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## AN ANALYSIS OF THE CONTRIBUTION OF VALUE ADDED TAX TO MADHYA PRADESH STATE FINANCE

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**ABSTRACT**

*The purpose of this study is to find out the contribution of value added tax (VAT), which had taken place from 1<sup>st</sup> April 2006 in Madhya Pradesh. It's an analysis of value added tax policy that has generated large scale of revenue for state finance. It has influenced business, trade, industrial & commercial activities to a great extent. This tax policy replaced the commercial tax or sales tax in the state of Madhya Pradesh. This has helped the government to restrain the high tax rates, tax evasion, corruption, and abolishment of Central Sales Tax also. The reasons behind adopting value added tax policy was smooth functioning of trade practices, stable rates, administration of easy tax system, satisfaction of traders and customers. In this paper we focused on the financial contribution of the value added tax policy in Madhya Pradesh.*

**KEYWORDS**

value added tax (VAT), cascading effect, tax evasion.

**INTRODUCTION**

Taxation policy is one of the important mile stones for the economical development of any country or state. It provides strong financial resource to government and relief in tax burden to traders. The government is also in need of financial resources to operate the developmental activities for public welfare, fulfilling the needs of society, to run the various plans & implementing the proposed planning. In real term tax is a compulsory contribution or payment for public services which is payable to government or any other local bodies. It is a part of public finance whether it is beneficial for tax payer or not? Whether he or she is paying it willingly or not? Government collects the revenue from various sources like direct taxes- income tax, indirect taxes like VAT, central sales tax etc. These receipts are public income which is used to invest in public welfare like primary and infrastructural facilities. Time to time every government makes changes in taxation policies for providing efficient working of trade & business activities. For the development & extension of business, a healthy commercial atmosphere is necessary for it. Well planned policies should be introduced by the government. The contribution of Indian indirect taxation is 75% in overall tax revenue. Tax which is levied on sales is very important and as per the view of accounting its contribution is 49%. Sales tax is largest source of state taxation revenue. The financial dependency of states is purely based on indirect taxes and it's incomplete without this. Indirect taxes are included in the price of the product. It is imposed indirectly on the goods & affects the all persons at same level like sales tax, commercial tax or value added tax. Indirect taxes are not directly related with the income. Indirect tax burdens are hidden in the prices of the goods & products. These taxes are very nominal or small sum of amount payable on goods which is paid by the customers but it is increased collectively.

**REVIEW OF LITERATURE**

**Kapoor and Dhaliwal (2009)** discussed about the various important changes under VAT in India. It studied all the working of value added imposition, payment procedure, return filing, assessment, input tax rebate benefit under VAT. Under the study of paper, it is tried to find out the method of tax imposition and requisite procedural under VAT with the previous commercial tax or sales tax. Under sales tax or commercial tax when goods are produced tax imposed on it. In next when it is sold by retailer or wholesaler to customer. Again it is used to levy on the selling price which is decided by the retailer or wholesaler. Sales tax or Commercial tax is imposed on every times when the goods sold to any person. It was giving the double taxation with cascading effects. The result was increased value of the goods everywhere. Under VAT this overloading of tax is finished because tax is imposed on value addition in distribution channel. The most important feature of VAT is input tax credit, under which seller gets the rebate of paid tax previously on purchase of goods from the payable tax on current sale of goods. The introduction of VAT finished multiple taxes like turnover tax, surcharge additional surcharge etc. A more innovative part is made under VAT was self-assessment by dealers. **Tripathi et al. (2011)** Examined that VAT will change the Trade in coming years, there can be some problems faced by traders. Traders have to maintain proper accounts, records, issue of invoice etc. The CST & VAT will not impose together. So after the decision of abolishment of CST value added tax will be applicable in all over place. There will be no requirement for dealers to go outside of state for purchasing goods.

**Deshmukh (2012)** evaluated the impact of VAT on profitability of manufacturing Industries in Maharashtra. This concluded that uniform laws and procedures will be more easy & transparent for both state governments and tax payers for tax administration. The VAT undoubtedly increased the tax revenue as well as the profitability of the organizations. It reduced the paper work and complications of procedures related to the registrations, payment of tax etc. It emphasized on the nature of reducing the cascading effect under VAT.

**Muthu and Senthil (2013)** assessed the attitude of Pharmaceutical Retailers towards VAT in Tiruchendur Taluk of Tuticorin District. He found that how will VAT useful to reduce the problems facing by the pharmaceutical retailers like maintenance of stock, invoice making, computerizing accounting, self-assessment required by the government for properly inspection of business.

**Sunder and Jain (2013)** accepted that impact of VAT on automobile industry are near about equal to the sales tax figures but VAT amount will definitely increase in the next stage and will benefit the government revenue. The overall tax burden figures in the research are decrease to the final consumer and it will definitely more decrease 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 281 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.

**OBJECTIVES OF THE STUDY**

The main objective of the study is to analyze the fruitfulness of value added taxation policy introduced by the State Government of Madhya Pradesh. Primary stage of imposition of this tax got a strong resistance by the trader community. They were not agreeing with the compliances & tax rates of value added tax. Every

taxation policy impacts on businesses in good or bad manner. Value added tax contributed a large revenue amount in the year of starting as compared to the previous commercial tax policy. We have tried to survey the notable changes in revenue collection of the state government by opting value added tax policy. This policy has been beneficial for easy operation and transparent for tax evasion.

**RESEARCH METHODOLOGY**

The study is based on secondary data. All the secondary data and information was collected from Commercial Tax Department, Head Office Indore. Interview method is also being used to retrieve the data. All the statistics are authentic and purely based on official records.

**REVENUE COLLECTION FROM M. P. COMMERCIAL TAX**

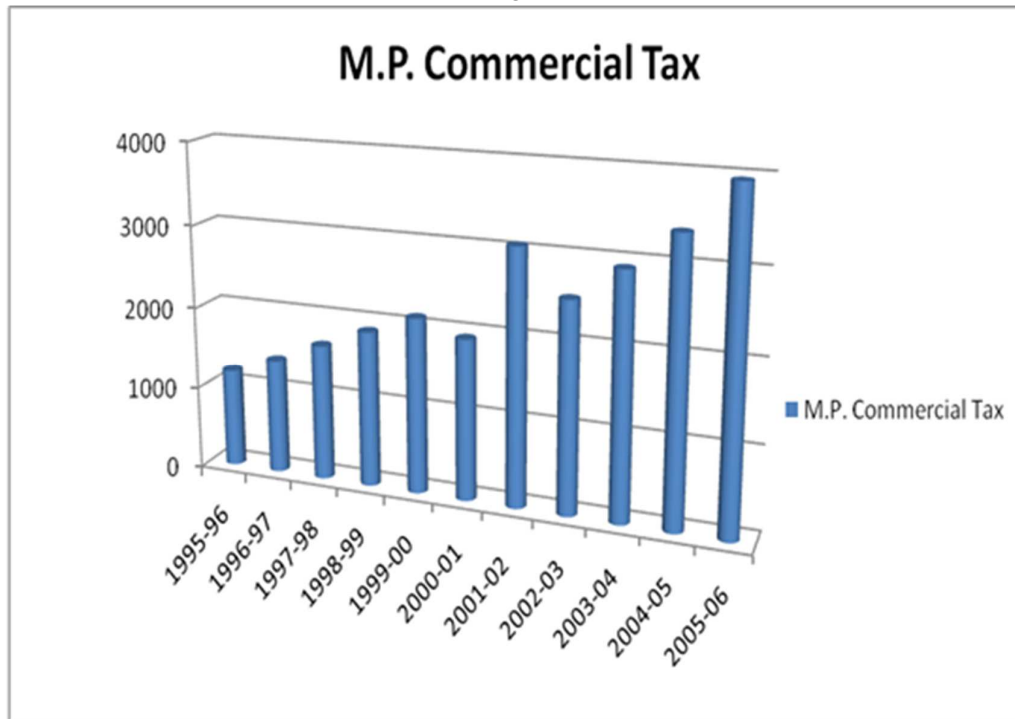
TABLE 1 represents the collection of revenue from M.P. Commercial Tax.

TABLE 1

YEAR	M. P. COMMERCIAL TAX (IN RS. CORERS)	GROWTH IN REVENUE %
1995-96	1191.30	14.77
1996-97	1391.05	16.77
1997-98	1644.55	18.22
1998-99	1881.96	14.44
1999-00	2113.18	12.29
2000-01	1933.63	- 8.50
2001-02	3060.50	6.56
2002-03	2520.47	22.32
2003-04	2916.73	15.72
2004-05	3365.60	15.39
2005-06	3951.43	17.41

Source: (Based on the Statistics received from M.P. Commercial Tax Head Office)

FIG. 1



**REVENUE COLLECTION FROM VALUE ADDED TAX**

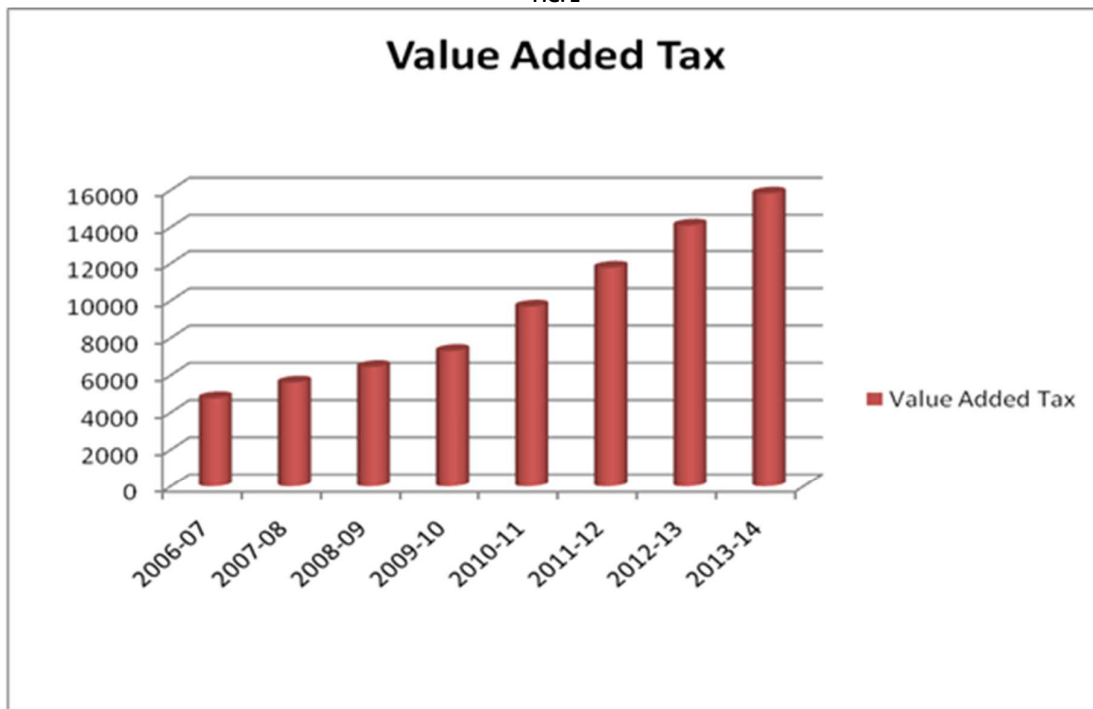
TABLE 2 represents the collection of revenue from Value Added Tax.

TABLE 2

Year	Value Added Tax (VAT) (In Rs. Corers)	Growth in Revenue
2006-07	4763.63	24.13
2007-08	5603.88	17.43
2008-09	6439.35	14.91
2009-10	7299.01	13.35
2010-11	9679.91	32.62
2011-12	11765.09	21.54
2012-13	14087.76	19.74
2013-14	15812.83	12.25

Source: (Based on the Statistics received from M.P. Commercial Tax Head Office)

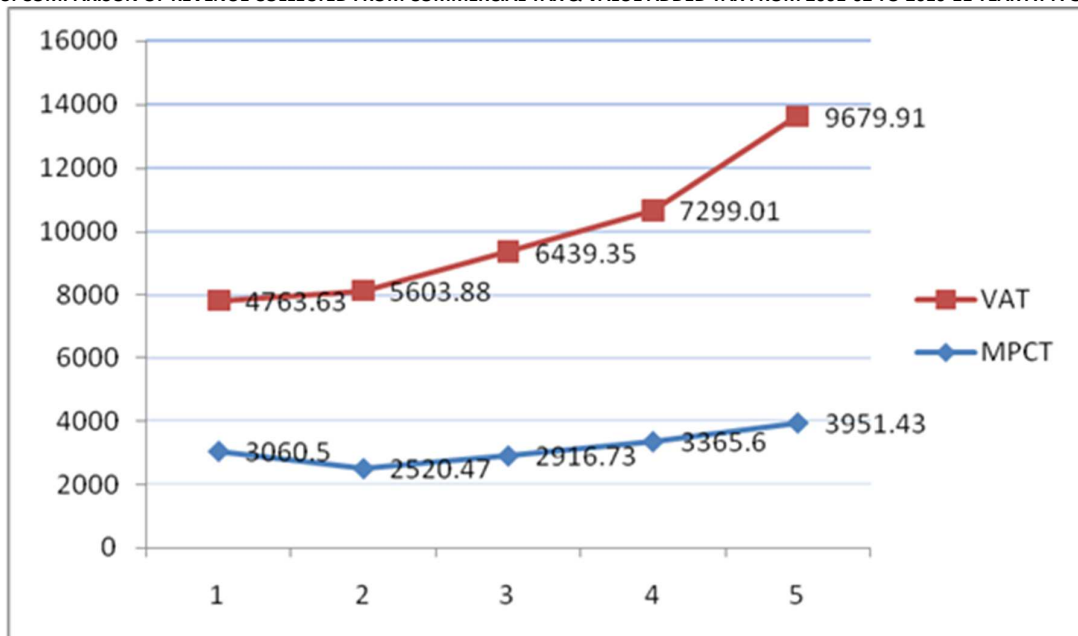
FIG. 2



**ANALYSIS**

Value Added Tax implemented from 1<sup>st</sup> April 2006 in Madhya Pradesh. There are 13 divisions under commercial tax department and 78 circles established. Due or pending tax is recovered by the department like the rules of M.P. Land Revenue Act. In the two years from the implementation of VAT in M.P. a large number of revenue generated which is more than (in corers) as previous commercial tax or sales tax. M.P. state government got 1,864 corers 92 lakhs rupees revenue in the earlier stage of introduction in only two years after removal of commercial tax which was 321 Corers 97 Lakhs rupees more than last previous year. There was a 20.74 % increase recorded in revenue as compare to previous year 2005-06. In 2015-16 state government collected 19,252.67 Corers from VAT. For 2016-17 state government targeted collection 22,000 Corers from VAT.

FIG. 3: COMPARISON OF REVENUE COLLECTED FROM COMMERCIAL TAX & VALUE ADDED TAX FROM 2001-02 TO 2010-11 YEAR AT A GLANCE



**STRONG REASONS BEHIND IMPLEMENTATION OF VAT**

There were several reasons behind introducing VAT in Madhya Pradesh we can give focus on them given below:

- Input Tax Rebates**- It's an advantage to purchaser or buyer whether he is purchasing raw material for manufacturing or goods for selling to consumer he has to pay the requisite tax amount on purchasing and will receive an input tax credit on selling from the payable tax amount which is paid earlier by him. To receive the benefit of input tax credit it is necessary for a seller to present invoice for every transaction. This will stop tax evasion problem which is not available in commercial tax. For avail the input tax rebate invoice is mandatory for all.
- Low tax rates** – As compared to commercial tax the tax rates are very low.

3. **Less number of rates** – In Commercial tax and sales tax various rates used for imposition of tax. Due to variety of rates the sellers, manufacturers got confused for paying tax to government. Only four rates are applicable in VAT- 0% Rate for Tax Free Goods, 1% for Gold, Silver, and Diamond & Precious Metals, 4% Rate of goods and 12.5% Rate of goods
4. **Curtailling the Corruption** - Invoice is necessary for validation of any business transactions. So every trader has to show the bills and maintain the proper records. The inspectors used to pressurize the traders to avail the undue advantages. Implementation of VAT is solved these problems.
5. **Largest Source of Revenue**- VAT is the largest source of revenue for state finance. No other tax contributed such amount to the state finance e.g. sales tax, commercial tax etc.
6. **Removing Double Taxation**- VAT has removed double taxation by using multi point tax policy in which tax is imposed on the added value of goods from manufacturing to the last sale to consumer.

#### CONCLUSION OF THE STUDY

1. Under VAT policy issue of bill is made compulsory for every retailer, wholesalers, and small traders. Same feature should be adopted in any proposed taxation policy.
2. At the time of introduction, the tax free limit was Rs. 5,00,000 To motivate the new businessmen & entrepreneurs it is necessary to increase this limit.
3. The tax applicability & e-filing system provided satisfaction to traders, government & consumers. This should be enhanced in good & service tax policy.
4. Four types of tax rates were applied in value added tax policy which proved to be of extreme convenience. Authors believe that the number of tax rates should be kept minimum even in any any future taxation policy.
5. VAT enabled to gain control on the inflation because it is a multi-point taxation system that is imposed on value addition of the goods.
6. The number of tax free goods or exempted goods should be increased.

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