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REVIEW OF LITERATURE

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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

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IMPACT OF VALUE ADDED TAX (VAT) ON PRODUCT MARKET PRICES – A STUDY IN STATE OF ANDHRA PRADESH

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ABSTRACT

A value added tax (VAT) is a form of consumption tax. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is 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. This research paper explores the impact of VAT on Product Market Prices in the State of Andhra Pradesh. A key question is whether it has indeed proved, as its proponents claim, an especially effective form of taxation. To address this, it is first shown that a tax origination such as the introduction of a VAT reduces the marginal cost of public funds if and only if it also leads an optimizing government to increase the tax ratio. The results point to a rich set of determinants of VAT adoption, this being more likely, for example, if a country has a program with the IMF and the less open it is to international trade. In the revenue equation, the presence of a VAT does indeed have a significant impact.

KEYWORDS

Input Tax, Market Prices, Value Added Tax.

INTRODUCTION

The value added to a product by or with a business is the sale price charged to its customer, minus the cost of materials and other taxable inputs. A Value Added Tax (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, the 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.

The worldwide trend is towards unification of markets to promote competition and efficiency. For the growth of trade and industry, the tax system must be neutral. The objective of taxation is to raise revenues in a welfare state to fulfil its obligations under various sectors. The taxation is not only to raise the revenues required to meet State's expenditure on administration and social services but also to reduce inequalities of income and wealth. Value Added Tax (VAT) is one of the State's level taxes in India with effect from 1st April, 2005. This is the biggest tax reform ever made in the country since independence. By introducing VAT in India, it is projected that VAT revenue of all States put together may go up from 80,000 corers to 1,00,000 corers. VAT is an indirect tax. It is intended as a tax on consumption and is levied on value addition at various stages of production and distribution chain.

In the context of Globalization, uniformity in taxation is a must and the tax policy of the Government supports indigenous entrepreneurs to compete in the International Market. Like income tax reforms, Indirect tax reform also brings more number of tax payers under the tax net i.e., widening of tax base without affecting small traders. The objectives of VAT is to simplify tax structure, to create a uniform common market within the country which will bring down prices that would enable Indian procedures of goods to reduce costs, face competition from abroad and to increase exports. It was aimed at the uniformity in tax rates for all commodities and ensuring uniform market throughout the country. VAT will help common people, traders, industries and also the government.

RATE OF TAX

There are only three rates of taxes, 1%, 4% and 12.5% under VAT. Gold, Silver, Bullion and Jewellery are taxed at 1%. Goods and commodities of basic necessities such as Drugs and Medicines, agricultural and industrial inputs, capital goods and declared goods are taxed at 4%. All other items are taxed at 12.5%.

LEVY OF TAX

VAT is payable only on the value added to the product at every point of sale and not on the entire value of the goods. Under VAT, there is no additional sales tax, no surcharge and no resale tax. Due to less tax burden it is expected that the prices of goods will fall.

Now all developed and developing countries in Europe, and Asia including Pakistan, Bangladesh, Nepal which were following the multipoint sales tax system have shifted over to VAT as it is most convenient and disciplined system in place of Sales Tax. Due to its advantages, VAT is implemented in about 150 countries worldwide. In Australia, Canada, New Zealand and Singapore this tax is known as "Goods and Services Tax" or GST. In Japan it is known as "Consumption Tax". Tax reform in Japan was introduced in 1949 as a substitute for corporation tax; France was the first country to impose this levy in 1954. The Michigan State of the United States imposed a VAT under the name of "Business Activities Tax" in 1953. Carl Shoup has classified VAT on a three-fold basis: Consumption type VAT, Income type VAT, and Product type VAT.

INCIDENCE, LEVY AND CALCULATION OF TAX

Save as otherwise provided in the Act, every dealer registered or liable to be registered as a VAT dealer shall be liable to pay tax on every sale of goods in the State at the rates specified in the Schedules.

Every dealer who has not opted for registration as a VAT dealer and who is registered or liable to be registered for TOT or whose taxable turnover in a period of twelve (12) consecutive months exceeds Rs.5,00,000/- (Rupees five lakhs only) but does not exceed Rs. 40,00,000/- (Rupees forty lakhs only) shall pay tax at the rate of one percent (1%) on the taxable turnover in such manner as may be prescribed.

Every VAT dealer shall pay tax on every sale of goods taxable under the Act on the sale price at the rates specified in the Schedules III, IV and V, subject to the provisions of Section 13.

Every VAT dealer, who in the course of his business purchases any taxable goods from a person or a dealer not registered as a VAT dealer or from a VAT dealer in circumstances in which no tax is payable by the selling VAT dealer, shall be liable to pay tax at the rate of four percent (4%) on the purchase price of such goods, if after such purchase, the goods are:

- Used as inputs for goods which are exempt from tax under the Act; or
- Used as inputs for goods, which are disposed of otherwise than by way of sale in the State or dispatched outside the State otherwise than by way of sale in the course of inter-State trade and commerce or export out of the territory of India; or
- Disposed of otherwise than by way of consumption or by way of sale either within the State or in the course of interstate trade or commerce or export out of the territory of India;
- Provided that in respect of purchases of goods specified in Schedule III, the VAT dealer shall be liable to pay tax at the rate specified in that Schedule;

Every dealer shall pay tax on the sale price of goods specified in Schedule VI at the special rates and at the point of levy specified therein; Every casual trader who sells goods within the State and any dealer covered under Explanation III and IV of clause (10) of Section 2 shall pay tax on the sale price of such goods at the rates specified in the respective Schedules.

OBJECTIVES OF THE STUDY

The research was proposed to take up Research and analysis on this subject matter.

1. To examine the impact of VAT on Market Prices.
2. To examine the Revenue implications before and after VAT.
3. To compare the commodity prices (pre-VAT and post-VAT).
4. To compare the VAT implications under various levels of supply chain.
5. To estimate the perceptions of different categories of people.

SCOPE OF THE STUDY

Tax element influences the pricing policy, to study the wholesale and retail prices of select commodities. The study covers: Three groups of commodities:

1. Group-A : Commodities, whose rate of tax was reduced;
2. Group-B: Commodities, whose rate of tax was increased; and
3. Group-C: Commodities, whose rate of tax remained the same.

Area of coverage is in the state of Andhra Pradesh.

METHODOLOGY OF THE STUDY

Opinion Poll: To know the impact of VAT opinion poll conducted and data gathered from various stake holders. The data obtained by way of Questionnaire is analyzed and conclusions are drawn. Opinion gathered through a short Questionnaire, issued to the Manufacturers and Wholesale / Retail Dealers.

Sample Design: At first all the districts of Andhra Pradesh are selected for the study. Finally, from each district purposively using the judgment, the sample size is arrived at 1100. The sample Respondents are from (40) categories of people. The sample consists of five categories such as Dealer, Professionals, Government, Consumers and others.

LIMITATIONS OF THE STUDY

1. The study is conducted in the sample 23 districts of Andhra Pradesh only.
2. The study will have the limitations of generalizations of findings to all the states of India.
3. Questionnaire data collection: despite the fact that proper explanation is given, it depends how the respondent understands and comprehend the subject.
4. Bias, ignorance, communication problems.

IMPACT OF VAT ON MARKET PRICES OF THE PRODUCTS

RISE OR FALL IN SELLING PRICES

There is a rise or fall in the selling prices of certain categories of commodities, as noticed from the market prices. The respondents are given some categories of commodities and asked to identify whether there is any change in the selling prices. The respondents expressed their opinion by accepting or rejecting the statement. The statement and responses of the respondents are given in the following tables. The respondents agreed with the statement, if the selling prices are increased.

AGRO-BASED PRODUCTS

Example: Food Grains (Rice), Pulses (Green Gram, Red Gram, Black Gram), Wheat and Wheat Products, Vegetable Oils, Chillies, Cotton, Turmeric, Pesticides and Fertilizers etc., 70.00 per cent of the respondents agreed that the prices are raising.

TABLE1: SHOWS THAT RISE OR FALL IN SELLING PRICES IN AGRO-BASED PRODUCTS

Particulars	No.of Respondents	Percentage
Agreed	770	70.00
Not agreed	198	18.00
Not known	132	12.00
Total	1100	100.00

Source: Primary Data

Industrial Products: Example: Raw materials, Assemble Parts, Motors etc., 60.00 per cent of the respondents agreed that the prices of industrial products are rising.

TABLE 2: SHOWS THAT RISE OR FALL IN SELLING PRICES IN INDUSTRIAL PRODUCTS

Particulars	No.of Respondents	Percentage
Agreed	660	60.00
Not agreed	154	14.00
Not known	286	26.00
Total	1100	100.00

Source: Primary Data

Automobile Products: Example: Motor Vehicles (Four wheelers and Two wheelers), Automobile parts, Tyres & Tubes, Bearings and Lubricants etc., 67.00 per cent of the respondents agreed.

TABLE3: SHOWS THAT RISE OR FALL IN SELLING PRICES IN AUTOMOBILE PRODUCTS

Particulars	No.of Respondents	Percentage
Agreed	737	67.00
Not agreed	143	13.00
Not known	198	18.00
Total	1100	100.00

Source: Primary Data

Consumer Durables: Example: Refrigerators, Washing Machines, Air Conditioners, Television sets etc., 69.00 per cent of the respondents agreed.

TABLE4: SHOWS THAT RISE OR FALL IN SELLING PRICES IN CONSUMER DURABLES PRODUCTS

Particulars	No.of Respondents	Percentage
Agreed	759	69.00
Not agreed	231	21.00
Not known	110	10.00
Total	1100	100.00

Source: Primary Data

Fast Moving Consumer Goods (FMCGs): Example: Toilet soaps, Tooth Paste, Hair Oils, Detergent Soaps & Detergent powders etc., 69.00 per cent of the respondents agreed.

TABLE5: SHOWS THAT RISE OR FALL IN SELLING PRICES IN FMCGS PRODUCTS

Particulars	No.of Respondents	Percentage
Agreed	759	69.00
Not agreed	231	21.00
Not known	110	10.00
Total	1100	100.00

Construction Materials: Example: Cement, Iron & Steel, Plywood, Glass & Glassware, Tiles, Marbles, Paints, Electrical Fittings etc., 76.00 per cent of the respondents agreed.

TABLE6: SHOWS THAT RISE OR FALL IN SELLING PRICES IN CONSTRUCTION MATERIALS PRODUCTS

Particulars	No.of Respondents	Percentage
Agreed	836	76.00
Not agreed	110	10.00
Not known	154	14.00
Total	1100	100.00

Source: Primary Data

Food Items: Example: Food served in Hotels, Bread, Biscuits, Confectionary, Soft Drinks, Fast foods, Dairy Products etc., 70.00 per cent of the respondents agreed.

TABLE7: SHOWS THAT RISE OR FALL IN SELLING PRICES IN FOOD ITEMS PRODUCTS

Particulars	No.of Respondents	Percentage
Agreed	770	70.00
Not agreed	231	21.00
Not known	99	09.00
Total	1100	100.00

Source: Primary Data

Drugs & Medicines: Example: General Medicines, Healthcare, Lifesaving drugs, ayurvedic preparations, homeo medicines etc., 75.00 per cent of the respondents agreed.

TABLE8: SHOWS THAT RISE OR FALL IN SELLING PRICES IN DRUGS & MEDICINES

Particulars	No.of Respondents	Percentage
Agreed	825	75.00
Not agreed	198	18.00
Not known	77	07.00
Total	1100	100.00

Source: Primary Data

INCREASE OR DECREASE IN RATE OF TAX (VAT)

There is increase or decrease in the rate of tax (VAT) of certain groups of commodities. The respondents are given the list of commodities under Group-A,B,C& D. when the rate of tax is increased the prices of such commodities are increased in the market. When the rate of tax is reduced the prices of such commodities are also increased instead of reducing the prices. The respondents expressed their opinion in terms of accepting or rejecting the statement mentioned about the groups of commodities. The statements and responses of the respondents are mentioned in the following tables.

Group-A Commodities: (whose rate of tax was decreased under VAT). Therefore prices of the commodities have come down: Example: (cosmetics, cement, drugs & medicines etc.,). There is mixed response from the respondents. 39.00 per cent of them agreed and 46.00 per cent of them disagreed with the statement.

TABLE9: SHOWS THAT INCREASE OR DECREASE IN VAT RATE OF TAX IN GROUP-A

Particulars	No.of Respondents	Percentage
Agreed	429	39.00
Not agreed	506	46.00
Not known	165	15.00
Total	1100	100.00

Source: Primary Data

Group-B Commodities: (whose rate of tax was increased under VAT). Therefore prices of the commodities have gone up: Example: (milk foods, electronic items, music systems etc.,). In this case also there is a mixed response 41.00 per cent of them agreed and 42.00 per cent of them disagreed with the statement.

TABLE10: SHOWS THAT INCREASE OR DECREASE IN VAT RATE OF TAX IN GROUP-B

Particulars	No.of Respondents	Percentage
Agreed	451	41.00
Not agreed	462	42.00
Not known	187	17.00
Total	1100	100.00

Source: Primary Data

Group-C Commodities: (whose rate of tax has undergone a change during the past two years, from the date of introduction of VAT). Therefore prices of these commodities have come down due to reduced rate of tax: Example: (Tea and Coffee). 38.00 per cent of them agreed and 23.00 per cent of them disagreed with the statement, while a majority of 39.00 per cent respondents do not know.

TABLE11: SHOWS THAT INCREASE OR DECREASE IN VAT RATE OF TAX IN GROUP-C

Particulars	No.of Respondents	Percentage
Agreed	418	38.00
Not agreed	253	23.00
Not known	429	39.00
Total	1100	100.00

Source: Primary Data

Group-D Commodities: Certain commodities have been exempted from tax under VAT, which were taxed earlier under APGST, is there any reduction in prices of such commodities: Example: (Jaggery, Firewood and Agricultural Implements etc.,). A majority of the respondents 78.00 per cent agreed.

TABLE12: SHOWS THAT INCREASE OR DECREASE IN VAT RATE OF TAX IN GROUP-D

Particulars	No.of Respondents	Percentage
Agreed	858	78.00
Not agreed	110	10.00
Not known	132	12.00
Total	1100	100.00

Source: Primary Data

CONSUMER RIGHTS

The consumers are the ultimate tax payers. The respondents were asked to express their opinion that there should be a separate machinery to protect the interest of the consumers. 92.00 per cent of the respondents agreed with the statement but only 5.00 per cent of the respondents disagreed with the statement. The information is given in the following table no.4.31.

TABLE13: SHOW THAT THE CONSUMER RIGHTS

Particulars	No.of Respondents	Percentage
Agreed	1012	92.00
Not agreed	55	05.00
Not known	33	03.00
Total	1100	100.00

Source: Primary Data

RATING THE IMPACT OF VAT

The respondents are asked to rate the impact of VAT on market prices, on a scale of 10 % to 100%. The respondents are given rate from the table no.14. About 80.00 per cent of the respondents expressed that there is increase ranging from 10% to 30%.

TABLE14: SHOWS THAT RATING THE IMPACT OF VAT

Particulars	No.of Respondents	Percentage
10% Increase	418	38.00
20% Increase	297	27.00
30% Increase	165	15.00
40% Increase	88	08.00
50% Increase	66	06.00
60% Increase	44	04.00
70% Increase	0	0
80% Increase	0	0
90% Increase	0	0
100% Increase	22	02.00
Total	1100	100.00

Source: Primary Data

PERSONAL OPINION

The respondents are asked to give their personal opinion about positive impact of VAT on the prices of goods generally used by them. The responses are given in the table no.15. 59.00 per cent of the respondents expressed positive impact.

TABLE15: SHOW THAT HAS VAT MADE ANY POSITIVE / NEGATIVE IMPACT ON MARKET PRICES

Particulars	No.of Respondents	Percentage
There is a positive impact	649	59.00
There is a negative impact	286	26.00
Not known	165	15.00
Total	1100	100.00

CAPTIONED ADVERTISEMENT

There was an advertisement on VAT. It was like "VAT made life Happier". The respondents are asked to say Yes or No about the above caption. Their reactions are given in the table no.16. About the 47.00 per cent respondents are supported the statement.

TABLE16: SHOW THAT "VAT MADE LIFE HAPPIER"

Particulars	No.of Respondents	Percentage
Yes	517	47.00
No	352	32.00
Not known	231	21.00
Total	1100	100.00

Source: Primary Data

The following are some of the **general remarks** mentioned in the data by the respondents in their own words:

1. Consumer all the most is a neglected lot in matter of taxation (indirect) ultimate price of any goods influence decision of consumer, in matters of taxation policies this fact is seldom taken into consideration. It is not merely the rates of taxation that matters but, in my opinion the administration of tax, effective dispute resolution mechanism, administration action on erring officials (only when due care is not exercised) pressure of targets on tax official, considering tax demand raised by officials as a tool to evaluate their performance contribute largely to evasion price practices by dealers.

2. VAT is very good act. By implementing VAT clerical work paper work of traders increased, it is very difficult to maintain without a computer. Market prices are stable.
3. Effective implementation of VAT, ailment of input credits, issue of compulsory sale bill, and dealer's compliance in this regards will benefit the consumer ultimately in the long run.
4. Increase in prices cannot be attributed to VAT. There was no discernable tendency of the prices to go up or down with the increase or decrease of any kind of taxes. Prices are linked to market forces. There is an tendency on the part of a section of the business people to attribute the rise in prices to taxes with a view to mislead the public. Hence "the impact of VAT on market prices" is a figment of imagination rather than a reality.
5. Introduction of VAT in a country like India is a good factor. But the returns that are to be submitted by a dealer are to be kept minimum. By this, the dealers will concentrate on business and pay more taxes. Above all, thanks for taking this type of initiative on VAT.
6. There is a lot of gap in understanding the impact of VAT between consumer and trader. The input tax benefit is never passed on to the consumer. But the burden is always thrown on the shoulders of the tax payer. In the name of VAT, the customer is always burdened.
7. VAT has not achieved desired results and the common man is not benefited by the implementation of VAT. The benefit of VAT is not being extended to the common man.
8. On the whole, there is no impact on the commerce on introduction of VAT. Even after introduction of VAT consumers are not insisting on bill. Even traders are not issuing sale bill.

SUGGESTIONS

1. One R & D unit is to be created in the CT dept. to study the situations and initiate appropriate Action to protect the state revenue and the interests of the consumers. Under APGST regime, purchases from unregistered dealers were more, say 30% without bills. The corresponding sales were reduced or suppressed to that extent.
2. In the light of set-off of tax now available under VAT, it is to see whether corresponding white sales have increased or not, with reference to the profit & Loss Accounts of the dealers.
3. To see whether No.2 business is reduced in certain vulnerable areas which are prone to evasions? Whether VAT really worked there?
4. Did Rationalization and Reforms bring in any change in the public?
5. See the accounts of Corporate Hotels, Corporate Hospitals, their local purchases. To verify how much turnover, scored with bills and how much turnover scored without bills.
6. In VAT regime dealer-wise payment of tax abnormally increased. Evasion has comedown definitely, due to the ITC (Input Tax Credit) benefit extended to the manufacturers. The compliance levels have almost been doubled, more than the projected levels. Whatever reflected is only a partial compliance, but still there is scope to get a lot of compliance.
7. There is an urgent need to change the pricing policy to protect multidimensional interest

CONCLUSION

To sum up, the Impact of VAT on market prices is clearly seen in the case of commodities whose rates of taxes have been either reduced or increased. A 1 % increase in the tax rate imposed on the commodities leads to increase in the price of the same commodity by ranging from 0.05 % to 0.9 % in general and in the extreme cases went up to 12.5 %. The impact was more on price increase side, rather than on price decrease side. The impact is changing from year to year, as the prices have been changing from first year to second, and second to third years of VAT. The co-efficient of Variance is worked out taking into account the pre-VAT and post VAT Price.

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