

## Attitude of the sample business units on vat system with reference to Coimbatore district

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### Abstract

Economic development has been one of the most popular slogans in almost all the developing countries all over the world. Similarly, achievement of high rate of economic growth rate, reduction of income disparities and poverty, and improvement of living standard of people are some development strategies towards which most of the government efforts have been directed in developing countries. Value Added Tax (VAT) as the term suggests, is a tax on the value added to the commodity at each stage in the production and distribution chain. The study is focused on impact of value added among the wholesalers and retailers, in the context of Coimbatore, a district in south India which is the Manchester of South India. India. The objectives are to study the attitude of the respondents towards VAT, to examine the merits and demerits of VAT System and to contribute suggestions for policy implications. The study aims at understanding the opinion of the tax payees on the problems associated with the payment of tax. Primary data was collected from 300 VAT-paying units each located in the urban areas of Coimbatore. The identified sample dealers and the businessmen approached and the data pertaining to the amount of VAT paid, membership, and the problems. There is a need to create awareness among the customers that demanding no bill for the items purchased by them not only puts the government in loss but it also deprives them of all their rights like warranty/ guarantee against the items purchased. It is observed by the VAT officials that the rate of dealers' compliance with the VAT system is moderate. It is suggested that the government should design a suitable tax structure compatible with voluntary tax compliance and a simple tax collection and verification mechanism as a means of promoting voluntary compliance. The multiplicity of tax rates and slabs in VAT by commodities results in confusion in calculating the exact Tax amount to be paid. These, in turn has resulted in the dissatisfaction among the traders and businessmen. The opinion of the tax payer in the time delay in getting the refund of the excess amount paid also resulted in dissatisfaction.

**Keywords:** Tax, Value Added Tax, CST, etc.

### 1. Introduction

Economic development has been one of the most popular slogans in almost all the developing countries all over the world. Similarly, achievement of high rate of economic growth rate, reduction of income disparities and poverty, and improvement of living standard of people are some development strategies towards which most of the government efforts have been directed in developing countries. The role of revenue in the development of a country is not less important than the role of oxygen for the existence of human body. In this context, a government needs to mobilize a lot of internal resources to fulfill its responsibility towards its nation and people. In a developing country like India, there is a necessity for raising a larger volume of funds for the development and administration expenses (Venkata Rayudu, 1985). The government can collect revenue from taxable and non-taxable sources. Tax is a key source for revenue generation and mobilization. Different persons have defined taxation in different ways. In this respect, it would be better to take the definition given by Prof. Seligman. In his words, "Tax is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred." (The Institute of Chartered Accountants of India 2003).

From the definition given above, it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods

from the government. The taxpayer does not have any right to receive the direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in a satirical way about the taxation. In this respect, some say "Nothing is certain in this world but death and taxes", some say "Death and taxes are both certain... but death is not annual", while others say "Death means stopping to pay tax". (Raja Chelliah, 1994). Tax is a permanent instrument for collecting revenues. It is a major source of revenue in developed world and has been appearing as an important source of revenue in the developing world like India as well. It has been an instrument of social and economic policy for the government. However, the objective of taxation has been different for different periods. In ancient times, its objective was to strengthen the muscle of the state by raising more revenues for mobilizing these in providing security to an individual and society from violence, invasion, injustice and maintaining public institutions.

### 2. Value Added Tax

Value Added Tax (VAT) as the term suggests, is a tax on the value added to the commodity at each stage in the production and distribution chain. The production-distribution chain, popularly known as supply chain in the modern day system, starts from manufacturer producing an item. This item passes through various agencies like distributor, wholesaler and retailer, before it reaches the final consumer. The value added

at each stage in the supply chain is determined by the difference in the sale prices of that entity and purchase values of bought out items of that entity. The system that was operating in Indian states was archaic, irrational and the most complex in the world. It interferes with the free play of market forces and competition, causes economic distortions and entails high cost of compliance and administration.

### 3. Statement of the problem

To meet this changing environment, the wholesalers sell the products to be used primarily for resale or for industrial use with the current Value Added Tax scheme. The common objective of Value Added Tax is to simplify tax structure, to create uniform common market within the country which will bring down prices that would enable the producers of goods to reduce costs, face competition from abroad and to increase exports. Value Added Tax will help common people, traders and also the government. The study is focused on impact of value added among the wholesalers and retailers, in the context of Coimbatore, a district in south India which is the Manchester of South India. India.

### 4. Objectives of the study

1. To study the attitude of the respondents towards VAT.
2. To examine the merits and demerits of VAT System.
3. To contribute suggestions for policy implications.

### 5. Methodology of the study

As given in the objective, the study aims at understanding the opinion of the tax payers on the problems associated with the payment of tax, the primary data was collected from 300 VAT-paying units each located in the urban areas of Coimbatore. For this purpose, the dealers and big trading units were identified. A stratified random sampling technique was used for the purpose of selecting units from each category. Thus in total 300 sample units were selected. The identified sample dealers and the businessmen approached and the data pertaining to the amount of VAT paid, membership, and the problem. The relevant statistical techniques such as Percentage method, Weighted Average, Garrett Ranking and Chi-Square Test are used for analysis.

### 6. Limitations of the study

The analysis on VAT is confined only to the urban areas of Coimbatore district. The opinion of the respondents are influenced by the present collection system and rate of VAT of the Tamilnadu government.

### 7. Review of related studies

According to Agarwal, B.N. and Abin Sarkar (2006) <sup>[1]</sup> "Today's global economy demands a consistent, legal and regulatory tax framework to support the electronic transactions across the state, national and international boundaries. Free flow of investments, cross border transactions, gradual melting down of trade barriers are areas that have given rise to several problems concerning taxation. Through VAT business should become cost effective and competitive and the system should

be simple and easy to comply with and resolve the industries innumerable problems which the present tax system could not take care of."

Bansal (2008) <sup>[2]</sup> opined that as some states did not join the VAT system, the fractured implementation of VAT could cause some problems. She stated that CST and VAT were not compatible as CST was not VAT able and credit could not be claimed for CST. The producing states got considerable revenue from CST while consuming states did not get much revenue and some states hesitated in joining VAT system. Examining the Delhi experience of VAT, she reported that VAT needed honest and efficient government machinery for cross checking and linking production activities with tax liabilities of the firms but such machinery was lacking. VAT put additional burden on tax authorities, producers and shopkeepers to keep the records. There was no uniformity in rates in the states. The Empowered Committee covered only 550 commodities under VAT rates and left others to states to decide. As a result there were variations in rates even in neighbouring states. Further, she stated that co-operation of taxpayers was needed in self-assessment and keeping correct accounts but this co-operation was not forthcoming. As the government machinery was not able to do cross checking, there was lot of tax evasion. She termed the VAT procedure as complicated.

Sivasakkaravarti (2014) <sup>[3]</sup> in his article viewed that the value added tax has been introduced in different states of India after severe opposition from the trade unions and political parties. It is expected that VAT revenue will add additional income to the state governments. The state governments have frequently changed the VAT rates for different commodities and this situation leads to conflict between government and consumers. Hence, it is viewed by the author that the study of revenue impact of VAT on state governments is an important aspect of policy analysis. Thus, the study aimed at analyzing the impact of value added tax on state governments in India. This study is undertaken in two dimensions. The first dimension relates to the major impact of value added tax on Indian states. This analysis is carried out on the basis of data relating to 2008-09. This year only data has been available to the 29 states in India. This analysis is carried out on the basis of specific equation model. The second dimension of the study relates to the individual state wise analysis with reference to Tamil Nadu, Maharashtra, Haryana, Orissa, Andhra Pradesh and Jammu and Kashmir. The study from the analysis of the secondary data concluded that the rate of growth of VAT collections was lower in 2005-06 for VAT states compared with non-VAT states.

### 8. Results of Analysis

#### 8.1 Business profile of sample units of the respondents

It is attempted to discuss the business profile of the respondents running the sample units. This include the activity of the units, the nature of production activity, the type of trading activity, the ownership of organization and Amount of tax paid.

**Table 1:** Business profile of the respondents

S. No.	Business Profile	Respondents (300 Nos.)	Percentage (100%)
1.	Main Activity of business		
	Dealer	149	49.7
	Trader	151	50.3
2.	Branch of business Activity		
	Machineries and Parts	40	13.3
	Agricultural Implements	30	10.0
	Rice Mills	60	20.0
	Hardware and electric equipment	40	13.3
	Auto mobiles, spares and components	79	26.3
	Computers and Peripherals	31	10.3
	Cloth and readymade garments	20	6.7
3.	business Classification		
	Whole Business	57	19.0
	Retailer Business	63	21.0
	Whole and Retail Business	180	60.0
4.	Ownership of business		
	Sole Proprietorship	216	72.0
	Partnership	84	28.0
5.	Method of Payment		
	Credit Card / Debit Card	91	30.3
	Online bank transfer	71	23.7
	Cash on delivery	91	30.3
	Online money transfer/ Paypal, Alert pay)	24	8.0
	Others	23	7.7
6.	Annual amount of VAT paid		
	Up to 25 Lakhs	72	24.0
	25 - 50 Lakhs	56	18.7
	50 - 75 Lakhs	36	12.0
	75 - 100 Lakhs	32	10.7
	Above 1 Crore	104	34.7

*Source:* Computed from Primary Data

From the analysis it can be concluded that the dealers and traders were selected equally with 50 per cent. It is understood that the major activity of the sample respondents constitute Auto mobiles, spares and components (26.3 per cent). This is being followed by the other activities that include: Rice Mills (20 per cent), Machineries and Parts (13.33 per cent), another 13.33 per cent with Hardware and electric equipment, Computers and Peripherals (10.3 per cent), Agricultural Implements (10 per cent), and Cloth and readymade garments (6.7 per cent). The trading activity undertaken by the selected units included three types of trading, such as wholesaler, retailer and both wholesaler and retailer. The data pertaining to these activities is exhibited in Table 5.10 for analysis. It is also evident that 60 per cent of the sample units are engaged in

wholesale and retail activity. As many as 21 per cent of the units are engaged in retail trading activity and the remaining 19 per cent of the units are having wholesaler trading activity. The table reveals that percentage of sample units representing the type of organization in the category of sole proprietorship constitutes 72 per cent. The remaining 28 per cent forms the partnership organization. Finally, it is clear that 34.7 per cent of the sample units pay a VAT Tax of more than Rs.1 crore per year. 34 per cent of the sample units pay a VAT Tax upto Rs.25 lakhs per year. There are 18.7 per cent units pay a VAT Tax of Rs.25-50 lakhs, 12 per cent of the sample units pay between Rs.50 and 75 lakhs per year. The remaining 10.7 per cent of the units pay a VAT tax of Rs.75-100 lakhs per year.

## 8.2 Weighted Mean

**Table 2:** Attitude of the respondents towards VAT

Attitude Towards VAT	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	EWtd. Mean	Rank
VAT is more simple method as compared to the sales tax	49 (0.16)	51 (0.34)	43 (0.43)	98 (1.31)	59 (0.98)	3.22	6
VAT involves more paper work than sales tax.	84 (1.40)	74 (0.99)	64 (0.64)	42 (0.28)	36 (0.12)	3.43	4
VAT helps in controlling sales and purchases efficiently	30 (0.10)	43 (0.29)	90 (0.90)	84 (1.12)	53 (0.88)	3.29	5
VAT adversely affects the cash flow.	105 (1.75)	65 (0.87)	91 (0.91)	25 (0.17)	14 (0.05)	3.74	3
VAT provided greater opportunity to the tax officials to harass the firms.	114 (1.90)	72 (0.96)	83 (0.83)	14 (0.09)	17 (0.06)	3.84	1
Refund of VAT paid in excess is generally delayed.	118 (1.97)	68 (0.91)	68 (0.68)	27 (0.18)	19 (0.06)	3.80	2

*Source:* Computed from Primary Data

**Note:** Figures in Parenthesis represent weighted mean

The rating was high for the statement “VAT provided greater opportunity to the tax officials to harass the firms” with a mean score of 3.84, followed by the second rank was for the statement “Refund of VAT paid in excess is generally delayed” with a mean score of 3.80, the third rank was for the statement “VAT adversely affects the cash flow” with a mean score of 3.74, the fourth rank was for the statement “VAT involves more paper work than sales tax” with a mean score of 3.43, the fifth rank was for the statement “VAT helps in

controlling sales and purchases efficiently” with a mean score of 3.29, and finally, the sixth rank was for the statement “VAT is more simple method as compared to the sales tax” with a mean score of 3.22.

**8.3 Chi-Square Test**

**H1:** Significant positive relationship between amount of VAT paid and Attitude of the respondents towards VAT

**Table 3:** Relationship between Annual amount of VAT Paid and Attitude of the respondents towards VAT

Hypotheses	Attitude towards VAT	Chi-Square Value	Table Value with (df=16)	P-Value of Sig.
H01	VAT is more simple method as compared to the sales tax	27.613*	26.296	0.035
H02	VAT involves more paper work than sales tax	29.101*	26.296	0.023
H03	VAT helps in controlling sales and purchases efficiently	28.579*	26.296	0.027
H04	VAT adversely affects the cash flow	12.861	26.296	0.683
H05	VAT provided greater opportunity to the tax officials to harass the firms	6.566	26.296	0.981
H06	Refund of VAT paid in excess is generally delayed	27.124*	26.296	0.040

Source: Computed from Primary Data; \* Significant @ 5% level

The chi-square test is done to find the results that are positively supported when finding the relationship between “Annual amount of VAT Paid” and “Attitude of the respondents towards VAT”.

- **H01:** It is clear that the Chi-square value (27.613) is more than the table value (26.296) and it is evident that the relationship between “Annual amount of VAT Paid” and “VAT is more simple method as compared to the sales tax” are found to be significant at 5% level and the null hypothesis is rejected.
- **H02:** It is clear that the Chi-square value (29.101) is more than the table value (26.296) and it is understood that the relationship between “Annual amount of VAT Paid” and “VAT involves more paper work than sales tax” are found to be significant at 5% level and the null hypothesis is rejected.
- **H03:** It is clear that the Chi-square value (28.579) is more than the table value (26.296) and it is understood that the relationship between “Annual amount of VAT Paid” and “VAT helps in controlling sales and purchases efficiently” are found to be significant at 5% level and the null hypothesis is rejected.
- **H04:** It is clear that the Chi-square value (12.861) is less

than the table value (26.296) and it is understood that the relationship between “Annual amount of VAT Paid” and “VAT adversely affects the cash flow” are found to be insignificant at 5% level and the null hypothesis is accepted.

- **H05:** It is clear that the Chi-square value (6.566) is less than the table value (26.296) and it is found that the relationship between “Annual amount of VAT Paid” and “VAT provided greater opportunity to the tax officials to harass the firms” are found to be insignificant at 5% level and the null hypothesis is accepted.
- **H06:** It is clear that the Chi-square value (27.124) is more than the table value (26.296) and it is evident that the relationship between “Annual amount of VAT Paid” and “Refund of VAT paid in excess is generally delayed” are found to be significant at 5% level and the null hypothesis is rejected.

**8.4 Garrett Ranking: Merits and Demerits of VAT System**

The rating of the respondents based on the merits and demerits of VAT system perceived by the sample units are done using Garrett ranking method is presented hereunder:

**Table 4:** Rating on Merits and Demerits of VAT System

Merits and Demerits	Rank-1	Rank-2	Rank-3	Rank-4	Rank-5	Rank-6
Reduction in tax evasion	119	92	18	6	23	6
Reduces cascading effect	73	64	13	11	62	41
Provision of input tax credit	11	11	42	134	48	18
Difficulty faced in keeping the records	28	28	38	40	62	68
Higher rates of tax	24	40	102	17	24	57
Complicated and higher rates of tax	9	29	51	56	45	74

Source: Computed from Primary Data

**Table 4:** Ranking on Merits and Demerits of VAT System

Merits and Demerits	Garrett Score	Garrett Mean	Garrett Rank
Reduction in tax evasion	19736.7	65.79	1
Reduces cascading effect	14601	48.67	2
Provision of input tax credit	11219.5	37.40	4
Difficulty faced in keeping the records	10665.4	35.55	5
Higher rates of tax	12929.4	43.10	3
Complicated and higher rates of tax	10048	33.49	6

*Source:* Computed from Primary Data

As far as the meritorious aspects the first and second rank was voiced by the respondents for the statements “Reduction in tax evasion” with the mean score of 65.79 followed by the statement “Reduces cascading effect” with the mean score of 48.67. Whereas the third rank was for the statement indicating the demerit “Higher rates of tax” with the mean score of 43.10 followed by the merit statement “Provision of input tax credit” with the mean score of 37.40. The fifth and sixth rank was for the statements “Difficulty faced in keeping the records” with the mean score of 35.55 and the least rating was for “Complicated and higher rates of tax” with the mean score of 33.49.

### 9. Findings

- From the analysis it can be concluded that the dealers and traders were selected equally with 50 per cent while, it is clear that the major activity of the sample respondents constitute Auto mobiles, spares and components (26.3 per cent), further it is evident that 60 per cent of the sample units are engaged in wholesale and retail activity, The study reveals that percentage of sample units representing the type of organization in the category of sole proprietorship constitutes 72 per cent. It is evident that 34.7 per cent of the sample units pay a VAT Tax of more than Rs.1 crore per year
- It is clear opinion of the business persons on the attitude towards VAT for various attributes was highly rated for “VAT provided greater opportunity to the tax officials to harass the firms” and the least rating was for the statement “VAT is more simple method as compared to the sales tax”.
- It is clear that when finding the relationship between “Annual amount of VAT Paid” and “Attitude of the respondents towards VAT” based on six attributes using chi-square test which shows the level of probability for four factors  $H_{01}$ ,  $H_{02}$ ,  $H_{03}$  and  $H_{06}$  are found to be significant at 5% level and the null Hypotheses is rejected. Whereas, the probability to find the relationship with the factors  $H_{04}$  and  $H_{05}$  are found to be insignificant. Therefore, it is concluded that the relationship between “Annual amount of VAT Paid” and “Attitude of the respondents towards VAT” is partially supported based on six factors considered for the study.
- It is clearly observed from the study that majority of the respondents had positive opinion towards VAT system considering their rating of the first, second rank for merit factors and fifth, sixth rank for the demerit attributes which shows maximum of the respondents had positive opinion towards Tax System. The fourth rank was for the statement provision of input tax credit and higher rates of tax which are the negative aspects highly rated by the

respondents of the sample units needed attention for policy implications.

### 10. Suggestions

- There is an urgent need to plug the loopholes in stamp and registration fee to increase the productivity from this tax. This tax has a very good revenue potential because of growing economic activities, the increasing level of land prices, and increase in number of transactions in land and property.
- Similarly, motor vehicle and passenger tax also has a good revenue potential. The state government should reconstruct and rationalize the rate structure of motor vehicle and passenger tax to generate more revenue.
- In this age of science and technology, when more and more new techniques of entertainment are emerging, the government should consider to evolve a new form of entertainment tax so as to mobilize more revenue from this source.
- The existing provisions in the VAT Act/Rules need to be reviewed to see whether additional revenue can be generated by making the desired amendments keeping in view the massive revenue generation.
- It has been found that VAT refunds are generally delayed. Therefore, there is a need to have a re-look on the issue. The refunds need to be made to the traders within a reasonable time without any difficulty. Provision of refund related to ITC needs special attention to avoid the inadmissible refunds.
- As found in the study, VAT has its own demerits also. These indicate that the sample size of the dealers to be audited regularly every year and the frequency of visit should be increased. Cross-checking the transactions and detection of bogus firms issuing invoices and counterfeit documents should be done at frequently.
- There is a need to create awareness among the customers that demanding no bill for the items purchased by them not only puts the government in loss but it also deprives them of all their rights like warranty/ guarantee against the items purchased. The Excise and Taxation Departments in both the states under study should take a serious note of any complaint received in this regard and punish the guilty shopkeepers by imposing hefty fines on them. Curtailing tax evasion would mean more revenue to the state exchequer from VAT.
- It is observed by the VAT officials that the rate of dealers’ compliance with the VAT system is moderate. In order to encourage voluntary compliance, the tax structure and administrative procedure should be well designed by the government. It is suggested that the government should design a suitable tax structure compatible with

voluntary tax compliance and a simple tax collection and verification mechanism as a means of promoting voluntary compliance.

### **11. Conclusion**

VAT system requires too much of record maintenance and involves cumbersome process on the part of the tax payer. The multiplicity of tax rates and slabs in VAT by commodities results in confusion in calculating the exact Tax amount to be paid. These, in turn has resulted in the dissatisfaction among the traders and businessmen. The opinion of the tax payer in the time delay in getting the refund of the excess amount paid also resulted in further dissatisfaction. Based on these problems suggestions pertaining to these aspects and the methods to increase the revenue of the government by plugging out the loopholes in the system of VAT revenue collection were also provided.

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