CHAPTER VI

SUGGESTIONS AND RECOMMENDATIONS

This study “Impact of Value Added Tax on the Financial and Tax Management Practices of VAT Assessee of Kerala” was undertaken to identify the efficiency and effectiveness of financial and tax management practices of assessee under the VAT system of taxation, to analyze the impact of VAT on the financial and tax management practices of VAT assessees and to make suggestions and recommendations on the basis of the findings of the study. The researcher would also like to suggest some specific areas which require further research.

6.1 Suggestions and Recommendations

1. The present study reveals that there are positive behavioural changes in the VAT assessees with regard to their financial and tax management, mobilization and utilization of funds, compliance of tax law, proper maintenance of accounts and statements, regular filing of returns and prompt payment of tax. These practices lead to the greater credibility of the VAT assessees which results in psychological changes in confidence, trust and approach of banks, other financial institutions, suppliers, and general public towards the VAT assessees. Hence, these positive factors should be considered by the assessees while designing their capital structure under the VAT system of taxation.

2. The present study reveals that the VAT system of taxation has a significant impact on investment decisions of the different categories of the VAT assessees. These decisions have long term implications for the business because they affect the future profitability and cost structure. It influences the rate and direction of a firm’s growth. Therefore, the VAT assessees should be very careful and vigilant in taking
investment decisions and should avoid over-investment and under-investment in fixed assets.

3. Certainty and transparency of tax structure, high credibility, input tax credit practices and input tax credit on capital goods are the motivating factors for investment under VAT system of taxation. Hence, these factors should be considered by the VAT assessees, while designing their capital budgeting policies. Moreover, the policy makers should ensure that these provisions are maintained and new similar provisions are incorporated at the time of designing GST.

4. The study revealed that liquidity position of assessees is badly affected under the VAT system of taxation due to unnecessary delay in refund of excess input tax credit, non-availability of input tax credit in respect of purchase from presumptive tax dealer and compounded tax dealer, high purchase cost due to lack of qualified suppliers, high cost of maintenance of more accounts and statements in connection with purchase and sales etc. This liquidity crisis creates some dilemma among the lower income traders and manufacturers. So the policy makers must consider these factors, while redrafting the existing law and designing new tax policies.

5. Input tax credit practice under the VAT system of taxation is definitely an accelerating factor of the liquidity position of the business. Hence the policy makers and authorities must take necessary action, to provide input tax credit in respect of presumptive tax, compound tax, CST, purchase tax, entry tax and other indirect taxes and to make necessary changes in the Act.

6. The study reveals that input tax credit on capital goods under VAT, influences the replacement of worn-out equipment, installation of new machinery, and retaining and extending market share of business by mechanization process. The stipulation that some capital goods would not qualify for tax exemption would lead to some confusion. Hence, the facility of tax set off should be extended to all capital goods.
7. The present study revealed that the profit reinvestment practices of the assessees under the VAT system of taxation is high and appreciable due to the certainty and transparency of tax structure, stability and credibility of business, input tax credit on capital goods and better pricing and high competition in market. Hence, the Government should take necessary steps to promote and maintain these favourable practices and to channelize this investment for the overall economic and social growth and welfare.

8. The present study revealed that the revenue expenditure of assessees under the VAT system of taxation is very high. This high expenditure pattern is not affordable to lower income traders and lower income manufactures. Hence, necessary provisions should be included in the Act for liberalizing accounting and tax practicing procedures in respect of these lower income groups.

9. Under the VAT system of taxation, the dealer is liable to pay ‘output tax on the ‘total sales,’ irrespective of the fact whether the amount is recovered from the debtors or not. Hence, many a time, dealers are compelled to pay tax on bad debts also. This is totally against social justice and business ethics. Therefore, it is necessary to include adequate provisions in the VAT Act, for refunding the output tax paid on bad debts.

10. As a consumer State, the present turnover limit for compulsory registration under the VAT system in Kerala can be enhanced upto ₹10 lakhs or ₹15 lakhs.

11. The study revealed that the provision for renewal of registration for each year creates more inconvenience to dealers. Therefore the renewal period of registration can be extended to three or five years.

12. The present turnover limit for “Compulsory Audit System” prevailing under the VAT system is not rational and satisfactory. So this limit should be enhanced upto rupees two crores.
13. The concept of ‘Self Assessment Practices’ under the VAT system of taxation should become more meaningful and scientific by incorporating adequate provisions in the Act for strict and proper implementation of Best Judgment Assessment, Audit Assessment and Protective Assessment.

14. The Government has introduced VAT to nullify cascading effect i.e. tax on tax. But cascading still exists. Since State level VAT has been introduced, States have not yet abolished taxes like entry level taxes, octroi etc. This can again lead to the ‘tax war’ between the States. The Central Sales Tax and Service Tax are still leviable and are not yet abolished which ultimately results in to cascading. All these factors should be considered at the time of designing of GST Act and Rules.

15. The present classification of goods under the different schedules is not rational and scientific. Due to the lack of proper classification and description of goods and HSN number, dealers are liable to pay high rate of tax. Hence these discrepancies should be ratified.

16. As per the present law, the tax paid on purchase of capital goods (the value of which exceeds ₹5 lakhs) can be rebated only over a period of three years, which is simply too long considering the speed at which capital goods become obsolete. The stipulation of availment over three years can be difficult to monitor, both for the manufacturer and for the tax administration. This is against the principle of VAT. When the seller of capital goods has to deposit full sales tax in the same year and when the Government is allowing set-off out of this, there is no reason why set-off should be spread over to the next three years. Therefore, necessary amendments should be made in the Act for providing set-off on capital goods in the same year.

17. The practices of proper collection of output tax and prompt payment of adjusted tax should be encouraged and motivated by providing special tax rebate, honouring and respecting of true and fair VAT assessees, and avoiding unnecessary inspection of business places.
18. The functioning of present e-filing system under VAT is not satisfactory. Therefore, the authorities should ensure that adequate technological changes and improvements are made for the smooth filing of return without any delay.

19. Penalty provisions under the VAT system are unsatisfactory and rigorous. From the traders’ point of view, many penalty provisions do not suit for a democratic system. These provisions create strong protest among whole trading group. These factors should be considered by the policy makers and authorities while designing the penalty provisions under GST system.

20. The present tax refunding practices followed by Commercial Tax Department are slow and unscientific. Just like e-payment, excess unadjusted input tax should be credited the to respective customer’s account in time without any request.

22. One percentage cess charged on VAT is totally against the basic principles of VAT. Hence, it should be abolished.

The findings of this study are useful and beneficial to various interested groups like policy makers, consumers, trading community, academic community, trade organizations, tax consultants etc. The findings of this study will be helpful for taking various crucial decisions in their respective sectors and designing new policies in this area. The findings of this study also open new horizons for further research. However, there is need to remove stringent provisions in the VAT Act and to provide natural justice to all to make it more transparent and user friendly. Once the apprehensions of the trading community are fully addressed, the sailing of VAT and consequently of GST will be smooth.

6.2 Proposal for a New Tax Structure- “Improved GST” (IGST)

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development.
Cascading tax revenues have differential impacts on the economy of firms with relatively high burden on those not getting full offsets. Prior to the introduction of VAT in the Centre and in the States, there was a burden of multiple taxation in the pre-existing Central Excise Duty and the State Sales Tax systems. Before any commodity was produced, inputs were first taxed, and then after the commodity got produced with input tax load, output was taxed again. This was causing a burden of multiple taxation (i.e. “tax on tax”) with a cascading effect. Moreover, in the Sales Tax structure, when there is a system of multi-point sales taxation at subsequent levels of distributive trade, along with input tax load, the burden of Sales Tax paid on purchase at each level is also added, thus aggravating the cascading effect further.

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. But unfortunately, the cascading effect exists under the VAT system also. In the present State-level VAT scheme, CENVAT load on the goods has not yet been removed and the cascading effect of that part of tax burden has remained unrelieved. Moreover, there are several taxes in the States, such as, Luxury Tax, Entertainment Tax, Octroi etc. which have still not been subsumed in the VAT. Further, there has also not been any integration of VAT on goods with tax on services at the state level with the removal of the cascading effect of Service Tax. In addition, although the burden of Central Sales Tax (CST) on inter-State movement of goods has been lessened with the reduction of CST rate from 4% to 2%, this burden has also not been fully phased out. Similarly, under the State VAT, no credits are allowed for the inputs of the exempt sectors, which include the entire service sector, real property sector, agriculture, oil and gas production and mining. Thus tax cascading remains the most serious flaw of the current system. It increases the cost of
production and puts Indian suppliers at a competitive disadvantage in the international market.

With the introduction of GST at the State level, the additional burden of CENVAT and Services Tax would be comprehensively removed. This would establish a continuous chain of set-off from the original producer’s point and service provider’s point upto the retailer’s level, which would eliminate the burden of all cascading effects, including the burden of CENVAT and Service Tax. This is the essence of GST. Also, major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes, and thus bringing down the compliance cost. With GST, the burden of CST will also be phased out. Thus GST is not simply VAT plus Service Tax, but a major improvement over the previous system of VAT and disjointed Services Tax – a justified step forward. The Empowered Committee of the State Finance Ministers (EC), on the request of the Central Government and after due consultation among the States, has prepared a model and roadmap for the GST. Keeping in view the report of the Joint Working Group on Goods and Services Tax, the views received from the States and the Government of India, a ‘dual GST’ structure with defined functions and responsibilities of the Centre and the States is recommended. The ‘dual GST’ shall have two components; one levied by the Centre (hereafter referred to as Central GST), and the other levied by the States (hereafter referred to as State GST). The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be
utilized only against the payment of Central GST. The same principle will be applicable for the State GST. A taxpayer or an exporter will have to maintain separate details in books of account for utilization or refund of credit. Cross utilization of credit of CGST between goods and services would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST. However, the cross utilization of CGST and SGST would not be generally allowed. As a result of the non-availability of cross utilization of credit of CGST and SGST, the cascading effect still exists as a serious and unsolved problem in Goods and Service Tax.

Under these circumstances, the researcher would like to suggest a new tax structure i.e. “Improved GST” (IGST), which ensures the complete elimination of cascading effect and the protection of the constitutional powers of State Governments. Under the proposed tax system, Central GST and State GST continue, but both are transferred to the joint account of Central and State Governments and tax revenue is to be apportioned among the Central and State Governments in an agreed formula. This process can be controlled and monitored by the Finance Commission of India. Under this system, cross utilization of credit of CGST and SGST should be allowed, which fully eliminates the cascading effect.

**6.3 Scope for Further Research**

The researcher proposes the following topics for further research


2. The Influence of Value Added Tax on the Pricing and marketing Strategies of Traders in Kerala.

3. Tax Planning Practices of Traders in Kerala- A Comparative Study under Sales Tax and VAT.

5. The Impact of Value Added Tax on the Supply Chain Management of Trading Community in Kerala.