Value Added Tax

The origin of Value Added Tax (VAT) can be traced as far back as the writings of. Von Siemens, who proposed it in 1918 as a substitute for the then newly established German turnover tax. Since then, numerous economists have recommended it in different contexts. Also, various committees have examined the tax in great details. However, for its rejuvenation, the tax owes much to Maurice Faure and Carl Shoup. The recent evolution of VAT can be considered as the most important fiscal innovation of the present century.

What is VAT?

The value Added Tax is similar to the national sales tax. However, instead of implementing one tax of a certain percentage at the time of retail sale, there is a smaller tax, proposed at 5% added each time the product is resold or when value has been added. For example a tax added when a product is passed from a manufacturer to a wholesaler, and again for the wholesaler to the retailer or it is a multi-stage sale tax levied as a proportion of the value added (i.e., sales minus purchases which is equivalent to wages plus profits). It is a sales tax collected by the government (of the state in which the final consumer is located) – which is the government of destination state on consumer expenditure.

Why Government proposes to Impose VAT?

Dr. Manmoham Singh, the then Union Finance Minister, in his Budget speech for the year 1994-95 introduced the new concept of service tax and stated that “there is no sound reason for exempting in this direction by imposing a tax on services of telephones, non-life insurance and stock brokers”.

Retail community protest

Small businessman and traders are likely to be badly hit by the new system as many of them have used loopholes in the current system to avoid paying taxes. Sections of the retail community went on strike. Stating that some anomalies linked to the proposed VAT system have not been addressed/. A High Power Committee including Senior State Finance Ministers had pointed out the anomaly to the government. However, the centre continues to ignore the suggestion and this makes the situation more difficult.

Some pints against VAT

1. The power to enhance the rate of tax will rest with the finance department of the state. The industry feels that this will be largely misused and rates could be increased at the wishes of the bureaucrats, ignoring the stipulations.
2. The department will have the power to attach provisionally any money which is due or which may become due in the course of any inquiry, inception or proceeding.
3. Getting refund of the VAT would be a cumbersome procedure.
4. There will be no set-off on interstate sale.
5. No redressed system or recheck.

Advantages

1. A 5% tax is levied at each stage of production of goods.
2. The total tax is built into the cost of goods.
3. Exports are not taxed.
4. All imports are taxed.

Disadvantages

1. It would be similar to the National sales Tax, but it would be more complicated to administer and collect.
2. It would also tax goods and medicine as does the national sales tax.
3. The tax will increase cost and push-up prices.