

Govt . Revenue - VAT

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Abstract- The purpose of this paper is comprehensive study related to VAT. Tax is one of the important sources of government revenues. Implementation of the value added tax by more than 120 countries, all over the world, shows the efficiency and acceptability of this new kind of taxation in providing a reliable source of incomes for governments. Implementation of the VAT with a fixed rate makes the forecast of government incomes possible resulting in possibility of better planning. On the other hand, the short term characteristic of collection of the tax, guarantees the continuity of the flow of income into the government's treasury. In this paper the topics are to be discussed is “what is the purpose of VAT”, “merits and demerits of VAT”, “why it is introduced”, “what are the criticisms that VAT concept faced”?

I. INTRODUCTION

A Value-added tax (VAT) or also goods and services tax (GST) is a form of consumption tax. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the value added to a product, material or service from an accounting point of view, by this stage of its manufacture or distribution. The manufacturer remits to the government the difference between these two amounts and retains the rest for themselves to offset the takes they had previously paid on the inputs. VAT is such an indirect tax which is imposed on value added at various stages of production. Value added refers to difference between value of output and value of intermediate consumption. This concept is prevalent in most countries of the world. Vat in fact is the multistage sales tax.

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

Estimation of VAT involves Invoice method. This method involves taxation of each stage of production. The producer is then offered exemption or compensation on the tax paid on the purchase of intermediate goods and services so that in fact, each producer has to pay tax only on the value added, not on the value of output. It is calculated on the basis of

sale and purchase invoices. This tax has no relation with size and weight etc. of the commodity.

II. PURPOSE OF VAT / WHY IT IS INTRODUCED

The purpose of VAT is to generate tax revenues to the government similar to the corporate income tax or the personal income tax. The value added tax server as the solution for different problems related to the sales tax system. Unlike sales tax, in Vat, there is provision for input tax credit on ITC, due to the simplicity of the VAT system, the entire taxation system on consumer products and services has become easier.

VAT was introduced to arrest the increasing smuggling and cheating, which were resultants of high sales tax and tariffs. Initiated in France, VAT is used as an instrument of taxation in all the member states of the European Union. Different VAT rates are employed in different member state of European Union. The minimum VAT rate for the EU members is 15%. However, the reduced rate of VAT can be as low as 0%. The rate is determined by VAT authorities of different countries.

III. FACTS ABOUT VAT

- a. There are some countries, where VAT has been introduced to replace sales tax. India is one such country, where the system of VAT has been adopted for replacing the sales taxation system.
- b. Value added tax can also be recovered. The individual consumers cannot recover VAT on purchase made by them. However, business can recover VAT on the services and materials, which are bought by them in order to continue the supply of the products and services.

- c. 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.
- d. VAT is different from sales tax in various aspects. While sales tax is 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.
- e. 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.

IV. CONCEPT OF VAT

Introduction of state VAT is an important and recent reform measure at state level. The state VAT has replaced the earlier sales tax systems of the states. VAT, being a 'tax on sale or purchase of goods within a state' is a state subject by virtue of entry 54 of state list of the seventh schedule of the constitution of India. Since VAT / sales tax is a state subject, the Central Government has been playing the role of a facilitator for successful implementation of VAT. Some of the steps taken by the Central Government in this regard are as follows :-

A package for payment of compensation to states 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.

V. 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.
- 3. VAT widens the tax-net by covering 'goods' as well as 'services'. A separate tax on specific services (as it exists in India as present) is no longer required. Integrated 'services' with 'goods', tax revenue is expected to substantially rise.
- 4. However, compare to sales tax, VAT is certainly a more complex system of taxation. It involves lot of book keeping and audit control. It is quite expensive system and encourage inflation. Authorities do not get corporation from the people. It is difficult to adopt this system in under developed countries because of the administrative inefficiency. Despite these shortcomings, VAT is being increasingly adopted in place of sales tax in most nations of the world.

VI. APPLICABLE VAT ON DIFFERENT ITEMS

<u>Items</u>	<u>VAT</u>
Gold jewellery	1%
Aluminum Utensils	4%
Furniture's	12.5%
Petrol	22%
Diesel	21%

Soft Drinks	12.5%
Cosmetics	12.5%
Medicines	4%
County Liquor	4%
Bicycle, tricycle and rickshaw	4%

CONCLUSION

The objective of VAT is to avoid 'Cascading', which can have a snowballing effect on prices. It is assumed that due to cross-checking in a multi-staged tax, tax-evasion will be checked, resulting in higher revenues to the Government.

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