CHAPTER 7

Conclusion
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7.1 Epilogue

The thesis addresses one of the major problems the State Governments in India are facing today. Assam is a constituent State of Indian federation. With the changing economic scenario worldwide, gone are the days when countries could afford the luxury of having subsidy schemes, fiscal deficits and the like. Owing to huge fiscal deficits for welfare activities, mounting pressure has been put by the Union Government on the State Governments to augment its own resource generation capacity.

The State of Assam with its weak economic base has to rely on the Union Government for most of its finance. Sales tax is the main source of revenue for Assam and accounts for more than 60 percent of its total tax revenue. The Government of Assam has been administering sales tax since 1947. However, the growth in the collection of revenue from sales tax has happened to be marginal over the last few decades. This is due to two main factors. Firstly, the State has weak tax base because of indolent economic development as indicated by various macro economic factors. Secondly, the structure and administration of the sales tax mechanism has not been very much effective over the years. But the State has immense potential to increase its earnings from sales tax.
The present system of sales taxation in the country has been engulfed with various problems. Rationalization of the sales tax structure is the order of the day. States have to optimize revenues from limited tax sources available to them. Tax reform has become no longer a choice but a necessity. With Value-Added Tax (VAT) system in the anvil, the study has focussed on the pros and cons of the introduction of this system in Assam.

The findings of the survey could portray a number of factors that are responsible for the present dismal performance of the tax administration of the State. High rates of taxes in Assam together with lower or nil tax in the neighboring States cause massive diversion of trade to the neighboring States. Thus, the Government of Assam loses a large chunk of revenue from sales tax.

It is essential that for proper administration of sales taxation, the relationship between different components of the sales tax system be congenial. However, it has been found that on one hand, the dealers think that because of the ineffective administration by the tax authorities, the collection of sales tax has been lower in Assam. On the other hand, the administrators are of the opinion that dealers evade payment of sales tax. This situation is not at all congenial for growth of revenue collection from sales tax. Many dealers do not wish to get themselves registered because of ‘fear psychosis about the sales tax department’ and ‘fear of too much formalities to be carried out’. As far as the third component, the consumers, is concerned, they (consumers) seem to play a passive role in the matter. While some consumers do not want to pay the sales tax, some avoid payment of the same at the instance of the shopkeepers. It is a common feature with majority of consumers that they do not insist for cash memo and thus, the sales may go unrecorded. This gives the dealer the opportunity to evade tax.
The awareness level about the VAT has been found to be low among the dealers. While 94% of the experts are fully aware about VAT, 92% of the administrators, and only 48% of the dealers are aware about the same. It clearly shows that a substantial publicity and awareness campaign has to be carried out in this regard.

In spite of low level of awareness about VAT, the stakeholders are opting for switch over to VAT. It is an indication of unfriendly features of the present sales tax system. The stakeholders desire to come out of the present system and feel that the changeover to country-wide uniform tax policy would definitely be better than present system.

Complexity in the tax system affects effective and efficient tax administration. Moreover, it complicates its compliance by taxpayers. A sound, effective and efficient tax system should yield steady revenue, be easy to understand, comply with, and administer, be transparent, fair and equitable and should have minimal ‘distortionary’ scope. Tax Reform and successful tax administration must go hand in hand.

In the recent period, substantial reforms have been carried out by the Union Government in the field of sales taxation. Steps like adoption of Uniform Floor Rates of taxes by all the States would go a long way in solving many problems the system is facing today. The Government of Assam has already initiated the reform measures at the instance of the Union Government. For switching over to the Value-Added Tax system, the State has to take lessons from (i) the pros and cons of the existing AGST Act and (ii) the history of VAT in India. The strength of the present system are to be carried to the new system. Care must be taken to minimize, if not eliminate, the weaknesses embedded in the present system. The opportunities of enhancing sales tax
revenue are to be translated to workable plan and then to implement them. Serious thought should be given on the possibility of converting the threats into opportunities.

VAT has been tried in several States in India. There has been a mixed result- while some States have been successful some others had to revert to old system. The factors for success and failure are to be taken into consideration before adopting VAT in Assam. The critical success factors are to be determined and be given due emphasis. One point is to be kept in mind that the case of Assam does not resemble to any other State in the country. Thus adoption is not going to work, the VAT system is to be adapted.

It is apparent that for successful implementation of VAT through e-governance would be most effective. The State Government should take up the issue of e-governance simultaneously. The awareness campaign about VAT and its administration mechanism must be started forthwith.

An economically sound tax policy cannot yield its best result unless each and every component of the system functions in its true spirit. VAT and its administration through e-governance would bring about a strategic change in the system. Most important in this respect is the human resource development. Effective training program through Organizational Development (OD) interventions have to be carried out to make the tax administrators motivated and dedicated so that they exercise their respective duties with utmost honesty and integrity.
7.2 Recommendation for Future Research

Tax administration and public finance provides excellent scope for study. Study on sales taxation itself is a large area and provides vast opportunities for research work. During the course of the study it has been felt that certain areas of administration and management of sales taxation could not be covered in this thesis.

7.2.1 Study on Incidence of Tax

From the study it has been found that rate of tax is related to the magnitude of evasion of tax. But this is a controversial issue. A study on the computation of cumulative burden of sales tax is required for estimating the effective tax rates. It is generally argued that the burden of a tax on a commodity is shared between the consumers and the producers depending on the price elasticity of demand and supply of the commodity. Sales tax is levied at one or more stages in the process of production and distribution of goods and services. It is levied on the tax base inclusive of tax customs and excise duties, if any. Proposed VAT structure in each State would try to maximize its revenue without serious concern about its economic effects. Estimation of tax incidence or tax rates requires a knowledge about shifting of tax in question i.e. the extent to which the tax may be passed on from producers to consumers. It is very much necessary to know the ultimate incidence of tax on various levels. Such a study if carried out for Assam, would help in fixing the effective rate of sales tax of various commodities for the State.
7.2.2 Study on the Tax Performance of the State

Revenue performance of a tax structure is the aggregate effect of the performance of individual taxes constituting that structure. Sales tax accounts for more than 60 percent of the total State tax of Assam. Hence, a detailed study of the revenue performance of sales tax in Assam needs to be undertaken. Structural adjustments to be carried out under the VAT system may yield larger revenue. While structural changes determine the base of the tax, the administrative decisions help to utilize that base for tax purpose. The former builds up the tax potential while the latter indicates the tax efforts of the State. Since there is no absolute standard in this regard, a relative assessment of the same may be made considering the cases of some other States. The average position of all the States taken together may also serve as a reference for the purpose.

7.2.3 Study on the Accounting System for VAT

Administration of VAT would require proper book keeping and accounting procedures. The system enables set-off of tax already paid in commodities. Tax is levied on value-added on the transaction. VAT is paid on all sales after giving due credit for the tax already paid on inputs. However, the right to credit accrues only when the taxable event takes place. In order to qualify for credit VAT must be specifically noted on the purchase invoice. However, sales exemption from VAT do not entitle the tax payer to credit in respect of VAT paid at the time of purchase excepting for zero-rated goods. As the department allows tax credit on the basis of assessment of accounts and records of a dealer, a taxpayer has some accounting as well as declaratory obligations. The problem is that it may not be possible for the small dealers to maintain all these accounting formalities. Although it is generally suggested that VAT administration has an advantage of built-in policing, various authors have expressed their doubts about its effectiveness [Lent, George E et
al.(1973)]. As evasion is already rampant under the existing tax system, the role of book-keeping and accounting can not be undermined. The study may suggest some tax-payer friendly accounting procedures which would be efficient enough to curb the practice of tax evasion.

7.2.4 A System Dynamics Study for Policy Formulation

The study revealed that there are various factors in sales taxation, which are interdependent and interactive. For example, high tax rate may lead to low tax collection leading to less revenue and prompting to raise the tax further. It has been felt that such cause-effect relationships and causal loops exist in various sectors of the sales taxation system. An attempt has been made in this thesis to construct some of these loops. An elaborate study in this aspect will be worth attempting to identify the various factors affecting the taxation system, and to establish the cause-effect relationships among these factors. A system dynamics model could be developed from such causal loops and the taxation system could be simulated to (i) identify the problem areas, (ii) suggest structural changes, if needed, and (iii) to formulate policies for proper tax administration with the objective of enhancing tax revenue.