International Journal of Applied Research 2016; 2(11): 524-527

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2016; 2(11): 524-527
www.allresearchjournal.com
Received: 15-09-2016
Accepted: 16-10-2016

Sumathi S
Assistant Professor in the Department of Commerce at Government College for Women, Kolar. Karnataka, India

Dr. Govindappa D
Assistant Professor in the Department of Commerce and Management, Maharani Women's Arts, Commerce and Management College, Seshadri Road, Bangalore-560001, Karnataka, India

Correspondence
Sumathi. S
Assistant Professor in the Department of Commerce at Government College for Women, Kolar. Karnataka, India

Value added tax in India- A conceptual framework

Sumathi S and Dr. Govindappa D

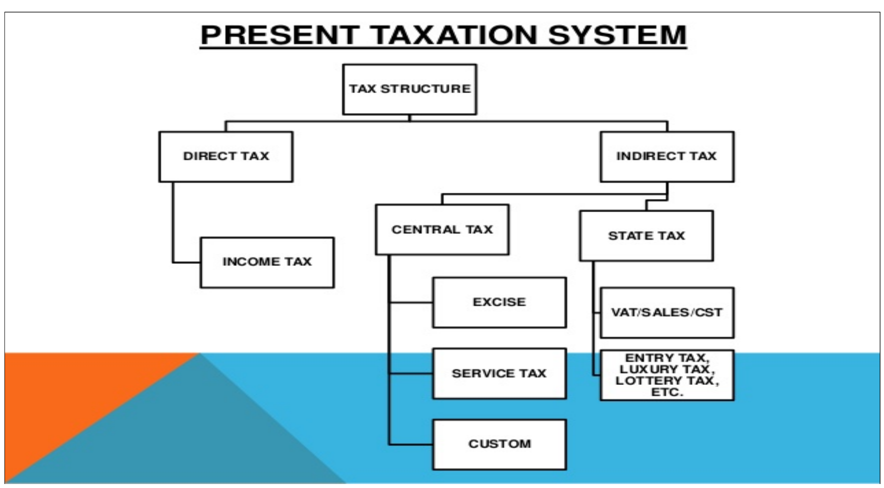
Abstract
For over fifty years, in our country, indirect taxation was perplexed with multi and differential system. The various indirect taxes relating to customers infringed their freedom and they were saddled with the burden of additional taxes and overlapping taxes. The enlightened trade bodies such as Confederation of Indian Industries, Federation of Indian Chamber of Commerce and Industry and Associated Chamber of Commerce guided the Government of India and the State Governments to done away with tax on tax cascading effect. After much deliberations the Central Government and certain discerning State governments switched over to Value Added Taxes. This paved way for CENVAT and in Karnataka, K-VAT in place of Karnataka Sales Tax (KST). Octroi, Inter-State tax and Local Cess. The present article traverses through the evolution of tax system and the evaluation of the VAT as a revolutionary tax system.

Keywords: Dealer, self-assessment, tax credit, trade tax, sales tax

Introduction

Tax is "a compulsory charge imposed by the Government without any expectation of direct return in benefit". In other words, tax is a compulsory payment or contribution by the people to the Government for which there is no direct return to the tax payers. Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The general public should be taxed according to their ability to pay, and the people in the same financial position should be taxed in the same way without any discrimination. Tax is classified into two categories- Direct Tax & Indirect Tax.

Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State (Aurobinda Panda and Atul Patel (2010)) [1].



Source: Ankita Mahajan (2016) Understanding Goods and Services Tax (GST), India retrieved from www.slideshare.net

1 Impact of GST on the Indian Tax Scene July 2010 www.researchgate.net

VAT is simply a form of sales tax. It is a tax on value added in the price of a commodity at each stage, may be due to passing through various hands in a channel of distribution or the value added in its price due to solve activity on production or manufacture or process undertaken on the commodity. In the VAT system the registered dealers obtain tax credit for the tax paid directly by them on goods purchased by them for manufacture or sale. The Value Added Tax system has been adopted in over 110 countries, including countries like Brazil, Canada and European Union mostly of a unitary nature.

2. Value added tax- origin [2]

As the term "Value Added Tax" suggests it is a tax on Value Added in the price of a commodity at each stage may be due to passing through various hands in a channel of distribution or the Value Added in its price due to some activity on production or manufacture or process undertaken on the commodity. Putting it in different words the total amount of tax, which is to be collected at the final, or retail point of sale, is collected in instalments (Krithika Babu and Dr. C. Samuel Joseph 2008).

A multipoint system of taxation on sale of goods where in a mechanism is provided to grant credit for tax paid on inputs (purchased goods). VAT is levied on value addition at every point of sales. Presently tax on sales or purchase of goods levied by virtue of entry 54 in list II of VII schedule of the constitution of Indian. VAT is also leviable with respect to this entry. VAT is simply a form of sales tax. The only difference is that it is collected at every point in the series of sales by a registered dealer with the provision of credit for input tax paid at in the previous point of purchase thereof. Thus a dealer is required to pay difference of what tax he has paid at the earlier stage.

The basic requirement for this purpose is that the tax amount should be invariably shown in the invoice. The tax charged or collected and shown separately would not form part of the turnover.

VAT also includes taxation of services. In India, the present system of sales taxation of covers only tax on sales or purchase of goods. Services are not taxed mainly because there is a separate legislation imposing service tax.

3. The vat assessment process [3]

The process of assessing value-added tax occurs roughly as follows:

1. Manufacture adds value to a product; the amount of value added can be described as the difference between the cost of the materials used to make the product and the price charged to the customer (often a wholesaler).
2. The manufacturer pays value-added tax (a percentage of the value added), which is then included in the purchase price charged to the customer (wholesaler).
3. The manufacturer gets a rebate from the government for VAT paid on the materials.
4. The customer (wholesaler) pays a VAT on the value they add, which can be described as the difference between what they paid to the manufacturer and the price at which they sell it to their customer (retailer). This VAT amount is included in the price charged to the retailer.
5. The wholesaler gets a rebate from the government for the VAT paid to the manufacturer.
6. The retailer pays value-added tax on the value they add, which can be described as the price charged to customers less the wholesale cost, and includes the VAT in the final sales price of the product.
7. The retail store collects value-added tax from the person buying the product (retail price thus includes all VATs collected at each stage of this process) and gets a rebate for the VAT paid to the wholesaler.

4. Review of Literature

Purohit M.C (1982) [4] evaluates the sales tax system in India. The study presents the development of sales taxes and their various forms that exists in the country. It also discussed the objective criteria for the amalysis like growth objective, equity consideration, administrative expediency and co-ordination.

Gurumurthi.S (1997) [5] examined the sales tax reforms. In his view, any model proposed for a value added tax system in the Indian fiscal federation should be formulated in a manner, which is politically acceptable to the centre and state. The study made an attempt to present a model, which, while preserving the economic objective of a VAT is also feasible from the point of implementation in the Indian political economy. The study also pointed out that with some structural changes in tax reforms it should be possible to introduce a VAT successfully in India on the line of EC models.

Sukumar Mukhopadhyay (2001) [6] in his study neutrality of VAT is no great virtue, that cascading effect can be removed zero-rating can be achieved by alternative methods, that VAT does not boost exports, we should reconsider the adoption of VAT even by promising a subsidy is an "ad hoc stepping stone to doom". Genuine tax reforms are (a) three rates of duty in Central Excise, (b) three rates in retail sales tax, (c) reduction in exemptions drastically in excise and sales tax, (d) uniformity of sales tax floor rates, (e) reduction and ultimate removal of CST, (g) origin-based sales tax for inter-state sales, (h) giving more service tax to states by common consent, and (i) introduction of a proper audit set up. All this will constitute a much better reform.

Rao Hemalatha (2002) [7] discussed the need for commodity tax reforms in India. The study also analyses the concept and design of VAT, the issue relating VAT bases, Exemptions, Rates, Computation methods and the principles of VAT. This study also discusses in detail options of VAT in India, treatment of interstate sales, the CST, options of state level VAT and other relevant issues like VAT administration, Audit, Planning and preparations.

Tuan Minh Le (2003) [8] iterates that the idea of the value added taxation (VAT) traces back to the writing by von Siemens, a German businessman, in the 1920s. Not until

[2] Value Added Tax and It's Impact on Pharmaceutical Products (A Perceptual Study Among Staff At Higher Secondary Schools in Madurai District); Journal of Contemporary Research in Management, January - March 2008,

[3] Encyclopaedia of Management, 2009/Value Added Tax

[4] Purohit M.C., 1982, Economic and Political Weekly, August 21, pp 1365-1375

[5] Gurumurthi.S,1993, Economic and Political Weekly, May 29, pp 1108-1120

[6] Sukumar Mukhopadhyay (February.17, 2001), Economic and Political Weekly, Vol.XXXVI,No.7

[7] Rao Hemalatha,2002, Sun Publishing House, Bangalore

[8] http://www1.worldbank.org/publicsector/tax/retailtax.htm

1948, however, was the tax first applied in France. At the beginning, France applied the GNP-based VAT covering up to the manufacturing level and subsequently replaced it with a consumption VAT in 1954. Theory and practice indicate that to be efficient, the VAT must be consumption-typed, broad-based, and applied through to the retail stage. Empirical studies have shown the interlinks between the VAT performance of a country and its level of development. The revenue gains from VAT are likely to be higher in an economy with higher level of per capita income, lower share of agriculture, and higher level of literacy (Ebrill *et al.* 2001). VAT proves to be an efficient tool for revenue collection; its performance, therefore, has direct impact on fiscal mobilization, macroeconomic stability, and development.

David Ruffles, Geoff Tily and David Caplan (2003) [9] propound that Data for UK trade released on 9 July 2003 includes révisions to imports and the balance of trade in goods for the period since 1999 to reflect initial adjustments for the impact of VAT missing trader intra-Community (MTIC) fraud. "VAT intra-Community missing trader fraud is a systematic criminal attack on the VAT system, which has been detected in many EU Member States. In essence, fraudsters obtain VAT registration to acquire goods VAT free from other Member States.

Sukumar Mukhopadhyay (2003) [10] in his study (a) VAT is not the best form of contention tax, especially in a development economy; (b) It is not suited for Indian federal. (c) An imperfect VAT would not serve the purpose for which VAT is better introduced; and (d) a better choice would be to combination of reformed CENVAT sales tax with uniform rates in all reduction in exemption CST.

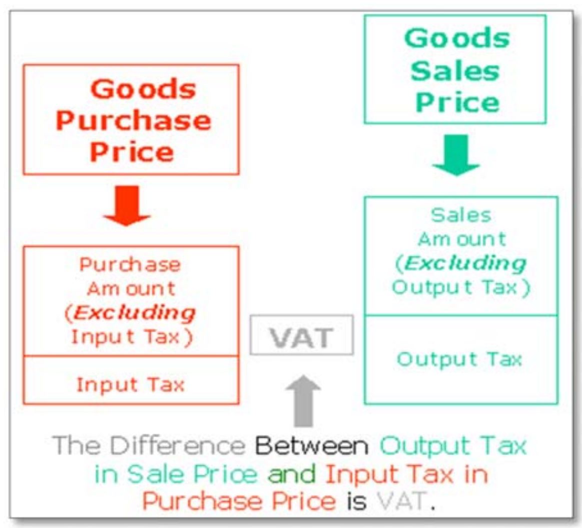
According to Claire Gauzente (2004) [11] Online environment is now part of everyday life. However, trust is still an important issue for online merchants. This explains why there is an increasing interest in "trust busters" by the general consumer. Trust busters entail, among other, a thorough online privacy policy (OPP) that encompasses detailed privacy and security statements. In the paper, he looks at both the views of the consumer and the views of the web merchants in attempting to unravel the Problems of privacy on the Net. The research results show that, even in a government-regulated country such as France, there is still room for improvement in web merchants' privacy policies. Concerning consumers, an important result is that the perception of reassuring privacy and security statements varies according to browsing intention.

5. Nature of VAT [12]

VAT is characterized by the following features

- VAT is "general tax or comprehensive" that applies in principle to all commercial activities in valuing the production and distribution of good and provision of services.
- VAT is "consumption tax" because it is levied in sales of good and the provision of service rather than income, capitals or saving.
- VAT is "broad based tax" since the government collects such tax from all sectors that is importer, manufacturing, whole sale and retailer sector.
- VAT is "percentage of price" which means, the actual tax burdens is visible at each stage in the production and distribution chain.
- VAT is collected "fractionally" because each time the item changes hand in the process of production and distribution, the VAT is assessed on the incremental value.
- VAT is "neutral" because regress of how many transactions are involved VAT liability the amount of tax they have paid to other person on purchases for their business activities.
- VAT is indirect tax because VAT is paid total authority by the seller of the goods, who is the taxable person but it is actually paid by the buyers to the seller as part of the price.

The Federal Democratic Republic of Ethiopia (FDRE) has adopted VAT in to be a tax system in 2003. It has been introduced on January 1/2003, replacing the former sale tax system. The VAT proclamation no 285(2002) has been ratified by the house of people representatives six months before VAT implementation.



Source: Kaytek 2005, Mumbai

6. Methods of computation of VAT

There are several methods to calculate the 'value added' to the goods for levy of tax.

The three commonly used methods are:

(a) Addition method,

(b) Invoice method and

(c) Subtraction method.

Table Methods of computation of VAT [13]

Addition Method	Invoice Method	Subtraction Method
Aggregating all the factor payments and profit.	Deducting tax on inputs from tax on sales	Deducting aggregate value of purchase exclusive of tax from the aggregate value of sales exclusive of tax

[9] Economic Trends' No. 597 August 2003

[10] Sukumar Mukhopadhyay (May.10,2003) Economic and Political Weekly, Vol. XXXVIII, No.19

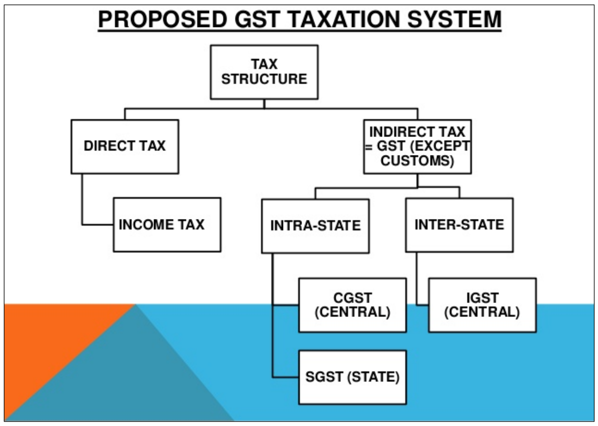
[11] Journal of Electronic Commerce Research, VOL. 5, NO.3, 2004

[12] Assessment of VAT Administration (A Case Study on Bishoftu Town), GEMECHIS KEBEDE 2012

[13] Manoharan T N (2010): Taxation, Ketan Thakkar for Snow White Publications Pvt. Ltd. Mumbai

7. Goods and services tax

GST is a consumption based tax levied on sale, manufacture and consumption on goods & services at a national level. This tax will be substitute for all indirect tax levied by state and central government. Exports and direct tax like income tax, corporate tax and capital gain tax will not be affected by GST. GST would apply to all goods other than crude petroleum, motor spirit, diesel, aviation turbine fuel and natural gas. It would apply to all services barring a few to be specified. With the increase of international trade in services, GST has become a global standard.



The proposed tax system will take the form of "dual GST" which is concurrently levied by central and state government. This will comprise of:

- Central GST (CGST) which will be levied by Centre
- State GST (SGST) Which will be levied by State
- Integrated GST (IGST) – which will be levied by Central Government on inter-State supply of goods and services.

8. Levy of taxes under GST

- **For Intra State Transactions:** In case of Intra State transactions, Seller collects both CGST & SGST from the buyer and CGST needs to be deposited with Central Govt. and SGST with State Govt.
- **For Inter State Transactions:** Integrated Goods and Service Tax (IGST) shall be levied on Inter State transactions of goods and services which are based on destination principle. Tax gets transferred to Importing state. Moreover it is proposed to levy an additional tax on supply of goods, not exceeding one percent, in the course of inter-state trade or commerce, to be collected by the Central Govt. for a period of two years, and assign to the States where the supply originates. Valuation of stock transfers to be determined. Exports and Supplies to SEZ units will be zero rated.

8. References

1. An Analysis of the Perception of Value Added Tax VAT in Tamilnadu; http://www.worldwidejournals.com; Indian Journal of Applied Research, Volume 3 Issue 9 Sep 2013
2. Ankita Mahajan. Understanding Goods and Services Tax (GST), India, 2016. retrieved from www.slideshare.net
3. Value Added Tax in North-East India, A Mittal Publication,
4. Working With and Understanding VAT; teachablesupport.com
5. Onolapo AA, Fasina HT. European Journal of Business and Management. 2013; 5:23.
6. Value Added Tax and It's Impact on Pharmaceutical Products A Perceptional Study Among Staff At Higher Secondary Schools in Madurai District; Journal of Contemporary Research in Management, 2008.
7. Indian Express, New Delhi, Shruti Srivastava. GST: Bill in House, now time to fix the back-end, 2014.
8. Krishnaiah RV, Associates Beginners Guide to Goods and Services Tax in India, 2014. www.slideshare.net
9. Ernst. Young Building a Better Working World, 2014. www.ey.com All About GST in India
10. A Study on Impact Of Value Added Tax Vat Implementation in India
11. Impact of Sales Tax, VAT and GST on the Profitability of Organizations
12. The Modern VAT by Liam P. Ebrill, IMF