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Rationale behind Adoption of VAT in Jammu and Kashmir–A Study about Consumer's Perception

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Abstract:
Value Added Tax system has been designed to free the consumers from the ill effects of erstwhile Sales Tax System with an ultimate objective of providing them goods at cheaper prices. Does this new dispensation in the area of commodity taxation in the State of Jammu and Kashmir fulfill this objective and what were the other considerations of the state authorities behind the adoption of this tax system in the state? The paper is an attempt to analyze the principal causes/ facts underlying the adoption of VAT in Jammu and Kashmir vis-a-vis the perception of consumers.

Keywords: Value Added Tax, consumers, paradigm shift, reform measure, revenue consideration, transparency, invoicing, input–tax–credit, self–assessment, self–regulation, production and distribution, cascading effect

1. Introduction

Value Added Tax–a consumption tax is believed to be an innovation of 21st Century. It has replaced the erstwhile sales tax system of the State. Through an ordinance promulgated by the then Governor of the State on Feb, 1st, 2005, it was changed into an Act, namely, "The Jammu and Kashmir Value Added Tax Act, 2005," by the State Legislature, thus repealing the erstwhile Sales Tax viz, "The Jammu and Kashmir General Sales Tax Act, 1962". Among other considerations, the basic motive behind the adoption of VAT in the State was to overcome the distortions of Sales Tax such as multiplicity of rates, cascading effect, lack of transparency, narrow base, lack of neutrality etc. Adoption of VAT in the State is indeed a paradigm shift and an important reform measure in the State's Commodity Tax System (Malla, 2013). As the name suggests, VAT is levied on the value added to a product by a firm or a trader at every successive stage of its production and distribution. It is levied each time a product changes hands in the entire chain of its production and distribution. It is a multipoint tax. In the state of Jammu and Kashmir, it has a 4 rate structure viz 0%, 1%, 5% and 13.5%. It is based on self assessment and self regulation, having a set – off provision for the taxes paid at earlier stages i.e., input tax credit. Proper invoicing is the basic spirit of the tax (Purohit, 2006). Basically there are three categories of stakeholders of VAT viz, Consumers, Traders and the Administrators. Amongst these, consumers are the key stakeholders as it is they who feel the incidence (the ultimate money burden) of the tax, (Bushan, 2005). They constitute a group who weigh the utility of a commodity against the price they pay. They are interested in getting the quality products at cheaper prices. VAT has been designed to achieve both these objectives. Do the consumers of the State really feel so and what other considerations are responsible for the adoption of this tax in the State? The present study is an attempt to ascertain and examine the principal causes of adoption of VAT in Jammu and Kashmir from the point of view of consumers.

2. Objective of the Study

The study has been undertaken with an objective to examine the basic intention/ motive of State Authorities behind the adoption of VAT viz – a – viz the perception of consumers.

2.1. Hypotheses

To validate the results of the study, the following hypotheses have been set:
- (H_0): There is no uniformity in the perception of consumers of two samples cities (Srinagar and Jammu) about the basic motive behind the adoption of VAT in the State.
- (H_1): There is uniformity in the perception of consumers of two samples cities (Srinagar and Jammu) about the basic motive behind the adoption of VAT in the State.

2.2. Research Methodology

The basic issues connected with the research design and methodology of the study is discussed as under:-

2.2.1. Sample
The study is based on the sample drawn from two capital cities of the State viz, Srinagar (Summer Capital) and Jammu (Winter Capital).
In order to accomplish the laid objectives, information about the subject was gathered through questionnaire method under which questionnaires were administered to around 700 respondents (consumers) with different demographic features such as age, sex, level of education, level of expenditure, occupation etc. Each city was represented by 350 consumers selected at random for the purpose of the study.

2.2.2. Instrument Used for the Study
In order to assess the perception of consumers about different aspects relating to the design, social, economic and administrative features of VAT, a questionnaire based on 08 dimensions spread over 28 variables was framed and administered to the subjects of enquiry. The present study is related to the 1st dimension i.e., "Desirability" of adoption of VAT in the State. The dimension is a composition of 04 variables/ statements. These variables/ statements are: -
1. The draw backs of previous tax system (sales tax) necessitated the adoption of VAT in the State;
2. Introduction of VAT in the State is a major tax reform which was due since long;
3. The real motive behind the adoption of VAT in the State is to garner more tax revenue for the government; and
4. The State Government did not want to spoil its financial relations with the centre unnecessarily by not adopting VAT.
Since these statements/ variables are qualitative in nature, hence these were quantified on a 05 point scale using the likert-type Technique (see Table 1). The respondents were asked tick mark the appropriate box numbering 1, 2, 3, 4 and 5 against each statement using the following scale:
1 = Strongly disagree
2 = Disagree
3 = Neither agree nor disagree
4 = Agree
5 = Strongly Agree

Strongly Disagreed	Disagree	Neither agree nor disagree	Agree	Strongly agree
1	2	3	4	5

Table 1

2.3. Data Collection
To check whether the questionnaire was easily understandable and user friendly, a pilot study was conducted on a limited number of respondents. The data so collected was assessed for its reliability co-efficient and in this connection, "Cronbachs Alpha" (1951) was used. The minimum Alpha value was taken to be 0.50 (Nunally, 1967). The reliability test was conducted not only in respect of the data collected from the pilot study, but the entire survey data was subjected to the test prior to its subsequent analysis for verification. The reliability co-efficient value (0.89) shown by the present study is based on the complete survey.

2.4. Data Processing and Tools of Analysis
The scores on each statement were aggregated, tabulated and subsequently recorded on a Master Chart. The data were then put to statistical analysis. Besides descriptive statistics comprising Average, Standard Deviation (S.D), Co-Efficient of Variation (C.V) and Rank Correlation (R_1, R_2), an inferential test – "Z Test" (a parametric test) to judge the significance of difference of means was also conducted to arrive at the logical conclusion.

2.5. Descriptive Analysis
Descriptive analysis of the collected data has been made in two ways, viz:
1. On individual samples basis; and
2. On joint sample basis.
The former covers the micro analysis and the later macro analysis facilitating a comparison of perception between the consumers of two sample cities. The analysis of the variables underlying the desirability of adoption of VAT in the State is presented in Table 2 below:

	Srinagar		Jammu		Overall		Srinagar	Jammu
Variables/ Statements	Mean	S.D	Mean	S.D	Mean	S.D	C.V	C.V
Elimination of short comings of sales tax system	4.40	.665	4.12	.913	4.26	.81	15.11%	22.16%
Rationalization of commodity taxation	4.24	.658	4.07	.941	4.15	.82	15.51%	23.12%
Revenue considerations	4.27	.780	4.07	1.026	4.17	.92	18.43%	25.20%
Harmonization of Centre-State Financial relations	3.88	1.046	3.27	1.170	3.58	1.15	26.96%	35.78%

Table 2: Consumer's perception regarding desirability for adoption of VAT in Jammu and Kashmir
Source: Researchers personal survey

3. Results and Discussion

The perusal of the statistics presented by the table on joint sample basis (overall basis) with the highest mean score 4.26 corresponding to marginally lower standard deviation (.81) and co-efficient of variations (15.11% and 22.16%) reveals that from amongst the different reasons justifying the adoption of VAT in the State, elimination of anomalies of old tax system i.e., sales tax system is the significant one. Although there are other considerations behind the adoption of VAT in the state, but in view of their mean scores and other related statistical features, these are less significant.

On cross checking the results statistically on independent/ individual sample basis, the Srinagar city respondents with the mean score 4.40 (the highest one) and their Jammu counterparts with the score 4.12 corresponding to comparatively lower standard deviations respectively, have a similar picture to present.

It is undoubtedly true that the sales tax system of the State was completely suffocated due to some peculiar lacunas such as multiplicity of rates, cascading effect, lack of transparency, narrow base, lack of neutrality etc. This observation is in consonance with the findings of Bashir, et al (2005), Purohit (2001) and Bezbohra and Singh (2005). World over, the adoption of VAT is considered as a long pending fiscal reform in the indirect tax system (Rodregus, 2006). From the analysis, it follows that under the present economic and social conditions, the replacement of sales tax system in view of its short comings, by VAT is unquestionable.

Supplementing the results presented by Table 2, the statements/ variables were put to rank analysis on the basis of their respective mean values in order to find out the most significant reason behind the adoption of VAT in the State. The results are presented in Table 3, below;

Variables	Srinagar		Jammu	
	Mean	R_1	Mean	R_2
Elimination of short comings of sales tax system	4.40	01	4.12	01
Rationalization of overall commodity tax system	4.24	03	4.07	2.5
Revenue consideration	4.27	02	4.07	2.5
Harmonization of centre-state financial relations.	3.88	04	3.27	04

Table 3: Variable wise ranks allotted
Source: Researchers Personal Survey

The ranks allotted i.e., importance attached by the respondents of the two sample cities to the variable "Elimination of short comings of sales tax system" is the same i.e., 01 in both the cases. The respective ranks being highest signify that from the point of view of consumers, elimination of short comings of the sales tax system is the fundamental reason for the adoption of VAT in the State.

4. Inferential Analysis

To facilitate the comparison in the perception between the two sample groups in relation to Government's intention behind the adoption of VAT in the State, the data was put to parametric statistical test "Z Test" to draw the inferences about the laid hypotheses.

The test shows that the calculated value 4.643 with P. value .000 at 1% level (2-tailed) is statistically significant implying that the null hypothesis (H_0) is rejected in favour of alternative hypothesis (H_1) which indicates that there is a strong consensus/ uniformity in the perception of the consumers of the two sample cities about the basic purpose of state authorities behind the adoption of VAT in the State, was to put an end to the suffocation caused by the sales tax in the commodity tax system of the State.

5. Conclusion and Suggestions

In Jammu and Kashmir, VAT was adopted primarily to remove the ill effects of the sales tax system, thus benefiting the consumers. But the fact of the matter is that the consumers are yet to feel the real benefits. However, with the passage of time they will certainly be benefited provided the rates across the country are rationalized, the competing tax incentives and concessions are removed, uniformity in the rate structure across all the States is ensured and above all the Central Sales Tax (CST) is completely abolished.

VAT demands a thorough examination, exploration and the identification of ways and means for its effective implementation. It is true that an economically accepted tax like VAT is desirable but it requires effective enforcement. Success of VAT demands a rigorous awareness campaign for its key players like consumers. The State Government should undertake various programmes designed to enlighten and educate the consumers about the benefits of VAT. Aggressive advertising designed to create trust among the consumers should be undertaken. Such campaigns will remove doubts and apprehensions from the minds of the consumers. Besides, a Consumer Care Cell with toll free helpline numbers facilitating the consumers to contact and seek clarifications about the doubts from the Tax Department should be established. Also steps should be taken to make the VAT laws and rules simple, clear and comprehendible to consumers. Essential commodities which presently enjoy exemption, should continue to be exempted in future also. Consumers on their part should behave as the responsible citizens. They should not hesitate in obtaining invoices from the sellers while purchasing taxable goods because the very success of VAT depends on proper invoicing.

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