

# "Exploring The Prospects Of Goods And Services Tax (GST) In India's Economic Landscape"

Ms. Jiji S Raju  
*Bhilai, Chhattisgarh*

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Date of Submission: 01-12-2024

Date of Acceptance: 11-12-2024

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## I. Introduction

In India, a dual GST is being proposed wherein a central goods and services tax (CGST) and a state goods and services tax (SGST) will be levied on the taxable value of a transaction. The Goods and Service tax (GST) is a comprehensive value-added tax (VAT) on Goods and Services.

France was the first country to introduce this system in 1954.

Today, it has spread to over 140 countries.

Through a tax credit mechanism, GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain.

GST paid on the procurement of Goods and Services can be set off against that payable on the supply of Goods and Services. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax.

GST is defined as any tax on the supply of Goods and Services that will subsume CENVAT, Service tax, Central excise duty, additional excise duties, excise duties levied under the Medicinal and Toilet preparations (Excise Duties) Act, 1955, service tax, additional customs duty (countervailing duty or CVD), special additional duty of customs (SAD), Central surcharges and Cesses, State VAT, State sales tax, entertainment tax not levied by local bodies, luxury- tax, taxes on lottery, betting and gambling, tax on advertisements, State cesses and surcharges related to supply of goods and services and entry tax not levied by local bodies.

Many countries have a unified GST system. However, countries like Brazil and Canada follow a dual system wherein GST is levied by both federal and state or provisional governments.

The primary reason for introducing the Bill to pave the way for the center at sale of goods and the states to tax provision of services. The bill further proposes that the central government will have the exclusive power to levy GST on import and inter-state trade.

## History Of Gst

In 2000, the Vajpayee Government started discussion on GST by setting up an b Committee headed by Asim Das Gupta, (Finance Minister, Government of West Bengal) I the committee was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout.

Later in 2006, Union Finance Minister Shri P. Chidambaram moved towards GST in his budget, and proposed to introduce u by 1<sup>st</sup> April, 2010. However, the Empowered Committee of State Finance Ministers (EC) released its First Discussion Paper (FDP) on the GST in November, 2009, This spells out the features of the proposed GST and has formed the basis for discussion between the Centre and the States so far.

On 6th may 2015, the Lok Sabha passed the much delayed Constitutional Amendment Bill to introduce Goods and Service Tax (GST).

The Bill is set to be sent to a Parliamentary committee for review by the Rajya Sabha.

The Bill conceived twelve years ago, being a constitutional amendment, has to passed by both the houses of Parliament by a two-third majority, and once passed, it needs ratification of more than half of the 29 states. It has been kept pending because there were some changes required in the basic bill and all the States were not in snaring of the revenue collected through GST.

## What Is Gst?

Goods and Services Tax- GST- is a comprehensive tax levy on manufacture, sale and consumption of goods services at a national level.

Through a tax credit mechanism, this tax is collected on value added goods and services at each stage of sale or purchase in the supply chain.

The system allows the set-off GST paid on the procurement of goods and services against the GST which is payable on the supply of goods or services. However, the end consumer bears this tax as he is the last person in the supply chain.

The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value added goods and services, through a tax credit mechanism.

### **Benefits Of Gst**

Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

It is expected to help build a transparent and corruption-free tax administration. GST will be levied only at the destination point, and not at various points (from manufacturing to retail outlets).

Currently, a manufacturer needs to pay tax when a finished product moves out from a factory, and it is again taxed at the retail outlet when sold.

### **Benefits Of Gst For Individuals And Companies**

In the GST system, both central and state taxes will be collected at the point of sale. Both components (the central and state GST) will be charged on the manufacturing cost. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping companies.

### **Gst Rates**

The rate structure would be as follows; but not final. A lower rate for essential commodities. Standard rates for general goods. Special rates for precious metals. For services may be single rates for CGST and SGST.

GST rates are not yet announced by government, however it is assumed that aggregate total of CGST and SGST would be 14% to 20%. And the average World wide GST rate is around 18%.

### **Constitutional Status Of Gst**

Currently, states don't have the power to levy service tax, while the centre does not have the power to levy tax beyond the factory gate, i.e. VAT, sales tax, etc. To facilitate this, a constitutional amendment is required. The UPA government brought a Bill in Lok Sabha in 2001, but failed to get it passed. The NDA government introduced a "slightly modified" version of the bill in Lok Sabha. It was cleared on May 6, but for GST to become a reality, the Bill must be cleared by two-thirds majority by both Houses, and ratified by 50% of states. It is now pending in Rajya Sabha.

### **Models of GST**

There are three prime Models of GST.

GST at central (Union) Government level only.

GST at state Government level only.

GST at both, Union and state Government levels.

### **Expected Model Of Gst In India - Dual Gst**

In India the GST model will be "dual GST" having both Central and State GST component levied on the same base. All Goods and Services barring a few exceptions will be brought into the GST base. Importantly, there will be no distinction between goods and services for the purpose of the tax with common legislations applicable to both.

FOR EXAMPLE if a product has a base price of Rs. 100 and the rate of CGST and SGST are 8% then in such case both CGST and SGST will be charged on Rs. 100 i.e. CGST be Rs.8 and SGST will be Rs.8.

Interestingly as per the recommendations of Joint Working Group (JWG) appointed by the Empowered Committee in May 2007, the GST in India may not have a dual VAT structure exactly but it will be a quadruple tax structure. It may have four components, namely-

Central tax on goods extending up to the retail level

A Central Service tax

A State -VAT on goods

A State-VAT ON Services.

### **Features Of An Ideal Gst**

The main features of GST are as under: -

1. GST is based on the principle of value added tax and either "input tax method" or "subtraction" method, with emphasis on voluntary compliance and accounts based system.
2. It is a comprehensive levy and collection on both goods and services at the same rate with benefit of input tax credit or subtraction of value of penultimate transaction value.
3. Minimum number of floor rates of tax, generally, not exceeding two rates.
4. No scope for levy of cess, re-sale tax, additional tax, special tax, turnover tax etc.
5. No scope for multiple levy of tax on goods and services, such as, sales tax, entry tax, octroi, entertainment tax, luxury tax, etc.
6. Zero rating of exports and inter-state sales of goods and supply of services.
7. Taxing of capital goods and inputs whether goods or services relatable to manufacture at lower rate, so as to reduce inventory carrying cost and cost of production.
8. A common law and procedures through out the country under a single administration.
9. GST is a destination based tax and levied at single point at the time of consumption of goods or services by the ultimate consumer.

### **Objectives Of Gst**

1. One country - one Tax
2. Consumption based tax instead of Manufacturing
3. Uniform registration, payment and Input Credit
4. To eliminate the cascading effect of Indirect taxes on single transaction
5. Subsume all indirect taxes at Centre and State level under
6. Reduce tax evasion and corruption
7. Increase productivity
8. Increase Tax GDP Ratio and revenue surplus
9. Increase compliance
10. Reducing economic distortions

### **Scope Of Gst**

1. All goods and services are covered under GST regime except Alcoholic liquor for Human Consumption,
2. Tobacco products subject to levy of GST and Centre may also levy excise duty
3. GST Council yet to decide the incidence and levy of GST on following;
  - Crude petroleum
  - High speed Diesel
  - Motor spirit
  - Natural Gas
  - Aviation Turbine Fuel

### **Challenges And Prospects For Success Of Goods And Service Tax (GST) In India**

GST aims to simplify the indirect tax regime with a single tax on manufacture, sale and consumption of goods and service at a national level. A study by the National Council of Applied Economic Research (NCAER) had estimated that roll out of GST would boost the India's GDP growth by 1% to 2%. CRISIL had also reported that GST is best way to mobilize revenue and reduce the fiscal deficit. GST has been commonly accepted by world and more than 140 countries in the world. Looking to the magnitude, GST is going to impact all sections of the society- from a small time businessman to a huge conglomerate and from a tiny state to a developed state in this country. The implementation of GST is not only going to give boost to the growth engine pursued by the Government but it is also as important as it is going to switch over from the existing indirect taxation system in the country.

### **These Are Some Of The Challenges For Success Of GST In India Constitutional Amendment Bill to be passed in both the Houses of Parliament.**

The Central Government (CG) has full majority in the Lok Sabha and therefore GST bill passed in the Lower House of the Parliament without any hiccups. However, a lot depends how the CG will ensure safe passage of the Bill in the Rajya Sabha, where it does not have sufficient majority. Surely, it is not going to be cake-walk for the CG to pass the Bill in the upper House of the Parliament.

### **Constitutional Amendment Bill to be passed by majority states.**

To get the GST Bill passed by the respective State Governments in State Assemblies is another herculean task. The CO with Empowered Committee of State Finance Ministers (EC) would have to have same zeal, in passing of the Bill in majority States of the Country.

### **Draft GST Bill.**

It is not known to the public at large up to what extent the EC has discussed the draft GST Bill. However, considering the lasting economic impact of GST in the Country, the CG & EC would require to put the GST bill in public domain and give sufficient time to stakeholders to comprehend and give their views on the Bill. Once the draft GST Bill is out, there are going to be following enormous tasks for CG & EC-

- a) To compile all stakeholders views so as to make a concrete, error-free and uniform GST legislation.
- b) Difficult task as compared to the point # 2 mentioned above for the State who voted against the Constitutional Amendment Bill for GST.
- c) Once Draft GST legislation is passed, step (a) and (b) would again be followed for the uniform GST rules applicable across the country.

It may so happen that the Draft GST Bill and Rules may be made public simultaneously.

### **GST Council**

The Constitutional Bill has also proposed to insert new Article 279A on formation of GST Council consisting representation of Centre and States. The GST Council shall consist of Union Finance Minister as a chairperson, Union Minister of state in charge of Finance as a member, the State Finance Minister or State Revenue Minister as a member of the council and the state FM shall select one of them as Vice Chairperson of Council. The Council shall make recommendations to the Union and States on following matters:

- a. Which taxes, surcharge, cesses levied by Union, States and local bodies shall be subsumed in GST;
- b. Goods and Service which shall be exempt under GST regime;
- c. Threshold limits under GST;
- d. Floor rate with band of goods and services;
- e. Disputes resolution. The GST Council may decide upon the modalities for the resolution of disputes arising out of its recommendations.

### **Revenue Neutral Rate (RNR)**

The large part of success of GST in the country would depend on two prominent factors—one RNR and another threshold limit for GST. In the GST regime, the Government revenue would not remain the same as compared to the current tax system. Hence, though RNR the government will try to adjust tax in such a way that its revenue remains the same despite of giving tax credits on input and input service. Hence, RNR is the rate at which there will be no revenue loss to the government after (or aggregate OST rate) is going to than the present tax structure. As we know the current average Cenvat rates is 12%, Service-tax rate is 12% and average VAT rate is between 12.5% to 13% across the states. Hence, even in current tax structure, indirect tax component is anywhere between 25% to 28%.

### **Threshold L,M,T Of Turnover For Dealers Under Gst**

Current threshold limit under Central Excise duties in Rs. 150 lacs and that under Service-tax is Rs. 10 lacs. Whereas the threshold limit under state VAT is between Rs.10 Lacs to Rs. 20 Lacs.

Threshold limit of turnover for dealers under GST is the major bone of contention between the CG and EC. On one hand EC is in favour of lowering the threshold limit, while the Centre at the other end is of the view that the threshold for levying Central GST (CGST) And State GST (SGST) be kept at Rs.25 lakh. It appears that as of now there is no unanimity has been prevailed amongst EC and CG on threshold limit of turnover for dealers under GST. While achieving broad based tax structure under GST, both EC and CG must ensure that lowering of threshold limit should not be a "taxing" burden on small businessmen in the country.

### **Robust IT Network**

The success of GST would greatly depend on the robust IT backbone connecting all state Governments, Trade and Industry, Banks and other stakeholders on real time basis. Toward this end, the government has already incorporated on SPY viz- Goods and Services Tax Network (GSTN) and is functional since last two years. On the effective network front end system for all Government agencies. GSTN to ensure technology support for registration, return ax payment, IGST settlement, MIS and other Dashboards on GST portal to all the Stakeholders. As of now, GSTN has completed following tasks-

Mapping of Dealers data with PAN pilot run registration return and payments Back-process used by 12 States integration with five banks and with 25 more banks in process.

GSTN has yet to come out with business model compatible to Trade and Industry whole. Any technical glitch after implementation of GST would not only a costly affair - both for industry as well as for the governments but would virtually bring the entire business to a grinding halt. When we talk about timely tested and customer friend consumer portal, one should benchmark the performance with IRCTC portal, where passengers never experience any error, once ticket is booked through their portal. We hope to get better system than that of the IRCTC portal from GSTN.

### **Place Of Provision Rules**

One of the key challenges for GST is on taxation of inter-state supplies of goods and service. As we know, taxable events of manufacture and sale of goods under the present indirect taxation would be done away with, and therefore it would be essential to prepare comprehensive rules for identifying the time and the place of 'supplies' of goods and service in order to tax them appropriately. Currently, there is Central Sales Tax, for inter-State Sales of goods and no service tax at the State level; in this context, extensive rules will have to be evolved for taxation of inter-State supplies of service in undisputed manner under the GST regime. In nutshell, success of the GST would hinge on simple and clear rules in determining the place of supply of service.

### **Extensive Training To Tax Administration Staff**

GST is absolutely different from the existing age-old indirect taxation system being followed in the country. For effective implementation of GST, tax administration staff- both at Central and state level would require to be trained properly in terms of concept, legislation and procedure. The tax administration staff would also require to change their mindset, approach and attitude towards the tax payers. And for this, would have to learn, unlearn, and relearn the GST not only in letter but in spirit too.

### **Additional 1% Additional Levy On Gst**

As per constitutional Amendment Bill placed in the Lok Sabha, States will be allowed to levy an additional 1% non-vatable tax on inter-state supply of goods for the initial two years or such other period as the GST Council may recommend. The purpose of additional levy is to compensate the States for loss of revenue while moving to GST. There are two recent developments on this front-first the EC is contemplating to increase the time period (of two years) for additional 1% additional levy, of two third of the members agrees so and second industrially advanced states (like Gujarat and Maharashtra) have demanded 2% additional levy instead of 1%. Undoubtedly, additional levy is against the basic tenet of GST. We know the fundamental purpose of GST is to make 'India' as one State, where inter-State

movement of goods is very common and in that situation, additional levy would defeat the very purpose of GST in the country. The additional levy would be detrimental to the interest of trade, industry and ultimate consumer in the country, as it would bring cascading and distortionary effect in the value chain in the business cycle. The impact of additional levy on value of goods/ service is going to be humongous in the Indian Economy.

### **Advantages**

- 1 GST is a transparent Tax and also reduce numbers of indirect taxes. With GST implemented a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed.
- 2 GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower. This in turn will help export being more competitive.
- 3 GST can also help to diversification of income sources for Government other than income tax and petroleum tax.
- 4 Under Goods and Services Tax, the tax burden will be divided equally between manufacturing and services. This can be done through lower tax rate by increase Tax base and reducing exemptions.
- 5 In GST System both Central GST and State GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase.
- 6 Biggest benefit will be that multiple taxes like octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc will no longer be present and all that will be brought under the GST. Doing business now will be easier and more comfortable as various hidden taxation will not be present.

### **Disadvantages**

1. GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
2. CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new for which we should cheer.
3. Another disadvantage is that the services which hitherto were charged on receipt basis will be charged on accrual basis. This is an irony that even without having the certainty of receiving the payments for the services rendered; GST would be required to be paid, once invoice is raised.

## **II. Literature Review**

### **Review Of Literature**

Tax reforms have drawn attention of researchers both in India and abroad. The implementation of VAT of comprehensive nature, or at central and state levels both, may also involve some elements of tax design. Most of the countries have introduced VAT in the last about 25 years. In India also indirect tax reforms have drawn attention only after introduction of economic reforms in the country. Value Added Tax does not have a available on this topic as other forms of tax system. So, in other words, only a limited number of studies have been undertaken on VAT and those too with different perspectives. An attempt thereby, has been made to review the literature on VAT.

Purohit (1982) , examined the fiscal importance of sale tax in the state finances in India. Overall, the share of sales tax in own revenue of the states increased from about 31 percent in 1960-61 to 57 per cent in 1978-79. He presented economic analysis of sales tax structure in India and pointed out that wide variations prevailed among different states in the rates of sales tax. There was multiplicity of rates and in certain states there were as many as 17 different rate categories, which had no justification. He pointed out that states should follow Orissa pattern, where there were only four rates. While examining the taxation of inputs, he suggested elimination of the tax on inputs or full set-off of the tax paid on raw materials.

Examining the arguments for and against first and last-point tax, he suggested a mixture of different systems. He opined that either the states should go in for value added tax or two-point tax with set-off. As surcharge and additional sales tax increased effective rate of sales tax, the sales tax structure should be rationalized so that effective rate is comparable with the neighbouring states. He also pointed out the limitations of Central Sales Tax (CST) and discussed the need for revamping CST rates. He also highlighted the need to tax the services. Further, examining the impact and incidence of sales tax, he concluded that sales tax might not always be regressive because progress on could be introduced through rate variations, exemptions and adoption of physical ingredient rule. He concluded that as sales tax had a significant role in fiscal structure of the states, the tax structure should be reformed to make it economically rational and administratively expedient. Purohit (1993) , examined the system of commodity taxation in India and discussed the problems which could arise in introducing VAT in view of the federal structure of the country. He pointed out that the prevailing system of commodity taxation in India was unintegrated and gave rise to many problems like multiplicity of levies, complexity of structure, high tax rates, cascading effect, lack of transparency, vertical integration and narrow base, etc. He emphasized the need for immediate tax reforms like reducing the number of rates, reducing tax incidence, sales tax reforms, adoption of VAT and broadening the tax base by bringing services under tax net. He brought out the documentary and accounting obligations under MODVAT. While examining the existing sales tax administration, he brought out the problem areas for introducing VAT, which included need for more staff, training of tax personnel, suitable computational technology, Tax Identification Number (TIN) and auditing. Purohit (1995), in his another study, examined the structure and administration of sales taxation in India. He expressed the opinion that failure to administer the sales tax properly could defeat its purpose and threaten the canon of equity. It could create parallel economy due to increased tax evasion. He brought out the features of sales tax administration, examined its operational requirements, which included management information of sales tax. He opined that tax administration has important role in achieving the objectives of tax policy. He emphasized the need for strengthening sales tax administration to pave way for adoption of VAT in place of sales tax. Burges, Howes and Stern (1995), in their study on value added tax options for India analyzed that the pressure of aggregate revenue, the requirement of a reduced role for customs duties for the liberalization of the economy, and the complexity and strains of the current system together point clearly towards the desirability of tax reform in India. Since domestic indirect taxes provide the major source of revenue, they deserve special attention. They argued that India would benefit from moving toward a system of value added taxation (VAT) and focused on the way in which VAT(or VATs) can be best introduced into India given the country's federal structure. Three different options are distinguished; a central VAT, dual VAT, and states' VAT. They argued that the first is politically infeasible, that the second represents the best way forward in the short-term, and that the third deserves consideration as a long run option. Special attention is paid to the problems that would arise under either a states' or a dual VAT with regard to taxing inter-state trade. Murti

(1995), stated that a comprehensive VAT covers value added at all the three levels of business activities, i.e., manufacturing, wholesaling and retailing. He distinguished between three types of VAT, i.e., consumption VAT, net income VAT and gross income VAT, and opined that a comprehensive VAT with consumption base, the tax credit method, following destination principle to determine VAT on international and inter-state trade flows could be an ideal commodity tax structure for India. There could be ideally two types of tax regimes in India with central and state VATs. There could be parallel central and state VATs on the same base from manufacturing to retailing or central VAT up to manufacturing stage and the state VAT at wholesaling and retailing stages. He further pointed out that VAT system with one or two rates might have to be supplemented by special excise and subsidies to take care of the problems of equity, environment and social bads like tobacco and alcohol. Bagchi (1995), termed the operating sales tax system as unworkable. Different problems in the system including multiple cascading levies, among commodities, large number of among the states which led to bizarre thousands of cases pending before numerous rates, drawing hair-splitting distinction which narrowed the tax base, 'tax wars' among the states which led to bizarre results, cumbersome laws and procedures resulting in thousands of cases pending before courts, etc. did not reflect comfortable picture about commodity taxation in India. He opined that simplifying sales tax and removing the drawbacks, was not the solution and stated that superiority of sales tax lay in taxing consumption of goods and service in the economy without needless interference with market forces and freeing of exports from domestic trade taxes in a way which was not otherwise possible. VAT also offered a buoyant but non distortionary source of revenue for governments by virtue of wide base and structure. He cautioned that VAT should apply to all goods and services with minimum exclusions and should also strictly adhere to the principle of destination, following preferably tax credit method.

Purohit (1997), reported that most of the federations did not adopt VAT. Brazil was the only country with independent VAT both at federal and state levels, and as such the researcher tried to examine the salient features of VAT implementation in Brazil. The share of VAT in total domestic taxes on goods and services increased in Brazil, indicating increased fiscal role of the tax. The federal VAT in Brazil was levied on delivery of industrial products at producer's level. The tax rates were based on degree of processing of commodities and nature of commodities. As such more revenue came from cars, tobacco products, beverages, chemical products and machinery industries. The state VAT was imposed by states on sale of goods, while services were covered under a separate tax. There were five rate categories in state VAT. depending upon the nature of the products. In the inter-state sales, origin principle was followed and tax was imposed by exporting state. However, to neutralize the impact of level of development, the tax rate on inter-regional transactions varied according to destination, the rate being lower for exporting to less developed and higher for exporting to developed region. Municipal governments were also authorized to impose tax on services which was not included in state VAT. It was ported that Brazil was further contemplating to reform the VAT system. The researcher suggested that India could also follow Brazilian model of VAT. Michal (2000), in his paper titled, "VIVAT, CVAT and All that: New forms of value added tax for federal systems in 2000" stated that conventional wisdom has it that the value added tax is not a suitable instrument for lower-level jurisdictions ('provinces') in a federal system. The problems that arise when it is so used have become a serious constraint on the development of the VAT - and closer economic integration- in Brazil, the EU, India and elsewhere. In his study, he describes and compares two recent proposals for forms of VAT intended to alleviate these difficulties: the VIVAT and CVAT. Both enable the VAT chain to be preserved on inter-provincial trade without compromising the destination principle (allowing provinces to tax consumption at different rates) or introducing new scope for game-playing by the provinces. The key difference between them in that CVAT requires sellers to discriminate between buyers located in different provinces of the federation, whereas VIVAT requires them to discriminate between registered and monregistered buyers. D.OSei (2000), in his article on political liberalization and the implementation of Value Added Tax in Ghana, examined an aspect of Ghana's political economy in the 1990s. covering its transition to democracy from military dictatorship and how this change process impacted in its attempt to implement of VAT. It assesses the claim that political transition from autocracy to democracy improves policy-making and policy outcomes.

Ghana's experience of implementing VAT typifies an inherent problem in African governance, that of lack of adequate capacity for improved policy-making and for the institutionalization of inclusive politics and public accountability. The VAT case served in the end to impose a previously absent level of public accountability on the Ghanaian growth. Purohit (2001a) examined roadmap for national and subnational VAT in India and stated that in the unique indirect tax system in India, central government had the power to impose broad spectrum of excise duties on manufacturing; and states had power to impose sales tax and other taxes like entry tax, octroi, motor vehicle tax, and passenger and road tax. Although tax reform committees recommended adoption of comprehensive VAT, covering all commodities and services but the dichotomy of tax power created obstacles in adopting European style VAT in India. He brought out the problems and prospects of introducing VAT in India in view of the experience of states which experimented in adopting VAT in one form or the other. Andhra Pradesh introduced VAT on selected items with effect from April 1, 1995 for resellers only. Kerala also

introduced VAT on resellers in the case of select items but did not grant set-off on taxes paid on inputs Maharashtra moved towards real VAT with effect from October 1, 1995. Existing tax structure prior to introduction of VAT was simplified and 'additional tax' and 'turnover tax' were abolished. It also provided set-off on input tax paid by manufacturers. Efforts were made to make VAT system neutral and transparent. Thus, the experience of the states showed that except Maharashtra no other state attempted to introduce VAT in its proper form, as the first and foremost prerequisite of VAT was to give input tax credit. Further, he pointed out that there was no requisite preparedness of tax department for introduction of VAT. Purohit (2001b) examined the evolution of sales tax in India and the efforts at introducing VAT. He discussed different categories of sales tax according to coverage, legal basis and total turnover. Discussing the fiscal role of sales tax, he reported that in most of the states, sales tax constituted more than 50 percent of the states' own tax revenue. The buoyancy coefficients of sales tax revenue were estimated to be greater than one in most of the states. The analysis of structure of sales tax indicated large variations in rates and multiplicity of rates. Exemptions were granted to large number of commodities and services. The treatment of inputs varied from state to state. Levy of surcharges, additional sales tax and tax on resellers aggravated the complexities in the structure of sales tax. He suggested short-term and medium-term measures to reform the sales tax, and the major medium-term measure was to introduce state- VAT. Further, when the states adopted VAT, he suggested important changes in CST and existing system of taxation. He pointed out that certain reforms were to be earned out in sales tax for introduction of VAT, which included registration of dealers, raising exemption limit, smooth processing of returns, simplified payment procedures, and prompt and proper assessment. He also suggested some reforms in the governance of state-VAT, which included mechanism to oversee its operation, separation of duties of different functionaries of VAT department, integrated management information system, procedure for risk management and reducing interaction of dealers with the department.

Muthopadhyay (2002) examined the issue of implementation of VAT going wrong in India. providing details of revenue from CST to the states in India during the period 1990 to 2002, he reported that Maharashtra, Tamil Nadu, Andhra Pradesh, Haryana, Uttar Pradesh and West Bengal were to lose a lot of revenue if CST was abolished. As there was no consensus and no attempt to reach compromise in the interests of the states, VAT was introduced in an imperfect manner in the states. No enough thought had gone into drafting of the Acts in this context. He concluded that if it was pointed where exactly the efforts went wrong, it would not be difficult to improve matters.

Yasmin (2004) examined sales taxation in Jammu Kashmir with respect to its structure, fiscal significance, feasibility, or replacement by VAT; and suggested some policy prescriptions. She found sales tax to be highly elastic and buoyant in the State. The tax base had been widened considerably, but there was still scope to widen the base and coverage of sales tax as there was a long list of exempted goods, which could attract at least 4 percent tax.

There was prominence of first-point single stage sales tax. through first point sales tax had administrative advantage but the tax base became narrower. She opined that VAT appeared to be better alternative for extending tax base but suggested gradual introduction. starting with select items. She stated that VAT could cover some of the deficiencies of first-point sales tax. It would reduce tax evasion considerably. She also cautioned about the problems which would arise when VAT was introduced. Rao (2004) tried to examine the extent of gain or loss to the states from the introduction of value added tax, having features of uniform design, tax credit for inputs, extension of tax base to transactions beyond the first-point sale and zero-rating of interstate trade and international exports. She stated that exclusion of services from the base would not eliminate the problem of cascading from the tax system. As manufacturing sector output was the major basis of sales tax, the estimation of impact of VAT was limited to registered manufacturing sector only. If the entire cost of tax was passed on as higher prices of output, then the result would be reduction in value of output. The effects of introduction of VAT were classified into four parts, i.e., loss from providing input tax credit, loss from reduced value of output, loss from removal of CST, and gains from taxing second and subsequent sales within the state. With certain assumptions, she estimated the losses, gains and net impact on different states for the year 1997-98. With 15 per cent rate of VAT, the impact (loss) varied from Rs. 932 crore for U.P. to Rs. 1054 crore for Maharashtra. However, she reported that this exercise did not take certain features of the economy into account which included zero-rating of exports, turnover taxes on second and subsequent sales by some states, impact of introduction of VAT and withdrawal of CST on structure and locational choice of business/industry. The author further argued that homogeneity in VAT rates and structure was required to reduce the scope of tax competition of tax system to economic activity. However, homogeneity in rates might not ensure that all states retain their existing level of revenue. As Tax-GSDP ratio varied, this indicated that different states had different interests, therefore, at later stage, the states might change the VAT rates and structure. The author concluded that on the basis of assumptions, some states seemed to gain consistently from introduction of VAT, while the others were expected to lose. The losses could be avoided by changing the VAT rates and structure but this could be structure but this could be a hindrance in the formation of a common



internal market. She cautioned that Central Government's assurance for compensation in case of Losses in revenue from introduction of VAT could invite negative response from states in terms of slackness of efforts in collection of VAT. Empowered Committee (2005) laid down the roadmap of state-level VAT in India in the White Paper, which consisted of three parts. In Part-I, justification of VAT and background were discussed. Problems of double taxation and I multiplicity of taxes were cited as the major drawbacks of sales tax structure. The merits of I VAT were reported to be input tax credit, abolition of other than VAT taxes, rationalization of overall tax burden, self assessment by dealers, transparency and higher growth in revenue. To harmonize the VAT design in the states, common points of convergence with certain flexibility were reported to be the basis, which were elaborated in Part-II. These points included: input tax credit, its coverage and carrying over; treatment of opening stock; compulsory issue of tax invoice, cash memo or bill; registration; small dealers and composition scheme; tax payer's identification number; return; procedure of self-assessment of VAT liability; audit; declaration form; incentives; other taxes; penal provisions; coverage of goods under VAT; VAT rates and classification of commodities. In Part- III of the paper, related issues were discussed, which included provision of compensation to states in case of losses, resulting from implementation of VAT to the extent of 100 per cent of loss in the first year, 75 per cent in the second year and 50 percent of the loss in the third year of introduction of VAT. Other related issues discussed were: phasing out of Central Sales Tax (CST), need for including imports under VAT chain, decision on collection and appropriation of service tax, need for close interaction with trade and industry, and comprehensive campaign at state level to communicate the benefits of VAT to common people, traders and industrialists in simple and transparent manner. Co-operation of all sections of people in the country was sought for introduction of state level VAT. Nour and Pramanik (2005) stated that VAT is a multi-point turnover tax imposed at each stage of production and distribution on sales minus cost incurred. They discussed different variants of VAT, i.e., gross product type, income type, consumption type and the wages type. They also discussed the three methods of computing VAT, i.e., addition method, subtraction method and credit (invoice) method. From the methods of computing, they brought out that VAT helped in reducing tax evasion, whereas sales tax had considerable scope for evasion. They suggested that for better administration of VAT, each taxpayer be allotted a master file and Tax Identification Number (TIN). They concluded that VAT would help in improving allocative efficiency, growth and balance of payments; avoiding cascading effect; providing less scope for vertical integration; and facilitating accuracy of tax refunds on exports. Bezborah and Singh (2005) pointed out the weaknesses of sales tax structure which included lack of uniformity in tax rates, multiplicity of rates, cascading nature, pyramiding effect and revenue loss due to incentives. While reporting essentials of good sales tax structure, they opined that VAT was a good alternative for sales tax. However, VAT also has some black spots. Further, they brought out implementation problems of VAT in India. They also discussed the issues of uniformity of rates, removal of CST, making service tax VAT Table, unification of taxes, threshold limit and refund mechanism; and concluded that implementation of VAT in India should not be delayed further.

Misra (2005) opined that Value Added Tax was a measure to broad-base the tax net and countries all over the world have adopted this miracle tax. He pointed out that the superiority of VAT lay in the fact that it prevented cascading effect of taxation and reduced tax evasion. Cross verification of accounts of all the enterprises has been made possible with the help of computers under VAT and as such accounts could not be manipulated. VAT could lead to capital formation in the country when depreciation is made deductible from tax base and tax on capital goods is offset against VAT liability. VAT could also improve balance of payments of the country as exports are zero-rated. However, VAT might not be suitable for a large country with a strong federal system. The author stated that for introduction of VAT, existing tax rates be rationalized, tax credit system be introduced in place of incentives and steps be taken to abolish CST.

Sthanumoorthy (2005) reported that states in India carried out a path-breaking tax reform by replacing defective sales tax with Value Added Tax (VAT). The author pointed out that sales tax system suffered from many structural weaknesses, including multiplicity of sales tax rates and commodity categories in each state; wide differences in rates within and between states; cascading effect due to its imposition on a large number of inputs; tax competition among states; tax exportation; large number of exemptions; application of surcharge and additional levies; additional sales tax and turnover tax; entry tax and octroi; complicated and wide variety of tax rules and widespread tax evasion. Even when policy-makers were advocating replacement of sales tax with VAT, the attempts were initiated in early 1990s. The process was delayed due to several implementation problems and finally Central Government persuaded majority of the states to switch over to VAT with effect from 1.4.2005. The author discussed important issues and challenges in implementation of VAT and in this context experience of some of the Indian States and countries operating VAT system was reported. Sharma (2005) opined that VAT emerged as one of the most fundamental component of ambitious process of implementation faced constraints in a federal country like India as the experience of Brazil suggested. The major constraint in implementation of dual VAT in India was that mutual cooperation between centre and states was quite low. The fear of revenue loss as a result of introduction of VAT and phasing out of Central Sales Tax

(CST) was the major difficulty in implementing dual VAT. The author opined that 'no tax credit' in case of inter-state trade, as laid down in White Paper of the Empowered Committee (2005) undermined the basic benefit of enforcing VAT system, i.e., removing the distortion in movement of goods across the states. The integration of national VAT and state VAT into GST was also stated to be a distant dream. The author highlighted the need to develop a 'federal friendly model' of VAT that could be implemented in India without compromising federal principles. Mukhopadhyay (2005) brought out the global experiences of VAT and practical difficulties in introducing it in India. He presented VAT design along with central excise and sale tax structure. While bringing out the evolution of VAT, the author brought out the variations in definitions, procedures and statutes in Indian states despite Empowered Committee's efforts to provide common platform. He also brought out the major constraints in adopting VAT in India. In the origin and destination principles, inter-state trade posed a major problem. He advocated removal of CST with introduction of VAT. The author also explained administrative and procedural requirements for introducing VAT. Bird (2007), in the preliminary document, argued that in Canada, state value added tax was more likely to be the rightway to tax state level sales. He gave three major reasons for introduction of VAT in place of retail sales tax (RST) which included taxing sales, taxing business and replacing other taxes. Discussing the economics of choice between VAT versus RST, he established the superiority of VAT because RST has cascading effect and subject to abuse. He advocated inclusion of services under VAT net. Further, he discussed the issues relating to revenue, eroding of revenue by exemptions, self enforcing nature of VAT and reducing of tax evasion to establish the superiority of VAT. He pointed out that even when VAT has to deal with much larger number of tax payers, administration is still easier because the onus is on the taxpayer to keep the record to claim input tax credit to be presented to the authorities, if they doubt the legitimacy of the credit. Discussing the broader issues of states and exports, he stated that inter-state sales would not create more problems under VAT than under RST. He concluded that VAT is the best form of consumption tax both economically as well as administratively. He suggested that government should check unwarranted price increases protecting the interests of low income consumers and taxing services at discounted rate. He suggested that remaining states of Canada should also more seriously explore the possibility of adopting state VAT.

Bansal (2008) opined that as some states did not join the VAT system, the fractured implementation of VAT could cause some problems. She stated that VAT not compatible as CST was not VAT able and credit could not be claimed for CST. The producing states got considerable revenue from CST while consuming states did not get much revenue and some states hesitated in joining VAT system. Examining the Delhi experience of VAT, she reported that VAT needed honest and efficient government machinery for cross checking and linking production activities with tax liabilities of the firms but such machinery was lacking. VAT put additional burden on tax authorities, producers and shopkeepers to keep the records. There was no uniformity in rates in the states. The Empowered Committee covered only 550 commodities under VAT rates and left others to states to decide. As a result there were variations in rates even in neighbouring states. Further, she stated that co-operation of taxpayers was needed in self-assessment and keeping correct accounts but this co-operation was not forthcoming. As the government machinery was not able to do cross checking, there was lot of tax evasion. She termed the VAT procedure as complicated. From the review of available literature, it clearly emerges that the topics undertaken in these limited research studies mainly focus on the drawbacks of sales tax and make justification for the introduction of VAT. Similarly, problems which could arise in introducing VAT have also been explored in some studies. There are only few studies which explore the effects of VAT after its introduction. Significance of this study lies in the fact that it empirically examines the introduction of VAT after the replacement of sales tax in the states. The study undertakes an in-depth analysis of Punjab and Haryana states and recommends measures needed to improve revenue collection from VAT. It takes into consideration the secondary data as well as primary data collected from the traders and consumers. Thus, the present study is much more comprehensive as compared to the earlier studies.

### **III. Research Methodology**

#### **Research Methodology**

The selection of the research method is crucial for the conclusions as it affects what we have to say about the cause and factors influencing the project work. It was importance to choose a research method which was within the limits of what could be done. Time, feasibility, ethics and availability to measure the phenomenon correctly were issues constraining the project work. Research was conducted in DURG-BHILAI and questionnaire was devised for knowledgeable persons to carry out research.

#### **Source of Data**

##### **Primary Sources**

The sample consists of businessman & professionals. Various measurable factors were identified. Based on these variables, primary sources were identified.

**Secondary Sources**

It was collected from the journals, books, newspapers and from internet through Wikipedia & other reliable websites.

**Objective Of The Study**

1. To study concepts of Goods and Services Tax (GST) and its impact on Indian Economy.
2. To understand how GST will work in India.
3. To know the advantages and challenges of GST in Indian context.
4. To identify the possible effect of GST in companies.
5. To provide suggestion and recommendations from the study conducted.

**Data Analysis And Interpretation**

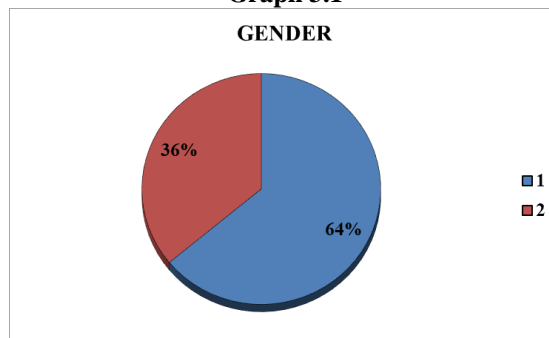
Demographic profile of the respondent

**Gender**

**Table: 3.1**

Gender	Number	Percentage
Male	16	64%
Female	9	36%

**Graph 3.1**



**Interpretation:**

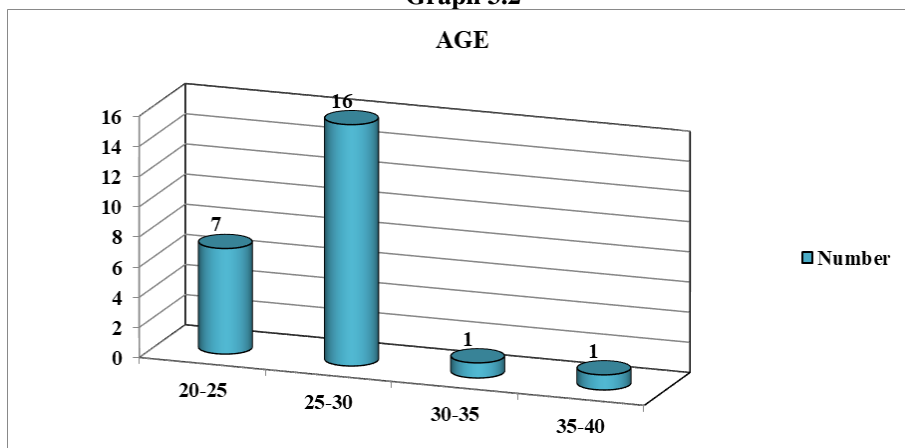
Result shows that out of the general male-female ratio. Male are more aware of GST because while conducting survey the respondent are more males as compare to female.

**Age :**

**Table: 3.2**

Age	Number
20-25	7
25-30	16
30-35	1
35-40	1

**Graph 3.2**



**Interpretation**

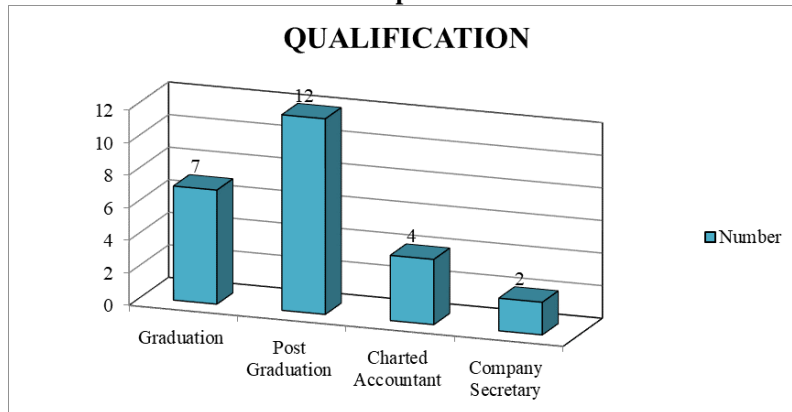
This table shows that 25-30 age people are more aware about GST because this age group people have large no of news tax payer that why they have knowledge about GST.

**Qualification:**

**Table: 3.3**

Qualification	Number
Graduation	7
Post Graduation	12
Chartered Accountant	4
Company Secretary	2

**Graph 3.3**



**Interpretation**

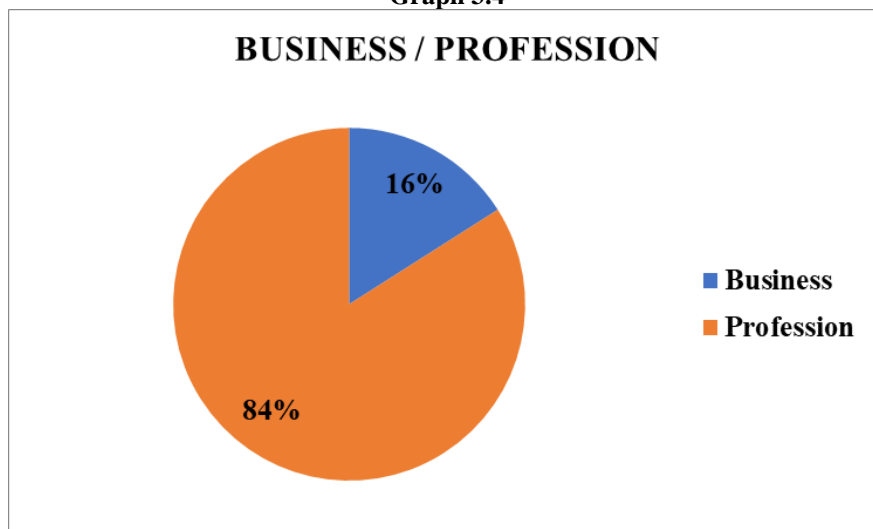
Table 3.3, reveals that 7 of the respondents are graduates, whereas 12 of the respondents are post graduates, whereas 4 of the respondents are CA and whereas, 2 of the respondents are CS. This shows that the chartered accountant are more are aware about GST as they help common people to save their tax.

**Business / Profession:**

**Table: 3.4**

Options	Number	Percentage
Business	4	16%
Profession	21	84%

**Graph 3.4**



**Interpretation :-**

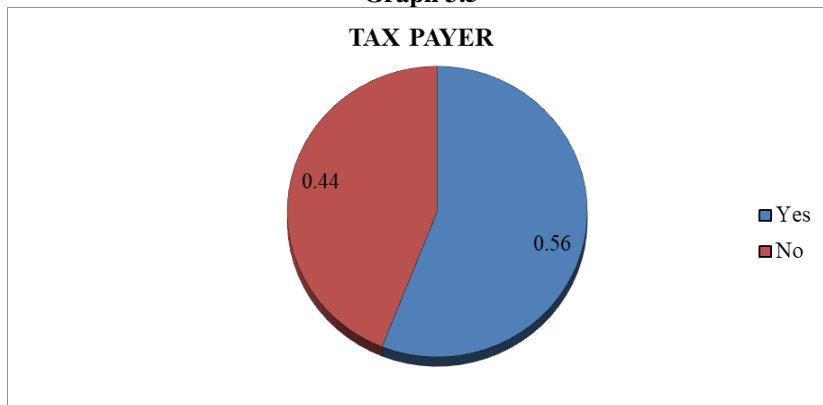
This graph show that professionals have to deal with GST because the business people are more dependent upon the professionals for tax planning.

**Tax Payer:**

**Table: 3.5**

Options	Number	Percentage
Yes	14	56%
No	11	44%

**Graph 3.5**



**Interpretation**

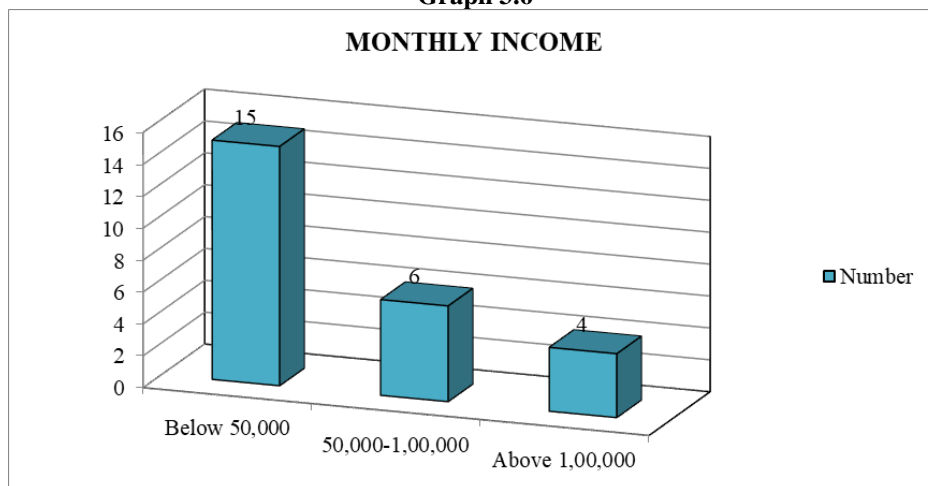
Table 5, reveals the majority i.e. 14 (56%) respondents belongs to tax payer whereas, 11(44%) respondents are non-tax payer.

**Monthly Income:**

**Table: 3.6**

MONTHLY INCOME	Number	Percentage
Below 50,000	15	60%
50,000-1,00,000	6	24%
Above 1,00,000	4	16%

**Graph 3.6**



**Interpretation:**

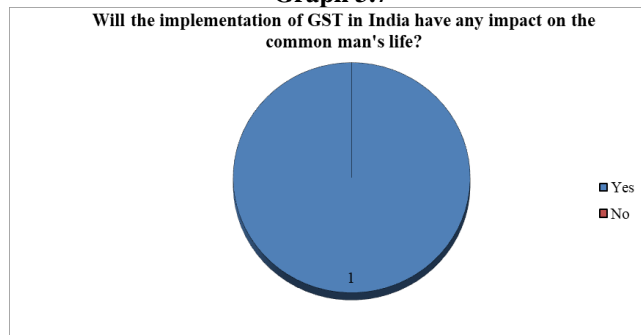
Table 6 shows that 15 (60%) of the respondents are earning below 50,000, whereas 6(24%) of the respondents are earning between 50,000-1,00,000 and whereas 4(16%) of the respondents are earning above 1,00,000.

**Will the implementation of GST in India have any impact on the common man's life?**

**Table: 3.7**

Options	Number	Percentage
Yes	25	100%
No	0	0%

**Graph 3.7**



**Interpretation**

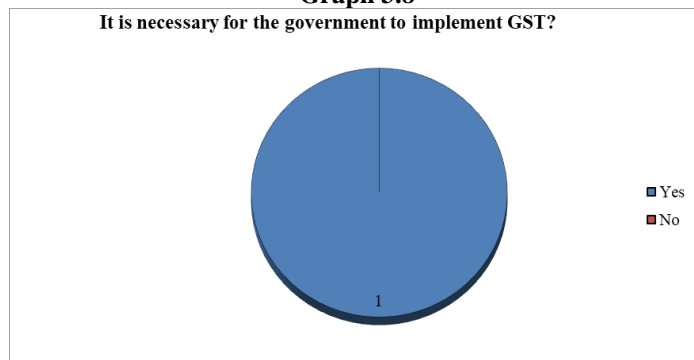
The above data shows that 1005 people are in favour under implementation of GST in India for having impact on common man's life because whenever the new tax structure will be implemented then it will have affect on common man's life.

**It is necessary for the government to implement GST?**

**Table: 3.8**

Options	Response (No.)	Percentage
Yes	25	100%
No	0	0%

**Graph 3.8**



**Interpretation**

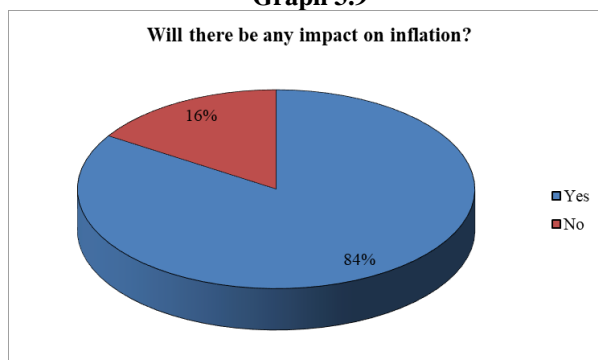
From the above table we can determine that 100% of people are in favour of that it is necessary for the government to implement GST because it will generate more revenue for government.

**Will there be any impact on inflation?**

**Table: 3.9**

Options	Number	Percentage
Yes	21	86%
No	4	14%

**Graph 3.9**



**Interpretation**

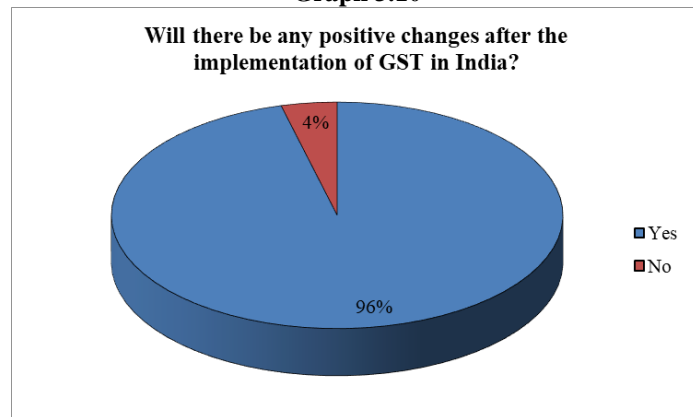
This graph shows that 21 people are in favour of having impact on inflation because the rate structure will change the inflation.

**Will there be any positive changes after the implementation of GST in India?**

**Table: 3.10**

Options	Number	Percentage
Yes	24	96%
No	1	4%

**Graph 3.10**



**Interpretation**

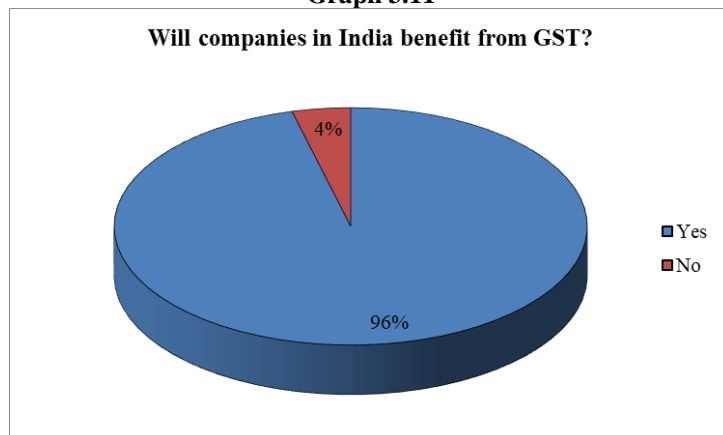
The above data shows that 24 people are in favour for having positive impact on implementation of GST, we can assume while other countries are benefited by GST so it will also beneficial for India.

**Will companies in India benefit from GST?**

**Table: 3.11**

Options	Number	Percentage
Yes	24	96%
No	1	4%

**Graph 3.11**



**Interpretation**

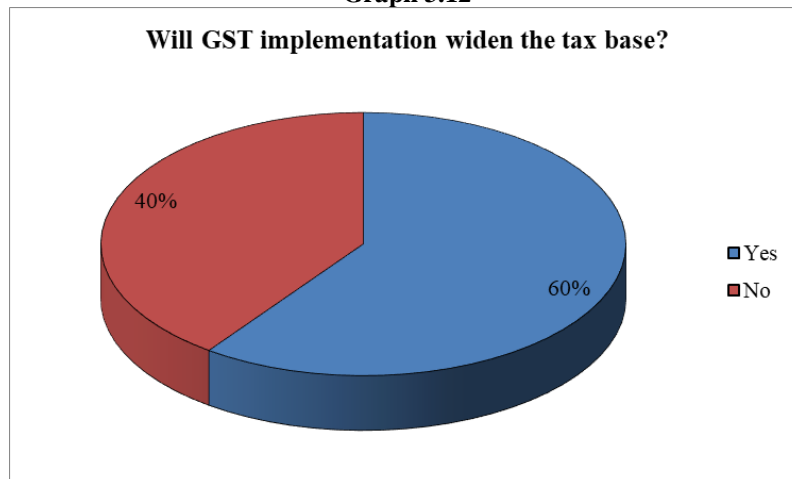
The above data shows that 24 people says that the GST will be beneficial for India the goods and service tax network will be able to fulfill its planned objective because the tax system will become easy.

**Will GST implementation widen the tax base?**

**Table: 3.12**

Options	Number	Percentage
Yes	15	60%
No	10	40%

Graph 3.12



### Interpretation

Table above data shows that the 15 peoples says YES for widening the tax base whereas, 10 people says NO.

### Limitation Of The Study

1. Simple size is too limited as it had only 25 respondents.
2. The survey was limited only to the area of Durg-Bhilai.
3. The survey was conducted only among the people related to business and industrial sector.

### IV. Findings

- Result shows that out of the general male-female ratio (64%) Male are more aware of GST
- because while conducting survey the respondent are more males as compare to female (36%).
- Between 25-30 age people are more aware about GST because this age group people have large no of new tax payer that why they have knowledge about GST.
- Out of 25, 7(28%) of the respondents are graduates, whereas 12(48%) of the respondents are post graduate, whereas 4(16%) of the respondents are CA and whereas, 2(8%) of the respondents are CS. This shows that the chartered accountant are more are more aware about GST as they help common people to save their tax.
- There are 84% professionals that have to deal with GST because the business people are more dependent upon the professionals for tax planning.
- There are 14 (56%) respondents belongs to tax payer whereas, 11(44%) respondents are non-tax payer.
- There are 15(60%) of the respondents are earning below 50,000, whereas 6(24%) of the respondents are earning between 50,000-1,00,000 and whereas 4(16%) of the respondents are earning above 1,00,000.
- There are 100% people are in favour under implementation of GST in India for having impact on common man's life because whenever the new tax structure will be implemented then it will have affect on common man's life.
- There are 100% of people are in favour that it is necessary for the government to implement GST because it will generate more revenue for government.
- There are 21 (84%) people are in favour on having impact on inflation because the rate
- structure will change the inflation.
- There are 24(96%) people are in favour for having positive impact on implementation of GST we can assume while other countries are benefited by GST so it will also benefit India.
- There are 24(96%) people says that the GST will be beneficial for India the goods and service tax network will be able to fulfill its planned objective because the tax system will become easy. There are 15(60%) peoples says YES for widening the tax base whereas, 10 people says No.

### V. Conclusion And Suggestion

#### Conclusion

Refurbishing the current tax system requires implementation of such a new methodology that it is, able to eliminate the drawbacks of the present system of taxation in India. India waits for the GST, Goods and Service tax, to arrive the scenario for a better tax system. Added to it the Direct Tax Code can also replace the Income Tax Act, 1961. But before getting introduced to this system of GST, one must have a general idea about the whole system.



The dilemma of multiplicity of taxes is being experienced in India over a number of years, through introduction of CENVAT and VAT has considerably helped in reduction of such multiplicity but still the sorrow continues to prevail. The problem on account of CENVAT is that taxes like Additional Custom Duty, Additional Excise Duty, etc are not included in it, whereas, VAT fails to include taxes such as luxury tax, Entertainment tax and others. Added to this one of the main component of overall tax structure, Service tax is ignored in both the cases. Thus, to overcome with miseries implementation of GST is being considered.

GST or Goods and Service Tax will include uniform rate of taxation in all respect and would allow an implantation of an incessant link from the primary producer of goods and service to the retailer stage's stage and will also eradicate all cascading effects in such process.

### Suggestions

- 1 More awareness among the population about GST should be done.
- 2 For the economic development of the country GST should be implemented as it will increase the capital for all sectors i.e.; business, service sector, industries, agriculture, etc.
- 3 There should be filtration while planning the GST structure.
- 4 Proper training and guidance should be arranged by the government after the implementation of GST.
- 5 The technical and complicated procedure of GST model should be simplified.
- 6 There should be an improvement on GST model regarding luxury goods.

### Prospects Of Gst In India

#### Questionnaire

As a part of fulfillment of my Course Certificate in Goods and Service Tax under Pt. Sunderlal Sharma (Open) University Bilaspur , And my project title is "**PROSPECTS OF GST IN INDIA**". I would be highly obliged if you would answer these questions for fulfillment of the project.

Name :- \_\_\_\_\_

Q.1 Gender

Male

Female

Q.2 Age :- \_\_\_\_\_

Q.3 Qualification :- \_\_\_\_\_

Q.4 Occupation :-

Business / Profession :- \_\_\_\_\_

Q.5 Taxpayer :- Yes  No

Q.6 Monthly Income

Less than  
50,000

Between  
50,000-1,00,000

Above  
1,00,000

Q.7 Will the implementation of GST in India have any impact on the common man's life?

Yes

No

Q.8 It is necessary for the government to implement GST?

Yes

No

Q.9 Will there be any impact on inflation after implementation of GST?

Yes  No

Q.10 What do you think is the reason for a proper tax structure for success of GST?

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Q.11 Will there be any positive change after the implementation of GST in India?

Yes  No

Q.12 Will Companies in India benefit from GST?

Yes  No

Q.13 Will GST implementation widen the tax base?

Yes  No

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