

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/305641552>

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

Article · June 2016

---

CITATION

1

---

READS

5,081

2 authors:



**Pankaj Kumar**  
Tezpur University

3 PUBLICATIONS 4 CITATIONS

SEE PROFILE



**Subhrangshu Sekhar Sarkar**  
Tezpur University

3 PUBLICATIONS 8 CITATIONS

SEE PROFILE

Some of the authors of this publication are also working on these related projects:



Value Added Tax (VAT) and Goods and Service Tax (GST) [View project](#)

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

**Pankaj Kumar**

*Research Scholar*

*Department of Business Administration,  
Tezpur University, Sonitpur, Assam, INDIA  
kumarpankaj.2012@yahoo.com*

**Dr. Shubhrangshu Sekhar Sarkar**

*Professor*

*Department of Business Administration,  
Tezpur University, Sonitpur, Assam, INDIA  
subh16@gmail.com*

---

**Abstract:** *The purpose of this paper is to study the consumer's perception towards VAT in Uttar Pradesh. Consumers' perception and awareness are evaluated on the basis of their opinion--what they think, what they know about VAT. The paper also aims at presenting the importance of VAT among the consumers and shows how it can enhance the revenue of Uttar Pradesh Government. The data are collected through well structured questionnaire and those are distributed to 600 respondents in 3 zones (Ghaziabad-1, Gautam Buddha Nagar and Lucknow-1) of Uttar Pradesh. For the purpose of analysis and interpretation the researcher has used the following statistical tools of SPSS. On the basis of analysis and interpretation the researcher introduces the major findings that the majority of the consumers pay tax but, they are not much aware of the VAT. Due to the high tendency of VAT the consumers try to avoid the payment of tax in U.P.*

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

---

## **I. INTRODUCTION**

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. The tax administration is a useful function for collecting taxes for both the Governments. 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 is an important source of income for the State Government. VAT rates decide by States and its range varies at different levels. In the majority of States the standard rate of VAT ranges from 1% to 12.50%. The Government 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 has 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 is 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 is above ₹500,000.

Haryana was the first State to introduce VAT in India on 1<sup>st</sup> April 2003. After that it was implemented on 1<sup>st</sup> April 2005 in 20 States of India. On 1<sup>st</sup> Jan. 2008, Uttar Pradesh Government introduced VAT under the name of Uttar Pradesh Value Added Tax Act, 2008. UP is 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. The respective date of implementation of VAT in several states has been indicated below:

TABLE 1  
IMPLEMENTATION OF VALUE ADDED TAX

Number	Date of Implement	State Name	No. of States
1	1 <sup>st</sup> April 2003	Haryana	01
2	1 <sup>st</sup> April 2005	Andhra Pradesh, Assam, AP, Bihar, Delhi, Goa, Himachal Pradesh, J&K, Karnataka, Kerala, Mizoram, Meghalaya, Manipur, Maharashtra, Nagaland, Orissa, Punjab, Sikkim, West Bengal and Tripura.	20
3	1 <sup>st</sup> Oct. 2005	Uttaranchal	01
4	1 <sup>st</sup> April 2006	Chhattisgarh, Gujarat, Jharkhand, Rajasthan and Madhya Pradesh	05
5	1 <sup>st</sup> January 2007	Tamil Nadu	01
6	1 <sup>st</sup> January 2008	Uttar Pradesh	01

Source: <http://www.caclubindia.com> [1]

**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 11<sup>th</sup> 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% [2].

## **II. REVIEW OF LITERATURE**

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 [3]. 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 [4].

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 [5].

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 [6].

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 [7].

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 [8].

Ishak, NI et al has examined the students' perception towards the recently implemented Goods and Service Tax (GST) in Malaysia from 1<sup>st</sup> 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 [9].

### **III. STATEMENT OF THE PROBLEM**

The VAT is the system created for implementing uniform taxation of goods and services which was introduced in India in the year 2005 and it was implemented in Uttar Pradesh in 2008. Before the implementation of VAT in Uttar Pradesh, the State Government has taken much effort to create awareness about VAT among the public. Now VAT is implemented across the country. At this stage, there are some reasonable queries to be posed by the researcher

- What are different attitude expressed by the consumers towards VAT in Uttar Pradesh?

**Objective of the Study:** The present study has been undertaken to study the consumers perception about the VAT in Uttar Pradesh.

### **IV. 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 600 respondents in Uttar Pradesh. Surveys were carried in the area of Ghaziabad-1, Gautam Buddha Nagar and Lucknow-1 (200 respondents from each zone) of Uttar Pradesh. At present there are 75 districts and these districts are divided into 20 zones by the Value Added Tax Department of Uttar Pradesh. These three zones (Ghaziabad-1, Gautham Buddha Nagar and Lucknow-1) were chosen because these zones are the high VAT revenue generated zone of Uttar Pradesh. To select the respondents for data collection convenience sampling is used. SPSS 16 software was used to precede the data.

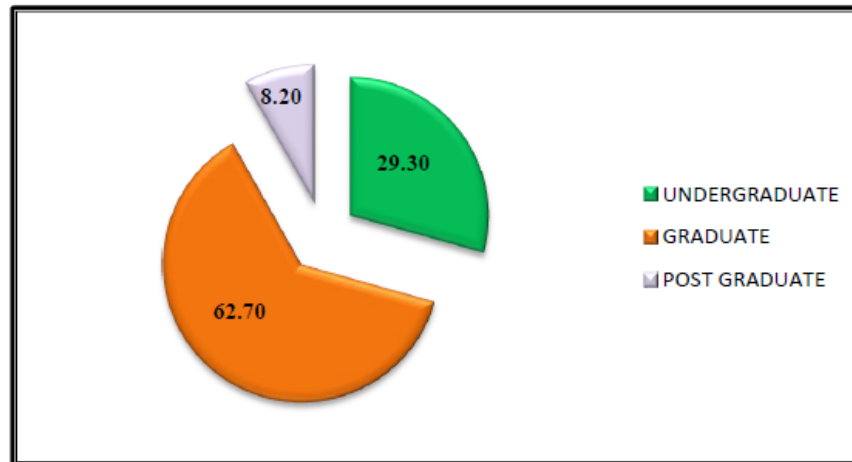
**V. RESULTS AND DISCUSSION**

TABLE 2  
GENDER OF THE RESPONDENTS

Gender	Frequency	Percentage
Male	367	61.20
Female	233	38.80
<b>Total</b>	<b>600</b>	<b>100</b>

Source: Survey data, (Aug. 2014 to Nov. 2014)

The study tried to find out perception and awareness of consumers towards the VAT according to their different gender. Table 2 shows the average response of male consumers (61.20%) is higher than the woman consumers (38.80%).



**Fig. 1 Education qualifications of the respondents**

Figure 1 reveals the educational qualification of respondents. Education qualifications are divided into three categories (Undergraduate, Graduate and Post-graduation). Figure 1 shows that 29.30% respondents were undergraduate. 62.30% respondents are graduate while only 8.20% respondents are post-graduate qualified.

TABLE 3  
AGE GROUPS OF THE RESPONDENTS

Statement	Frequency	Percentage
Less than 20 years	13	2.20
20years to 40 years	573	95.50
40 years to 60 years	13	2.20
Above 60 years	1	.20

Source: Survey data, (Aug. 2014 to Nov. 2014)

The perception and behavior of the consumers seek to evaluate on the basis of their age groups. Table 3 explains that the largest part of consumers (97.70%) were below 40 years of age.

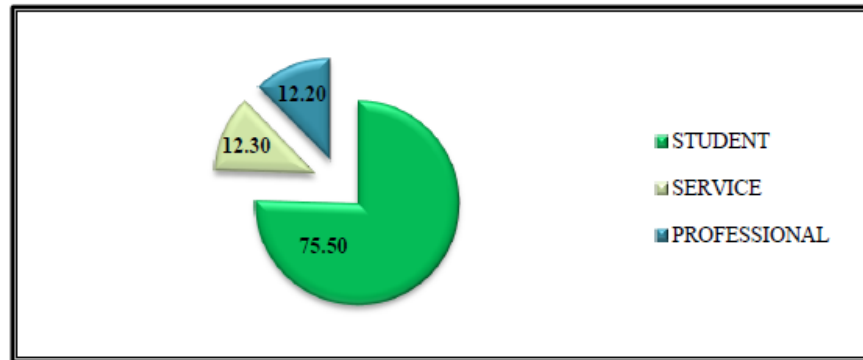


Fig. 2 Profession of the respondents

The attitude and awareness of the consumers are evaluated on the ground of their profession. Figure 2 explains the distribution of consumers who were involved in different profession. The majority of the (75.50%) consumers are students. While (12.30%) consumers are engaged in service and (12.20%) consumers are professional.

TABLE 4

CONSUMERS AWARENESS AND PERCEPTION ABOUT THE VAT

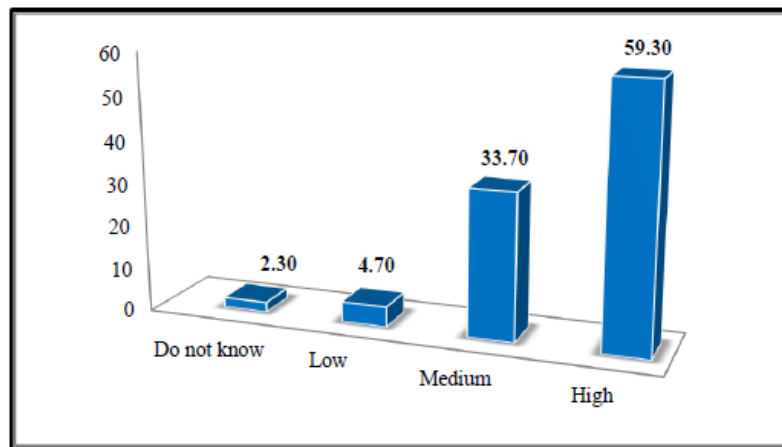
S. No.	Statement	Yes	No	Do not know
1	Are you aware that the Government of Uttar Pradesh is levying VAT on all kind of products?	75.80	16.80	7.30
2	Are you aware of the fact that you pay VAT whenever you purchase any product?	80.30	15.50	4.20
3	Do you know that some part of your tax amount is paid by the manufacturer, dealers and after that they levy the same tax on you?	64.20	22.50	13.30
4	Do you know that VAT is included in Maximum Retail Price (MRP)?	78.50	16.00	5.50
5	Do you think that the earning from VAT is a major source of revenue for any State Government?	77.50	13.70	8.80
6	Do you think that the VAT revenue which is collected from commodities is use for the State welfare?	68.70	22.00	9.30

Source: Survey data, (Aug. 2014 to Nov. 2014)

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.

Table 4 is precise with the various facts that were collected from the survey. It is shown that 75.80% respondents are aware that the State Government is levying VAT on all kinds of product. 80.30% consumers are aware of the fact that they pay tax whenever they purchase any product. While 64.20% 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, 78.50% respondents are aware that VAT is included in Maximum Retail Price (MRP) while they buy products. 77.50% are known to the fact that earning from VAT is a major source of income of State Government. Only 68.70% respondents are aware that revenue which is collected from commodities is used for State development and State welfare.



**Fig. 3 Respondents opinion regarding the VAT rate**

Figure 3 shows that 59.30% consumers believe that VAT rate is high and at the same 33.70% respondents observe that tax rate is medium in Uttar Pradesh. Probably this attitude of the consumers resulted from the fact that the Delhi-VAT rate is lower in comparison to that of UP-VAT rate. So they prefer Delhi for most of their transactions. While only 7.00% respondents observe that tax rate is low and 2.30% respondents are not aware of the tax rate structure of Uttar Pradesh.

#### **Null hypothesis:**

H0: 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.

TABLE 5  
CONSUMERS PERCEPTION TOWARDS COLLECTION OF CASH VOUCHER AND THEIR DIFFERENT QUALIFICATION

S. No.	Statements	N	Mean	Std. Deviation	Sig.
1	Consumers' perception towards collection of cash voucher	600	2.09	0.69	.009

Source: Survey data, (Aug. 2014 to Nov. 2014)

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.

TABLE 6  
CONSUMERS BEHAVIOR TOWARDS COLLECTION OF CASH VOUCHER

S. No.	Statements	Yes	No	Sometimes
1	Has any shop-keeper ever refused to issue a Cash Voucher?	24.30	30.70	45.00
2	If you are to pay something extra for Value Added Tax (VAT) for Cash voucher, would you still ask for it?	43.20	38.80	18.00
3	Do you feel that you are sometimes betrayed by the shop-keeper in the name of collection of local Value Added Tax (VAT)?	42.80	26.80	30.30

Source: Survey data, (Aug. 2014 to Nov. 2014)

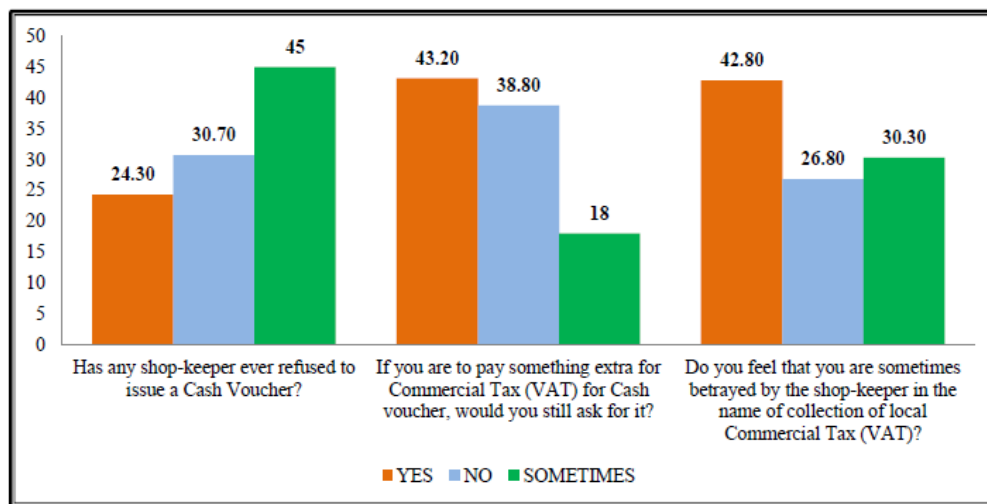
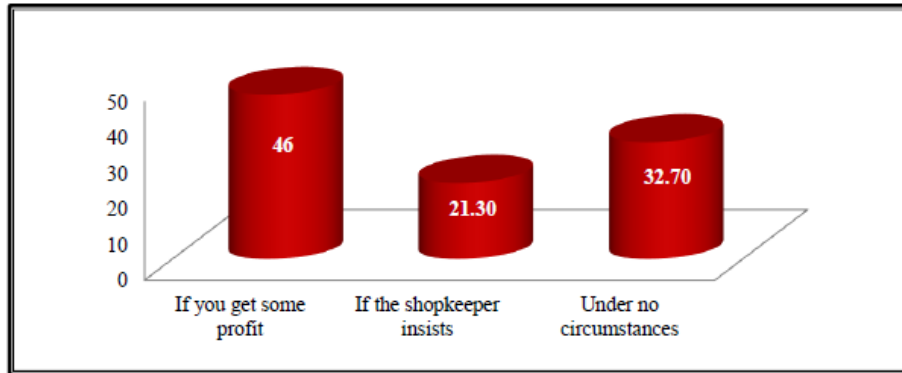


Fig. 4 Consumers behavior towards collection of cash voucher

Figure 4 summarizes that 45% dealers sometimes refuse to give cash voucher and 24.30% consumers' wholly agreed to the same. 30.70% consumers were of the opinion that they never refuse cash voucher provided by the dealers or shopkeepers while only 43.20% respondents were ready to pay some extra amount for cash voucher, whereas 38.80% consumers did not wish to. 42.80% accepted that they were betrayed by shopkeepers in the name of collection of tax.



**Fig. 5 Consumers perception to avoid payment of VAT**

Figure 5 tried to find out under which circumstances they would like to avoid payment of tax. The result showed that 46% consumers tried to avoid payment of VAT as they are benefited with money by avoiding the extra amount charged as tax. And only 21.30% of customers avoid if the shopkeepers insist. Similarly, 32.70% 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 7.

TABLE 7  
HYPOTHESES

Statements	Hypotheses
A	H0: There is no significant difference between the reduction in tax rates and the profession. Both are separated from each other.
B	H0: There is no significant difference between the strict vigilance and recovery and their profession. Both are separated from each other.
C	H0: There is no significant difference between the use of information technology and their profession. Both are separated from each other.
D	H0: There is no significant difference among education, awareness and the profession. Both are separated from each other.
E	H0: There is no significant difference between the additional collection effort and their profession. Both are separated from each other.

TABLE 8

## CONSUMERS PERCEPTION TOWARDS IMPROVEMENT OF VAT COLLECTION AND THEIR PROFESSION

	<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Sig.</b>
A	Reduction in tax rates	600	4.10	0.90	.119
B	Strict vigilance and recovery	600	4.12	0.92	.151
C	Use of information technology	600	4.22	0.79	<b>.006</b>
D	Education and awareness	600	4.21	0.83	<b>.000</b>
E	More collection effort	600	3.86	0.86	<b>.004</b>

*Source: Survey data, (Aug. 2014 to Nov. 2014)*

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.

## VI. CONCLUSION

On the basis of above discussion and data analysis the paper concludes that most of the consumers have poor knowledge of VAT in Uttar Pradesh 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.

#### REFERENCES

- [1] <http://www.caclubindia.com>
- [2] PHD Chamber of Commerce. "Progressive Uttar Pradesh: Building Uttar Pradesh of Tomorrow" August 2015, accessed February 12, 2016, <Retrieved from:[http://phdcci.in/file/state%20profile\\_pdf/Progressive-Uttar-Pradesh2015.pdf](http://phdcci.in/file/state%20profile_pdf/Progressive-Uttar-Pradesh2015.pdf)>[www.phdcci.in](http://www.phdcci.in), 2015
- [3]Hogye, Mihaly.(1998). "Tax Policy and Tax Administration in International Comparison" *Társadalom és gazdaság Közép-és Kelet-Európában/Society and Economy in Central and Eastern Europe* pp. 235-247.
- [4] Nurlis Islamiah Kamil.(2015). The Effect of Taxpayer Awareness, Knowledge, Tax Penalties and Tax Authorities Services on the Tax Compliance:(Survey on the Individual Taxpayer at Jabodetabek & Bandung). *Research Journal of Finance and Accounting* [www.iiste.org](http://www.iiste.org). ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online). Vol.6, No.2, pp 104-111
- [5]Jayakumar, A.(2012) "A Study on Impact of Value Added Tax (VAT) Implementation in India." *World Journal of Social Sciences* 2, no. 5: pp. 145-160.
- [6] Oladipupo, Adesina Olugoke, and Famous Prince Izedonmi. (2013), "Public Perception and Attitude towards Value Added Tax (VAT) in Nigeria." *iBusiness* 5, no. 04, pp. 126-135.
- [7] Kamal.(2013), "An Analysis of the Impact of Value Added Tax (VAT) in Delhi." *Global Journal of Management and Business Studies* 3, no. 3: pp. 277-286
- [8] Samaduzzaman, Munshi, Masoom Ahmed, and Fazluz Zaman.(2015),"VAT Increase and Impact on Consumers' Consumption Habit." *Asian Journal of Finance & Accounting* 7, no. 1: pp. 105-116.
- [9] Ishak, Nor Iza, Muhammad Hanif Othman, and Muhamad Fuzi Omar (2015), "Students' perception towards the newly implemented Goods and Services Tax (GST) in Malaysia." *International Journal of Contemporary Applied Sciences* 2, no. 6 : pp. 80-99.