CHAPTER: 6

“PATTERN AND GROWTH OF VAT REVENUE IN MAHARASHTRA”

6.0) Tax Structure of Maharashtra

6.1) Elasticity and Buoyancy of VAT Revenue in Maharashtra

6.2) Difference between Tax Avoidance and Tax Evasion

6.3) Some more General Observations about VAT Evasion
CHAPTER: 6

“PATTERN AND GROWTH OF VAT REVENUE IN MAHARASHTRA”

In the modern context of “Planned Economic Development” state’s own tax revenues are of vital importance. These revenues are considered as ‘domestic resources’, to reach the stage of self-reliance. As a result it is argued that a tax structure should yield automatically increasing revenue as the income of the state increases. An attempt is made to study the structure of Value Added Tax revenue of Maharashtra as a very much important source of State Revenue.

6.0) TAX STRUCTURE OF MAHARASHTRA

The State’s Own Tax Revenue is a major component of the tax revenue of the State. The major contributions of the State’s OTR are Value Added Tax (VAT). In 2005-06, VAT revenue was 19, 677 crore. It arose to 24,131 crore in 2006-07. Then in 2007-08, it reached to 26,753. In 2008-09, VAT revenue was 30,680 crore which increased to 31,688 in 2009-2010 and in 2010-2011 it is about 35,986 crore. These details are shown in Table No. 6.1.¹

¹ Sales Tax Department, Mumbai
Table 6.2: VAT REVENUE AS A PERCENTAGE OF STATE DOMESTIC PRODUCT

(Rs. Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>VAT Revenue</th>
<th>SDP at Current Price</th>
<th>VAT Revenue as a Percentage of SDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 – 2006</td>
<td>19,677</td>
<td>4,83,222</td>
<td>4.07%</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>24,131</td>
<td>5,81,725</td>
<td>4.15%</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>26,753</td>
<td>6,79,004</td>
<td>3.94%</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>30,680</td>
<td>7,72,945</td>
<td>3.96%</td>
</tr>
<tr>
<td>2009 - 2010</td>
<td>31,688</td>
<td>9,01,330</td>
<td>3.51%</td>
</tr>
</tbody>
</table>

Table No. 6.2 shows that, VAT Revenue as a Percentage of State Domestic Product. The percentage varies between a short range of 4% to 3% over the last 5 years. Thus, the proportion of VAT revenue has remained constant even with the increase in SDP.
### 6.0.1) DIVISION WISE VAT REVENUE COLLECTION

**Table 6.3: DIVISION WISE VAT REVENUE COLLECTION**

(Rupees in Crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MUMBAI</td>
<td>14998.7</td>
<td>17727.2</td>
<td>19806.1</td>
<td>21633</td>
<td>22383</td>
</tr>
<tr>
<td></td>
<td>(66.76%)</td>
<td>(64.24%)</td>
<td>(63.45%)</td>
<td>(63.05%)</td>
<td>(60.59%)</td>
</tr>
<tr>
<td>THANE</td>
<td>981</td>
<td>1230.18</td>
<td>1099.01</td>
<td>1270.46</td>
<td>1425.9</td>
</tr>
<tr>
<td></td>
<td>(4.36%)</td>
<td>(4.45%)</td>
<td>(3.52%)</td>
<td>(3.70%)</td>
<td>(3.86%)</td>
</tr>
<tr>
<td>THANE RURAL</td>
<td>NA</td>
<td>NA</td>
<td>345.46</td>
<td>386.2</td>
<td>441.88</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>(1.10%)</td>
<td>(1.12%)</td>
<td>(1.19%)</td>
</tr>
<tr>
<td>RAIGAD</td>
<td>431.72</td>
<td>584.6</td>
<td>545.99</td>
<td>733.73</td>
<td>802.29</td>
</tr>
<tr>
<td></td>
<td>(1.92%)</td>
<td>(2.11%)</td>
<td>(1.74%)</td>
<td>(2.13%)</td>
<td>(2.17%)</td>
</tr>
<tr>
<td>PUNE</td>
<td>2828.85</td>
<td>3697.51</td>
<td>4201.59</td>
<td>4603.61</td>
<td>5451.9</td>
</tr>
<tr>
<td></td>
<td>(12.59%)</td>
<td>(13.39%)</td>
<td>(13.46%)</td>
<td>(13.41%)</td>
<td>(14.76%)</td>
</tr>
<tr>
<td>SOLAPUR</td>
<td>NA</td>
<td>270.59</td>
<td>330.07</td>
<td>419.67</td>
<td>458.7</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>(0.98%)</td>
<td>(1.05%)</td>
<td>(1.22%)</td>
<td>(1.24%)</td>
</tr>
<tr>
<td>NASIK</td>
<td>942.89</td>
<td>977.87</td>
<td>1151.95</td>
<td>1203.76</td>
<td>1430.4</td>
</tr>
<tr>
<td></td>
<td>(4.19%)</td>
<td>(3.54%)</td>
<td>(3.69%)</td>
<td>(3.50%)</td>
<td>(3.79%)</td>
</tr>
<tr>
<td>DHULE</td>
<td>NA</td>
<td>248.81</td>
<td>316.16</td>
<td>364.98</td>
<td>433.12</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>(0.90%)</td>
<td>(1.01%)</td>
<td>(1.06%)</td>
<td>(1.17%)</td>
</tr>
<tr>
<td>KOLHAPUR</td>
<td>525.14</td>
<td>658.73</td>
<td>706.2</td>
<td>827.34</td>
<td>974.63</td>
</tr>
<tr>
<td></td>
<td>(2.33%)</td>
<td>(2.38%)</td>
<td>(2.26%)</td>
<td>(2.41%)</td>
<td>(2.63%)</td>
</tr>
<tr>
<td>NAGPUR</td>
<td>942.43</td>
<td>1151.19</td>
<td>1378.77</td>
<td>1459.4</td>
<td>1587.5</td>
</tr>
<tr>
<td></td>
<td>(4.19%)</td>
<td>(4.17%)</td>
<td>(4.41%)</td>
<td>(4.25%)</td>
<td>(4.29%)</td>
</tr>
<tr>
<td>AMRAVATI</td>
<td>158.24</td>
<td>200.68</td>
<td>264.78</td>
<td>294.63</td>
<td>324.29</td>
</tr>
<tr>
<td></td>
<td>(0.70%)</td>
<td>(0.72%)</td>
<td>(0.84%)</td>
<td>(0.85%)</td>
<td>(0.87%)</td>
</tr>
<tr>
<td>AURANGABAD</td>
<td>655.56</td>
<td>847.05</td>
<td>908.69</td>
<td>929.79</td>
<td>1011.9</td>
</tr>
<tr>
<td></td>
<td>(2.91%)</td>
<td>(3.06%)</td>
<td>(2.91%)</td>
<td>(2.71%)</td>
<td>(2.73%)</td>
</tr>
<tr>
<td>NANDED</td>
<td>NA</td>
<td>NA</td>
<td>159.3</td>
<td>180.96</td>
<td>210.92</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>(0.51%)</td>
<td>(0.52%)</td>
<td>(0.57%)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>22464.5</strong></td>
<td><strong>27594.4</strong></td>
<td><strong>31214.1</strong></td>
<td><strong>34307.5</strong></td>
<td><strong>36937</strong></td>
</tr>
</tbody>
</table>

The figures in the bracket indicates the percentage

(Source: [www.mahavat.org](http://www.mahavat.org))

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In the year 2005-06, Mumbai Division had highest rate of Revenue collection of VAT. It was about 66.76%. Pune Division had 12.59% of Revenue collection done in the same year. And lowest Revenue collected in Amravati Division, it was about 0.70% only.

In 2006-07, VAT Revenue collection was highest in Mumbai Division with 64.24%. And Amravati Division had collected 0.72% of Revenue in this year.

In the year 2007-08, again Mumbai Division was constantly on the highest position in the Revenue collection, which was 63.45%. Revenue collected in Nanded Division was at the lowest with 0.51% only.

Mumbai Division collected the 63.05% of total Revenue in 2008-09. On the other hand, lowest Revenue collection had done in Nanded Division. It was of 0.52%.

Highest percentage of VAT Revenue collection had done in Mumbai Division in year 2009-10. It was about 60.59%. But it was continuously to the lowest position to 0.57% in Nanded Division same year.\(^2\)

\(^2\)www.mahavat.com
6.0.2) TRENDS OF RECEIPTS:

Table 6.4: Trend of Receipts from Sales Tax / VAT

(Rupees in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Estimates</th>
<th>Actual Receipts</th>
<th>Variation Excess (+) / Shortfall (-)</th>
<th>Percentage of Variation</th>
<th>Total Tax Receipts of the State</th>
<th>Percentage of Actual Receipts vis-à-vis Total Tax Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>22,128.41</td>
<td>19,676.74</td>
<td>(-) 2,451.67</td>
<td>11.08 %</td>
<td>33,540.24</td>
<td>58.67 %</td>
</tr>
<tr>
<td>2006-07</td>
<td>26,314.51</td>
<td>24,130.72</td>
<td>(-) 2,183.79</td>
<td>8.30 %</td>
<td>40,099.24</td>
<td>60.18 %</td>
</tr>
<tr>
<td>2007-08</td>
<td>27,465.00</td>
<td>26,752.80</td>
<td>(-) 712.20</td>
<td>2.59 %</td>
<td>47,528.41</td>
<td>56.29 %</td>
</tr>
<tr>
<td>2008-09</td>
<td>29,039.00</td>
<td>30,680.53</td>
<td>(+) 1,641.53</td>
<td>5.65 %</td>
<td>52,029.94</td>
<td>58.97 %</td>
</tr>
<tr>
<td>2009-10</td>
<td>27,006.00</td>
<td>32,676.02</td>
<td>(+) 5,670.02</td>
<td>21.00 %</td>
<td>59,106.33</td>
<td>55.28 %</td>
</tr>
</tbody>
</table>

(Source: Audit Report (Revenue Receipts) for the year ended 31 March 2010)

Actual receipts from Sales Tax, Value Added Tax (VAT), etc., during the years 2005-2006 to 2009-2010 along with the total tax receipts during the same period is exhibited in the following table and graphs.

Table No. 6.4 shows Trend of Receipts. It shows the variation between the budget estimates and actual receipts for the year 2005-2006 (-) 11.08% and the year 2009-2010 is 21%. This table is indicating that the budget estimates were not realistic.
In the above graph, X-axis is denoted by Budget Estimates, Actual Receipts and Total Tax Receipts of the State. Y-axis denotes Rupees in Crore. Budget Estimate was highest in year 2008-2009; it was about Rs. 29,039 Crore. Actual Receipt and Total Tax Receipt of the State was highest in year 2009-2010, it was Rs. 32,676.02 Crore and 59,106.33 Crore respectively.

6.0.3) COST OF COLLECTION:

The gross collection in respect of Value Added Tax, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the year 2007-2008, 2008-2009 and 2009-2010 along with the relevant, all India average percentage of expenditure on collection to gross collection for the year 2008-09 are given in the following table:
### Table 6.5: Cost of Collection

(Rupees in Crore)

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Head of Revenue</th>
<th>Year</th>
<th>Gross Collection</th>
<th>Expenditure on Collection</th>
<th>Percentage of Expenditure to Gross Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sales Tax / VAT</td>
<td>2007 – 08</td>
<td>26,752.80</td>
<td>155.53</td>
<td>0.58</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2008 – 09</td>
<td>30,680.53</td>
<td>216.38</td>
<td>0.71</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2009 – 10</td>
<td>32,676.02</td>
<td>283.65</td>
<td>0.87</td>
</tr>
</tbody>
</table>

(Source: Audit Report (Revenue Receipts) for the year ended 31 March 2010)

It is seen that the expenditure of revenue collection from Sales Tax / VAT is increased during the period 2007-2008 to 2009-2010.

### 6.0.4) ANALYSIS OF REVENUE COLLECTION OF VAT

The break-up of the total collection at the pre-assessment stage and after regular assessments of Sales Tax / VAT for the year and the corresponding figures for the preceding two years as furnished by the Department is as mentioned in the following table:
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount Collected at pre-assessment stage</th>
<th>Amount Collected after Regular assessment (Additional Demand)</th>
<th>Penalties for Delay in Payment of Taxes &amp; Duties</th>
<th>Amount Refunded</th>
<th>Net Collection</th>
<th>Percentage (Col. 3-7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>29,903.67</td>
<td>324.84</td>
<td>43.02</td>
<td>2,709.67</td>
<td>26,561.86</td>
<td>109</td>
</tr>
<tr>
<td>2008-09</td>
<td>32,234.87</td>
<td>248.10</td>
<td>-</td>
<td>2,057.84</td>
<td>30,425.13</td>
<td>106</td>
</tr>
<tr>
<td>2009-10</td>
<td>34,438.67</td>
<td>660.30</td>
<td>-</td>
<td>2,616.14</td>
<td>32,482.83</td>
<td>106</td>
</tr>
</tbody>
</table>

(Source: Audit Report (Revenue Receipts) for the year ended 31 March 2010)

The Table No 6.6 shows that collection of revenue at the pre-assessment stage in respect of Sales Tax / VAT ranged between 106 and 109% during 2007-2008 to 2009-2010. This indicates that the VAT collection is mainly through voluntary compliance. During the period 2007-2008 to 2009-2010, the amount collected at pre-assessment stage was more than the amount due to the Government resulting in refunds aggregating Rs. 7,383.65 crore. The revenue collected after regular assessment was quite low.\(^3\)

\(^3\)Audit Report (Revenue Receipts) for the year ended 31 March, 2009
6.1) ELASTICITY & BUOYANCY OF VAT REVENUE IN MAHARASHTRA

The important role which VAT has come to play in a state fiscal structure is due to its productivity. Revenue productivity of tax depends on its rate structure on the one hand and the base on which it operates on other hand. The response of the tax system to increase in relation to state income can be classified as income elasticity and buoyancy. Income elasticity refers to the change in tax yield in response to change in state income without changing the tax base. Buoyancy, on the other hand, refers to the change in tax yield in relation to a change in state income irrespective of the fact whether the change in tax yield is due to a change in coverage of tax or its rate structure or both.

Income elasticity of VAT also serves another purpose. It acts as a built in stabilizer. As the prices of commodities increase due to the taxation, the consumer will have paid more taxation and consequently the real income will be reduced. This reduces real demand and act as an automatic stabilizer of prices. The opposite happens when the prices fall. Thus the elasticity revenue system not only yields increasing revenue, but also acts as an automatic stabilizer to whatever marginal system / VAT.

In other words, a tax system / VAT having a high degree of elasticity / built in flexibility withdraws from circulation into the government treasury, an amount of revenue which is more than proportionate to the rising state income, leaving correspondingly less money in the hands of public. This has a depressing effect on aggregate demand of goods and services resulting in an anti-inflationary or anti boom effect. The
opposite happens in a period of recession. As production and price fall, taxes withdraw a smaller proportion of income automatically leaving more money in the hands of the people to spend; thus, curbing the down trend. Built in flexibility of a tax therefore, acts as an automatic stabilizer by preventing inflation / upswing and deflation / downswing from proceeding too far.

**VAT RECEIPTS OF MAHARASHTRA**

This revenue includes receipts from:

1) **BST** : Bombay Sales Tax
2) **VAT** : Value Added Tax
3) **MST** : Maharashtra Sales Tax
4) **MVAT** : Maharashtra Value Added Tax
5) **CST** : Central Sales Tax
6) **SCPT** : Sugarcane Purchase Tax
8) **P.T.** : Provisional Tax
9) **E.T.** : Entertainment Tax
10) **L.T.** : Luxury Tax.

The revenue yield through imposition of VAT initially grew slowly. But to expansion of commerce and trade, industrial development and inflationary rise in prices and resort to ad valorem tax system to a greater extent, has registered as sharp increase. From a level of Rs. 19,677 crore in the year 2005-2006, it touched the Rs. 35,986 crore in the year 2010-2011.
6.1.1) FACTORS CONTRIBUTING TO GROWTH OF VAT REVENUE

It may be hypothesized that the following major factors contribute to the growth of VAT revenue.

1) Increase in the quantum of production of commodities subject to VAT.
2) Increase in the consumption of commodities (due to increase in income, national and real) subject to VAT.
3) Increase in the extent of VAT turnover consequent upon the rise in price of commodities subject to VAT.
4) Increase in the extent of VAT turnover consequent upon the rise in price of Petroleum Products subject to VAT.
5) Expansion in the base of taxation, i.e., addition to the existing number of commodities subject to VAT or removal of the tax concession granted to certain commodities from the list of tax free goods.
6) Increase in the rate of VAT.
7) Improvement in the efficiency of VAT administration.
8) Using of E-Registration, E-Return and E-payment this processes of VAT revenue collection is became very easy and it increased revenue.

To single out any of these factors and quantity its contribution to the growth of VAT revenue would be untenable since all the factors or most of the factors may be influencing the growth of VAT revenue simultaneously. Therefore, the most common method usually adopted to measure the influence of these factors on the growth of VAT revenue is the buoyancy coefficient.
Buoyancy refers to the ratio of percentage change in tax revenue to the percentage change in SDP or income. It indicates the rate at which the revenue increases for one percent increase in the income. It is calculated with reference to the total increase in tax revenue whether brought about through additional tax measures or occurring in response to the growth in income or the base or because of improvement in administration. Elasticity denotes the rates of automatic growth in tax revenue to the growth income. In computing it, the influence of discretionary changes namely changes in tax rates, exemptions and concessions and changes in tax base of the tax are excluded. Thus, the elasticity of tax can be said to reflect all the influences on the growth of revenue listed above other than discretionary changes. To be more specific, elasticity co-efficient reflects the influence of:

I) Increase in the quantum of production of commodities subject to tax.
II) Increase in the consumption of commodities subject to tax.
III) Increase in the turnover due to price rise.
IV) Improvement / deterioration in administration that may take place gradually; buoyancy co-efficient reflects the influence of.
V) All above four factors plus
VI) discretionary changes in the tax base and / or tax rates &
VII) Any conscious attempt at improvement in administration or sudden change in production, etc.4

4“Tax Structure and Economic Development in India”, by M.L. Kanthrao
6.1.2) METHODOLOGY TO CALCULATE BUOYANCY COEFFICIENT

In order to estimate the built in flexibility or buoyancy of the tax, the method used by S. N. Sahota\(^5\) has been followed.

If exists a significant correlation between revenue from a tax and national income one can use the method of regression analysis to find out the elasticity of the tax in relation to national income. The regression equation used for this purpose is

\[
Y = aX^b
\]

\[
\log Y = \log a + b \log X
\]

Where,

\(Y\) – is the revenue from a tax (Net yield),

\(X\) – is the Net State Domestic Product and

\(b\) – is the elasticity.

The ‘\(b\)’ coefficient signifies the percentage rate of change in tax yield \(Y\) consequent upon one percent change in the independent variable \(X\).

For estimating buoyancy a slightly different equation but of the same form has been used.

\(^5\) “Indian Tax Structure and Economic Development” by G.S. Sahota
\[ Y' = a \times x^{b'} \]

\[ \log Y' = \log a + b' \log x \]

Where,

\( b' \) – is buoyancy

\( Y' \) – relates to “gross” tax yield as distinguished from “net” tax yield \( Y \).

The compound growth rate for the revenue from VAT is calculated by using the formula,

\[ Y = ab' \]

Where,

\( Y \) – Revenue from a particular tax and

\( t \) – Time period.

The growth rate is equal to \((b - 1)\).

**6.1.3) SOURCES AND EXPLANATIONS:**

1) Buoyancy:

\[ Y = ax^{b'} \]

\( Y \) – Gross revenue from VAT

\( x \) – Net State Domestic product

\( b' \) – Buoyancy
2) Compound Growth Rate:

\[ Y = ab^t \] \] Compound Growth Rate

\[
\frac{[\log Y (t)]}{N}
\]

\[
\log b = \frac{\log Y \cdot t - \frac{(t^2)}{n}}{n}
\]

Table 6.7: ABSTRACT

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>PARTICULAR</th>
<th>DATA 2005 – 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Buoyancy</td>
<td>1.69</td>
</tr>
<tr>
<td>2</td>
<td>Compound Growth Rate</td>
<td>10.81%</td>
</tr>
<tr>
<td>3</td>
<td>Correlation Coefficient</td>
<td>+ 0.987</td>
</tr>
<tr>
<td>4</td>
<td>Regression Line</td>
<td>( Y = -5363.69 + 0.06x )</td>
</tr>
</tbody>
</table>

Y – Revenue from VAT

X – State Income
At first, the Correlation Coefficient between NSDP and VAT revenue is calculated which is equal to 0.987 for the period 2005-2010. It indicates that both variables are highly correlated to each other.

Buoyancy of VAT revenue is worked out as 1.69 for the period 2005-2010. Buoyancy represents the proportionate change in tax yield (inclusive of changes in the base and rates of tax) accompanying a proportionate change in national income or NSDP.

The compound growth rate of VAT revenue for the period 2005-2010 is calculated as 10.81 percent. This rate is also lagging behind with compared to other state. It can be seen from the computed figures of buoyancy, coefficient and the VAT revenue in Maharashtra has been responding to increase in SDP relatively at lower degree.

6.2) DIFFERENCE BETWEEN TAX AVOIDANCE & TAX EVASION

If a tax cannot be administered with a high degree of efficiency and if a person can escape the tax either by legal or illegal means, the tax cannot conform to the accepted standards of equity and justice.

Tax avoidance is generally the legal exploitation of the tax regime to one's own advantage, to attempt to reduce the amount of tax that is payable by means that are within the law whilst making a full disclosure of the material information to the tax authorities. Examples of tax avoidance involve using tax deductions, changing one's business structure through incorporation or establishing an offshore company in a tax haven.

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By contrast, tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade the payment of taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability and includes, in particular, dishonest tax reporting (such as under declaring income, profits or gains; or overstating deductions).

Tax avoidance may be considered as either the amoral dodging of one's duties to society, part of a strategy of not supporting violent government activities or just the right of every citizen to find all the legal ways to avoid paying too much tax. Tax evasion, on the other hand, is a crime in almost all countries and subjects the guilty party to fine or even imprisonment.

Some tax evaders see their efforts to evade taxation as based upon novel legal theories: these individuals and groups are sometimes called tax protesters.

Tax resistance is the refusal to pay the tax for conscientious reasons (because they do not want to support the government or some of its activities), sometimes breaking the law to do so. Some donate their unpaid taxes to charity, while others take creative "deductions" such as not paying a percentage of tax equal to the defense budget. In either case, they typically do not take the position that the tax laws are themselves illegal or do not apply to them (as tax protesters do) and they are more concerned with not paying for what they oppose than they are motivated by the desire to keep more of their money (as tax evaders typically are). Some have suggested the
term ‘tax avoiding’ for people who adopt the techniques of tax avoidance in the service of tax resistance, thereby doing tax resistance legally.

6.2.1) ESTIMATION OF EVASION IN VAT REVENUE OF MAHARASHTRA:

Tax evasion entails the efforts that are made by trusts, individuals, firms and various other entities to avoid paying taxes by illegal and unfair means. The evasion of tax usually takes place when taxpayers deliberately hide their income from the tax authorities in order to reduce their liability of tax.

Evasion of tax takes place when the people report dishonest tax that includes declaring less gains, profits, or income than what has been actually earned and they even go for overstating deductions. The Evasion of Tax level depends on certain factors such as fiscal equation which means that people's tendency to pay less tax declines when the payment due from taxes becomes obvious. The level of Tax Evasion is also dependent on the tax administration's efficiency and corruption levels.

The level of Evasion Tax also depends on the chartered accountants and tax lawyers who help companies, firms and individuals evade paying taxes. Thus, tax evasion has become a common phenomenon either in case of direct taxes or indirect taxes. But, there is a point of difference between direct and indirect taxes. When income tax is evaded by an assessed, he enriches himself by defrauding the government and impoverishing the treasury. But in the case of evasion of indirect taxes, like VAT by the traders, it becomes altogether different.
Another method of Tax Evasion is value added tax evasion under which the producers who collect from the consumers the value added tax evade paying taxes by showing less sales amount.

Tax Evasion results in the loss of revenue for the government and so ideally, no one should be indulging in it and the Indian government must also take steps in order to stop Evasion of Tax by the people.

Since evasion and its quantification is the subject matter of the study, it is necessary to discuss different ways in which evasion is practiced.

1) One of the biggest sources of evasion known to anyone familiar with tax enforcement is the practice of suppression of sales and purchase. Duplicate manufacturing and assembling activity, almost all such production is neither registered nor recorded from places well known to the retailers and consumers who get a bargain on these products with the price reduced to the extent of the tax amount and perhaps sometimes even more. All such manufacturers are neither registered with the small scale Industries Departments nor with the Sales Tax Department there by safely avoiding the net tax.

2) Besides adopting several other methods, many traders carry on unauthorized business. For instance, a person registers himself as a trader in a particular premise to sell few specified items. But he actually sells several other items for which he has not registered in the same premises. Again he also carries business in the names of other concerns or persons whose names have not at all been registered either in the same premises or anywhere else.
These two types of unauthorized business, viz., non-registration of several items of trade and non-registration by several persons doing business in the same premises without paying VAT causes heavy loss of VAT revenue.

3) Most of the traders sell the stocks at undervalued rates, i.e. the trader sells his goods at a higher price but makes his bill at a lower price. Thus, most of the sales are shown at undervalued rates. Hence he will pay VAT at a lower rate than what he actually charges from the buyer. The difference constitutes unearned income to the trader and is a measure of tax evasion practiced by him.

4) After introducing VAT, there is self-assessment system, the assessment is doing by the Charter Accountant gives mock information for the profit of the company. This is also very important reason for the VAT evasion.

5) Another reason for the tax evasion is the Number of Registered Dealer under MVAT ACT is 7, 08,167(on 21/12/2010). But there are not audit in all these dealers. This dealer pay a tax for regular but the giving information is not cross checking its reason not knows that the dealer given information is right or wrong.

6.2.2) EVASION & APPROACH TO ITS QUANTIFICATION:

The approach to quantification of evasion is highly dependent on the availability of the data involved in its quantification. The study identifies two types of data which are crucial to quantification. One set of data relates to Net State Domestic Product of Maharashtra by Industrial origin at current prices and the other set of data pertains to the actual
collection of VAT revenue. Because of the provision in the states for exemption granted to different types of registered dealers the computation of evasion become a complex process.

6.2.3) METHODOLOGY EVOLVED TO ESTIMATE THE EVASION

For estimating the evasion of VAT revenue in Maharashtra, all these commodities are considered upon which VAT is levied. All these commodities are categorized into three group’s viz. necessities, comforts and luxuries.

Although many goods and articles come under each class, few articles from each class have been selected by random sampling method for the study. It is presumed that such articles are widely consumed by both poor and rich in different income groups.

Actual rates of VAT respective years have been taken into account. In each class, a simple average of VAT calculated. Thus, a simple average rate of VAT has been arrived for each class per year. The time period for which study has been done is from 2005 to 2010.

As the importance of each class is different from the point of contribution to the VAT, weights have been assigned to each class as further; Necessities-2, Comforts-3, Luxuries-5. As, major portion of total VAT revenue comes from the articles in the class luxury, higher weight age viz. 5 is assigned to such goods. Similarly, most of the goods in the class necessities are exempted from VAT; such goods contribute a major portion

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7. www.wikipedia.com
8. “Sales Tax in Maharashtra”, Ph. D. Thesis, Dr. V. V. Purohit (1997)
of VAT revenue. Hence, weight assigned to class ‘necessities’, is only two. Comforts have been assigned of three.

A weighted average for each class has been calculated by multiplying the simple average and the weights so assigned for each class. It gives us weighted average for all commodities per year, i.e., 2005, 2006, 2007, 2008, 2009 and 2010.

LIST OF COMMODITIES:

1) **NECESSITIES**: Bulk Drugs, Cereals and pulses, Coal, Tea, Coffee, Note Books, Hosiery Goods, Medicines, Kerosene, Safety Matches, Stoves, Pens and Plastic Food ware.

2) **COMFORTS**: Bicycles, Tricycles, Rickshaw and parts thereof, Cement, Furniture, Fan, Glasses, LPG (Gas), Computer, Soap, T.V., Freezes, Washing Machines, Watches, Paints, Tyres.


EXPLANATIONS:

1) Approximately 12 items in each group have been selected.

2) List indicates a broad classification of items falling in each group, disregarding intergroup transfers e.g., vehicles may be an item, luxury or comfort.

3) The items which are exempted from VAT have been excluded from the list because such items also unnecessarily affect the average.
Now, the rates of VAT over the year have been found to be approximately constant. These rates have been taken from government publications. Thus the rates on the articles under group ‘necessities’ 4, group ‘comforts’ vary between 4 and 12.5 and group ‘luxuries’ vary between 1, 4, 12.5 and 20. Simple averages have, however, been calculated with reference to actual rate of VAT for each article and during each year under study.

Simple average so calculated have been shown group wise and year wise in Table 6.8 A and Weighted average have been shown year wise in Table 6.8 B.

Table: 6.8A

SIMPLE AVERAGE RATE OF VAT FOR EACH CLASS PER YEAR

<table>
<thead>
<tr>
<th>Year</th>
<th>Necessities</th>
<th>Comforts</th>
<th>Luxuries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 – 2006</td>
<td>4</td>
<td>8.95</td>
<td>12.70</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>4</td>
<td>8.95</td>
<td>12.70</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>4</td>
<td>8.95</td>
<td>12.70</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>4</td>
<td>8.95</td>
<td>12.70</td>
</tr>
<tr>
<td>2009 - 2010</td>
<td>4</td>
<td>8.95</td>
<td>12.70</td>
</tr>
</tbody>
</table>
### Table: 6.8 B

**WEIGHTED AVERAGE VAT RATE PER YEAR**

<table>
<thead>
<tr>
<th>Year</th>
<th>Calculations</th>
<th>Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 - 2010</td>
<td>(4 \times 2 + 8.95 \times 3 + 12.70 \times 5 / 10)</td>
<td>9.83</td>
</tr>
</tbody>
</table>

The Table No 6.9 shows the evasion of VAT revenue from difference between expected and actual revenue from VAT in Maharashtra. The difference between the expected revenue and the actual revenue has been shown in column no. 8. The column no. 8 shows difference between the expected and actual revenues and which is growing up. The different between expected revenue and actual revenue in 2005-2006 is 4,166 and in 2009-2010 is 15,923 crore. It implies that the percentage of evasion is growing up the percentage of evasion in 2009-2010 is 28.58%. This is very high to compare in other years.

The increase in the evasion during the period 2008-2010 may be seen that due to increase in price of the commodities, higher rated tax is evaded.8

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8 Dr. V. V. Purohit, “Sales Taxation in Maharashtra” Ph. D. Thesis
6.3) SOME MORE GENERAL OBSERVATIONS ABOUT VAT EVASION:

The key problem of VAT is the problem of tax evasion which is becoming more serious day by day. It is very difficult, if not impossible, to get comprehensive data on volume of tax evasion in the case of VAT because of many particular problems involved in the process. Therefore the efforts are made here not to get exact extent of tax evasion, but to find out the trend of tax evasion.

Although the habit of tax evasion in the case of VAT is common in all sections of the producers, wholesalers, retailers and consumers, yet opportunities for evasion can vary according to nature of sales proceeds.

1) The main reason of evasion of VAT is that purchasing the goods without the invoice. If the bill or invoice of the purchased goods will not be taken by the consumer, tax will completely avoided.

2) In the organized sector there is less scope for evasion. In this sector all transactions are recorded properly. Also due to large number of persons engaged in the particular, unit chances of mischief are minimized. On the contrary, in an unorganized sector due to improper records, there are more opportunities for undue advantages; and evasion takes place.

3) VAT is not only evaded; but at the same time, Central Sales Tax, Excise Duty, Income Tax are all evaded by the assesses.

4) Recession in market, cut throat competition among sellers- these factors also contribute for evasion of VAT. Market recession results
into less sales; hence less VAT revenue collection in recent days. Due to severe competition, various schemes of Discount, higher purchases are adopted by the sellers; and they are tempted to evade the tax to boost up their sales in the atmosphere of recession.

5) Although 60% VAT revenue is collected only from Mumbai city, there are so many bogus dealers. Such dealers get registered themselves, issue false bills for bogus transactions (without any actual sale or purchase) and later on totally disappear. Their existence cannot be traced later on.

To sum up, evasion in VAT is a common phenomenon which cannot be cured totally. Correct assessment of evasion is too difficult. It is however opined that the evasion in VAT revenue is routine matter.
**References:**

1) Sales Tax Department, Mumbai

2) [www.mahavat.com](http://www.mahavat.com)

3) Audit Report (Revenue Receipts) for the year ended 31 March, 2009


7) [www.wikipedia.com](http://www.wikipedia.com)