

Importance of Expanding Value Added Tax Base

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Abstract

In the developing nations voluntary tax compliance is normally viewed as if that the Government is more relied upon VAT & over time aggressively moving towards broadening the tax base. However such policies require harder political choices, different from what usually the Government of most industrially advanced countries practice. More resources are required to be spent to enhance the effectiveness of the tax administration. By including more economic transactions in the tax base, the proposals for comprehensive tax reforms could go through and achieve lower overall tax rates, while raising the same or greater amount of revenue. A larger tax bases normally entails great resources mobilization in economy. The current paper attempts to look upon the various aspects and dimensions regarding the same.

Keywords: Tax base, Compliance, Economic reforms, Resource mobilization

Introduction

Talking about the literal meaning of the word 'BASE', it is a platform on which the whole structure is built on. In any kind of progressive system whether financial or marketing the expansion of the base is imperative. A Marketing Manager for example has to decide how to expand marketing network. Similarly, a marketer who is engaged in the business of sales and purchases of particular item has to obviously focus on expanding its marketing network. This helps him to keep his product in line with the competition with other products as his clientele is spread for and wide and to keep the prices at the competitive levels.

This basic tool applies to the fiscal management of the Government as well. Unless the Government devices evolves a suitable fiscal policy which includes a large no

of people bracketed under the tax net the whole economy will function like a fly blown mirror. The growth of any economy is dependent of revenue generated. This generation of revenue is by and large done through two effective revenue raising means Taxes and levies. To increase this revenue the Government has two ways:

- To increase the rates of taxes
- To increase the base of tax (i.e. to increase the tax payers and at the same time keep the tax rates either low or constant)

Now, we need to understand first 'What is the meaning of taxes?' Taxes are kind of compulsory payments to the Government made in order to defray the expenses incurred in the common interest of all without any references made to the special benefit conferred. A good tax system should be premised on voluntary tax compliances. In developing countries it is normally seen

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that if the Government of such a country wants to rely more on VAT over time it must aggressively move to broaden the tax base.

However, such policies require harder political choices, than is usually from the Governments of the most industrially advanced countries. More resources are required to be spent to enhance the effectiveness of the Tax administration. By including more economic transactions in tax base, the proposals for comprehensive tax reforms could go through and achieve a lower overall tax rates while raising the same or greater amount of revenue.

A large tax bases normally entails great resource mobilization in the economy. The Government can follow the cycle of larger tax base by two ways:

- a) **Dealer wise:** In this the Government can easily identify the number of dealer who are paying the tax and who are under the tax net. For those dealers who are out of the tax net by virtue of their segmentation or classification could be brought to the tax net.
- b) **Commodity wise:** A large no of commodities are there which can attract taxes but they still go a begging on one count of the other. Still more there are many commodities on which higher slabs of taxes can be imposed. For all this a regular, authentic data bank is required to see the regularity and segmentation is by and large done by elite a class on a regular basis and specially in VAT a registered dealers chain is created. No dealer wants to break this chain as each has to avail the advantage of input tax rebate. The sub-dealers cannot get this rebate if they purchase from unregistered dealers. A compulsory registration thus paves the way for the board and effective market economy.

The present day vibrant market system models the consumer as a king. In this kind of growing economy the consumers go the best products at the most competitive prices. This of course is not possible unless the Government has a fiscal plan outlay to suit its dealers. A broad and wide tax base makes the Government go for softer tax base option which in turn enables the dealers to keep the prices of their products competitive and at the same time meet the challenges of the market. The government obviously gains a lot. The whole economy

works like a chain of a cycle. With the growing market the dealers and consumers are both getting the required margins, the obvious sector to gain is the government. The Government benefits by way of large tax collections.

In order to achieve a large tax base the Government has to work can clean machinery and take punitive measures for effective control. Certain works like works contract, job works, liquor trade etc. involve huge investments. A proper check on them can make way for the Government to increase its revenue. The idea of service tax, though not yet firmly decided on still another strong weapon in the hand of the Government.

The basic idea to effectively increase the tax base is to allow more room to the Government to generate revenue. If the tax base is not increased then the Government in order to generate more revenue will have the only option to increase rate of tax on same number of commodities which were taxed earlier and to push the same dealers against the wall. But this has to be avoided. The Government has make the economy more competitive, and for this simplifying tax norms and getting more dealer registered allows the Government to increase the revenue without causing much harassment to the already existing ones. A broad and large tax base enables the economy to ensure a healthy competition and prevents the inflow of good from such neighbouring areas, where tax rates are lower to such state where tax rates are higher. To ensure neutrality in tax rates, a wide tax base is a must. It thus ensures full economic growth. A wide tax base is thus a pertinent answer to an all-time question why should one pay the tax. It is based on a simple theory of each one contributing for the growth of the overall economy. The whole market and economy depends on each other and the tax base act as a pivot to keep them under balance. A simplified tax policy by the Government as is presently proposed under VAT goes a long way to increase the tax base. There are various measures proposed under VAT like:

- **Summary assessment:** this proposal is made with the key objective to make the tax department tax friendly
- **Easy and simple registration process:** The VAT act proposes to introduce a simple method for registration and an entirely new concept of temporary registration
- Doing away with complex forms

- **Removing the industrial exemptions:** In fact this had been one major grey area which had required a lot to be done. Phasing out or completely removing the industrial incentives will thus play a key role in increasing the tax base

Once this is done the Government can obviously think in terms of having a larger tax base. A large tax base enables the Government:

- To increase its resources
- To keep the rates of taxes low or constant
- To make way for more people to come under the tax net

A large tax base operates; when the tax base is enlarged the Government has enough ways to lay its hands to increase the revenue. This in turn means the Government can go in for after tax rates. A soft tax rate along with simplified tax administrative norms means less fast and more self-compliance. This is then means an oiled and defined self-policing economy. The basic idea of expanding tax base is to ensure tax neutrality i.e. the tax should avoid distorting the working of market mechanism and should not bring about shifts in consumer preferences as also leave the production method untouched and to minimize the complexities in tax administration tax compliances.

In order to achieve the base of any tax system including that of VAT should be as comprehensive as possible. In most of the states the items of basic necessities are generally taxed at lower rates or are even exempt. But this system suffers from the basic flaw because the benefits of tax exemption or lower rates are available to all consumers equally, irrespective of their income levels. The percentage of total income spent on such necessities is lower for higher income group even though in absolute terms they spend much more, in aggregate, on necessities than lower income group, the benefits of such lower rates to higher income group is then greater than the benefits to lower income group. Apart from this social aspect exempting/lowering of tax rates on such necessities, such a measure would include unnecessary complications in the VAT. Further, such exemptions/lowering would also entail hiking tax rates on other items to make up for the consequent loss of revenue. Since food and other items of necessities constitute a major portion of tax base of majority of states, it is thus suggested that all such items be brought to tax with the possible

exemption of such item of basic necessity distributed through the PDS and through farm gates.

The base of the tax should include all goods sold or leased with very few exemptions or exemptions. To maintain its integrity the VAT should be levied on services too. There are constitutional and practical problems in bringing all services under taxation along with goods at state level. However services which are normally rendered along with the sales of goods and also those which mainly go to final consumers, and have revenue potential should be subject to tax by the states. Which services could be brought within the tax net and at what level is examined separately?

It needs to be stressed that reform of this magnitude cannot be carried through without strong political will and real interest on the part of Central and State governments and support from the people. Further, because many parties would be involved, a package reform with inter- dependent gains and losses would be preferable to incremental change which is favoured by some on practical grounds. Incremental reform may soon get bogged down and lead to nowhere. Obviously the task will be arduous but, as stressed at the outset, needs to be addressed boldly if the Indian economy is to get free of the shackles of its present irrational and inimical tax system and more forward fast.

Conclusions

After analysing and understanding the various dimensions and aspects of value added tax base, it can be stated that in order to administer tax base properly one has to consider the following:

- The proper lines to expand the tax base-dealer/commodity wise
- Targets and achievements of the departments on the above lines
- Trend of growth rate
- Tax receipts from important commodities
- Better and effective control over the transporters-Registration of the transporters, checks and control over the document maintained by them
- Enlarging the data base to gather the necessary information about the dealers
- Input tax rebate-the creation of chain under VAT which make the dealers purchase from the registered dealers to avail tax rebate.

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