

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:860

ANSWERED ON:04.03.2005

VAT

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Will the Minister of FINANCE be pleased to state:

- (a) the extent of benefit that could accrue to consumers as well as traders once Value Added Tax (VAT) is implemented in the country;
- (b) whether there are protests from State Governments and commercial establishments;
- (c) if so, the details thereof alongwith reaction of the Union Government;
- (d) whether compensation in this regard is restricted to complying States only;
- (e) the details of States that have so far opted for VAT; and
- (f) the details of items covered under VAT system?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI S.S. PALANIMANICKAM)

(a) VAT is a simple, transparent, multi-stage tax with input tax credit which eliminates cascading of taxes. This means less tax burden leading to decrease in prices of commodities. Moreover, under the VAT system, many other State level taxes/levies such as turn-over tax, additional turn-over tax, special additional tax etc., would be subsumed in VAT. Hence, instead of multiplicity of taxes, there would only be a single tax. In addition, under VAT the procedures would be simplified and dealers can avail of the facility of self-assessment.

(b) & (c) There are some protests from the trading community regarding increased tax burden, increased record keeping, very stringent penal provisions etc. The Empowered Committee of State Finance Ministers has started a publicity campaign to educate the traders about VAT and dispel their misgivings.

(d) Yes, Sir.

(e) In the meeting of the Empowered Committee of State Finance Ministers held on 18th June, 2004, States and Union Territories have arrived at broad consensus to introduce VAT w.e.f. 1st April, 2005.

(f) Under the VAT system, about 550 goods shall be covered and there will be only two basic VAT rates of 4% and 12.5% plus a specific category of tax exempted goods and a special VAT rate of 1%. Under the exempted category, there will be about 46 commodities comprising natural and unprocessed products in unorganized sector. Under 4% VAT rate category, there will be about 270 goods comprising items of basic necessities and declared goods. Gold, silver, bullion, precious stones etc., shall be taxed under 1% VAT rate category. The remaining commodities shall attract 12.5% rate of VAT.