

## Effects of VAT

Based upon historical evidence and economic research, it has been observed that though VAT brings along various benefits in the form of lesser tax evasion and simplicity in taxation system, it also brings various adverse consequences along with it which are given below

### A MACRO POINT OF VIEW

- 1 It will increase government spending.
- 2 It will slow the economic growth and will increase unemployment
- 3 VAT is not a promise to reduce fiscal deficit
- 4 VAT will not result into reduced personal taxes
- 5 VAT will benefit exports
- 6 VAT will effect producing and consuming states differently
- 7 VAT will increase the administrative cost of the business and taxpayers
- 8 VAT will result into undistorted business decisions

### MAJOR CONCLUSIONS

- 1 As far as Jalna district is concerned, VAT if properly enforced could help in fiscal consolidation for the country. As a steady source of revenue, it could be used for reducing the debt burden in due course of time in the district
- 2 "With bill" transactions will be encouraged due to the input tax credit system, minimizing the chances of tax evasion and which will bring transparency in the system that will eventually lead to the revenue growth for the government.
- 3 Avoidance of multiple taxation as VAT substitutes of number of other indirect taxes such as excise duty, turnover tax, surcharge, additional surcharge, custom duties etc.
- 4 Under the VAT system, no exemptions will be given and a tax will be levied at each stage of manufacture of a product. At each stage of value-addition, credit can be claimed on tax paid on inputs.
- 5 Tax rates will be uniform throughout the states so this will stop unhealthy tax rate war and trade diversion among the states.
- 6 The role of tax collection authorities will be reduced as well- assessment is the basis of VAT, hence corruption in the system will be minimal.
- 7 VAT prevents the cascading effect of taxation on price. So it does not distort the business decisions.
- 8 As every sale and purchase will be required to be recorded hence if seen from government point of view it will result in a better-administered tax system. Also the need to keep separate accounts will be eliminated as there will be only one administrative authority.
- 9 VAT avoids the problem of under valuing as all stages of production and distribution are subject to a tax.
- 10 VAT permits easy and effective targeting of tax rates as a result of which the exports can be zero-rated.

### OPPORTUNITIES

1 Industry watchers say that the VAT system, if enforced properly, forms part of the fiscal consolidation strategy for the country. It could, in fact, help address the fiscal deficit problem and the revenues estimated to be collected could actually mean lowering of the fiscal deficit burden for the government.

2 Any globally accepted tax administrative system would only help India integrate better in the world trade organization regime.

3 It is also essential to bring imports into the VAT chain. Because of the set-off, this will not result in any tax cascading effect, but will only improve tax compliance.

4 Though the harmonized system of nomenclature contains only 550 commodities in the it yet but the empowered committee on VAT is likely to extend the list to include 2000 items in it to remove anomalies and to bring uniformity.

#### OVERALL CONCLUSION

VAT would change the nature of trade in the coming years, but the medium level of trade hat is C and F agents, distributors, stockiest etc. would face problems as the companies would reduced the tier of marketing. Similarly small retail dealers would be require to maintain more accounts or pay composition money which can not be collected from the customers. After the abolition of CST the direct marketing concept may gain ground and the necessity of having warehouse, etc.