

## **VAT AND ITS IMPACT ON STATE FINANCES**

The article seeks to highlight the impact of VAT on states finances on the basis of assumption that all states adopt an uniform VAT designs. After the 1994 report on the Reform of Domestic Trade Taxes in India, there was not much action for a change in tax regime from first point Sales tax to a value added tax (VAT). However in 1999 at a National Level Meeting, Union Finance Minister and all the state chief ministers have decided jointly to introduce VATs from April 1, 2000 and to adhere to some floor rates for an agreed set of commodities. However introduction of VAT has faced a number of rescheduled deadlines because of the apposition of several state governments. This paper highlights to assess the change in tax revenue that could result from the implementation of VAT by all states following a uniform system. The estimates indicates that the impacts varies considerably across states, wide some states seem to gain consistently from such transition, in some other states the gains could convert to losses depending on the assumptions on increments to value added. One way for the states to avoid incurring losses with implementation of VATs would be through variations in the rates and structure of tax. Variations in the tax structure are however considered as stumbling block to the formation of common national markets.

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