

# Effectiveness of Publicity Campaign on Value Added Tax in India

**Starting from 1 April 2005, all the states and union territories of India have gradually introduced a VAT system. Such a major reform of the tax system requires an orchestrated and well-organized publicity campaign aimed at educating the stakeholders of the VAT system about the new tax. In this article, the author examines the reach and effectiveness of a nationwide VAT publicity campaign carried out by the government, and explores the stakeholders' perception of the new tax, on the basis of the results of a survey conducted in the metropolitan city of Chennai.**

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## 1. Introduction

Replacement of the sales tax by value added tax (VAT) has been the most important tax reform measure at the state level in India in the recent past) At present, all the states and union territories have a VAT system in place. For the proponents of VAT, this is a remarkable achievement considering that, for a long time, a majority of the states were not committed to embrace the new tax system. So far, the functioning of the VAT system has been an "unqualified success", particularly in raising tax revenues for the states.'

A major administrative issue that needs to be taken care of prior to the introduction of VAT is the conduct of an orchestrated and well-organized publicity campaign aimed at educating the stakeholders of the VAT system, such as the business sector and the general public, about the tax. This is required because, for the successful and effective introduction of VAT, a high level of commitment is needed on the part of all parties concerned. A clear and transparent dissemination of information about VAT might be highly helpful in accomplishing that goal.' Moreover, the introduction of a modern tax like VAT could easily give rise not only to genuine, but also to misguided fears among the public and businesses.' For instance, small businesses might expect high compliance costs and harassment by the tax authorities, and consumers might worry about the effect of VAT on prices in general. Information is important to combat such fears and explain the rationale and benefits of VAT to the stakeholders. In the absence of adequate information, there is the danger of hostility developing toward VAT,' which could potentially impair the functioning of the tax.

This article examines the reach and effectiveness of a nationwide VAT publicity campaign carried out by the government of India with the aim of educating the

of VAT, and explores the perception that stakeholders in a developing economy have of VAT. These aspects are examined in the context of the nationwide VAT publicity campaign initiated by the central government before the introduction of state VAT, which gradually started from 1 April 2005. A metropolitan city, namely Chennai, the capital of the state of Tamil Nadu, has been selected as a representative sample to analyze the study objectives.

Section 2 provides a brief description of the government's VAT publicity campaign, the characteristics of the city of Chennai and the survey conducted for the purpose of the study. In Section 3, the results of the study

reported in detail. The final section discusses the impli-

## 2. Background Information 2.1.

### Government's VAT campaign

Prior to the introduction of VAT at the state level in India, the trading or small-business community opposed the tax on various grounds.' Some of their reservations against VAT were:

- VAT is a trader-unfriendly tax and involves taxation at multiple stages;
- VAT increases the tax burden on traders and consumers;
- obtaining refunds of excess input tax could be problematic;
- large numbers of goods which were exempt from sales tax would be subject to VAT;
- the tax rate on many goods would be higher under the VAT system;
- the record keeping requirements under VAT would result in a waste of valuable time and increase in the cost of doing business; and

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1. Government of India, *Economic Survey 2006-2007*, February 2007.
2. Reserve Bank of India, *State Finances: A Study of Budgets of 2007-2008*, December 2007.
3. Government of India, *Task Forces on Direct and Indirect Taxes* (Chairman Dr Vijay Kelkar), 2002.
4. Alan A. Tait, *Value Added Tax: International Practice and Problems*, (Washington, DC, International Monetary Fund, 1988).
5. This was particularly the case in India where the introduction of VAT not only called for a paradigm shift but also invited stiff resistance, mainly from small businesses (commonly known as traders in the Indian context).
6. In fact, the traders called for a three-day nationwide trade strike ("bandit") starting 30 March 2005, during which shops were asked to close down. The response to the strike was mixed. While it disrupted the functioning of wholesale markets, the impact was less severe at the retail level. See "20 States migrate to VAT amid traders' protest". *Business Standard*, 2 April 2005.

— VAT would pave the way for harassment of traders by the tax authorities.'

For the general public, the major concerns were the price and revenue impact of VAT.

Hence, mainly with the objective of educating these two categories of stakeholders' and addressing their concerns on the implications of VAT, just before the introduction of VAT at the state level, the central government launched a VAT publicity campaign.' The campaign was carried out through a platform called the Empowered Committee of State Finance Ministers ("Empowered Committee").<sup>10</sup> The publicity campaign was conducted mainly through print and electronic media, and interactive meetings with industry and trade. The central government has provided technical and financial support to the publicity campaign. The expectation was that the campaign would help in educating the citizens on the various aspects of VAT.

## 2.2. About the study area

With a population of 4.34 million (as per the 2001 census), Chennai is India's fourth largest metropolitan city after Mumbai, New Delhi and Kolkata. It is one of the most densely populated cities in India with 24,231 persons per square kilometre in 2001. About 85% of the population in the city is literate against the state average of 73.5%. The city has a good mass media infrastructure." One major advantage Chennai offered for assessing the effectiveness of the Empowered Committee's publicity campaign was that, during the period of the survey, Tamil Nadu did not witness a VAT publicity campaign sponsored by the state government. This was due to uncertainty about the date of introduction of VAT in the state."-- Hence, Tamil Nadu only witnessed the Empowered Committee's publicity campaign during the survey period. That unique situation was ideal to establish the pure effect of the Empowered Committee's VAT campaign.

## 2.3. About the survey

For the purpose of this study, a primary survey was conducted during March and April 2005 covering a cross-section of the population of the city of Chennai. During the survey period, the debate and controversy over VAT reached a feverish pitch in India. The survey covered 200 individuals representing two major and politically sensitive categories of stakeholders in the VAT system, namely traders/small businesses and the 'general/common public'.<sup>13</sup> The respondents were selected on the basis of a random sampling technique. They were given a questionnaire asking them for their views on the various aspects of VAT and the Empowered Committee's publicity campaign.<sup>14</sup>

## 3. Survey Results

### 3.1. Basic awareness of VAT

ity and the general public replied in the affirmative (see Table 1). However, when asked about the meaning of

VAT, only about 45% of the respondents were able to answer correctly. This indicates that the basic level of understanding of VAT among the stakeholders was quite unsatisfactory. Obviously, the traders (55%) had a better knowledge of VAT compared to the general public (42%). Yet, the fact that nearly half of the trading community and more than half of the general public surveyed had not understood VAT in the proper sense of the term casts serious doubt about the reach of the Empowered Committee's publicity campaign.

**Table 1. Basic knowledge of VAT (in %)**

Question/Response	Traders General Overall Public		
	yes no	97.4 2.6	90.1 9.9
<b>total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Value added tax is ...</b>	<b>7.9</b>	<b>24.1</b>	<b>20.8</b>
a tax on services			
a multi-stage sales tax	7.9	9.0	8.7
a tax on exports and imports	2.6	4.1	3.8
correct answer*	55.3	42.1	44.9
can't say	26.3	20.7	21.8
<b>total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* A standard definition of VAT was specified in the questionnaire.  
Source: survey data.

7. Besides fuelling fear and confusion among traders and the general public, such claims on the implications of VAT drew VAT to the nation's attention.

8. The manufacturing sector was not the main target of the government's publicity campaign because the level of awareness of VAT among the stakeholders in that sector was generally perceived to be high. Moreover, right from the beginning, the sector was highly in favour of introduction of VAT.

9. This nationwide publicity campaign was supplemented by separate campaigns by the individual states.

10. The Empowered Committee was constituted by the central government in the year 2000 for ensuring smooth implementation of VAT at the state level, in consultation with the central government. It is responsible for setting timescales and methods for the states to switch over to VAT, and to monitor reforms in the Central Sales Tax system existing in the country. Thus far, the Empowered Committee has helped in building a consensus on many of the critical issues relating to implementation of VAT at the state level (see note 3).

11. At the time of the survey, Chennai had seven major English dailies, and six major dailies in the regional Tamil language. As regards electronic media, the city had access to the government run television channel called *Doordarshan*, and a large number of satellite television networks broadcasting in both the local language and other Indian languages. Additionally, the city had a regional-language radio network operated by the government radio station, namely *All India Radio*, and many other private FM radio stations.

12. Mainly due to political reasons, Tamil Nadu did not immediately introduce VAT in April 2005. The VAT system came into force on 1 January 2007. However, Tamil Nadu's reluctance to introduce VAT did not prevent the introduction of VAT becoming a contentious issue in the state. For example, the Tamil Nadu *Vanigar Sangam Peravai*, the major traders' organization in the state, launched a series of agitations against the introduction of VAT, including a one-day trade strike on 21 February 2005. Consequently, the organization has succeeded in getting the introduction of VAT postponed.

13. The general public covered in the survey consists of white-collar workers, students following higher education, housewives, housemaids, rickshaw and taxi drivers, security guards, office assistants, and street vendors. The manufacturing sector was not included in the survey for the reasons cited in

### 3.2. Sources of information about VAT

Over half of the respondents; revealed that they had heard about VAT through newspapers (see Table 2). The other major sources that helped promulgate VAT, in order of their importance, were television (20.6%), friends (13.1%) and the publicity campaign of the Empowered Committee (9.8%). The predominance of newspapers as a source of information on VAT was found among all categories of respondents, implying that this medium could be an effective tool for government publicity campaigns. The fact that the Empowered Committee's campaign has helped only a small proportion of the respondents in acquiring knowledge of VAT once again raises questions about the reach of the publicity initiative.

**Table 2. Sources of information about VAT (in %)**

Source	Traders	General Public	Overall
	67.5	48.3	51.9
newspapers		48.3	
television	10	23.0	20.6
friends	10	13.8	13.1
government/Empowered	12.5	9.2	9.8
other sources*	NR**	4.0	3.3
no response	NR**	1.7	1.4
total	100.0	100.0	100.0

\* Including overseas tours, radio and general reading.

\*\* NR = nil response.

Source: survey data.

### 3.3. Effectiveness of the Empowered Committee's campaign

As regards the key issue of the impact of the Empowered Committee's publicity campaign, only one third of the respondents reported that they had noticed the publicity campaign in the media, both print and visual (see Table 3), whereas 53% of the respondents were unaware of the campaign; the others were unsure in their response. Most importantly, the campaign has escaped the eyes of over half of the general public and half the trading community. This strengthens our earlier finding that the Empowered Committee's information has helped only a smaller proportion of the respondents in becoming

familiar with VAT. Even the much debated

White Paper on State-level VAT" ("White Paper") released by the Empowered Committee had not received adequate publicity (61%) of those who were aware of the White Paper responded that they knew about it through newspaper reports. The other sources, including the Empowered Committee's publicity campaign, played only a negligible role in publicizing the White Paper. The poor penetration of the Empowered Committee

s publicity campaign and the White Paper was observed among all the

**Table 3. Effectiveness of the government's publicity campaign (in %)**

Question/Response	Traders	General Public	Overall
<b>Have you seen the government/Empowered Committee's publicity campaign on VAT in the media?</b>			
yes	44.7	30.3	33.3
no	50	53.8	53
can't say	5.3	15.9	13.7
total	100.0	100.0	100.0
<b>Are you aware of the White Paper on VAT?</b>			18.6
yes	18.4	18.6	
no	68.4	57.2	59.6
can't say	13.2	24.1	21.8
total	100.0	100.0	100.0
<b>Through which channel did you learn about the White Paper?</b>			
news paper	71.4	58.1	60.5
television	NR*	16.1	13.2
friends	14.3	9.7	10.5
government/Empowered Committee	14.3	9.7	10.5
tax department	NR*	3.2	2.6
others	NR*	3.2	2.7
total	100.0	100.0	100.0
<b>Have you read the White Paper on VAT?</b>			36.4
yes	66.7	2.2	
no	33.3	70.4	63.6
total	100.0	100.0	100.0
<b>Have you read news reports on the White Paper in the print media?</b>			
yes	50	44.4	45.5
no	50	55.6	54.5
total	100.0	100.0	100.0
<b>Has the government/Empowered Committee's publicity campaign helped you understand the VAT?</b>			
yes	26.3	20.7	21.9
no	50	44.8	45.9
can't say	23.7	34.5	32.2
total	100.0	100.0	100.0
<b>Are you satisfied with the government/Empowered Committee's promotion of VAT?</b>			
yes	21.1	22.1	21.9
no	55.3	39.3	42.6
can't say	23.6	38.6	35.5
total	100.0	100.0	100.0
<b>Has the White Paper helped you in becoming aware of VAT?</b>			
yes	7.5	80.0	7.9
no	NR*	6.7	5.3
can't say	25	13.3	15.7
total	100.0	100.0	100.0

NR = nil response.

The percentages of traders who were unaware of the White Paper and the Empowered Committee's information were 68% and 50%, respectively. This is undesirable in view of the significant role traders should play in the

smooth introduction of VAT. However, those who claimed that they were aware of the White Paper, excluding the trading community, have not taken the document to 66.7% of the traders. However, the saving grace is that around 80% of those who had read the White Paper agreed that the document helped them in becoming aware of VAT. It appears that the general public has relied more on news reports on the White Paper in the print media than on the Paper itself. Nearly 45% of them claimed that they had only read White paper-related

news reports in the print media. This is understandable as it cannot be expected that the general public would comprehend a policy document like the White Paper.

As regards the usefulness of the Empowered Committee that the campaign was useful for understanding VAT against 45.9% who felt otherwise. Significantly, half of the respondents from the trading community had the opinion that the Empowered Committee's campaign had hardly benefited them. When asked about the level of satisfaction with the Empowered Committee's promotional activities, about 43% of the respondents claimed that the of satisfaction was found to be very low among both traders and the general public.

### 3.4. Perception of VAT<sup>5</sup>

As regards the stakeholders' perception of the economic impact of VAT, only around 22% of the respondents mostly agreed to the proposition that VAT would help in minimizing the cost of production (see Table 4). Support for this view appeared to be strong among the non-trad-

VAT in community. 24% of them mostly agreed and another 39% somewhat agreed that VAT would reduce the cost of production. However, a strong 30.5% of the respondents

were sceptical about the cost minimization benefit of VAT. The scepticism was found to be very strong among The fear psychosis generated by the traders that VAT

would result in rising prices appeared to have done significant damage to the reputation of the tax. Otherwise, how would one justify the result of around 52% of the respondents mostly or somewhat agreeing to the view that VAT would result in an increase in the prices of goods? Both the trading community and the general public had a strong impression that VAT would have an adverse effect on the prices. One of the positive features of VAT is that it makes the tax structure simple and more

respondents somewhat agreed to this feature of VAT. What is more, the view was widely shared by both categories surveyed.

**Table 4. Stakeholders' perception of VAT (in %)**

Response	Traders General Overall		
	Traders	General	Overall
mostly disagree	45	25.8	<b>Public</b> 30.5
somewhat disagree	5	6.5	6.1
somewhat agree	20	38.7	34.1
mostly agree	15	24.2	22.0
can't say	15	4.8	7.3
total	100.0	100.0	100.0
<b>VAT makes the tax structure simple and more transparent</b>			
mostly disagree	30	14.5	18.3
somewhat disagree	NR*	17.7	13.4
somewhat agree	20	24.2	23.2
mostly agree	40	25.8	29.3
can't say	10	17.7	15.9
total	100.0	100.0	100.0
<b>VAT will significantly improve tax compliance and prevent/reduce tax evasion</b>			
mostly disagree	30	8.1	13.4
somewhat disagree	5	9.7	8.5
somewhat agree	20	22.6	22.0
mostly agree	45	50.0	48.8
can't say	0	9.7	7.3
total	100.0	100.0	100.0
<b>will significantly enhance the tax revenues of the state government</b>			
mostly disagree	10	3.2	4.9
somewhat disagree	10	4.8	6.1
somewhat agree	25	25.8	25.6
mostly agree	40	54.8	51.2
somewhat disagree	35	35	4.8
mostly agree	0	17.7	13.4
<b>somewhat agree</b>	<b>20</b>	<b>32.3</b>	<b>29.3</b>
mostly agree	25	37.1	34.1
can't say	20	8.1	11.0
total	100.0	100.0	100.0

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12.2

Response	Traders	General	Overall Public
<b>VAT is beneficial to traders</b>		17.7	
mostly disagree	45		24.4
somewhat disagree	5	22.6	18.3
somewhat agree	5	33.9	26.8
mostly agree	25	11.3	14.6
can't say	20	14.5	15.9
total	100.0	100.0	100.0
<b>VAT system will result in harassment of traders</b>			
mostly disagree	10	1.6	3.7
somewhat disagree	0	9.7	7.3
somewhat agree	25	24.2	24.4
mostly agree	55	50.0	51.2
can't say	10	14.5	13.4
total	100.0	100.0	100.0

NR = nil response.

Source: survey data. newspapers as a medium of publicity.

On the impact of VAT on the tax revenues of the state governments, a majority of the respondents were of the view that VAT would significantly improve tax compliance and prevent or reduce tax evasion. Whereas about 43% of the respondents mostly agreed with this view, another 35% somewhat believed it to be the case. Only traders appeared to slightly disagree. The view that VAT is a money spinner is corroborated further by the strong opinion of over 51% of the respondents that VAT would significantly enhance the tax revenues of the state governments. In addition, another 25.6% somewhat agreed significant support both among the traders and the general public.

Regarding the impact of VAT on the business sector, a significant proportion of the respondents felt that VAT would be beneficial to manufacturers. However, agreement to this proposition among the traders was not as strong as in the case of the non-trading community. 35% of the traders mostly disagreed with the view that VAT is beneficial to manufacturers. On the question of benefits accruing to traders due to VAT, the opinions appeared to be divided. Whereas about 41% of the respondents mostly or somewhat agreed that VAT would be beneficial to traders, another 43% felt otherwise. A significant proportion (45%) of the traders held the view that VAT is not beneficial to them. Whereas, given their general opposition against VAT, traders can reasonably be expected to take that stance, it is surprising that support for the traders' view was found among the other categories of respondents.<sup>16</sup> This is evident from the fact that only 11% of the general public mostly agreed with the argument that VAT is beneficial to traders. Over half of the respondents, including the non-trading community, mostly felt that the VAT system might lead to harassment of traders by the tax authorities. In addition, another quarter of the respondents somewhat agreed to that proposition. Only a negligible proportion of those surveyed felt otherwise.

#### 4• Implications of the Study

This study is aimed at assessing the reach and effectiveness of the government-sponsored publicity campaign on VAT, and at understanding the stakeholders' perception of VAT, on the basis of a survey carried out in Chennai.<sup>17</sup> The views of the two categories of stakeholders – traders and the general public – residing in this city with regard to the nationwide VAT publicity campaign carried out by the central government was taken as a representative case.

The study revealed that the penetration of the central government's publicity campaign on VAT was indeed poor. The same conclusion applied to the White Paper on VAT. This puts a big question mark against the overall effectiveness of the Empowered Committee's publicity campaign. A possible explanation for the poor reach of the campaign could be the ineffective utilization of information, newspapers were more effective in popularizing the concept of VAT. However, it is doubtful that the Empowered Committee used this medium effectively for VAT publicity. For example, to the best of the author's knowledge, public information about VAT has appeared on only a few occasions in the national English-language newspapers during the publicity campaign. Frequent display of publicity materials in the newspapers could have been more effective. Besides, visual media should have been utilized more extensively using the services of popular personalities to increase awareness of VAT. For instance, the government of the state of Kerala has recently used a scheme, which was aimed at achieving better compliance with VAT among the traders in the state.<sup>17</sup> Above all, media publicity should have been supplemented by other simple but more effective communications channels, such as the display of posters and publicity material on VAT at public places, issue of explanatory booklets/leaflets and conduct of street shows using voluntary organizations.

The poor evaluation by the stakeholders of the usefulness of the Empowered Committee's campaign turns our attention to the quality of the publicity content. If valuable information about VAT had been provided, then those who opposed the tax could hardly have had any valid reasons. It appears that this aspect was not taken care of in the publicity campaign carried out in India. For example, a glance at the publicity materials published by the Empowered Committee in the newspapers

16.. Perhaps, the intensive campaign by the traders that VAT is harmful to their interest might have affected the public opinion in this respect.

17. Under the scheme, which was introduced in August 2006, consumers would get "Lucky VAT" cards from the shops on the purchase of goods of a minimum value of INR 1,000. The cards carried prizes ranging from INR 10 to INR 100,000 (INR 1 lakh), and the consumers could scratch the card to find out whether they were lucky. The purchases did not have to be made on a single occasion. The cards were also available on smaller purchases made throughout the month for a total amount of INR 1,000. See "Kerala comes up

reveals that they contained no serious and useful information about VAT.<sup>18</sup> No wonder that more than half of the respondents had no idea about the meaning of VAT. As regards the stakeholders' perception of VAT, we found that they had an adverse opinion about the impact of VAT on the cost of production, prices in general and the position of traders. A significant proportion of the traders and the general public had the impression that the introduction of VAT might not be beneficial to traders and would give room for harassment of the

traders by the tax authorities. Besides, only a small proportion of the respondents subscribed to the view that VAT would be useful in reducing the cost of production. As regards the effect of VAT on prices in general, both the traders and the general public had the strong impression that the introduction of VAT would have an adverse effect. Not surprisingly, these issues had become the focal point of the traders' tirade against VAT in the run up to its introduction. By and large, there was agreement among the respondents with the following views on VAT:

- VAT would result in a simple and more transparent avoiding the pitfalls of the VAT publicity campaign tax structure; highlighted in this study.
- VAT would help to improve tax compliance and reduce tax evasion;
- VAT would increase the tax revenues of the state governments; and
- VAT would be beneficial to manufacturers. - "VAT is a single tax that replaces several state taxes, such as sales tax,

A proper understanding of these perceptions about VAT could have helped the Empowered Committee to devise a more effective publicity Strategy.<sup>20</sup>

This study was confined to one major city in India and hence no claim is made to the applicability of the conclusions of the study to the whole country. However, the point to be noted here is that, if the reach of the government's publicity campaign and the level of understanding of the citizens of VAT were poor in a supposedly well-informed city like Chennai, it can only be assumed that the situation in semi-urban and rural areas of India must have been worse. Considering that VAT publicity

might be an ongoing phenomenon in a country like India due to the need to tackle issues that might crop up in the process of implementation of the tax, the findings of this study may be of great significance. For instance, in the year 2007, the Empowered Committee launched a publicity campaign aimed at promoting the practice of traders of issuing invoices to final consumers. Similarly, as noted before, in 2006, the state of Kerala had launched a massive publicity campaign to popularize its VAT system by means of the "Lucky VAT" scheme. In July 2006, the state of Karnataka formed an advisory committee for

creating more awareness of VAT." This initiative was in response to the finding of an official survey that many businesses in the state had not registered for VAT. All such ongoing and future VAT publicity programmes may learn a lesson from this study. More importantly, the process of educating stakeholders will once again become important in the light of the decision of the central and state governments to introduce a nationwide goods and services tax (GST) in April 2010. The findings of this study might be useful to devise a more effective publicity strategy at the time of introduction of GST by

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18. A typical example of public information that was published in the newspapers by Empowered Committee contained statements, such as:

- "the VAT system is simple and transparent, and reduces the tax burden and prices in general"; and
- "VAT benefits everyone"

Those statements lead to the conclusion that the publicity campaign has not fulfilled the fundamental requirement of providing essential information about the new tax.

19. However, there were a few deviations. Traders generally disagreed with the view that VAT would improve tax compliance and reduce tax evasion. Agreement to the proposition that VAT would be beneficial to manufacturers was not as strong among the traders as among the other respondents.

20. On the basis of the findings of this study, the Empowered Committee should have concentrated more on reassuring the stakeholders as regards the effects of VAT on the cost of production, prices in general and the position of traders.

21. See "Efforts stepped up to widen VAT base: Karnataka, *The Hindu Business Line*, 4 July 2006.