

Value Added Tax (VAT)

VAT means Valued Added Tax. It is a new idea in Indian Taxation system. It is expected to bring much needed reforms in the Indian taxation. It is a different system for the collection of tax. Under VAT system, tax is charged at each point of sale of goods with input tax credit for the tax paid at the earlier stage. For example, under this system, when a person sells, goods, he collects the tax on sale price from the customer. At the end of the tax period, when he is required to make payment of tax, he reduces the tax paid by him at the time of purchase of those goods and pays the net amount to the government. VAT is not an addition to the sales tax. It is a replacement of the sales tax. There will be no surcharge under VAT. It is a multipoint tax, on value addition at different stages of sale, with the provision for granting a refund of the tax paid at the earlier stage. This ensures that the same commodity does not get taxed again and there is no cascading effect. (Cascading effect of a tax means tax paid on tax).

In modern production technology, the same material passes through various stages and processes till it reaches the ultimate stage. In a system where tax is based on selling price of a product, the tax burden goes on increasing as the product passes from one stage to another.

Here is an example to show how tax is levied on tax. Let us assume that tax on a product is 10% of selling price. Manufacturer A supplies his output to B at Rs. 100. B gets the material at Rs.110 (100+10) Inclusive of tax. B carries out further processing and supplies his output to at Rs. 200. While calculating the cost, B considers the cost of raw material at Rs. 110 and his value addition at Rs. 90. B will charge 10% tax from C and C will get the item as Rs. 220 (200+20) inclusive of tax. Though value addition by B was Rs. 90 only and the tax on value addition should have been Rs. 9 only, but the tax actually paid was Rs.20. Taxing of material, again and again, which has already been taxed, is called Cascading effect. Under VAT system, tax charged by B will be 10% of Rs 190 (100+90) i.e., Rs. 19. B will however, get the credit of Rs. 10 paid by him in purchase of raw material. The effective duty paid by B will be Rs. 9 only. C will get the goods at Rs. 209 as compared to Rs.220 in absence of VAT.

Initially, most states refused to implement VAT but after analyzing its benefits almost all the states decided to implement it with effect from April 2005. States were opposing VAT because with its implementation, they thought they might have to suffer losses in initial years. But as the central govt. has agreed to meet losses of states in a phased manner, they are agreeing to implement VAT. VAT was first introduced in Haryana.

With the introduction of VAT, the exports will get a boost, as tax paid within the state will be refunded in full. Units located in SEZ (Special Economic Zone) and EOU (Export Oriented Units) will be granted either exemption from payment of input tax or refund of the input tax paid. With the phasing out of CST, there will be uniform tax rate all over the country. With the introduction of VAT, traders/dealers have to issue invoices indicating tax charged and they also have to collect invoices for their purchases so that they can get the claims for the tax paid on purchases.

Under the VAT system, the compulsory assessment system at the end of each year as it exists now would cease to exist. If no specific notice is issued, the dealer will be deemed to have been self- assessed. Consumers will have a win-win situation under the VAT system. There will be a uniform rate of country. Once the cascading effect is removed, the prices of the commodities will come down and are paying. The VAT will therefore, help the common people, traders, industrialists, and the government. It is a very efficient move towards fairness in the taxation system.

As it generally happens VAT may have teething troubles in India. But as most of the countries have adopted it with better results, it is hoped that India will also get used to it in course of time. Good results will soon start become evident.

Let us make efforts for its success with full earnestness. It is a leap forward in the light direction.