

VAT: VALUE ADDED TAX

Vikash Rai, Tapish Chauhan
Dronacharya College of engineering, Gurgaon

Abstract- Tax is important source of government revenues. Value added tax is a new system of tax to be introduced in place of sales tax. The state enjoys exclusive power to impose and collect tax on sales and purchase of goods. Sale tax has ever been an important source of revenue of state government in India. Central government can impose tax only on the inter-state trade. There are wide difference in the rates, rules and regulation in this regard in different. There has been much confusion regarding general tax, specific sales tax and central sales tax etc. VAT is supposed to overcome all these difference and confusions.

I. INTRODUCTION

VAT is multistage turnover tax. It is added at every stage of production and sales. It is computed only on the value added at a particular stage. "VAT is a tax imposed to all goods and services which make a distinction between manufactured goods and government services. This tax is imposed on value added at every stage during this course of business. Hence it is called value added tax"

$\begin{aligned} \text{Value Added} &= \text{Total sales} - \text{cost of intermediate} \\ &\text{consumption} = \text{Final sales} = \text{Gross domestic} \\ &\text{product} = \text{Rent} + \text{interest} + \text{profit} + \text{wages.} \end{aligned}$

Value Added tax, also known as goods and services tax (GST) proves to be beneficial for the government. Through implementation of this tax system, govt. can raise revenues invisibly, where the tax is not shown on the bill paid by the buyer. VAT is different from sales tax in various aspects. While sales tax in to be paid on the total value of the goods and services, VAT is levied on every exchange of the product, so that consumers don't have to carry the total cost of tax. However, VAT is generally not applied on the export goods to avoid double taxation on the final product. However, if VAT is charged on export goods, the tax amount is usually refunded to the tax payer.

II. CONCEPT OF VAT

A package for payment of compensation to sates for any revenue loss on account of introduction of VAT has been implemented. Financial support under Mission Mode Project (MMP) is being provided to states / UTs in order to enable them to take up computerization of their Commercial Tax Departments. A separate project for computerization of Commercial Tax Administration of Himachal Pradesh and Jammu & Kashmir has been sanctioned. 50% funding is being provided to the empowered committee of State Finance Ministers for implementation of the TINXSYS project for tracking of inter-states transactions.

III. MERITS AND DEMERITS OF VAT

1. Principal merit of VAT is that it acts as built-in-check on the tax evasion. Accordingly, tax revenue of the Government enhances. Also, it involves uniform rate of taxation. So that it become 'Neutral' in nature. Further, VAT ensures more effective regulation and control of demand of various goods and services in the market. If necessities of life are exempted, VAT acts like a progressive taxation.
2. VAT involves 'cross audit' of the invoices, so that it can be effectively implemented. In a poor country dominated by a large number of small enterprises, VAT may prove to be an effective instrument of taxation

VAT Example (Assume 15% Flat VAT rate)	
Details	Rs
RM Input (Kg of Wood)	115
Add - Wholeseller Toy Margin @ 10%	11.5
	126.5
Add - VAT @ 15%	19.0
Sold to Retailer	145.5
Add- Retailer Margin @ 10%	14.5
	160.0
Add Tax @ 15%	24.0
Final Selling price to Consumer	184.0

LIMITATION: A VAT, like most taxes, distorts what would have happened without it. Because the price for *someone* rises, the quantity of goods traded decreases. Correspondingly, some people are *worse off* by *more* than the government is made *better off* by tax income. That is, more is lost due to supply and demand shifts than is gained in tax. This is known as a dead weight loss. If the income lost by the economy is greater than the government's income; the tax is inefficient. It must be noted that a VAT and a Non-VAT has the same implications on the microeconomic model.

The entire amount of the government's income (the tax revenue) may not be a deadweight drag, if the tax revenue is used for productive spending or has positive externalities – in other words, governments may do more than simply *consume* the tax income. While distortions occur, consumption taxes like VAT are often considered superior because they distort incentives to invest, save and work *less* than most other types of taxation – in other words, a VAT discourages consumption rather than production.

IV. CONCLUSION

As compared to other taxes, there is a less chance of tax evasion. VAT minimizes tax evasion due to its catch up effect. VAT is simple to administer as compared to other indirect tax. VAT is transparent and has minimum burden to consumers as it is collected in small fragments at various stages of production and distribution. VAT is based on value added not on total price. So, price does not increase as a result of VAT. There is mass participation of taxpayers. Its improve economy of over country.

REFERENCES

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