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PREFACE



The essence of VALUE ADDED TAX (VAT) lies in the inherent qualities of transparency, productivity, equitability, non-cascading & non-interfering effect and above all in its simplicity. The concept of Value Added Tax is almost a century old. History of sales tax may be traced back to remote antiquity. France was the first country to introduce tax in 1914. Then after several European countries followed. In our country, it was firstly introduced through Government of India Act, 1935. VAT was first pioneered by France in 1954. But a full-fledged VAT was initiated first in Brazil in mid of 1960's and then it was adopted by European countries in 1970's. With the rapid global economic changes, VAT has acquired a high esteem and currently it is being levied in more than 150 countries including our close neighbours Nepal, China, Pakistan & Bangladesh. Value Added Tax is a tax which is levied on value addition effected throughout the production-distribution chain. It has qualities of a good tax system. VAT is revenue friendly because taxes are imposed on entire value additions allowing minimum exemptions. VAT is broad based and very simple in implementation and also in its incidence bearance. It is based on tax invoice method and it leaves audit trail. Its transparent, non-cascading, self-policing, non-interfering, increasing registrations, making exports more competitive nature further makes it a very scientific method of indirect taxation. Basically, VAT is a tax on consumption in which Commodity is the subject, the Consumer is the target and Transparency is the objective.



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Indian Union is a quasi federal State. Under the Indian constitution power to impose tax has been assigned both to the Union as well as the States. Certain categories of subjects for taxation have been assigned to Union and States in List I and List II of the Seventh Schedule to the Constitution of India. Residuary powers to tax vest with the Union. With the liberalization of the economy, India as a signatory to World Trade Organization Protocol has to reduce and rationalize customs duty and this will actually result in more pressure in indirect taxation. Indirect Taxation in the Indian context offers few opportunities. Commodity Taxes as of now comprise of Customs Duty, Union Excise Duty, State Excise Duty, Entry Tax, Luxury Tax and Sales Tax related other levies imposed by the States. Same commodities are taxed at different stages under different Acts in an un-integrated manner. This has resulted in cascading effect. Besides the value of the goods, tax on tax in a series of change of hands from manufacturer to consumer result in economic distortions. When the cosmetic goods are to compete with goods imported, the retail price to consumers have to be cost effective. In the manufacturing side if the inputs are taxed without discretion, manufacturing cost of a finished product increases. Raw materials for a particular manufacturer may be a finished product for another industry. This has effected the ancillary industries. Different Committees appointed by Government of India since 1970's have mainly concentrated on the levies made by the Centre. No comprehensive study of Sales Tax Administration in any of the States has been undertaken. In spite of the same, there is a feeling that the Sales Tax Administration in States has been commented upon. One of the draw



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backs of the levy of Indirect Taxes is that there is absolutely no exchange of information on the goods

produced or imported from outside the country by the Union Administrators of Excise Duties and Customs with Sales Tax Authorities of the goods slip through the Union Excise Duties or Customs and if the goods in case of goods levied to first-point tax in the State slips through a wholesaler or distributor, the evasion cannot be checked easily. Under the existing system maintenance of accounts as well as issue of authentic sale memos or vendor's receipt by the purchaser leaves much to be desired. Such inherent deficiencies can hopefully be rectified through VALUE ADDED TAX regime.

In pursuance to recommendations of the Indirect Taxation Enquiry Committee Government of India have adopted Mod VAT since 1986. Indirect Taxation Enquiry Committee of 1978 examined the following important questions to consider the necessity and desirability of switch over to Value Added Tax System in India:

- (a) First, after the recommendations that we have made in regard to excises, and import duties have been implemented, what would be the further benefits to be derived by the introduction of VAT ?
- (b) Second, should the long-term objective be the replacement of the existing systems of excises, sales taxation and certain other indirect taxes by the comprehensive VAT ?
- (c) Third, if a comprehensive VAT system is ruled. out, to what stages should VAT be confined ?
- (d) Fourth, would the advantage to be gained be significant in quantitative terms so that the attempted reform would be worth the cost and efforts involved ?



(e) And, finally, would the administration of VAT be feasible in India ?

The Committee recommended switch over to VAT. Tax Reforms Committee during the years 1991, 1992 and 1993 have recommended move towards Value Added Tax covering services and committees. To make the VAT system simple and easily administrable, it should be levied at two or three rates only. They have recommended broadening of tax based and simplified assessment procedures. It is of interest to see that the Committee disregarding the possible erosion of resources base of States favoured extending the collection of Mod VAT at wholesale stage. They have recommended taxation on the following services by the Union: Advertising Services; Services of stock brokers; Service of automobile insurance; Service of insurance of residential property, personal effects and Jewellery; and Residential telephone services. The Committee further advised the Centre to agree: to impose a consignment tax subject to certain conditions; to give back to the States the power of levy Sales Tax on sugar, textiles and tobacco; and to share a given percentage of its gross tax revenues with the States. This would mean that the States would automatically share in the expanding revenues from taxes on services.

In case of India, where the consumption variant operated through Credit Invoice Method VAT has been introduced, it is hopefully thought that on the whole, the positive growth in revenue, control of inflation will take place and trade and commerce will more competitive and also tax-leakages will be checked. Rate-path has been significantly simplified under VAT-zero rated, 1%, 4% and rest on 12.5% rated, while



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Exports are zero-rated and petroleum products have been kept initially out of the rate classification under VAT.

Commercial Taxes in Bihar are the most important constituents of the state's revenue. Sales tax has come to occupy the most important place among the state taxes in Bihar. Bihar introduced this tax in 1944 through Bihar sales Tax Act 1944. Before the introduction of VAT in Bihar, sales tax was regulated by the Bihar Finance Act 1981 along with some other commercial taxes through different acts like Entry Tax, Entertainment Tax, Luxury Tax, Electricity Duty, Advertisement Tax. Since its inception, the sales tax in Bihar has registered increasing growth rate. In 1950-51 growth rate was around 11.1% while in 2004-05 it has reached the growth rate of about 20%. In pre VAT era, in Bihar sales tax, there were provisions of imposition of Additional Tax and Surcharge also. In old tax system goods were generally taxed on first point basis. But, with the advent of VAT in Bihar, scenario has changed totally as the tax administration and structure are concerned. The implication of VAT in Bihar is expected to be most significant. The huge number of dealers will be registered and grabbed in to tax net hitting even the last points of sales largely in production distribution chain. Four type of tax rates as per the national standards under VAT instead of 17 type of tax rates in old system, will further check the illegal trespassing and make the trade environment cordial and competitive. Simple procedure for registration, zero-rated export, input tax rebate, rebate on entry tax, freedom from regular traditional type assessments, easy forms procedures, compounding facilities etc in one under VAT will created a path of building confidence in traders and



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that will open the numerous channels of revenue generations. On the other hand, new and useful provisions of risk-analysis, cross verifications, auditing, tools of debt management & automation and harsh penal provisions will equip the tax administration to curb the tax evasion and tax avoidance.

A well drafted law which should be simple, transparent and unambiguous, attitudinal changes, publicity, education of tax payers, much facilitating environment and mechanism for the settlement of disputes, online answering of quarries system, a good advisory cell and overall a cordial linkage between tax payers and administration will check the obstructions in the way of success of VAT in future.

The main purpose of the research is to examine the implications of VAT on streamlining Tax System in India with special reference to commercial taxes in Bihar. The theme will mainly cover the implications of VAT on streamlining Tax System in India in the light of the changing global scenerio and further it will discuss its impact on the changing age of commercial Taxes in Bihar.

The objective of research is to evaluate the implications of VAT on streamlining and restructuring of the Tax System in India and specially in Bihar in the broader light of the role of commercial taxes in Bihar since tis emergence to the age of VAT. It will also discuss the suggestions to combact the drawbacks and to stabilize the Value Added Tax System and will further explore the pavement for its smooth functioning.

In the light of above description the present thesis have been completed under seven chapters including Introduction, Findings & Conclusion.



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The first Chapter of the present thesis is Introduction in which introductory remarks of the present research work have been introduced.

The second chapter of the present thesis have been discussed the VAT System.

The third chapter of the present thesis have discussed about meaning, development and present position of VAT in Indian Tax System.

The fourth chapter of the present thesis has evaluated Commodity taxation under VAT in India with special reference to Bihar.

The fifth chapter of the present thesis have been discussed about the Commercial taxes in Bihar and its importance in tax system.

The sixth chapter of the present thesis has discussed about the impact of VAT on commercial taxes in Bihar.

The seventh first Chapter of the present thesis is Finding and Conclusion in which, concluding remarks and suggestions have been discussed.

In the last a vast Bibliography of Book, Journals, periodicals and government publication have been mentioned.

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20/06/12

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