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PROCEDURAL REFORMS UNDER VAT IN INDIA

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ABSTRACT

Value Added Tax is modern and progressive tax system now adopted in over 130 countries around the world. In India, this was initially tried out on Central Excise and after its success, extended to service tax levy. Since at both levels value added tax (VAT) has been successfully integrated in the tax system, the same has now been extended to state sales tax levies. VAT was introduced in 22 states in India w.e.f. 1-April-2005 by replacing the single point sales tax system. Considering the fact that VAT has been successful in most of the states which has implemented the VAT, the states like Gujarat, Chhattisgarh, Jharkhand, Madhya Pradesh and Rajasthan with a view to integrate with the rest of country implemented VAT in their respective states w.e.f. 1-April 2006. Punjab is one of the states which have introduced the value added tax system since April 2005. The basic difference between the earlier states sales tax and VAT is that the framework of taxation is now almost identical in all states and thus ensures uniformity. Earlier, there were problems of double taxation of commodities and multiplicity of taxes, resulting in cascading tax burden.

The present paper discusses the various procedural reforms under VAT in India with special reference to Punjab Value Added Tax Act 2005. It studies the working of value added tax, incidence of tax, input tax credit mechanism, payment of VAT, filing of returns and refund procedure under VAT. The paper attempts to study and compare the present state value added tax and earlier state sale tax on the basis of incidence of tax and other procedural requirements. Under earlier sales tax structure, before commodity was produced, inputs were first taxed and then taxed again with input tax load after commodity was produced thus causing an unfair double taxation with cascading effects. On the other hand, under the VAT, set-off is given for input tax as well as tax paid on previous purchases. Further, there was multiplicity of taxes in several states like turnover tax, surcharge on sales tax, additional surcharge etc. But with introduction of VAT, these other taxes have been abolished resulting in overall rationalization of tax burden. Moreover, VAT has replaced the earlier system of inspection by a system of built-in self-assessment by the dealers. The study concludes that the present state value added tax system of taxation is more simple and transparent as compared to the earlier state sale tax system of taxation.