

Value Added Tax (VAT) – A More Disciplinary Approach In The Emerging Scenario

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Value Added tax is a multi-point sales tax. It is levied on the value addition at each stage of production and distribution process. In other words, it can be defined as one of the ideal form of the consumption taxation. VAT is an indirect tax and is collected from someone other than the person who actually bears the cost of the tax.

VAT was invented first by a French economist, Maurice Laure, joint director of the French tax authority. Since 1954, VAT is the most important source of state finance in France and is accounting for approximately 45 percent of state revenue. Businesses are able to recover VAT on that materials and services which they buy to make further supplies or services directly or indirectly to the ultimate consumer. But personal end-consumers of the product and services are not eligible for this very advantage of VAT. In this way, the total tax levied at each stage in the economic chain of supply is a constant fraction of the value added tax by a business to its product. Most of the cost of collecting tax is born by the business, rather than by the state. VAT is different from a conventional sales tax. Under VAT, tax is levied on every business at each taxable sale made by them, but inturn, they are reimbursed VAT on their purchases. So that VAT is applied only to the value added to the goods at each stage of production. VAT has some economic effect on final prices. In VAT, tax is levied on both goods and services and it covers all three levels i.e. manufacturing, wholeselling and retailing. VAT has the advantages to government of raising revenue. There are two different types of VAT i.e. Central VAT and State VAT.

The Central VAT would replace union excise duties and the state VAT would replace the state sales tax. But inspite, of different tax rates in the different states, the structure and the operation of VAT is more or less the same. With the implementation of VAT, there will be a rationalized tax system at centre as well as at the state level.

VAT is calculated on the basis of the principle of input tax, output tax and input tax credit. The tax paid by registered dealer to another registered dealer for goods purchased is called input tax. The tax charged by registered dealer on the goods sold is called output tax. And when the dealer gets the setoff for the tax paid on purchase within state, it is known as the input tax credit. By deducting input tax from output tax, we can calculate the net tax payable under VAT. But, only purchases made within state by a registered dealer from another registered dealer are eligible for the input tax credit.

VAT is a Multipoint Turnover Tax (MTT) imposed at each stage of production and distributions of goods and services of a business firms minus the cost incurred on the purchase of goods and services from other firms. It is considered as a tax levied on the value added to a product or service each time it changes hands. VAT is a broad based tax covering the value addition in a commodity by a firm at each stage of production and distribution. The present motive in implementing VAT may be attributed to its revenue raising quality by preventing tax evasions and unfair trade practices, prevailing in the modern market. VAT may be very helpful in planning and forecasting the output of all enterprises. Inshort, it would furnish an upto date transactions matrix of an economy.

NEED OF THE STUDY

The existing tax structure in India is very complex. Therefore, the government felt the need to reform tax structure as to generate more revenue, to reduce the tax evasion and also to simplify the procedure of tax collection. Furthermore, the Value Added Tax has been implemented throughout the country and shall be replacing other tax structures in a phased manner. With the introduction of Value Added Tax, the entire tax system got radically transformed into simple, fair and rational tax structure from the economic point of view.

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After one and half year of its implementation, it is observed that implementing agencies are facing numerous problems in the way of its implementation. These problems may cause some sort of serious implications. The present research paper is an attempt to examine various shortcomings in the implementation of Value Added Tax in Himachal Pradesh. Furthermore, it will also be helpful to evaluate comparatively, the impact of Value Added Tax on total revenue receipt in Himachal Pradesh.

OBJECTIVES OF THE STUDY

- To evaluate critically various theories of VAT.
- To compare and contrast Value Added Tax with other tax revenues in Himachal Pradesh.
- To examine various implications in the implementation of Value Added Tax in Himachal Pradesh.

SCOPE OF THE STUDY

The present study is confined to study the Value Added Tax regime in Himachal Pradesh. It is an attempt to evaluate critically, the performance of Value Added Tax in comparison to other tax revenues in the emerging economic scenario. The study is aimed at understanding the problems of corporates and traders with regards to the procedural and administrative hassles in the VAT regime. The statewide survey covered wide segments of the state economy including electronic hardware, Information Technology, environment, food processing, mining, tyres, pharmaceutical, steel, metals and others. An attempt has been made to cover all district head quarters.

METHODOLOGY

In the light of the objectives set forth, the information has been collected from both primary as well as secondary data. Consistent with the nature of study, data collected has been placed in tabular form and thereafter analysed with the help of various statistical methods. The descriptive tools like mean, standard deviation, skewness and chi-square are used to evaluate the available data. Mean has been used to find the average of the views of the respondents. In order to find out the absolute dispersion of Trader's view, standard deviation has been applied on data collection. Co-efficient of skewness has been used to study the asymmetry of majority responses of traders. Chi-square test describe the magnitude of difference between expected frequencies and the frequencies observed under certain assumptions.

THEORIES OF VAT - AN EVALUATION

Indirect Tax - What happens to market prices?

There are two main types of indirect tax - per-unit tax and an ad-valorem tax. Per-unit tax is one where the amount charged is always same on each unit. Examples of these in the UK are the duties on alcohol and cigarettes. An ad-valorem tax, by contrast is one where the tax is charged as a percentage of the value of the goods. This is where VAT comes in. The effect on the market equilibrium will be slightly different for each of these two types of taxes. To be willing to supply the same quantity as before, it will now want the price to be higher by the amount of the tax. The tax has therefore shifted the supply curve vertically upwards by the amount of the tax.

Progressive or Regressive - Who pays what?

One of the 'Canons of taxation' developed by Adam Smith said that a tax should be linked with 'ability to pay'. VAT does not tie in with this because the amount of VAT on a particular good will be same for everyone, however much they earn. This means that VAT is regressive. In other words, more the people earn, the less proportion of their income, they pay in tax. A progressive tax, on the other hand is a tax where more the people earn, more the tax is payable in proportion to their income. It is a tax that represents a greater proportion of a person's income as their income rises. In other words the average rate of taxation rises. The balance of these taxes can have a significant effect on income distribution in an economy. If a government chooses to switch the balance of taxation from progressive to regressive taxes then the less-well-off in society will be harder hit.

Elasticity of Demand and VAT - Who pays how much?

The burden of an indirect tax is very important and will vary according to the elasticity of demand. If the demand for the goods is very elastic then the price will not increase very much in accordance to the tax is imposed, but the quantity will fall significantly. The following Figure 1 and 2 shows the Elasticity of Demand and VAT:

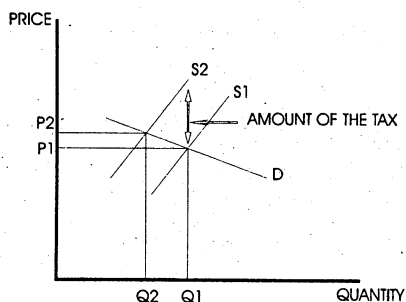


Figure 1

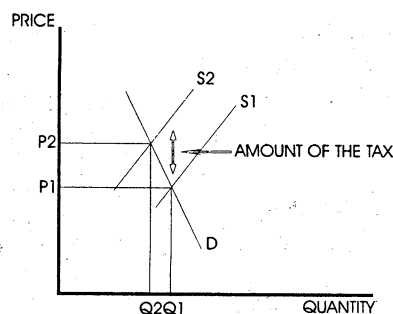


Figure 2

It is clear from figure that the price has risen a little as compared with the amount of the tax. The main burden of the tax has therefore fallen on the firm. It has to pay the full amount of the tax but is only compensated by a relatively small increase in price. The consumer has only suffered a fairly small price increase from P_1 to P_2 . It may be due to the reason that indirect taxes are generally not levied on goods with elastic demand, as the tax revenue would be relatively small. In case of goods with inelastic demand, as is shown in the figure 2 the quantity has fallen very slightly and the price has risen almost by the full amount of the tax. In fact, if the demand for the goods had been perfectly inelastic, then all the tax could have been passed on as a price increase. Thus, when the demand for a product is inelastic, the burden of the tax will fall on the consumer.

Taxing Externalities and VAT - Why Tax?

The consumption of many goods will have effects on people other than those consuming them. These costs are known as external costs or negative externalities. The cost to society - the social costs - are therefore the private costs and the external costs. The external costs of people's actions are often not taken into account by those peoples, when they consume products and so they will regard the goods as cheaper than it really is. Take for example smoking. There are costs to society. These may include any medical costs because of smoking-related diseases, time lost through illness, the possibility that passive smoking may cause illness and so on. Because people do not take these costs into account, they may over-consume the product, because it is seen as cheaper than it really is. The following Figure 3 and 4 shows the Taxing Externalities and VAT:

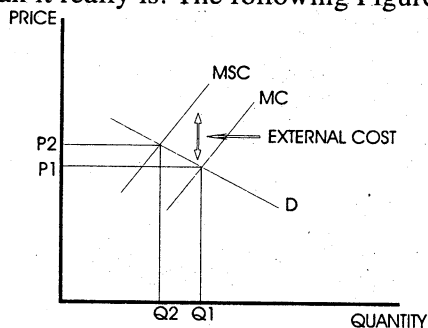


Figure 3

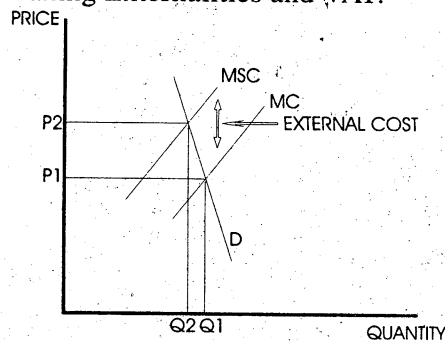


Figure 4

The private cost of smoking is represented by the MC curve. If people take account of just these costs, then they will consume Q_1 . However, as discussed above, there are further costs - external costs - and these are shown by the gap between the MC curve and the MSC curve. The MSC (marginal social cost) curve includes all costs. On the basis of all these costs, people should only consume Q_2 : The presence of external costs will often lead to over-consumption of goods. To cope with this problem and ensure that the optimum quantity of goods is consumed, the government may choose to tax the good. This tax can be arranged to be equivalent to the value of the external costs and then will increase the price by the required amount and hopefully, ensure that the correct quantity is consumed. The main problem for the government is accurately assessing the value of the external costs and therefore setting the value of the tax appropriately. In this section, an attempt has been made to analyze the revenue receipt through ST/CST/VAT in Himachal Pradesh. The comparative analysis has been made about the annual changes in sales tax revenue during 1996-97 to 2005-06. This

analysis indicates the trends and directions of changes in the revenue receipt of the state after the implementation of Value Added Tax.

The table reveals that the total revenue receipt was Rs. 1,46,26,16,091 in the year 1997-97. This total receipt includes CST and GST. The major contribution to the total is made by GST. It is noted that the total revenue receipt of the state has increased with fluctuating trends until the year 2002-03. However, the total revenue receipt has indicated increasing trend in the subsequent years. The fluctuation in the total revenue receipt may be due to the ups and downs in the economy at national level. Furthermore, there was a significant increase of 24.18 percent in the total revenue receipt in the year 2004-05. In the year 2005, the total revenue receipt increased significantly to 34.04 percent. The total growth of this year (34.04 percent) was the highest during the period under study. This is very first year after the implementation of Value Added Tax in the state. This may be due to the increase in the tax base and decrease in the practices of tax evasion in the very first year of VAT regime. It has contributed significantly and comparatively more than any year under study. Thus, it can be concluded that the implementation of Value Added Tax has its own significance and it is beneficial for the overall economic development.

In this section an attempt has been made to analyse the opinion of the respondents regarding different aspect of the Value Added Tax. In this section, the respondents opinion regarding VAT awareness, tax structure, implementation of VAT, state economy, registration under VAT and negative effects of VAT is analysed. Value added tax act as a catalyst to the overall economic development of the state. It is an important aspect that bestows economic as well as other benefits to the economy. Keeping in view the above facts, impact of VAT on traders, customers and state economy have been analysed with the help of various statistical tools.

It is observed that the mean value of the views with regard to VAT awareness among customers is higher than the mean standard score i.e. 2, at three-point scale. The variation in the mean score is noted .25 while skewness is noted- 3.59. The negative value of skewness shows that opinion of the respondents is ranging from partial agrees to strongly agree side. Furthermore the significant value of chi-square shows that opinion of respondents is not equally distributed, which further support the above analysis. Thus it can be concluded that majority of the respondents are not aware of VAT therefore awareness should be created among them by educating them properly.

It is further noted that mean score of the responses relating to VAT implementation is lower than the mean standard score at three point scale. This shows that opinion is distributed more towards lower side. The standard deviation and skewness are noted .83 and .19 respectively. The positive value of skewness reveals that their opinion is changing towards lower side. The χ^2 test of goodness of fit shows insignificant result at 5 percent level of significance. This shows that respondents opinion is changing from partially agree to not agree and they are of the opinion that VAT has not simplified the tax structure.

It is further evident that respondents are not aware about the cascading effect of VAT. The mean value of the respondents opinion is less than the mean standard score. The variation in their opinion is noted .39, while the calculated value of skewness is noted 3.58. The positive value of skewness reveals that opinion of the respondents is changing towards lower side of the mean value. The χ^2 test of goodness of fit is significant at 5 percent level of significance. This shows that their opinion is not equally distributed, which support the above analysis. This reveals that customers are not aware about the cascading effect of VAT.

The mean score of the responses relating to the existing tax structure is higher than the mean standard score i.e. 2 at three point scale. The standard deviation and skewness are .65 and -1.11 respectively. This shows that responses of the respondents are shifting from partially agree to strongly agree side. The significant value of χ^2 shows that distribution of the opinion is not equal, which is more toward higher side. It leads to the conclusion that implementation of VAT has widened the tax base.

It is further noted that mean score of the responses relating to tax system is more than the mean standard score, while deviation in the mean score is noted .67. Further the negative value of skewness shows that the

distribution is more towards higher side of the mean value. The significant value of χ^2 test of goodness of fit shows that opinion of the respondents is changing from partially agree to strongly agree side. Thus, it can be concluded that the existing tax structure in India is very complex.

It is further revealed from table (2) that mean value of responses relating to tax structure (2.86) is higher than the mean standard score at three-point scale. The standard deviation and skewness are noted .44 and -3.21 respectively. This shows that distribution is negatively skewed and shifting towards higher side of the mean value. The χ^2 test of goodness of fit is significant at 5 percent level of significance. This reveals that that VAT should replace all other taxes on goods and services. A single tax structure should be levied instead of number of taxes.

It is evident from table (2) that majority of the respondents strongly agree with the opinion that tax administration should have their own autonomy. The mean value of the responses supports the above opinion. The standard deviation and skewness are noted .47 and -2.50 respectively. This reveals that distribution is negatively skewed and changing towards the higher side of the mean value. The calculated value of χ^2 shows significant result at 5 percent level of significance. Thus it can be concluded that the respondents opinion is distributed more towards partially agree to strongly agree side.

Furthermore the mean value of the responses relating to tax structure is 2.92, which is higher than the mean standard score at three-point scale. The standard deviation and skewness are noted .32 and -4.33 respectively. This reveals that distribution is negatively skewed and shifting more towards higher side of the mean value. The calculated value of χ^2 test of goodness of fit shows significant result at 5 percent level of significance. On the basis of above analysis, it can be concluded that CST and VAT cannot go hand-in-hand.

The table further exhibits that mean score of the responses relating to the simplicity and transparency is higher than the mean standard score. The variation in the mean value is noted .87. The negative value of skewness reveals that distribution is shifting more towards higher side of the mean value. The χ^2 test of goodness of fit shows significant result at 5 percent level of significance. This implies that opinion of the respondents is not equally distributed, which further support the above analysis. Thus the above analysis leads to the conclusion that the VAT system of taxation is more simple and transparent.

As shown by the table (3) the mean value of the responses relating to the tax evasion is higher than the mean standard score at three-point scale. The standard deviation and skewness are noted .84 and -.58 respectively. This implies that distribution is negatively skewed and shifting towards higher side of the mean score. The χ^2 test of goodness of fit shows significant result at 5 percent level of significance. Thus, it can be concluded that majority of the respondents are of the opinion that VAT has reduced the tax evasion.

Further it is clear from the table that means score of the responses relating to training and orientation programme of officials is higher than the mean standard score at three-point scale. This shows that majority of the responses are towards higher side. The standard deviation and skewness are noted .28 and -3.05 respectively. This reveals that distribution is negatively skewed and the opinion of the respondents is changing from partially agree to strongly agree side. The χ^2 test of goodness of fit shows significant result at 5 percent level of significance. Therefore, it can be concluded that training and orientation programme of officials should be organised to provide them with more knowledge about VAT.

The table further shows that mean score of the responses relating to cascading effects of VAT is lower than the mean standard score at three-point scale. It reveals that their opinion is shifting towards higher side of the means value. The variation in their opinion is noted .93. The negative value of skewness reveals that distribution of the opinion is more towards higher side. The χ^2 test of goodness of fit shows significant result at 5 percent level of significance. This implies that the distribution is not equal. Thus, it can be concluded that majority of the respondents agree more strongly with the opinion that VAT has its cascading effect in practice.

The table further reveals that the mean value of the responses relating to non-price competition is higher than the mean standard score while the standard deviation and skewness are noted .80 and -.22 respectively. This shows that their opinion is varying from partially agree to strongly agree side. Further, the χ^2 test of goodness of fit is significant at 5 percent level of significance. Thus it can be concluded that VAT has increased the non-price competition to some extent.

The mean score of the responses relating to the revenue receipts of Himachal Pradesh is noted higher than the mean standard score at three-point scale. While, the standard deviation and skewness are noted .53 and -2.16 respectively. This shows that distribution is negatively skewed and is distributed more towards higher side. Further, the χ^2 test of goodness of fit shows significant result at 5 percent level of significance. This shows that opinion of the respondents is not equally distributed and is distributed more towards the higher side. It further supports the above analysis. Thus, it can be concluded that majority respondents agree more strongly with the opinion that VAT has increased the total revenue receipt of Himachal Pradesh.

As far as their opinion regarding overall development of the state is concerned, majority of the respondents agree more strongly that the total revenue receipts have increased. The standard deviation and skewness noted are .56 and -2.33 respectively. The calculated value of χ^2 shows significant results at 5 percent level of significance. This reveals that the opinion of the respondents is not equally distributed which further support the above analysis. Thus it can be concluded that majority respondents are of the opinion that VAT is helpful for the overall economic development of the state.

The table (4) depicts that mean score of the responses relating to the cost of production is higher than the mean standard score at three-point scale. The standard deviation and skewness are noted .92 and -.48 respectively. This shows that the opinion of the respondents is shifting towards higher side of the mean score. The Chi square test of significance is significant at 5 percent level of significance. This reveals the distribution is not equal; it is more towards the higher side. Thus VAT has increased the cost of production.

The table further reveals that majority respondents agree more strongly with the opinion that VAT has increased the prices of the goods. The calculated value of Chi-square shows significant result at 5 percent level of significance. This shows that opinion regarding prices of goods is distributed more towards higher side of the mean value. This leads us to the conclusion that prices of goods have been increased after the implementation of VAT in the state.

It is further evident that there is requirement of more infrastructures to taxation department for the administration of VAT in the store. The mean value support the above opinion. Further, the negative value of skewness shows that distribution is changing more towards higher side of the mean standard score. The calculated value of χ^2 reveals that distribution of the opinion is not equal which further support the above viewpoint. Thus, it can be concluded that more infrastructure should be developed by government for the proper implementation of VAT in Himachal Pradesh.

The table exhibit that the mean score of the responses regarding inspectory Raj is higher than the mean standard score. This implies that inspectory Raj is still prevailing in the State. The negative value of skewness further supports the above viewpoint. Furthermore the significant value of chi-square test of goodness of fit reveals that distribution of the opinion is not equal, which is more toward higher side. Thus on the basis of above analysis, it can be concluded that Inspectory Raj is still prevalent in the state. Therefore, the government should take proper steps to remove various malpractices of inspectory Raj. The mean value of the responses relating to the corruption among government officials shows that corruption is prevailing among government officials in the state. The negative value of skewness and significant value of Chi-square test of goodness of fit further support the above viewpoint and reveals that the majority opinion is lying more towards higher side. Thus, it can be concluded that corruption is prevailing in the tax authorities and other concerned offices. Therefore, appropriate steps should be taken by government to remove corruption in the concerned departments. Finally, while analyzing the viewpoint of the responses relating to the administrative expenditure of government,

Table
Analysis of total revenue receipt in the VAT regime

Year	CST	GST	VAT	Total	Increase	Decrease	%age of increase	%of decrease
1996-1997	18,44,83,038	1,27,81,33,053	-	1,46,26,16,091	-	-	-	-
1997-1998	21,85,02,176	1,49,32,82,237	-	1,71,17,84,413	24,91,68,322	-	17.03%	-
1998-1999	24,05,78,606	1,72,50,73,490	-	1,96,56,52,096	25,38,67,683	-	14.83%	-
1999-2000	31,14,31,270	2,01,92,43,345	-	2,33,06,74,615	36,50,22,579	-	18.57%	-
2000-2001	32,06,78,498	2,69,98,69,453	-	3,02,05,47,947	68,98,73,332	-	29.60%	-
2001-2002	43,14,09,323	3,11,93,82,524	-	3,55,07,91,847	53,02,43,900	-	17.55%	-
2002-2003	44,41,44,384	3,38,92,13,981	-	3,83,33,58,365	28,25,66,578	-	7.96%	-
2003-2004	47,98,47,763	3,88,76,75,707	-	4,36,75,23,470	53,41,65,105	-	13.93%	-
2004-2005	37,54,24,259	5,04,82,99,531	-	5,42,3,7,23,790	1,05,62,00,320	-	24.18%	-
2005-2006	80,48,55,604	2,03,92,06,846	4,42,57,68,820	7,26,98,31,270	1,84,61,07,480	-	34.04%	-

Table 1
Analysis of the views of the respondents regarding VAT awareness

Statements	SA	PA	NA	Total	x	σ	S _k	χ^2	P. Value
1. Awareness of VAT among customer should be created	112	8	-	120	2.9333	.2505	-3.519	90.1333	.000
2. Implementation of VAT has simplified the tax system	36	36	48	120	1.9000	.8314	.191	2.400	.301
3. The customers are aware about the cascading effect of VAT	3	8	109	120	1.1167	.3929	3.577	178.850	.000

Table 2
Analysis of views of the respondents regarding tax structure

Statements	SA	PA	NA	Total	\bar{x}	σ	S_k	χ^2	P Value
1. VAT has widened the tax structure	75	35	10	120	2.5417	.6469	-1.105	53.750	.000
2. The existing tax system in India is very complex	83	25	12	120	2.5917	.6673	-1.378	71.450	.000
3. VAT should replace all other taxes on goods and services	107	9	4	120	2.8583	.4357	-3.209	168.650	.000
4. There should be autonomy of tax administration	101	15	4	120	2.8083	.4727	-2.497	141.050	.000
5. The CST and VAT can not go hand in hand	112	6	2	120	2.9167	.3326	-4.328	194.600	.000
6. VAT is a simple and transparent system of taxation	68	20	32	120	2.3000	.8658	-.626	31.200	.000

Table 3
Analysis of views of the respondents regarding VAT implementation

Statements	SA	FA	NA	Total	\bar{x}	σ	S_k	χ^2	P Value
1. VAT has reduced the tax evasion	64	26	30	120	2.2833	.8420	-.579	21.800	.000
2. Training and orientation programme Of officials should be organised	110	10		120	2.9167	.2775	-3.053	83.333	.000
3. The VAT has cascading effect in practice	61	15	44	120	2.1417	.9285	-.288	27.050	.000
4. VAT has increased the non-price competition	46	42	32	120	2.12	.80	-.22	2.60	.27
5. VAT has increased the total revenue receipt of Himachal Pradesh	97	17	6	120	2.76	.53	-2.16	123.55	.000
6. VAT is helpful for the overall development of the state.	100	12	8	120	2.77	.56	-2.33	135.20	.000

Table 4
Analysis of views of the respondents regarding negative effects of VAT

Statements	SA	PA	NA	Total	x	σ	S_k	χ^2	P Value
1. VAT has increased the cost of production	68	12	40	120	2.3333	.9234	-.484	39.200	.000
2. VAT has increased the prices of the goods	91	17	12	120	2.6583	.6546	-1.705	97.850	.000
3. The infrastructure is not sufficient	77	30	13	120	2.5333	.6852	-1.158	54.950	.000
4. Inspector Raj is still prevalent in business	83	12	25	120	2.4833	.8197	-1.109	71.450	.000
5. Corruption is prevailed	81	20	19	120	2.5167	.7557	-1.186	63.050	.000
6. VAT has increased the administrative expenditure	17	20	83	120	1.4500	.7316	1.289	69.450	.000

it is noted that implementation of VAT has not increased the administrative expenditure. It is further supported by the positive value of skewness and significant value of Chi-square test of goodness of fit, which reveals that the distribution of the response ranges from partially agree to not agree side. Thus, it can be concluded that implementation of VAT has not increased the administrative expenditure of the government. It is of vital significance to eliminate fiscal barriers between different states and to harmonize taxes being levied by different States. The VAT system of taxation is considered to be superior in comparison to any other system of taxation. It reduces the cascading effect of indirect taxes. Further more, it is simpler to administer and has more transparent mechanism.

SUMMARY

There is considerable euphoria in certain circles about the impending introduction of Value Added Tax. There are obvious advantages of a VAT system vis-à-vis what is commonly called a cascading type tax or CTT system. The transition from a CTT regime to a VAT regime is fraught with hazards.

The IMF publication states that VAT is best suited to relatively small countries with unified markets. Moreover, VAT is essentially a federal or central tax, whereas in India its effective implementation would depend upon State Governments. Given the federal structure of the constitution of India, individual State Governments are theoretically free to decide their own VAT rates even if in the initial period there is harmony and uniformity in the tax rates.

The problems that arise out of an eventual phasing-out of the CST in a phase manner have not yet been fully resolved. State Governments are demanding the right to retain and in fact widen the tax network by levying a range of taxes including entry tax. This would defeat a fundamental objective of imposing VAT, namely, unifying and harmonizing the complex tax structure in the country.

It is evident that State Governments are using all sorts of devious methods to increase their revenue losses in the hope of receiving largesse from New Delhi in the form of 'compensation.' How the Union Government would apply the 'agreed formula' for compensation of revenue losses and whittle down the inflated claims that would invariably be made by states. Meanwhile, State Governments are hoping to enlarge their taxation powers by levying taxes on a host of service providers.

(Contd. on page 32)

CONCLUSION

Nothing is permanent except change. Gone are the days where consumers depended upon different places for various financial needs. Now, the food for various budgets during different occasions can be served under the same roof. Yes, more number of financial services companies dealing with different financial products can come out with tailor-made financial products for different category of consumers. As the financial needs of the Indians are changing rapidly, the financial services companies by establishing financial supermarket can satisfy the consumers' needs by dealing with multiple financial products.

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(Contd. from page 20)

Such services include traditional ones like transport, health-care, insurance and telecommunications as well as new services like information technology. The VAT regime is theoretically meant for a unified market in which the VAT levied can always be set off against taxes already paid. It is irrespective of the state-wise location of the manufacturing or trading entities.

Under the proposed VAT regime, manufacturers and traders will get the benefit of credit on input taxes that have already been paid. As VAT is a multi-point tax, the trade margins at every stage would get taxed. In certain instances, the VAT rates are higher than the prevalent sales tax rates and this is inevitably be passed on to hapless consumers — one affected section that has so far not been consulted on the implications of implementing the new VAT.

The critical role that VAT can play in tax buoyancy and growth are that it should be used as a catalyst for growth, right from the first day itself. Further more, the best international practices and learning models should have been incorporated in the VAT system as to make it more accountable. Finally, the main focus of VAT system should be concentrated on the simplification of the tax regime, elimination of corruption in the way of its implementation and to reduce the cost of compliance for this. The government should also resist the temptation to use soft-option under the transitional mechanism clock.

SUGGESTIONS

It is suggested that following critical aspects should be considered very carefully.

- The Goods and services falling in different slabs to be based on more transparent system and due considerations should be given of all sections of the society.
- The Government should withdraw all additional taxes levied in the form of surcharges, additional tax, turn over tax, mandi tax, entry tax etc.
- The CST reforms should be simplifying inter state transactions to enabling equitable distribution of tax revenue based on consumption patterns support destination based VAT.
- Finally, the first point taxation to be introduced for packaged goods, which further require carrying MRP marketing.

The CST act has to be amended and all the rules to prescribe the parameters required as per the requirements of the present era.

Further more, a system of trust should be built between assessee and assessing authorities and online transaction facilities should be introduced as far as possible.