

## **A STUDY ON THE PROBLEMS IN THE IMPLEMENTATION OF VAT IN KERALA**

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### ***Abstract***

One of the most significant reforms initiated in India post independence in the field of tax is the implementation of VAT. Value added tax is a multi point destination based system of taxation with tax being levied on value addition at each stage of transaction in the production/distribution chain. VAT was introduced to ensure a hassle free, effortless, costless tax compliance structure. However, the system of VAT is not defect free. This paper highlights the issues and concerns faced by the various stakeholders associated with VAT and how the introduction of GST (Goods and Service Tax) will bring a change in the existing sales tax system.

***Keywords:*** VAT, GST, Sales Tax

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## Objectives of the Study

- To study the impact of VAT on government revenue.
- To study the opinion of traders about VAT & the problems faced by them in the existing system of VAT
- To analyze whether there is any need for the implementation of GST.

## Review of Literature

Sebastian (1989) in his study reported that because of interdependency of economic activities between the states, inter state tax competition was an emerging problem which needed to be immediately dealt with.

The CII (2005) stated that the VAT system implemented currently is only an intermediate stage and the ultimate objective should be to have a single, common, harmonized system of taxation throughout the country.

A report on "Transition from KGST to VAT in Kerala" by the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2009, revealed that though the revenue has been increasing in absolute terms during the pre-VAT as well as post-VAT periods, the percentage of growth of revenue during the pre-VAT and post-VAT period has been showing an inconsistent trend.

John (2010) in his study stated that many traders found it difficult to file returns and other forms by themselves. They often had to depend on tax consultants for filing returns and other forms which in turn increased their expenses.

Gupta (2012) in his article concluded that the economic return in terms of revenue and efficiency gains to the expenditure incurred on VAT implementation is at best zero for the country as a whole.

Sarkar (2014) observed that although VAT is a significant source of revenue in the system was burdened by legal, administrative and structural problems that resulted in a tremendous loss of tax revenues.

Kapoor (2014) opined that implementing a national GST coupled with a state GST will rationalize indirect taxes while preserving states financial autonomy. This will ensure seamless taxation throughout the chain of production and distribution and include goods and services at both the Central and state levels.

## Methodology

### Type of data

For the purpose of the study, both primary and secondary data were used. The state of Kerala was chosen as the unit of the study.

### Tools of data collection

The data for the study of the first objective was obtained from the audit reports of the revenue of the state of Kerala as per the website of the Comptroller and Auditor

Most of the traders(60%) opine that multiple VAT rates are a source of complexity and dispute

- 40 percent traders still face problems in return filing , due to improper format of the forms for filing returns and the server access being not available at certain times due to the server complaints.
- 60 percent traders also complain that the refund of VAT takes around 12-15 months during which period they face acute liquidity crunch.

### **Conclusion**

The difficulties faced by the government as well as the traders give enough reason for the implementation of GST. Goods and Services Tax (GST) will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services. It will simplify India's tax structure, broaden the tax base, and create common market across states. It will also lead to increased compliance and increase India's tax-to-gross domestic product ratio.

### **Recommendations of the Study**

The government should implement GST at the earliest as it solve many problems faced by the various stakeholders associated with the current system of VAT. Moreover GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent. It also aims at equitable division of tax burden between manufacturing and services. GST on introduction will be implemented concurrently by the central and state governments as the Central GST and the State GST respectively. Taking into consideration all these merits, the introduction of this reform is recommended at the earliest.

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