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Consumers' Perception Regarding the Design and Structure of State VAT: An Empirical Study about the Jammu and Kashmir State

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Abstract:

The success or otherwise of tax system depends on a number of factors. Prominent among these factors is its structure or design. A tax system ought to be designed in such a way that it bridges the gap between the rich and the poor, offers maximum social advantage, contributes generously to the exchequer and minimizes the cost of collection. It must be certain about the time, place and mode of payment. It should also be convenient, diversified and neutral.

The present study attempts to assess and analyse the perception of consumers about the design and structure of State Value Added Tax in Jammu and Kashmir. Besides, the study aims to suggest the ways and means to make the structure of State VAT more attractive and friendly to the consumers.

Keywords: Value Added Tax, Sales Tax, theoretical frame work, computational mechanism, rate structure, essential and luxurious commodities, free flow of trade

1. Introduction

The Design and structure of a tax connotes an overall framework which lays emphasis on its nature, rates, computational mechanism, effects on consumer's choice, check on unfair trade practices, rebates and concessions. Value added tax - a new entrant in the family of commodity taxation, is designed to imbibe all these dimensions.

VAT is a wonderful innovation of 21st Century. It has become a favourite feature for the economists and the governments all over the world. By now around 145 countries across the globe have switched over to VAT. Introduction of VAT in Jammu and Kashmir in the year 2005, has facilitated the replacement of 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 the erstwhile Sales Tax system viz; 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 tax reform measure in the State's commodity Tax system (Malla, 2013). Basically there are three categories of stakeholders of VAT, viz, Consumers, Traders and the Administrators. Among these consumers constitute a core group as it is they who weigh the utility of a commodity against the price they pay. This is a group which bears the incidence (the ultimate money burden) of a consumption tax (Bushan 2005). They hold a distinctive position in an indirect tax system. They are viewed as the primary players in a commodity tax system. They perceive a particular tax system on the basis of its multi – dimensional structure. They do have a holistic view of a tax system while observing its features ranging from desirability, structure, economic welfare, price stability, administration, compliance, neutrality to harmonization. Despite having no direct role and say in designing the tax policy, their feedback, responsiveness and compliance are considered as the key determinants of the success of an indirect tax system.

The present study is an attempt to analyse and assess the perception of State Consumers about the design of Jammu and Kashmir Value Added Tax. The study will also suggest the ways and means to make the structure of Jammu and Kashmir State VAT more friendly to the consumers.

2. Review of Related Literature

Usually the consumers evaluate a tax system according to their priorities and with an eye on the protection of their individual interests. The priorities of the consumers include getting quality goods at reasonable rates (Sangmi and Malla, 2006).

Under VAT, consumers feel protected as they have to pay fewer prices for a commodity because of elimination of cascading effect which was prevalent in the erstwhile sales tax system (Malla, 2013)

To safeguard the interests of the consumers as is currently in practice in most countries of the world, the essential commodities should be left out of the purview of tax (Cnosson, 1997).

Consumers need to co – operate with the administration as regards under valuation of goods by the dishonest sellers attempting to indulge in tax evasion practices (Bushan, 2005) and (Lekhi, 2005).

The main consideration behind adoption of VAT in most countries of the world is to reduce inequality in income and wealth distribution in an economy. So VAT is a win win tax system for the consumers as it aims to fulfill this objective (Cnosson, 1997). In the words of Singh and Gupta (2004), VAT not only aims at the unity of nation through the creation of a common market as is existing in most European Countries, but also provides a uniform structure with only two basic rates viz, 5% and 13.5%. This has relieved the consumers from the botheration of multiplicity of rates that existed under the erstwhile sales tax system.

Dingra (2005), opines that in order to make the tax reforms process a success, it is imperative for the stake holders especially the consumers to understand the theoretical issues involved. According to Purohit (2006), proper invoicing is the foundation for the success of VAT implementation. It is, therefore, necessary that the consumers without any hesitance, should ask for the invoice while purchasing Vatable commodities from the sellers. This is also in the interest of sellers as by issuing invoices, they become entitled to input–tax–credit.

3. Objectives of the Study

The study has been undertaken to seek the following objectives:

- To analyse, examine and assess the perception of consumers of Jammu and Kashmir about the design and structure dimension of State Value Added Tax.
- To suggest the ways and means to make the structure of State VAT in Jammu and Kashmir more friendly to the consumers.

4. Scope and Limitations of the Study

In view of the large size of the universe and the wider scope, the study has been confined to two capital cities viz Srinagar (Summer Capital) and Jammu (Winter Capital). Non–availability of any relevant and existing research material, was the main limitation with the researcher. Another hardship with the researcher was the non–cooperation of the subjects of enquiry. Besides, due to the infancy of the VAT system in the State, analysis on the basis of demographic characteristics of the sample respondents could not be made.

5. 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 structure construct of Jammu and Kashmir State VAT.
- (H_1): There is uniformity in the perception of consumers of two samples cities (Srinagar and Jammu) about the structure construct of Jammu and Kashmir State VAT.

6. Research Methodology

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

6.1. 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 the 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.

6.2. 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 2nd dimension i.e., “Structure of State VAT”. The dimension is a composition of 07 variables/ statements. These variables/ statements are: -

- Simplicity of the theoretical frame work.
- Fairness of rate structure.
- Complexity of computational mechanism.
- Effects on choice due to free flow of trade.
- Check on under – valuation practices.
- Desired tax treatment of essential commodities under VAT.
- Desired tax treatment of Luxuries under VAT.

Since these statements/ variables are qualitative in nature, in order to quantify these, a 05 point scale using the Likert-type Technique has been used (See Table–1). The respondents were asked to 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

6.3. 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 put 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.

6.4. 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.

6.5. Descriptive Analysis

Descriptive analysis of the collected data has been made in two ways, viz:

- On individual samples basis; and
- 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 structure of VAT in the State is presented in table – 2 below:

Variables/ Statements	Srinagar			Jammu			Overall	
	Mean	S.D	C.V	Mean	S.D	C.V	Mean	S.D
Simplicity of the theoretical frame work.	2.84	1.435	50.53%	3.41	1.124	32.96%	3.13	1.32
Fairness of rate structure.	3.65	1.046	28.66%	3.33	1.123	33.72%	3.49	1.10
Complexity of computational mechanism.	3.68	1.095	29.70%	2.95	1.000	33.90%	3.32	1.11
Effects on choice due to free flow of trade.	3.91	0.748	19.13%	3.33	1.157	34.74%	3.62	1.02
Check on under – valuation practices.	3.93	0.988	25.14%	3.66	1.159	31.67%	3.79	1.08
Desired tax treatment of essential commodities under VAT.	4.35	0.775	17.82%	4.41	0.970	21.99%	4.38	0.88
Desired tax treatment of Luxuries under VAT	3.68	1.257	34.13%	3.90	1.255	32.18%	3.79	1.26
Over all Structure	3.76	1.10	29.26%	3.57	1.16	32.49%	3.69	1.14

Table 2: Consumers' perception regarding design and structure of Jammu and Kashmir State VAT

Source: Scholars survey of sample cities.

While analyzing the data presented by the table on joint sample (over all) basis, it is crystal clear that the consumers acknowledge the different aspects of structure dimension of VAT with a reasonable amount of agreement with mean score 3.69. From amongst different components of structure dimension of VAT, mean score 4.38 assigned to the variable “Desired Tax Treatment of Essential Commodities under VAT”, signifies that essential commodities should not be brought under the purview of tax. This observation is similar to the one made by Cnossen (1997). As regards the check on under–valuation practices facilitated by VAT, the mean score 3.79, suggests that VAT has to a reasonable extent reduced the chances of under – valuation of vatable goods. This finding is in consonance with those of Bushan (2005) and Lekhi (2005). Besides, mean score 3.79 affixed to the variable “Desired treatment of Luxuries under VAT”, the consumers seem to have expressed an urge that luxuries should attract a higher rate of tax than the present rate of 1% because doing so, will go a long way to reduce inequality in income and wealth distribution in economy and will lead to bring more revenue to the government. This observation also matches with the one made by Cnossen (1997). The consumers of the two sample cities also seem to be firm in their opinion about the fact that VAT provides them a diversified choice due to free flow of

trade ensured by it and has also reduced uncertainty in the applicable rates of tax as suggested by the mean scores 3.62 and 3.49 respectively. This is surely true because VAT not only ensures unity of nation through creation of a single common market but also provides uniformity in rate structure. A similar type of observation was made by Singh and Gupta (2004).

The mean score 3.32 on joint sample basis reveals that the consumers hardly agree with the complex mechanism of computation of tax liability under VAT. Again, mean score 3.13 is a clear indication that the overall theoretical frame work of VAT is not so easy to understand. This finding is in tune with the finding of Dingra (2005).

On the basis of overall independent mean scores 3.76 and 3.57, it can be stated that except the variable “Simplicity of theoretical frame work” (having obtained a low mean score 2.84 with a significant intra–group, inconsistency), the respondents of the two sample cities have expressed a fair amount of agreement with the soundness of overall structure construct of VAT. The respondents of Srinagar city seem to have taken all the constituents of the structure construct in a right perspective as the scores assigned to most of the variables exceed the combined scores with the exception of first variable/ statement. Similarly the respondents of Jammu city have also duly endorsed all the constituents of the structure construct with the exception of 3rd variable i.e complexity in computational mechanism scoring only 2.59. Here also in view of marginally highest standard deviation 1.000, a significant inconsistency in the opinion of the intra–group respondents is observed. This inconsistency in the opinion is also authenticated by the highest co-efficient of variation 33.90%.

Comparatively low scores 2.84 and 3.41, suggest that the consumers of the both cities have a doubt about the simplicity of theoretical frame work of VAT. However, the Jammu city consumers with mean score 2.95, seem to have acquired a comparatively better level of understanding about the computational mechanism of VAT.

So there is an inverse relation in the perception of the two cities in relation to this particular variable. This can be due to the fact that the administration has been more effective in creating awareness and education among the consumers in Jammu division when compared with the Kashmir division.

Further, mean score 4.35 and 4.41 with low standard deviations 0.775 and 0.970 reflect that there is a complete uniformity in the perception of consumers as regards the continuation of tax exemption for essential commodities under the State VAT.

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 co-relation between the perception of the consumers of two sample cities about the structure of Jammu and Kashmir State VAT. The results are presented in Table – 3, below;

Variables/ Statements	Srinagar		Jammu	
	Mean	R ₁	Mean	R ₂
Simplicity of the theoretical frame work.	2.84	6	3.41	4
Fairness of rate structure.	3.65	5	3.33	5
Complexity of computational mechanism.	3.68	4.5	2.95	6
Effects on choice due to free flow of trade.	3.91	3	3.33	5
Check on under – valuation practices.	3.93	2	3.66	3
Desired tax treatment of essential commodities under VAT.	4.35	1	4.41	1
Desired tax treatment of Luxuries under VAT	3.68	4.5	3.90	2

Table 3: Variable wise ranks allotted
Source: Researchers Personal Survey of sample cities.

The ranks allotted i.e importance attached by the respondents of the two sample cities except for the variables, “Desired tax treatment of essential commodities and fairness of rate structure of VAT”, are the same i.e, 1 and 5. In case of other variables the ranks allotted differ to a reasonable extent which clarifies that there is a wide perceptual gap among the consumers of two sample cities.

6.6. Inferential Analysis

To facilitate the comparison in the perception between the two sample groups in relation to the structure of the Jammu and Kashmir State VAT, the data was put to parametric statistical test “Z Test” to draw the inferences about the laid hypotheses. The results are shown in table-4, below:

Construct/ Dimension	Srinagar		Jammu		Z	P
	Mean	S.D	Mean	S.D		
Structure	3.76	1.10	3.57	1.14	2.325	0.042

Table 4: Parametric Statistic “Z”
Source: Researchers Personal Survey of sample cities.

The test shows that the calculated value 2.325 with P value 0.042 at 1% level (2 – tailed) is statistically insignificant being higher than 0.01 (at 1% level). Hence, the null hypothesis (H₀) is accepted which implies that there is no uniformity in the perception of the consumers of two sample cities about the structure construct of Jammu and Kashmir State VAT.

7. Conclusion and Suggestions

From the proceeding discussion, it can be concluded that:

- The theoretical frame work of VAT is somewhat difficult to understand by the consumers. However, the mechanism of computation of tax liability under VAT is simple as compared to the old tax regime i.e Sales Tax Regime. The present rate structure is reasonable. It has undoubtedly relieved the consumers from the confusion of multiple rate structure that was prevalent under the erstwhile sales tax system.
- Uniformity in rate structure across the states facilitating a free flow of trade is providing a diversified choice to the consumers.
- VAT has proved to be a strong weapon to check the under-valuation of goods by the unscrupulous and dishonest sellers.
- Essential and daily use commodities need to be fully exempted from VAT with an intention to give a relief to the consumers.
- Luxurious goods ought to be taxed at a higher rate than the present 1% rate.

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 concerned tax department, should be established. Also steps should be taken to make the VAT laws and rules simple, clear and comprehensible 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.

Further, the luxury items like gold, silver, diamond, precious and semi – precious stones should attract a higher rate of tax than the present rate of 1% as these items are mostly purchased by the elite class consumers. This will help the government to garner more tax revenue which ultimately means more facilities for the common people.

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