

FOREWORD

The study on the Reform of Domestic Trade Taxes in India was undertaken by the NIPFP at the instance of the Ministry of Finance, Government of India. The objective of the study is to design a possible system of Value Added Tax (VAT) for India on which there could be a broad agreement among the Centre and the States.

The urgency of reforming the chaotic and complex system of domestic trade taxes that is operating in the country at present and the need for moving towards a system of VAT are generally acknowledged. In a country with a federal structure where, as in India, the powers of indirect taxation are fragmented between different levels of government, devising a scheme of VAT that would be acceptable to both the Centre and the States is no mean task. The study addresses this task by first reviewing the existing system to identify its glaring deficiencies and problems. Keeping in view the objectives and the parameters, the study avers that a destination based consumption type VAT would provide effective remedy for most of the ills of the present system. After a brief narration of the characteristics and mode of computation of a VAT, it spells out the options for VAT in the Indian context and proceeds to outline a design that could find a consensus. An attempt is also made to provide an idea of the revenue implications and economic impact of the proposed reform. The legal, administrative and institutional requirements are also gone into briefly.

After considering the various options, the study concludes that, given the constraints, solutions which might look ideal in principle may not work and, therefore, it is advisable to move towards a system that can be devised within the existing constitutional framework and implemented in the near future. Reform even on these lines would call for a major endeavour on the part of the governments concerned, the people and the political leaders. The authors would feel rewarded if the study helps to initiate an awareness of how urgent the task is and a debate on the issues and options.

The study was carried out by a team set up at the Institute led by A. Bagchi. Besides members drawn from the Institute's academic staff, the team included O.P. Gahrotra and S. Venkatarama Iyer who, as senior administrators, had intimate knowledge of the operation of internal commodity taxes in the country. Contacts were also established with the Commissioners of Commercial/Sales Taxes in the States and meetings were held in several rounds to discuss the issues and options for reform and seek their views at an informal level. Representatives of the Ministry of Finance and most States and Union Territories participated. The study benefited immensely from their interaction. In fact, it would not have been possible to formulate the proposals put forward in the study without their insight, interest and active participation in the deliberations. The team also made presentations on VAT at conferences of Commissioners of Commercial/Sales Taxes at Jaipur and Amritsar and in seminars organised by Chambers of Commerce and Industry.

The Institute also had the benefit of consulting some internationally renowned experts. Satya N. Poddar who had helped to design a VAT in Canada was associated with the study right from the beginning. The Institute gratefully acknowledges the generous support provided by Canadian International Development Agency (CIDA) for securing his services. A visit by Sijbren Cnossen, a well known authority on VAT helped the team in getting the bearings right and avoiding pitfalls. Thanks are due to UNDP for funding his visit.

The team profited from the earlier work of Nicholas Stern and his colleagues at the London School of Economics on the Reform of Indirect Taxes in India.

While the study is the product of collective effort of the team, the report was drafted largely by A. Bagchi in collaboration with Satya Poddar. Background papers on the administrative requirements and on the operation of VAT in the European Union and Brazil were prepared by Mahesh C. Purohit. Proposals for reform of the Union excises were drafted by Venkatarama Iyer. Valuable inputs on the sales taxes were provided by O.P. Gahrotra.

Substantial contributions were also made by Pawan K. Aggarwal and A.V.L. Narayana. Pawan Aggarwal helped in revising the drafts. The analysis of revenue implications was carried out mainly by him and A.V.L. Narayana in consultation with State government officials. The Institute intends to bring out a Technical Note shortly to provide a more detailed description of the methodologies and data relied upon.

The Governing Body of the Institute does not bear any responsibility for the contents or views expressed in the report. That responsibility lies with the authors, in particular, the leader of the team.

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A. Bagchi
Director

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R. Parameswaran bore most of the burden of word processing successive drafts of the report. Anil Sharma also shared the task especially in the final stages. Their devotion to work deserves special commendation. The Production Unit led by N. Natarajan performed the task of bringing out the preliminary drafts and the final report efficiently and cheerfully. The team wishes to place on record its deep appreciation of their labours and the care taken by them to see the work through expeditiously.

The team alone is responsible for the errors and omissions.