

# VAT and Proposed GST Administration in India – An Empirical Analysis on Experts’ Opinion of Pondicherry Region

S .Vijayalakshmi<sup>1</sup> and Dr. M. Upalthus Selvaraj<sup>2</sup>

<sup>1</sup>Assistant Professor in Corporate Secretaryship,  
Bharathidasan Govt College for Women, Puducherry-3.  
viji610@gmail.com

<sup>2</sup> Professor in Corporate Secretary ship, Alagappa University, Karaikudi.

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## Abstract

*Introduction of VAT by Indian States has been hailed as one of the biggest tax- reforms in several decades. The main motive of VAT has been the rationalization of overall tax burden and reduction in general price level. Thus, it seeks to help common people, traders, industrialists as well as the Government. It is indeed a move towards more efficiency, equal competition and fairness in the taxation system. This study reviews the administrative difficulties of the tax department undergoes in administering VAT and its preparedness and expectations under the proposed GST. More than 150 countries in the world have been experiencing the VAT/GST regime. India is now moving towards GST to be rolled out in April/Oct 2013. Hence, this study is very relevant in India in the especially Puducherry context of transition from erstwhile tax regime to VAT and further GST. Puducherry is being a Union Territory with little scene for increasing tax revenues which hitherto setting more of Central funds. Now, the State is forced to raise more funds (OTRs) to get an equated Central fund. Hence this study assumes greater significance. The major complications in dealing with traders is “carrying out transactions without invoicing” followed by “improper submission of accounts” while complications pertaining to “concealment of transactions” are moderate. From the study, it is identified that “agitation from traders” followed by “educating the traders” and “making more traders to fall under the purview of VAT” is major problem faced by authorities in implementation of VAT. Regarding working of VAT, it is understood “VAT system really work out as a self regulatory mechanism which checks tax-evasion” and “The rules for defining the place of origin / destination of inter-state supplies of goods - create problem of taxation” On the other hand, working of VAT in respect of “moving to VAT from PGST by the traders” and “increasing Puducherry's tax revenue due to the implementation of VAT” Most of the respondents have opted for Dual GST model. The proposed outcomes in India through implementation of GST system, such economic stability, administrative convenience, compensation to States, taxing under one roof, multi-taxing, reducing tax evasion, more tax compliance and more tax collections are analyzed and found that most of the outcomes are up to moderate level. “All States to have uniform tax base” is the major revision to be made followed by “Mobility of goods”, “Maintenance of internal economic stability” and “System which will not be affected due to the Government instability” in the present VAT to move to GST according to the ranking of both experts group.. The disciplinary action against traders by tax authorities usually is levying ‘interest’ on default followed by ‘fine’. It is concluded that the major concerns of manufacturers under VAT are “parity on input tax and output tax rates” and “treatment*

of stock transfer". There should be uniform tax throughout the country and system to work for reduction in cascading effect of tax for successful and better administration of VAT. Similarly, it is concluded that "the centre alone to fix up tax rates and they have to be implemented by States", and "single point tax system to be abolished". So the burden on ultimate consumers can be reduced. Further they have also suggested for all forms of tax, namely, Excise, sales tax and service tax suffered against service inputs on goods manufactured are to be combined. While there can be tax at multi-stage the tax imposed should be compounded, under the GST that is to be introduced. Only such kind of taxing can bring-down the cascading effect in tax at the same time be a better tax on goods and services.

**Key words:** VAT – Value added Tax GST- Goods and Services tax OTR's –Own tax revenue PGST – Pondicherry sales tax

## INTRODUCTION

Introduction of VAT by Indian States has been hailed as one of the biggest tax- reforms in several decades. The main motive of VAT has been the rationalization of overall tax burden and reduction in general price level. Thus, it seeks to help common people, traders, industrialists as well as the Government. It is indeed a move towards more efficiency, equal competition and fairness in the taxation system. The primary justification for this reform was based on the inherent advantages<sup>1</sup> of VAT over the Sales tax regime. This included rationalization of tax burden, reduction in prices, simplification of tax structure, greater transparency, improvement in tax compliance, reduction in inter-state 'tax-war' and increase in state Government revenues. Hence, the beneficiaries would include consumers, the business community as well as the Government. The main disadvantages<sup>2</sup> of the existing Sales tax regime is the multiplicity of taxes and the double taxation of commodities resulting into a cascading effect on prices. The VAT liability of the dealer/ manufacturer is

calculated by deducting input tax credit from tax collected on sales during the payment period. If the tax credit exceeds the tax payable on sales in a month, the excess credit will be carried over to the end of next financial year. If there is any excess unadjusted input tax credit at the end of second year, then the same will be eligible for refund. Taxation Departments are carrying out the responsibility of levying and collecting VAT in the respective States. While the Central Government is playing the role of a facilitator for the successful implementation of VAT, the Ministry of Finance is the main agency for levying and implementing VAT, both at the Centre and the State level.

VAT was implemented in good spirit. The Centre compensated the States for their revenue losses. It was really tough for the Centre to implement VAT in different States as most of the States were purely dependent on the grants from the Centre. Though there were opposition from many State Governments, it was possible for the Centre to implement VAT. VAT is a step towards the implementation of GST. GST is a comprehensive structure of both goods and services. It is perceived by the general public that VAT is necessary to curb tax evasion and to contribute to the National exchequer sizeable revenue. This study analyzes the main reason for tax-evasion by the traders, and the general public

<sup>1</sup> A White Paper on State-Level VAT, by The Empowered Committee of State Finance Ministers, January 2005 pp 1-5.

<sup>2</sup> Ibid.

\* Assistant Professor in Corporate Secretaryship, Bharathidasan Govt College for Women, Puducherry-3.

\*\* Professor in Corporate Secretaryship, Alagappa University, Karaikudi-3.

on VAT system. VAT compels the traders to maintain books of accounts and regular filing of returns. In this scenario, it is necessary to know the extent of difficulties undergone due to the implementation of VAT. Puducherry being a small State depends on the Centre for its main source of revenue. It has to generate more revenue out of its own resources. So, it necessary to know how the revenue of this State has increased or decreased due to the implementation of VAT. This study reviews the administrative difficulties of the tax department undergoes in administering VAT and its preparedness and expectations under the proposed GST. Also, study attempts to know the expectations of the traders in the forthcoming GST scenario. More than 150 countries in the world have been experiencing the VAT/GST regime. India is now moving towards GST to be rolled out in April/Oct 2012. Hence, this study is very relevant in India in the especially Puducherry context of transition from erstwhile tax regime to VAT and further GST.

### THE RESEARCH STUDY

VAT is the most important tax revenue for States, contributing more than one-half of their own tax receipts. It is expected to bring down the incidence of harassment and corruption that trade and industry encounter. The introduction of VAT has brought great apprehensions in the minds of many and the same will be passed on to the consumers. There was fear among the contributors of tax that the cost of goods might go up; harassment would be more and so on. VAT was introduced in Puducherry in the year 2007. The VAT will not provide full set off for input tax but also abolish the burden of several existing taxes viz, turnover tax, surcharge on Sales tax, additional surcharge, special additional tax etc. The State level VAT will be self-policing, improving tax compliance and reducing prices and all these will increase tax buoyancy this study is an attempt to examine the pre and post VAT regime and, the pros and cons of old as well as the new system. It is very important in this context to find out the possibility,

practicability and prospects and constraints of the transition from VAT to GST (Goods and Service tax). This study is very relevant in the context of the administration of VAT in India with special reference to Puducherry State. Puducherry is being a Union Territory with little scene for increasing tax revenues which hitherto setting more of Central funds. Now, the State is forced to raise more funds (OTRs) to get an equated Central fund. Hence this study assumes greater significance.

MODVAT was implemented in India with effect from 01-03-1986 on selective goods and gradually, it had been extended to all commodities in the name of CENVAT from April 2002. Services were also included with CENVAT from 2004-05. By replacing Sales tax, VAT was introduced in the States from 01-04-2003 (Haryana 01-04-2003). Almost all the States in India have implemented VAT and encountered with administrative difficulties in implementing VAT. The implementation of any levy in any country for that matter requires careful study of the existing financial system. Likewise, at the time of introducing VAT in India faced lot of hurdles, implementation bottlenecks, pitfalls in collection and so forth. The generation of VAT revenue signifies sizeable portion to the nation exchequer. This augmentation is from the sectors of services, goods, consumables, components and raw materials.

Amidst this background the present research work is carried out to have an inquisitive look into the following matters namely, implementation hurdles as faced by traders regarding the VAT, system and implementation and elicitation of opinion from the general public regarding the system of VAT and administration of Puducherry. Puducherry constitutes four divisions namely Puducherry, Karaikal, Mahe and Yanam. The population of the State is more than 12 lakhs.

### Primary Data Collection

The necessary primary data were collected from Experts dealing with sales tax.

**Experts:** The term ‘experts’ here include professional and administrators who are dealing with VAT operations, compliance, procedures and formalities etc. Out of the 55 experts contacted, 36 were practicing Chartered Accountants and the remaining were administrators.

#### **Analysis and discussion on experts’ opinion on VAT administering**

The adoption of the Value Added Tax (VAT) by a rapidly growing number of countries has been one of the most remarkable events in the evaluation of commodity taxation in this century. The coverage of VAT in most countries is broad enough to include final consumption of goods as well as services. The introduction of VAT in

those countries has rationalized their tax structure considerably. At the same time, the VAT system in India has posed a few problems against above prospects. The existing structure of commodity taxes in India is a juxtaposition of a number of systems such as custom duties and union excise duties levied by the union government, sales tax levied by the State governments and Octroi levied by the local bodies. These unintegrated characteristics of Indian tax system have given rise to problems related to economic as well as administrative aspects. So, in this chapter an attempt has been made to evaluate the problems and prospects of VAT and GST system in Indian context based on the opinion of the experts in this field. The experts considered for the study are chartered accountants and administrators of tax system working in tax departments.

Table. 1 Distribution of Experts in the Sample

Profile	Number of Respondents	% to Total
Occupation		
Professionals	36	65.45
Administrators	19	34.55
Experience		
Up to 10 years	21	38.18
11 – 15 years	18	32.73
Above 16 years	16	29.09
Total Sample	55	100.0

*Source: Primary Data*

The years of experience in this field (tax field) is up to 10 years for 38.18 per cent. While 32.73 per cent of the experts are in the field for 11-15 years, 29.09 per cent of them are in the field for more than 16 years.

Table 2. Complications in Dealing with Traders

Complications	Mean Score	Standard Deviation
Improper submission of accounts	3.80	0.89
Concealment of transactions	3.44	1.08
Under valuing of transactions	3.18	1.06
Carrying out transactions without invoicing	3.96	1.02

*Source: Primary Data*

According to table above presented the mean scores for “improper submission of accounts” (3.80) and “carrying out transactions without invoicing” (3.96) are in the agree range ( $\geq 3.50$  and  $< 4.50$ ) whereas for “concealment of transactions” (3.44) and “under valuing of transactions” (3.18), they are found to be in “neutral” ( $\geq 2.50$  and  $< 3.50$ ) range. Further, the mean perception (mean level of agreement) is more for “carrying out transactions without invoicing” followed by “improper submission of accounts”. Hence, it is deduced that the major complications in dealing with traders is “carrying out transactions without invoicing” followed by “improper submission of accounts” while complications pertaining to “concealment of transactions” are moderate. Comparison of Opinion between Professionals and Administrators on the Complications in Dealing with Traders it was noted that administrators have perceived the complications from all except “carrying out transactions without invoicing” as moderate and differ significantly from professionals who perceived the complications from above factors as “high”. Both professionals

and administrators have perceived the complications from “carrying out transactions without invoicing” as high but the level of perception was significantly less among administrators compared to that of professionals.

#### PROBLEMS IN IMPLEMENTING VAT

Major problems faced by authorities in implementation of VAT are ascertained by ranking of four different problems among experts. The statistical model, Friedman ANOVA and Kendall Coefficient of Concordance is used. This test is used for ranking data to identify the similarities among the respondent group in ranking the items. Evaluating the extent of similarity in ranking the items is mandatory to arrive at irrefutable conclusion about the preferred item(s) among the group of items related to the aspect. The Kendall’s coefficient of concordance, also called Kendall’s W, ranges between 0.0 and 1.0 with 0.0 for perfect dissimilarity and 1.0 for perfect similarity. The statistical significance of the

Kendall's W is ascertained using Friedman ANOVA chi-square value.

Table 3. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Major Problems Faced by Authorities in Implementation of VAT

Problems	Average Rank	Sum of Ranks	Rank
Agitation from traders	2.11	116.0	1
Educating the traders	2.29	126.0	2
Making more traders to fall under the purview of VAT	2.55	140.0	3
Registration of traders	3.05	168.0	4
Kendall Coefficient of Concordance 'W'		0.1012	
Friedman ANOVA Chi-Square		16.70* **	

Source: Primary Data\*\*\*Significant at 1% level.

As per Table 3, the Kendall Coefficient of Concordance is just 0.1012 with significant Friedman ANOVA chi-square of 16.70 ( $p < 0.01$ ). This indicates the existence of similarity in ranking items (specified for measuring sort of help offered by trade association) at moderate level among experts. So, average rank scores are used to identify the major problems faced by authorities in implementing VAT. The average

mean scores are 2.11, 2.29, 2.55 and 3.05 (item with low rank indicates that the item is highly preferred) for "agitation from traders", "Educating the traders", "Making more traders to fall under the purview of VAT" and "Registration of traders" respectively. From the ranking of items based on average mean scores, it is identified that "agitation from traders" followed by "educating the traders" and "making

more traders to fall under the purview of VAT” implementation of VAT. is major problem faced by authorities in

Table 4. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Perceived Major Problems Faced by Authorities in Implementation of VAT between Professionals and Administrators

Problems	Professionals			Administrators		
	Average Rank	Sum of Ranks	Rank	Average Rank	Sum of Ranks	Rank
Agitation from traders	2.03	73.0	1	2.26	43.0	2
Educating the traders	2.69	97.0	3	1.53	29.0	1
Making more traders to fall under the purview of VAT	2.36	85.0	2	2.89	55.0	3
Registration of traders	2.92	105.0	4	3.32	63.0	4
Kendall Coefficient of Concordance ‘W’	0.0907			0.3651		
Friedman ANOVA Chi-Square	9.80**			20.81***		

Source: Primary Data\*\*\*Significant at 1% level.

As shown in the Table 4, professionals have perceived the “Agitation from traders” as the major problem whereas administrators have viewed the “educating the traders” as the major problem faced by the authorities in implementation of VAT. However, both groups have put “registration of traders” in the fourth

place. Hence, based on the views of professionals and administrators, “agitation from traders”, “educating the traders” and “making more traders to fall under the purview of VAT” are the problems faced by authorities in implementation of VAT.

Table 5. Working of VAT

Status of Working	Mean Score	Standard Deviation
VAT system really work out as a self regulatory mechanism which checks tax-evasion	3.69	0.88
Puducherry's tax revenue increased due to the implementation of VAT	3.27	0.62
GST rates would be less than VAT rates when implemented	2.98	1.13
There are administrative pressures for increasing VAT rates	2.96	0.77
All the goods should come under VAT levy	2.82	1.25
There is an elimination of over-lapping auditing practices after the implementation of VAT	2.56	0.88
All the traders registered under PGST has moved to VAT	3.36	1.06
The rules for defining the place of origin / destination of inter-state supplies of goods - create problem of taxation	3.55	1.07
Authorities powers regarding seizure, penalties and prosecution under VAT regime should also continue in the GST regime	3.11	1.26

*Source: Primary Data.*

Regarding working of VAT, it is understood from the observation of the mean perception scores depicted in the Table 5 that working of "VAT system really work out as a self regulatory mechanism which checks tax-evasion" (Mean = 3.69) and "The rules for defining the place of origin / destination of inter-state supplies of goods - create problem of taxation" (Mean = 3.55) has been good. On the other hand, working

of VAT in respect of "moving to VAT from PGST by the traders" (Mean = 3.36) and "increasing Puducherry's tax revenue due to the implementation of VAT" (Mean = 3.27) as well as in respect of other aspects is found to be at moderate level.

According to the Table 6, professional have seen working of VAT system as a self regulatory mechanism checking tax-evasion (Mean=3.83) and differ significantly from administrators who



have perceived the working of VAT system in respect of above (Mean=3.42) as moderate (t-value=1.68,  $p < 0.10$ ). The professional have also perceived the rules for defining the place of origin / destination of inter-state supplies of goods - create problem of taxation in the VAT system as good (Mean = 4.00) and their opinion

differ significantly in this regard from the administrators (Mean = 2.68) (t-value = 5.33,  $p < 0.01$ ). Regarding "Puducherry's tax revenue increased due to the implementation of VAT" (Mean = 3.58, t-value = 2.82,  $p < 0.01$ ) and "All the traders registered under PGST has moved to VAT" (Mean = 3.74,  $t = 1.94$ ,  $p < 0.10$ ), the administrator group have good opinion and differ significantly from professionals. In respect of

other aspects, both experts group have given a moderate opinion, but there is significant difference in the moderate opinion about "GST rates would be less than VAT rates when implemented" (t value = 1.70,  $p < 0.10$ ) and "There is an elimination of over-lapping auditing practices after the implementation of VAT" (t-value = 2.10,  $p < 0.05$ ) between professionals and administrators. Therefore, it is found that Working of VAT system as a self regulatory mechanism which checks tax-evasion and in respect of rules for defining the place of origin / destination of inter-state supplies of goods-create problem of taxation has been good as per professionals, whereas working of VAT system in increasing Puducherry's tax revenue and moving the traders registered under PGST to VAT is perceived to be better by administrators.

Table 6. Working of VAT – Comparison of Opinion between Professionals and Administrators

Complications	Occupation		t-Value
	Professional	Administrators	
VAT system really work out as a self regulatory mechanism which checks tax-evasion	3.83	3.42	1.68*
	(0.91)	(0.77)	
Puducherry's tax revenue increased due to the implementation of VAT	3.11	3.58	2.82***
	(0.40)	(0.84)	
GST rates would be less than VAT rates when implemented	3.17	2.63	1.70*
	(1.03)	(1.26)	
There are administrative pressures for increasing VAT rates	3.00	2.89	0.48
	(0.72)	(0.88)	
All the goods should come under VAT levy	2.81	2.84	0.10
	(1.37)	(1.01)	

There is an elimination of overlapping auditing practices after the implementation of VAT	2.39	2.89	2.10**
	(0.84)	(0.88)	
All the traders registered under PGST has moved to VAT	3.17	3.74	1.94*
	(0.88)	(1.28)	
The rules for defining the place of origin / destination of inter-state supplies of goods - create problem of taxation	4.00	2.68	5.33***
	(0.86)	(0.89)	
Authorities powers regarding seizure, penalties and prosecution under VAT should also continue in the GST regime	2.92	3.47	1.58
	(1.32)	(1.07)	

*Source: Primary Data* \*Significant at 10% level; \*\*Significant at 5% level; \*\*\*Significant at 1% level.

About precautionary measures taken by authorities to ensure prompt payment of tax, it is evident from the Table 7, which shows the distribution of the respondents (experts) across three different measures, that “inspecting the traders’ account” (56.4%) followed by “sending

a circular to all defaulting traders” (52.7%) is the mostly adopted precautionary measures by authorities to ensure prompt payment of tax because more than fifty per cent of the experts in the sample have stated so.

Table 7. Precautionary Measures Taken by Authorities to Ensure Prompt Payment of Tax

(N = 55)

Measures	Yes Opinion	
	N	% to Total
Inspect the traders' account	31	56.4
Send a circular to all defaulting traders	29	52.7
Educate the traders on compliance of sales tax	26	47.3

*Source: Primary Data*

Single GST model—the Central and State Governments combine their levies in the form of a single National GST. This model envisages principal indirect taxes on supplies of goods and

services by the Central Government. State Government do not levy any tax. There is one GST throughout the country and States are compensated for loss of revenue by devising an

appropriate revenue sharing arrangement. Dual GST model—under this model, there is a Central GST (CGST) and a State GST (SGST) and each of the tax is levied on a comprehensive base comprising both goods and services. The supply of goods and services attracts both CGST and SGST. The tax is levied concurrently by both the

Centre and States. Regarding expectation of GST model, 58.2 per cent of the experts have pointed out “Dual method” and the “Single method” is found as “expected GST model” among 41.8 per cent of the experts. So, dual method is the mostly expected GST model among experts in the study region.

Table 8.Expectation of GST Model – Comparison of Opinion between Professionals and Administrators

Occupation	GST Model			Chi-Square (DF)
	Single Method	Dual Method	Total	
Professionals	17	19	36	1.25 <sup>NS</sup>
	(47.2)	(52.8)	(100.0)	df=1
Administrators	6	13	19	
	(31.6)	(68.4)	(100.0)	
Total Sample	23	32	55	
	(41.8)	(58.2)	(100.0)	

Source: Primary Data

NS - Not Significant

When the opinion about ‘expected GST model’ is compared among expert group based on the years of experience in the tax field using chi-square test (Table 9), it is apparent that 61.9 per cent and 77.8 per cent of the experts with experience up to 10 years and 11-15 years have expected “dual method” as GST model whereas 68.8 per cent of the experts with experience

above 15 years have expected “single method” as GST model. Moreover, the above difference in the number of cases between two methods is significant at 1 per cent level (Chi-square = 7.73,  $p < 0.05$ ). Therefore, it is concluded that expectation of GST model between ‘single method’ and ‘dual method’ differ by years of experience of the experts.

Table 9.Expectation of GST Model - Comparison of Opinion of Expert Groups by Experience

Field Experience	GST Model			Chi-Square (DF)
	Single Method	Dual Method	Total	
Up to 10 years	8	13	21	
	(38.1)	(61.9)	(100.0)	

11 – 15 years	4	14	18	7.73**
	(22.2)	(77.8)	(100.0)	df=2
Above 15 years	11	5	16	
	(68.8)	(31.3)	(100.0)	
Total Sample	23	32	55	
	(41.8)	(58.2)	(100.0)	

*Source: Primary Data*

*\*\*Significant at 5% level.*

From the perusal of Table 10 regarding best method for valuation of goods under VAT system, it is understood from the frequency distribution of respondents that ‘invoice method’ is the best method for valuation of goods under VAT system as 78.2 per cent of the experts in the sample have perceived so. Only 9.1 per cent

and 12.7 per cent of the experts in the sample have pointed out ‘subtraction method’ and ‘addition method’ for Goods’ valuation under VAT. In sum, it is deduced that ‘Invoice method’ is the best method for valuation of goods under VAT system.

Table 10. Best Method for Valuation of Goods under VAT System

Method for Goods Valuation	N	% to Total
Invoice method	43	78.2
Subtraction method	5	9.1
Addition method	7	12.7

*Source: Primary Data*

### BEST MECHANISM UNDER VAT

The best mechanism, under which the present VAT system works, is identified from analyzing the ranking perception using Friedman ANOVA analysis. The results of the analysis are presented in Table 11. An examination of the table reveals that the average rank scores is same at 2.16 for both “Self policing mechanism which

checks tax-evasion” and “Self-auditing and Self-submission leads to proper maintenance of accounts” and it is 2.80 for “Monthly or quarterly returns make the traders / manufacturers assess their performance every quarter for their tax” and 2.87 for “Builds confidence among traders”.

Table 11. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Present Working of VAT Mechanism

VAT Mechanism	Average Rank	Sum of Ranks	Rank
Self policing mechanism which checks tax-evasion	2.16	119.0	1
Self-auditing and Self-submission leads to proper maintenance of accounts	2.16	119.0	1
Builds confidence among traders	2.87	158.0	4
Monthly or quarterly returns make the traders / manufacturers assess their performance every quarter for their tax	2.80	154.0	3
Kendall Coefficient of Concordance 'W'		0.0910	
Friedman ANOVA Chi-Square		15.02***	

Source: Primary Data \*\*\*Significant at 1% level.

From the ordering of items based on average rank scores, it is found that “Self policing mechanism which checks tax-evasion” and “Self-auditing and Self-submission leads to proper maintenance of accounts” are the best mechanism in the present working of VAT. The ranking opinion regarding as evaluated separately for professionals (chartered accountants) and administrators (in the tax

department) and the results are reported in Table 12. It can be observed from the table that “Self-auditing and Self-submission leads to proper maintenance of accounts” (Average Rank = 1.92, Rank = 1) followed by “Self policing mechanism which checks tax-evasion” (Average Rank = 2.17, Rank = 2) is the best mechanism in the present working of VAT according to professionals.

Table 12. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Perceived Present Working of VAT Mechanism between Professionals and Administrators

VAT Mechanism	Professionals			Administrators		
	Average Rank	Sum of Ranks	Rank	Average Rank	Sum of Ranks	Rank

Self policing mechanism which checks tax-evasion	2.17	78.0	2	2.16	41.0	2
Self-auditing and Self-submission leads to proper maintenance of accounts	1.92	69.0	1	2.63	50.0	3
Builds confidence among traders	2.72	98.0	3	3.16	60.0	4
Monthly or quarterly returns make the traders / manufacturers assess their performance every quarter for their tax	3.19	115.0	4	2.05	39.0	1
Kendall Coefficient of Concordance 'W'	0.1966			0.1535		
Friedman ANOVA Chi-Square	21.23***			8.75**		

*Source: Primary Data*

*\*\*Significant at 5% level; \*\*\*Significant at 1% level.*

But for administrators, "Monthly or quarterly returns make the traders/ manufacturers assess their performance every quarter for their tax" (Average rank = 2.05, Rank = 1) followed by "Self policing mechanism which checks tax-

evasion" (Average rank = 2.16, Rank = 2) is the best mechanism in the present working of VAT. The frequency and percentage distribution of respondents based on their opinion about purpose of contacting authorities by traders/manufacturers is given in Table 13.

Table 13. Purpose of contacting Authorities by Traders/Manufacturers (N = 55)

Purpose	Yes Opinion Cases	
	N	% to Total
Queries or Revision	51	92.7
Remission of Tax	31	56.4
To pay penalty	8	14.5

*Source: Primary Data.*

As given in Table 13, 92.7 per cent (51 out of 55) of the experts in the sample have stated 'yes' to "queries or revision" while 56.4 per cent have pointed out 'remission of tax' as the purpose of contacting authorities by traders / administrators. Only 14.5 per cent of the experts have perceived

'to pay penalty' as the purpose of contracting authorities by traders / administrators. So, the primary purpose of traders to contact authorities is 'queries or revision' followed by 'remission of tax'.

Table 14. Level of Outcome in India While Implementing GST System

Outcome	Level of Outcome		
	Low	Moderate	High
Economic instability	25	19	11
	(45.5)	(34.5)	(20.0)
Economic Stability	12	27	16
	(21.8)	(49.1)	(29.1)
Administrative difficulties	18	20	17
	(32.7)	(36.4)	(30.9)
Administrative convenience	19	24	12
	(34.5)	(43.6)	(21.8)
Compensations to States	9	34	12
	(16.4)	(61.8)	(21.8)
Taxing under one roof	5	33	17
	(9.1)	(60.0)	(30.9)
Multi-taxing	48	7	
	(87.3)	(12.7)	
Tax evasion	38	17	
	(69.1)	(30.9)	
More tax compliance	10	31	14
	(18.2)	(56.4)	(25.5)
Tax collections	4	42	9
	(7.3)	(76.4)	(16.4)

Source: Primary Data. Figures in brackets are percentages to total (N = 55).

The proposed outcomes in India through implementation of GST system, such economic instability/stability, administrative difficulties/convenience, compensation to States, taxing under one roof, multi-taxing, reducing tax evasion, more tax compliance and more tax

collections are analyzed by distributing the respondents across three opinion levels, namely, Low, Moderate and High. Table 14 reports the frequency and percentage distribution of respondents across three levels.

Table 15. Problems Faced by Traders in the present VAT System – Comparison by Traders' Experience

Problems	Occupation	Number of Cases				MW U Test Value (Z Value)
		Low	Medium	High	Total	
Economic instability	Professional	21 (58.3)	8 (22.2)	7 (19.4)	36 (100.0)	237.0** (Z=-2.01)
	Administrator	4 (21.1)	11 (57.9)	4 (21.1)	19 (100.0)	
Economic Stability	Professional	9 (25.0)	19 (52.8)	8 (22.2)	36 (100.0)	266.5 <sup>NS</sup> (Z= -1.45)
	Administrator	3 (15.8)	8 (42.1)	8 (42.1)	19 (100.0)	
Administrative difficulties	Professional	12 (33.3)	20 (55.6)	4 (11.1)	36 (100.0)	206.0*** (Z= -2.56)
	Administrator	6 (31.6)	0 (0.0)	13 (68.4)	19 (100.0)	
Administrative convenience	Professional	11 (30.6)	16 (44.4)	9 (25.0)	36 (100.0)	290.5 <sup>NS</sup> (Z = -0.98)
	Administrator	8 (42.1)	8 (42.1)	3 (15.8)	19 (100.0)	
Compensations to States	Professional	3 (8.3)	30 (83.3)	3 (8.3)	36 (100.0)	292.5 <sup>NS</sup> (Z = -1.01)
	Administrator	6 (31.6)	4 (21.1)	9 (47.4)	19 (100.0)	
Taxing under one roof	Professional	0 (0.0)	29 (80.6)	7 (19.4)	36 (100.0)	301.0 <sup>NS</sup> (Z = -0.84)
	Administrator	5	4	10	19	



		(26.3)	(21.1)	(52.6)	(100.0)	
Multi-taxing	Professional	29	7		36	275.5**
		(80.6)	(19.4)		(100.0)	(Z = -2.04)
	Administrator	19	0		19	
		(100.0)	(0.0)		(100.0)	
Tax evasion	Professional	25	11		36	338.5 <sup>NS</sup>
		(69.4)	(30.6)		(100.0)	(Z = -0.08)
	Administrator	13	6		19	
		(68.4)	(31.6)		(100.0)	
More tax compliance	Professional	5	28	3	36	235.0**
		(13.9)	(77.8)	(8.3)	(100.0)	(Z = -2.12)
	Administrator	5	3	11	19	
		(26.3)	(15.8)	(57.9)	(100.0)	
Tax collections	Professional	4	29	3	36	236.5***
		(11.1)	(80.6)	(8.3)	(100.0)	(Z = -2.52)
	Administrator	0	13	6	19	
		(0.0)	(68.4)	(31.6)	(100.0)	

**Source:** Primary Data \*\*Significant at 5% level; \*\*\*Significant at 1% level.  
 Figures in brackets are standard deviation. NS – Not significant

As reported in the table, economic instability is low (45.5%) while economic stability is moderate (49.1%). While administrative difficulty faced is between low (32.7%) and moderate (36.4%), administrative convenience is moderate according to majority of the experts (43.6%). As much as 61.8 per cent and 60.0 per cent of the experts in the sample have perceived that the “compensation to States” and “taxing under one roof” as moderate respectively. It is found that multi-taxing and tax evasion is low as 87.3 per cent and 69.1 per cent of the experts in the sample have perceived so. Regarding ‘More tax compliance’, it is found from the response as moderate at 56.4 per cent of experts’ opinion. In sum, it is concluded that level of outcomes in India from implementation of GST systems has been up to moderate level in respect of most of

the aspects. The opinion of the respondents (compared between professionals and administrators) using Mann-Whitney U (MW U) test and the results of the analysis are presented in Table 15.

From the examination of the table, it is understood that there is a significant difference in the perceived status of ‘economic instability’ between professionals and administrators (MW U = 237.0, Z = -2.01, p < 0.05). While 58.3 per cent of the professionals perceived the economic instability as low, and 57.9 per cent of the administrators have viewed it as moderate. Regarding economic stability, both professionals and administrators have viewed as moderate and does differ in their views.

With regard to administrative difficulties in the proposed GST systems, 55.6 per cent of the

professionals perceived as moderate whereas 68.4 per cent of the administrators have observed it as high and both groups differ significantly in this regard (MW U = 206.0, Z = -2.56, p < 0.01). However, both groups are found with moderate opinion on the administrative convenience (MW U is insignificant and percentage of cases with moderate opinion is high in both groups).

Though "Compensation to States" is viewed as moderate by 83.3 per cent of the professionals and as high by 47.4 per cent of the administrators, the difference in views between two groups does not differ significantly (MW U is insignificant). Regarding multi-taxing (MW U = 275.5, Z = -2.04, p < 0.05), more tax compliance (MW U = 235.0, Z = -2.12, p < 0.05) and tax collection (MW U = 236.5, Z = -2.52, p < 0.01), there is a significant difference in the perceived opinion between professionals and administrators. Though in majority of cases both groups have viewed multi-taxing as low, 19.4 per cent of the professionals is found with moderate opinion whereas none of administrators is found

with such opinion. About 'More tax compliance', 'moderate opinion' cases are more among professionals (77.8%) while 'high opinion' cases are higher among administrators (57.9%). In respect of 'tax collections', more number of cases in both groups is found with moderate opinion, but number of professional with such opinion is more than that of administrators. Moreover, 31.6 per cent of the administrators are found with high opinion about 'tax collections'. As far as the 'tax evasion' is concerned, 69.4 per cent of professionals and 68.4 per cent of the administrators are found with 'low' opinion. In sum, it is found from the entire results that while implementing GST system except 'administrative difficulties' and 'more tax compliance' in all other aspects the opinion is in between low and moderate. The outcomes from implementation of GST system namely 'administrative difficulties' and 'more tax compliance' is high according to most of the administrators.

Table 16. Way of meeting Tax Authorities by Traders/Business men

Way of Meeting	N	% to Total
Directly	4	7.3
Through representatives	8	14.5
Both	43	78.2

Source: Primary Data

It can be seen from the perusal of the above Table that the way of meeting tax authorities by traders/businessmen in both directly and through representatives is high according to 78.2 per cent of the experts. Meeting tax authorities by traders/businessmen directly or through representative is very rare.

### REASONS FOR IMPLEMENTING VAT

Based on the results of Friedman ANOVA and Kendall's coefficient of concordance shown in Table 4.19, it is evident that there is a similarity among experts in ranking of reasons for implementation of VAT (Kendall's W = 0.2002, Friedman Chi-square = 66.09, p < 0.01).

As there is a similarity in ranking perception, the main reasons can be evaluated based on the average rank scores.

It is found from the average rank scores on "have control over the taxation under single ambit" (Average Rank Score=3.00, Rank=1) and "Have single tax base throughout the country" (Average Rank Score=3.02, Rank=2) are the main reasons for implementation of VAT. Next to above, "Meet out the competition in pricing compared to other countries" (Average Rank Score=3.25, Rank=3) followed by "Bringing more traders under the tax net" (Average Rank Score=3.96, Rank=4) are the other reasons for implementation of VAT.

Table 17. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Main Reason for implementation of VAT

Reasons for Implementation of VAT	Average Rank	Sum of Ranks	Rank
Have control over the taxation under single ambit	3.00	165.0	1
Mobilize more resources to the Government	4.47	246.0	5
Bring more traders under the tax net	3.96	218.0	4
Meet out the competition in pricing compared to other countries	3.25	179.0	3
Have single tax base throughout the country	3.02	166.0	2
Make the traders realize their responsibilities	5.49	302.0	7
Differential pricing in States of same goods	4.80	264.0	6
Kendall Coefficient of Concordance 'W'		0.2002	
Friedman ANOVA Chi-Square		66.09***	

Source: Primary Data. \*\*\*Significant at 1% level.

As shown in Table 17, there is similarity in ranking of the reasons for implementing VAT among professionals as well as among administrators. The Kendall's W, 0.1677 (Friedman ANOVA Chi-square = 36.21,  $p < 0.01$ ) for professional group and 0.3449 (Friedman ANOVA Chi-square = 39.32,  $p < 0.01$ ) for administrators group, is significant at required hypothetical level. So, from the examination of the average rank scores, it is understood on "Have single tax base throughout the country" (Average rank score = 3.03, Rank = 1) followed by "Meet out the competition in pricing compared to other countries" (Average rank score = 3.11, Rank = 2) and on "Have control over the taxation under single ambit" (Average rank score = 3.17, Rank = 3) is could be understood that these are the major reason for implementing VAT as per professionals' opinion.

According to administrators, "Having control over taxing under single ambit" (Average rank score=2.68, Rank=1) is the main reason for implementing VAT. However, "Having single tax base throughout the country" (Average rank score=3.00, Rank=2) and "Bringing more traders under the tax net" (Average rank score = 3.32, Rank = 3) are the other important reasons for implementing VAT. It is apparent that the above four reasons are ranked within four places by both experts group. So, it is found from evaluation of opinions separately for professionals and administrators that "Having single tax base throughout the country"; "Having control over taxing under single ambit"; "Meeting out the competition in pricing compared to other countries" and "Bringing more traders under the tax net" are the main reasons for implementation of VAT in India.

### THRESHOLD LIMIT FOR VAT

VAT was introduced to bring all traders under the tax ambit with few rates of tax. However, it exempted small traders from it limit by creating a "Threshold limit". According to experts, the turnover is likely to be in between Rs.11-15 lakhs for compulsory registration of VAT in the future as 38.2 per cent of the experts have stated so. Next to this, the turnover is expected to be in between 26-30 lakhs for compulsory registration of VAT (25.5%). As much as 21.8 per cent of the experts have perceived the future turnover up to Rs.10 lakhs. Majority of the experts (60.0%) have expected the future turnover for registration up to Rs.25 lakhs. So, in the future, the turnover is expected to be not beyond Rs.25 lakhs for a compulsory registration of VAT in India. It is surprising to note that some experts have felt even traders below Rs.10 lakhs should also be brought under registration.

### PROBLEM UNDER VAT

Regarding problems faced by the traders after implementation of VAT, the experts have agreed with problems that arise due to "Maintaining invoices and vouchers" (Mean = 3.56), whereas they have neither disagreed nor agreed with all other problems. However, from the mean score of 3.44 for "auditing of accounts", it is understood that the number cases with 'agree' opinion among experts is more than that of those in respect of "filing of return" and "complexity in understanding tax slabs".

Hence, it is concluded that "Maintaining invoices and vouchers" followed by "auditing of accounts" are important problems faced by the traders after implementation of VAT. The above opinion is compared between professionals and administrators using t-test and Table 19 is reported with the results.

An observation of the table reveals that the mean perception is in 'agree' range for professional regarding "Maintaining invoices and vouchers" (Mean = 3.78) and differ significantly from administrators who perceive the problems due to above as moderate (t-value = 2.08,  $p < 0.05$ ). Regarding problems faced due to "auditing of accounts", administrator group have expressed their agreement (Mean = 3.53) and differ significantly from professionals (Mean = 3.39) who have moderate view. In respect of problems faced due to "complexity in understanding tax slabs", there has been a disagreement among administrators (Mean = 1.89), whereas professionals have perceived the problems from above as moderate (Mean = 3.42) and both experts group differ significantly (t-value = 3.82,  $p < 0.01$ ). The scenario is very similar to the above in the case of "filing of returns". In sum, it is found that professionals perceive "maintaining of invoices and vouchers" while administrators see "auditing of accounts" as the problems faced by the traders after implementation of VAT. While professionals have moderate opinion, administrators have disagreed with the problems faced by the traders due to "filing of returns" and "Complexity in understanding tax slabs" after implementation of VAT.

Table 18. Problems faced by the Traders after Implementation of VAT – Comparison of Opinion between Professionals and Administrators

Problems	Occupation		t-Value
	Professional	Administrators	

Auditing of accounts	3.39 (1.36)	3.53 (0.84)	0.40
Maintaining invoices and vouchers	3.78 (1.20)	3.16 (0.69)	2.08**
Filing of returns	3.22 (1.38)	2.37 (0.76)	2.50**
Complexity in understanding tax slabs	3.42 (1.59)	1.89 (0.94)	3.82** *

*Source: Primary Data. \*\*Significant at 5% level; \*\*\*Significant at 1% level.*

With regard to disciplinary action taken against traders, it can be observed that 'Interest' charged is mostly adopted disciplinary action taken against traders by the tax authorities as 98.2 per cent of the experts in the sample have stated so. Following this 'Fine' and 'penal action' are the other two disciplinary actions taken by the authorities as opined by 52.7 per cent and 49.1 per cent of the experts in the sample respectively. The disciplinary actions like "warning" and "punishment" is found to be widely used by the tax authorities on traders. On the whole, it is found that charging of "interest", "fine" and "penal action" are the major disciplinary actions taken by tax authorities against traders in India.

#### TRANSITION FROM VAT TO GST

From the results of Friedman ANOVA and Kendall's W as shown in Table 19, are significant. Hence, it is apparent that the ranking of items measuring revision in the present VAT among experts is consistent. Therefore, from the average mean scores, it is found that "All States to have uniform tax base" (Average rank score = 1.78, Rank = 1), "Mobility of goods" (Average rank score = 2.20, Rank = 2) and "Maintenance of internal economic stability" (Average rank score = 2.53, Rank = 3) are the major revisions to be done in the present VAT to move to GST.

Table 19. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Major Revision in the Present VAT to move to GST

Revision in the Present VAT	Average Rank	Sum of Ranks	Rank
Mobility of goods	2.20	121.0	2
All States to have uniform tax base	1.78	98.0	1

Maintenance of internal economic stability	2.53	139.0	3
System which will not be affected due to the Government instability	3.49	192.0	4
Kendall Coefficient of Concordance 'W'	0.3177		
Friedman ANOVA Chi-Square	52.42***		

*Source: Primary Data. \*\*\*Significant at 1% level.*

The ranking perceptions of professionals and administrators about major revisions in the present VAT to move to GST are analyzed. It is understood that, there is similarity in ranking of the reasons among professionals (Kendall's W = 0.2874, Friedman Chi Square = 31.03,  $p < 0.01$ ) as well as among administrators (Kendall's W = 0.4050, Friedman Chi Square = 23.08,  $p < 0.01$ ), revealing the validity of the scores for further inference. It is interesting to note from average rank scores of each item that both groups have ranked the reasons in a similar way. That is, "All

States to have uniform tax base" is the major revision to be made followed by "Mobility of goods", "Maintenance of internal economic stability" and "System which will not be affected due to the Government instability" in the present VAT to move to GST according to the ranking of both experts group.

From Table 20 it is understood that there has been a similarity in ranking of problems likely to be faced by Central Government in bringing GST (Kendall's W = 0.1762, Friedman Chi-square = 29.07,  $p < 0.01$ )

Table 20. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Major Problems likely to be faced by Central Government in Bringing GST

Problems	Average Rank	Sum of Ranks	Rank
Educating the traders / manufacturers / consumers	2.40	132.0	2
Preparedness of States	1.84	101.0	1
More administrative work	3.15	173.0	4
Compensating and settling out the financial anomalies	2.62	144.0	3
Kendall Coefficient of Concordance 'W'	0.1762		
Friedman ANOVA Chi-Square	29.07** *		

*Source: Primary Data. \*\*\*Significant at 1% level.*

From the average rank scores of the entire sample, it is evident that “Preparedness of States” (Average rank score = 1.84, Rank = 1) is the major problem that would be faced by Central Government followed by “Educating the traders / manufacturers / consumers” (Average rank score = 2.40, Rank = 2) and “compensating and settling out the financial anomalies” (Average rank score = 2.62, Rank = 3) are the some of the other problems that may be faced by Central Government in bringing GST system in India.

### CONCERNS OF MANUFACTURERS

With regard to major concerns of manufacturers under VAT, it is elicited from the results of Friedman ANOVA and Kendall’s W shown in Table 21 that “Parity on input tax and output tax rates” (Average rank score = 1.42, Rank = 1) is the major concerns of manufacturers under VAT (Kendall’s W, 0.4477 is significant, revealing similarity in ranking of items among experts).

Table 21. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Major Concerns of manufacturers under VAT

Concerns	Average Rank	Sum of Ranks	Rank
Treatment of stock transfer	2.29	126.0	2
Parity on input tax and output tax rates	1.42	78.0	1
Phasing out VAT	2.84	156.0	3
Apprehension of more tax burden	3.45	190.0	4
Kendall Coefficient of Concordance ‘W’	0.4477		
Friedman ANOVA Chi-Square	73.87***		

*Source: Primary Data \*\*\*Significant at 1% level.*

The second major concerns of manufacturers under VAT is found to be “Treatment of stock transfer” (Average rank score = 2.29, Rank = 2). Next to the above, “Phasing out VAT” is the major concerns. Briefly, it is deduced that “Parity on input tax and output tax rates”, “Treatment of stock transfer” and “Phasing out VAT” are the first three major concerns of manufacturers under VAT in India.

### PHASING OUT OF VAT

The average rank scores and Kendall’s ‘W’ for various suggestions on phasing out VAT are reported in Table 22. The ranking of suggestions on phasing out VAT among experts is found to be consistent as Kendall’s W, 0.1548 is significant (Friedman ANOVA Chi-square = 25.54,  $p < 0.01$ ).

Table 22. Results of Friedman ANOVA and Kendall Coefficient of Concordance Identifying Major Suggestions on Phasing out VAT

Suggestions for Phasing out	Average Rank	Sum of Ranks	Rank
The centre alone to fix up tax rates and implemented by States	2.02	111.0	1
Single point tax system to be abolished	2.18	120.0	2
All forms of tax to be levied as a single levy	2.65	146.0	3
Local taxes can be permitted for, levy apart from GST levy	3.15	173.0	4
Kendall Coefficient of Concordance 'W'		0.1548	
Friedman ANOVA Chi-Square		25.54***	

Source: Primary Data. \*\*\*Significant at 1% level.

As there is similarity in ranking of suggestions among entire sample, it is understood from the average rank scores that "The centre alone to fix up tax rates and implemented by States" (Average rank score = 2.02, Rank = 1) is considered as important and "Single point tax system to be abolished" (Average rank score = 2.18, Rank = 2) as second major suggestion on phasing out VAT. Next to above two, "All forms of tax to be levied as a single levy" is also suggested by experts on phasing out VAT. In sum, it is stated that "The centre alone to fix up tax rates and implemented by States" followed by "Single point tax system to be abolished" and "All forms of tax to be levied as a single levy" are the major suggestions put forth by experts on phasing out VAT.

## CONCLUSION

Analysis on the problems and prospects of VAT and GST system based on the views of experts comprising professional like chartered accountants and administrators in the tax department, it is concluded that "carrying out transactions without invoicing" is the major complication in dealing with traders and "agitation from traders" is the major problem in administering VAT among traders. Further, working of VAT is mainly based on self regulatory mechanism which checks tax-evasion. The rule on place of origin/destination of interstate supplies of goods - create problem of taxation. The precautionary measures taken by authorities to ensure prompt payment of tax are "inspecting the traders' account" and "sending a circular to all defaulting traders". Both professionals and administrators have expected dual method as best method for GST, but the



experts with more years of experience in the tax field expect “single model to be used under GST”.

Regarding valuation of goods, Invoice method is found to be the best method. While present working of VAT mechanism is perceived to be “Self-auditing and Self-submission leads to proper maintenance of accounts” and “Self policing mechanism which checks tax-evasion” are opined by the professionals, however according to administrators it is “Monthly or quarterly returns make the traders/manufacturers assess their performance every quarter for their tax” and “Self policing mechanism which checks tax-evasion”. Most of the traders/manufacturers contact authorities mainly for “queries or revision” followed by “remission of tax”. The level of outcomes such as economic instability, administrative convenience and tax collections are likely to have little effect, the outcomes like compensation to States, taxing under one roof, more tax compliance and tax collection are likely to be high while implementing GST system. Moreover, multi-taxing and tax evasion would be less while implementing GST system. It is found that either directly or through representatives, traders meet tax authorities.

The major reasons for implementation of VAT are to have control over the tax under single ambit and have single tax base throughout the country and major revision required in the present VAT are uniform tax base in all States. However, in reality this was not achieved into to States have different rates for same kind of goods. It is identified that the major problem faced by the traders after implementation of VAT is “maintaining invoices and vouchers” according to professionals whereas it is “auditing of accounts” as perceived by administrators. The disciplinary action against traders by tax authorities usually is levying ‘interest’ on default followed by ‘fine’. It is concluded that the major

concerns of manufacturers under VAT are “parity on input tax and output tax rates” and “treatment of stock transfer”. There should be uniform tax throughout the country and system to work for reduction in cascading effect of tax for successful and better administration of VAT. Similarly, it is concluded that “the centre alone to fix up tax rates and they have to be implemented by States”, and “single point tax system to be abolished”. So that the burden on ultimate consumes can be reduced. Further they have also suggested for all forms of tax, namely, Excise, sales tax and service tax suffered against service inputs on goods manufactured are to be combined. While there can be tax at multi-stage the tax imposed should be compounded, under the GST that is to be introduced. Only such kind of taxing can bring-down the cascading effect in tax at the same time be a better tax on goods and services.

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