

Backdrop for State-Level VAT in India

Question 1

Give any three recommendations made by Dr. Vijay Kelkar in regard to State level VAT.

Answer

Dr. Vijay Kelkar made the following recommendations in regard to state-level VAT:

- ✓ **Publicity Awareness Programme:** A Publicity Awareness Programme should be started jointly with the Central Government and the State Governments. Further, Central Government should extend financial support for the said programme to State Governments, if required. It is also necessary that the publicity awareness programme should be implemented at the earliest.
- ✓ **Uniformity:** An attempt in uniformity of all state legislations, procedures and documents relating to VAT.
- ✓ **The issue of compensation:** The issue of compensation to states must be primarily tackled through mutually accepted mechanism of additional resource mobilization through service tax and not through budgetary support.
- ✓ **Discontinuance of all other local taxes:** With the introduction of VAT all other local taxes should be discontinued and the same should be taken into account in determining the Revenue Neutral Rate.
- ✓ **Provision for grant of credit of duty in the course of inter-state movement of goods:** The VAT schemes should provide for grant of credit of duty paid by the importing states for the duty paid in the exporting state, in the course of inter-state movement of goods.
- ✓ **Setting up of a VAT Council etc.:** For the stability and continuity of VAT, the setting up of a VAT Council or a permanent suitable alternative vested with adequate powers to take steps against discriminatory taxes and practices and eliminate barriers to free flow of trade and commerce across the country should be explored.

[Note: The students may give any three recommendations out of the above list]

Question 2

Write a short note on Goods and Service Tax.

Answer

GST is a broad based & a single comprehensive tax levied on goods & services consumed in an economy. It is levied at every stage of production-distribution chain with applicable set offs in respect of tax remitted at previous stages. It is primarily a tax on final consumption. It is a

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tax on goods & services, which is leviable at each point of sale/provision of service, in which at the time of sale of goods/providing the services the seller/service provider may claim the Input Tax Credit of tax paid while purchasing the goods/procuring the services.

Following are some of the advantages which are expected to accrue on implementation of GST:-

- (a) It will reduce compliance cost & increase voluntary compliance.
- (b) It will remove cascading effect of taxation & also distortions in the economy.
- (c) It will result in widening of tax base & increase in revenue both to the Centre & State.
- (d) It will give competitive edge in international market for goods & services in a country, leading to increased exports.
- (e) It will bring improvement in manufacturing & distribution efficiency. Further, it is expected to reduce cost of production of goods & services which, in turn, is likely to increase demand & production of goods & services.

Although GST was originally proposed to be implemented w.e.f. 01-04-2010, however, owing to non-formation of consensus amidst Centre & States on various relevant legal, constitutional, economic issues, the Central Government has understandably decided to defer the implementation of GST for the time being. Consequently, GST is most likely to be introduced in near future.

Selected Self-Examination Questions

- 1. Write a brief note to historical background of VAT.
- 2. Briefly discuss the recommendations made by the Committee of State Finance Ministers in relation to introduction of state-level VAT.
- 3. Write a short note on the White Paper on State-Level VAT in India.