



## ADOPTION OF TAMIL NADU VALUE ADDED TAX IN KARAIKUDI- A SURVEY

Dr. V.Balachandran\*

S. Saranya\*\*

---

**Abstract:** *Tax is “a compulsory charge imposed by the Government without any expectation of direct return in benefit”. In other words, tax is a compulsory payment or contribution by the people to the Government for which there is no direct return to the tax payers. Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The general public should be taxed according to their ability to pay, and the people in the same financial position should be taxed in the same way without any discrimination. Tax is classified into two categories- Direct Tax & Indirect Tax. Direct tax is the tax, burden of which cannot be shifted to others. e.g. Income Tax. In this the tax is paid by the person who earns and nobody accepts him can pay his tax on his behalf. Indirect tax is the tax which is levied on commodities, a manufacturer charges the distributor and distributor charges the wholesaler, wholesaler receives from the retailer, retailer in turn from his customer. The burden of these taxes can be transferred to other forms like Value Added Tax, Sales Tax etc. This paper focuses on the adoption of Tamil Nadu Value Added Tax in Karaikudi Town, Sivagangai District of Tamil Nadu. VAT is the most progressive way of taxing consumption rather than business. The common system of value added tax shall be applied up to and including the retail trade stage.*

**Keywords:** *Compulsory charge, Discrimination, Tax burden, TNVAT, Central Sales Tax, Retail trade stage*

---

\*Professor of Corporate Secretaryship, School of Management, Alagappa University, Karaikudi

\*\*Project Fellow, Department of Corporate Secretaryship, Alagappa University, Karaikudi.



## **INTRODUCTION**

Tamil Nadu Value Added Tax Act 2006 has come into effect from 1<sup>st</sup> January 2007. As the very name indicates VAT (Value Added Tax) implies that it is a tax on the value added to the inputs received from others, payable at the time of sale of final product. VAT is levied on both goods and services. It is not a new kind of tax but merely the administration of tax in a different form. This new incorporation of VAT gives credit for earlier taxes paid on the items sold. It also helps in breaking the vicious circle of high and multiple tax rates which lead to evasion of tax, thereby compelling stiffer tax rates to make up for tax administered at various levels from manufacture to the retail level. State Vat is an important and recent reform measure as State level. The State VAT has replaced the earlier Sales Tax system of the States. VAT, being a 'tax on sale or purchase of goods within a State' is a State subject by virtue of Entry 54 of state List of the Seventh Schedule of the Constitution of India. Since VAT/Sales tax is a State subject, the Central Government has been playing the role of a facilitator for successful implementation of VAT. Some of the steps taken by the Central Government in this regard are as follows: A package for payment of compensation to States for any revenue loss on account of introduction of VAT has been implemented. Financial support under Mission Mode Project (MMP) is being provided to State / UTs in order to enable them to take up computerization of their Commercial Tax Departments.

## **STATEMENT OF THE PROBLEM**

Over 130 countries worldwide have introduced VAT over the past three decades and India is amongst the last few to introduce it. India already has a system of sales tax collection wherein the tax is collected at one point (first/last) from the transactions involving the sale of goods. The mechanism of VAT is such that, for goods that are imported and consumed in a particular state, the first seller pays the first point tax, and the next seller pays tax only on the value-addition done-leading to a total tax burden exactly equal to the last point tax. VAT is a multi-point tax without any troubles of double taxation effect. It is chargeable at every point of sale/transfer of goods and services. The VAT aims to radically reform the prevailing system of sales tax laws that was mingled with the horrible effects of double taxation. It has no cascading effect on the multiplicity of taxpayers' liability to pay tax on the same aspect again and thus it effectively surpasses the pyramiding of tax incidence as is inherent in the conventional sales tax procedures and therefore, it is often called as Improved Sales Tax.



Under VAT there is no tax on tax since only value added at any stage of production or distribution of goods is made subject matter of tax and an allowance is offered for the previously taxed material cost and other overhead charges so incurred. VAT is the most diversified and simple as well as transparent indirect tax system with in-built capacity to raise more tax revenues without distorting the existing tax structure and is yet able to widen the tax base. An attempt has been made in this paper to study the extent of adoption of VAT and to analyze the opinion of respondents regarding compliance of VAT rules, particularly in karaikudi Town, Sivaganga District, Tamil Nadu, India.

### **OBJECTIVES OF THE STUDY**

The study has been undertaken with the objectives outlined below:

- a. To study the significance of VAT and its adoption in Tamil nadu.
- b. To analyze the opinion of respondents regarding implementation of TNVAT (Tamil Nadu Value Added Tax) Act.
- c. To elicit the opinion of respondents regarding compliance of VAT rules.
- d. To examine the problems experienced by the respondents relating to adherence to VAT procedures.

### **METHODOLOGY**

This study is descriptive in nature and was conducted in Karaikudi Town, Sivagangai District of Tamil Nadu. Survey research method has been used for the study. The sample was collected from individuals doing business in hotels, textiles, jewellery shops, supermarkets and manufactures.

### **RESEARCH TOOL**

The data were collected through a structured interview schedule. The primary data were collected from the respondents (Traders and Businessmen) about the gradual implementation and enforcement of VAT in Tamil Nadu. The interview schedule has been formulated and framed accordingly. The respondents were asked to state their degree of agreement to the statements on a 5 point scale.

### **STATISTICAL TOOLS EMPLOYED**

1. The study used ranking weighted average method to find out the dominant factor among the group of factors.



2. The ANOVA (Analysis of variance) test has been administered to assess the association between the socio economic profile and various parameters of the scheme.
3. Simple percentage analysis has been used. The researcher made use of SPSS package for analysis.

## ANALYSIS OF DATA AND INTERPRETATION

The study made an attempt to analyze and interpret various factors involved in VAT. India has a well-developed taxation structure. There are different types of taxes, such as Excise Duty, CENVAT Credit, Input Tax Credit, cess, Income Tax, Service Tax. The recent changes in the sales tax in India are in the form of Value Added Tax (VAT). As the VAT is levied on only goods and not on services, traders of various goods are the business entities directly associated with adoption of VAT system. Hence, evaluation of VAT system is based on the traders' perspective.

### (I) Gender wise classification of the respondents

It is a range of physical, mental, and behavioral characteristics distinguishing between masculinity and femininity. Depending on the context, the term may refer to gender. This factor helps the researcher to measure the respondent's opinion based on gender. In such context the researcher has included the gender as one of the research variable and categorized it into two major classifications such as male and female.

Table-1

Gender Wise Classification of the Respondents

Gender	No. of respondents	Percentage to total
Male	56	70
Female	24	30
<b>Total</b>	<b>80</b>	<b>100</b>

*Source: Primary data*

As depicted in the aforesaid table, the total number of respondents in the sample is 80. Out of 80, 56 respondents (70%) are Male traders and the remaining 24 respondents are (30%) Female traders. It is noted from the table that vast majority (70 per cent) of the respondents are male, because the female members are hesitant to take up the assignments.



## (II) Age of the respondents

Age of respondents is one of the primary factors in any survey or research, which shows the maturity level of the respondents to handle the situations. Hence in this research, the researcher has included the age as one of the variable.

**Table - 2**  
**Age of the Respondents**

Age	No. of respondents	Percentage to total
Below 25	10	12.5
25-35	12	15
35-45	17	21.25
45-55	32	40
Above 55	9	11.25
<b>Total</b>	<b>80</b>	<b>100</b>

**Source: Primary data**

The table vividly discloses that 40 per cent of the respondents belong to the age group 45-55 years, followed by 21.25 per cent of them being the age group of 35-45 years, 15 per cent fall in the age group of 25-35 and 12.5 and 11.25 per cent of the people are being in the age group of below 25 and above 55 respectively.

## (III) Educational status of the respondents

Education helps the human being to achieve many things and it only differentiates them as a rational thinker. In this regard, researcher has incorporated the educational qualification as one of the variable and the same is shown below:

**Table - 3**  
**Educational Status of the Respondents**

Qualification	No. of respondents	Percentage to total
Schooling	17	21.25
Graduate	24	30
Post Graduate	20	25
Professional	13	16.25
Others	6	7.5
<b>Total</b>	<b>80</b>	<b>100</b>

**Source: Primary data**

The study reveals that majority 30 percentage of the respondents are graduates as against 21.25 per cent of respondents who are post graduates and 25 per cent of respondents have



schooling qualification and others were having 16.25 per cent and 7.5 per cent level of attitude.

#### (IV) Annual turnover of the respondents

Annual turnover is an indicator of vibrancy of a business. The profits of a business depend on the annual turnover. Therefore, the researcher has taken the annual turnover as one of the variable and classified it into five different stages.

Table - 4

#### Annual Turnover (Rs. In lakhs)

Turnover	No. of respondents	Percentage to total
Below 3 lakhs	23	28.75
3-5 lakhs	16	20
5-10 lakhs	11	13.75
10-20 lakhs	14	17.5
Above 20 lakhs	16	20
<b>Total</b>	<b>80</b>	<b>100</b>

Source: Primary data

It is evident from the table- 4 that the turnover is below 3 lakhs for 28.75 per cent of the traders, Rs.3-5 lakhs for 20 per cent, above Rs.20 lakhs for again 20 per cent and between 5-10 lakhs and 10-20 lakhs for 13.75 per cent and 17.5 per cent of the traders.

#### (V) Locality of business

The following table depicts the locality of business, namely, urban, semi-urban and rural where the respondents carry on their business.

Table -5

#### Locality of Business

Location	No. of respondents	Percentage to total
Rural	19	23.75
Urban	26	32.5
Semi- urban	35	43.75
<b>Total</b>	<b>80</b>	<b>100</b>

Source: Primary data

The study has brought to light that 35 respondents constituting 43.75 per cent have doing business in semi- urban areas, whereas 26 respondents constituting 32.5 per cent have been doing business in urban areas.



#### (VI) Experience with traders

The study reveals that respondents chosen for the study are well experienced in their respective businesses.

**Table- 6**  
**Experience of Traders**

Field experience (in years)	No. of respondents	Percentage to total
Up to 5 years	17	21.25
5-10 years	23	28.75
10-15 years	11	13.75
15-20 years	5	6.25
More than 20 years	24	30
<b>Total</b>	<b>80</b>	<b>100</b>

*Source: Primary data*

The study has brought to light that the traders with experience up to 5 years constituted 21.25 per cent. While 28.75 per cent of the traders have experienced between 5-10 years, 13.75 per cent of respondents in this field have experienced over 10-15 years. 6.25 per cent of respondents in this field for 15-20 years, 30 per cent of them are in the field for more than 20 years.

#### (VII) Introduction of VAT in Tamilnadu

Introduction of VAT is one the significant reforms made by the TN State Government.

**Table- 7**  
**Adoption of VAT by respondents in Karaikudi**

Act (in years)	No. of respondents	Percentage to total
2006- 2007	24	30
2007- 2008	16	20
2008-2009	28	35
2009-2012	12	15
<b>Total</b>	<b>80</b>	<b>100</b>

*Source: Primary data*

The survey unfolds that during the year 2008-2009, 35 per cent of traders started adopting VAT system in their shops. It is clear that while 30 percentage of respondents started



adopting VAT from 2006-07, 20 percentage of respondents adopted VAT from 2007-08. It is inferred that 35 per cent of the respondents had started adopting VAT system in the year 2008-2009.

#### **(VIII) Opinion survey on traders**

The opinion obtained from the traders relating to registration, revival main tax system among traders for registered, revival of registrars, satisfaction with present system, filing of returns are shown below .

**Table - 8**  
**Opinion Survey on Adoption of VAT**

<b>Statement</b>	<b>Yes</b>	<b>No</b>	<b>Total</b>
Registered trader	69(86.25)	11(13.75)	80(100%)
Revival of registration	68(85)	12(15)	80(100%)
Supported by bill/invoice transactions	58(72.5)	22(27.5)	80(100%)
Satisfaction with present VAT system	27(33.75)	53(66.25)	80(100%)
Increase in turnover after implementation of VAT	25(31.25)	55(68.75)	80(100%)
Filing tax returns regularly	61(76.25)	9(11.25)	80(100%)

**Source: Primary data**

Table-8 provides the opinions survey on adoption of in Karaikudi. The survey reveals that 86.25 per cent of the traders are registered traders and 85% of the traders tend to renew their registration every year. Also, most of the traders' transactions (72.5%) are supported by bill/invoice. However, 31.25 per cent of traders have stated that implementation of VAT did not increase the turnover. It is further apparent that most of the traders used to file their tax returns regularly (76.25) with 'Yes' opinion. It is shocking revelation that a majority of 66.25% of respondents (53) expressed that they were not satisfied with present VAT system.

#### **(IX) Best method for valuation of goods under VAT system**

Many methods are used for computation of VAT. It is understood from the frequency distribution of respondents that 'invoice method' is the best method for valuation of goods under VAT system.



Table- 9

Method for Valuation of Goods under Vat System

Method for goods valuation	No. of respondents	Percentage to total
Invoice method	59	73.75
Subtraction method	10	12.5
Addition method	11	13.75
<b>Total</b>	<b>80</b>	<b>100</b>

Source: Primary data

From the perusal of the Table-9 regarding best method for valuation of goods under VAT system, as 73.75 per cent of the traders in the sample have perceived so. Only 13.75 and 12.5 percent of the traders in the sample have pointed out 'addition method' and 'subtraction method' for goods valuation under VAT. A significant majority of respondents perceived that invoice method is the best method for valuation of goods under VAT system.

**(X) Ranking- weighted average method**

The number of respondents was placed in each ranks. Hence, the researcher has used weighted average Ranking analysis to identify which is the first preference mechanism under VAT.

Table- 10

Mechanism under VAT

Particulars	1(4)	2(3)	3(2)	4(1)	Tot80al	Weighted score	Weighted Avg score	Rank
Self-auditing	20	28	19	13	80	215	2.69	1
Self-policing	18	22	22	18	80	20	2.5	2
Builds confidence	20	17	23	20	80	197	2.46	3
Monthly or quarterly	22	13	16	29	80	188	2.35	4

Source: Primary data

The study reveals the rank for mechanism under VAT. It is clear that the 1<sup>st</sup> rank was given to the self-auditing, 2<sup>nd</sup> rank to the self-policing and the 3<sup>rd</sup> rank to confidence building among traders.



### Problems under VAT– ANOVA

ANOVA is a useful techniques used in research. The level of significant between the samples was tested through ANOVA. The following formula has been used to test the level of significance.

$$F = \frac{\text{Between – Column Variance}}{\text{Within – Column Variance}}$$

#### (XI) Main reason for Switching over to VAT from Sales Tax

The following are the comparison between switching over to VAT from sales tax and locality of business.

H0: There is no significance difference between to trader’s business locality with respect to switch over to VAT system from sales tax.

**Table-11**

#### Main Reason for Switching Over to Vat from Sales Tax (Comparing to Locality of Business)

##### ANOVA

Particulars		Sum of Squares	Degree of Freedom	Mean Square	Sig	Result
Switch-Abolish	Between Groups	.098	2	.049	.047	Significance
	Within Groups	80.102	77	1.040		
	Total	80.200	79			
Narrow down	Between Groups	1.286	2	.643	.672	No significance
	Within Groups	73.701	77	.957		
	Total	74.988	79			
Compete competition	Between Groups	2.124	2	1.062	.677	No significance
	Within Groups	120.863	77	1.570		
	Total	122.988	79			
Cost of commodity	Between Groups	1.543	2	.772	.382	No significance
	Within Groups	155.444	77	2.019		
	Total	156.987	79			
Uniform levy	Between Groups	.130	2	.065	.027	Significance
	Within Groups	183.057	77	2.377		
	Total	183.187	79			

*Source: Primary data*



Table-11 presents the mean perception scores of the whole sample evaluating the reasons for switching over to VAT from sales tax. The perception of the respondents above five statements measuring the reasons for switching over to VAT from sales tax was obtained using a 5- point scale.

It is evident from that table the extent the main reasons for switching over to VAT from sales tax. Independent of the location of the business as table value for most of the statements are insignificant. Abolish double taxation (table value=0.047<0.05), narrow down tax system(table value=0.672>0.05), compete with international competition (table value=0.677>0.05), cost of commodities(table value=0.382>0.05), uniform levy(table value=0.027<0.05). VAT system is similar for trader groups in rural/ semi-urban and urban areas of Karaikudi Town.

## **RESULTS AND DISCUSSION**

The reason for moving from sales tax to VAT is to have 'Uniform Level, abolish double taxation' and to narrow down tax system. The perception of the respondents above five statements measuring the reasons for switching over to VAT from sales tax was obtained using a 5- point scale. In the opinion of traders, VAT works as a self-regulatory mechanism which checks tax evasion and VAT rules on defining the place of origin / destination of inter-state supply of goods. Invoice method is viewed as the best method for valuation of goods under VAT system (73.75%). Independent of the location of the business as table value for most of the statements are insignificant. The problem of nature of business for traders, consumer's goods, claiming of tax credit is high for industrial goods and maintaining books of accounts is less for traders of essential goods. It is observed that insisting bill while making purchase is an independent factor not dependent on any of the socio - economic indicators. Major sort of help offered to traders by trade association is to help them technically to sort out their problems, educating them and agitate and publicize any issue affecting their interest. It is understood that there is similarity in ranking the items measuring reasons for tax evasions by traders among the general public. The following are the comparison between switching over to VAT from sales tax and locality of business.

## **DISCUSSION**

The people of India have to understand the tax system and its benefits to the nation particularly the economic development of India. In the present VAT system, there are



numerous forms (A to Z and AA, BB, CC and so on) which cause confusion in the minds of traders. The mostly taken disciplinary action against traders by tax authorities is levying 'warning' followed by 'punishment'. An efficient tax implementation yields maximum revenue with a minimum cost. Therefore it is suggested that the Government may undertake some awareness campaign about the VAT procedures to the traders and businessmen. It is further suggested that traders wanted the proposed GST to be introduced soon as has been done in most of the countries and self-assessment procedure for better practicing of VAT System. There are number of cases pending in this region for assessment and settlement. It is suggested to have a better and improved legal redress system through GST Dispute Settlement Authority. This authority would adjudicate disputes between State and Central. A poor understanding of the tax structure and the difficulty in 'maintaining books' are found to be the major reasons for tax evasion. Simple tax structure and minimal paper work will reduce tax evasion.

## **CONCLUSION**

Prior to 1986, almost all the consumers of various products suffered a lot due to the tax system prevailing in India. Consumers were required to pay higher prices due to multipoint tax and cascading effect of tax. The middle class and lower class people contributed more tax amount as they constitute 70 percent of the total population of India. To avoid the problems in levying of tax, the Central Government has already taken the initiative of introduction of VAT throughout the country. Though it is preferred by majority of the States, in a few States still the VAT system has not been much appreciated due to misunderstanding between Central and State Governments. It is concluded that "carrying out transactions without invoicing" is the major constraint noticed in dealings by traders. Further, working of VAT is mainly based on self-regulatory mechanism which checks tax-evasion of goods. Invoice method is found to be the best method. There should be uniform tax rates throughout the country and the system shall be designed to work for reduction in cascading effect of tax for successful and better implementation of VAT.

## **REFERENCES**

1. Aggarwal Pawan K.(1995), Incidence of major indirect taxes in India, National Institute of public finance and policy, New Delhi.
2. Ajay, Jain, (2012), Indirect Taxes, Pooja Law publishing Co, New Delhi.



3. Azaria, N.T and others, (2005). The revenue raising capabilities of a VAT system in developing countries, *South African Journal of Economic and Management Sciences* 8(1),pp 63-76.
4. Balachandran.V (2012) *Indirect Taxation*, Sultan Chand & Sons, Educational Publishers, New Delhi.
- Chelliah Committee (1991), *Tax Reforms committee*, Government of India, Ministry of Finance.
5. Datey, V.S (2013), *Indirect taxes (Law and practice)*, Taxman publication P. Ltd New Delhi.
6. Gordon James P.F (1989), *Tax Reform via commodity grouping*, *Journal of public economics*.
7. Kothari, C.R, *Research Methodology (Methods and Techniques)*, New Age International (P) Ltd, New Delhi.
8. Mohan Prasad Shrivastava, *Economics of Value Added Tax*, APH publishing corporation, New Delhi.
9. Mohd, Rafi (2012), *Service Tax, VAT & CST*, Bharat Law House P Ltd., New Delhi.
10. Mona Prasad (2007) *Introduction of value added tax in Indian States: How has the revenue performance been?* Harvard University.
11. Mohesh, purohit C, (2001) *Value added tax experiences of India and other countries (Third Edition)*, Gayathri publication, New Delhi.
12. Pillai, G.K, 2005) *VAT-A way out of the Indian tax muddle*, Rashmi Publishers, Mumbai.