



## An Analysis of the Perception of Value Added Tax (VAT) in Tamilnadu

### KEYWORDS

Dr.(Mrs.)N.Kanimozhi

D/O K.NAGARAJAN, 15-A, AGRAHARAM STREET, SANKAGIRI POST, SALEM DISTRICT, TAMIL NADU, INDIA.

**ABSTRACT** Tax is “a compulsory charge imposed by the Government without any expectation of direct return in benefit”. In other words, tax is a compulsory payment or contribution by the people to the Government for which there is no direct return to the tax payers. Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The general public should be taxed according to their ability to pay, and the people in the same financial position should be taxed in the same way without any discrimination. Tax is classified into two categories- Direct Tax & Indirect Tax. Direct tax is the tax, burden of which cannot be shifted to others. e.g. Income Tax. In this the tax is paid by the person who earns and nobody excepts him can pay his tax on his behalf. Indirect tax is the tax which is levied on commodities, a manufacturer charges the distributor and distributor charges the wholesaler, wholesaler receives from the retailer, retailer in turn from his customer. The burden of these taxes can be transferred to other forms like Value Added Tax, Sales Tax etc. We will discuss detail in perception of Value Add Tax.

### INTRODUCTION

Tax is “a compulsory charge imposed by the Government without any expectation of direct return in benefit”. In other words, tax is a compulsory payment or contribution by the people to the Government for which there is no direct return to the tax payers. Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The general public should be taxed according to their ability to pay, and the people in the same financial position should be taxed in the same way without any discrimination. Tax is classified into two categories- Direct Tax & Indirect Tax. . Direct tax is the tax, burden of which cannot be shifted to others. e.g. Income Tax. In this the tax is paid by the person who earns and nobody excepts him can pay his tax on his behalf. Indirect tax is the tax which is levied on commodities, a manufacturer charges the distributor and distributor charges the wholesaler, wholesaler receives from the retailer, retailer in turn from his customer. The burden of these taxes can be transferred to other forms like Value Added Tax, Sales Tax etc.

### SCOPE OF THE STUDY

VAT stops unhealthy tax-rate war and trade diversion among the states, which had adversely affected interests of all the states in the past. VAT design will significantly bring in simplicity and transparency in the tax structure and thereby improve tax compliance and state revenue. VAT design avoid tax leakage by introducing compulsory invoicing, under VAT every dealer must issue tax invoice to avail input credit. Hence evasion of tax will be arrested without any government interference state revenue by increase 25 per cent. Every VAT dealer becomes a “Tax Collector” to government. There will be scope for under invoicing in raising sale bills to avoid tax. Hence under invoicing prevalent single point taxation vanish under VAT.

### STATEMENT OF THE PROBLEM

Tax is one of the most inevitable and primary sources of recurring revenue to any government. As discussed earlier, there are tax kinds of taxes – Direct and Indirect taxes. Income tax is one such example for the direct tax, and other taxes like sales tax and luxury tax are the indirect means of collecting tax from the public. Among the other taxes specified, sales tax causes more complications and miscalculations on the part of both the traders as well as the customers in multiple ways. Prior to 2007 in Tamil Nadu, it was known as CST. The Value Added Tax is the system created for implementing uniform taxation of goods and services which was introduced in India in the year 2005 and it has been implemented in Tamil

Nadu in 2007. In many states, VAT is yet to be implemented. Before the implementation of VAT in Tamil Nadu, the state government has taken much effort to create awareness about VAT among the general public. Now VAT has been implemented almost everywhere. At this juncture, there are some reasonable queries to be posed by the researcher.

1. What is the perception of VAT in Tamil Nadu among the general public, traders and officials?
2. What is the perception of VAT improvement among general public, traders and tax officials?

### OBJECTIVES OF THE STUDY

1. To analyze the perceptions of Wholesalers, Retailers, Chartered Accountants, Tax officials and Consumers regarding the VAT.
2. To determine the perception of VAT on satisfaction over the marketers as well as Consumers.

### PRIMARY DATA

Primary data are those data, which is collected freshly or newly for a particular purpose. Here the data is collected freshly from the respondents.

### Questionnaire design

The questionnaire was based on the initial research model and propositions. Primary data were collected through questionnaire survey. A questionnaire with three sections was developed and finalized. The first part of the questionnaire comprises demographic factors with optional questions. The second part contains the general view point about Value Added Tax. The final part of the questionnaire consists of the statements relating to perception of Value Added Tax, Areas of Improvement and suggestions to increase the effectiveness of Value Added Tax.

### SAMPLING SIZE AND DESIGN

**In this research, Multi-stage sampling technique has been adopted for the study.**

- ❖ In the first stage, five districts are selected out of the 32 districts as Salem as centre and one district from each zone around Salem taken for the study.
- ❖ In second stage, proportionate sampling method is used. 100 respondents are selected from each district.
- ❖ In third stage, convenient sampling method is used. Wholesalers, Retailers, Chartered Accountants, Tax offi-

cial and the Consumers are the 5 category of respondents taken for the study and 20 respondents are selected from each category from each district. Hence the exact sample size of the study is 500.

#### ANALYSIS OF DATA

- ❖ T-Test
- ❖ Cluster Analysis

**Table – 1.1**  
**One-Sample Statistics for opinion on perception of VAT**

	N	Mean	Std. Deviation	Std. Error Mean	T (Lower)	Sig (2-tailed)
Tax Evasion	500	3.7420	1.03614	.04634	16.013	.000
Transparency	500	3.0640	.96632	.04322	1.481	.139
Improved Exports	500	3.4580	.98904	.04423	10.355	.000
Government Profits	500	3.8560	.97013	.04339	19.730	.000
Material Cost	500	3.9140	.86493	.03868	23.629	.000
Response towards VAT	500	3.1080	.97685	.04369	2.472	.014
Difficulties are found in the instruction of VAT system than sales tax	500	3.1440	.99863	.04466	3.224	.001
Inflation	500	3.8860	.88689	.03966	22.338	.000
Revenue Growth	500	3.7600	.92309	.04128	18.410	.000
Tax aspects	500	3.5780	.95590	.04275	13.521	.000
sales tax	500	3.5220	.98155	.04390	11.892	.000
Benefits to the customers and government	500	2.2640	.96133	.04299	-17.119	.000
Approach for the wholesalers and retailers	500	4.6080	.50084	.02240	71.792	.000
Tax revenue to the government increased rapidly	500	4.4260	.59769	.02673	53.349	.000
Economic situations	500	3.1820	.90028	.04026	4.520	.000

From the above table, it is found that checking the Tax Evasion and Transparency possess the mean values of 3.74 and 3.06 respectively, with significant t-values of 16.013 and 1.481. Therefore, it is concluded that the perception of VAT is useful in checking for the tax evasion and transparency is abundantly found in the perception of VAT system.

VAT Improved Exports and government profits possess the mean values of 3.45 and 3.85 respectively, with significant t-values of 10.355 and 19.730. Therefore, it is concluded that the perception of VAT is improved for the exports and increases government profits found in the perception of VAT system.

It reduces the material cost and comparing VAT system with erstwhile sales tax gives more favorable response towards VAT possess the mean values of 3.91 and 3.10 respectively, with significant t-values of 23.62 and 2.47. Therefore, it is concluded that the perception of VAT reduces material cost and comparing with the sales tax is abundantly found in the perception VAT system.

More difficulties are found in the instruction of VAT system than sales tax and Inflation increases due to VAT perception programmes possess the mean values of 3.14 and 3.88 respectively, with significant t-values of 3.22 and 22.33. Therefore it is concluded that the perception of VAT has more difficulties that are found in the instruction of VAT system and "increases inflation" is abundantly found in the perception of VAT system.

#### T-TEST

##### The Opinion on Perception of VAT

VAT Perception is an indispensable phenomenon to give mutual benefit to the Consumers, Retailers, Wholesalers, Chartered Accountants and Tax Officials. The application of t-test exactly ascertains the opinion of perception of VAT among the respondents. The following are the results of the t-test.

VAT perception improves the revenue growth and VAT perception increases the confidence of the customers on their tax aspects possess the mean values of 3.76 and 3.57 respectively, with significant t-values of 18.41 and 13.52. Therefore, it is concluded that the perception of VAT improves the revenue growth and increases the confidence of the consumers on their tax aspects.

It curtails sales tax at different stages and it gives mutual benefits to the customers and government possesses the mean values of 3.52 and 2.26 respectively, with significant t-values of 11.89 and -17.119. Therefore, it is concluded that the perception of VAT curtails sales tax at different stages and mutual benefits to the consumers and government. The customers disagree the mutual benefits as the perception of VAT.

It sets smooth approach for the wholesalers and retailers possess the mean values of 4.60, with significant t-value 71.79. Therefore, it is concluded that the perception of VAT smooth approach for the wholesalers and retailers.

The total collection of tax revenue to the government increased rapidly and it is more suitable for the Globalised Economic Situations possess the mean values of 4.42 and 3.18, with significant t-values of 7.464 and 6.867. Therefore, it is concluded that the perception of VAT increases total collection of tax revenue and more suitable for the globalised economic situations.

CLUSTER ANALYSIS

Table – 1.2

Final Cluster Centers - Perception of VAT

	Cluster		
	Unambiguous Cluster	Unenthusiastic Cluster	Dynamic Cluster
It curtails sales tax at different stages	4.00	2.51	3.90
It increases government profits	3.25	3.87	4.12
VAT checks the tax evasion periodically	2.46	3.69	4.35
The total collection of tax revenue to the government increased rapidly.	4.34	4.37	4.50
VAT Improved Exports	3.39	2.71	3.93

Table – 1.2

Number of Cases in each Cluster - Perception of VAT

Cluster	Unambiguous Cluster	110.000	22%
	Unenthusiastic Cluster	144.000	28.8%
	Dynamic Cluster	246.000	49.2%
Valid		500.000	

From the above table, it is found that the sample unit is classified into 3 heterogeneous groups with frequency among the three groups. The First group Strong in VAT outcomes and Suitable Approach, but weak in VAT Real Process. Therefore this cluster is known as **“Unambiguous Cluster” (22 per cent)**.

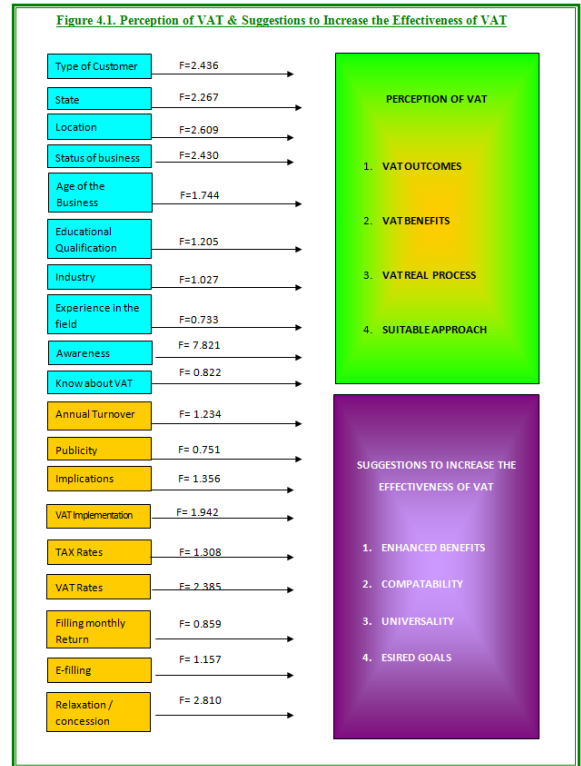
Whereas the Second Cluster is Weak in VAT Outcomes and VAT Features. So, the Cluster is known as **“Unenthusiastic Cluster” (28.8 per cent)**.

But the Third Cluster is Strong in all factors of VAT. Therefore, this group is known as **“Dynamic Cluster” (49.2 per cent)**. On the whole, it is concluded that around 50 per cent of respondents are able to realize the perception of VAT on their business establishment. It is also identified that the remaining 50 per cent are not fully aware of VAT and its Perception. They are unaware of VAT effectiveness, unenthusiastic and do not have clarity over VAT procedure.

SCHEMATIC MODEL

The General Linear Model for determining the influence of independent variable and dependent variables gives out the following model to understand the VAT perception process in Tamil Nadu.

Figure 4.1. Perception of VAT & Suggestions to Increase the Effectiveness of VAT



FINDINGS OF THE STUDY

- ❖ Perception of VAT improves the revenue growth and increases the confidence of the consumers on their tax aspects.
- ❖ Perception of VAT reduces material cost and comparing with the sales tax is abundantly found in the perception VAT system.
- ❖ The customers disagree the mutual benefits as the perception of VAT.
- ❖ Perception of VAT smooth approach for the wholesalers and retailers.
- ❖ The First group Strong in VAT outcomes and Suitable Approach, but weak in VAT Real Process. **“Unambiguous Cluster”**
- ❖ Second Cluster is Weak in VAT Outcomes and VAT Features. **“Unenthusiastic Cluster”**
- ❖ Third Cluster is Strong in all factors of VAT. Therefore, this group is known as **“Dynamic Cluster”**

SUGGESTIONS OF THE STUDY

1. VAT features are highly competent to allot benefit to the government. So, the channel of distribution and flow of VAT must be reformed.
2. A transparent approach to Rate of Tax, Refund Procedure, Maintaining and improving accounting procedure are the immediate need for an hour.
3. The percentage of the Raw Material (4 percent) and Finished Goods (12.5 per cent) are in difference with 8.5 per cent. It is very difficult to pay. So the percentage can be reduced to the rate of Raw Material and it should be equalized.
4. The uniform rate of VAT for all the products should be maintained throughout the country.
5. The consumer should get the bill for their every purchase. So the government will be benefited through the VAT. And also the public is benefited.

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.

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