ABSTRACT

Reforms in the indirect tax system have been going on for quite some time. India has moved from the old sales tax regime to the VAT regime and now moving towards the GST system. Chhattisgarh, one of the newly created states, has been a leading state in tax reforms. It is one of the few states which implemented the VAT. An analysis of tax revenues in Chhattisgarh reveals that VAT has resulted in more revenues to the state; in fact, in some years the actual tax collected was higher than the budgeted figures. However, VAT in Chhattisgarh is not free from limitations. The sample survey reveals that various stakeholders in the state of Chhattisgarh have a positive approach to the GST regime.

I. INTRODUCTION

Indirect tax system plays very crucial role in the growth and development of an economy. Government collects a major portion of its tax revenue through indirect taxes. The more simple and efficient is the taxation system the more vibrant is the economy. It is in this context that the indirect tax system is under continuous reforms. In order to improve the efficiency in tax collection and administration the value added tax system was adopted in India in the year 2005. Introduction of VAT has significantly improved the tax collection and brought efficiency in tax administration removing the problems of the old sales tax regime. However, the VAT has not been able to resolve some of the basic issues of indirect taxation. It is in this context that the introduction of the Goods and Services Tax (GST) is being considered.

Chhattisgarh is a newly created state, which recorded remarkable growth in different sectors of the economy, and is in the process of transformation from an under developed state to a developed one. A major section of the society is now included in the indirect tax regime of the state, i.e. VAT. Though the revenue collection of the state government has remarkably increased with the adoption of VAT as compared to the old Sales Tax, but the level of access of dealers registered with the department in Chhattisgarh is low in comparison to national average.

Lesser number of registered dealers and low revenue collection in Chhattisgarh is a matter of concern. There is a need to improve the status and performance of registered dealers and this will help to increase the revenue in the best possible manner.

As the state is in the process of transition from an under developed to a developed one, the indirect tax regime is also in the transformation from sales tax to VAT and then from VAT to GST. GST is a composite indirect tax on manufacture, sale and consumption of goods and services at national and state level. The GST is expected to replace all the indirect taxes in India. At the national level, GST will replace the existing central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT.

II. OBJECTIVES

The objective of the paper is to analyse the current status of indirect taxes in the state of Chhattisgarh. Other objectives of the paper are:

1) To identify the characteristics of VAT and its implementation in Chhattisgarh.
2) To compare the revenue collection through VAT in the state of Chhattisgarh in the last five years.
3) To find out the opinion of different stakeholders on implementation and effectiveness of VAT and attitude towards the GST.

The paper begins with an introduction followed by a discussion on different concepts of VAT. Then, a brief review of literature on value added tax is included. It is followed by a discussion on status of VAT in Chhattisgarh. The last section contains the concluding remarks.

III. VALUE ADDED TAX

Value Added Tax (VAT) is an arrangement of indirect taxation, which has been introduced in lieu of sales tax system in India. It is the tax paid on the value added on the goods and that is ultimately passed on to the ultimate consumer by the producers, manufacturers, retailers or any other dealer who add value to the goods. VAT has been introduced in India to make sure a fair, transparent and unvarying system of taxation. Value added tax was initially introduced in France in the year 1954 and its scope was enhanced to include services in 1978, agriculture in 1983. This resulted in value added tax becoming one of the important and highly adopted
accounting and taxation innovations of this century. It is presently adopted by over 160 countries all over the world including 19 countries in Asia. Value added tax is the abbreviated form for value added tax. For this purpose, value added is to be understood as “the value that a producer (whether a manufacturer, distributor) adds to his raw materials or purchases before selling the new or improved product or service to the user. The tax was first proposed by Dr. Wilhelm Von Siemens for Germany in 1919. The income tax, excise duty and customs duty constitute the major sources of tax revenue to the central government; however the state government significantly depends on sale tax as the main source of their revenue. It is applied on all products related to food and beverages, medicines, transportation, telecommunications, amusement parks, cinema halls and many more. VAT was first introduced by Maurice Maure, a French Economist and the joint director of the French tax authority in the year 1954. Though this tax system was first applied in France, it was soon accepted and adopted by a large number of other European, American, African and Asian countries. The indirect taxation, is levied on value from raw materials to the final product, at every stage, value is added to the goods and services. Initiated in France, today value added tax is widely used as a method of taxation in most of the European and Asian countries. Value added tax was first introduced and adopted in India in the year 2005. It was levied on all goods and services.

**Definition – Value added tax**

Value added tax in simple terms could be defined as a “tax on the value addition at different stages of manufacturing and distribution of goods and services”. It is a form of indirect tax in the nature of a multi-point sales tax with a set off or credit for tax paid on purchases /services to remove double taxation and cascading affect. Each transaction of goods sold in the course of business is taxed, thus providing revenue to the government on value addition at each stage made by the producer, wholesaler, retailer or as the case may be.

**Objectives of value added taxes**

The primary objective in the forefront of the evolution of value added tax is that the State must ensure that barriers to inter-state trade should be eliminated in order to create a unified national market. It is agreed that the VAT process must be simple, transparent, and consistent in structure and approach (NCAER, 2009).

**IV. VARIANTS (FORMS) OF VAT**

The difference between sales proceeds and cost of materials purchased from other dealers is the base of VAT for any dealer, where purchases includes raw material, semi -raw material, supplied used in the process of manufactures and handling, finishing goods ready for resale, machinery equipment’s, other supporting inputs and other capital goods. Due to difference in treatment accorded to capital goods, there are three variants (varieties) of VAT:

**a) Gross Product type (GVAT)** - In this variant only purchase cost of raw materials is allowed as deduction from sales. No set off is allowed in respect of capital expenditure and this promotes tax avoidance by separating Capital Expenditure and Revenue Expenditure .The limitations of this type of variant of VAT is that capital goods carry a heavier tax burden, as they are taxed twice but no set off is allowed to the dealer for the tax paid on such capital goods. Symbolically it can be presented as:

\[ GVAT = \text{Consumption} + \text{Investment} = \text{Wages} + \text{Profit} + \text{Depreciation} \]

**b) Income type (IVAT)** - In this variant both purchase cost of raw material and depreciation on capital goods (inputs) will be allowed as deduction from sales value. Symbolically it can be presented as:

\[ IV \ A \ T = \text{Consumption} + \text{Depreciation on Investment} = \text{Wages} + \text{Profit} \]

**c) Consumption type (CVAT)** - In this all business purchase including all revenue inputs along with the capital inputs are deducted in order to determine value added. Consumption type VAT is very popular and is adopted by most of the countries due to the following reasons:

1. It makes no difference between capital intensive and labour intensive activities.
2. By making classification between capital goods purchases and revenue purchase tax avoidance can be avoided.
3. On account of credit method administration control becomes easy and quick.
4. Tax burden is always at the final stage e.g. at the consumption stage

In India also we follow the consumption type Variant of VAT.

Symbolically it can be presented as:

\[ CVAT = \text{Wages} + \text{Profit} + \text{Depreciation on Investment} \]

**Current advantages of value added tax in India**

1. Covering almost every state in India.
2. It leads to revenue security for the government.
3. Selection of rates varies state to state due to diversified markets.
4. Less chances of less evasion as compared to sales tax.
5. Simple to manage as compared to other indirect tax.
6. VAT is transparent and has minimum burden to consumers as it provides input of tax paid at earlier stage.

**Shortcomings of the value added taxes at present**

1. VAT is recognized as an integral activity.
2. VAT is not that easy to operate from the position of both administration and business as it seems.
3. Leads to business inflation as the final consumer did not get any benefit of the input tax paid.
4. It has been identified that value added tax favours capital intensive firms that can meet the global challenges.

**V. LITERATURE REVIEW**

Komal (2013) revealed that the Value Added Tax makes an evasive attempt on perception level as well as execution level. 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.

Sunder and Jain (2013) concluded that although the overall tax burden figures are decreasing to the final consumer and it will definitely decrease more in the next stage and will benefit the consumer. VAT introduces the uniform tax rates across the state so that unfair advantages cannot be taken while levying the tax on Auto products. A general survey reveals slashing of prices on items like medicine, automobile products, cosmetics, paper etc. due to downward revision of tax rates and abolition of surcharge and because of availability of the facility of set off of tax paid on inputs as well as capital goods against tax payable on finished products under VAT scheme eliminating the cascading effect, the cost of production of commodities are likely to fall not only making the product of the local industries competitive on one hand, but it will also benefit the consumers by way of resultant reduction in prices of the commodities on the other.

Tripathi R, Sinha Ambalika, Agarwal Sweta (2011) in their study concluded that value added tax in its original form is yet to be introduced in India, at Central, or State level. After the negative and positive impact on the Indian consumers, Value added tax has been identified as the real goal maker by the Indian government in the coming years to foster growth and prosperity in the country.

Prasad M (2008) in her study analysed that the transition to the VAT regime in India has been smooth and as of January 1, 2008, all states and union territories have implemented VAT. She analyzed VAT/sales tax revenue performance in the first year of VAT implementation between VAT and non-VAT states. Results indicate that the rate of growth of VAT collections was lower in 2005-06 for VAT states compared with non-VAT states. The paper acknowledges the fact that the decline in the rate of growth of VAT revenues could be on account of the initial teething problems. Despite this, the proposed recommendations will beneficially impact state government revenues and also ensure smooth functioning of the VAT system in India in the future.

Dr.S.B.Akash and Dr.K.Harishkumar (2006) in their study concluded that only the tax that does not refund is the tax imposed on final consumption the tax is equivalent to the retail sales tax where value and purchase value. He concludes VAT is not burden to the manufacturer and it facilitates concession to manufacturer in an easier manner. The successes of value added system fully depends upon proper planning and preparation, sound accounting practices, systematic organizational audit, fully acceptance of people, trained manpower, sound ethical business practices in business and ethical government representatives.

VI. VAT IN CHHATTISGARH

Along with some other states of our country Chhattisgarh Government also adopted Value Added Tax for the revenue collection and replaced the existing Sales Tax in the State in the year 2006. This adoption though created initial troubles and tough adoption but still with the flow of time the dealers and the consumers have welcomed and adopted the VAT in the participative manner. The revenue collection of the state government has remarkably increased with the adoption of VAT as compared to the old Sales Tax. The VAT has transparency, better control, and effective control policies and due to all these and many more benefits the revenue collection of the Chhattisgarh government has grown up from the year of its implementation. The government has also updated its rules and regulations from time to time to enhance its scope and to have better control on the small dealers and consumers.

The adoption of VAT has increased the revenue of the state but there are certain factors which must be considered by the government to make it more transparent and easier for the dealers. This may help to increase the revenue in the best possible manner and also to remove the variance which exists from its budgeted and actual collection.

Actual Receipts from taxes on sales, trade etc during the year 2008-09 to 2012-13 along with the total tax receipts during the period are exhibited in the following table:-

Table - I
Budgeted and Actual Receipts of taxes on Sales, Trade, etc in Chhattisgarh (2008-09 -2012-13)
(Ru. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Estimate</th>
<th>Actual Receipt</th>
<th>Variance</th>
<th>Percentage of Variation</th>
<th>Total Tax receipts of State</th>
<th>Percentage of actual receipts w.r.t Total Tax receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>3470</td>
<td>3610.94</td>
<td>140.94</td>
<td>4.06</td>
<td>6593.72</td>
<td>54.70%</td>
</tr>
<tr>
<td>2009-10</td>
<td>3447.12</td>
<td>3712.16</td>
<td>265.04</td>
<td>7.09</td>
<td>7123.25</td>
<td>52.11%</td>
</tr>
<tr>
<td>2010-11</td>
<td>4234</td>
<td>4840.79</td>
<td>606.66</td>
<td>7.00</td>
<td>8005.14</td>
<td>53.78%</td>
</tr>
<tr>
<td>2011-12</td>
<td>6006.25</td>
<td>6006.25</td>
<td>0.00</td>
<td>0.10</td>
<td>10712.25</td>
<td>56.07%</td>
</tr>
<tr>
<td>2012-13</td>
<td>7310.20</td>
<td>6928.65</td>
<td>381.55</td>
<td>(5.12)</td>
<td>13043.35</td>
<td>53.16%</td>
</tr>
</tbody>
</table>

(Source: Finance Accounts of Government of Chhattisgarh)
The comparative analysis of actual receipts of taxes on sales along with the budgeted estimate of the revenue collection in the years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13 reveals that the actual collection of the revenue is increasing and the variance with the budget is positive however in the year 2012-13 the actual collection is lower than the budgeted collection there are some factors which are directly or indirectly causing this negative variance in the particular year.

By analysing the above table it can be observed that the percentage of actual receipt of the state through taxes on sales is covering more than half of the total tax receipts of the state, i.e. more than 50% of the total tax receipts of the state during the year. It can be seen from the above table that percentage of collection from sales tax with respect of total tax receipts of the state is highest in the year 2011—12 (56.07%) and it lowest in the year 2009-10 (52.11%). However there is no probable trend in this percentage as we can see that by moving from the year 2008-09 to 2009-10 the share is decreased then in the very next year 20010-11 it is increased to 53.76% then again in the year 2011-12 it increased to its highest in the last five years at 56.07% and in the last of year of this study 2012-13 it diminished to 53.16%. Thus it can be clearly said that thought the total sales tax receipt of the state is more than half of the total tax receipt of government yet there is no such trend of growth in the share of taxes on sales receipt.

VII. PERCEPTION ON SALES TAX, VAT AND GST

A small survey was conducted to obtain views various stakeholders on sales tax, VAT and GST. The survey was limited to Bilaspur city with a sample size of one hundred. The primary data were collected from the business enterprises, tax officials, chartered accountants, wholesalers, retailers and consumers with the help of questionnaire. For the purpose of this study a questionnaire with three sections was developed. The first part of the questionnaire comprises of questions related to the perception and experience of respondents with the administration of Value Added Tax as compared to old Sales Tax. The second part contains the general view point about the parallel going of VAT and CST as compared to single levy of Good and Service Tax with uniformity throughout the country with blanket rate. The final part of the questionnaire consists of the statements relating to perception of GST and expectations of respondents from GST (Goods and Service Tax) over VAT, Areas of Improvement and suggestions to increase the effectiveness of Value Added Tax. In the present study non probability technique is used and the Judgemental Sampling method is followed to gather the data from the respondents. The responses of respondents including Business Enterprises, Tax Officials, Chartered Accountants, Wholesalers, Retailers and Consumers is as follows :

From the above data it can be concluded that more than 65% of the respondents believe that the administration of VAT is easier as compared to the old sales tax.Only 23% of the respondents believe that it is simpler than old sales tax. This indicates the perception that still there are some problems in the administration of VAT which must be resolved to have a better and healthy tax practice within the state.

The above table clearly depicts the emphasis of respondents towards adoption and implementation of single tax system, i.e. Goods and Service Tax with uniformity throughout the country with specified blanket rate to avoid administration cost and to improve transparency in the tax collection system of the government.

From the third part of the questionnaire it can be easily concluded that the respondents expect a lot of major structural changes with the implementation of GST and also expects to have a transparent, healthier and supportive tax regime within the state.
From the above table it is observed that most of the respondents believe that all stakeholders, the manufacturers, dealers, wholesalers, service providers, consumers, tax practitioners will adopt the GST in more overwhelming manner as compared to their adoption of VAT. The table reveals that adoption of GST by the persons will not be a matter of concern for the government.

- It is observed in the past few years that the ultimate consumers and small retailers are unaware of some policies and process of value added tax. It is suggested the government should come with transparent norms to enlighten and motivate the retailers and consumers.
- It is observed that maximum benefit to the revenue collection of the state government is through Value Added Tax system. So it is strongly recommended to have innovative slab system along with various single point system and composition scheme suitable for wholesalers, retailers and consumers to inculcate healthy VAT regime in the state.
- VAT features are highly competent to allot benefit to the government as well as the ultimate consumers. So the channel of distribution and flow of VAT must be reformed in the best possible manner.
- A transparent approach Rate of Tax, Refund Procedure, Maintaining and improving accounting procedure are the immediate need in the present scenario so it is recommended the government should lay more emphasis on the electronic services.
- It is strongly recommended that the tax consultant and the government should periodically review, monitor and help in the procedure and VAT proceedings.

There are numerous taxes in the State, such as, Luxury Tax, Entertainment Tax, etc. which have not yet been included in the VAT. Further, there has not been any integration of VAT on goods with tax levied on services at the State level along with removing the cascading effect of existing service tax. Addition to the above fact, although the burden of Central Sales Tax (CST) on inter-State movement of goods has been diminished with reduction of CST rate from 4% to 2%, this burden has also not been fully removed out. With the implementation of GST at the State level, the additional burden of CENVAT and services tax would be widely removed, and a continuous chain of set-off from the original producer’s point and service provider’s point upto the retailer’s level would be established which would remove the burden of all cascading effects, including the burden of CENVAT and service tax. This is the core of Goods and Service Tax. Also, major Central and State taxes will get merged into GST which will reduce the duplicity of taxes, and this will decrease the compliance and administration cost. With GST, the burden of CST will also be phased out completely.

**VIII. CONCLUSION & SUGGESTION**

Reforms in the indirect tax system have been going on for quite some time. India has moved from the old sales tax regime to the VAT regime and now moving towards the GST system. Chhattisgarh, one of the newly created states, has been a leading state in tax reforms. It is one of the few states which implemented the VAT. An analysis of tax revenues in Chhattisgarh reveals that VAT has resulted in more revenues to the state; in fact, in some years the actual tax collected was higher than the budgeted figures. However, VAT in Chhattisgarh is not free from limitations. GST is not simply combination of VAT plus service tax, but it’s a major advancement over the previous system of VAT and fragmented services tax – hence it’s a self-justified and optimised step ahead. It is expected that adoption of GST in the Indian indirect tax regime structure will lead to higher revenue benefits to the state which were untouched and unaffected by the VAT system and would successfully lead towards the financial and economic development of the country. The sample survey reveals that various stakeholders in the state of Chhattisgarh have a positive approach to the GST regime.

**REFERENCES**

study of Commercial Tax conducted in Ahmadabad in April 2010.