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STUDY OF FINANCIAL BEHAVIOR OF INDIAN INVESTORS DURING ANNOUNCEMENT OF GST AND VAT

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Abstract

Tax revolution is believed to be welcomed by India. Value Added Tax(VAT) and Goods and Service Tax(GST) are the two GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but it application is announced recently in 2017.Application of the same has created huge roars among all class of peoples in India resulting in huge hue and cry across nation. It would be interesting to see its actual impact on the mind of Indian investors by studying pre and post 15 days trading strategy on Stock Market Index. Investors thinking results in action of buying and selling on stock market and thus Nifty is considered for study.

Keywords: *GST, VAT, t-test, Indian Tax, Nifty*.

Introduction

The word tax is derived from the Latin word “taxare” which means “to estimate”. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name” by Black’s Law Dictionary, Thomson West(Digital version)

Value added tax (VAT) is a type of indirect tax that is imposed on goods and services. Sometimes, when the government operates on a budget surplus or wants to increase its revenue in order to finance its budget deficit. A question that arises is whether value added tax has been a boon or misery for a developing country like India. Around 136 countries in Asia have recognized the importance of value added tax. In one of the most large scale reforms of the country’s public finances in over the past 50 years, India has finally agreed the launch of its much delayed value added tax from 1st April, 2005 at a rate of 12.5%. The tax rate is fixed by meeting of different state level Finance Minister, in New Delhi, designed to make accounting more transparent, to cut short trade barriers and boost tax revenues. According to Chanakya, “A government should tax its people like a shepherd shears a flock or a bee gets nectar from a flower”. The tax is levied not only on products but services that is the source of revenue for the government to plan for development activities in the country. Since, India is a developing country, the main source for revenue is generated through tax levied on the individual on the purchase of goods or services.

Indirect tax system plays an important role in the economic development of a country by influencing the rate of production and consumption. The Government of India has after committing to the World Trade Organization (WTO) regime, decided to modernize and streamline its indirect taxation, in the light of the experience of other WTO member countries. Value Added Tax (VAT) means the tax which is payable only on value-added. It is multi-point tax system but without the effect of double taxation. Value is added to the products, which an organization buys from other organizations such as raw materials, partly finished goods etc. After buying the organization applies its own labour and machine to manufacture the final products. VAT is a tax, which is imposed at every stage of production ie., from production level to retail level. Under VAT tax is calculated on value Added where value added is the difference between sales value and purchase value. Initially, all states were to move to VAT system by 2000, but administrative problems and concern over the revenue implications of the change delayed the scheduled implementation.

Goods and Service Tax (GST)

The Rajya Sabha unanimously passed the constitution (22nd amendment) bill 2014, on 3rd August 2016 with 203 votes in favour. All parties, except the AIADMK, backed the bill. GST would be a comprehensive indirect tax on manufacture consumption and sale of goods and services throughout India, to replace taxes levied by central Govt. and state Govt. GST would be levied and collected at each stage of sale or purchase of goods and services.

Taxable goods and services are not distinguished from one another and are taxed at single rate in supply chain till goods and services reach the consumer.

The current tax structure does not allow business person to take tax credit. There are many chances of overlapping or doubling of taxation at every step of supply chain. This will be eliminated with the implementation of GST. Indian Govt. is opting for dual system of GST. This system will have two components which will be known as: -

- Central Goods and Service Tax (CGST)
- State Goods and Service Tax (SGST)

Features and Advantages of GST

- GST will subsume central indirect taxes like excise duty, services tax etc and also state levies like VAT, Octroi, entry tax, luxury tax etc.
- It will have two components, central GST levied by Centre and State GST levied by the States.
- Only Centre may levy and collect GST on supplies in case of inter-state trade and collection of tax will be divided between centre and state.
- A two-rate structure will be adopted. It means lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items.
- Over-lapping of tax, tax on tax will be eliminated with GST.
- Both Goods and Services are taxed in same manner in chain of supply till they are reached to consumer. They are not distinguished under GST.
- Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions.
- It is anticipated to help in establishing an effective and transparent tax administration.
- It is expected to remove the cascading effects of taxes and help in establishing of common national market.

Literature Review

Desai and Hines (2005) consider the impact of the VAT on international trade, finding that particularly for other than high income countries both openness and export performance are negatively related to both the presence of the VAT and the extent of revenue reliance upon it.

Tripathi et al. (2011) evaluated that Value Added Tax would change the nature of trade in the coming years, but the medium level of trade would face problems. Similarly, small retail dealers would be required to maintain more accounts or pay composition money which cannot be collected from the customers. The present provision of central sales tax and Value Added Tax cannot go together. After the abolition of central sales tax the direct marketing concept may gain ground and the necessity of having warehouse, go downs etc. in all states may decrease or finish. Value added tax in India has been introduced in modified variants over the past two decades. However, Value Added Tax in its original form is yet to be introduced in India, at Central or State level. After the negative and positive impact on the Indian consumers, Value Added Tax has been identified as the real goal maker by the Indian government in the coming years to foster growth and prosperity in the country. The change in the standard of livings has increased the purchasing power of the high class society but the medium and the poor class society has to work hard in order to achieve their living and meet extravagances.

Agogo Mawuli (May 2014)1 studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Dr. R. Vasanthagopal (2011) studied,"GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Gurumurthi.S (1999) in his study outlined the experience gained in several federal economies, irrespective of the fact whether they are developed or developing, has established fairly beyond doubt the undesirability of subjecting commodity taxation to two levels, the federal and provincial, particularly in the context of introducing the VAT. While it is considered necessary to entrust the entire field of commodity taxation to the national government which is best equipped to implement the VAT, the redistribution of the powers of taxation between the central/federal government and the states will depend on the situation and circumstances prevailing in each country and that no generalization may be possible with regard to assignment of specific taxes to the states. International experience has shown that both personal and corporate income taxes are good candidates for partial assignment, particularly in large federations but the same cannot be said about a tax like the one on natural resources. Similarly, while property taxes have been traditionally assigned only to the sub national governments, the system is somewhat different in Brazil, where urban property is taxed at the municipal level, while the federal government levies and administers the tax on rural property. Therefore it may be necessary for each federal country to evolve its own system by applying the above principles.

Dr.S.B.Akash and Dr.K.Harishkumar (2006) in their study credit to recover the tax paid on their business inputs. As a result, the system is an effect applying tax only to the Value Added by each vendor. Since, only the tax that does not refund is the tax imposed on final consumption the tax is equivalent to the retail sales tax where value and purchase value. He concludes VAT is not burden to the manufacturer and it facilitates concession to manufacturer and it facilitates concession to manufacturer in an easier manner. The successes of value added system fully depends upon proper planning and preparation, sound accounting practices, systematic organizational audit, fully acceptance of people, trained manpower, sound ethical business practices in business and ethical government representatives.

Sukumar Mukhopadhyay (2001) in his study neutrality of VAT is no great virtue, that cascading effect can be removed zero-rating can be achieved by alternative methods, that VAT does not boost exports, we should reconsider the adoption of VAT even by promising a subsidy is an “ad hoc stepping stone to doom”. Genuine tax reforms are (a) three rates of duty in Central Excise, (b) three rates in retail sales tax, (c) reduction in exemptions drastically in excise and sales tax, (d) uniformity of sales tax floor rates, (e) reduction and ultimate removal of CST, (g) origin-based sales tax for inter-state sales, (h) giving more service tax to states by common consent, and (i) introduction of a proper audit set up. All this will constitute a much better reform.

Sukumar Mukhopadhyay (2003) in his study (a) VAT is not the best form of contention tax, especially in a development economy; (b) It is not suited for Indian federal. (c) An imperfect VAT would not serve the purpose for which VAT is better introduced; and (d) a better choice would be to combination of reformed CENVAT sales tax with uniform rates in all reduction in exemption CST.

Nitin Kumar (2014) studied, “Goods and Service Tax- A Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Results of Paired Sample t-test

	Pre and Post VAT Results		**Pre and Post GST Results**	
Mean	2046.072	2031.578	9575.25	9749.167
Variance	2217.523	1202.856	4805.974	11109.86
Pearson Correlation	0.794907		-0.93079	
t Stat	1.51492		-3.03679	
P(T<=t) one-tail	0.084129		0.008071	
t Critical one-tail	1.859548		1.859548	
P(T<=t) two-tail	0.168257		0.016142	
t Critical two-tail	2.306004		2.306004	

Findings

From the VAT t-test results we can see that p value is greater than 5 percent (16.82 %), from which we can say that VAT announcement has not made any significant difference in the nifty index pre and post VAT announcement.

From the GST t-test results we can see that p value for GST results is smaller than 5 percent (1.61 %), from which we can say that GST announcement has made significant difference in the nifty index pre and post GST announcement.

As VAT was announced in 2005, reasons behind no effect in nifty can be that market has already absorbed the news. Also other main reason can be that investors belief, they believed that VAT cannot bring major difference in Indian Economy and thus no impact was observed in the nifty index during VAT announcement.

GST is believed to be biggest ever tax reform in Indian Economy, and thus has impact on Nifty index. Also in current political structure of India, series of reforms are made for e.g. Demonetization which all has made major impact on India Economy. GST is also considered to be one such major reform for country.

Conclusion

At the end we can say no doubt GST is the biggest ever change in tax structure of India. There will be fall in prices of some commodities but on the other hand price of some other goods and services will rise. There is threat of inflation too and states may face reduction in their financial resources. But overall it will be a great change for the economy.

Due to dissilient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simpler, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.

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