

## Value added tax as a reform tool for the traders and merchants-an empirical study in Kolar and Bangalore Urban Districts

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### Abstract

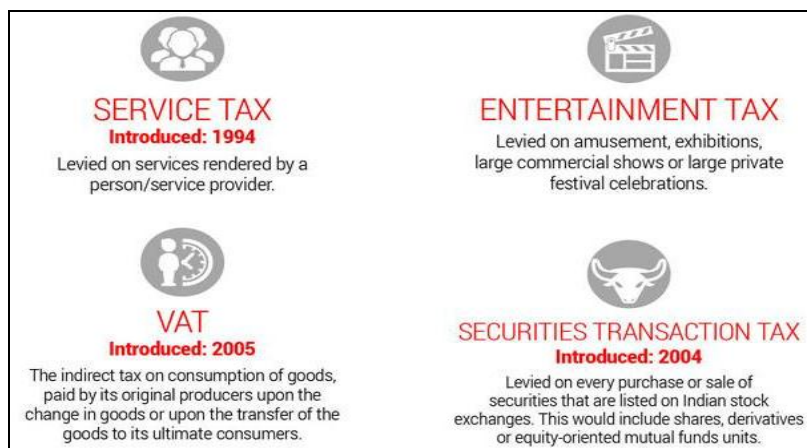
VAT as a form of indirect taxation was introduced as a broad-based tax covering the value added to each commodity by a firm where it passes various stages of production and distribution. The basic tenet on which the VAT was introduced was that of making tax structure more simpler and to improve the compliance from that of the traders and merchants. The dealers could get a set-off for input tax as well as tax paid on the previous purchases. It was again a progressive tax reform replacing the previous system of built-in self-assessment of VAT liability by the dealers and merchants (in terms of submission of returns upon setting off the tax credit. The present study was undertaken in the districts of Bangalore Urban and Kolar districts surveying the traders and merchants. The results have been analysed using SPSS using various tools for testing the hypothesis coined for the research.

**Keywords:** production, customers, traders, price

### 1. Introduction

Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The

authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State (Aurobinda Panda and Atul Patel (2010))<sup>[12]</sup>.



*Source:* KC Archana, New Delhi, June 15, 2016 Indiatoday.in What is the GST bill? Here's all you need to know about India's biggest tax reform

**Fig 1:** Description of Various Taxes

### 2. Nature of Indirect Tax System in India

The indirect taxes are commonly and collectively known as

consumption taxes. The nature of the taxes shown in the Table 1 below:

**Table 1:** Nature of Indirect Tax

Tax	Relevant Statute	Taxable event
Customs Duty	Customs Act,1962, Customs Tariff Act,1975	These duties are imposed by Central Government on goods imported into and Median rate 24.42%
Central Value Added Tax(CENVAT) or popularly known as Excise duty	Central Excise Act, 1944 Central Excise Tariff Act CENVAT Credit Rules, 2004	A tax on the manufacture or production of goods in India imposed by the Central Government Median rate 8.24%
Service Tax	Finance Act,1994 CENVAT Credit Rules, 2004	A tax imposed by the Central Government on the identified services rendered by persons defined in the provisions Median rate 10.3%

Central sales tax	Central Sales Tax Act, 1956	A tax on the inter- State sales of goods, imposed by the originating State Rate 2%
Research & development cess	Research & Development Cess Act, 1986	The Cess is imposed on the import of technology Rate 5%
Value Added Tax	VAT Acts of respective State Governments	A tax on the Intra-State sales/purchases of goods, imposed by the States Rate generally at 4% and 12.5%
Entry tax	Specific provisions laid down by State Governments	Entry tax is levied by the State Governments on entry of goods into the State and is payable by the purchaser.
Local levies such as octroi or local area taxes	Specific provisions laid down by State Governments	These could be imposed by municipal or local authorities

Source: Abhishek A.Rastogi ACA, “Taxmann’s Guide to Goods & Services Tax”, A comprehensive & illustrated guide to Goods & Services Tax. Taxmann Publications Pvt.Ltd. New Delhi -2010 P.6.

Value Added Tax is an indirect tax, which is imposed on goods and services at each stage of production, starting from raw materials to final products [13].

VAT is simply a form of sales tax. VAT is a consumption tax that applies to most goods and services and is paid by the final consumer (Eszter Kantor 2015) [14]. It is a tax on value added in the price of a commodity at each stage, may be due to passing through various hands in a channel of distribution or the value added in its price due to solve activity on production or manufacture or process undertaken on the commodity.

In the VAT system the registered dealers obtain tax credit for the tax paid directly by them on goods purchased by them for manufacture or sale. The Value Added Tax system has been adopted in over 110 countries, including countries like Brazil, Canada and European Union mostly of a unitary nature.

VAT is charged and collected at each stage of the production/delivery of goods and services [15].

VAT as a tax may be summed up as a value added charge on [16].

WHO supplies WHAT to WHOM, WHY, WHEN, WHERE and for HOW MUCH.

- The WHO is the person who makes the supply - VAT is only chargeable by Taxable Persons- even then the status of the person making the supply can determine the VAT liability
- The WHAT is what is supplied i.e., goods or services- anything which is not a supply of goods is a supply of services (unless there is a defined exclusion or for services no consideration i.e., nothing received in return)
- The WHOM is the person who receives the supply of goods or services- the status of the person who receives a supply can determine the VAT liability

- The WHY is the purpose of the supply- is it business or non-business?
- The WHEN is when the supply becomes chargeable to tax- this is called the tax point and this determines the VAT period in which it should be accounted for - and whether the supply is out of time.
- The WHERE is where the supply is made (or deemed to be made)- the liability can be affected either by where the supplier is based or where the recipient is based (or whether the supply is one of goods or services)
- The HOW MUCH is the consideration for the supply- whatever is received in return i.e., anything received including barter, not just money (although it must be capable of expression as a monetary value)

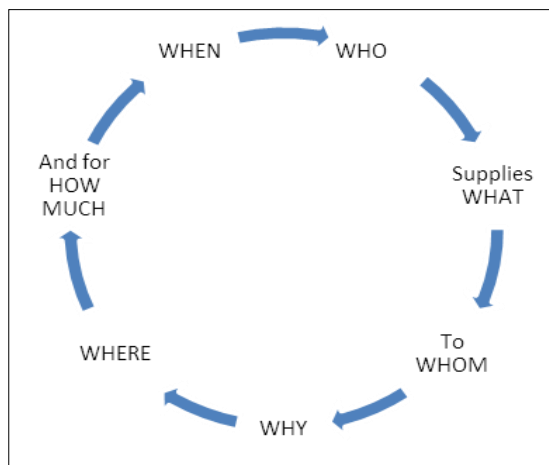


Fig 2

### 3. Roadmap to Vat Implementation in India (Radhika 2014) [13]

1st March 1986:	Modified VAT
27th May 1994:	Conference of Chief Ministers and Finance Ministers of States to discuss the introduction of VAT under the Chairmanship of Finance Minister Yaswant Sinha. It was concluded that the unhealthy ‘tax war’ between states to be stopped and minimum rate of sales tax are to be fixed
16th Nov 1999:	Conference of Chief Ministers and State Finance Ministers agreed to replace sales tax with VAT
1st April 2000:	MODVAT covers almost all taxable goods and so it proves into a full – fledged CENVAT or Central VAT
17th July 2000:	Empowered Committee on VAT is established to look in to the procedures and system of VAT chaired by the Finance Minister of Bengal, Dr.Ashim Das Gupta.
1st April 2002:	First deadline for introducing VAT in 15 states and 5 Union Territories are ready but deadline is postponed, almost other states are not ready.
18th Oct 2002:	Prime Minister Atal Bihari Vajpayee chaired a meeting and requested all the states to prepare their VAT bills
31st March 2003:	Traders protested against the introduction of VAT on 1st April 2003.
April 2003:	Most states, except Haryana, announced the delay switching over to VAT. Haryana introduced VAT
April 2003:	Around 15 states, excluding the North Eastern States were expected to move to VAT. These states account for 75 percent of the country’s total trade and industrial production. Once again, the introduction of VAT was delayed.
Jan 2004:	Northern States moved to VAT

May 2004:	Soon after coming into power, the Congress Government announced the introduction of VAT
8th June 2004:	All states except Uttar Pradesh introduced VAT
18th June 2004:	The date for introduction for VAT was decided as 1 April 2005
17 January:	White paper on VAT was published by its Chairman Ashom Das Gupta
21st Feb 2005:	Traders protested against VAT with a national bandh but it was partially successful
1st April 2005:	VAT was introduced in 22 states and 8 Union Territories to replace sales Tax
1st April 2006:	Chhattisgarh, Gujarat, Jharkhand, Madhya Pradesh and Rajasthan introduced VAT
1st Jan 2007:	VAT was introduced in Tamil Nadu
1st June 2007:	Pondicherry introduced the VAT.

Source: International Journal of Development Research Vol. 4, Issue, 10, pp. 2033-2038, October, 2014

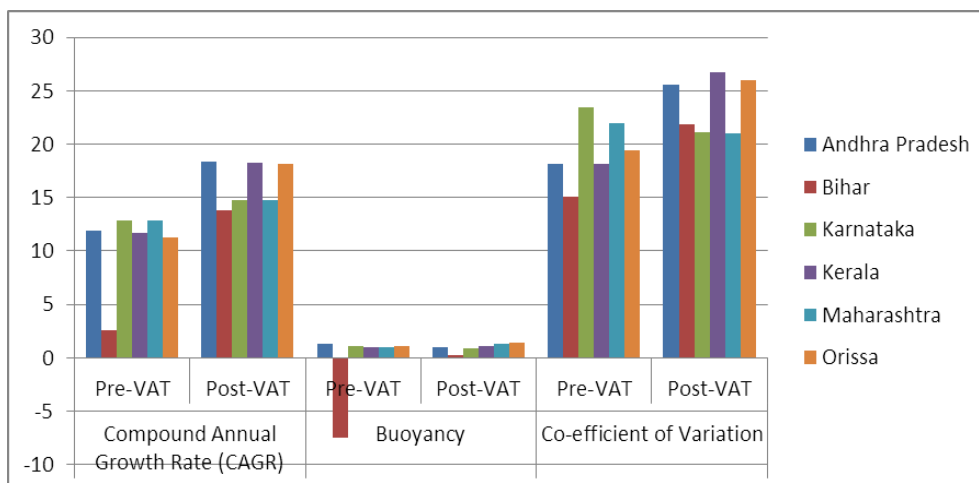
The Task Force known as Kelkar Committee observed that presently, "each State levies multiple taxes on the same item in different names or at different stages e.g. Entry Tax, Luxury Tax, etc." However, it opined that "it is necessary that State

VAT should be the tax to unify all the State-level taxes i.e. Sales Tax, Purchase Tax, Turnover tax, Works Contract Tax, Entry Tax, Special Additional Tax, etc. should all be covered under State VAT.

Table 2: Performance of Sales Tax/ VAT in the selected States (Pre and Post VAT Period)

Name of States	Compound Annual Growth Rate (CAGR)		Buoyancy		Co-efficient of Variation	
	Pre-VAT	Post-VAT	Pre-VAT	Post-VAT	Pre-VAT	Post-VAT
Andhra Pradesh	11.87788618	18.31935179	1.34068	1.016781	18.15743976	25.60774581
Bihar	2.571822338	13.82940141	-7.47022	0.279125	15.04753278	21.82597547
Karnataka	12.81049954	14.73921093	1.129101	0.919509	23.4815782	21.14778016
Kerala	11.73892811	18.28174126	1.021052	1.116665	18.13800549	26.70130743
Maharashtra	12.86085959	14.71763209	0.986338	1.345347	21.99399945	21.02479547
Orissa	11.25644072	18.1925433	1.145274	1.370337	19.44918566	25.98813312

Source: Mohd. Azam Khan and Nagma Shadab (2013) Impact of Value-Added Tax (VAT) Revenue in Major States of India, Romanian Journal of Fiscal Policy, Volume 4, Issue 1(6) January-June 2013, Pages 27-46



Source: Compilation from the author

Fig 3: Growth of Sales Tax/ VAT in the selected States in Pre & Post VAT Period

4. Statement of the Problem

The tax system plays a very important role since it is a very important source of revenue to the government. The limitations in the tax system like lack of IT infrastructure, requirement to file multiple returns, compliance cost and administrative difficulties and the like led for the emergence of VAT system following the Kelkar Committee recommendations. The present study attempts to understand VAT from traders and merchants' perspective.

5. Objectives of the Study

1. To understand the evolution of VAT system in India
2. To study the impact of VAT on traders and merchants;
3. To identify the pros and cons of existing VAT on the traders; and
4. To validate the data and offer constructive suggestions.

6. Methodology

The proposed research programme will adopt descriptive, analytical and survey method of research to collect, analyze and interpret the research objectives and hypothesis.

7. Sampling

Universe/ Population/ Sampling Frame

All the traders and merchants in the Bangalore Urban and Kolar district

8. Scope of the Study

The study is restricted to the Traders and Merchants in the districts of Bangalore Urban and Kolar.

9. Tools Used

A well-structured questionnaire is used for the purpose of collection of Primary data on the topic.

**10. Results and Discussion**

**Hypothesis 1**

**Association between Traders Ease of Doing Business and Vat**

<b>H<sub>0</sub>:</b>	There is no relationship between the traders and merchants and the ease of doing business with that of Vat reforms on the other
<b>H<sub>1</sub>:</b>	There is a relationship between the traders and merchants and the ease of doing business with that of Vat reforms on the other

The implementation of VAT has impacted the tax system in the country. The tax system has seen a reform as traders and merchants are benefited with reforms like no cascading effect, no undervaluation and tax evasion, improvement in compliance removal of surcharge, turnover tax and the like. The scores are collected through responses for variables under consideration as applicable to Hypothesis 1. The analysis and interpretation are given as under.

**Key to Variables**

X1	There is no tax on inputs. VAT is the only solution to remove cascading and pyramiding effect to achieve economic efficiency
X2	VAT reduces scope for undervaluation and tax evasion
X3	VAT, with its audit trail improves compliance
X4	VAT removes multiple taxes like surcharge, turn over tax etc. on goods
X5	VAT provides efficient resource allocation, it ensures removal of various taxes and levies
X6	VAT ensures that all barriers to inter-state trade and commerce and export out of the territory of India should be removed
X7	VAT ensures to promptly address taxpayer’s queries in order to firmly establish that the taxman is a facilitator
X8	VAT avoids the problem of undervaluing, as all stages of production and distribution are subject to a tax

**Chi-Square Test**

**Table 3: Test Statistics**

	X1	X2	X3	X4	X5	X6	X7	X8
Chi-Square	122.027*	129.470*	206.822*	102.393*	146.685*	135.575*	102.438*	177.630**
Df	4	4	4	4	4	4	4	4
Table Values For various significance Levels								
Significance Levels	Table Values							
0.99	0.297	0.297	0.297	0.297	0.297	0.297	0.297	0.297
0.95	0.711	0.711	0.711	0.711	0.711	0.711	0.711	0.711
0.90	1.064	1.064	1.064	1.064	1.064	1.064	1.064	1.064
0.75	1.923	1.923	1.923	1.923	1.923	1.923	1.923	1.923

\* 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 43.8.

\*\* 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 36.5.

**Analysis and Interpretation**

Conclusion 1	The data responses from the sample responses indicate that each variable shows that the calculated values for each identified variable is more than the table value
Conclusion 2	There seems to be a significant and strong association between the variables for the said hypothesis

**Correlation between Traders Ease of Doing Business and Vat**

The study establishes the relationship between the traders ease of doing business with that of the Value Added Tax. The correlation coefficient values are as under Table

**Correlations**

Pearson Correlation	X1	X2	X3	X4	X5	X6	X7	X8
X1	1.000	.851**	.896**	.943**	.921**	.947**	.895**	.879**
X2	.851**	1.000	.820**	.846**	.886**	.795**	.897**	.883**
X3	.896**	.820**	1.000	.865**	.907**	.879**	.871**	.910**
X4	.943**	.846**	.865**	1.000	.879**	.934**	.917**	.873**
X5	.921**	.886**	.907**	.879**	1.000	.894**	.896**	.857**
X6	.947**	.795**	.879**	.934**	.894**	1.000	.892**	.851**
X7	.895**	.897**	.871**	.917**	.896**	.892**	1.000	.890**
X8	.879**	.883**	.910**	.873**	.857**	.851**	.890**	1.000

There were significant inter-correlations among independent variables with eight items. The variables are there is no tax on inputs. VAT is the only solution to remove cascading and pyramiding effect to achieve economic efficiency, VAT reduces scope for undervaluation and tax evasion, VAT, with its audit trail improves compliance, VAT removes multiple taxes like surcharge, turn over tax etc. on goods, VAT

provides efficient resource allocation, it ensures removal of various taxes and levies, VAT ensures that all barriers to inter-state trade and commerce and export out of the territory of India should be removed, VAT ensures to promptly address taxpayer’s queries in order to firmly establish that the taxman is a facilitator and VAT avoids the problem of undervaluing, as all stages of production and distribution are subject to a tax.

The roots of value added tax system in india lie in the recommendations of Chellian Committee recommendations constituted by the government way back in 1992. The Committee in order to bring the indirect tax structure of the country in tune with the global standards for building a sound resource base through re-structuring of commodity taxation, among other alternatives, had recommended for adoption of value added tax as a rational alternative for the State Sales Tax System.

Value added tax already existed in India in the form of Cen-vat (Central value added tax) up to the manufacturing stage only at federal level. However, w.e.f April 1st, 2005, it was formally extended to the state level upto the retail stage. Like other states in India, it was introduced in Jammu and Kashmir by the enactment of the Jammu and Kashmir value added tax

Act, 2005, thus replacing the Jammu and Kashmir General Sales Tax Act, 1962. As against the erstwhile Sales tax, VAT in Jammu and Kashmir is performing well in almost all important fields like compliance, administration and contribution to revenue when compared to majority of other Indian States [17].

VAT is most certainly a more transparent and accurate system of taxation. The existing sales tax structure allows for double taxation thereby cascading the tax burden. For example, before a commodity is produced, inputs are first taxed, the produced commodity is then taxed and finally at the time of sale, the entire commodity is taxed once again. By taxing the commodity multiple times, it has in effect increased the cost of the goods and therefore the price the end consumer will pay for it.

**One-Sample Kolmogorov-Smimov Test**

	X1	X2	X3	X4	X5	X6	X7	X8
N	219	219	219	219	219	219	219	219
Table Values Kolmogorov-Smirnov Z	3.656	3.745	4.437	3.422	4.359	4.021	3.621	3.939
Calculated Mean Values	4.04	4.04	4.32	3.95	4.00	4.00	3.90	3.92
Standard Deviation	1.025	1.035	0.838	1.059	1.223	1.027	1.034	1.239
<b>Most Extreme Differences</b>								
Absolute	0.247	0.253	0.300	0.231	0.295	0.272	0.245	0.266
Positive	0.166	0.176	0.207	0.161	0.207	0.165	0.145	0.191
Negative	-0.247	-0.253	-0.300	-0.231	-0.295	-0.272	-0.245	-0.266

**Conclusion**

	Null Hypothesis	Test Statistic	Table Values	Null Hypothesis Conclusion
X1	Same	4.04	3.656	Reject
X2	Same	4.04	3.745	Reject
X3	Same	4.32	4.437	Reject
X4	Same	3.95	3.422	Reject
X5	Same	4.00	4.359	Reject
X6	Same	4.00	4.021	Reject
X7	Same	3.90	3.621	Reject
X8	Same	3.92	3.939	Reject

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin (KMO) Test is a measure of how suited your data is for Factor Analysis. The test measures sampling adequacy for each variable in the model and for the complete model. The statistic is a measure of the proportion of variance among variables that might be common variance. The lower the proportion, the more suited your data is to Factor Analysis. KMO returns values between 0 and 1. A rule of thumb for interpreting the statistic:

- KMO values between 0.8 and 1 indicate the sampling is adequate. So, for the hypothesis under consideration has Kaiser-Meyer-Olkin Measure of Sampling Adequacy has 0.904 indicating the sampling adequacy.

<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</b>	<b>0.904</b>
Approx. Chi-Square	3192.694
Bartlett's Test of Sphericity df	28
Sig.	.000

For a degree of freedom 28, the table values are. The calculated values are 3192.694. Therefore, the results indicate

the insignificance of the fact that there exists no relationship between the reforms that VAT has brought about in the ease to the traders and merchants in doing business in the framework Vat.

**Factor Analysis**

The factor analysis is done to see which parameters figures more important than the others.

**Communalities**

	Initial	Extraction
X1	1.000	.837
X2	1.000	.934
X3	1.000	.883
X4	1.000	.912
X5	1.000	.916
X6	1.000	.900
X7	1.000	.909
X8	1.000	.428

Extraction Method: Principal Component Analysis

**Total Variance Explained**

Component	Initial Eigen Values			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
X1	6.719	83.987	83.987	6.719	83.987	83.987
X2	.620	7.754	91.741			
X3	.244	3.055	94.796			
X4	.163	2.038	96.834			
X5	.098	1.229	98.064			
X6	.072	.906	98.969			
X7	.046	.570	99.539			
X8	.037	.461	100.000			

The factor analysis extracted the X1 parameter which have strong bearing on the reforms of VAT under the study: There is no tax on inputs. VAT is the only solution to remove cascading and pyramiding effect to achieve economic efficiency.

**Hypothesis 2**

**Relationship between Wider Acceptance of Vat among the Traders and Customers and Legal Tax Collection from Customers**

<b>H<sub>0</sub>:</b>	There is no relationship between wider acceptance of vat among the traders and customers and legal tax collection from customers
<b>H<sub>1</sub>:</b>	There is a relationship between the traders and merchants and the ease of doing business with that of Vat reforms on the other

The scores are collected through responses for variables under consideration as applicable to Hypothesis 2. The analysis and interpretation are given as under.

**Key to Variables**

X1	VAT raises revenue in neutral and transparent manner
X2	The marginal cost of raising funds for public purposes through VAT is generally lower than other taxes
X3	The VAT's neutrality toward international trade has also made it the preferred alternative to custom duties in the context of trade liberalisation
X4	Exports are normally exempt from VAT while allowing the recovery of the corresponding input tax
X5	VAT does not affect the competitiveness of domestic firms to export
X6	VAT is relatively secure from serious fraud in the domestic market

**Chi-Square Test**

**Table 4: Test Statistics**

	X1	X2	X3	X4	X5	X6
Chi-Square	61.982*	67.005*	50.475*	127.872*	128.283*	87.735*
Df	4	4	4	4	4	4
Table Values For various significance Levels						
Significance Levels	Table Values					
0.99	0.297	0.297	0.297	0.297	0.297	0.297
0.95	0.711	0.711	0.711	0.711	0.711	0.711
0.90	1.064	1.064	1.064	1.064	1.064	1.064
0.75	1.923	1.923	1.923	1.923	1.923	1.923

\*. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 43.8.

**Analysis and Interpretation**

Conclusion 1	The data responses from the sample responses indicate that each variable shows that the calculated values for each identified variable is more than the table value
Conclusion 2	There seems to be a significant and strong association between the variables for the said hypothesis

**Correlation between Wider Acceptance of Vat among the Traders and Customers and Legal Tax Collection from Customers**

The study establishes the relationship between the wider acceptance of VAT among the traders and customers and legal tax collection from customers

**Correlations**

Pearson Correlation	X1	X2	X3	X4	X5	X6
X1	1.000	.906**	.941**	.910**	.921**	.923**
X2	.906**	1.000	.909**	.901**	.892**	.914**
X3	.941**	.909**	1.000	.890**	.898**	.932**
X4	.910**	.901**	.890**	1.000	.913**	.874**
X5	.921**	.892**	.898**	.913**	1.000	.919**
X6	.923**	.914**	.932**	.874**	.919**	1.000

There were significant inter-correlations among independent variables with six items. The variables are VAT raises revenue in neutral and transparent manner, The marginal cost of raising funds for public purposes through VAT is generally lower than other taxes, The VAT's neutrality toward international trade has also made it the preferred alternative to custom duties in the context of trade liberalisation, Exports are normally exempt from VAT while allowing the recovery of the corresponding input tax, VAT does not affect the competitiveness of domestic firms to export and VAT is relatively secure from serious fraud in the domestic market.

After repeated interactions and discussions, most of the States have finally agreed and implemented VAT in India with effect from 1.4.2005. One major feature of the tax policy reforms in the implemented VAT system in India is significant restructuring of tax rates on major commodities.

VAT is intended to be neutral insofar as concerns the production of goods and services. Unlike a sales tax, VAT is levied at each production stage, after deduction of input VAT on the costs necessary for production. But the levy at each production stage is only a method of control, and is not an essential characteristic of VAT. As with other consumption taxes, VAT is a revenue which goes to the country of consumption [18].

The nearly universal introduction of the value-added tax (VAT) should be considered the most important event in the evolution of tax structure in the in the last half of the 20<sup>th</sup> century. Since the late 1960s, the VAT has become the main consumption tax in 105 industrial and developing countries. Although the specific reasons for adopting the VAT differ from one country to another, the main argument has been that a properly designed VAT arises more revenue with lower administrative and economic costs than other broadly based consumption taxes.

The VAT has come of age, and with it an increased awareness of its potential and limitations. Basically, the VAT is a revenue workhorse. Properly designed and administered, it can raise more revenue with lower operational and economic costs than can other broadly based consumption taxes [19].

**One-Sample Kolmogorov-Smimov Test**

	X1	X2	X3	X4	X5	X6
N	219	219	219	219	219	219
Table Values Kolmogorov-Smirnov Z	3.734	3.188	3.545	3.702	3.904	2.882
Calculated Mean Values	3.66	3.74	3.60	4.07	3.97	3.77
Standard Deviation	1.244	1.306	1.220	1.014	1.053	1.130
Most Extreme Differences						
Absolute	.252	.215	.240	.250	.264	.195
Positive	.142	.168	.126	.179	.165	.159
Negative	-.252	-.215	-.240	-.250	-.264	-.195

**Conclusion**

	Null Hypothesis	Test Statistic	Table Values	Null Hypothesis Conclusion
X1	Same	3.66	3.734	Reject
X2	Same	3.74	3.188	Reject
X3	Same	3.60	3.545	Reject
X4	Same	4.07	3.702	Reject
X5	Same	3.97	3.904	Reject
X6	Same	3.77	2.882	Reject

**Total Variance Explained**

Component	Initial Eigen Values			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
X1	5.548	92.467	92.467	5.548	92.467	92.467
X2	.139	2.321	94.788			
X3	.110	1.826	96.614			
X4	.095	1.584	98.199			
X5	.059	.975	99.174			
X6	.050	.826	100.000			

The factor analysis extracted the X1 parameter which have strong bearing on the wider acceptance of VAT among the traders and customers and legal tax collection from the customers.

**11. Findings**

Value Added tax is a general indirect turnover non – duplicate tax on the final consumption of goods and services, which is the only permissible general tax on consumption in the European Union. Its development is strongly specific and very

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin (KMO) Test is a measure of how suited your data is for Factor Analysis. The test measures sampling adequacy for each variable in the model and for the complete model. The statistic is a measure of the proportion of variance among variables that might be common variance. The lower the proportion, the more suited your data is to Factor Analysis. KMO returns values between 0 and 1. A rule of thumb for interpreting the statistic:

- KMO values between 0.8 and 1 indicate the sampling is adequate. So, for the hypothesis under consideration has Kaiser-Meyer-Olkin Measure of Sampling Adequacy has 0.924 indicating the sampling adequacy.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.924
Approx. Chi-Square	2294.784
Bartlett's Test of Sphericity df	15
Sig.	.000

For a degree of freedom 15, the table values are. The calculated values are 2294.784. Therefore, the results indicate the insignificance of the fact that there exists no relationship between the wider acceptance of VAT among the traders and merchants and legal tax collection from the customers.

**Factor Analysis**

The factor analysis is done to see which parameters figures more important than the others.

**Communalities**

	Initial	Extraction
X1	1.000	.942
X2	1.000	.916
X3	1.000	.932
X4	1.000	.904
X5	1.000	.923
X6	1.000	.930

Extraction Method: Principal Component Analysis

difficult to compare with the history of other taxes. The VAT is considered as a modern, simple tax in its basic application, with large potential tax revenues with the elimination of the tax burden levied on the tax payers.

Objective behind introduction of VAT is to eliminate much of the complexity and associated compliance costs of the current system and also to increase India’s competitiveness in the international market yet at the same time, it poses serious problem for the finance of regional governments. It allows a fair competition to exist in the market.

## 12. Conclusion

The Value Added Tax makes an evasive attempt on perception level as well as execution level. The study reveals that the requirement of transparency in VAT is needed in all the states of India. It is found that equal channel of distribution of VAT is prevailing among Wholesalers, Retailers and Consumers. The tax applicability and e-filing plays a vital role in the VAT system. It gives mutual benefits to the Consumers and Government. Service tax, sales tax and other taxes can be easily followed due to its implementation process. But, the transparency is required at all the level in order to obtain effective functioning in the VAT system in all the states of India. The introduction of Uniform Product Classification across the country is required to exhibit the perception process with effective return. The adoption benefits of purchasers and sellers equally. The single window system and Abolition of CST are indispensable to obtain the cent per cent success of VAT <sup>[20]</sup>.

As can be seen from the White Paper on VAT in India, the main reason behind the introduction of VAT was to enhance the efficiency and transparency of the commodity tax system and increase buoyancy of such tax revenue. The policy makers did not consider poverty alleviation or income redistribution as a critical component of such a reform process <sup>[21]</sup>.

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