



Full Length Research Article

A STUDY ON TRADER'S PERCEPTION ABOUT VALUE ADDED TAX (VAT) IN READYMADE GARMENTS WITH SPECIAL REFERENCE TO RETAILERS IN COIMBATORE CITY

***Radhika, A.**

Ph.D Research Scholar, Research and Development, Bharathiar University, Coimbatore

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ABSTRACT

Value Added Tax, also known as Goods and Service Tax (GST) proves to be beneficial for the government. Through implementation of this tax system, government can raise revenue invisibly, where the tax is not shown on the bill paid by the buyer. Producers and distributors typically pass the cost of the VAT to the final customer in the form of price increase. Due to simplicity of the VAT system, the entire taxation system on consumer products and services has become easier. India, as a country has always been a leader of fashion and style. From the past, our textile and way of garments have been colorful and graceful. In these modern days people wear clothes not just to cover their introversion, but they have become of outfits in all sorts of combinations. Fashion forecasting towards garments is becoming much more difficult. In today's world, whether it is a food or clothing, readymade is a buzz world. As for as clothing is concerned most of the garments like shirts, trousers, salwar kameez, sportswear, casual wear and so on are widely accepted as readymade garments for children, men and women are available in variety of size and materials. The VAT is fall on readymade garments at 4 percentage rate under Schedule 1 Part B Section 3. This paper focuses on the implementation of VAT on readymade garments.

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INTRODUCTION

Value Added Tax is an indirect tax, which is imposed on goods and services at each stage of production, starting from raw materials to final products. VAT is levied on the value addition at the different stages of the production. VAT is a multi point sales tax paid on every purchases. It is basically a tax on the value addition of the product. The burden of tax is ultimately born by the consumer of goods. In many aspects it is equivalent to last point sales tax. It can also be called as a multi point sales tax levied as a proportion of Valued Added.

Concept of VAT

A value-added tax (VAT) is a fee assessed against businesses at each step of production and distribution process, usually whenever a product is resold or value is added to it. A VAT is levied on the difference between the purchase cost of an asset and the price at which it can be sold (i.e., the amount of value added to it). Producers and distributors typically pass the cost

of the VAT to the final customer in the form of price increase. Value added tax was introduced to arrest the increasing smuggling and cheating, which were resultants of high sales tax and tariffs. India is a country, where the system of VAT has been adopted for replacing the sales tax system. The value added tax serves as the solution for different problems related to sales tax. Due to simplicity of the VAT system, the entire taxation system on consumer products and services has become easier.

VAT – A Global Overview

A VAT regime can create an economic impact, in the sense that it may create inflation if other taxes are not reduced. The IMF study has shown that in 21 out of 31 countries that were analyzed. VAT has no major impact on prices. In four countries VAT has increased the prices. In Norway it was found that the VAT has caused inflation. The Cambridge Research Institution study found that VAT was considered significantly responsible for price increase in Germany, France, Netherlands and Denmark. In Asia, it has been introduced by a large number of countries from China to Srilanka. The European Economic Community directed its member countries on April 11, 1967 with regard to the

***Corresponding author: Radhika, A.**

Ph.D Research Scholar, Research and Development, Bharathiar University, Coimbatore

harmonization of the laws of the member states to shift from turnover tax to VAT. Experiences of the countries across the world are as follows.

Brazil: Brazil is the only country with a federal set up to have both Federal VAT and State VAT.

Argentina: The VAT in Argentina is an income type VAT and it is based on the destination principle and it was adopted in 1974.

Mexico: VAT was introduced in 1980 by replacing thirty financial excise taxes and four hundred municipal and state taxes. Introduction of VAT was considered to be a major tax reform.

Canada: A VAT named goods & Services tax was brought into operation from January 1st 1991 that implemented VAT at the Federal level.

Europe: Most of the European countries introduced VAT after the European Economic Community enactment dated April 11th 1967. The following charts would reveal when the European countries adopted VAT.

Implementation of VAT

European Countries	Year
France	1954
Denmark	1967
West Germany	1968
Netherlands	1968
Luxembourg	1970
Belgium	1971
Ireland	1972
Italy	1973
UK	1973

VAT – in – India

After the advent of economic crises in 1991, India preferred the IMF – World Bank Model of liberalization and globalization for the fast development of the economy. The winds of globalization have thrown the Indian economy into an unwilling web of competition with Multi National Companies (MNCs). Hence the Indian industries are under pressure to modernize their plants for their survival. The process of modernization has changed the business environment. In tune with liberalization policy, the Government of India has introduced a new tax system in place of sales tax from April 1st 2005 to overcome the short comings of the sales tax system, multiplicity of tax, cascading effect, high tax rate, complexity of tax structure, lack of transparency and narrow base. There has been a VAT system introduced by the Government of India for the last ten years in the form of MODVAT or Modified Value Added Tax. VAT is levied at state level in India as a substitute of existing sales tax system. In India the state of Haryana was first introduced the VAT in the year 2005. VAT as a tax model is expected to improve state finances, introduce fiscal reforms at state level, bring down the prices of goods, improve sales tax administration and reduce paper work in connection with sales tax.

Roadmap to VAT implementation in India

1st March 1986: Modified VAT (MODVAT) is introduced in India as a forerunner for the introduction of full – fledged VAT.

27th May 1994: Conference of Chief Ministers and Finance Ministers of States to discuss the introduction of VAT under the Chairmanship of Finance Minister Yaswant Sinha. It was concluded that the unhealthy ‘tax war’ between states to be stopped and minimum rate of sales tax are to be fixed.

16th Nov 1999: Conference of Chief Ministers and State Finance Ministers agreed to replace sales tax with VAT.

1st April 2000: MODVAT covers almost all taxable goods and so it proves into a full – fledged CENVAT or Central VAT.

17th July 2000: Empowered Committee on VAT is established to look in to the procedures and system of VAT chaired by the Finance Minister of Bengal, Dr.Ashim Das Gupta.

1st April 2002: First deadline for introducing VAT in 15 states and 5 Union Territories are ready but deadline is postponed, almost other states are not ready.

18th Oct 2002: Prime Minister Atal Bihari Vajpayee chaired a meeting and requested all the states to prepare their VAT bills.

31st March 2003: Traders protested against the introduction of VAT on 1st April 2003.

1st April 2003: Most states, except Haryana, announced the delay switching over to VAT. Haryana introduced VAT.

April 2003: Around 15 states, excluding the North Eastern States were expected to move to VAT. These states account for 75 percent of the countries total trade and industrial production. Once again, the introduction of VAT was delayed.

Jan 2004: Northern States moved to VAT

May 2004: Soon after coming into power, the Congress Government announced the introduction of VAT.

8th June 2004: All states except Uttar Pradesh introduced VAT.

18th June 2004: The date for introduction for VAT was decided as 1 April 2005.

17th January: White paper on VAT was published by its Chairman Ashom Das Gupta.

21st Feb 2005: Traders protested against VAT with a national bandh but it was partially successful.

1st April 2005: VAT was introduced in 22 states and 8 Union Territories to replace sales Tax.

1st April 2006: Chhatisgarh, Gujarath, Tharkhand, Madhya Pradesh and Rajasthan introduced VAT.

1st Jan 2007: VAT was introduced in Tamil Nadu

1st June 2007: Pondichery introduced the VAT.

Schedules of Tamil Nadu VAT Act

The Tamil Nadu Value Added Tax Act and the Rule made therein governs the system of levying VAT in Tamil Nadu. The Act contains 88 sections, 26 Rules and 6 Schedules.

Schedule – 1

Part – A: Goods which are taxable at the rate of 1 percent

Part – B: Goods which are taxable at the rate of 4 percent

Part – C: Goods which are taxable at the rate of 12.5 percent

Schedule – 2

Goods taxable at special rate as per Sec 3(5)

Schedule – 3

Compound Rate. For Hotels, Restaurants and Sweet stalls.

Schedule – 4

Part – A: Goods produced or manufacturing in India and included in the First schedules to the Additional Duties of Excise (Goods of Special Importance) Act, 1957.

Part – B: Goods other than those mentioned in Part A

Schedule – 5

List of International Organization U/S 18(1) – Zero Rate Sale.

Schedule – 6

List of goods for which transit pass is required U/S70.

VAT in Readymade Garments

Garment industry is one of the oldest and the most developed of all the industries in India. The first cotton garments until was established in 1883 and the woolen in 1902. While the spinning and weaving industries in India have been making rapid changes in terms of productivity, product quality and diversity of products, the garments industry, however has remained technically backward. India, as a country has always been a leader of fashion and style. From the past, our textile and way of garments have been colorful and graceful. In these modern days people wear clothes not just to cover their introversion, but they have become of outfits in all sorts of combinations. Fashion forecasting towards garments is becoming much more difficult. Too often manufacturers and retailers get so focused on a single trend that they forget there are many market segments. Diverse consumer age segment and life style created many separate market niches each with their own trends. With today's segmented market, a trend may be confined to a single market niche. Occasionally a very popular trend such as animal prints or the use of gold fabrics spread to all markets. A satisfied customer will become a protected consumer.

In today's world, whether it is a food or clothing, readymade is a buzz world. As for as clothing is concerned most of the garments like shirts, trousers, salwar kameez, sportswear, casual wear and so on are widely accepted as readymade garments for children, men and women are available in variety of size and materials. The VAT is fall on readymade garments at 4 percentage rate under Schedule 1 Part B Section 3. The VAT is imposed at each stage of production and distribution of goods. In readymade garments the industrialist turns the raw material into finished products, he pay VAT on the manufactured goods after selling them to the distributor. When the distributor sells them to the retailer, he pays VAT. When the wholesaler sells them to the retailer, he pays VAT. Finally, when the retailer sells them to the consumer, he pays VAT. Normally, after the implementation of VAT, the price of certain goods is increased. Incase of readymade garments slightly the price increases, but is not found much more, so that the demand is not affected.

Scope of the study

In the modern market, consumer is the king. But the consumers are facing problems such as adulteration, short weight and measures, high prices of products, illegal trading, etc. The Government can control the unfair trade practices with the introduction of VAT. This is highly useful for the customer and for the overall national economy. But the traders have been strongly protesting against the introduction of VAT. Because there must issue each memos, and bills to the customer, must do more paper work, have to learn and introduce new and different accounting systems for the new VAT procedure, etc. This study covers the trader's perception, awareness of VAT, factors influencing Trader's Perception on Readymade Garments in Retail Marketing at Coimbatore. This study aims to access the Trader's Perception on VAT on Readymade Garment Retailers.

Statement of the Problem

The study is focused on impact of VAT on readymade garments retail market. The VAT is implemented newly in Tamilnadu on 1st Jan 2007, by the objectives to simplify tax structure, to create uniform common market within the country which will bring down prices that would enable the producers of goods to reduce costs, face competition from abroad and to increase exports. VAT shall help common people, traders, industries and also the Government. Clothing is one of the most important basic needs for everyone. People wear cloths to cover their bashfulness and they have become of out fits in all sorts of combinations. Garment industry is one of the oldest and most developed of all the industries in India. India has always been a leader of fashion and style from times immemorial our textiles and way of garments have been colorful and graceful. The garments like shirts, trousers, salwar Kameez, Sportswear, casual wear, underwear and soon are widely accepted as readymade garment for children, men and women that are available in variety of sizes and materials. In this content the present study focused on Trader's Perception on VAT. In this juncture, it is felt by the researcher that it is pertinent to study the Awareness of value added tax on readymade garments in retail marketing.

Objectives of the study

1. To measure the Perception level of Traders on Value Added Tax in Readymade Garments.
2. To identify the factors influencing Trader's Perception.
3. To find out the impact of Value Added Tax.
4. To offer suggestions for the implementation of Value Added Tax.

Limitations of the study

1. The VAT is implemented only from 1st Jan 2007. From the introduction period, it has not completed even two years. As a result, the retailers are not fully aware of VAT procedures and they are unable to provide an accurate data.
2. The study was restricted to Coimbatore city and sample size was just 250.
3. The period of study is limited; a deep study in the area could not be made.

The feeling of respondents is not a constant one.

MATERIALS AND METHODS

Sample size

A sample size of 250 as finally arrived at using a random sampling method. The population of readymade garment retail shop is less than 500 in Coimbatore. Thus 250 samples were selected by considering the total population of readymade garment retail shops in Coimbatore city.

Area of study

Coimbatore, popularly known as Manchester of South India, is situated in western part of the State of Tamil Nadu, covering an extent of 105.5.sq.km.Coimbatore is well known for its textile industries and had excellent potential for industrial growth. Thus, the study was conducted in Coimbatore city of Tamil Nadu.

Collection of data

The study has used primary as well as secondary data. Primary data has been collected from readymade garment retail marketers to whom the VAT is levied in their business with the help of questionnaire, and the secondary data has been gathered from books, Journals, Magazines and Newspaper.

Pilot study

The pilot study has been conducted with a sample of 20 readymade garment retailers during May 2009. During the pilot study, the questionnaire was pre-tested and then refined for use in the final study. This has helped to modify and include certain information in the final questionnaire. Therefore, the final questionnaire has been prepared after necessary modifications of certain questions.

Tools used for data analysis

1. Percentage analysis
2. Garret Ranking

3. Analysis of Variance (ANOVA)
4. Chi-square test
5. Factor Analysis

REVIEW OF LITERATURE

Simon James (2003) in his study "Value Added Tax in the United Kingdom" has highlighted the experience of the United Kingdom with VAT for over three decades. After providing a brief history and explaining the basic structure of United Kingdom VAT, the author compares the performance of VAT in United Kingdom with the original intention for the introduction of VAT in the country. VAT was introduced in United Kingdom because it (i) is broad based (ii) is a tax on consumption (iii) promotes tax harmonization (iv) is self – enforcing. However, the destructions of VAT in United Kingdom opposed it on the grounds that it would adversely affect prices, wages and income distribution and involves high administrative and compliance costs.

RESULTS AND DISCUSSION

Table 1. Table showing the business experience of the respondents

Business experience	Respondents	Percentage
Less than 1 year	63	25.2
1-5 years	72	28.8
5-10 years	66	26.4
10 years & above	49	19.6
Total	250	100.0

Source: Primary Data.

Interpretation

It could be seen from the above table that, out of the total respondents, 28.8 % of them have 1-5 years of business experience, followed by 26.4 % of them have between 5-10 years of business experience, 25.2 % of them have less than 1 year business experience, and the rest of 19.6 % of them have business experience for 10 and above years It is known from the study that, most of the respondents have business experience between 1-5 years.

Table 2. Table showing the sources of awareness about vat by the respondent

Come to know about Vat	Respondents	Percentage
Media	93	37.2
Tax Department	77	30.8
Auditors	61	24.4
Others	19	7.6
Total	250	100

Source: Primary Data.

Interpretation

The above table exhibits that, among the total respondents, 37.2 % of them came to know about VAT through media, followed by 30.8 % came to know through Tax department, 24.4 % came to know through Auditors, and the rest of 7.6 % through others. Thus, the study concluded that, majority of the respondents came to know about VAT through Media.

Table 3. Benefit of vat

S.No	Benefit of vat	Score		Rank
		Total	Mean	
1	More sales	8300.000	45.35	6
2	More turnovers	8357.143	45.66	5
3	Revenue to Government	12014.290	65.65	1
4	Tax procedure simplified	9157.143	50.03	3
5	Relief in Additional Taxes	8757.143	47.85	4
6	Reduction in price	6757.143	36.92	7
7	Easy to accountability	11057.14	60.42	2

It is seen from the above table that among the several benefits of VAT among the respondents, 'revenue to Government' has secured highest mean score of (65.65) and stood at top, followed by 'easy to accountability' secured next higher mean score of (60.42) and stood at second, 'tax procedure simplified' stood at third with the mean score of (50.03), 'relief in additional taxes' stood at fourth with the mean score of (47.85), 'more turnover' stood at fifth with the mean score of (45.66), 'more sales' stood at sixth with the mean score of (45.35) and finally 'reduction in price' has secured least mean score of (36.92) and stood at last.

Null Hypothesis

There is no significant difference in the mean satisfaction score on the implementation of VAT among different age group of the respondents.

Table 4. ANOVA

SOURCE	DF	SS	MS	F
Between groups	3.141603	3	1.047201	0.19 ns
Within groups	1324.522	246	5.384237	

* - significant at 5 % level

Since the F is significant the null hypothesis of no difference in the mean score among the respondents is accepted and there is no significant difference in the mean satisfaction score on the implementation of VAT. The mean score among the respondents is furnished below:

Table 4.1. Overall mean satisfaction score

Age	Number of Respondents	Overall Mean Satisfaction Score
Below 20 years	68	13.382
20-40 years	61	13.131
40-60 years	75	13.413
60 and above	46	13.283

Source: Primary data.

The above table showed that the overall mean satisfaction score on the implementation of VAT is on par among age groups of respondents.

Null Hypothesis

There is no association between educational status and Level of satisfaction on VAT implementation among respondents. The non significant chi-square indicates that there is no association between the educational status and level of satisfaction on VAT implementation among the respondents.

Table 5. Educational Status and Level of satisfaction on VAT implementation

Educational Status	Level of satisfaction on VAT implementation			Total
	Low	Medium	High	
Upto SSLC	21	17	9	47
Higher secondary	36	32	34	102
College level	22	26	20	68
Professional	8	13	12	33
Total	87	88	75	250

Source: Primary data

Table 5.1. Educational status and Level of satisfaction on VAT implementation - ² test

Factor	Calculated ²	Table Value	DF	Remarks
Educational status	5.955	12.59	6	Non Sig at 5%

Problems of VAT

Using all the problems of VAT namely A, B, C, D, E, F, and G Factor analysis is performed and the results are presented in the following tables.

Table 6. Rotated Factor Loadings

Problems of VAT	Factors			Communality
	I	II	III	
Unnecessary documents-A	0.213	0.190	0.918	0.925
Increase in operational expenses-B	0.379	0.794	0.093	0.783
Involves more paper work-C	-0.745	0.15	-0.129	0.594
Complicated procedure-D	-0.728	0.076	-0.204	0.577
Burden to customers-E	0.156	-0.690	-0.078	0.502
Difficult to administration-F	0.737	0.233	-0.511	0.859
Decrease in demand-G	0.146	-0.660	0.003	0.462
Eigen value	1.862	1.662	1.178	4.702
% of variance	26.6	23.74	16.83	67.17
Cum % variance	26.6	50.34	67.17	

The above table gives the rotated factor loadings, communalities, eigen values and the percentage of variance explained by the factors. Out of the 7 problems of VAT, 3 factors have been extracted and these four factors put together explain the total variance of these problems to the extent of 67.17 %. In order to reduce the number of factors and enhance the interpretability, the factors are rotated. The rotation increases the quality of interpretation of the factors. There are several methods of the initial factor matrix to attain simple structure of the data. The varimax rotation is one such method to obtain better result for interpretation is employed and the results are given in the table.

Table 7. Clustering of Problems of VAT into factors

Factor	Parameters	Rotated factor loadings
I.(26.6%)	Involves more paper work-C	-0.745
	Complicated procedure-D	-0.728
	Difficult to administration-F	0.737
II.(23.74%)	Increase in operational expenses-B	0.794
	Burden to customers-E	-0.690
	Decrease in demand-G	-0.660
III(16.83%)	Unnecessary documents-A	0.918

Seven factors were identified as being maximum percentage variance accounted. The 3 problems C, D and F were grouped together as factor I and accounts 26.6 % of the total variance. The 3 problems B, E and G constituted the factor II and accounts 23.74 % of the total variance. The 1 problem A constituted the factor III and accounts 16.83 % of the total variance. Thus the factor analysis condensed and simplified the 7 problems of VAT and grouped into 3 factors explaining 67.17 % of the variability of all the seven problems of VAT.

Suggestions

- The VAT is implemented in our state on 1st Jan. 2007 but its implementation and related issues are not aware to many in this state. Most of the traders, consumers and general publics are not aware much more about the VAT system and its benefits to the economy. So the Government have to create more awareness through TV, Press Media, Seminars and Discursions etc.,
- The retailers are still not clear with the VAT procedures. They are preparing the VAT accounts and filing the VAT returns with the helps of Auditors. Thus, the retailers need much more campaign to get a clear idea and working about the VAT prodders.
- All registered retailers must issue a cash memo or a bill or invoice including VAT to their customer. Under VAT regulations, cash memos, bills, invoices and credit and debit notes must shows more information than under sales tax. The different VAT rates and the total VAT paid should be shown in cash memos or bills, it greatly helps in writing the sales ledger in the correct format and thus getting the right information quickly for filling the VAT return. The dealer must keep a counterfoil or duplicate of such tax invoice duly signed and dated.
- The customers must ask for the cash memos or bill from the retailers when they make purchase.
- Tone Credit should be allowed on all such purchases whether these are local state purchases or Inter State Purchase.
- The argument preferred against VAT in that is being basically a tax on consumption, the final incidence of tax is borne by the consumers because price would increase due to imposition of tax at every stage of sale. As a result of different value addition by each retailer, the consumer has to buy the same goods at different price in different retail stores. Thus it goes against the principle of equity in taxation. More over multiplicity of tax tax rates given birth to various disputer and complications.
- Some retailers are not issuing cash memos to their customers, there by the VAT is not collected from consumers. In this case the consumers pay fewer prices for the product; these bring disputes and variation in prices of the products from one retailers stores to another retail store.
- The suitable committee should be take steps against discriminatory taxes, practices, tax evasion and eliminated barriers to free flow of trade and commerce across the country.
- The VAT departments and officers need to be prepared in knowing the VAT System. The departments must classify the taxpayers doubt and also they must deal with the taxpayers in a friendly manner.

- The retailers are facing some problems such as involves more paper works, increase in operational expends etc., The VAT system should reduce the problems and it must be a user-friendly to the tax payers.

Conclusion

The VAT system has a great economic efficiency, lower internal trade bankers leading to an India-wide common market, transparency, reduced scope for tax evasion and buoyant revenue collection. The VAT in necessary for strengthening of tax administration and lowering tax payer compliance costs. This system is a perfect answer for avoiding cascading tax burden. The state impose many taxes like turnover tax, recharge on sales, tax, additional recharge etc., the introduction of VAT has abolished all these taxes. The benefit of VAT has been realized by 130 countries around the world. 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 rapacious which is helpful for dealers, tax authorities and consumers. VAT would furnish up to date transaction matrix for our economy. The present study finds that despite of the problems faced by the readymade garment retailers; most of them are satisfied and benefited by VAT system. We conclude by stating that implementation of VAT in our state is welcomed by the Readymade Garment Retailers.

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