

AN EMPIRICAL STUDY ON THE DESIGN AND STRUCTURE OF JAMMU AND KASHMIR STATE VAT – TRADERS' PERSPECTIVE

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ABSTRACT

The success or otherwise of a tax system depends on a number of factors. Prominent among these is its structure or design. A tax system ought to be designed in such a way that it bridges the gap between the rich and the poor, offers maximum Social advantage, contributes generously to the exchequer and minimizes the cost of collection and compliance. Besides, it should be simple to understand and operate. It should also be certain in respect of rates, rebates, time, place and mode of payment. It should be convenient, diversified and neutral.

The present study is an attempt to analyze and assess the observations of State traders regarding the design of Jammu and Kashmir Value Added Tax.

“The paper also suggests some remedial measures to make VAT more trader friendly in the State”.

Keywords: Value Added Tax, Sales Tax, Structure, Traders, Computational and Assessment mechanism, Cascading effect, Micro and Macro Basis, Turnover.

Introduction:

Design and structure of a tax connotes an overall framework which lays emphasis on its nature, rates, computational mechanism and effects on consumer's choice, check on unfair trade practices, rebates and concessions. Value added tax – a new entrant in the family of commodity taxation is designed to contain all these dimensions/ features.

VAT is an innovation of 21st Century. It has become a favourite feature for the economists and the Governments all over the world. By now around 145 countries across the globe have successfully switched over to VAT. Introduction of VAT in Jammu and Kashmir in the year 2005 has facilitated the replacement of Jammu and Kashmir General Sales Tax Act, 1962. Among other considerations, the basic motive behind the adoption of VAT in the state was to overcome the distortions of the erstwhile Sales Tax System viz; multiplicity of rates, cascading effect, lack of transparency, narrow base, lack of neutrality etc. Adoption of VAT in the State is indeed a

Paradigm shift and an important tax reform in the State's commodity Tax system (Malla, 2013). Basically there are three categories of stakeholders of VAT, viz Consumers, Traders and the Administrators. Among these traders constitute a core group as it is they who feel the real impact of tax (Bushan, 2005). Initially, they bear the tax and its compliance costs. Their responsiveness and compliance are the two important determinants of success or failure of a particular indirect tax system. They are interested in maximizing the profits and retaining the customers. The paper examines as to what extent the traders of the State feel protected under the existing structure and design of VAT. It also attempts to suggest the measures in order to make it more trader friendly.

Review of Literature:

Broadly speaking, it is the design or structure of a tax system on which its success or failure depends. A well designed tax system is one which facilitates:

- Minimization of the gap between rich and poor.
- Maximization of the benefits to the society.
- Increase in revenue.
- Minimization in cost of collection.
- Minimization in cost of compliance.
- Simplicity in operation.
- Convenience, diversification and neutrality.
- Certainty of rates, rebates and mode of payment.

Cnossen (1991) while commenting on the revenue raising potential of VAT concludes that a properly designed VAT raises more revenue with less administrative and economic costs than other broadly based taxes.

Milka and Carlsson (1990) suggest that VAT should be designed in such a way that it pushes the revenue of the government upwards. This is possible when the voluntary compliance is increased.

Commenting on the rate structure of VAT in different countries, Kwong (1993) concludes that different countries have different rate structure. However, in high income countries a single uniform rate is the best while as in low income countries more than one rate is preferable (Cnossen, 1997). Howell (1995) is of the opinion that the applicable base of VAT depends on a number of aspects related to its design and suggests the adoption of a destination based, consumption type system to be implemented with credit invoice method. Many Governments the world over have experienced a spurt in compliance levels and reduction in evasion/avoidance of tax by virtue of self-policing effect of VAT structure (Singhvi, 2004).

Tax Reforms Committee (1991) in its report observed that in order to make VAT structure simple and administrable, it needs to be levied at 2 or 3 rates say at 15% or 20%. It would be a best practice to adopt a VAT with a small and low rate structure coupled with exemptions confined to some basic and essential commodities (Purohit, 1993).

According to Shome (2000) among other measures of long term nature, properly designed VAT will serve as a best measure of tax reform in India.

In the words of Purohit (2001) VAT would increase revenue because of its buoyant structure and will ultimately lead to growth.

Considering VAT as a step to unite economic India, Archana (2005) opines that VAT will make the tax structure in India simpler and more transparent. It is a win – win situation and with VAT's uniform structure, it would be possible to cut the cumbersome paper work by computerization of records leading to transparency in tax recording.

Bushan (2005) views that VAT is so designed that there would be no regular trips to tax department, no standing in long Ques. for obtaining forms, no hesitating tax inspections and no assessments by officers. Muneer (2005) suggests that VAT should be designed in such a way that there is no intervention in

the choice of economic agents and it should not create distortions but should include services as well.

There is dire need for an integrate VAT structure for all goods and services combining the Cen-VAT, State VAT and all other State Level duties (Padmavathi, 2006).

By virtue of its design, VAT is a rational system of tax which eliminates the cascading effect of tax, checks tax evasion and augments revenue.

If VAT is properly designed and implemented, it would be an excellent tax instrument which will go a long way in evolving simple revenue neutral and cascading free tax system in the country (Yeole, 2006).

Objectives of the Study:

The study has been undertaken to achieve the following objectives:

1. To examine and analyse the structural/ design aspect of VAT in Jammu and Kashmir from the perspective of traders.
2. To suggest the ways and means to make the structure of VAT more friendly to the trading community in the state.

Hypotheses:

To validate the results of the study, the following hypotheses have been set:

Null Hypothesis (H_0): The perspective of traders of the sample cities (Srinagar and Jammu) about the design of State VAT is the same.

Alternative Hypothesis (H_1): The perspective of traders of the sample cities (Srinagar and Jammu) about the design of State VAT differs significantly.

Research methodology:

Sample:

The principle components of the research design and methodology used for study are:

The study is based on the samples drawn from the two representative cities of the State, viz Srinagar and Jammu (Capital cities).

In order to achieve the set objectives, the information about the subject of enquiry was collected by using the Questionnaire Method from about 300 respondents (Traders) with different demographic features such as level of their annual turnover, the nature of their trade and the period of their experience in the field. Each city was represented by 150 registered traders selected at random for the purpose of the study.

Instruments used for the Study:

In order to assess the traders' perspective with regard to the design, social, economic and administrative features of VAT, a questionnaire based on 08 dimensions spread over 37 variables was framed and

administered to the respondents. The present study is related to the second dimension i. e the structure/ design of VAT.

The dimension in question is a composition of 06 variables. These are:

- The theoretical frame work of VAT is simple to understand.
- The current rate structure of 0%, 01%, 05% and 13.5% is fairly reasonable.
- The computation of tax liability is difficult as compared to the earlier tax regime.
- Self-assessment is only a stimulus/ bait as otherwise there is a provision of audit assessment and re-assessment under VAT.
- As a trader, one does not feel any inconvenience in his Inter-State transactions after the implementation of VAT in the state.
- VAT is a complex tax system as it demands a lot of paper work and accurate accounting practice.

Since these statements/ variables are qualitative in nature, these were quantified on a 05 point scale using the Likert – Type scale (See table-I) below. The respondents were asked to tick mark the appropriate boxes numbering 1, 2, 3, 4 and 5 against each statement using the following scale:

1. Strongly disagree
2. Disagree
3. Neither agree nor disagree
4. Agree
5. Strongly agree

Table – 1

Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
1	2	3	4	5

Data Collection:

To check whether the questionnaire was easily comprehensible and understandable to the respondents, initially a pilot study was conducted. The data so collected was assessed for its reliability co – efficient and for this purpose Cornbachs Alpha (1951) was used. The minimum Alpha value was taken to be 0.50 (Nunally, 1967). The reliability test was conducted not only in respect of pilot study, but the whole survey data was subjected to the test prior to its subsequent analysis for verification. The reliability co – efficient value 0.76 shown by the instant study, is based on complete survey.

Data processing and tools of analysis used:

The scores on each statement were aggregated, tabulated and subsequently recorded on a Master Chart. The data were then put to statistical analysis. Besides descriptive Statistics comprising Average, Standard Deviation (S.D), Co – efficient of variation

(C.V) and Rank correlation (R_1 and R_2), an inferential test – Z test (a parametric test) to judge the significance of difference of means, was also conducted to arrive at the logical conclusion.

Data Analysis:

Descriptive analysis of the collected data has been made in two ways, viz,

- (a) On individual sample basis (Micro basis) and
- (b) On joint sample basis (Macro basis)

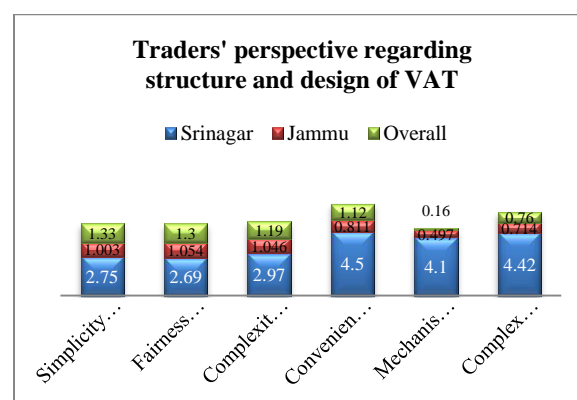
This analysis facilitated a comparison of perspective of the traders of two sample cities regarding the dimension under study. The analysis of the variables/ statements grouped under the dimension “Structure of VAT” is presented in Table – 2 below:

Table – 2: Traders perspective regarding Structure/ design of VAT

Variables/ Statements	Srinagar			Jammu			Overall	
	Mean	S.D	C.V	Mean	S.D	C.V	Mean	S.D
Simplicity of Theoretical frame work	2.75	1.33	48.36%	3.99	1.003	25.14%	3.37	1.33
Fairness of rates of tax	2.69	1.259	46.80%	3.85	1.054	27.38%	3.27	1.30
Complexity of Computational Mechanism	2.97	1.282	43.16%	2.56	1.046	40.86%	2.77	1.19
Convenience in inter-State trade transactions	3.36	1.312	39.05%	3.86	0.811	21.01%	3.61	1.12
Mechanism of assessment	4.10	0.72	17.12%	4.15	0.497	11.98%	4.13	0.61
Complex nature of accounting	4.42	0.762	17.24%	4.75	0.714	15.03%	4.59	0.76

Source: Researchers’ personal survey

Graphic presentation of the data shown in table – 2.



Source: Researchers’ personal survey

Results and Discussion:

The perusal of data results thrown open by the Kashmir based traders with regard to simplicity and fairness of rates with the mean scores 2.75 and 2.69 respectively with almost similar degrees of S.D and C.V, is an indication of the fact that the theoretical frame work and the rate structure of VAT is not

trader friendly. This observation of the Kashmir based traders can be attributed to the poor awareness campaign on the part of the tax authorities and resistance to change on the part of the traders. While as their Jammu counterparts seem to be reasonably satisfied with the existing theoretical frame work and rate structure of VAT (Mean scores being relatively higher i.e. 3.99 and 3.85 with almost identical S.D's and C.V's). This observation is in consonance with those of Shollapure and Sunagar (2006) and Dutta (2006).

As regards the element of tax computational mechanism under VAT, the respondents of both the samples cities with mean scores 2.97 and 2.56 with corresponding S.D's 1.28 and 1.04 and C.V's 43.16% and 4.086% seem to have reasonable amount of uniformity of perception about the simplicity of computation of tax liability under VAT. Again with regard to the mechanism of assessment, convenience in inter-State trade transactions and the complex nature of accounting under VAT, there is a slight difference of opinion among the traders of the two cities which is evident from the mean scores 4.10 and 4.15, 3.36 and 3.86, 4.42 and 4.75 with slight difference in the corresponding standard deviations.

Based on joint sample basis, the tabulated statistics reveals that the respondents of the two sample cities on the whole, have a reasonable amount of agreement in respect of the fairness of the design of the VAT in the State. Further, analysis of data reveals that from the accounting point of view, VAT is a complex tax system (overall mean score being 4.59). It is undoubtedly true because VAT is based on a proper, complete and systematic records. For the traders, apart from the accounting trouble, the high compliance costs involved in proper accounting, pose a persistent threat to their earnings. In Jammu and Kashmir most of the traders prepare accounts manually and are hesitant to adopt computerized accounting for fear of heavy investments and lack of computer Skills. The finding is identical to the observation of Yasmeen (2004).

The traders of the State also feel that self-assessment under VAT is a hollow slogan (overall score being 4.13) as otherwise there are provisions for audit assessment and re-assessment under VAT in case of non-compliance or default on the part of the traders. The traders also feel that the computation of tax liability under VAT is simple when compared to the old tax regime (overall Mean score being low at 2.77). This finding is synonymous to the observation of Jeri Nabi and Shanthi (2006).

The overall mean score of 3.63 attributed to the variable "Convenience in Inter-state trade" acknowledges one of the fundamental features of VAT.

On the whole, as suggested by the table results, there is a reasonable perceptual gap about the dimension in

question between the traders of two cities in the light of their respective co-efficient of variations.

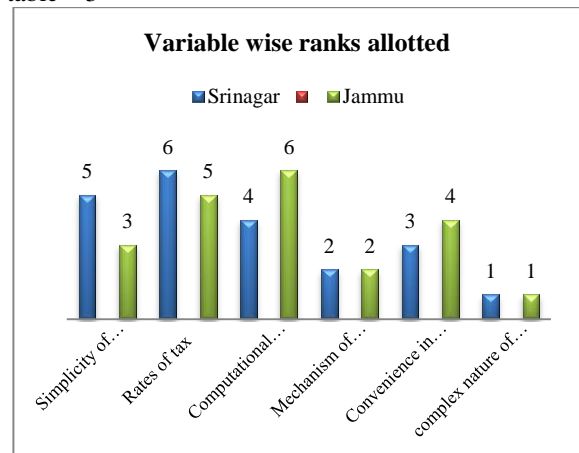
Supplementing the results presented by table – 2, the statements/ variables were put o rank analysis on the basis of their respective mean values in order to find out the observational difference as regards the structure dimension of VAT in Jammu and Kashmir. The results are presented in Table – 3, below:

Table – 3: Variable wise ranks allotted

Variables/ Statements	Srinagar		Jammu	
	Mean	R ₁	Mean	R ₂
Simplicity of theoretical frame work	2.75	5	3.99	3
Rates of tax	2.69	6	3.85	5
Computational Mechanism	2.97	4	2.56	6
Mechanism of assessment	4.10	2	4.15	2
Convenience in inter – state trade transactions	3.36	3	3.86	4
Complex nature of accounting	4.42	1	4.75	1

Source: Researchers' personal survey.

Graphic presentation of the statistical data shown in table – 3



The ranks allotted by the respondents of the two sample cities for the variables "complex nature of Accounting and mechanism of assessment under VAT" are the same i.e 1 & 2. In respect of other variables, the ranks allotted differ to a reasonable extent which clarifies that there is a wide perceptual gap between the traders of the two sample cities.

Inferential Analysis:

To facilitate a comparison in the perspective of traders of two sample cities about the structural dimension of VAT in Jammu and Kashmir, the data was put to a parametric statistical test "Z test" to draw the inferences about the laid hypotheses. The results are shown in Table – 4 below.

Table – 4: Parametric statistics “Z”

Dimension	Srinagar		Jammu		Z	P
	Mean	S.D	Mean	S.D		
Design	3.40	1.47	3.86	1.09	-3.07	0.003

Source: Researchers’ personal survey.

The test shows that the calculated value -3.07 with P. value 0.003 at 1% level (2-tailed) is statistically significant implying that the null hypothesis (H_0) is rejected in favour of alternative hypothesis (H_1) which indicates that there is no uniformity in the perception of the traders of two sample cities about the structural construct of Jammu and Kashmir State VAT.

Conclusion and Suggestions:

The study reveals that the traders of the State do not have a good feeling about the design of the State VAT. The reason is that they have not been able to understand the full nitty – gritty of this system of taxation. Especially the Kashmir based traders seem to be totally ignorant about the benefits of this system of tax. In the State of Jammu and Kashmir, VAT was adopted primarily to remove the ill effects of Sales Tax System, thus benefitting the traders. However, the traders cannot get any benefit until:

- 1) The tax rates across the country are rationalized;
- 2) The competing tax incentives and concessions are removed;
- 3) Uniformity in the rate structure across all the States is ensured;
- 4) The Central Sales Tax (CST) is completely abolished;
- 5) The tax laws and rules are simplified and
- 6) Uniformity in commodity classification is ensured.

Besides, an integrated VAT structure for all goods and services combining Central Value Added Tax (Cen – VAT), State VAT and all other State Level Taxes and duties need to be adopted. VAT demands a thorough examination and exploration and identification of ways and means for its effective implementation. Success of VAT demands a vigorous awareness campaign for its key players like traders. The State tax authorities should undertake various programmes designed to enlighten and educate the traders about the benefits of VAT. The traders need to switch over to computerized accounting. This will help them not only in proper maintenance of accounts, but will also ensure the accuracy and safety of their records. The state Government should increase the current threshold limit of annual turn-over liable to taxed for the traders. This will ensure better administration, collection and enforcement of VAT laws. The traders on their part need to behave as the responsible citizens. They ought to adopt due ethics in business while dealing with the customers. They should be honest in paying taxes to the Government.

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