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Index Copernicus ICV : 62.45; NAAS Rating : 2.88; InfoBase Index : 3.64

Founder  
**S. S. Shashi**

Chief Editor  
**Dharam Vir**

Volume 29, Number 1 (January-March), 2020



**Research Foundation International, New Delhi**

Affiliated to United Nations Organization (UNO)

(Autonomous, Regd. Recognized Charitable Organization of  
Social Scientists, Authors, Journalists & Social Activists)

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Double-blind Reviewed, Indexed & Refereed Quarterly International Journal

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## **Journal of National Development**

### **Aims and Scope**

*The Journal of National Development (JND)* is an interdisciplinary bi-annual peer reviewed & refereed international journal committed to the ideals of a 'world community' and 'universal brotherhood'. The Journal is a joint effort of like-minded scholars in the field of social research. Its specific aims are to identify, to understand and to help the process of nation-building within the framework of a 'world community' and enhance research across the social sciences (Sociology, Anthropology, Political Science, Psychology, History, Geography, Education, Economics, Law, Communication, Linguistics) and related disciplines like all streams of Home Science, Management, Computer Science, Commerce as well as others like Food Technology, Agricultural Technology, Information Technology, Environmental Science, Dairy Science etc. having social focus/implications. It focuses on issues that are global and on local problems and policies that have international implications. By providing a forum for discussion on important issues with a global perspective, the *JND* is a part of unfolding world wide struggle for establishing a just and peaceful world order. Thus, the *JND* becomes a point of confluence for the rivulets from various disciplines to form a mighty mainstream gushing towards the formulation and propagation of a humanistic world- view.

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# Consumers Perception towards the Value Added Tax (VAT) in Uttar Pradesh

*Parul Tyagi\**

*The purpose of this paper was to study the consumer's perception towards VAT in Saharanpur city of Uttar Pradesh. Consumers' perception and awareness were evaluated on the basis of their opinion, what they think, what they know about VAT. The paper also aims at presenting the status of VAT among the consumers. The data were collected through well-structured questionnaire and those were distributed to 200 respondents. For the purpose of analysis and interpretation we used the statistical tools of SPSS. On the basis of analysis and interpretation we find out that the majority of the consumers pay tax but, they were not much aware of the VAT. Due to high tendency of VAT the consumers try to avoid payment of tax in U.P.*

[**Keywords :** Consumer awareness, Perception, Uttar Pradesh, Value Added Tax (VAT)]

## 1. Introduction

Public attitude towards tax matters has often been negative. In the early times, taxation was to a large extent considered as an

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instrument of oppression wielded by the ruling class over the subjects. Several research works observed that the power to impose tax belongs to the government, and could only be curtailed by express constitutional provisions. But as the Government has an inherent right to impose tax on citizens, the citizens also have an inalienable right over their property and would not like to part with such to government, which is often seen as an inanimate, detached and remote entity. It is the constitutional duty of the citizens to pay any tax that might be imposed by Government.

However, no citizen would like to pay any tax voluntarily and that is why Government usually enacts law to back it up. A typical tax law would specify the purpose of the tax, the mode of its administration, scope, offences and associated penalties relating to the tax matters. The essence of the tax law is to assist taxpayers and tax administrators to know what the tax is all about, how it works, who is responsible for its administration as well as the offenders relating to tax matters and associated penalties etc.

Every citizen is required to be conversant with the tax laws in operation. Such knowledge or awareness has the tendency to promote voluntary tax compliance amongst the citizenry. Even for those that operate trans-border transactions, they are equally expected to know understand and comply with other relevant tax laws of foreign countries, as they affect their business operations. The mere fact that somebody has been educated does not imply that he/she may have sufficient knowledge in tax matters. This may even be true for professionals as well as laymen. Sometimes citizens are trapped by the elegance of this assumption. Therefore, the following questions provide a clear focus for study. Do businessmen or professionals or even the laymen really know and understand various tax laws in operations? How much of the tax laws do they know? And does the knowledge of tax laws vary from one group of taxpayers to another? Does general education guarantee taxpayers' understanding of tax laws? Does the taxpayers' knowledge of tax laws influence their activities? How can the differences in taxpayers' knowledge of tax laws help in the planning and implementation of tax laws? It is in an attempt to provide empirical answers to the above questions and other related issues that this study was undertaken.

The objectives of this study were :

- » To assess the level of awareness, understanding of VAT by businessmen, professionals and laymen and relative impacts of VAT on the VAT payers and the economy in Saharanpur city
- » To identify the problems confronting the administration of VAT from the perspective of the respondents in Saharanpur city

The following hypotheses formulated for testing in this study are stated below:

- » There are differences in the knowledge of VAT amongst the businessmen, professionals and laymen.
- » There is positive relationship between the level of formal education of a taxpayer and his level of knowledge of VAT law.

India is a federal country where Central Government and State Government both are responsible for levying as well as collecting tax. The tax system in India is quite well structured. Tax is classified into two categories- Direct Tax and Indirect Tax. Direct Tax is the tax in which the burden cannot be shifted to others. e.g. Income Tax. It is directly charged to the taxpayer and is paid to the Government directly. Indirect Tax is the tax which is charged on goods and services. A manufacturer charges on the wholesaler, the wholesaler receives from the retailer, and the retailer in turn from the customer. The burden of these taxes can be transferred from one person to another e.g. Value Added Tax (VAT), Service Tax etc.

VAT was the source of income for the State Government. VAT rates were decided by States and its range was varied at different levels. In the majority of States the standard rate of VAT was ranged from 1% to 12.50%. The Government was levied tax 20% to 32.50% on alcohol, petrol, diesel and furnace oil, while some goods also come in exempted category. In addition to the VAT rate, every State was having the power to revise the tax rate for certain goods and services.

According to the Statement of Standard Accounting Practice (SSAP, 1993) "VAT is levied on the supply of goods and services which is eventually bear by the final consumer though it is collected at each stages of the production and distribution chain". In the India, VAT was levied by the State Governments at each stage of transaction all business/dealers and retailers must register under the Uttar Pradesh VAT if their turnover of taxable goods and services was above 500,000.



Haryana was the first State to introduce VAT in India on 1st April 2003. After that it was implemented on 1st April 2005 in 20 States of India. On 1st Jan. 2008, Uttar Pradesh Government introduced VAT under the name of Uttar Pradesh Value Added Tax Act, 2008. UP was the last State in terms of implementing VAT. It contributes more than 60% tax of the total revenue from the State. It is the most important State Government's source of income.

An overview on Uttar Pradesh: As Uttar Pradesh is the most populous State of India, It holds the third largest economy with an investment of over US\$ 4 billion, over 1, 75,000 MSME units were set up during the 11th Five Year Plan. The real Gross State Domestic Product (GSDP) of the State has increased significantly from about 396,309 crores in FY11 to about 492,384 crores in FY15 during the period of last five years (FY11- FY15). It has also shown a decent rate of growth of more than 6%, with a rapidly growing agriculture. Agriculture sector's share in Uttar Pradesh GSDP is about 29%; the industrial sector's share is about 19% while services sector's share in the State's GSDP has been recorded at 52% (PHD Chamber of Commerce, 2015).

## **2. Review of Literature**

Much has been written on Value Added Tax (VAT) since its inception in tax administration worldwide. As per the conceptual meaning of VAT, opinions differ. Reference (J. M. Bickely, 1996) regards VAT as "a tax levied at each stage of production on the first value added". Reference (O. Oldman and L. V. Woods, 1996) on the other hand considers VAT as a multi-stage consumption tax levied on the difference between a firm's sales and the value of its purchased inputs used in producing goods". But the most widely accepted but wooly definition is the one provided by the United Kingdom Statement of Standard Accounting Practice (SSAP) Number 5, which states "VAT is a tax on the supply of goods and services, which is eventually borne by the final consumer but collected at each stages of the production and distribution chain" (SSAP, 1993).

From these definitions, it is evident that the classical VAT is a consumption tax, its incidence is on the final consumers and it is a multi-state collection tax. The original form of VAT started in Germany in 1919. In 1937, France introduced a form of VAT known

as production tax, which has helped replaced with producer's income-based tax in 1948 and consumption tax in 1954. The French VAT system became a condition precedent of becoming a member of European Economic Community (EEC) under the treaty of Rome in 1957. The European community unanimously adopted VAT in 1967 following the reports of the Neumark and Jansen Committees. Nigeria also adopted VAT in 1993. Many other countries have come to replace sales tax with VAT for certain reasons. VAT is more comprehensive and well equipped for taxing, more equipped to ensure voluntary compliance for its multi-stage collection and credit mechanism through the use of invoices, it also provides a well-defined audit-trail for tax authorities and thus it is easier to integrate VAT with income tax audit.

VAT has some characteristics, which include neutrality, equity, and regressive nature. VAT is neutral to foreign trade; individual or household choices; individual or household savings and consumption decisions; forms of business ownership; mode of financing and the choice amongst inputs except where the supplies are VAT exempt or zero-rated. The argument on the equity of VAT based on the Hobbies theory of equity, which states that the people should pay tax based on what they withdraw from society's resources, as measured by consumption, rather than what they contribute to such resources, as measured by income (A. Shenk, 1987). The equity of VAT is therefore based on the fact that it is a consumption tax. The regressive characteristics of VAT have been argued that it is only in a short run period; say a year that VAT is regressive. However, on life cycle concept VAT burden tends to even out in the long run.

The strategic policy decisions in establishing VAT systems have attracted of tax scholars such as (V. O. Obadagbonyi, 1996). According to him some of these strategic policy decisions range from the desirability of VAT adoption or otherwise, the form of VAT system to adopt, coverage of VAT system, the government department to be responsible for VAT administration. On the desirability of VAT, two groups exist. There are those countries, which adopted it on a mandatory platform either because it was a condition precedent to becoming a member of a regional grouping, like EEC or because of the linkage with the colonial French master, as Cote d'Ivoire and Senegal. Then there are other countries, which

were merely persuaded to adopt VAT systems as a means of enhancing their revenue-base by such international bodies as World Bank, International Monetary Fund (IMF). Examples of which is Nigeria. VAT system has not in any way been attractive in some other countries particularly those with strong pure federation. In these countries, sales tax was doing very well and that each component state is seriously guarding its revenue-base as well as its relative independence more jealously. Examples of such countries include United States of America and Canada. Three methods for calculating VAT have been identified. These are the credit method (the Japanese model) and the addition and subtraction methods respectively. The credit method is the most popular even though it does not define value added. The attractions include easy policing and affordability of good audit trail due to the use of invoicing.

VAT verification has two forms, namely the room (or office) verification and the field verification. The aim of VAT verification is to promote enforcement of tax laws while VAT audit aims at minimizing tax evasion. VAT audit could be simple or in-depth audit. However, an effective VAT audit requires planning, audit strategies and audit programme, and audit checklist. It has been suggested that VAT audit system should be integrated with the income tax audit; an effective tax audit system enhances the level of the tax compliance. VAT investigation is usually upon the suspicion of criminal tax fraud or tax evasion. Tax fraud has three elements, namely, the action, the consequences and accountability. There are numerous acts, which could amount to tax fraud. These include failure to register, unreported sales or purchases, misuse or use without right of a taxpayer's invoice; and exaggerated refund claims. Others are omission of self-delivers; incorrect description or classification of goods in a multiple rates system, falsification of books, records and other documents and presentation of score as if they are genuine; failure to show or submit books, records and other documents, to failure to pay tax already withheld etc. Any of these categories of persons could be liable for criminal tax fraud: VAT payers, a representative of a firm (such as the director, secretary or a manager) an authorized person (proxy), and an employee of the tax-payer. Penalties exist for various offences of VAT laws. These range from payment of fine (either of specific sum of money or a certain percentage of amounts of tax lost to the governments as a

result of the acts of tax evasion) to imprisonment (E. A. Ogundele, 1996).

The tax administration and tax policy in Dutch, Swedish, England (United Kingdom), and Hungarian countries of Central and Eastern Europe, suggested that tax policy should be focused on lowest numbers of tax rate and there should be uniformity in the tax rate. Administration responsibility is to be changed according to the different environments like: economic changes, technological changes, political changes and social and cultural changes etc. (Hogye Mihaly, 1998). Tax awareness among the taxpayers, knowledge, tax authorities' services and tax penalties has a significant effect on individual taxpayers' compliance on the tax office in Jakarta (Nurlis Islamiah Kamil, 2015).

Jayakumar, A. paper focuses on the importance of VAT in the Indian society, its impact and the future prospect for goods and service industry in India. The Government levies taxes from consumers for developing infrastructural, technological, entrepreneurial requirement of the country. The study exposed that the necessity of transparency in VAT in across the India. It also found that equal channel of distribution of VAT is found among wholesalers, retailers and consumers (Jayakumar, A., 2012).

Oladipupo and Izedonmi have evaluated the public perception and attitude towards VAT in Nigeria. They found that most of the respondents have poor knowledge of VAT in Nigeria, irrespective of their level of literacy. The authors suggested that tax compliance depends on the taxpayers' knowledge, awareness and understanding of the VAT. It believes that public education on the subject matter of VAT curricula of education in our institutions, higher education, and organized workshops for specific groups will help to improve the awareness of various tax laws and matters (Oladipupo, Adesina Olugoke, and Famous Prince Izedonmi, 2013).

Kamal suggested that VAT is highly capable to give benefit to the Government. It must be reformed. A transparent approach and uniformity in the VAT rate require. The consumer should ask for the cash voucher whenever they purchase any product. So the Government will get the benefit through the VAT as well as the public will also be benefited (Kamal, 2013).

Samaduzzaman, M. has examined that VAT increase and its impact on UK consumers. This aim of the study is to find out how

increased standard VAT influences customer's satisfaction and consumption habit in the North Wales area. The author found that VAT increase has significant impact on consumers' consumption habit (Samaduzzaman, Munshi, Masoom Ahmed, and Fazluz Zaman, 2015). Ishak, NI et al has examined the students' perception towards the recently implemented Goods and Service Tax (GST) in Malaysia from 1st April 2015. They found that the students are not supportive with the implementation of the GST. It affects the price of several items. It creates misunderstanding among the manufacturer as well as consumers on the items to be imposed with GST. The public also are not aware of the GST. The Government may revise the tax rate from 6%, which may not be a burden on the peoples. The Government also should create awareness among the customers (Ishak, Nor Iza, Muhammad Hanif Othman, and Muhamad Fuzi Omar, 2015).

### 3. Research Methodology

The present study is based on both primary and secondary data. An extensive review of literature review pertaining to consumer perception towards the VAT formed the basis of the secondary data collection. Information pertinent to this study was extracted from the research includes research articles, web articles, magazines, newspapers and past studies. The primary data was collected through the well-structured questionnaire and distributed among the 200 respondents in Saharanpur (Uttar Pradesh). To select the respondents for data collection convenience sampling was used. SPSS 16 software was used to precede the data.

### 4. Results and Discussion

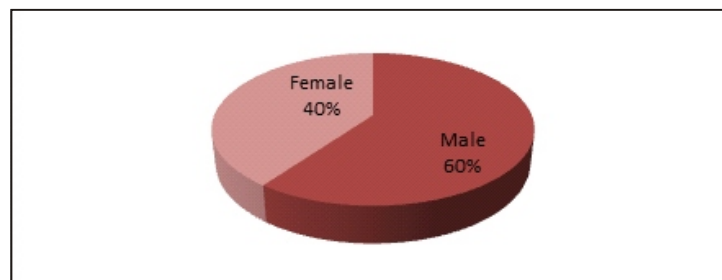
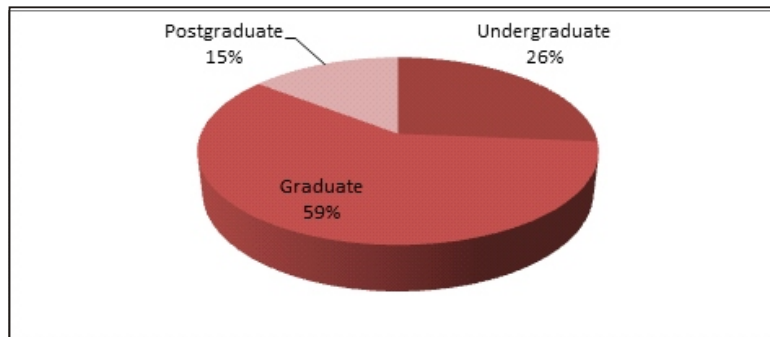


Figure-1 : Gender of the Respondents

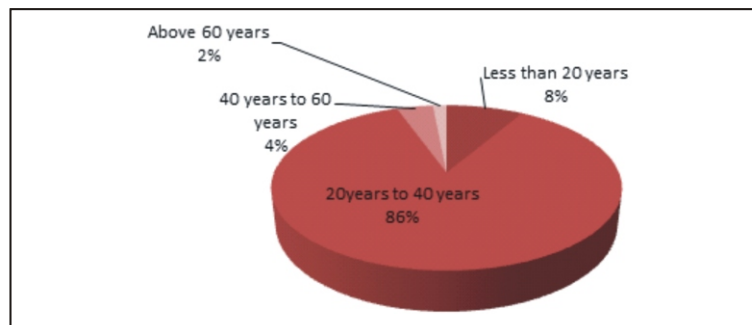
The study tried to find out perception and awareness of consumers towards the VAT according to their different gender.

Figure-1 shows the average response of male consumers is higher than the woman consumers.



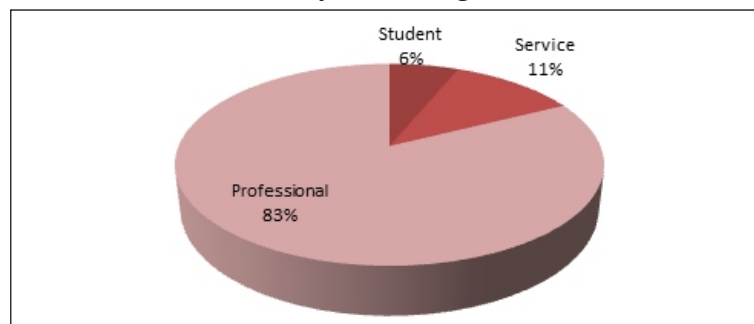
**Figure-2 : Education Qualifications of the Respondents**

Figure-2 reveals the educational qualification of respondents. Education qualifications are divided into three categories (Undergraduate, Graduate and Post-graduation). Figure-2 shows that 26.33% respondents were undergraduate 59.17% respondents were graduate and rest respondents were post-graduate qualified.



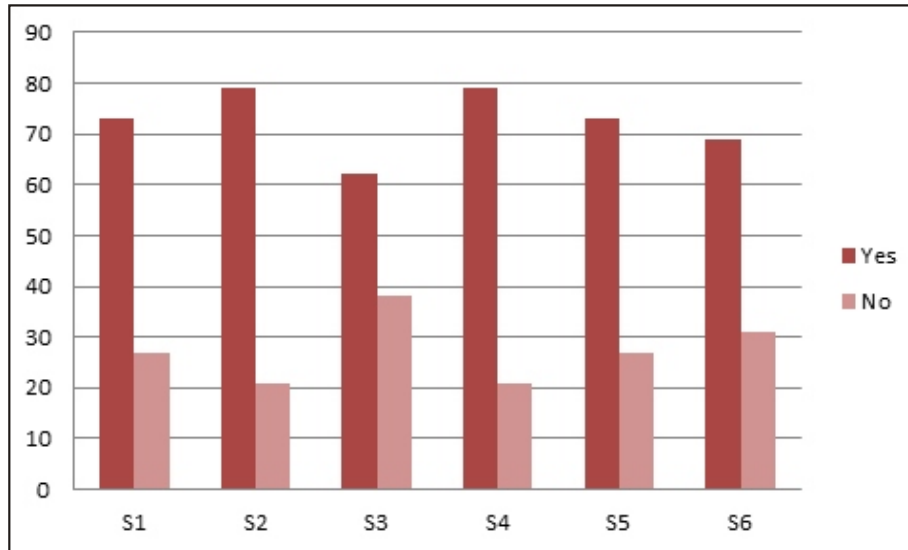
**Figure-3 : Age Groups of the Respondents**

The perception and behavior of the consumers seek to evaluate on the basis of their age groups. Figure-3 explains that the largest part of consumers were below 40 years of age.



**Figure-4 : Professions of the Respondents**

The attitude and awareness of the consumers are evaluated on the ground of their profession. Figure-4 explains the distribution of consumers who were involved in different profession. The majority of the consumers are professional. While 11.37% consumers are engaged in service and only few consumers are professional.



**Figure-5 : Consumers Awareness and Perception about the VAT**

Statement 1 : Are you aware that the Government of Uttar Pradesh is levying VAT on all kind of products?

Statement 2 : Are you aware of the fact that you pay VAT whenever you purchase any product?

Statement 3 : Do you know that some part of your tax amount is paid by the manufacturer, dealers and after that they levy the same tax on you?

Statement 4 : Do you know that VAT is included in Maximum Retail Price (MRP)?

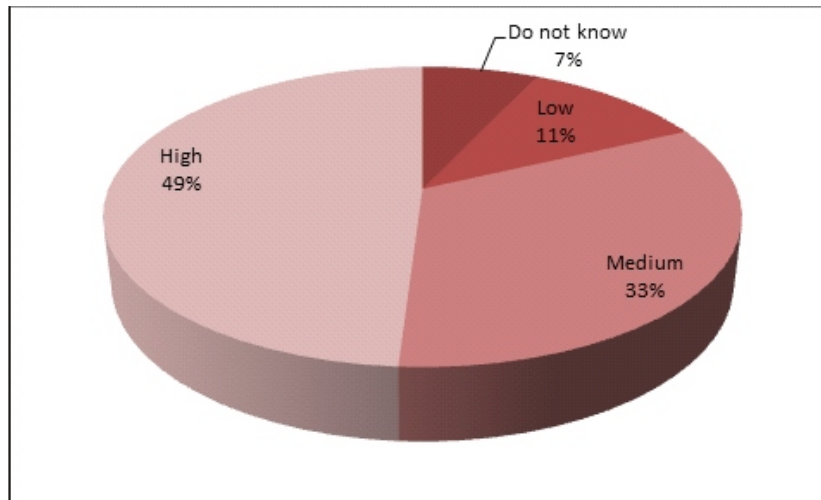
Statement 5 : Do you think that the earning from VAT is a major source of revenue for any State Government?

Statement 6 : Do you think that the VAT revenue which is collected from commodities is use for the State welfare?

Consumers' perception is evaluated on the basis of their opinion. What they think, what they know about the VAT, what is their knowledge about payment of tax through intermediary, State government source of income and economic condition of the State or

State welfare etc. are the subject matters which were evaluated through their opinion.

Figure-5 is precise with the various facts that were collected from the survey. It is shown that 73% respondents are aware that the State Government is levying VAT on all kinds of product. 79% consumers are aware of the fact that they pay tax whenever they purchase any product. While 62% consumers are know that VAT is levy step by step at each stage of the transaction and it is paid through intermediaries and after that it is levied from the end user or consumer. Thus, 79% respondents are aware that VAT is included in Maximum Retail Price (MRP) while they buy products. 73% are known to the fact that earning from VAT is a major source of income of State Government. Only 69% respondents are aware that revenue which is collected from commodities is used for State development and State welfare.



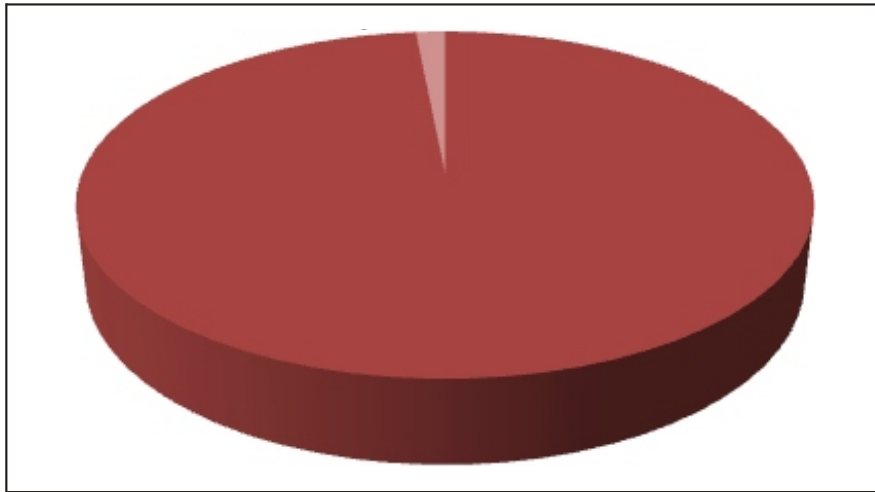
**Figure 6 : Respondents Opinion regarding the VAT Rate**

Figure 6 shows that 49% consumers believe that VAT rate is high and at the same 33% respondents observe that tax rate is medium in Uttar Pradesh. Probably this attitude of the consumers resulted from the fact that the VAT rate is moderate. While only 11% respondents observe that tax rate is low and 7% respondents are not aware of the tax rate structure of Uttar Pradesh.

**Null hypothesis :**

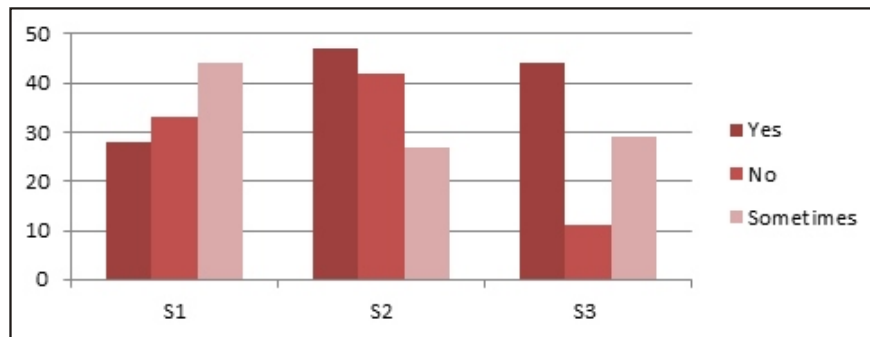
**H<sub>0</sub> :** There is no significant difference between the consumer perceptions towards the collection of cash voucher across different qualification level. Both are separated from each other.





**Figure-7 : Consumers Perception towards Collection of Cash Voucher and their Different Qualification**

In order to find out the relationship between consumers’ perception towards the collection of cash voucher and their different qualification, a hypothesis was formulated and tested by one-way ANOVA. The result is found that there is a significant difference in mean consumers’ perception towards the collection of cash voucher across different qualification (at the 0.05 level of significance). Hence we reject the null hypothesis.

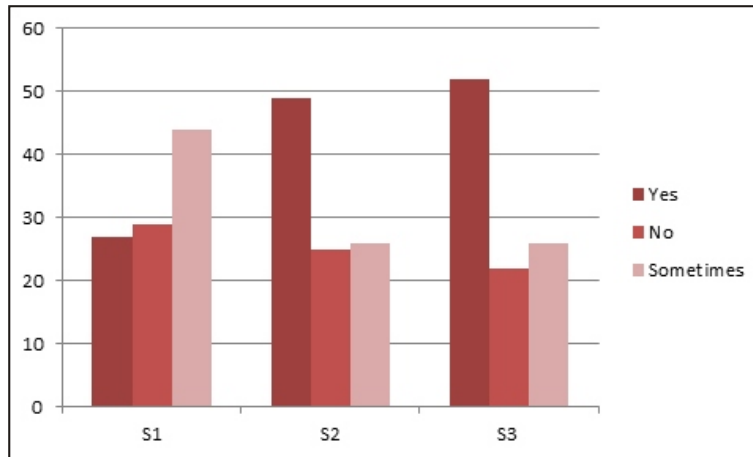


**Figure-8 : Consumers Behavior towards Collection of Cash Voucher**

Statement 1 : Has any shop-keeper ever refused to issue a Cash Voucher?

Statement 2 : If you are to pay something extra for Value Added Tax?

Statement 3 : Do you feel that you are sometimes betrayed by the shop?



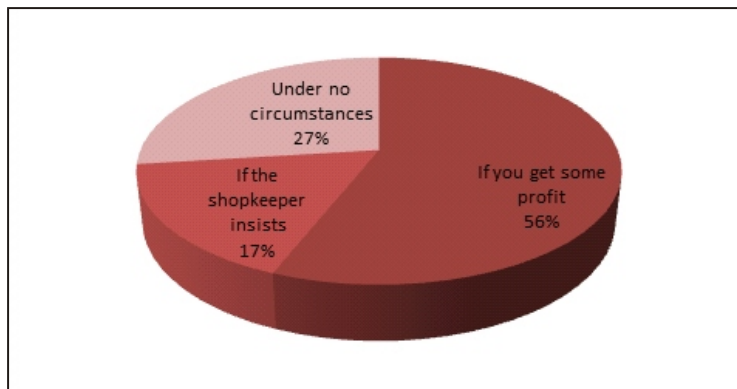
**Figure 9 : Consumers Behavior towards Collection of Cash Voucher**

Statement 1 : Has any shopkeeper ever refused to issue a cash voucher?

Statement 2 : If you are to pay something extra for commercial tax (VAT) for cash voucher, would you still ask for it?

Statement 3: Do you feel that you are sometimes betrayed by the shopkeeper in the name of collection of local commercial tax (VAT)?

Figure-9 summarizes that 44% dealers sometimes refuse to give cash voucher. 29% consumers were of the opinion that they never refuse cash voucher provided by the dealers or shopkeepers while only 49% respondents were ready to pay some extra amount for cash voucher, whereas 25% consumers did not wish to. 52% accepted that they were betrayed by shopkeepers in the name of collection of tax.



**Figure 10 : Consumers Perception to avoid Payment of VAT**

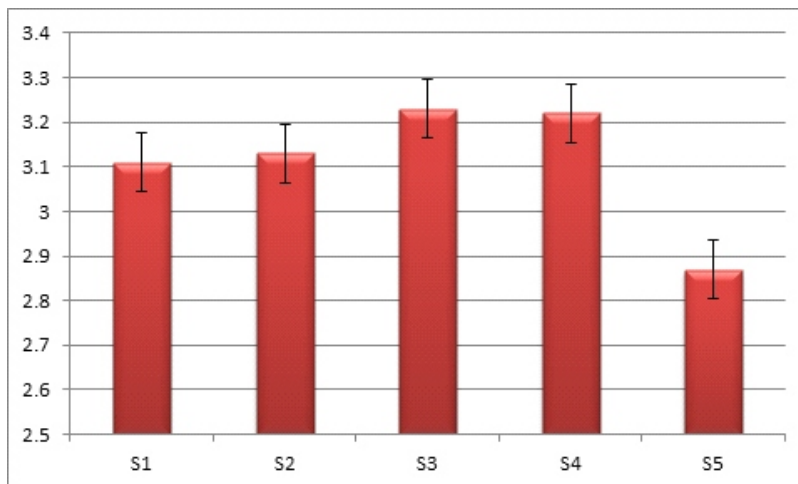
Figure-10 tried to find out under which circumstances they would like to avoid payment of tax. The result showed that 56%

consumers tried to avoid payment of VAT as they are benefited with money by avoiding the extra amount charged as tax. And only 17% of customers avoid if the shopkeepers insist. Similarly, 27% consumers avoid the tax without any circumstances.

Some null hypotheses were formulated to find out the significant differences between various variables which are presented in Table.

**Table : Hypotheses**

Statements	Hypotheses
A	<b>H<sub>0</sub></b> : There is no significant difference between the reduction in tax rates and the profession. Both are separated from each other.
B	<b>H<sub>0</sub></b> : There is no significant difference between the strict vigilance and recovery and their profession. Both are separated from each other.
C	<b>H<sub>0</sub></b> : There is no significant difference between the use of information technology and their profession. Both are separated from each other.
D	<b>H<sub>0</sub></b> : There is no significant difference among education, awareness and the profession. Both are separated from each other.
E	<b>H<sub>0</sub></b> : There is no significant difference between the additional collection effort and their profession. Both are separated from each other.



**Figure 11 : Consumers Perception towards Improvement of Vat Collection and Their Profession**

Where sample size (N) is 200.

Statement 1 : Reduction in tax rates.

Statement 2 : Strict vigilance and recovery.

Statement 3 : Use of information technology.

Statement 4 : Education and awareness.

Statement 5 : More collection effort.

One way ANOVA is designed to find out the relationship between consumers' perception towards the improvement of VAT and their profession. Therefore, it can be concluded that there is no significant difference in the mean score of consumers' perception towards the improvement of VAT collection in statement (A and B), in reference to their professions. Hence, we accept the null hypotheses. Similarly, the mean perception scores about the statements (C, D and E) are significantly different ( $p < 0.05$ ) across professions. Hence we reject the null hypothesis.

## 5. Conclusion

On the basis of above discussion and data analysis the paper concludes that most of the consumers have poor knowledge of VAT in Saharanpur irrespective of their level of literacy. There are some lacunas in the VAT management system like consumers try to avoid payments of VAT when they get some benefit, dealers also refuse to give cash voucher and consumers usually agree to it, consumers feel as if they are betrayed by shopkeeper in the name of collection of tax. This is more harmful for the State's overall growth and development. In the light of the above discussion, the authors have recommended that the Government should reform tax structure with an innovative slab system suitable for stakeholders. The authors also suggested that Government should minimize the tax rate, give a transparent approach rate of tax, use of information technology, promote tax education and also create awareness of VAT among the customers. Similarly, the Government should periodical to observe the procedure. It can be supportive for generating more revenue for growth and development of the State.

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