Impact Factor 2.8972 (ICI)

REVIEW ARTICLE
Vol.5.Issue.1.2018
Jan-Mar

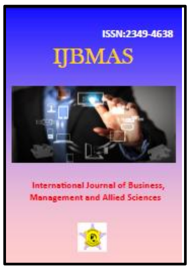
KY Publications
IJBMAS
www.ijbmas.in

INTERNATIONAL STANDARD SERIAL NUMBER INDIA
ISSN:2349-4638

INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ALLIED SCIENCES (IJBMAS)
A Peer Reviewed International Research Journal

COMPARISON AND ANALYSIS OF VAT AND GST

SYED AWAIS
Associate Professor, Academy of Management Studies (AMS), Hyderabad



ABSTRACT
Sometimes, when the government operates on a budget surplus or wants to increase its revenue in order to finance its budget deficit. A question that arises is whether value added tax has been a boon or misery for a developing country like India. Around 136 countries in Asia have recognized the importance of value added tax. In one of the most large scale reforms of the country's public finances in over the past 50 years, India has finally agreed the launch of its much delayed value added tax from 1st April, 2005 at a rate of 12.5%. The tax rate is fixed by meeting of different state level Finance Minister, in New Delhi, designed to make accounting more transparent, to cut short trade barriers and boost tax revenues. According to Chanakya, "A government should tax its people like a shepherd shears a flock or a bee gets nectar from a flower". The tax is levied not only on products but services that is the source of revenue for the government to plan for development is generated through tax levied on the individual on the purchase of goods or services activities in the country.

KEY TERMS : VAT, GST, budget and deficit

1. INTRODUCTION

The important objective of Tax policy in India was to improve the tax to GDP ratio. Therefore VAT has earned the reputation of being a dependable revenue raising instrument. It can easily access the incremental income generated by the expanding economic activities without altering the rates or base in every budget.

There have been serious apprehensions about the inflationary impact of VAT. The price effect of VAT depends mainly on the elasticity of demand and supply of the taxable products and conditions in the factor markets. Therefore it suggests that, if VAT substituted an existing tax with no additional revenue objective in the short run, it would not have any inflationary impact. Moreover sometimes, a reverse effect takes place due to input tax relief, which was not available during sales tax policy.

The distributional impact of tax burden across various income groups of the organization and commodity wise the tax is imposed. Therefore, it is suggested that to reduce the regressive impact of commodity taxes, VAT rate has to be less than that of the substituted taxes. In comparison to conventional indirect taxes, Vat can be more equitable by exempting articles of essential consumption. Moreover it is also suggested that the tax policy should adjusted to the requirements of the country having regard to the existing patterns of distribution of income.

SCOPE OF THE TAX

VAT. VAT applies to the following transactions:

- The sale of goods within the state, which for this purpose includes the transfer of a right to use goods (a lease)
- The transfer of goods during the execution of works contracts involving the supply of materials and services
- The purchase of goods from non-registered vendors in specified situations
- The delivery of goods with respect to hire-purchase or any system of payment by instalments
- The supply of food or any other article for human consumption or any drink as part of a service or in any other manner

CST. CST applies to the interstate sale of goods, that is, to the movement of goods from one state to another, pursuant to a sale.

SERVICE TAX.

Service tax is applicable on the supply of services provided in a taxable territory. A service is defined as any activity carried out by a person for another for a consideration. The following have been excluded from the definition of service:

- An activity that constitutes merely:
  — The transfer of title in goods or immovable property
  — Transactions, such as a transfer of the right to use goods, deemed to be a sale under the Indian Constitution
  — A transaction in money or actionable claim
- A service by an employee to the employer in the course of employment
- Fees applicable taken by legal courts or tribunals Service tax law sets out a negative list of activities that are not subject to service tax. In addition, notifications provide for service tax exemption for specified activities. Law also declares certain activities to be services.

OTHER INDIRECT TAXES.

In addition to VAT, CST and the service tax, an excise duty (CENVAT) is levied in the form of a value-added tax on the manufacture of goods in India. The general rate of excise duty is 12.5%.Tax invoices and credit notes. For VAT, a registered person must issue a tax invoice for all taxable sales made within a state. A small business that pays tax under the composition scheme is generally not allowed to issue tax invoices because it is not allowed to collect tax from the customer. A tax invoice is generally necessary to support claims for input tax credits. Contents of the tax invoice are prescribed under the state VAT laws. An adjustment note (or credit or debit note) may be issued to reduce or increase the amount of VAT payable on a supply (for example, an agreed adjustment is made to the price as a result of an error, or goods sold are returned). The state laws generally prescribe the contents of adjustment notes. Some states provide for a time limit (typically six months) for the reduction of VAT payable on account of return of goods sold. For service tax, an invoice or a bill must be issued with respect to taxable services within 30 days (45 days in cases where the ser- vice provider is a banking company or a financial institution) after the provision of taxable services. The invoice or bill must contain the details prescribed under the service tax law.

BENEFITS OF GST:

- GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
- CST will be removed and need not pay. At present there is no input tax credit available for CST.
- Many indirect taxes in state and central level subsumed by GST, You need to pay a single GST instead of all.
- Uniformity of tax rates across the states

- Ensure better compliance due to aggregate tax rate reduces.
- By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
- Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.
- Overall tax compliance cost will reduce for government and can concentrate on

GST

Indirect taxes subsumed under GST:

The following indirect taxes from state and central level is going to integrated with GST

STATE TAXES:

- VAT/Sales tax
- Entertainment Tax (unless it is levied by local bodies)

DISCUSSION

HYPOTHESIS

1) Profitability of manufacturing industry is more in VAT scenario than sales tax.
2) The tax revenue of the Govt. has increased due to implementation of VAT.
3) VAT has lesser cascading effect on firm as compared to sales tax structure.
4) Tax structure under GST will be more simple as compared to VAT and Sales Tax.

TABLE1: INDUSTRY WISE AND TURNOVER WISE CLASSIFICATION OF INDUSTRIES

Turnover (Rs. In Crores)	A) Capital Industries	B) Consumer Industries	C) Infrastructure Industries	D) Chemical Industries	E) Pharma Industries.	Total
1-200	11	10	04	16	13	**54**
201-1000	07 .	09.	.02	.03	10	. **31**
1000 and						
Above	00	05	04	04	02	**15**
Total	**18**	**24**	**10**	**23**	**25**	**100**

The objective of the study of this topic is to find out the impact of Sales tax, Value Added Tax and Goods and Service tax on the Profitability of the Organizations and to determine which tax system is beneficial to the Industries, Consumers and also to find out the effect of Sales tax, Value Added Tax and Goods and service tax on the Price of the product. This study also results in finding the most beneficial system of tax structure which is suitable means less complicated from the view point of Government and Industries.

This study will be useful to traders, Manufacturers to analyze its tax burden, at the same time government will also understand how to generate the revenue through indirect taxes in the Country.The analytical framework of taxes on international borrowing could be used to examine the effects of a removal of impediments on capital movements in the country.

Sales taxes in India has taken place in varying circumstances in the different states, the existing structure is thus heterogeneous and multifarious. Various forms include single-point tax, double-point tax and multi-point tax. However, there is a pronounced movement towards a single-point tax and a predominant reliance on the first-point tax. Also there exist additional sales tax and surcharge on the sales tax. The effective rate has thus gone up considerably and varies from one state to another.

CONCLUSION

Indirect tax reforms have been as integral part of the liberalization process since new economic reforms. A progressive and welfare oriented nation like India tries to keep a balance between direct and indirect taxes. In this chapter we have made an attempt to understand the concepts and methodological approach required to analyse the impact of Sales tax, VAT and GST on the Profitability of the organization as well as the revenue growth of the Govt. at State and National level.

REFERENCE

1. Chittora B.K. (2005), VAT (VALUE ADDED TAX), Mark Publishers Jaipur (INDIA).
2. Kul Bhushan (2005), How to deal with VAT – (First Indian Print 2005), Pearson
3. Lectures on value added tax act & CST act 2008, V.Subiah Naidu, Sitaraman & Co., t
4. Nagabhushan swamy K.T. (2007), TNCTJ‟S value added tax rates in Tamil Nadu, Fourth Edition, Naags Publications.
5. Nagabhushan Swamy K.T. (2008), TNCTJ‟S value added tax practice and procedure in Tamil Nadu, First Edition Nags Publications.

KY Publications