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Impact evaluation of Value Added Tax on Uttar Pradesh

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Preface

Myself Princy Bansal, pursuing M.A. Economics from Delhi School of Economics. As a student of economics, policy research have always fascinated me, moreover my penchant to work for the society and play my role in development of India has been the first reason to be the part of Rakshak Foundation.

The best thing I learnt here is that one need not be on any position to help its people; the important role that every individual can play is just by being a responsible citizen in itself. And that is where the role of Rakshak Foundation comes in. The pattern of internship is such that every day one learns something new and productive.

In end of the internship I hope to gain not only an insight into research but also the most powerful values in the life like honesty, selflessness, truthfulness and faith in oneself, and for that I will be always grateful to Rakshak Foundation.

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I would like to express my gratitude and regards to my mentor Shri Mrityunjay Kumar Narayan, Commissioner, Commercial Taxes, Government of Uttar Pradesh for his valuable guidance and supervision. It is because of my mentor's help to provide me with a far sighted insight for my research and at the same time helped me to focus on important issues to streamline the research and make it more feasible given the time constraint.

I would further like to express my gratitude to my co mentor Shri Yogendra Kumar, Additional Commissioner, Law, Commercial Tax, Government of Uttar Pradesh for his guidance and support. It was because of him that I was able to understand the intricacies of the topic.

I am obliged to the Rakshak Foundation to have provided me with the best research environment with supportive coordinators and helping peer interns who have made this internship a worthwhile experience till now.

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Executive Summary

Sales Tax which had occupied a significant role in public finance of not only Uttar Pradesh but throughout the country was replaced by Value Added Tax in 2005. Considerable efforts were made to introduce VAT starting from formation of Committee for States' Finance Ministers in 1995 and 1998, and also Committee of Chief Ministers 1999. Moreover the workings of empowered committee and support by Union Government have enabled almost all the states to go in for state-VAT.

Introduction of state-VAT by all states was indeed a paradigm shift and a historical tax reform, especially in case of Uttar Pradesh, in which indirect taxes have the major source of revenue and trade tax has accounted for largest chunk of the total revenue in year 2012. And as expected has caused advantageous revenue implications for the state of U.P. primarily due to its property of being multi point sales tax with set off, thus widening the tax net.

But given VAT being sophisticated system of taxation with computerization, official training, efficient enforcement, updated infrastructure and stakeholders' awareness as its prerequisite combined with abysmally poor condition of Uttar Pradesh in all stated parameters forces us to rethink the credibility of VAT in Uttar Pradesh.

In this report I intend to study this credibility in detail keeping in view both the State and all stakeholders. At the very outset of report I analyse the reasons behind introducing VAT. Then I go on to discuss in detail about Act, 2008, VAT administration and advantages over Sales Tax. Moreover I discuss about the limitations of VAT in present scenario of Uttar Pradesh, its scope and impact on the society coupled with the goals and objectives of the report and methodology of research.

In the next part of my paper I intend to focus on the revenue implications of VAT as to how far VAT has been successful in a state like Uttar Pradesh which has been historically known as being the consuming state rather than producing i.e. less of

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value addition. Apart from this my focus will be on the perception of Stake holders about VAT and whether it has lead to furtherance of trade and commerce.

In the last section, after analysing VAT both from perspective of State and stakeholders I intend to find out solution to problems discovered. And give my recommendation on the issues.

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Proposed Action Points

a) Simplification of taxation structure by reducing number of forms for every other thing and make the process completely online to ensure transparency in cross verification.
b) Prompt Assessment that maximizes revenue, minimizes cost, minimizes evasion and incentivizes compliance: and officers engaged in the process should be given proper trainings to detect the faults in the returns or evasive practises.
c) Risk Assessment selection of Audit of dealers' turnover wise and product wise. With dealers showing excessive exports, exemptions, interstate sales, local sales, stock transfers etc should be segregated in high risk category. Special focus on new dealers with very high Input Tax Credit.
d) Strengthening of Department server, strong enough to be able to issue bill on purchase and sale.
e) Improvement of department infrastructure by making them adequately staffed, with sufficient operational conditions like availability of the computers, internet access, adequate power supply.
f) Co-ordination between income tax , sales tax and central excise department schemed out to control activities of evasion and increased compliance through efficient cross checks
g) Strengthening of Border check posts to keep an eye on the interstate movement of goods efficiently. This can be done by effectively training the officers to gauge the transit forms. Moreover transit forms should be more informative and easy to understand. Apart from that their working and living conditions should be made supportive.
h) Establishment of active and independent Grievance redressal system to address the complaints of stakeholders.
i) Develop client services/ Sales Tax helpline call centres to address the queries of the stakeholders on telephone and setting up of help centres to help dealers in filling of forms, filling retunes correctly etc.

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j) Uniform Commodity Classification, Uniform tax rates across states, merging of additional taxes to ensure efficient tax collection, prevent market distortion practises, and eliminate cascading effect.

k) Increase accountability of tax administration and Government toward collection and efficient usage of public funds.

l) Increased public awareness over indirect taxes, and increased awareness of dealers over tax procedures using pamphlets, workshops, seminars etc.

m) Setting up of Advisory Committee with adequate representation of each stake holder in commodity taxation.

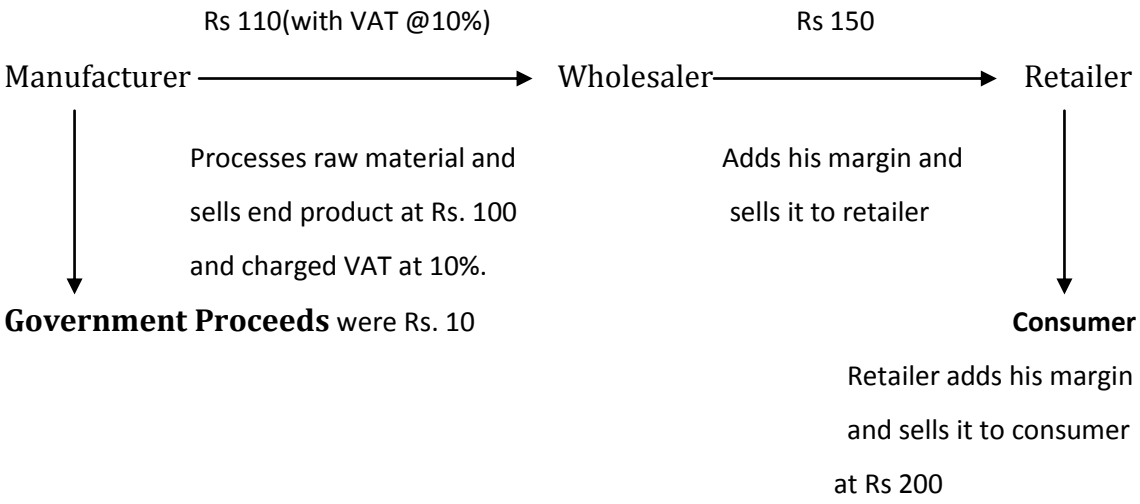
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1. Introduction

1.1 Background Information.

The transition from Value Added Tax has been a great reform in the history of taxation. However it is also an interesting point of study as to how Sales tax was introduced in Uttar Pradesh. According to the reports Uttar Pradesh Government had abolished tax on liquor and to compensate that it levied tax on some goods which lead to increase in revenue. After passing of Central Sales Tax Act, 1958 there was cut throat competition among states to increase the revenue which however lead to market distortion, consequently the Sales Tax Act was passed in 1975.

According to the Sales tax system, the tax was collected at one point that is at the point of manufacture and then it was passed on to the successive stakeholders.



So in this system however the commodity was being sold at Rs 200, the Government was getting revenue only at Rs. 100, which was a clear loss for the Government as it should have got revenue on Rs 200. Apart from this there where various other problems that had started surfacing in this system like undervaluation of the product to evade taxes was the primary problem and the other problems were.

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1.2 Problems in this system of taxation

1. Multiplicity of Rates

This problem could be understood from the fact that there that the rates in this system varied from ½% to 32.5%. Apart from it there was a poor method to classify commodity and hence calculating tax had become a matter of experts. Dealer dealing in multiple goods had to maintain separate account for each goods taxable at different rates and additional calculation for input tax liability.

2. Lack of Uniformity of rates in neighbouring States

States were in cut throat competition to increase their revenue and in order to do that they used to reduce their tax rate , consequently the goods were illegally smuggled to neighbouring states and then brought back in UP. To reduce this growing competition, the Government of India, through the initiative of National Development Council asked States to have at least minimum floor rates on some commodities. However states never complied with the initiative and continued to encourage market distortion practises.

3. Exemption Scheme to Industries

The Tax exemption scheme to attract new industries had further lead to distortion of market. While because of the scheme the number of new units was increasing and after availing tax exemption closing down, the old units were getting sick. Further due to facility to get exemption they were selling the goods of other units and helping in evasion of tax.

4. Cascading effect on industries

In this system, the capital goods, consumables, packaging material and inputs of industries were taxed with limited set off and taxing of final product further increased the prices and made their goods in competitive in the market and also in competitive to export. Moreover tax was also imposed on each stage of manufacturing.

5. Non availability of infrastructure facility

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The State lacked the infrastructure facilities like power, communication, transportation, and finance.

6. Unnecessary litigation

Interpretation of commodities, processing and manufacturing process, nature of transaction etc by different courts leads to unnecessary litigation. Consequently unintentional violations of law lead to charging of heavy penalties which proved disappointing for the honest manufactures.

7. Administrative difficulties

The system of administration in the State had become too complicated over time. The system of exempting various transactions of sales and purchase other than taxable transaction against production of various forms, verification of these forms, issue of them to the dealers from the offices and exchanges among the dealers have put the business in great difficulty. To overcome these difficulties certain shortcuts of evaluation like fake bills and gross undervaluing of the product at the first point of sale, tax evasion and avoidance have crept in the system.

8. Enforcement problems

There were many enforcement problems that had tainted the whole system.

- Non cooperation between various departments of Government like railways helped the dealers to evade taxes.
- The lengthy and non-uniform procedure of assessment, checking and documentation has resulted in diversion of trade.
- Difficulty in complying with various acts and laws because of different interpretation by different courts.
- No system of verification of information between relevant government departments like excise, income tax, industries and customs. And verification of interstate or intrastate transaction was impossible.

9. Multiplicity of Laws

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There were several departments that were monitoring the revenue collection of one good and hence there were multiple laws to adhere to which again made the whole system almost non transparent.

10. System not supportive to ancillaries

Since inputs were taxed and there was no facility of availing Input tax credit for the tax paid earlier on inputs consequently manufacturers preferred to produce raw material themselves rather than purchasing from the small factories. As a result there was not only squeeze in the horizontal tax base but also loss to the exchequer.

11. Higher Tax Rates – Cause of the Concern

Due to above stated problems in the system there was system there was massive tax evasion and avoidance consequently Government was forced to increase tax rates which further increased market distortion activities. Thus even after imposing high tax rates Government was unable to extract sufficient revenue.

The single point tax system though comparatively easy to administer was less business and industry friendly. The higher tax rate, complicated procedures, scheme of exemption to other points, exchange of various declarations of forms and certificates, non verification of transaction, lack of infrastructure facilities and lack of strong political lead to negative effect on industries' performance and incidence of tax evasion made this single point taxation system non effective and non responsive to the revenue requirement of State.

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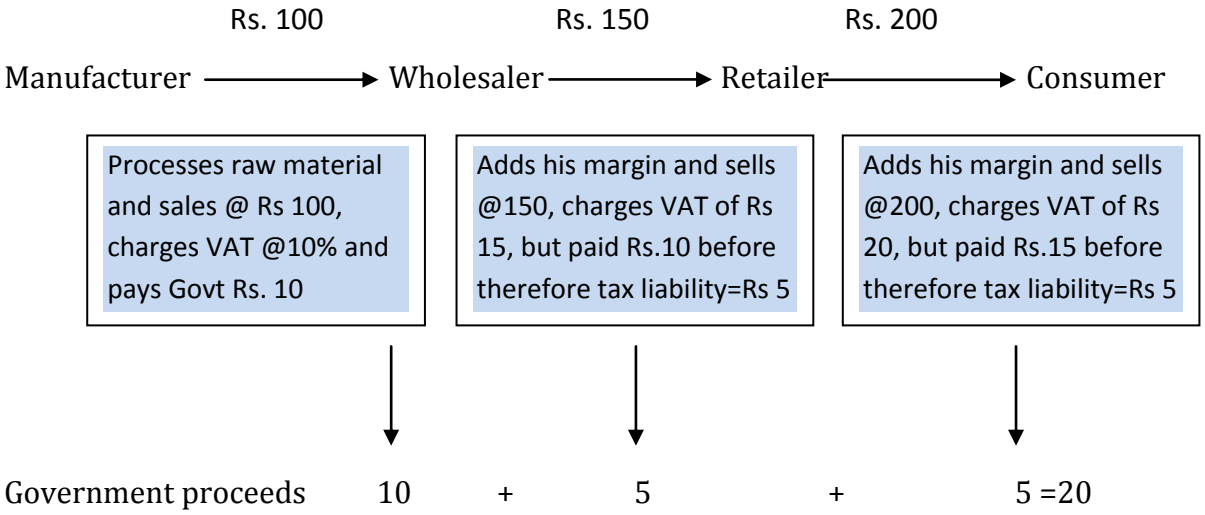
2. Value Added Tax

2.1 Introduction

Value added Tax simply means a tax only on the component of value addition at successive stages of production and distribution of goods. Value addition may be understood as difference in value addition between sale and purchase price. The value addition can be due to reprocessing or repackaging, grinding, refining, manufacturing, producing, adding the brand name, marketing, advertisement, and sales promotion etc. Thus this is a multi-point consumer tax, part of which is collected at every stage of sale of goods and services.

2.2 The Structure of Value Added Tax

The Sales tax system was not only promoting evasion but also discouraging growth of the economy of the state thus there was need to introduce a system that was transparent , encouraged selfpolicing, lead to furtherance of trade and commerce and definately increased the revenue of the Government. Thus Value Added Tax was introduced, in this system government sought for revenue from the profit taken by each stakeholder in the VAT chain. For instance



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Thus in the end Government gets the revenue that is sought from the final point that is the consumer but at different points from the different people in the chain, the chain above is called the VAT chain. Thus Government in this system has distributed the liability, and the best part about the system is the ability to seek input tax credit of the tax paid earlier in the process, which is not added to cost of the dealer as it can get it credited from the government and hence it helps in lowering down the prices of goods and services. Apart from increasing the revenue of the government which was Rs. 10 in case of sales tax had increased to Rs. 20 in case of VAT without increasing the tax rates, it had also helped in regularizing the business of the people as the system of input tax credit required maintaining account records and issuing bill to the purchaser, seeking bill for the its own purchases. Let us discuss about the variants of VAT and then we will come to its advantages primarily in Uttar Pradesh.

2.2 Variants of Value Added Tax

1. Consumption type:

Consumption type VAT allows for deduction on all purchases including capital assets. It does not affect decisions regarding investment as the manufactures can seek set off on input purchase against tax liability.

2. Income type:

In this type VAT is levied on consumption and capital good but tax on capital goods is then refunded over economic life of goods in accordance with depreciation. The problem with this type of VAT is that there are difficulties in measuring depreciation.

3. GNP type:

Under this type, capital goods purchased by a firm from the other firm are not deductible from the tax base in the year of purchase. It does not allow the deduction of depreciation from the tax base in subsequent years. That is tax is levied on both consumption and gross investment.

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2.3 Computation of VAT

1. Addition Method:

This method is used to calculate income type VAT. According to which enter all factor payments including profit to arrive at total value addition and then apply tax rate to calculate the total value addition. This method is not very helpful in checking evasion and does not consider exemptions of intermediate dealers.

2. Invoice Method:

Also called as "Tax Credit Method" or "Voucher Method", this method has special property that at each stage, tax is to be charged separately in invoice. The method not only prevents vat evasion as one can seek set off only after showing tax invoice but also encourages investment decision. This is the method used by the Uttar Pradesh Sales Department in calculating the VAT liability of the dealers.

3. Subtraction Method:

In this method we calculate the tax on the amount obtained, by deducting the purchasing price of the specific goods from the sale price.

2.4 VAT Procedures according to Uttar Pradesh Vat Act, 2008

Below stated are the procedures that are to be strictly followed under UP VAT Act, 2008 for a dealer who wishes to conduct business in state of Uttar Pradesh.

1. Registration:

- Under the UP VAT Act, 2008, every dealer who is liable to pay tax has to register himself under the registering authority under Form-VII and Rule 32.
- All the dealers having turnover exceeding Rs. 5 Lakh per annum are required to register within 30 days from the liability to register.
- There is also a provision of voluntary registration for the dealers with turnover less than 5 Lakh per annum.

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- After registration it is mandatory for the dealer to quote his Tax Identification Number (TIN) on all correspondence made, information provided and documents furbished.

2. Issuance of sale and purchase invoice

- Dealer is required issue sale invoice to registered/unregistered dealer which includes the sale price of the goods sold and tax charged coupled with TIN number, and address of the issuing dealer and the TIN no. Of dealer being sold to in case he is registered.
- Dealer is also required to seek for purchase invoice on purchase of the raw material or any other goods which intends to sell further in case of purchase being made from registered dealer.

3. Accounts and Documents to be maintained by the dealers:

- Every dealer under the ACT is required to maintain all the accounts on goods purchased and sold by him.
- Manufacturer is required to maintain a stock book, tracking the records of input used or consumed in manufacture as well the final product obtained.
- All registered dealers except those seeking for composition are required to issue tax invoice to the purchaser.

4. Input Tax Credit

- Input tax credit can be defined as set off available on taxable goods that are used for manufacture.
- Only registered VAT dealers are entitled to claim input tax credit.
- When goods purchased by dealer are used in manufacture of taxable and non taxable goods, then input tax credit can be claimed only on taxable goods.

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- ITC can also be availed on capital good on the condition that they are used in manufacture.
- In case the input tax credit exceeds the tax liability, then the excess of the input credit will be added in the next year's claim.
- In case of zero rated goods one can claim full ITC.
- The important document without which it is impossible to claim ITC is Tax Invoice. Where tax invoice is a document that contains information on sale price, amount of VAT for each tax rate, name and address of the issuer, name and address of the recipient, nature of the transaction, location where the goods are received and issuer's VAT registration number.

5. Net Tax Liability:

- Thus the net amount of tax payable for any period is Gross amount of tax payable for such period less Gross amount of tax claimed of input tax credit for such period. Gross amount of tax payable includes the tax payable on turnover of sale turnover on purchase of goods or both over the period.

The dealer can calculate his VAT liability on the sale and purchase of goods using the tax rates given in the four schedules of the UP VAT Act, 2008

6. Tax Rates

0%	Goods in column 2 of Schedule-I contains exempted goods
1%	Goods in column 2 of Schedule-III are taxed at 1% rate of interest, primarily conation stones, precious gems and gold.
4%	Goods in column 2 of Schedule-II primarily containing staple foods products and raw material of industries are charged at the rate of 4%.

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12.5%	All the goods except those mentioned in column 2 of Schedule I, Schedule-I, Schedule-II, Schedule-III and Schedule-IV are taxed at the rate of 12.5%.
	Goods at special rates ranging from 21.33% to 90%: Goods listed in column 2 of Schedule IV containing petroleum, diesel, natural gas, ATF fuel etc are taxed at rates determined by the state and shall not exceed 50%.

7. Assessment

In previous system the dealer was required to get his documents/stock book get assessed by the assessing authority every year however it was not feasible an extremely impractical to detect the mistakes of the dealers, that means dealers were considered defaulters. However in this system the dealers were considered honest and were required to present their self assessed tax liability.

- Every dealer is required to self assess the amount of tax admittedly payable on turnover of sale or purchase or both and amount of income tax shown in input tax credit.
- The assessing authority, after detailed examination of books, accounts and documents kept by the dealer in relation to his business and other relevant records, if any, and after making such inquiry as it may deem fit, shall pass an assessment order for an assessment year.

8. Return:

- Every taxable dealer including a dealer from whom any tax has been deducted at source is required to file tax return of his self assessed turnover and tax within 20 days after end of tax period.
- For dealers with annual turnover above 1 crore were required to file monthly return under form 24-B while other dealers had option of filling both monthly and quarterly return.

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- Every taxable dealer including dealer who claims ITC is also required to submit along with tax return
    1. purchases of goods made from registered dealer in respect of which the dealer has received tax invoices;
    2. sales of goods made to registered dealers in respect of which the dealer has issued tax invoices; and
    3. sale made to dealers to whom sale invoices have been issued in the name of such dealers
- Before filing the tax return the dealer has to submit the net amount of tax liability.
- Further in the end of the financial year dealers were also required to file the annual return which is nothing but the compilation of the monthly/quarterly return filed.

9. Refund and Adjustment:

- Dealer can claim for refund of the tax, fee or other amount if paid in excess of the amount due to him under this act. Provided that the amount will be first adjusted towards tax or any other amount outstanding against the dealer against this Act or CST Act, 1958.

10. Tax Audit:

- For the of examining the correctness of tax return or returns filed by a dealer or class of dealers and to verify admissibility of various claims including claim of input tax credit made by a dealer or class of dealers, tax audit shall be made of such number of dealers as may be prescribed.
- In case of tax audit, the dealer is required to show the records and other documents to the assessing authority.
- The assessing authority, if he is satisfied that any dealer or other person, as the case may, has committed the wrong described in column 2 of the table below, it may, after such inquiry, if any, as it may deem necessary and after giving dealer or person reasonable opportunity of being heard, direct that

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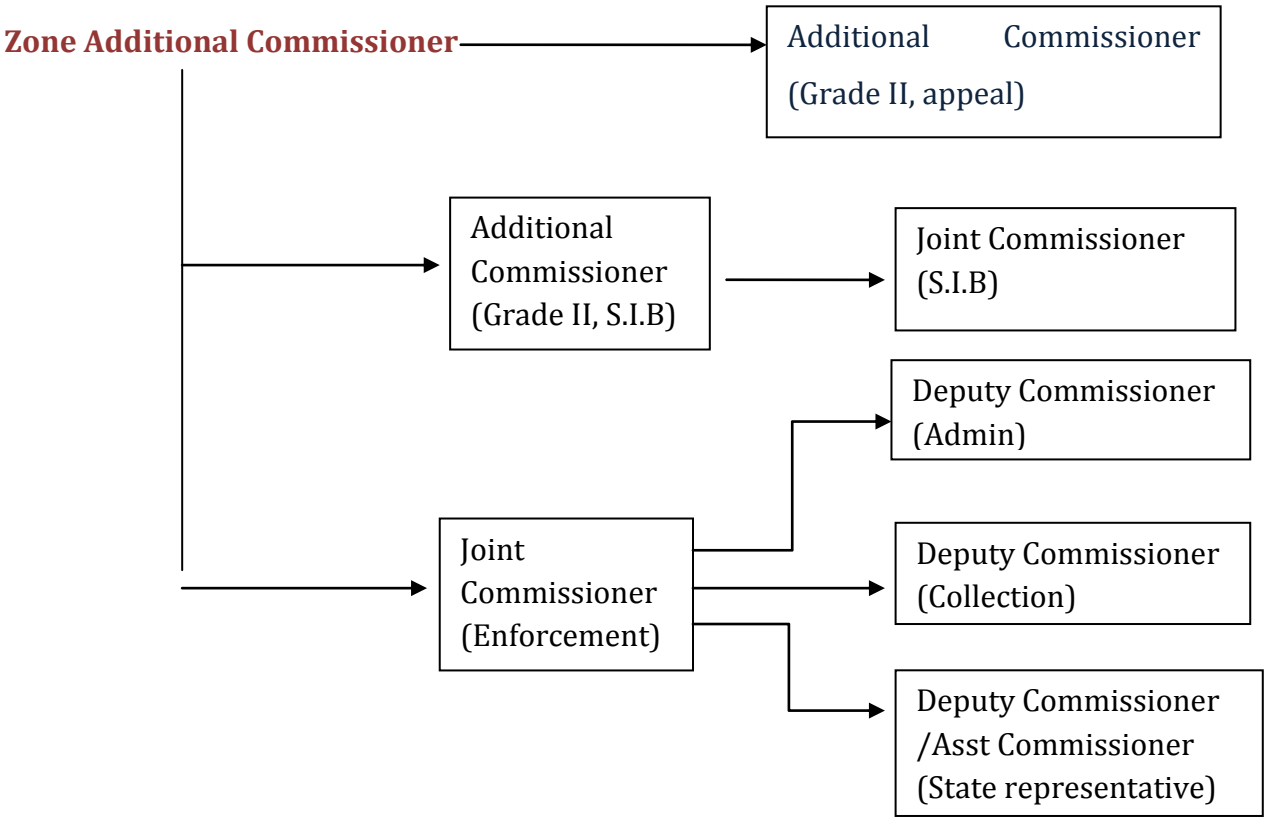
such dealer or person shall, in addition to the tax, if any, payable by him, pay by way of penalty, a sum as provided in column 3 against the same serial no. of the said table

11. Appeal, Review and Revision

Any dealer or other person aggrieved by an order made by the assessing authority, within thirty days from the date of service of the copy of the order, after serving a copy of appeal memo on the assessing authority or the Commissioner, appeal to such authority. The first appeal is with Tribunal, second is with Additional Commissioner of the Zone and the last appeal lies with the Court.

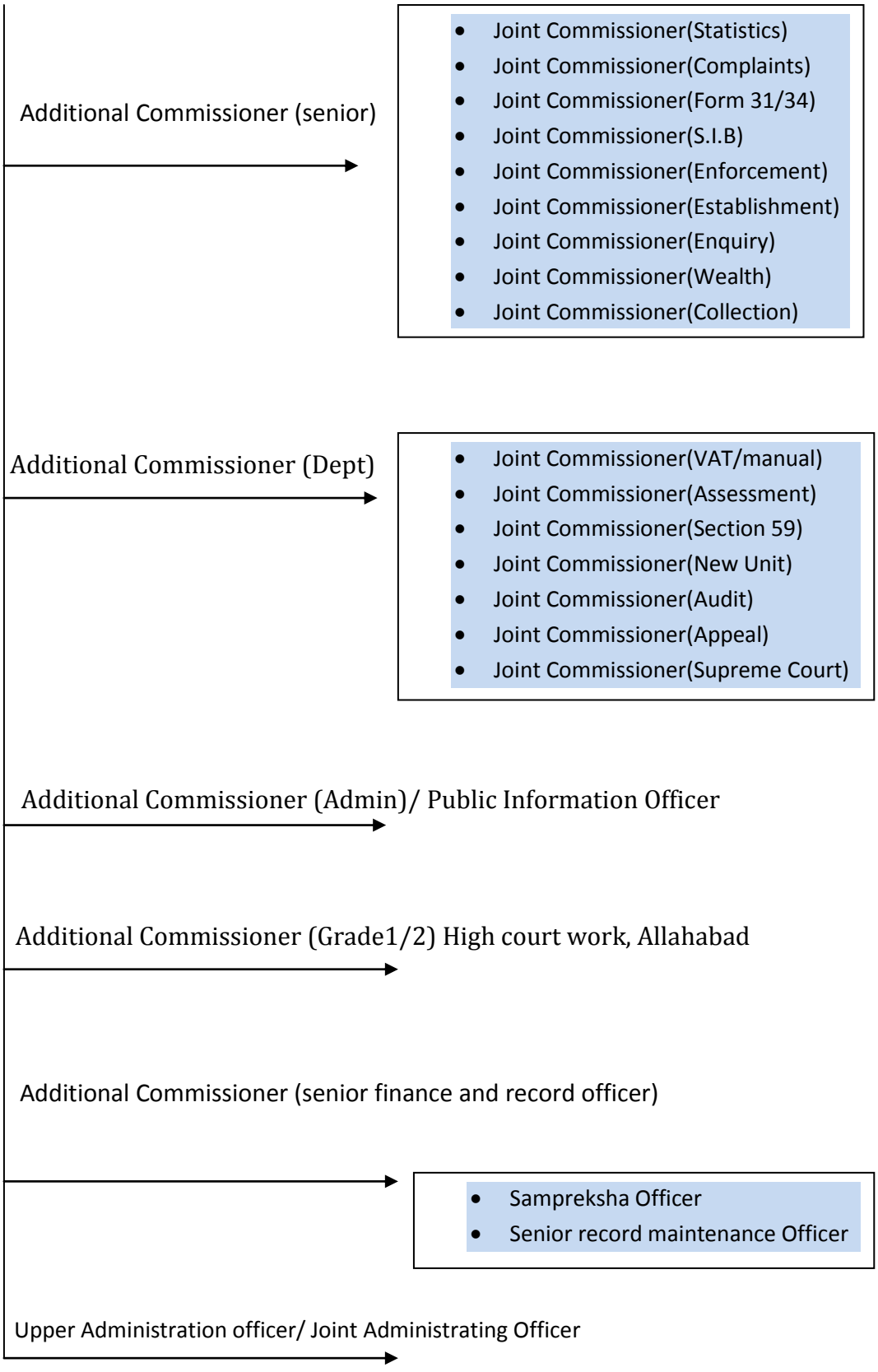
2.5 VAT Administration (at Zone Level)

Uttar Pradesh is divided into 20 Zones and these zones are divided into more than 400 regions or sectors. Administration of each Zone is given by



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Head Administration (Lucknow), Commissioner Commercial Tax, U.P.



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2.6 Advantages of Value Added Tax System over old Sales Tax System

1. Eradication of cascading effect:

The biggest disadvantage of Sales tax was that apart from levying tax on each stage of production and every time the goods were being passed on from one dealer to another, the tax was also charged on the paid tax on inputs. This was a great incentive for the dealers to evade tax as not only it was increasing the price of their commodity but also leading reduction in demand and discouraging production.

2. No multiplicity of tax rates:

Earlier computation of taxes was not a child's' play. Apart from CENVAT levied by Central Government, surcharge at the rate of 10%, cess at the rate of 2%, additional levy, entry tax were levied. In order to address this problem only four rates i.e. 0%, 1%, 4% and 12.5% in respect of VAT able goods were introduced to simplify tax computation procedures for common man.

3. Multiple point taxation system introduced with reduction taxes on many commodities:

In old taxation system there was a single point levy at first point that is government sourced revenue from the manufacturer as it was easy to keep track of the small lot and manufacturers used to pass it on to the consumers. However this lead to massive tax evasion as manufacturers used to under price their product. This lead to massive loss of revenue from the part of Government, and a need for more sound system was felt which lead to introduction of VAT.

4. Industrial inputs placed in slab of 4% tax revenue:

In the previous system raw materials or the inputs used to manufacture were taxed and there was further taxation of made product at each stage of production. Consequently industries were forced to produce raw material themselves which led to squeeze in horizontal tax net. However with inputs being taxed at 4% and ability to claim ITC has not only encouraged production but also promoted ancillaries. This system seeks for vertical as well as horizontal equity.

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5. Fall in Prices:

The provision of input tax credit removes the problem of cascading effect and rationalizes tax rate thus leading to fall in overall price level.

6. Introduction of floor rates to provide level field in the indigenous market

The states in the previous system were in cut throat competition to increase their revenue no matter if it lead to distortion of market and give vent to undue practises. For example tax rate of car was high in UP than Delhi, then dealers used to purchase them from Delhi and drive them to UP to avoid tax. These practises lead to huge losses of revenue and thus there was need for system where in there was minimum level of tax rates that every State was required to follow. And in VAT taxation this was introduced.

7. Threshold increased but voluntary registration envisaged:

As compared to previous system where threshold of registration was less, it was difficult to monitor this huge number of dealers since 68% of dealers fall in the category of turnover less than Rs. 5 Lakh and revenue sought from them accounts for just accounts for less than 10% of the total revenue collected. Consequently there was massive tax evasion and even tax auditing was costly for such a big number. Therefore the threshold for registration was increased and the provision for voluntary registration was introduced.

8. Coverage:

Payment of tax is covered to a large number of firms instead of being concentrated to a particular group like wholesalers or retailers. If anybody evades tax then tax will be lost on margins, thus there has been widening of tax net on all transactions.

9. Revenue Security:

VAT system is very helpful in dealing with tax evasion, if VAT is successfully avoided in previous stage but distributed in cycle then even if it is picked up in the last stage not much revenue is lost. And even if not picked up government will at least have revenue from the previous stage.

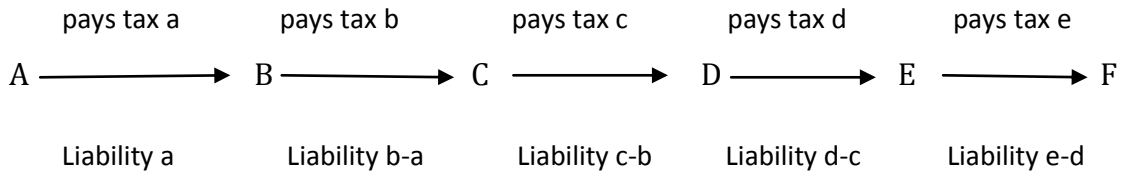
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10. Stock does not carry the burden of tax:

In VAT system unless the goods are sold or passed from manufacturer to purchaser, they are not taxed.

11. VAT is Consumer based tax

VAT is a consumer based tax implies that ultimately the burden of taxation lies on the consumer not on manufacturer, retailer, wholesaler or shopkeeper. However if consumer is exempted then no tax will be realized by the government in the ultimate analysis. Consider a VAT chain where A, B, C, D, E are manufactures1 and 2, retailer, wholesaler and Consumer.



Then the net revenue collected by the government will be equal to a+b-a+c-b+d-c+e-d=d that is tax paid by the consumer.

12. Lesser Tax rate:

In the existing system due to massive tax evasion and requirement of funds for public expenditure, Government used to raise tax rates in order to realize the same revenue however this further lead to evasion therefore there was need for sophisticated tax system that took care of these problems. Hence VAT was introduced and the property of VAT catered to the solution of same problem.

2.7 Main Problems, Scope and Impact on the society

2.7.1 Limitations of VAT

1. Regressive Nature

VAT is regressive in nature implies that poor people in proportion to their income pay more taxes as compared to rich. However some economist counter argue it by

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saying that VAT is in fact progressive as rich people pay in proportion to their consumption.

2. Inflationary

VAT can be inflationary in nature if higher tax is charged on goods like petroleum, diesel etc that come under cost of transportation. It is very difficult to operate from both sides of administration and business men. And business men leave no opportunity to raise prices and VAT offers that opportunity.

3. VAT favours capital intensive firms.

VAT has huge discouraging effect on labour intensive firms than capital intensive firms. As VAT is tax levied on ad valorem and in labour intensive firm the added value is much higher than capital intensive therefore they suffer a lot because of this.

4. Central Sales Tax

Central Sales tax is an important factor distorting the positive impact of VAT. There is need to completely forgo CST and introduce a complete destination based tax.

5. Coordination of VAT with Direct Taxes

Most tax payers cheat the government not to evade tax but to avoid income tax on their annual turnover. Thus there is a need for system where there is a direct coordination between VAT and Direct taxes. Otherwise VAT chain will be broken time and again by the dealers.

6. Computerization.

VAT structure needs computerization base to make cross check more effective in order to curb avoidance or evasion of tax not only at administrative level but also at the level of dealers. Practically it is not possible to develop a system wherein each and every invoice issued by all dealers in the state may be verified.

7. Information Sharing

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The deeply entrenched lack of cooperation between the government departments like railways, Customs Department etc has not only been problematic but a cause of concern. It not only leads to lack of information cross check but also delay in tax auditing and assessment and hence wastage of resources.

8. No Services tax set off

In present scenario tax is charged on every time value is added and one can seek set off on purchase of inputs but value added requires services on which there is no set off. Hence there is a need to bring services under the ambit of VAT.

9. Deviation from uniform rate

However uniform tax rate was among the qualities of VAT that have prevented market distortion but there has been evidence of state deviating from the rate of taxes envisaged by the Empowered Committee to harm the level field in the indigenous market.

10. Lack of commodity classification

There is no standard code for commodity classification in India; it not only leads to miscalculation of taxes but also opportunity tax avoidance due to ambiguity in name of product. Apart from that it is almost impossible to cross check interstate trade and commerce which again leads to massive tax evasion.

11. Development of infrastructure facilities

VAT is simple but sophisticated system of tax collection. The efficient monitoring of this system requires providing perfect infrastructure facilities. For example computerization, internet connectivity, efficient training of staff, availability of regular power supply and stationary. However these preconditions in VAT are impossible to be satisfied simultaneously

12. Enforcement

The biggest drawback of State and not VAT is the lack of efficient enforcement of the provisions of VAT, which makes the system incompetent in all its capacity.

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Effective enforcement requires cross verification of tax invoices, proper record of the interstate movement of the goods, identification of all the dealers liable to pay VAT etc which has been abysmally poor in Uttar Pradesh.

2.7.2 Scope of the Study

Taxation plays a very important role in economy. From mobilizing resources, reducing inequality of income, promoting social welfare, controlling inflation and the most important thing bringing regional development. However the indirect taxes play a very important role as compared to direct taxes in this process. Firstly they have massive coverage that is poor and rich pay tax in same proportion to the income in form of commodity price. Secondly they are difficult to evade and hence an important source of revenue for the State to carry out public expenditure.

In case of Uttar Pradesh, an evidence of the above hypothesis can be given from the fact that trade Tax also known as commercial Tax is the largest source of revenue and accounted to 63% (Rs. 33,107.34 crore) of the total tax revenue (Rs.52,613.43 crore) of the State during the year 2011-12.This means that VAT or commercial tax is the most important source of revenue in the State and hence its growth actually determines the development expenditure and hence growth of the State and its people.

But how successful VAT taxation has been for the Government of Uttar Pradesh and the people of Uttar Pradesh will be essential point of my study. Undoubtedly VAT has lead to increase in States revenue and for the first time in history of Uttar Pradesh there have been revenue surpluses. However we cannot ignore the fact that the ratio of revenue receipts to the own tax revenue is decreasing over time i.e. 40% in 2004-08 and 37% in 2012-13. The increase in the revenue receipts of State is more due to grants extended to the state or any other financial assistance rather than its own collection which is quite worry some. As far as problem of citizen is concerned according to some economist VAT has inflationary nature and follows regressive taxation that is poor paying more in proportion to their income as compared to rich. In this paper I intend to study the impact of VAT on both State as well as its citizens.

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2.7.3 Goals and Objectives

Basically the goals and objectives the intern are studying the overall impact of VAT. In this reference I intend to study the project from two perspectives, one keeping in mind the State. Wherein the following will be the point of analysis:

a) Public perception about VAT and the concern study will be awareness, familiarization of VAT, effect of VAT on prices and expenditure.
b) Perception of tax officers and Wholesalers/retailers/traders on the role of VAT in regularizing business, preventing evasion, increasing State revenue etc and the main challenges of VAT like infrastructure deficit in U.P., high cost of compliance, complexity etc
c) Analysing the role of VAT in increasing State's revenue and to what extent.
d) However actual revenue receipts have lower than the budgeted estimates coupled with stagnant revenue growth, therefore I intend to study the reason for this shortfall and present gap analysis.
e) Discuss in detail the impact of VAT on furtherance of Trade and Commerce in Uttar Pradesh.
f) Lastly suggest recommendation strategies for the problems discussed in the above sections.

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3. Methodology

3.1 Literature Research

The project involved extensive literature research that helped not build the foundation of the topic but also structure it properly. The research varied from understanding VAT from the very basic level through various books like "Revenue implication of VAT" by Mahesh C. Purohit, to analysing the history, need for its introduction, merits and demerits etc. For understanding current VAT laws in Uttar Pradesh, U.P. VAT Act was referred. Analysing the economic significance and impact evaluation on revenue and trade of the state, several research papers available on Economic and Political weekly were read thoroughly, apart from the empirical analysis of the data available on the websites of Reserve Bank of India, Planning Commission of India, Commercial Tax Department, Uttar Pradesh, Ministry of Statistics and Planning, Annual Survey of Industries.

3.2 Field Visits

Field visits were an important part of my project, since it involved finding perception of VAT of its stakeholders. Therefore talking to and learning from people was an empirical part of my study. I conducted several field visits to malls, restaurants, shopping complexes to know views of tax payers. Visited Sales Tax offices at Meerut and Ghaziabad and talked to tax administrators like Additional Commissioner, Joint Commissioner and Deputy Commissioner department wise and learnt tax procedures, structure etc. Furthermore I also made sure to understand the viewpoints of the manufacturers, wholesalers, retailers, traders and shopkeepers.

3.3 Surveys

Survey was conducted, based on the area of expertise of the stake holders. Taxpayers were asked basic questions to judge awareness about VAT, its effect on prices and expenditure. While the tax officers and wholesalers/ retailers/ traders were asked about the role of VAT in regularizing business, preventing evasion etc

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and major challenges of VAT in terms of complexity, shortage of infrastructure etc. The primary focus of survey was just to gain an experience on how people find VAT and their views. Sample size was around 100 including all the three categories.

3.4 Meetings and Interviews

Date	Name	Designation	Institution	Discussion Topic
7/06/14	Shri Yogendra Kumar	Additional Commissioner, LAW	Commercial Tax, U.P.	Understood concepts of VAT
22/06/14	Shri Yogendra Kumar	Additional Commissioner, LAW	Commercial Tax, U.P.	Finalized the task list
25/06/14	Shri Vijay Kumar	Additional Commissioner, Grade II	Commercial Tax, Meerut, U.P.	Procedure and Structure of VAT
26/06/14	Shri Vijay Kumar	Additional Commissioner, Grade II	Commercial Tax, Meerut, U.P.	Explained working of Website of Commercial Tax Dept, U.P.
27/06/14	Shri Arwind Agarwal	Accountant	Mittal Paper and Chemical Mill	Discussed the workings of VAT, his opinion and its shortcomings
30/06/14	Shri R.S. Singhal	Assistant Vice President	Binani Cement Ltd.	Opinions about VAT and its drawbacks

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30/06/14	Shri R.K. Gupta	Accountant	AAC and ACR Conductors, Pvt Ltd.	Discussed on Opinions about VAT and its drawbacks
1/07/14	Shri R.S. Tripathi	Additional Commissioner, Grade I	Commercial Tax, Ghaziabad, U.P.	Fixed the meetings with important manufacturers of Ghaziabad
1/07/14	Shri Prithvi Singh	Accountant	K.L. Steel Industries, Ghaziabad	Opinion about VAT, problems and suggestions.
6/07/14	Shri Yogendra Kumar	Additional Commissioner, LAW	Commercial Tax, U.P.	Discussed about the field visit results

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4. Results and Discussions

4.1. Public Perception of Value Added Tax

4.1.1 Taxpayers

In this section I have tried to explore the perception about VAT amongst the tax payers, I conducted a primary survey of sample size of 50 trying to make the sample as representative as possible with respect to age, gender, education and income.

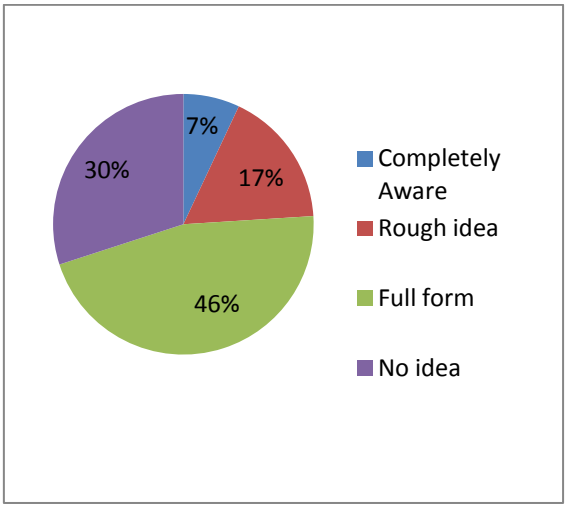


Figure 1 Recognized VAT with

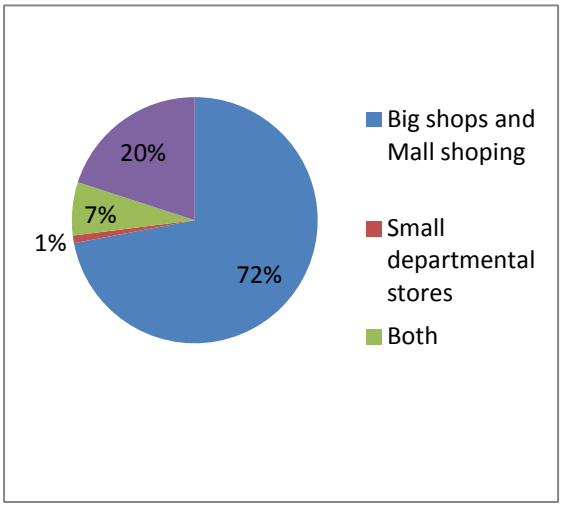


Figure 2 Awareness about VAT

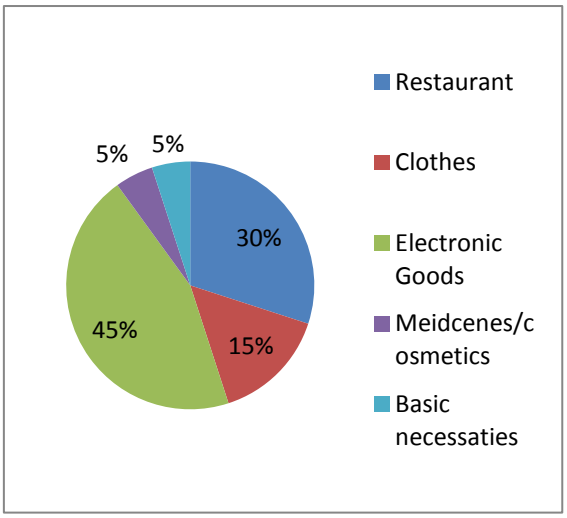


Figure 3 Effect of VAT on prices

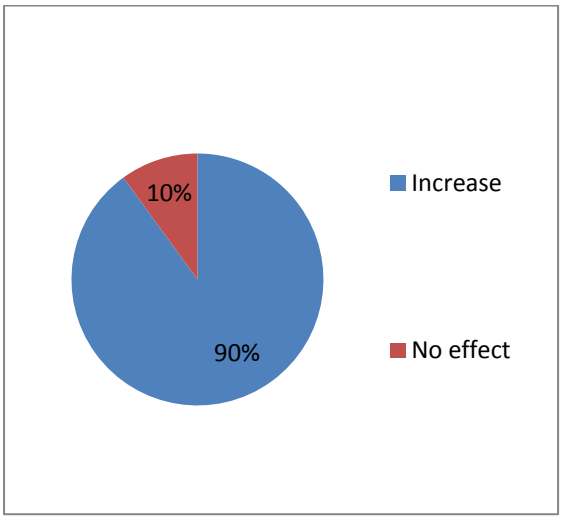


Figure 4 Often Paid VAT on

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However the with respect to income people were quite reluctant to declare therefore I thought of giving up this section. The above were the responses among the people.

Cleary the above primary survey conducted by me gave the most expected results, regarding the awareness only 10% people had complete knowledge about VAT while others were either not sure or did not have any idea about VAT. Moreover there were high chances of people recognizing VAT with branded shopping rather than departmental shops located in proximities of their area and that too with more often with electricity goods or durables than basic necessities. Further according to them VAT had inflationary effect on prices but the surprising fact was that in very less chances their expenditure was determined by VAT. That is the part of shopping consisting of durable goods or electricity goods and restaurants/branded shopping their expenditure was not really affected by VAT however on purchase of non durable goods where they had chances to avoid tax they surely did. Thus their perception of VAT was conditional on the purchase.

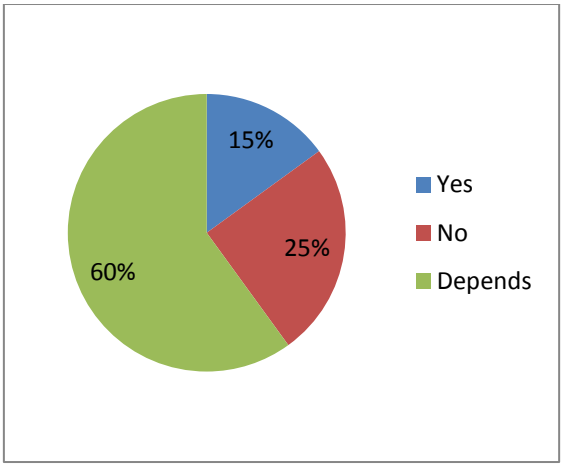


Figure 5 Expenditure is determined by VAT

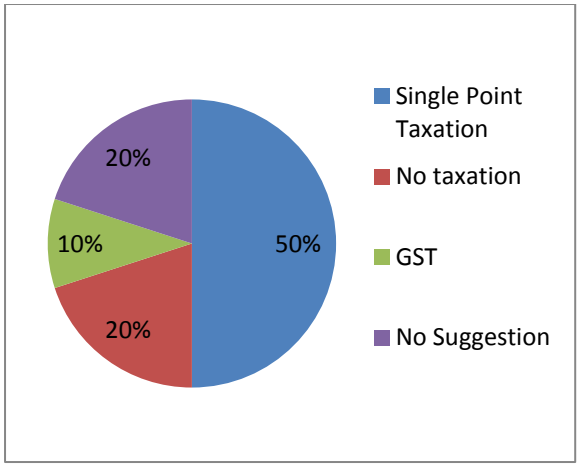


Figure 6 Suggestions

As far as the suggestions were concerned most of the people said that VAT was unnecessary burden for the consumer and it was also responsible for price hike, apart from this it was very complicated therefore single point taxation at manufacturer level should be introduced, while there were significant number of

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people who wanted no taxation at all and some also wanted Goods and Services tax to be introduced.

4.1.2 Tax Administration

Tax Administration plays a very important role in VAT regime, and is as competitive in determining the implications of VAT as any other stake holder.

I would rather not call it a survey; however I talked to the officials from various departments like Special Investigation Branch, Enforcement, Assessment, Auditing, Appeal, Statistics, Collection etc and several officials including Zonal Additional Commissioner. There were 50 responses in total. Below are the opinions of the officials.

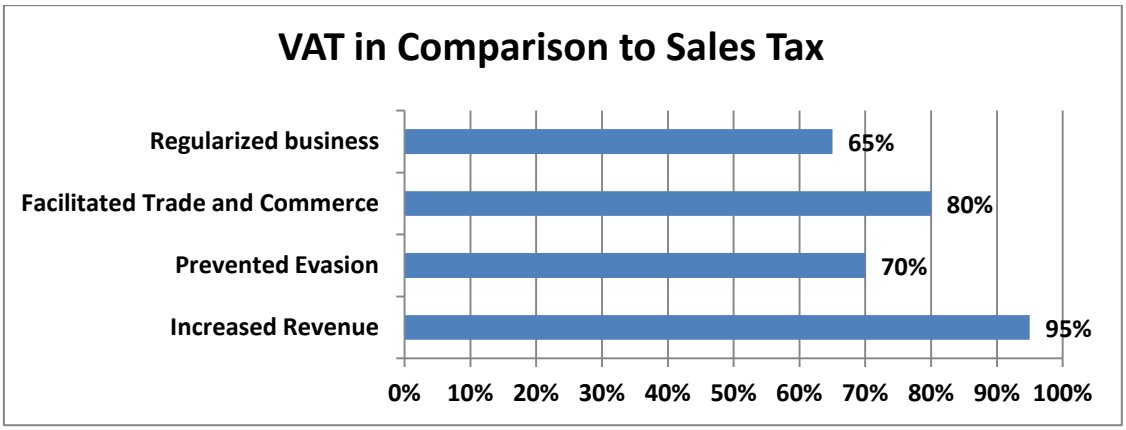


Figure 8 VAT in Comparison to Sales Tax

Thus clearly according to the tax administration for the state VAT has actually proved to be beneficial as 95% officers believe in its worth with respect to evasion and revenue, moreover they also second the furtherance of trade and commerce due to VAT because of the facility of ITC provided to the business men. However if we talk about challenges of VAT then we get the below stated figures.

Clearly from officers' point of view although VAT has been a success in state of Uttar Pradesh, but still the system is not quite supportive for VAT and the poor infrastructure of U.P. seems to be the biggest problem, apart from that they also feel that complexity of VAT is another major problem which should be dealt

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without any delay. However they were hopeful of the fact that the department will soon bring about reforms for the problems above.

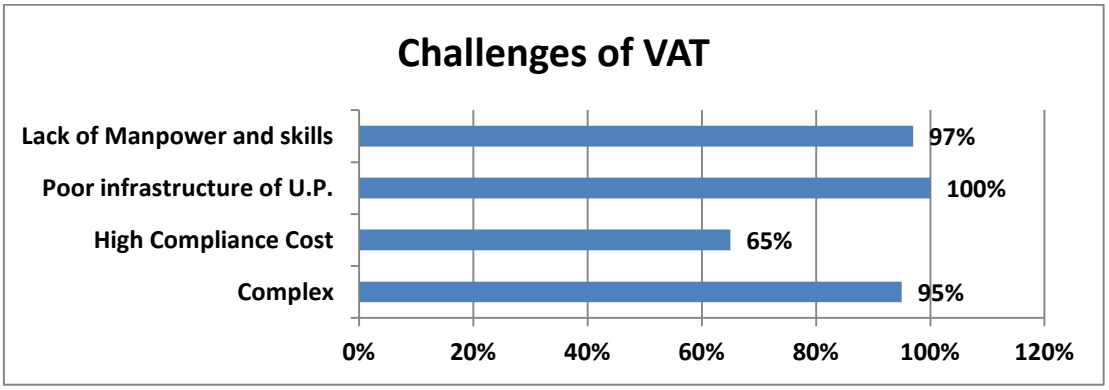


Figure 9 Challenges of VAT

3.3 Manufacturers, Wholesalers, Retailers and Traders

This is the most important segment of the stakeholders in VAT system because this segment is the one who collects VAT from public on the behalf of the people; it was very interesting to study their point of view regarding VAT. Again the study was primarily done keeping the sample as representative as possible in reference to the turnover, goods they sell etc. The questions were asked on their area of expertise regarding the impact of VAT on their growth, their opinion on VAT as tax system and Uttar Pradesh as a state of business. Following were their opinions on VAT in comparison to Sales Tax regime.

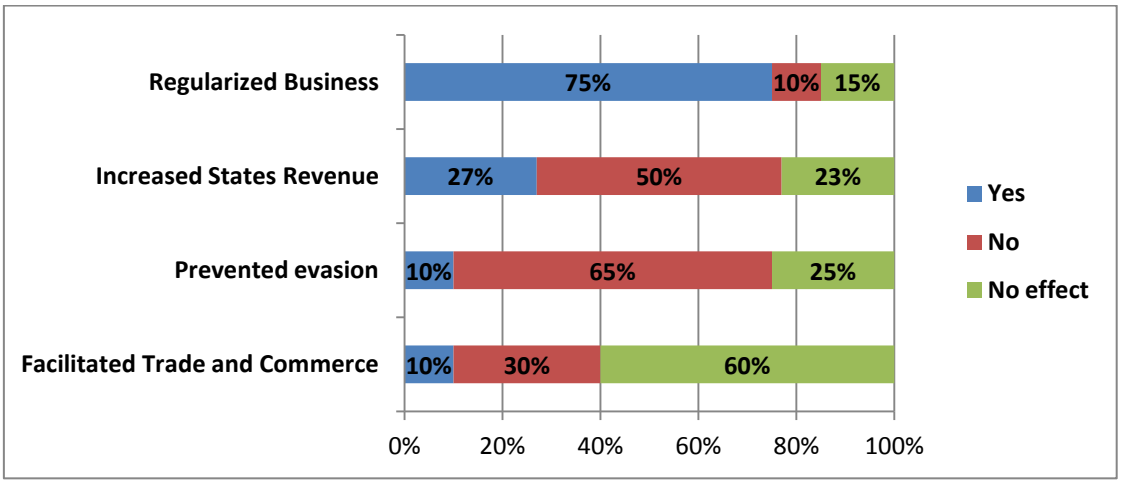


Figure 10 VAT in Comparison to Sales Tax

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Thus apart from regularizing their business, this segment of stake holders no positive opinion about VAT, only 10% business men believe that VAT has facilitated their trade and prevented evasion. According to them the VAT laws were rather stringent than Sales tax regime which promoted dealers to evade VAT, moreover cost of compliance of VAT in terms wastage of time, hiring of additional employees, filing of monthly returns etc were the major concerns. According to them the challenges of VAT were:

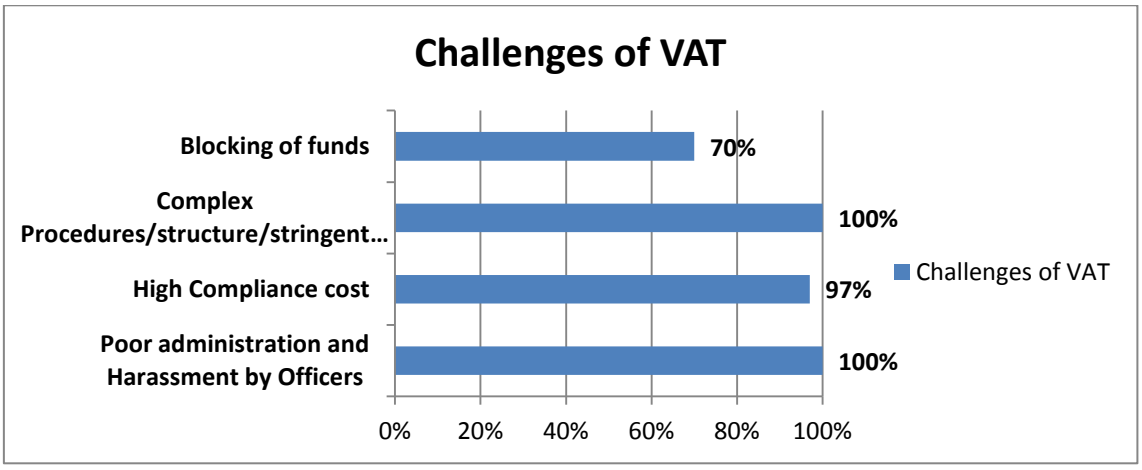


Figure 11 Challenges of VAT

Harassment by officers was the most discussed problem from the dealers, according to them undue powers have been given to the officers regarding denying their document on sometimes very nonsensical grounds just to have monetary favours, and sometimes the harassment was done even after submission of correct documents. High compliance cost in terms of filling forms for each transit through state, filing of returns, hiring of tax consultants and tax lawyers was additional cost to the dealers and not to forget the monetary favours to the government officers. Apart from that non refundable ITC funds were also they major problem because sometimes sale overwhelmed purchase or tax on inputs exceeded tax on end product leading to capital blockage.

4.2 Revenue Implication of Value Added Tax in Uttar Pradesh

VAT was introduced in Uttar Pradesh with the hope to revive taxation system that had been failing government since years, according to the estimates the revenue collected from sales tax as depicted in the diagram, although grew every year but

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during its last stages it had reduced to almost insignificant from 20.58% in 2004-05 to 6.89% in 2007-08. However VAT was intended to be introduced in 2004-05 but due to reluctance of business community and lack of political will coupled with huge structure and vastness of the state, the transition got delayed but after observing the stagnant growth in revenue collection it was decided to bring VAT. Thus finally VAT was introduced in Uttar Pradesh on 1st JAN, 2008.

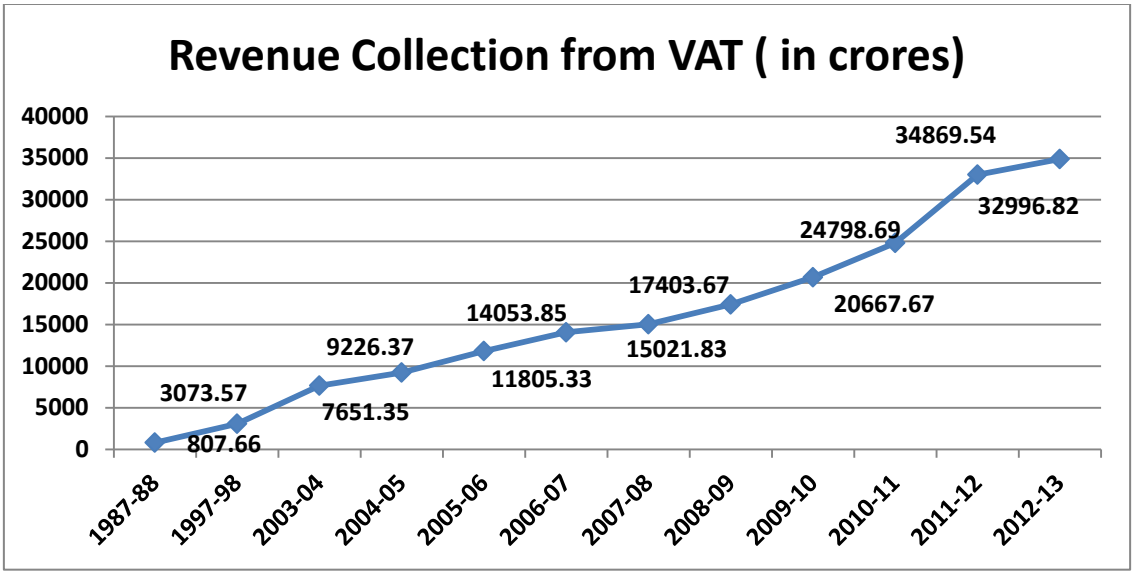


Figure 12 Revenue Collections from VAT

Source: Commercial Tax Department, Uttar Pradesh

Undoubtedly revenue from VAT has increased significantly in Uttar Pradesh as compared to Sales Tax regime. VAT was introduced in 1st January 2008, and since then there has been two fold growths in revenue from Rs. 17403.67 crores in year 2008-09 to Rs. 34869.54 crore in year 2012-13. And if we see the contribution of Commercial Tax Department in the revenue collection of U.P. it has been extremely significant as in year 2012-13, the department has contributed 60.06% of the states revenue and is expected to increase the contribution to 71.15% Rs. 43936.00 cores in financial year 2013-14.

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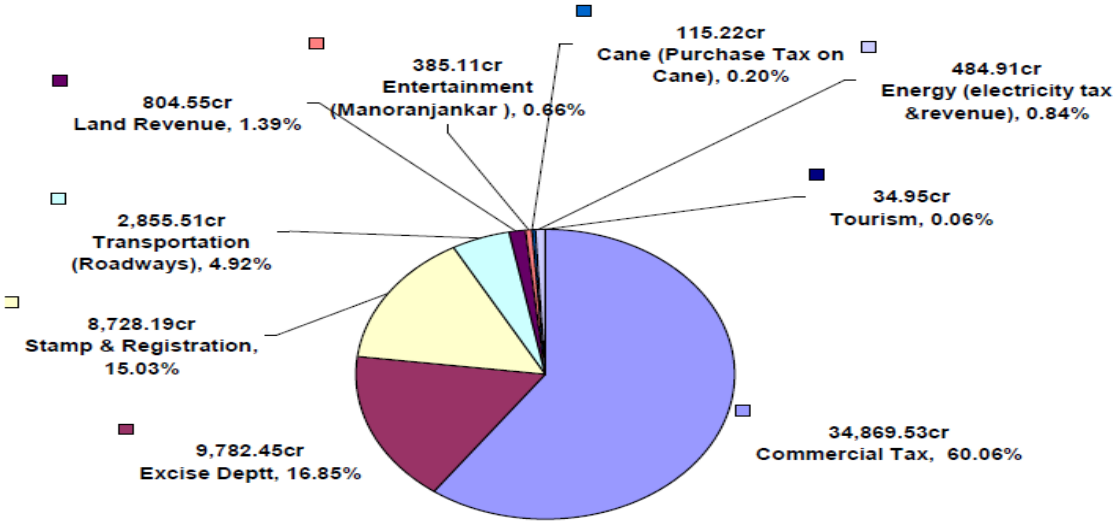


Figure 13 Contribution of VAT in State's revenue in year 2011-12

Moreover if we compare revenue ratio of revenue receipts and GSDP of Uttar Pradesh with all India level and states which are known to collect highest VAT revenue like Maharashtra and Gujarat then there too, the collection has outnumbered the various states.

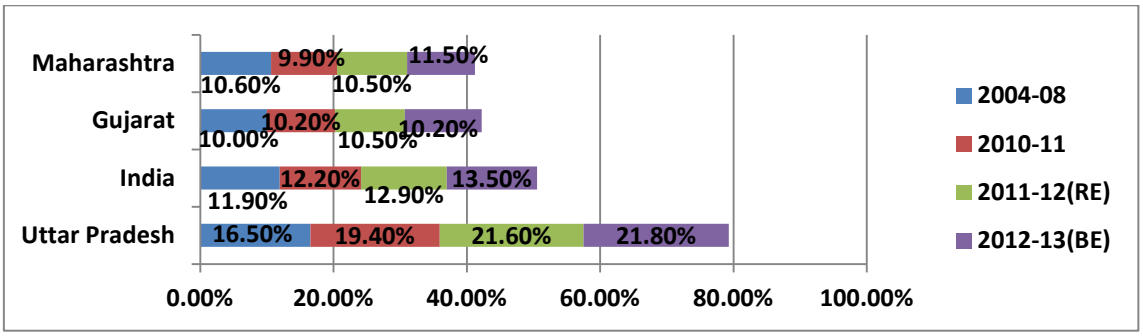


Figure 14 Comparison of % of revenue collection from VAT in different states

Source: Fiscal Consolidation of States by Reserve Bank of India

Comparing the average growth rate of collection pre and post VAT implementation according to the data given above then pre VAT average growth rate was 16.44% while post VAT it was 18.668%. Similarly the average of ratio of own tax revenue and GSDP of U.P. as has been 7.55% as compared to all India Average of 6.05% and VAT has been an important reason for such impressive results. Thus contribution of Value Added Tax in Government of Uttar Pradesh has been very important for public exchequer. However there have been certain drawbacks in the system as

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well as in State because of which VAT has not been able to deliver the expected results.

From the table below we see the trends in the revenue of actual receipts and budgeted receipts then there are two things to observe, one there is huge variation in estimated and actual revenue receipts which varies from -13.23 in year 2007-08 to +3.46 in year 2011-12 and reduced -9.41 in year 2012-13. Second the percentage of actual trade tax/ total receipts has remained stagnant over years.

Year	Actual Receipts	Budgeted Receipts	Variation (excess or shortfall)	Percentage of Variation	Total Tax Receipts	% of actual Trade tax/ total receipts
2007-08	17,134.10	15,023.10	-2,291.00	-13.23	24,959.32	60.19
2008-09	19,705.00	17,482.05	-2,222.95	-11.28	28,658.97	61.00
2009-10	20,741.27	20,825.18	+83.91	+0.40	33,877.60	61.47
2010-11	26,978.34	24,836.52	-2,141.82	-7.94	41,355.00	60.06
2011-12	32,000.00	33,107.34	+1,107.34	+3.46	52,613.43	62.93
2012-13	34,869.54	38,492.18	-3,622.64	-9.41	58,098.36	60.01

Table 1: Data comparison in actual and budgeted receipts of revenue form VAT

Source: Report on Uttar Pradesh State finances by CAG

Moreover if we observe the trends in the arrears or the amount of the revenue due to be collected in the table below then we see there has been increasing trend in the value of arrears over the years, while the proportion of amount collected has decreased over the years.

Year	Opening balance of arrears	Amount Collected during the year	Closing balance of the arrears
2007-08	14,569.19	3,487.63	11,081.94
2008-09	11,081.94	4,307.91	15,389.85
2009-10	15,389.85	1063.45	16,453.30

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2010-11	**16,453.30**	**1,350.97**	**16,665.41**
2011-12	**16,665.41**	**1,700.51**	**18,960.28**

Table 2: Data on amount due to be collected by the Department

Source: Report on Uttar Pradesh State finances by CAG

Thus from the above data it is very much clear that although VAT has been successful but to a very limited extent because the arrears of revenue as on 31st March, 2012 amounted to Rs. 18,960.28 of which 11,803.03 has been due for last five years. The reasons of this behaviour can be attributed to factor like evasive and avoidance tendencies of people, high compliance cost of VAT, complicated structure of VAT and poor department infrastructure etc. In the section below I have tried to study these problems in great detail and understand the underlying causes.

4.3 Fallacies in existing system of taxation

4.3.1 High Compliance cost

In order to run any system there is a cost to be incurred; one is administrative cost like expenditure incurred on staff salaries, office infrastructure, and other non plan expenditure. The second kind is the compliance cost of auditing, assessment, investigation, enforcement etc. If we talk about VAT then according to the estimates the compliance cost of VAT has been extremely significant in comparison to Sales tax. Since VAT compliance by dealers requires successfully filling ample of forms and maintenance of records without any error then its assessment also requires much effort. Moreover due to its complexity, department find hard to detect flaws and check evasion or avoidance and thus its compliance cost is relatively high. If we observe the cost of VAT per assessee, according to the report by CAG in then it has increased from Rs. 6,228.86 in 2009-10 to Rs. 6,860.55 in 2011-12.

Year	**Gross Collection**	**Expenditure on Collection**	**Percentage of cost of collection**	**All India average % for the previous year**

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2007-08	15023.10	228.19	1.52	0.82
2008-09	17,482.05	272.54	1.56	0.83
2009-10	20,825.18	358.43	1.72	0.88
2010-11	24,836.52	406.65	1.64	0.96
2011-12	33,107.34	440.89	1.33	0.75

Table 3: Data on gross collection and cost of VAT

Source: Report on Uttar Pradesh State finances by CAG

Furthermore we see as compared to all India average the percentage of cost of collection has been much higher in Uttar Pradesh and it is increasing over years. And the worst part is despite high collection cost department has not been much successful in recovering the lost revenue. According to the report on state finances by CAG it pointed out that during the period from 2006-07 to 2010-11 they had pointed out through their inspection Reports non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc. with revenue implication of Rs. 1,502.44 crore in 10,084 cases. Of these, the Department had accepted audit observations in 1,359 cases involving Rs .15.23 crore and had since recovered Rs. 2.05 crore in 508 cases. The reasons of this low recovery have been misclassification of goods and knowledge of the corresponding tax rates and not noticing offences of penalty and interest by assessing authority.

Thus department has been incurring high cost to enforce system; no doubt it has been successful to some extent but needs to strengthen its internal auditing system to further raise the revenues and emphasis should be more on reforms encouraging self policing of the officers.

4.3.2 VAT evasion

An important problem that the system has not been able to address yet is the following are the common evasive practises.

• Taking advantage of disparity of interstate taxes i.e. low tax rate or exemption of goods.

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• In case inputs are taxed at high rate, dealers show purchase more than sales to take benefit of ITC.

• There is massive interstate illegal of necessity goods in case taxed at higher rates.

• When patent and non paten goods are available in the market and patent goods are sold at higher prices.

• Gross undervaluation of the goods and services to save oneself form tax has become practise.

• Issuance of fake bills to the consumers. Sales transit is shown to avoid taxes

• Showing stock transfers from one branch to another instead of central sales or goods taxed at higher rate are shown to be covered by CST.

4.3.3 VAT avoidance

According to data by Commercial Tax department only 7, 00,000 are registered with the department up till now. And this is the scenario when there is provision of compulsory registration with turnover above Rs. 5Lakh and above. Clearly it is hard to believe that only these many dealers are liable to pay VAT. The truth is that there are lakhs of dealers that show their turnover less than Rs. 5 lakh to avoid VAT.

4.3.4 Poor Infrastructure facilities

Another major reason for poor compliance has been abysmally poor infrastructure facilities. If we look at the results of the survey above then 97% of the officers believe that it's is the unavailability of the resources like lack of manpower, no availability of computers and no vocational training for efficient implementation etc are responsible for poor collection. If we carefully observe VAT administration in Uttar Pradesh, the state is divided into 20 zones which are further divided into 480 sectors. Each zone has Zonal Additional Commissioner (executive), under who works Joint Commissioner, Deputy Commissioner, Assistant commissioner and Commercial Tax Officer (CTO) for each sector, apart from that there is Additional Commissioner (S.I.B) under whom works Mobile Squats (M.S).

- Lack of Manpower: Now almost in every sector either the post of Joint Commissioner, Deputy Commissioner, Assistant commissioner and Commercial Tax Officer (CTO) are lying vacant or someone is on leave or

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someone is handling two or more charges etc. Similarly in case of mobile squats, while some are on permanent leave, some are working round the clock and some post lie vacant. Thus overall there is massive shortage in manpower and this problem not only exists with officers but also supporting staff. There is scarcity of drivers, cleaners, babu's/clerks, technicians, postman, and other helpers. Consequently there is huge delay in proceedings of the department and specially catering to such huge number of dealers with maximum possessing the evasive tendencies and knowing the drawback/loopholes in the law, it is extremely difficult job.

- Low IT usage: Value Added Tax is a system in which automation is the pre-requisite. Not only for the dealers to issue sale and purchase and invoice and maintain records of their stock but also for the administration to track the profile of the dealer in the financial year without automation, one cannot do justice to the system. The systems provided to the officers and clerical staffs are outdated, however replacement is not an option but they need to be updated as per latest technology. There is shortage of scanners and printers which are necessary for uploading documents online. Not only the official infrastructure but the supporting infrastructure like fans and lights are not working, poor condition of offices and washrooms etc are also causing a slowdown in the workings of the Department.
- Poor training of staff: An important reason for unsupportive VAT system and stagnant revenue growth is the low skill set in officers and supporting staff. Majority of the employees are not properly aware of the system, they just have knowledge of their daily routine work. Being a complicated system coupled with automation, it demands a particular skill set in its administrators to be handled with efficiently. However majority of the officers are unable to use the system. Thus they are incompetent to handle the intricacies of the system and that is why major evasion cases go undetected and thus cause huge losses to the state. Moreover while most of the employees thinking of it being government job do not make an effort, others exploit their job to make money. Thus apart from poor training, lack

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of compliance will is also the major problem. Reluctance to learn and get updated with new system is most problematic.

- Corruption: Undoubtedly Department is tainted with corruption from top to end. Employees take advantage of their position and illicit monetary as well as other materialistic favours from the dealers in some case and in some cases they collude with them to help in evasive activities. Consequently the coffers of the state are the worst sufferers.

4.3.5 Low Value Addition in Uttar Pradesh:

The diagram below shows the Net value addition in Uttar Pradesh as compared to the Maharashtra and Gujarat were the collection of revenue is the maximum. Clearly from the diagram the net value addition in Uttar Pradesh has been not only very low, almost a third of Maharashtra and half of Gujarat, but also highly stagnant and decreasing. High value addition is very important for any state to be able collect maximum revenue especially in VAT system; however Uttar Pradesh has fallen shortly in being able to add value and there are various reasons for that. Lets discuss briefly the state profile.

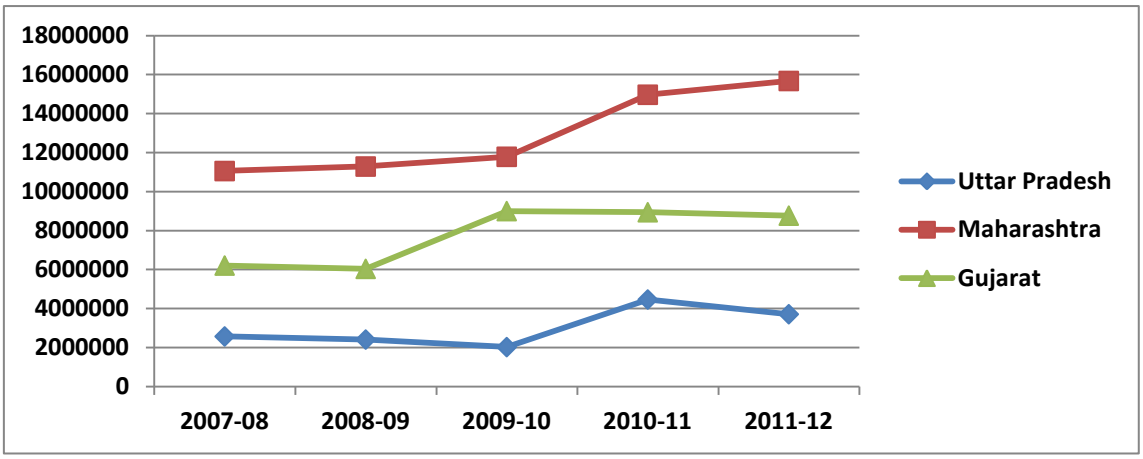


Figure 1516 Comparing Gross Value Addition of U.P. with Maharashtra and Gujarat

Source: Annual Survey of Industries, GOI

Uttar Pradesh, a state profile: In this section I tend to discuss the issues with state as compliance body that is hampering the growth in revenue receipts from VAT. Uttar Pradesh is primarily an agrarian economy with more than 60% of the population depending on agriculture for its livelihood. Apart from being largest

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producer of food grain in India with agro processing industries as an important contributor of the revenue, it offers equally important opportunities to the industrial sector. The policy initiatives like Industrial and Service sector policy 2004 coupled with other financial assistance schemes of providing interest free loans or capital subsidy to small scale industries and new industries have undoubtedly lead to boost in industrial sector. However if we look sector wise contribution in GSDP of the state then secondary sector's or the manufacturing sector contribution has been the least in Uttar Pradesh.

Sector wise Contribution in GSDP at current prices (%)	**FY06**	**FY08**	**FY11**
Primary *	30.1	27.9	27.6
Secondary**	23.2	25.2	23.7
Tertiary***	46.7	47.0	48.6

Table 4: Data on Sector wise contribution of GSDP in Uttar Pradesh

Source: PHD Research Bureau, complied from Directorate of Economics, GOI

*Primary sector includes Agriculture and animal husbandry, forestry, fishing, mining and quarrying
** Secondary sector includes Manufacturing (registered and unregistered)
***Tertiary sector includes transport, storage, railway, and other means of mass communication etc

And the growth has also been stagnant from FY06 to FY11. Undoubtedly as the GSDP of state increased the contribution has increased but the percentage of contribution has remained stagnant instead it has declined and clearly this can be a significant reason for difference between the budgeted and actual revenue receipts of revenue shown above. If we study the aspects behind the decline in growth of real GSDP then the state profile plays a significant role in determining it and hence the revenue.

Studying the ranks of the state in various parameters determining industrial growth, we get a very grim picture of the state. According to the data compiled by PHD Research Bureau in FY11, literacy rate in Uttar Pradesh is 69.7%, per capita income is Rs. 26, 211, poverty is 32% and unemployment rate is 8.2%. Uttar

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Pradesh in comparison to 20 developing states ranks 17th in investment environment, 9th in agriculture, 16th in consumer market, 14th in infrastructure, 0th in labour regulation, 9th legal system, 14th in overall economic freedom index.

Apart from that there are other problems in Uttar Pradesh like Government instability, excessive promotion of anti social activities, power deficits, huge population, low literacy rate, excessive unemployment etc. That affects the value addition in major way.

4.4 Impact of VAT on furtherance of Trade and Commerce

In order to evaluate the impact of VAT on trade and commerce, I did a comparative analysis VAT and sales tax. I asked some manufacturers, wholesalers, retailers and traders whether introduction of VAT has facilitated them in terms of procedure, structure, Law, their choice between inputs, benefits of ITC, choice between capital and labour, and effect on their growth.

According to their responses, undoubtedly VAT has not facilitated the business class in terms of procedure, structure or law. While manufacturers found ITC beneficial for their production, Wholesalers/retailers/traders claimed it ineffective. Clearly the choice of inputs was determined by the interstate tax rates, and the aspect of neutral choice has been nullified, moreover growth in number ancillaries has been less than expected. Apart from that, dealers chose capital to labour for production and power shortage coupled with expensive labour in Uttar Pradesh were the main reasons not the facility of ITC. Furthermore VAT has not in specific lead to increase in the growth; however according to most of them VAT had no effect at all instead it had increased the cost and harassment of the common businessman.

Further if we go by the figures of growth rate of GSDP in industrial sector then industrial sector has downgraded in Uttar Pradesh and this degeneration has been more in comparison to all India level, and at a higher magnitude as compared to states like Gujarat and Maharashtra.

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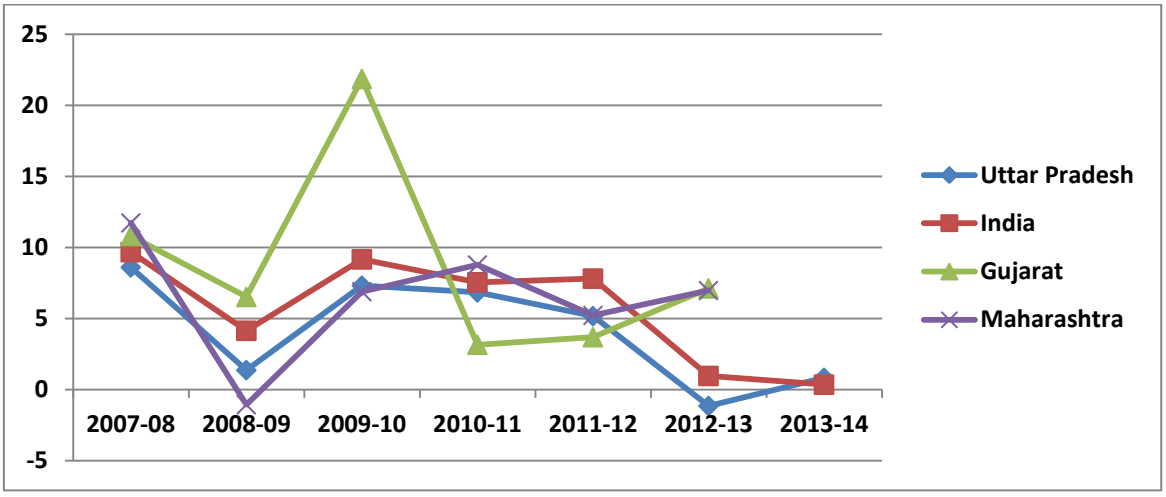


Figure 16 Comparison of growth rate of GSDP in industrial sector of U.P. with Maharashtra and Gujarat and all over India

Source: Central Statistical Organization and Ministry of industry, Govt of India

Similarly if we compare the Growth rate in GSDP of Manufacturing sector, even then Uttar Pradesh is lagging behind All India average and far behind Maharashtra and Gujarat. While all India average growth rate of manufacturing sector is 7.45%, in Uttar Pradesh it's just 5.68%. However taxation is not the only reason for its decline but surely an important reason. We will further study the major problems faced by the trade sector in VAT compliance and how its existence has become the stumbling stone for the sector.

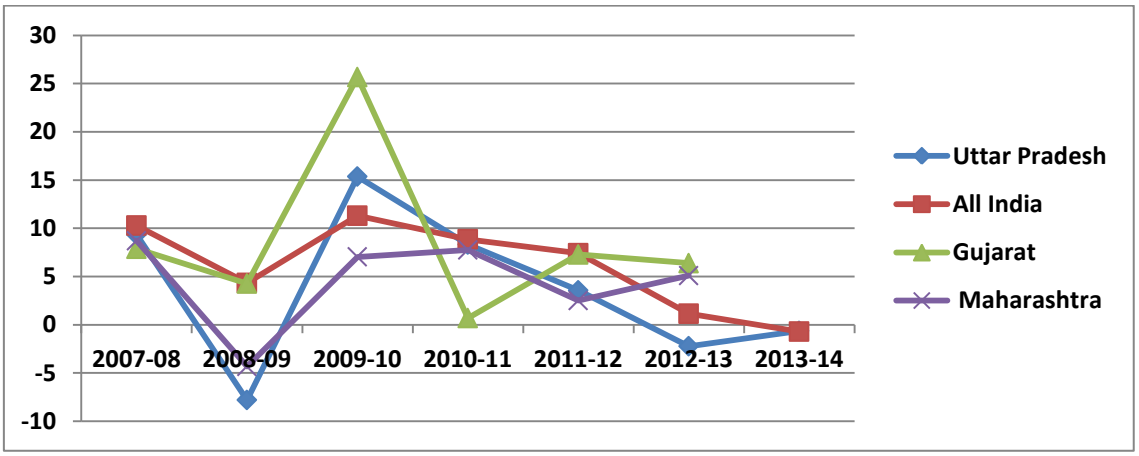


Figure 17 Comparison of growth rate of GSDP in manufacturing sector of U.P. with Maharashtra and Gujarat and all over India

Source: Central Statistical Organization and Ministry of industry, Govt of India

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The system of taxation plays a very important role in furtherance of trade and commerce, and for trade and commerce to flourish the taxation system should facilitate it. In terms of structure and procedure it should be simple, the option of evasion should not be a profitable deviation, and it should well managed and not requires incurring cost and specially not a hindrance to the time devoted for work. It should be people friendly again as Chanakaya said Government should levy taxes like bee sucks nectar from flower without noticing. Uniform tax rates across the regions and political stability are also important factors affecting trade.

4.4.1 High cost of compliance for Dealers:

The cost incurred in tax compliance has increased in VAT regime than sales tax. An average shopkeeper/retailer has to incur Rs. 5,000 to a tax lawyer, tax consultant/charted accountant charge around Rs. 50,000 per year and the additional cost incurred on form filling, billing machine and penalty imposed due to mistakes further de motivates the dealers' to avoid and evade commercial tax.

4.4.2 Complex system

According to results of my survey, around 90% of the tax officers and almost every dealer believed that complexity of VAT is its major drawback. I have already discussed the VAT procedures; in this section I will explain how complicated is the system for a common to comply with it. So basically in single point taxation, the manufacturers were required to pay taxes, so VAT introduction was not a problem because they anyway had to maintain their accounts unless the intended to evade or avoid tax. However for the retailers, wholesalers and shopkeepers and additional cost was required to be incurred on billing machine, accountants, tax lawyers, and consultant to comply with VAT system. The provision of issuing sale and purchase invoice to very sale and purchase from registered dealer to claim ITC, and even then there is no guarantee for refund because of the possibility that other dealer might not file return. Apart from that producing the details of each and every sale and purchase and that should be cross verified, no doubt it's important for making system transparent, but surely has given disadvantage to the

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honest dealers and disincentivised compliance. Also the procedure requires filing monthly/quarterly as well as annual return depending on the turnover of the dealer in which they are required to summarize there sale and purchase while uploading the proofs, these have surely become the matter of experts, small mistake may lead to imposition of heavy penalty which has not only made the system out of reach of a common man but have also formalized the roles of mediatory like lawyers etc.

4.4.3 Poor Literacy rate:

Uttar Pradesh ranks 20th in India among all 28 states in with 75% literacy rate and lies above only to Chhattisgarh, Madhya Pradesh, Andhra Pradesh, Telengana, Bihar, Jammu and Kashmir, Arunachal Pradesh, Haryana and Jharkhand. Moreover majority of dealers and specially retailers, wholesalers and traders are not enough trained/educated to deal the system of VAT. Most of them are not comfortable with the system as it involves extensive computation and maintenance of accounts coupled with regularised usage of technology which sometimes used to come at the cost of business. While some hire additional people to comply with the system, the others prefer to avoid tax by hiding their turnover.

4.4.4 Cascading effect

Although the problem of cascading effect was tried to be eliminated by introducing the facility of Input Tax Credit, However there is much need to be addressed in the present system too. From the table below it is very much clear that present Indian taxation system is tainted with problem of multiplicity of tax rates. Apart from these there are many other taxes like surcharge, education cess etc.

Central Government	**State Government**
Direct Taxes • **Tax on corporate** • **Capital Gains tax** • **Personal income tax** • **Wealth tax**	• **VAT** • **Entry tax** • **Octroi** • **State excise**

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Indirect Taxes • **Central excise duty** • **Customs duty** • **Central Sales Tax** • **Securities Transaction Tax**	• **Property tax** • **Agriculture Income Tax** • **Luxury Tax** • **Entertainment Tax**

Table 6: Number of taxes imposed by Centre and State Government

Among these taxes, some principal taxes causing the cascading effect are sales tax on CENVAT. While CENVAT is reimbursed by the central Government but the tax collected on CENVAT charged add on to the tax of the manufacturer, which is either shifted to the consumers leading to increase in prices or absorbed by the manufacturer leading to reduced profit margins.

4.4.6 Decreased profit margins due increase in prices

According to the theory of tax incidence if tax rates are higher, then in order to keep the prices low, the burden of high tax rates is tolerated by the manufacturers/wholesalers/retailer and their profit margin is reduced, otherwise it is passed on to the consumer. Now in case of VAT system, since VAT is the tax on every value addition thus raising the prices of the commodities if the margin by the dealer class increased, thus in order to maintain equilibrium the demand and supply of goods the dealers are forced to reduce their margin.

4.4.7 Rise in Prices due to additional taxes

Due to additional levy of taxes, for instance when the commodity is manufactured, various taxes are imposed on it ranging from CENVAT to surcharge, educational cess etc and on it are imposed State sales tax/ VAT. Moreover VAT is the tax on every vale addition then it further raises the price of the product on every pass on. With long distribution chain system prevalent in India, VAT has further become problematic for the dealers due to their inability to control prices.

4.4.8 Non uniform tax rates

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The white paper clearly mentioned the harmonization of tax rates, VAT will cover 550 goods out of which

- 46 goods comprising natural and unprocessed products in unorganized sector were exempted.
- 270 goods to be taxed at 4% rate.
- The remaining commodities were kept under 12.5% rate which was supposed to be common for all states.

This was done to control the unfair trade practises and check diversion of trade, as well as to promote co-operative spirit among states. However there has been distortion in this system by some states that have either lower down their taxes or exempted their product. For instance the rate of VAT on cement in Uttar Pradesh is 15.5% while in neighbouring states it is lower, thus there is massive illegal transportation of cement into Uttar Pradesh, and this has also lead to loss of exchequer.

4.4.9 Double taxation

Another major problem in compliance of business is double taxation, for instance a registered dealer A sells some goods to a registered dealer B, while on purchase dealer B pays VAT to dealer A and files Input Tax Credit for the some. However dealer A does not file return, may be to evade tax or due to other reasons, and for that dealer B is obliged to pay the due ITC again + interest + penalty. Thus for the fault of dealer A, dealer B is penalized and that too twice. Undoubtedly the law is proposed to check false claims of ITC but definitely has become problematic for honest dealers.

4.4.10 No set off on service tax

An important reason for introduction of GST is no set off for service tax. As I have argued above VAT favours capital intensive firms over labour intensive and the reason for it is set off on capital goods. For instance if a dealer purchases tiles worth Rs. 3 Lakh along with packages/cartages worth Rs. 40,000 and pays VAT of Rs 34,000 on Rs. 3,40,000 at 10% rate. While he gets set off for Rs. 30,000 on value

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addition but not of Rs. 4,000 i.e. on services. This again is major drawback for trade and commerce to flourish.

4.4.11 No set off on CST

Central Sales Tax the tax levied by Central Government on purchase of interstate goods and is collected by the purchasing state. While set off is available for purchase of raw material from the within the state, but not on interstate purchase. Consequently there has been demand from the traders to give rebate on CST also as it is slowing down their business.

4.4.12 Blocking of Funds

Another major problem opined by dealers was blocking of funds in Input Tax credit. As per the UPVAT, Act 2008 if the input tax credit is in excess of the output tax payable by VAT then ITC would be adjusted in subsequent year on the payable amount. However this provision has lead to blocking of funds due to excess of yearly purchase of inputs/ stock by dealers than yearly sale, leading to capital blockage for them. Sometimes the ITC is in excess of crores of rupees.

Lastly problems like state profile of Uttar Pradesh, excessive harassment by tax officers and infrastructural constraints in Uttar Pradesh have been an important determinant in growth facilitation of traders in VAT regime.

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5. Recommendations and Implementation strategies

5.1 Simplify VAT structure

The biggest drawback that VAT faces is its complexity in structure and ambiguity n law that makes it out of reach of common man. The need of the hour is to simplify the structure/procedure/law of VAT so that firstly people find it less hurdle some to implement and their time is also not wasted in avoidance of the tax. For simplification of the procedures would be

- Reduce the number of forms that have to be filled for every transaction, in accordance to the every transit that takes place apart from filling up the monthly/quarterly and annual returns which require high expertise and filling up of extensive information which is often time consuming so much so that it requires an appointment of additional person. These not only adds up to the cost but also increases the dependence on inter mediatory further complicating the business.
- VAT laws are extensively complicated and can be easily misused by the tax officers to misguide dealers and that to harass them; poor awareness or inability to understand is another major reason. Therefore dealers prefer to avoid paying taxes. Not only it is case with dealers, according to my survey, majority number of supporting staff is still not aware about the VAT system as a whole which actually prevents them from identifying the evasive practises. Thus the laws should be made user friendly and not only the intensive training should be provided to the tax officers for its effective collection but also it should be extended to the dealers. Distribution of pamphlets containing whole procedure of VAT in simplified language can be distributed to the dealers at the time of registration with proper guidelines to make it user friendly. Conducting seminars, mass awareness programs, workshops and other group activities can be other measures.

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- The procedure or payment of taxes is cumbersome, as it requires filling of challan from to quadruplicate. This procedure is elaborate and causes inconvenience for the dealers. Therefore dealers should be allowed to pay tax through cheque or demand draft.

5.2 Prompt and proper assessment

Assessment procedure plays a very important role in efficient collection of taxes, thus the state has to introduce an assessment system that

- Maximizes revenue
- Minimizes harassment
- Minimizes the cost of compliance
- Minimizes corruption
- Incentivizes compliances

5.3 Grievance Redressal System

However Government has started a portal through which dealers can register their complaints but it is almost inactive is in very rare cases the actions are taken against it. Thus immediate action needs to be taken against the complaints.

5.4 Strengthening Government Server

The major reason why the state of Gujarat and Maharashtra are able to seek highest revenue collection is because of the automation of each and every procedure of VAT. Although Uttar Pradesh has also been successful in advancing technology but it still remains to be concern. Presently in the state partly the work is done manually like filling of the forms and filing returns and then they required to be uploaded in the system. The system should be such that the dealers are able to deduct the bill directly from the Government server and the detail gets automatically updated in the dealer's account, which is also being implemented in several countries that have been successful in collecting up to 100% revenue. This system will also not be an additional cost to the dealer, supportive to trade, time

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efficient and reduce the role of mediatory in the system. It will not only improve the transparency of the system but also reduce the cost of collection.

5.5 Improvement of Department infrastructure

Apart from providing intensive training to the officers and supporting staff, another important prerequisite for effective VAT compliance is improvement of department infrastructure. That is proper maintenance of sales tax office, taking care of employee need like installation of coolers during heat, availability of supporting equipments like updated computer system, scanners and printers, balanced power and internet connectivity, stationary material, adequate supporting staff etc. Paying attention to the requirements of the employment is very important for the effective implementation of the system, only if the employees don't care about the heat will they be able to concentrate on the work.

5.6 Help Centre

There should be provision for dealer help centre in every sector in which dealers can approach whenever in need for any assistance. For instance in filing returns if the dealers get stuck or are unable to understand anything that needs to filled in any column, or are not aware of documents to be supported etc then they are able to immediately approach the centre and clarify their doubts. This will serve two purposes; firstly it will create awareness, the dealers that can't afford to employee additional persons will learn and comply with the system rather than avoiding it. Secondly through these help centres Government can also bring to notice of the dealers, the upcoming developments in the system like switching to technology which will not only simplify the task of Government but also enable the dealers to get updated.

5.7 Uniform Tax Rates

However with the introduction of Goods and Services Tax this problem seems to get solved but Government should come up with the provision of increasing the accountability of the states with its regard. That is any state not complying with the uniform tax rates must face consequences like reduction in Central Government

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grants or any financial assistance. Market distortion due to non uniform taxes has become an important reason for low revenue collection in U.P and discouragement for trade and commerce.

5.8 Tax credit for Service tax

Undoubtedly the present taxation system favours capital intensive firms than labour intensive due to set off available for capital goods/any other goods used as input in production, while service tax is charged. Moreover the high wage rate in Uttar Pradesh also forces firms to take as much work from machines. However in GST system the set off for services has been proposed but when will it be implemented is still in awaited. Furthermore dealers seek for set off of CST as well, however in new tax regime; Central Government intends to merge it along with other taxes.

5.9 Promote Registration

In present system, U.P. Government has been able to widen the tax net to majority of the big dealers; however it has shortly failed in terms of bringing the small dealers. Majority number of the dealers with annual turnover less than Rs. 50 lakh and above Rs. 5 lakh is unregistered. The intention is primarily to avoid taxation. Government can undertake both disciplinary like conducting raids etc or awareness programs like door to door/shop to shop campaign, organize workshops for mass registration. Incentivizing registration by giving benefits like subsidies on tax payable, or helping in tax collection process, suggesting ways to reduce dependence on lawyers, consultants etc can also be a good idea.

5.10 Increased appointments with increased accountability

The department suffers from huge manpower shortage, there are times when an officer is handling dealers out of its capacity and supporting staff is forced to overtime. These problems not only reduce efficiency but also lead to excessive dependence of system on single person. Consequently either one is forced to quit or take advantage of the undue powers. Thus the department must think over appointing as and when the post gets vacated. Moreover the time has come that

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Government officials become accountable of their doings. Strict disciplinary actions must be taken against anybody who tries to violate the sovereignty and integrity of the department and right message must be conveyed to the officers joining ahead and peers.

5.11 Consumer awareness

Value Added Tax is the consumer based tax or the tax whose ultimate burden lies on the consumer, thus if consumer does not a pay tax then Government will not receive revenue, thus the onus of paying taxes to the Government lies strictly on the consumer. Sometimes consumers find it convenient to evade tax as it increases their expenditure; however Government must through advertisement on television/radio/newspaper or through organizing awareness programs/seminars at school and colleges must make consumers realize the importance of paying taxes for development of society. Government can do so by communicating to the public various developmental schemes being funded through it and showcasing their success in economic growth of the state.

5.12 Increased accountability of the Government

If the onus of honestly paying the taxes lays on the consumers then the onus of efficiently spending the revenue collected lies on the Government. If every now and then the Government officials are accused of massive money laundering or looting public exchequer then naturally Consumers will think twice before paying taxes and their confidence towards Government will naturally flicker. Thus Government must be held accountable towards spending of each and every penny that comes from the public. At the end of the financial tenure, it must give the account of the revenue collected and money spent on each and every thing. The effective usage must be checked by vigilance officers and in case of treachery there must be immediate action against the officers.

5.13 Controlling VAT evasive Practises

- **Identification of commodities sensitive for evasion** :

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a) Disparity of tax rates exist in nearby states i.e. goods are taxable at a lower rate or are exempt in such states.
b) Inputs are taxable at higher rate
c) Goods are themselves taxable at higher rate.
d) Patent as well as non patent goods are sold in the market and the patent goods are sold at higher price.
e) Goods are of day to day use of consumption by common people.

- **Identification of transporters involved in the evasive activities**
  a) Track record of transporters.
  b) Local information about transporters and their competitiveness.
  c) Freight charged by them in respect of transportation of goods, as if indulged in undue activities, they will charge more than the normal amount.
- **Identifying the local practises indicating evasion**
  a) Too much collection of raw material at the local level, usually dealers show this data as they might have evaded CST on interstate transaction.
  b) Issuance of fake bills to the customers.
  c) Transaction executed by unregistered dealers.
- **Modus Operandi of the transaction involved**
  a) Dealers show Stock transfers from one branch to another instead of Central sales to evade of the sales tax, however goods are supplied in other state. Strict check at state borders must be ensured and proper examination of accounts of the dealers.
  b) Goods liable to tax at higher rate may be shown to be covered by Central Sales for Double benefit of lower cumulative sales value as higher input tax ratio since exports are exempted. Examination of actual movement of goods is vital in this respect and verification of the form-C.
  c) Sales in transit to be shown, in such cases contracts are to examined carefully.

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d) It is to be examined whether actual market of that commodity exists in the state where the movement has been shown at the cost of their consumption in state.

- **Manufacturers – Enquiry thereof**
  a) The stocks and the consumption of such material should be examined which form the least part or the component of the product.
  b) Consumption of the raw material should be compared over time.
  c) Production hours and capacity of machines can be good point of inspection.
  d) Utilization of consumables like electricity, marketability of the product and the close look at ancillaries can further help detecting the evasive practises.

5.14 Risk Assessment selection of the audit

The dealers selected for audit should be based on the account of the information from the local offices, results of the audit done in past and the previous defaulters. Moreover all the dealers with ITC claim exceeding a limit can also be called upon to for audit and fixed proportion of the new dealers must also be present if the audit. Exporters and the dealers claiming exemption must be given different selection system all together, and must be considered high-risk category. Government can also set product wise ITC limit based on previous information for manufacturers and exporters, and turnover wise for traders/wholesalers/retailers. Any violation from the limit will attract attention of the department. Dealers having nil sales and high ITC must be dealt seriously.

5.15 Uniform Commodity Classification

A major problem that inflicts the present taxation system is the non uniform codification of the goods. Goods are known by different names in different states and there is extensive confusion among the dealers and the officers on account of that. There is need for standard classification of goods all over India.

5.16 Co-operation/ co-ordination between tax departments of Centre and State

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Success of VAT in Uttar Pradesh is combined effort of all several department and not just Commercial Tax Department, Uttar Pradesh. Since the majority of the dealers that intend to evade income tax, evade sales tax, thus there is requirement of co-ordination between Income tax and state sale tax department. Similarly it holds for other departments like railways, road transportation etc.

5.17 Strengthening of border Check posts

Another recommendation relates to border check posts. The check posts play an important role in determining the movement of goods in the state but their manner of working is miserable. Firstly, there is absence of operational facilities like weighing machine, telephone, warehouses etc. Secondly no facilities available for either officer at check post or their families. There is lack of manpower and extremely low willingness to perform duties. There is no physical verification of goods before approving the movement and no cross-verification due to documents being voluminous. Thus there is need for check posts being properly staffed, with adequate supporting men and supportive living as well as operational conditions like electricity, proper housing, communication facilities etc

5.18 Cascading effect

However VAT removed the cascading effect within the system but CENVAT and State VAT does the same thin at the state level. The CENVAT will cascade at the manufacturing level when the sales tax is calculated CENVAT inclusive prices. Hence to avoid cascading and reduce the transaction cost for the manufacturers, it is important that the commodity taxes are assigned in such a way that the power of levying both lies on the state. This means withdrawal of centre from the commodity of taxes and handing over the powers to the state. This will not only remove the deficiencies in the system but also prevent vertical fiscal imbalance.

5.19 Elimination of additional tax rates

As illustrated by me above there are n numbers of additional taxes that are levied on the consumer that has several disadvantages for Government, dealers and consumers. Additional taxes increase the compliance cost of dealers and tempt

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towards evasion. It hampers progressivity, introduces cascading effect, raises prices and hurts consumers' pocket, as result demand decreases and naturally the purchase and hence the tax collected. Thus there is a need for merging of additional tax rates which will also lower down the tax rate.

5.20 Exemption

An important problem that has lead to massive tax evasive practises is the exemption. In current system exports are exempted and by export I mean any goods that is sold out of the state that is produced within the state and by exemption we mean no VAT charged/ levied. While this provision was to encourage trade and commerce in the state; however this has become major reason for fall in revenue as dealers seek exemption from government while showing exports. Apart from that there is also VAT avoidance due to different exemption if surrounding states leading to distortion of market practises.

5.21 Small dealers:

Under the UP VAT, Act , small dealers having turnover less than Rs. 50 Lakh can opt for composition scheme, under which they will have to pay VAT on their turnover and they cannot take the benefit of ITC. This is not the idea of VAT; while it is supposed to include everybody instead it is actually leaving out people. Moreover dealers are also taking advantage if it and maintaining skeleton accounts. It is important to understand that dealers must be allowed to issue invoice, showing amount of tax, so that their purchaser can claim ITC.

5.22 Advisory committee

It is important to have advisory committee at the state level for the proper administration of the tax. In Uttar Pradesh such committee exists but at present it is dormant. The Government committee comprises political representatives, legal expert, business and trade representatives besides Government officials. The finance minister of the state heads the committee. There is need to strengthen the committee so that dealers word/demands are conveyed to the government.

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6. Suggestions for future Work

There has been recent proposal by the Finance Minister Shri. Arun Jaitely to introduce Goods and Services Tax, which has been thought of being introduced much before VAT was implemented. Thus According me it will be an interesting point to study about Goods and Services Tax, it workings and how successful it has been in improving the deficiencies of Value Added Tax.

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7.Conclusion

- Sales tax, its existing form was introduced in India in 19th century, when the states were empowered to impose sales tax through autonomy provide by Government of India, Act 1935.Over time all states adopted this form of taxation became depended increasingly on it for purpose of public finance.
- Sales tax contributed greatly to the addition of the resource mobilization by the state. The tax had shown good responsiveness to the changes in GSDP however sales tax – GSDP ratio was very low in comparison to the other states. The taxable efforts indicate that much was to be done to be done to mobilize resources.
- The Uttar Pradesh Sales Tax was primarily a single point tax, all commodities being taxed at the first point. The system had many drawbacks, single levy, many exemptions, taxation of inputs, taxation at every stage of production with no set off, cascading effect, massive tax evasion etc. Thus there was a need for a sophisticated system of taxation that incentivised investment, minimised evasion and promoted maintenance of records.
- In view of the above deficiencies of Sales Tax system, efforts were made to replace the existing system with VAT, The Committees of States' Finance Ministers (in 1995 and 1998) and of Chief Ministers. The efforts of the Empowered Committee were answered and finally VAT was introduced in nineteen states from April, 2005. However Uttar Pradesh became the last State to introduce VAT
- Finally in new state VAT there were only four rates 0%, 1%, 4%, and a standard rate of 12.5%. 0% was applied to all natural and unprocessed products, item which were legally barred and items of special implication and importance. VAT further provides incentive to small dealers having turnover from 5-50 lakh. Apart from that the provision of Input Tax Credit has been a paradigm reform in the history of taxation; moreover the

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process of self assessment, appeals and penalty has also made the system much more efficient and transparent.

- However there are many drawbacks in the existing system too, the sophisticated system requires advance infrastructure, trained staff, computerization, awareness on the part of citizen, fewer sources of evasion and coordination among states and other central departments, which is quite unlikely in state of Uttar Pradesh.
- Talking about perception of VAT amongst its stakeholders. While the majority taxpayers where aware only about the full form of VAT an familiarized it with multi branded shopping instead of small shops, 90% were of the opinion that VAT had increased the overall prices but their expenditure was not determined by it to greater extent. Tax officers believed that VAT had undoubtedly regularized business activities with increasing state's revenue collection, however poor infrastructure and high cost of compliance where major drawbacks. As far as dealers were concerned, they pronounced VAT as an additional burden on their business activities due to its wide complexity however they too agreed on it regularizing property.
- VAT has in all its capacity increased the states revenue and has touched new records every year with expectation of contributing around 71% to the states collection of revenue. But has definitely failed in certain aspects like high compliance cost, complexity, requirement of world class infrastructure and evasive tendencies. Consequently the collection has been affected as the growth of revenue receipts continue to be stagnant apart from decreasing own tax revenue to GSDP ratio due to the above stated problems.
- Furthermore the impact of VAT had undoubtedly been positive on the trade and commerce of Uttar Pradesh but it has been downgraded by certain aspects like no service tax and CST set off, excessive harassment by sale tax officers, infrastructure problems in Uttar Pradesh like power deficits, political instability, anti social activities etc, higher tax rates, cascading effect due to CENVAT and low value addition in U.P.

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- The need of the hour is to build a taxation system that is responsive to the maximum revenue collection of the state as well as dealer user friendly. Present system is very complex, cost of compliance is burdensome, requires extensive use of technology while literacy rate of U.P. is 70 %, poor accountability of officers, abysmally low infrastructure of the state make it all the more inefficient. Thus keeping in mind that world need to move ahead with time, no doubt Government should stick to technological development but along with people. There must provision like help centres and client services so that dealers can avail their right to correct information about the system, Grievance redressal system and transparent proceeding of the department. The infrastructural improvement is the need of the hour, either Government should build the system suited for the state or build infrastructure that caters to the need of the sophisticated taxation systems, because half job done is as good as nothing,
- Lastly I would like to conclude by saying that Value Added Tax has been a turning point in the history of states development, marking the records of revenue collection in states like Maharashtra and Gujarat and also to large extent in state of Uttar Pradesh. However there is lot to be done to make it the revenue maximizing component and this effort is not meant to come from single hand either state, or dealers or taxpayers, everybody involved in the system have to contribute equally. While taxpayers must understand their duty to pay taxes regularly, dealers must collect it on the behalf of the government timely and efficiently with utmost sincerity and in response to that Government is also obliged to make this process of collection as harmless as possible and to use the funds for the development of the society again with utmost sincerity. Only then can we think of success of Value Added Tax in real terms.

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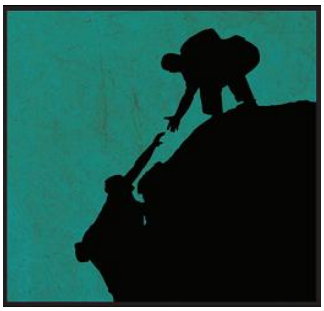
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"The highest measure of democracy is neither the 'extent of freedom' nor the 'extent of equality' but rather the highest measure of participation."
- A.D. Benoist

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