

# A Study of Value Added Tax (VAT) in Tamilnadu

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## I. INTRODUCTION OF VALUE ADDED TAX

A Value Added Tax is a form of consumption tax. From the perspective of the buyer, it's tax on the purchase price. From that of the seller, it's a tax only on the value added to a product, material, or service, from an accounting point of view, by this stage of its manufacture or distribution. The manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes they had previously paid on the inputs. The purpose of VAT is to generate tax revenues to the government similar to the corporate income tax or the personal income tax. The value added to a product by or with a business is the sales price charged to its customer, minus the cost of materials and other taxable inputs. A VAT is like a sales tax in that ultimately only the end consumer is taxed. It differs from the sales tax in that, with the latter, that tax is collected and remitted to the government only once, at the point of purchase by the end consumer. With the VAT, collections, remittances to the government, and credits for taxes already paid occur each time a business in the supply chain purchases products.

## II. IMPORTANCE OF THE STUDY

Under general sales tax, there were problems of double taxation of commodities and multiplicity of taxes resulting in a cascading tax burden. Before a commodity is produced, inputs are first taxed and then after the commodity is produced with input tax load, the output is taxed again. This is double taxation. Under general sales tax, there were multiplicity of taxes, such as additional tax, surcharge on sales tax, additional surcharge. Lastly, another tax resale tax was introduced on the second and subsequent seller of single point goods. Under general sales tax act, tax is levied only once either at the first point or at the last purchase under single point taxation (i.e) under general sales tax, tax burden on any commodity will vary depending upon the number of stages pass through from first producer to ultimate consumer.

Tax burden heavily cast on the dealer is the root cause for tax evasion (i.e) tendency to evade tax. Under VAT system tax burden is less, it is proportionate to the value added on the commodity, which is very rational and very commonly acceptable concept. The need, therefore is to structure a VAT in its simplest form, amenable to easy interpretation and efficient administration while the central excises (indirect tax) have moved forward in the direction of reducing cascading by introducing input tax credit on both raw materials and capital

goods it is high time to introduce similar reform under state sales tax also in the form of VAT. It eliminates different indirect taxes, uniform rate of tax all over country which result in free flow of trade between states. It is simple to understand tax laws and simple to administer. There is some need to introduce VAT. It checks tax evasion through self policing system. It maintains transparency. Tax credit is available on purchases (inputs) and capital goods. It increases state revenue. Multiple taxes add 25-30 per cent to the prices of Indian goods in the world markets. With VAT, these prices will come down. So Indian exports will become more competitive in the world markets and industrialists export more goods.

Study of VAT provides basic knowledge to common man, to traders and to manufacturers about their role for the welfare of the state. Since VAT is a new and different tax from the general sales tax Act everybody must know about the advantages of VAT. The VAT department and offices need to be prepared is knowing the VAT system. Lack of knowledge and widespread information on VAT among people could be solved by proper education or educating the people. There is need to inform everyone about VAT. Traders and industrialists have to learn new VAT accounting system. Thus they need full information on how to work with VAT.

## III. OBJECTIVES OF THE STUDY

To identify the Problems and Prospects in the lacuna of the Governmental perception of Value Added Tax.

## IV. ANALYSIS OF DATA

The secondary data are collected from Commercial Tax Department in the year of 2007-2008, 2008-2009 and 2009-2010 and various journals, magazines, publications, reports, books, dailies, periodicals, articles, research papers, websites, manuals and booklets. Measures of Central tendency is to determine the variables regarding Tamil Nadu (2007-2008, 2008-2009 and 2009-2010) details from Commercial tax Department after implementation of Value Added Tax.

## V. LIMITATIONS OF THE STUDY

The Implementation of Value Added Tax data only is taken for this study for Tamil Nadu (2007-2008, 2008-2009 and 2009-2010).

**VAT REVENUE:**

**TABLE :1.1 VAT REVENUE**  
(₹ In Crores)

YEARS	VARIABLES	PER CENT
2007 – 2008	16473	Nil
2008 – 2009	19305	17.191
2009-2010	21336	0.105
SUM	57114	
AVERAGE	19038	
STD DEV	2442.47	
SUM	12.829	
TREND	16606.5	
GROWTH	16606.5	

**SOURCE: Commercial Tax Department**

The VAT Revenue in the year 2007-2008, 2008-2009 and 2008-2009 and 2009-2010. Standard Deviation emphasizes its 2009-2010 reveals that the average is 19038 thousands. The consistency in the constant increase of VAT Revenue. Trend and Growth is shown constant in the year of 2007-2008,

**TAX SLAB WISE VAT ASSESSEES 2007 – 2008**  
**TABLE: 1.2 TAX SLAB WISE VAT ASSESSEES 2007 – 2008**  
(In No.)

TAX SLABS	NO.OF ASSESSEES	PER CENT
Below ₹1000	40878	Nil
₹1000-5000	24260	-40.652
₹5000-10000	21148	-12.827
₹10000-50000	33413	57.996
₹50000-1 Lakh	17193	-48.543
₹1-5 Lakhs	25694	49.444
₹5-10 Lakhs	8325	-67.599
₹10-50 Lakhs	6669	-19.891
₹50-100 Lakhs	1239	-81.421
₹1-10 Crores	780	-37.046
₹10-20 Crores	56	-92.820
₹20-30 Crores	14	-75
₹30-40 Crores	12	-14.285
₹40-50 Crores	7	-41.666
₹50 Crs & Above	26	271.428
SUM	179714	
AVERAGE	11980.93	
STD DEV	13994.37	
SUM	116.8053	

**SOURCE: Commercial Tax Department**

In the year 2007-2008, the Tax slab Wise Assesses revealed that -12.827 per cent is decreased in the particular ranges from ₹5,000-10,000. It is also found that a conspicuous increase is noticed in the year 2007-2008 in the Slab of ₹50 crores and above 271.428 per cent. On the Average in the year 2007-2008 is 11980.93 thousands have been obtained as VAT. It is also found that a moderate variation is seen in the slab ₹10-20 crores is -92.820 per cent.

**TAX SLAB WISE VAT ASSESSEES 2008 – 2009**  
**TABLE: 1.3**  
**TAX SLAB WISE VAT ASSESSEES 2008 – 2009 (In No.)**

TAX SLABS	NO.OF ASSESSEES	PER CENT
Below ₹1000	85123	Nil

₹1000-5000	20773	-75.596
₹5000-10000	17062	-17.864
₹10000-50000	40146	135.294
₹50000-1 Lakh	13267	-66.953
₹1-5 Lakhs	19385	46.114
₹5-10 Lakhs	4033	-79.195
₹10-50 Lakhs	4071	0.942
₹50-100 Lakhs	659	-83.812
₹1-10 Crores	691	4.855
₹10-20 Crores	43	-93.777
₹20-30 Crores	22	-48.837
₹30-40 Crores	12	-45.454
₹40-50 Crores	7	-41.666
₹50 Crs & Above	25	257.142
SUM	205319	
AVERAGE	13687.93	
STD DEV	22921.30	
SUM	167.456	

**SOURCE: Commercial Tax Department**

It shows that in the year of 2008-2009 the Tax slabwise Assessee is 0.942 per cent which is decreased in the particular range from ₹10-50 lakhs. It is also found that a conspicuous increase is noticed in the year 2008-2009 in the slab of ₹50

crores and above is 257.142 per cent. On the Average, in the year 2008-2009 is 13687.93 thousands have been obtained as VAT. It is also found that a moderate variation is found in the slab ₹10000-50000 of 135.294 per cent.

**TAX SLAB WISE VAT ASSESSEES 2009 – 2010**

**TABLE: 1.4**

**TAX SLAB WISE VAT ASSESSEES 2009 – 2010 (In No.)**

TAX SLABS	NO.OF ASSESSEES	PER CENT
Below ₹1000	63878	Nil
₹1000-5000	29654	-53.577
₹5000-10000	23040	-22.303
₹10000-50000	53423	131.870
₹50000-1 Lakh	17152	-67.893
₹1-5 Lakhs	24720	44.123
₹5-10 Lakhs	5149	-79.170
₹10-50 Lakhs	5396	4.797
₹50-100 Lakhs	848	-84.284
₹1-10 Crores	797	-6.014
₹10-20 Crores	47	-94.102
₹20-30 Crores	16	-65.957
₹30-40 Crores	9	-43.75
₹40-50 Crores	11	22.222
₹50 Crs & Above	27	145.454
SUM	224167	
AVERAGE	14944.47	
STD DEV	20627.33	
SUM	138.026	

**SOURCE: Commercial Tax Department**

The above table depicts that in the year 2009-2010 the Tax slabwise Assessee is 4.797 per cent which is decreased in the particular range from ₹10-50 lakhs. It is also found that a conspicuous increase is noticed in the year 2009-2010 in the slab

of ₹50 crores and above 145.454 per cent. On the Average in the year 2009-2010, 14944.47 thousands have been obtained as VAT. It is also found a moderate variation is found in the slab of ₹1-5 lakhs is 44.123 per cent.

**DISTRIBUTION OF VAT ASSESSEES BY TURNOVER AND TAX SLABS IN 2009 – 2010 (₹400-500 CRORES)**

**TABLE: 1.5**

**DISTRIBUTION OF VAT ASSESSEES BY TURNOVER AND TAX SLABS IN 2009 – 2010 (₹400-500 CRORES) (In No.)**

TAX SLABS	₹400-500 CRORES	PER CENT
Below ₹1000	2	Nil
₹1000-5000	Nil	-100
₹5000-10000	1	Nil
₹10000-50000	Nil	-100
₹50000-1 Lakh	2	Nil
₹1-5 Lakhs	2	Nil
₹5-10 Lakhs	Nil	-100
₹10-50 Lakhs	3	Nil
₹50-100 Lakhs	3	Nil
₹1-10 Crores	11	266.666
₹10-20 Crores	4	-63.636
₹20-30 Crores	Nil	-100
₹30-40 Crores	1	Nil
₹40-50 Crores	1	Nil
₹50 Crs & Above	1	Nil
SUM	31	
AVERAGE	2.818	
STD DEV	2.891	
SUM	102.590	

**SOURCE: Commercial Tax Department**

The above table depicts that negative values are more in the year of 2009-2010 (₹400-500 Crores).

**VI. FINDINGS OF THE STUDY**

- ❖ Standard Deviation emphasizes its consistency in the constant increase of VAT Revenue.
- ❖ Moderate variation is seen in the slab ₹10-20 crores is - 92.820 per cent.
- ❖ Moderate variation is found in the slab ₹10000-50000 of 135.294 per cent.
- ❖ Moderate variation is found in the slab of ₹1-5 lakhs is 44.123 per cent.
- ❖ Negative values are more in the year of 2009-2010 (₹400-500 Crores).

**VII. SUGGESTIONS OF THE STUDY**

1. Government should open a counter in each and every circle, to clarify the VAT doubts to the dealers with separate officer with phone number, that phone number should be Toll Free. To clarify the dealer's doubts about VAT. So, the contact should be given by every officer of the commercial tax department with Toll Free.
2. Government should provide proper training regarding VAT to dealers and should conduct the programmes. By this way, the message and updates of VAT can be easily understood by the dealers.

3. The study ascertained maximum benefit to the government through Value Added Tax system. So, it is strongly recommended to have innovative slabs system suitable for Wholesalers, Retailers and Consumers.

**VIII. CONCLUSION**

VAT is a major source of revenue for governments around the world and its importance continues to increase. There is a risk of under-taxation and loss of revenue, or distorting trade through double taxation.

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