecting VAT/Sales Tax, Luxury Tax and Entry Tax/Octroi. Anyone who sells a product across India lives through the nightmare of State Sales Taxes, CST, Entry Tax, Turnover Tax, Service Tax, Excise Duty, Octroi - all cascading and making us perhaps the nation with highest indirect taxes in the world.

V. Padmanabhan\textsuperscript{56} found that the Empowered Committee through its deliberations over the years, finalized a design of VAT to be adopted by the States, which seeks to retain certain essential features commonly across the states while, at the same time, providing a measure of flexibility to the states to enable them to meet their local requirements.

FICCI\textsuperscript{57} revealed that at present VAT refund takes around 12 to 15 months and as a result exporters are facing acute fund shortages. Timely refund of VAT claims would give some relief to the exporters in this crisis period.

Lori Montgomery\textsuperscript{58} has stated that because producers, wholesalers, and retailers are each required to record their transactions and pay a portion of the VAT, the tax is hard to dodge. It punishes spending rather than savings, which the administration hopes to encourage.

Chirag Patel\textsuperscript{59} has reported that VAT audit is an onerous duty cast on the auditor to certify the correctness of return, quantify the tax liability, verify the correct rate of Value Added Tax, the deductions and forms. Unlike Income Tax
audit report which is filed along with the return, the VAT audit report is made after the returns are filed.

2.4 Books

Basawaraj N. Nimbur\textsuperscript{60} comments that the VAT ensures that an input is taxed only once and hence not only is cascading avoided, but the incidence on any final product can be controlled. It is also free of other economic demerits of cascade type turnover or sales tax. Thus it does not promote vertical integration so long as there are no exemptions to important sectors in the middle of the chain of production.

Mahesh C. Purohit\textsuperscript{61} has found that the effects of VAT are felt all over the economy. The tax influences several variables such as savings, investment, employment, distribution, prices and efficiency of resources. Some of these variables are directly affected by VAT, whereas the effect on others is indirect. Purohit refers to the economic effects of VAT, the structure of VAT, the harmonization of VAT in EEC countries, the general features of VAT management and Management Information System for VAT administration.

Richard M. Bird and Milka Casanegra de Jantscher\textsuperscript{62} expresses the view that the most vexing problems with the VAT concern administration. Among the administrative problems, perhaps the worst is the slowness of the Government refunding of excess credit. Frequently, the policy has been on of auditing all (and only) those taxpayers who ask for a refund, no matter how small the refund is. Paying a small amount of tax saves most would be evaders from Government scrutiny.

Mahesh C. Purohit\textsuperscript{63} states that evidence from different countries shows that VAT is partially progressive or proportional in some countries. In Dutch
countries, the VAT was designed in such a way that it could be distributionally neutral. In France the VAT was found to be proportional or mildly regressive when measured in relation to consumption and regressive in relation to income. In the United Kingdom, the VAT is progressive mainly because of zero-rating for food, housing and children’s clothing.

Liam Ebrill, Michael Keen, Jean-Paul Bodin and Victoria Summers have found that the VAT can play a pivotal role in developing modern methods of tax administration, if it is based on effectively monitored voluntary compliance. They examine the remarkable spread and current reach of the innovative tax and draw lessons about the design and implementation of the VAT as experienced by different countries around the world.

Mahesh C. Purohit has pointed out that the State-VAT would be superior to the existing neutrality and other economic effects. In addition, it would simplify the existing Sales Tax system. The State-VAT would have a simple structure with fewer rates and very few exemptions. The adoption of State-VAT would help reducing the amount of the evasion and it has a novel advantage of the transparency.

G.K.Pillai has stated that VAT has an inbuilt device for reducing the cascading effect by restricting the levy to actual value addition. It encourages growth by confining tax burden to the net economic contribution of the tax payer. Moreover, since the capital investments also get tax relief, VAT can accelerate economic growth by encouraging modernization and replacement. He has proposed a comprehensive VAT regime as an urgent step required for improving the efficiency of the tax system. He has also presented the current scenario in our indirect tax regime and the prospects of implementing a full fledged VAT at State level to remove inefficiencies.
S.Sridharan\textsuperscript{67} is of the opinion that a major disadvantage attributed to the present system of taxation is that it is cascading and therefore the tax embedded in the finished product makes the industry uncompetitive. That is, in the case of a manufacturer, various raw materials and inputs as well as capital goods are subject to tax. Under VAT since tax paid on raw materials and other input will be allowed to be set off against the tax payable on the finished goods, there will be no cascading of taxes.

Alok Krishnan\textsuperscript{68} has stated that purchase of capital goods from within the state entitles the buyer to take input tax credit subject to conditions laid down under the Act. These regulations are different from state to state. He has found that correct accounting assures importance under VAT regime and its importance cannot be undermined.

B. K. Chittora\textsuperscript{69} has expressed the view that exclusive of services from the base, even if the States are empowered to tax selected services on a standalone basis, would not eliminate the problem of cascading from the tax system. Services here would be like exempt goods, and exemption within a VAT regime brings back the problem of cascading. As a result the new tax system would not be completely transparent. He has found that this move should therefore be considered only as a step in the transition to a complete VAT that included goods and services.

P.T Chaudhari\textsuperscript{70} states that a good Sales Tax system should be conducive to economic efficiency, provide stable and predictable source of revenue and be simple to administer and comply with. The Single Point Sales Tax system fails in all of these respects. Economists have examined several alternatives of commodity taxation and found that to sustain a continuous economic growth; the only rational alternative for the existing Sales Tax is the Value Added Tax.
Harish N. Shah\textsuperscript{71} is of the opinion that VAT is the biggest tax reform in the last 50 years and it will change forever the field of business. From now onwards, with VAT, the way of business will change - no regular trips to the commercial tax office, no standing in long queue, no use for forms, no irritating and regular tax inspection and no assessments by CTO. Instead, you will calculate your tax or VAT and pay it. This will make purchase and sales documents as valuable as currency. But VAT demands more paper work and accurate accounting.

N. K. Acharya\textsuperscript{72} states that Value Added Tax system is a Self Policing System. It is so because, unless the dealers strictly follow the rules, maintain accounts which by nature are interlinked with one another the dealers do not have the benefit of securing a rebate towards the tax they had paid earlier to the previous dealer in the tax they had to pay on their sales. It creates situations for self discipline in business.

S. Anilkumar, M. L. Paul. and Jenny Thekkekara\textsuperscript{73} have pointed out that even if tax is levied at every stage, it still avoids cascading effect as full credit of tax paid on purchases is available. Therefore, VAT is neutral regarding choice of production techniques as well as business decisions. They have also stated that it helps in better pricing of the products by the manufacturers/ traders especially exporters, which makes their products more competitive in the open market.
NOTES


21 Ramesh Chandra, “VAT is the Key for Economic Growth,” Business Line 9 Oct. 2003: 4


65 Mahesh C. Purohit, *Sales Tax and Value Added Tax in India* (Delhi: Gayatri, 2001): 73.


