

Executive Summary of the Minor Research Project

Conducted by

Ann Abraham, Assistant Professor, CMS College Kottayam

UGC Reference No. MRP(H) -1187/13-14/KLMG002/UGC-SWRO

A STUDY ON THE ISSUES OF TRADERS IN VAT IMPLEMENTATION

Value Added Tax, popularly known as VAT, is a multiple turnover tax levied on the value added to a commodity or service as it passes through different stages of production and distribution, until it reaches the final consumer. Replacement of Sales Tax by Value Added Tax has been the most important tax reform measure in India in the recent past as it has uniformed the tax structure across the country. VAT was introduced in the nation with effect from 1.4.2005. VAT is basically a state subject, for which the States are sovereign in taking decisions. The state of Kerala also shifted towards VAT with effect from 1.4.2005.

Statement of the problem

1. The implementation of VAT in India replaced the system of Sales Tax. Implementation of VAT would have resulted in the decline in the price of goods and would have made the tax structure simple and transparent.
2. The traders would also have faced problems regarding the registration and self-assessment of VAT.
3. The introduction of VAT would have also influenced the accounting system followed.
4. An attempt is made to study the impact of VAT on traders, the issues faced by them as regards VAT and its influence on the accounting system followed.

Objectives of the Study

The following are the objectives framed for the study:

1. To study the impact of VAT on tax collection.
2. To study the opinion of traders about VAT.
3. To identify the problems faced by traders in VAT system.
4. To study whether there is any change in the accounting system after the implementation of VAT.

Hypotheses of the Study

The hypotheses furnished for the study are as follows:

1. There is no significant impact of VAT on the tax collected by the government.
2. The various categories of traders dealing in different businesses do not significantly differ in their opinion on whether VAT results in increase in the price of goods.
3. The various categories of traders dealing in different businesses do not significantly differ in their opinion on whether the VAT implementation has resulted in simplicity of tax structure.
4. The various categories of traders dealing in different businesses do not significantly differ in their opinion on whether VAT is beneficial to traders.
5. The various categories of traders dealing in different businesses do not significantly differ in their opinion on whether VAT leads to harassment of traders.
6. The various categories of traders dealing in different businesses do not significantly differ in their opinion on whether VAT enhances the tax revenue of the government.

7. The various categories of traders dealing in different businesses do not significantly differ in their opinion on whether the registration of VAT is a complex process.
8. The various categories of traders dealing in different businesses do not significantly differ in their opinion on whether the self assessment of VAT returns is a problem.
9. The various categories of traders dealing in different businesses do not significantly differ in their opinion on whether there has been any change in the accounting system before and after the implementation of VAT.

Methodology of the Study

The study is to find out the various issues faced by traders in different places of Kottayam District consequent to the implementation of VAT. The data required for the study were tax collected by the government five years before and after the implementation of VAT, the opinion of traders regarding their problems and the accounting system followed after the VAT implementation.

For the purpose of the study, both primary and secondary data were used. The data for the study of the first objective was obtained from the audit reports of the revenue of the state of Kerala as per the website of the Comptroller and Auditor General of India. The data required for the other objectives were obtained through questionnaires.

The investigator has collected data from 200 traders in Kottayam district. The two hundred traders considered for the study comprise forty medical stores, forty textile showrooms, forty provision stores, forty electronic shops and forty rubber businesses. The collected data is analyzed using statistical tools such as t-test and chi-square.

Summary of Findings

- There is an increase of 2.15% in the average growth rate of revenue collection before and after VAT implementation.

- Traders dealing in different businesses do not significantly differ in their opinion on whether VAT results in an increase in the price of goods.
- Majority of the respondents (76%) agreed that VAT is beneficial to the traders.
- Majority of the respondents (90%) were of the opinion that VAT does not lead to any harassment of traders.
- Majority of the respondents (68%) were of the opinion that VAT registration is not a complex process.
- Majority of the traders (68%) were of the opinion that there has been change in the accounting system since VAT implementation.

Conclusion

The implementation of Value Added Tax in India is considered to be one of the major tax reforms of the country. From the study, it is concluded that the traders initially faced issues due to the novelty in the concepts and formalities of VAT. With the passage of time, the traders have acquainted themselves to the system of VAT and most of the traders show a favourable attitude towards the prevailing system of VAT. The accounting system before and after VAT implementation also varies as the traders now require the maintenance of separate accounts for input-tax credit, output tax collected and VAT paid. It can also be concluded that, the tax collection of the Kerala Government has also increased with the introduction of VAT.

Contribution to the Society

The system of sales tax in Kerala is constantly undergoing reforms from the General Sales Tax Act to Kerala General Sales Tax Act to Value Added Tax. Now another reform that is Goods and Service tax is going to be introduced. The study has been useful in

identifying problem areas in VAT implementation and gathering suggestions for improvement from traders which could be suitably used in GST norms.

Achievements from the Project

The project has been successful in gathering suggestions from traders as to how an improvement can be brought about in the existing system of sales tax .