Value Added Tax in North-East India

Ram Krishna Mandal

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VALUE ADDED TAX IN NORTH-EAST INDIA
—ISSUES AND STRATEGIES

RAM KRISHNA MANDAL

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PREFACE

In India, the concept of VAT was introduced first in the Budget for 1975-76, in which all items not subjected to excise duties were brought under *ad valorem* duty of 1 per cent. Indian Taxation Enquiry Committee after examining the feasibility of VAT system advised in its report submitted in 1977 that the tax might be adopted on a small scale at the manufacturing level only for the time being. The result is the introduction of what is called MANVAT, meaning the value added tax on manufactures and of the MODVAT meaning modified value added tax. The MODVAT was introduced in the Union Budget of 1986-87. In the Long-Term Fiscal Policy, the government announced some reforms in the indirect taxation system in the form of VAT. This will lead to better tax compliance, higher tax revenue growth, higher efficiency, equal competition and fairness in tax system. VAT is a giant step towards the country's tax reforms as much as towards a unifying common market in the country.

There are several objectives usually associated with the tax. The present interest in VAT may partly attribute to its revenue raising quality by preventing the tax evasion and unfair trade practices. Thus, substantial amount of revenue could be gathered at a relatively moderate or low rate of tax. Administratively with the help of electronic computer it would be possible to obtain detailed information of sales and purchases of each enterprise from the returned furnished by the other enterprises.

In the North-East Region more than 70% of the population lives in rural areas. Most of them consume self produce and produce from common property right (CPR) like leafy vegetables, roots, mushrooms, hunted fish and animals and birds from common forest or depend largely on barter trade fall outside the ambit of the tax. Those, who consume the taxable commodities, bear tax. Only certain segment of population whose consumption basket contains branded consumer goods will have to bear the burden of sales tax which the government can use for the welfare of the people in general. If there is an apprehension over the efficacy of VAT in the minds of the people, it is largely due to the misconception and misperception of the basic concept of VAT. If VAT is properly designed and implemented it would become an excellent tax instrument. Again, it would also provide a greater transparency in tax administration. The experience of many developed and developing countries have shown that VAT has brought about dramatic changes in indirect tax administration. Especially the experiences of many developing countries like Brazil, Indonesia, Thailand, Costa-Rica, Korea etc. can be considered as model for India in the implementation of VAT.

Keeping in mind of the above phenomenon of VAT and its application in India in general and North-East States in particular a National Seminar sponsored by U G C was organized by the department of Economics, Dera Natung Government College, Itanagar on February 15-16, 2008 to discuss and analyze the various issues and strategies of VAT. The present volume is a collection of papers contributed to the seminar by eminent scholars, academicians, policy makers, bureaucrats and thinkers. The publication of this book would not have been possible unless the seminar was organized. In organizing the seminar we have received supports and cooperation from different persons and institutions that we thankfully acknowledge. At the very out set I express my deep gratitude to Chief Guest, Prof. K.C.Belliappa,Vice Chancellor, Rajiv Gandhi University, Rono Hills, Itanagar, Guest of Honour, Dr. Joram Begi, Director, Higher and Technical Education, Government of Arunachal Pradesh, Itanagar, Special Guest, Prof. Amitava Mitra, Registrar and Dean, Faculty of Social Sciences, Rajiv Gandhi University, Rono Hills, Itanagar and also Special Guest, Mr. Hibu Tamang (APPS) , Superintendent of Police, Government of Arunachal Pradesh, Papum Pare District, Itanagar who kindly inaugurated the seminar and delivered their valuable inaugural speech. Prof. Sujit Sikidar, Department of Commerce, Gauhati University, Guwahati deserves a special thank for his kind presence and gracing the participants through his keynote address on the first day of the seminar. I feel obliged to our Vice-Principal and Principal i/c, Mr. T. Tamuk, for his constant cooperation, encouragement and guidance in organizing the seminar. I would be falling in my duty if I do not extend my gratitude to our Ex-Principal, Mrs. Uma Dutta for generating in me an interest to organize a seminar in the college. I am also thankful to the Guest of Honour, Prof. E.Bijoykumar Singh, Deptt. of Econpomics, Manipur University, Imphall and Special

Guest, Dr. Paritosh Chandra Dutta, HoD, Department of Statistics, S.S.College, Hailakandi, Assam for the distribution of certificates to the participants in the valedictory function. We are very much encouraged by the wide response from the scholars from the different parts of India and abroad. I express a deep sense of gratitude to all the contributors in the volume.

I owe the debt of gratitude to all my colleagues especially Dr. S.D. Jha, Dr. A.I.Singh, Mrs. Madhuparna Bhattacharjee, Dr. A.K. Pandey, Mr. S.K.Sharma, Mrs.Suparna Bhattacharjee, Dr. Dani Chobin, Dr. R.B. Tripathy and Dr. D.K.Padhi and also to all my dear students especially of B.A. second and third year honours who shared with me all the troubles and pains in organizing the seminar and made it successful.

I am also sincerely grateful to University Grants Commission for providing the financial assistance to hold the seminar in our college. I am also taking the opportunity to thank profusely to Mr. K.M. Mittal, Mittal Publications for publication this book.

Lastly, I owe my apology to my wife, Mrs. Archana Mandal and my children Miss Anusree Krishna Mandal and Master Avinandan Krishna Mandal who had to bear the loss of my company during the work of the seminar and this book.

RAM KRISHNA MANDAL

LIST OF TABLES AND FIGURES

TABLES

FIGURES

LIST OF CONTRIBUTORS

Asit Kumar Pal, Reader in Economics, Balurghat College, Balurghat, Dakshin Dinajpur, West Bengal.

A. Debnath, Lecturer in Economics, S. S. College, Hailakandi, Assam.

Chimun Kumar Nath, Lecturer, Department of Commerce, Dibrugarh University, Dibrugarh, Assam.

Dani Chobin, Lecturer in Economics, Dera Natung Government College, Itanagar, Arunachal Pradesh.

Damodar Nepram, Lecturer in Economics, Churachandpur College, Churachandpur, Manipur.

Deepali Mandal, Lecturer in Mathematics, Purnea College, Purnea, Bihar.

Debajit Chakraborty, Assistant Professors, Deptt. of Economics, Maharaja Bir Bikram College, Agartala, Tripura.

Jayanti Ningombam, Lecturer (SS) in Accounting, D.M.College of Commerce (Govt), Imphal, Manipur.

K.C. Kabra, Lecturer (SS) in Commerce, North-Eastern Hill University, Shillong, Meghalaya.

Komol Singha, Lecturer in Economics, St. Joseph's College, Jakhama, Nagaland.

K. Rajendra Babu, Reader in Commerce, Indira Gandhi Government College, Tezu, Arunachal Pradesh.

Madhuparna Bhattacharjee, Lecturer (SS) in Geography, Dera Natung Government College, Itanagar, Arunachal Pradesh.

M.K. Jana, Lecturer (SG) in Commerce, Jawaharlal Nehru College (Govt.), Pasighat, Arunachal Pradesh.

Nabajit Deka, Agro-Economic Research Centre for North East India, Assam Agricultural University, Jorhat-13, Assam.

Naresh Kumar, Reader & Head, Department of Commerce, Jawaharlal Nehru College (Govt.), Pasighat, Arunachal Pradesh

Paritosh Chandra Dutta, HoD, Department of Statistics, S.S.College, Hailakandi, Assam.

Ram Krishna Mandal, Reader in Economics, Dera Natung Government College, Itanagar, Arunachal Pradesh.

R.K.P.G. Singha, Lecturer in Commerce, Pachhunga University College, Aizawl, Mizoram

Ratul Dutta, Lecturer, D.H.S.K. Commerce College, Dibrugarh, Assam.

R.P. Bhattacharjee, Secretary, Social Science Research Institute of Arunachal Pradesh, Itanagar, Arunachal Pradesh.

Samidh Pal, Balurghat College, Balurghat, Dakshin Dinajpur, West Bengal.

Sujit Sikidar, Professor, Department of Commerce, Gauhati University, Guwahati, Assam.

Surjya Chutia, Lecturer in Economics, Tinsukia College, Tinsukia, Assam.

Swapanendu Sen, Assistant Professors, Department of Economics, Bir Bikram Memorial College, Agartala, Tripura.

Tapas Dutta, Superintendent of Tax & Excise, Government of Arunachal Pradesh, Itanagar, Arunachal Pradesh.

Tikendrajit Paonam, Lecturer (SS) in Accounting, D.M.College of Commerce (Govt), Imphal, Manipur.

W. Kumar Singh, Reader in Economics, Y.K. College, Wangjing, Manipur.

CONTENTS

1

INTRODUCTION

—Ram Krishna Mandal

The Value Added Tax (VAT) which has been flourishing tax in the European Economic Community (EEC) has gained increased recognition all over the world particularly in India. The VAT has emerged as one of the most significant fiscal innovations of the century. The origin of Value Added Tax can be traced as far as back as 1921 when F.Von Siemans proposed it as a substitute for the then newly established German Turn Over Tax. VAT has become a subject of considerable interest after the EEC gave acceptance to as on instrument of tax harmonization within the country. In 1954, France became the first European country to adopt VAT, which largely paved the way for its being accepted as a common market tax. The objectives of VAT have created interest in many countries for its adoptions. There are several objectives usually associated with the tax. The present interest in VAT may partly attribute to its revenue raising quality by preventing the tax evasion and unfair trade practices. Thus, substantial amount of revenue could be gathered at a relatively moderate or low rate of tax. Administratively with the help of electronic computer it would be possible to obtain detailed information of sales and purchases of each enterprise from the returned furnished by the other enterprises. Thus, for tax authorities cross verification of accounts of all the enterprises is made possible by VAT, which would be of great assistance in detecting tax evasion and manipulation of accounts by the big business houses. That is why; VAT is a broad based tax covering the value added in a commodity by a firm at each stage of production and distribution. Under VAT it would be possible to estimate the figure of sale of each enterprise from the purchases of other enterprises.

Value Added Tax (VAT) was, no doubt, a fiscal innovation of early 1960s. It has drawn world wide attention as it has brought more transparency in tax related activities. That is why; more and more countries have adopted VAT in varying degrees to reform their commodity taxation system. At present time, more than 132 countries have adopted VAT all over the world. About 70 per cent of the world's populations are now living in VAT adopted countries. The spread of VAT throughout the world is largely due to the fact that VAT has generated more revenue than the sales tax. The practical experiences of many developing countries have proved that if VAT is properly designed and implemented, it may prove a better resource mobiliser than the present sales tax system. The superiority of this tax over sales tax is that it avoids double taxation at the stage of inputs that go into the process of production as well as at the sale of output thus leading to tax cascading effect, i.e., tax on tax already paid on the inputs used in the process of production. The VAT allows setoff for tax on inputs and tax paid on previous purchases and thereby eliminates tax cascading. The incidence of this tax will thus fall on the final consumers. With the introduction of VAT all the multiplicity of taxes such as turnover tax, surcharge on sales tax, additional surcharge, etc. will be abolished. Even central sales tax is going to be phased out. As a result, prices, in general, will fall. This will lead to better tax compliance, higher tax revenue growth, higher efficiency, equal competition and fairness in tax system. VAT is a giant step towards the country's tax reforms as much as towards a unifying common market in the country.

In India, the concept of VAT was introduced first in the Budget for 1975-76, in which all items not subjected to excise duties were brought under *ad valorem* duty of 1 per cent. Indian Taxation Enquiry Committee after examining the feasibility of VAT system advised in its report submitted in 1977 that the tax might be adopted on a small scale at the manufacturing level only for the time being. The result is the introduction of what is called MANVAT, meaning the value added tax on manufactures and of the MODVAT meaning modified value added tax. The MODVAT was introduced in the Union Budget of 1986-87. In the Long-Term Fiscal Policy, the government announced some reforms in the indirect taxation system in the form of VAT. As a sequel to this announcement, the MODVAT scheme has been introduced. Under this scheme, the manufacturers get complete reimbursement of excise duty paid on the components or raw materials. In this way, the MODVAT scheme prevents payment of duties on earlier duties paid. Almost all states of India have begun to implement VAT since April 1, 2005 or later.

If there is an apprehension over the efficacy of VAT in the minds of the people, it is largely due to the misconception and misperception of the basic concept of VAT. If VAT is properly designed and implemented it would become an excellent tax instrument. Again, it would also provide a greater transparency in tax administration. The experience of many developed and developing countries have shown that VAT has brought about dramatic changes in indirect tax administration. Especially the experiences of many developing countries like Brazil, Indonesia, Thailand, Costa-Rica, Korea etc. can be considered as model for India in the implementation of VAT.

The North East Region (NER) of India comprised of eight states namely, Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Sikkim. These eight states of NER together have a population of 39 millions as per 2001 census and constitute about 3.8 per cent of the total population of the country. It covers an area of 2.62 lack sq.kms. accounting for 7.9 per cent of the total area of the country (NEDFi,quarterly data bank,2005). The combined contribution of NER to the national economy is 2%. In the region 84% of population is still located in rural areas and rural poverty remained high and undiminished during 1987-2000 in contrast to most other parts of India. The reason for this disproportionate contribution to the national economy is the existence of rural poverty in the region. At present, in all the states of northeast the level of poverty has never come down. Here, poverty is linked with calories intake of 2400 in rural areas and 2100 in urban areas. The facts about the number of rural households below the poverty line in the North Eastern States in 2001 as given by the Government in reply to the question no. 2688 in the Lok Sabha are given in table-1.1 (Ningombam, Jayanti, 2007).

These states are the most underdeveloped states in India. The states being late starter in the development, it is required to make large investment in both service sector and infrastructure creation which is very costly for its difficult terrain and sparse population. The states are lagging far behind than most other states in respect of many factors especially in terms of human development index which depends on the achievement of health, education, income

Table 1.1 : State-wise Rural Households below Poverty Line, 2001

State	*No. of Households in the rural areas*	*No of Rural Households below Poverty Line*	*Percentage of Households below Poverty Line*
Arunachal Pradesh	102852	80627	78.39
Assam	3607241	2164416	60 00
Manipur	365670	246980	67 54
Meghalaya	282662	156646	55 48
Mizoram	110570	74154	60.07
Nagaland	146615	88541	60.39
Tripura	595397	397798	66.81
Sikkim	NA	NA	NA

Source: Dainik Sambad, Agartala, September 13, 2001

etc. It needs much investment, but its capacity to mobilize resources from its own resource is very low. The state depends on central transfer for its resource requirement which hinders the state to address adequately the problem of raising the level of economic development and thus the level of living and welfare of the people. Therefore, the more the state mobilizes, the more shall it have to spend on the basic needs of the state?

Why sales tax should be levied for revenue mobilization? It is because sales tax is the single most important source of revenue for the states in the constitutionally provided scheme of division of revenue sources between the union and state governments. Several state governments raise half to three-fourth of their tax revenue from sales tax alone. Even some of north-east states also mobilize considerable revenue from this tax. Does sales tax hurt the poor? Those who consume manufactured and processed commodities will largely pay sales tax. Those who consume self produce and produce from common property right (CPR) like leafy vegetables, roots, mushrooms, hunted fish and animals and birds from common forest or depend largely on barter trade fall outside the ambit of the tax. In the North-East Region more than 70% of the population lives in rural areas. Again a significant portion of these areas are inaccessible. Thus, the vast segment of population consumes a few or none of the taxable commodities and therefore bears little or no tax burden. Only certain segment of population whose consumption basket contains branded consumer goods will have to bear the burden of sales tax. The people, who have the capacity to pay, should contribute revenue which the government can use for the welfare of the people in general.

The imposition of sales tax in Arunachal Pradesh in the framework of sales tax harmonization structure evolved by the Empowered Committee of States Finance Ministers is justified for the benefit of the state. It has paved the way for the introduction of State-Level Value Added Tax that the state governments of the country collectively agreed to implement VAT from April 1, 2005. It is a very pragmatic decision of the Arunachal Pradesh government to pass the Goods Tax Bill, 2005 as a step towards the introduction the state economy with India's common market.

In the lights of above, a seminar had been organized on the topic, "Value Added Tax: Issues and Strategies in the North East States" dated February 15-16, 2008 in order to remove the fear in the mind of consumers for extra burden of tax on consumer goods or capital goods and to elucidate the idea about VAT among the people so as to find the ways and means to overcome the tremendous pressures and problems of economic development of the region of North East States, that mostly rely on the central assistance. The past decade has shown shift of paradigms from restricted economy to open economy. In regard of this view, it is imperative to sensitize the people of the region on the concept of VAT so that the people of this region can know that they have to bear not more price of capital as well as consumer goods. The present volume is collections of papers presented during the seminar that addresses the issues and strategies of implementing VAT in the region. The papers included in this volume are divided under three thematic parts namely, (i) Value Added Tax in India: Issues and Strategy, (ii) Value Added Tax: Issues and Strategies in North East States, and (iii) Present Scenario of VAT in Arunachal Pradesh. But this division is not exclusive for the issues and strategies of Value Added Tax in North East States and India. The revenue earned by the governments of States and Central through Value Added Tax in proper way, no doubt, is main concerned without extra burden on the people. The opportunities and challenges of VAT are basically its issues and strategies in applying in the country in general and in North East States in particular.

In the First thematic division on "Value Added Tax in India: Issues and Strategy", consists of seven papers. Almost all the papers cited that Value Added Tax abolished multiple cascading effect of an indirect tax like excise duty on excise duties which have already paid for inputs as when these become parts of an output. They analyzed the emerging issues and challenges of VAT in the wake of new economic reform so as to explore the viable ways to be adopted in future for the development of India. In underdeveloped region, it is found that the growth rate of value added, in real term, grows insignificantly after implementation of VAT. It is charged at a uniform rate as a percentage of prices at which the goods are transacted and it is affected at each stage of transaction in the production and distribution chain. After implementation of VAT properly, India will become a common market and sales between states will become totally free. The introduction of the VAT in India has already increased revenue collections in some States and eventually harmonies a complex mix of State tax rates across all States.

Prof. S.K. Sikidar in his paper entitled, "Value Added Tax; Comprehensive Goods and Service Tax and Federal Revenue Sharing" discussed that value added tax (VAT) is a multi-staged sales tax levied on the value added and which is collected at each stage of the production and distribution process. It is a sale tax or commodity tax at multi point levels of value addition levied to avoid cascading effect. The overall input cost of manufacturers is likely to come down as they get input tax credit on local purchases and as VAT will lead to the abolition of certain state specific taxes such as turnover tax. When the rate of VAT is more than the rate of sales tax, then it is bound to cause an impact in the market. The state government would provide a great service by publishing a list of sale tax rate per commodity vis-à-vis present VAT rate on the same commodity. The retailers may be asked to hang the list in their shop premises. This step would reduce mis-understanding about VAT among public's mind. The theory of VAT says that the value addition made at each stage of manufacturing would be ascertained first and then VAT will be levied on them at multi point of production or sale. Owing to VAT, the government can enhance its revenue flow depending upon the number of intermediary stages where value addition takes place. Greater the number of stages, greater the revenue flow. It is beneficial for the consumer because a consumer is not required to pay tax twice or thrice on the same product. VAT would help to avoid tax on tax (double taxation) and thus reduce production cost.

Dr. Asit Kumar Pal in his paper "VAT and Reservation for Under Developed States" voiced that VAT is neutral among businesses, different methods of production and distribution with broader net to cover even services which are income elastic. It abolishes multiple cascading effect of an indirect tax like excise duty on excise duties which have already paid for inputs as when these become parts of an output. In underdeveloped region, it is found that the growth rate of value added, in real term, grows insignificantly. Backward states may have reservations, until the subsidy on capital, technical education, local-input-based industries, and more developmental projects are in-cooperated to increase per-capita income for enhancement of purchasing power and expansion of markets in the area. Without following such Telesis the mechanism of Complete State-VAT will make worse the inter-regional intra-industry disparity.

The paper prepared by Dr. Paritosh Chandra Dutta and Mr. A. Debnath on the theme, "Implications of VAT with a Special Reference to Indian Economy: A Preliminary Note" mentioned that VAT is levied on all commercial activities involving manufacture and trading of goods and services though services are not included in India. It is charged at a uniform rate as a percentage of prices at which the goods are transacted and it is affected at each stage of transaction in the production and distribution chain.

The paper was presented jointly by Dr. Jayanti Ningombam and Dr. Tikendrajit on the theme, "Globalization and VAT in India". They explained that as the world economy has been undergoing unprecedented changes leading to the emergence of market driven society. there is the necessity for structural adjustment internationally. She analyzed the emerging issues and challenges of VAT in the wake of new economic reform and explored the viable ways to be adopted in future for the development of India.

Dr Ram Krishna Mandal in his paper, "VAT in Arunachal Pradesh: Some Issues" attempted to sketch that in Arunachal Pradesh nearly 80% of the population lives in rural areas and a significant section amongst them in almost inaccessible areas. They consume self produce and produce from common property rights (CPR) like leafy vegetables, roots, mushroom, hunted fish and animals and birds apart from cooking fuel from common forest or depend largely on barter trade fall out side the ambit of the tax. This vast segment of population consumes a few or none of the taxable commodities and therefore bears little or no tax burden. An estimate indicates that CPR products account for one-fifth to three fifths of the household consumption basket contains fast moving consumer goods and various branded products will have to bear the burden of sales tax. It is only fair that only people who have the capacity to pay should contribute to revenue that the government could use for the welfare of the people in general tax. It has paved the way for the introduction of State-Level Value Added Tax (VAT).It avoids double taxation at the stage of inputs that of into the process of production as well as at the sale of output thus leading to tax cascading effect.It is, therefore, a very pragmatic decision of the Arunachal Pradesh government the Goods Tax Bill 2005 as a step towards the introduction of State Level VAT and integrating the state economy with India's common market.

Mr. Nabajit Deka in his paper, "Regressivity And Progressivity of VAT" voiced that the VAT has come to occupy an important place in the fiscal storage over the years nearly all industrialized countries. Over 120 countries worldwide have introduced VAT over the past three decades and India is amongst the last few to introduce it. And, as of today VAT is fairly evenly distributed throughout the world. The International Monetary Fund (IMF), in its semi-annual World Economic Outlook released on April 9, 2007 expressed its concern over large fiscal deficit of a developing country. Further any globally accepted tax administrative system will only help such developing country, integrate better in the World Trade Organization (WTO) regime. The growing popularity of VAT could be further analyzed by comparing the characteristics of VAT with those of retail sales tax (RST) and business turnover tax (BTT).

Dr. Deepali Mandal tried to search in her paper, "VAT and Unfair Trade Practices: An Analysis" that VAT is an indirect multipoint tax like turnover tax. However in some respects it is different from the total turnover tax which is levied on each sale with no credit for the tax paid at the earlier stages. VAT is imposed at every stage where there is a value addition to product in terms of labour and services, production overheads, depreciation and profit. In other words, VAT is a tax on the value added by business a firm through its own activity to the goods and services it purchases from other business firms. The success of VAT may be attributed to its revenue raising quality by preventing tax evasion and unfair trade practices prevailing in market. VAT provides transparency to transactions which is helpful for dealers, tax authorities and consumers.

The second thematic division on "Value Added Tax: Issues and Strategies in North East States" consists of six papers which made a general overview of the nature of opportunities and challenges of VAT in the north east region and makes suggestions on its issues and strategies for implementing it in proper way. The papers univocally focus on the analysis of development with the background of sale taxes.

Mr. Surjya Chutia in his paper, "Economic Effects of VAT in North-East India" pointed that North Eastern States are among the 30 states implemented VAT from 1st April 2005, in the country. The Central Government is a facilitator and supporter of the states and has also agreed to compensate the states, in the event of any revenue loss. Compensation to states under the VAT regime during 2005-06, the year of its implementation, stood at Rs. 2471 crore against a revised budget estimate of Rs. 2500 crore. VAT tax structure, more or less, are common to all states, there by substantially reducing the litigation with regards to rate of tax and classification and also reducing the imbalance in different states on similar goods on account of tax rates. Although the schedule and rates are not same in all NE States, there are 45 items of goods have been exempted from tax under this new tax system.

Damodar Nepram argued in his paper, "Value Added Tax in the North East" that the introduction of sales tax in the states from April 2005 was described by India's Finance Minister P. Chidambaram as "the most important tax reform measure ever attempted in this country". It was considered very essential, though difficult to implement, as it would have tremendous beneficial effect on the economy by putting an end to the cascading effect of sales tax. Further, under the value added tax (VAT) system there will be only two basic rates of 4 p.c. and 12.5 p.c. for most of the goods ending the multiplicity of tax rates which was there in the earlier system. VAT was introduced with the main aim of improving the sales tax system, but it is likely to have important revenue implications despite the fact that the VAT rates were considered to be revenue neutral rates. It is expected that the price of goods will fall which will in turn lead to a spurt in demand and tax revenue for the government.

Mr. K. C. Kabra, Mr. R.K.P.G.Singha and Mr. Komol Singha in their paper, "Value Added Tax in North-Eastern States: *A Study of VAT Laws in Arunachal Pradesh and Mizoram*" recognized the need for harmony in domestic trade taxes in a federal economy which is well recognized. VAT inter-alia, is an attempt to tax such value addition which will certainly add to state revenue. VAT system offers simplifications over complications of earlier system. but, at the same time, it makes accounting for 'tax credit' little bit difficult, especially for entrepreneurs whose turnover is just above the maximum limit fixed and who do not maintain proper accounts for various reasons. The problem becomes more pertinent in northeastern regions, where commerce (accounting) education is not very popular except few cities.

The paper entitled, "Prospects of VAT in Manipur" by Dr. W. Kumar Singh highlighted that the introduction of VAT may ameliorate the rate inflation which is created by the cascading impact of traditional sales tax system. It reveals clearly the rational for adoption of destination based consumption type retail stage VAT. The gain from VAT depends on value added and efficiency of tax administration of the state. One way to avoid any loss from VAT is to change in rates and/or structure of the tax. But such variations would bring hindrances to the formation of common market in the country. He added that for the success of VAT, the tax base has to be broadening by inclusion of service sector such as private nursing homes, automobile repairs and services, tutorials, restaurants and cable services which can give lucrative source of revenue. Proper training is required for tax departmental personnel.

The paper presented jointly by Swapanendu Sen and Debajit Chakraborty on the theme, "State Finance and the Economy: Value Added Tax (VAT) and Its Implications in Tripura" attempted to identify that in Tripura, value added tax (VAT) has been introduced with the enactment of the Tripura Value Added Tax Bill, 2003 and the implementation of the relevant Act with effect from 1st April, 2005 and attempted to trace the trend of collection of revenues in Tripura under sales tax and to identify the areas where the imposition of such tax has been found to be inefficient in the light of views expressed in the meetings of Finance Minister's sales tax Committees.

In the paper "Impact of VAT on Assam Tea: On the Crossroad", by Mr. Ratul Dutta and Mr. Chimun Kumar Nath have tried to prove that Tea industries are optimistic about the turning of the industries health in the years to come. Growth of small growers (area up to 10.12) Hec and bought leaf factories, particularly north India whose growth started booming in the year 1998 whereas south India from

1993/1994 will increase the production, create additional employment, utilization of land in the region by local people with highlighting someproblems faced by the tea industries in India in general and in Assam in particular.

The third and last thematic division on "Opportunities and Challenges of Present Scenario of VAT in Arunachal Pradesh" consisted of five papers which focused a general overview of the Arunachal Pradesh that more or less 80% of the population lives in rural areas of the region. They consume self produce and produce from common property rights (CPRs) like leafy vegetables, roots, mushroom, hunted fish and animals and birds apart from cooking fuel from common forest or depend largely on barter trade fall out side the ambit of the tax. This vast segment of population consumes a few or none of the taxable commodities and therefore bears little or no tax burden.

Mrs. Madhuparna Bhattacharjee and Mr. Tapas Dutta in their joint paper, "VAT In Arunachal Pradesh – A General Overview" they vividly described that the people of Arunachal Pradesh have always been paying a hidden consumption tax on goods even when there was no sales tax in the State. This tax paid by the people of the State had been going into the coffers of other state governments. Therefore, introduction of VAT by the Arunachal Pradesh Goods Tax Act, 2005 (Act No. 3 of 2005) seeks to realize the revenue that has been due to the state. This Act repealed the Arunachal Pradesh Sales Tax Act, 1999. Thus, Arunachal Pradesh moved with most of States to the VAT regime w.e.f. 01.04.2005 by Notification No. TAX-02/2000/306 dated 24.03.2005.Arunachal Pradesh Goods Tax Act, 2005 is an Act to levy consumption tax on goods consumed in the State of Arunachal Pradesh through a combination of tax on entry of goods in local area of Arunachal Pradesh and value added sales tax (VAT) on the business in the State.

The paper presented by Dr. Naresh Kumar on the theme, "An Empirical Analysis of Value Added Tax: Traders' perspective – A Case Study of Arunachal Pradesh" showed that the Government of other States recognizes the need to modernize its tax structure and administration, adopt the best tax policy design to suit the present day's requirements in the light of increasing globalization of the economy. To ensure increasing revenue flow, improve voluntary compliance, and combat evasion and related corrupt practices, the earlier local sales tax has been substituted and VAT has been introduced in India by most of the States (except few states) including Arunachal Pradesh The Arunachal Pradesh Value Added Tax Act, 2005 and the Arunachal Pradesh Value Added Tax Rules, 2005 have been introduced w.e.f. 1st April. 2005 and the earlier Arunachal Pradesh Sales Tax Act, 1999 has been stood repealed w.e.f. 1st April, 2005.He found out the features of Value Added Tax (VAT) with traders' view and also its benefits in Arunachal Pradesh.

The paper prepared by Dr. R. P. Bhattacharjee on the topic. "VAT in Arunachal Pradesh a Brief Study" outlined mainly on a comprehensive discussion on the VAT in Arunachal Pradesh, which would have two advantages. Firstly, it would make the goods produced in Arunachal Pradesh economically competitive and secondly it would promote opening of dealership in the State. The rates of VAT in Arunachal Pradesh is 1% in respect of goods in second schedule (gold, silver, precious stones etc), 4% of such as enlisted in third schedule, 20% of VAT for goods in fourth schedule and 12.5% of VAT for other goods. The revenue under Sales Tax was Rs. 28.25 crore during 2004-2005 which increased to Rs. 47.69 crore during 2005-2006 after introduction of VAT in the state and it was Rs. 54.83 crore during 2006-2007 and Rs. 58.00 crore is expected during 2007-2008.The revenue can be increased further if VAT is introduced in the service sector.

Dr. Dani Chobin in his paper "Tax Scenario in Arunachal Pradesh" argued that Arunachal Pradesh has been traditionally enjoying special position, wherein it owns revenue has been a very small portion of total resources base. Arunachal Pradesh was almost a tax Free State till 1999-2000 and has been fully dependent on the central government finances for almost all the development activities in the state. With the resources in the Union government, in the last few years the growth from the central government has only been increasing marginally, while requirement of finances have out grown at a much rapid pace. Such a scenario led to the situation that deficit in state finance had been increasing and state government have to depend more and more on borrowing to meet its financial requirement. To ensure increasing revenue flow, VAT has been introduced in the state by the Arunachal Pradesh Government w.e.f. 1st April, 2005.

The paper presented jointly by Dr. K. Rajendra Babu and Shri M.K. Jana entitled, "VAT and its implementation in Arunachal Pradesh" would make an attempt to analyze how far VAT regime in

Arunachal Pradesh has achieved the objectives lying behind its implementation, what are the impediments the State is facing in connection with VAT and what need to be done further besides some allied issues. . The political parties were divided some in favour of the trading community and VAT and some against the trading community and in favour of VAT. The debate continued for more than two years.

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