

To Our Readers



From 1st of April 2005, a system of State-Level Value Added Tax (VAT) has been introduced in majority of the States of the Indian Union. The adoption of State-Level VAT is certainly one of the path-breaking tax reforms the country has seen since independence. Shri P Chidambaram, Hon'ble Union Minister for Finance, must be admired for his steady determination to bring this reform on the agreed date.

The Empowered Committee of State Finance Ministers, headed by Dr. Asim Dasgupta, Finance Minister of State of West Bengal, deserves our wholehearted compliments for bringing around the States towards a consensus in a short time. His name will be written in letters of gold in the fiscal history of the country.

The ICAI has already published a "Guidance Note on Accounting for State-level VAT" which answers all the critical accounting issues. The ICAI has also proposed a Uniform Model VAT Audit Report and particulars to be mentioned therein for facilitating smooth assessments and recovery of VAT revenue statutorily due to the State Government.

There is hardly any need to emphasize upon all those State Governments, which have not implemented the VAT so far, the benefits of the new system and it is hoped that they will take necessary steps to introduce the same at the earliest. The States that have embarked on this journey should make efforts to converge on matters relating to rates, procedures, etc. Such a rationalisation across the country will also act as a booster for simpler implementation and ease the difficulties of traders too. In that event, the task of the Centre to allocate revenues among the States can also be worked out in more objective and rational manner.

During his Budget Speech (2005-06) Hon'ble Finance Minister had asserted that, "In the medium to long term, it is my goal that the entire production-distribution chain should be covered by a national VAT, or even better, a goods and services tax, encompassing both the Centre and the States".

The introduction of VAT can be heralded as a major tax reform in the history of fiscal legislature of the country. With the introduction of State-level VAT, it is expected and hoped that in near future multiple indirect taxes such as Excise Duty, Sales Tax, Turnover Tax, Octroi, Entry Tax, Central Sales Tax, Service Tax and all other indirect taxes levied on goods & services shall be abolished and substituted by a single and unified Goods and Services Tax (GST). Such a structure would bring more equity in the system. No doubt, such a move shall also fulfil the cherished dream of our Hon'ble Finance Minister Shri P. Chidambaram.

In the backdrop of this great achievement we cannot lose sight of the fact that enormous work has to be carried out for the successful implementation of the VAT system in the country. We have to travel a long way before we arrive at a satisfactory and workable State-level VAT. Extensive and thorough documentation is the need of the hour and for this purpose computerisation – both by the State Governments as well as by the business community – should be achieved quickly.

The journey has just begun. The introduction of VAT can be hailed as the first major step in converging towards a single and unified tax structure. As we move forward, the Chartered Accountancy profession have to play a positive role in smoother implementation of the fiscal law and also to provide accounting, auditing, advisory services, etc. in the larger interest of society.

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