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Value Added Tax in Gujarat – An Overview

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ABSTRACT

The Value Added (VAT) was devised by a German economist in the 18th Century. This multipoint tax system is not a new one but a part of the sales tax system. VAT was introduced in India on 1st April, 2005, as a part of Indirect Tax Law. VAT is a subject of state government and is levied on sale or purchase of goods within a state. Introduction of State VAT is an important reform measure at the state level.

VAT in Gujarat came into force from 1st April, 2006. Its basic legal framework is The Gujarat Value Added Tax Act, 2003. VAT and Sales Tax collection contributes around 39.92% of the total revenue of Gujarat Government. This paper focus on the introduction and implementation of VAT in Gujarat State. It also gives overview of VAT in Gujarat.

Key words : VAT, Mandatory, Cascading Effect & Multi Point

Introduction

The Value Added (VAT) was devised by a German economist in the 18th Century. This multipoint tax system is not a new one but a part of the sales tax system. The introduction of VAT in India in 1986 as part of the central excise regime can be deemed to have been pioneered by the then Prime Minister VP Singh. The ultimate aim of the VAT is to open all gates of Indian economy into a single unified market.

VAT was introduced in India on 1st April, 2005, as a part of Indirect Tax Law. VAT is a subject of state government and is levied on sale or purchase of goods within a state. Introduction of State VAT is an important reform measure at the state level. Value Added Tax (VAT) is a multi-point destination based system of taxation, with tax being levied on value addition at each stage of transaction in the production/distribution chain. The term 'value addition' implies an increase in the value of goods at each stage of production or its transfer. VAT is a tax on the final consumption of goods and is borne by the consumer. That is why it is also known as consumption tax.

Objective of VAT

The main objective of VAT is to remove the barriers to interstate trade and commerce.

Its broad objectives are:

- To ensure high tax collection by drawing a wide net to draw traders and small businesses into tax net.
- To reduce tax evasion and thus increases the revenue of the government.
- To make the tax structure transparent, simple, and easy to understand.
- To remove cascading effect.
- To create uniform common market within the country.

History of VAT

Due to various defects in the Sales Tax System, the Government has introduced a new system called Value Added Tax (VAT) in place of State Sales Tax. The concept of VAT was introduced by Central Government in 1986 Central Excise regime. Former Prime Minister VP Singh pioneered the introduction of VAT in India. Finance Minister Jaswant Singh clearly pointed out the government's intention of introducing VAT for April 2003. Somehow, this did not happen. Union Finance Minister P Chidambaram, in his budget speech for the Union budget 2004-05, appealed to all the states and Union Territories to implement VAT from April 1, 2005.

A 'White paper' was released by Dr. Asim Dasgupta, Chairman of Empowered Committee, on 17-1- 2005. The White Paper is a policy document indicating basic policies of State Sales Tax VAT. It gives basic design of State level VAT proposed to be implemented. States have generally followed the principles as given in the White Paper. Of course, there are variations. Most State governments have implemented VAT w.e.f. 1.4.2005. Haryana was the first state to implement VAT in the first year itself.

VAT In Gujarat

VAT Act of the Gujarat Legislature, having been assented to by the Governor on the 17th January, 2005. It was first published, after having received the assent of the Governor in the "*Gujarat Government Gazette"* on the 25th January, 2005. VAT in Gujarat came into force from 1st April, 2006. Its basic legal framework is The Gujarat Value Added Tax Act, 2003. VAT and Sales Tax collection contributes around 39.92% of the total revenue of Gujarat Government.

The implementation of GVAT Act, 2003 has repealed the following Acts:

- The Bombay Sales Motor Spirit Taxation Act, 1958.
- The Gujarat Sales Tax Act, 1969, (GST Act).
- The Purchase Tax on Sugarcane Act, 1989.

Table - 1
VAT Tax Revenue Raised During the period from 2008-09 to 2012-13 (Rs. In Crores)

Head of Revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of Increase or Decrease in 2012-13 over 2011-12
VAT	15,143.86	15,651.20	20,226.78	27,259.38	34,086.69	(+) 25.05

Source: Government of Gujarat Report of the year 2014.

Table -1 indicates the VAT tax rose during the year 2008-09 to 2012-13. The 25.5 percent of increase in VAT collection is reported in 2012-13 over 2011-12. The VAT income increased to Rs 44,200 crore in 2013-14 and in the current fiscal it stands at over Rs 31,100 crore (till December 2014).

Table - 2
Different Variants of VAT

Gross product variant	Income variant	Consumption variant
• VAT is levied on sales and deduction for tax paid on input is allowed excluding capital inputs.	• VAT is levied on sales with set-off for tax paid on inputs and depreciation is charged only on capital goods.	• VAT is levied on sales with deduction for tax paid on all business inputs including capital goods.

• Credit of tax on capital goods is not allowed which discourages investments in capital goods.	• Credit on capital purchases are allowed in the ratio of depreciation over life of the capital assets.	• This is easy to operate and does not discriminate between labor intensive industries and capital intensive industries.
• Due to this capital goods carry a heavier tax burden as they are taxed twice, therefore modernization and up gradation of capital goods is delayed due to this double taxation.	• Difficulty of choosing method of depreciation. (SLM OR WDV)	• Hence, this method is the most popular method all over the world.

Characteristic of VAT

The entire assessment procedure is based on the principal of self-assessment. Following are the main characteristics of VAT:

- It is simple, modern and transparent tax system.
- It is a multipoint tax with credit for the tax paid at preceding stage.
- Small traders (whose turnover is up to Rs10 lakhs) are outside VAT.
- VAT replaces a number of taxes like turnover tax, luxury tax, surcharge etc.
- VAT being efficient is considered to be better than sales tax.
- VAT has four rates instead of the large number of rates under sales tax.
- Composition scheme for small dealer having turnover above taxable quantum of Rs 10 lakhs but below 50 lakhs.

VAT eliminates cascading by providing credit of taxes paid on inputs and only taxing value addition.

Rates Applicable for VAT

- There are four slabs of VAT
- 0%- 36 Commodities – Agricultural Products, Sea Products
- 1% - 3 Commodities - Gold, Silver, Precious Metals & Stone. Etc
- 4% - About 340 Commodities – Industrial, Packing and IT Products 12.5% (RNR) – all other goods
- Petroleum Products, Tobacco, Liquor etc., attracts higher VAT rates that vary from State to State

Table – 3
VAT Tax Rate in India Reported from 2006 to 2015

Year	Rate of VAT Tax (In %)
2006	12.5
2007	12.5
2008	12.5
2009	12.5
2010	12.5
2011	12.5
2012	12.36
2013	12.36
2014	12.36
2015	12.36

Source: Ministry of Finance, GOI.

Methods for VAT Taxation

There are three methods for VAT Taxation:

Addition Method: This method aggregates all the factor payments including profits to arrive at the total value addition on which the rate is applied to calculate the tax. This type of calculation is mainly used with income variant of VAT. Addition method does not easily accommodate exemptions of intermediate dealers. A drawback of this method is that it does not facilitate matching of invoices for detecting evasion.

Invoice Method: This is most common and popular method for computing the tax liability under VAT system. Under this method tax is imposed at each stage of sales on the entire sale value and the tax paid at the earlier stage is allowed as set-off. In other words, out of tax so calculated, tax paid at the earlier stage i.e. at the stage of purchases is set-off and at every stage the differential tax is being paid. The most important aspect of this method is that at each stage, tax is to be charged separately in the invoice. This method is also called the 'Tax Credit Method' or 'Voucher Method'.

Subtraction Method: Under this method, the tax is charged only on the value added at each stage of the sale of goods. Since, the total value of goods sold is not taken into account, the question of grant of claim for set-off or tax credit does not arise. This method is normally applied where the tax is not charged separately. Under this method for imposing tax, 'value added' is simply taken as the difference between sales and purchases.

Limitations of VAT
Varying VAT rates.
No difference between poor and rich.
No credit for tax paid on Inter-state purchases
Increase Tax administration cost.
Increase the working capital requirements.
This method is Inflationary

Records to be Maintained under VAT
The following records should be maintained under vat system.
Purchase records
Sales records (within state sales / inter state sale)
VAT account
Separate record of any exempt sale
Inter state transfer of goods

Audit under VAT

A system of audit checks will have to be established to keep check on bogus invoices. One essential requirement is to give TIN (Tax Identification Number) to all registered dealers, so that a check is maintained that

The tax as shown in the invoice has indeed been paid

There is no double credit on basis of same invoice. TIN will have to be indicated on each Invoice issued. It will be an 11 digit numerical code. First two digits will indicate State code.

Correctness of self-assessment will be checked through a system of departmental audit. A certain percentage of the dealers will be taken up for audit every year on a scientific basis. If, however, evasion is detected on audit, the concerned dealer may be taken up for audit for previous periods.

Conclusion

From the above discussion and analysis it is clear that there are many benefits of VAT. The above facts and figures clearly indicates that in Gujarat revolutionary changes in VAT tax system , which ultimately gives more encouragement in simple tax system. VAT and Sales Tax collection contributes around 39.92% of the total revenue of Gujarat Government.

The ultimate aim of the VAT is to open all the gates of Indian Economy and make it an integral part of the world and to turn India into a single unified market. The effective implementation of VAT in India and Gujarat will lead to solve the problem of tax evasion, establishment of uniform tax structure, efficient tax administration and development of the economy as a whole in the long run. The study shows that by implementing VAT reform our products will be more competitive in the global market and we can reap rich benefit besides simplifying our existing complex tax system.

The success of the VAT system fully depends on practices, systematic organization audit, full acceptance by people, trained manpower and sound ethical business practices in business and government representation.

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