

VALUE ADDED TAX (VAT)

VALUE ADDED TAX- CONCEPT NOTE

All know that the provisions of Sales tax law will undergo a drastic change with effect from April, 2003. This is on account of the introduction of the VAT i.e. Value Added Tax. Value Added Tax (VAT) has gained substantial importance due to decision of Government to introduce VAT in the States from April 1. VAT has been introduced with the primary objective of bringing into the legal system, a neutral tax regime and removes the overlapping effect of the tax.

MEANING OF VAT

VAT is a multipoint levy of sales tax that enables the person to claim set off of tax which he pays on the purchases. The system of VAT is so designed that the final levy and burden of the tax on the goods is borne by the final consumer of the goods.

LEVY OF VAT

VAT is levied at every stage of production. It is levied only on the value added by the last seller. The seller is accordingly liable to pay tax on the net value added to the gross value as reduced by the value of intermediate materials purchased.

VAT means a tax on sale of goods at every stage when it changes hands with the provision of credits for input tax paid at the time of purchase of goods (intended for re-sale, to be used as raw material for the purpose of manufacturing or for packing) or capital goods for the purpose of manufacturing. Firstly, tax liability on sale made by the dealer will be calculated on similar lines as is presently being done under the Sales tax Act and thereafter tax paid on purchases will be deducted and the net amount will be paid/claimed for refund will be made by the dealer. The procedure can be summarized as under:

- 1. Calculate the tax liability of sales, i.e. gross turnover x rate of tax.**
- 2. Less: Tax paid on purchase of goods, capital goods to be used for purpose of manufacturing.**

OBJECTIVES OF VAT

The primary objective of VAT is to remove the cascading effect of taxes and levies, which is generally prevailing in other types and manner of levy. The VAT concept is simple, transparent, and consistent in its form, content, structure and approach. It further ensures revenue neutrality and mechanism must be self-regulated.

ADVANTAGES OF VAT

The cases under VAT are more likely to be accepted as such and only limited cases would be taken for scrutiny. The method would be more or less identical to the one followed under the Excise law.

There are minimum exemptions and hence reduced complications and complexities.

The cost of compliance by the dealer is less and is transparent.

There are limited possibilities of litigation and the protracted litigation can be avoided.

It is easy to administer the levy of VAT due to its simplicity.

The possibility of tax evasion is less, as the dealer is liable only for part of the amount of tax. Hence, one may not indulge into tax evasion techniques for a small amount.

Further, the dealer would not indulge into purchase of goods out of books since otherwise he would not get any set off tax paid.

The VAT does not have a cascading effect.

The cost of purchase reduces, as the dealer is able to claim set off tax paid on purchase against tax payable on sales.

LIMITATIONS OF VAT

There could be cases where the VAT is collected by the dealer, but not paid to the Government. As a result, the set off of such VAT paid by the purchaser may not be allowed to the purchasers. A mechanism has to be devised to tackle such situations.

A situation of refund would arise is no VAT is payable on the final sale. As a result, the set off cannot be availed. In such cases, the tax paid becomes the cost or the same has to be claimed as refund. Hence, the mechanism of refund has to be framed.

VAT would also contain multiple rates of tax due to multiple types of items.

In countries such as India where in there exist sales taxes already covering a wide range of commodities, replacement of those taxes by a revenue-neutral value added tax should lead to no inflationary consequences.

The dealers will now be required to maintain upto date records of purchase and sales in order to claim set off. Many small dealers maintain only primitive accounts, which were accepted by the department.

Since Central Sales Tax Act continues to remain in force, there can be conflict between the VAT and CST.

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