

ABSTRACT

The present study is an attempt to assess the impact of the reform in the taxation system from the sales tax regime to the VAT, on prices. VAT had always been considered superior than any other form of indirect taxation in terms of its revenue generating capacity, compliance, lower extent of cascading and reduced incentives to evade the tax. However the international experience has shown that VAT has inflationary impact.

A study has been conducted at both national and state level using the data on monthly WPI for the national and annual GDP deflator for the state level from the year 1993 till 2012.

Box and Tiao intervention analysis has been used to assess the impact of VAT on prices. This involves an ARIMA framework where inflation is regressed on its past values as well as the past value of its residuals and a structural dummy. The coefficient of the dummy tells us the impact of introduction of VAT on prices. One of the major findings is that at the national level, VAT led to increase in inflation whereas states had shown diversified results as far as impact of VAT on prices is concerned.