GST as Major Reform in Taxation System of India

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Abstract: ***GST otherwise called the Goods and Services Tax is characterized as the mammoth indirect assessment structure intended to help and upgrade the financial development of a nation. More than 160 nations have executed GST up until now. The possibility of GST in India was mooted by Vajpayee government in 2000 and the sacred amendment for the same was passed by the Lok sabha on 6th May 2015 and sanctioned by the Rajya sabha in August 2016. From the very first day of implementation of GST i.e., 1st July 2017, there is a colossal clamor against its usage. It is fascinating to comprehend why this implemented GST administration may hamper the development and advancement of the nation.***

Keywords: Constitutional amendment, Goods & Services Tax, CGST,SGST,IGST, Direct Tax, Indirect Tax, VAT

1. Introduction

The structure of mammoth indirect tax in India is made simplified with the implementation of GST. As it is a unified tax levied at nation level on manufacturing, consumption and sales of goods, it will support and enhance the economic growth of the country. The Goods and Services Tax Bill or GST Bill, additionally alluded to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, will bring about consistency in indirect tax framework of India by imposing tax at each stage of production.

By bringing GST into framework, there is amalgamation of Central and State duties into a single tax payment system. It would likewise upgrade the position of India in both, internal and international market. Under this practice, the consumer bears the final burden of tax however a proficient input credit framework guarantees no cascading effect that is there will be no falling of charges assess on charge paid on inputs which are used in the production of a good. Hence at the customer level, GST would decrease the general taxation rate, which in earlier system was evaluated at 25-30%.

GST has brought together various indirect taxes levied at central and state level under one framework leading to formation of one unified market throughout the country and helps in avoidance of multiplicity of taxes on various commodities. With the incorporation of different taxes into GST framework it has increased the effective cross utilization of input credits. Also this new system is an improved version of taxation because taxes will be levied on point of consumption instead of point of production. (Dani, 2016)

2. Meaning of Tax

Tax can be defined as a compulsory payment to be made by the citizens of a country. The word “tax” is derived from Latin word “taxare” which means to assess. They are levied by the government to regulate demand in the market, to redistribute income, to finance government social welfare activities and many more. Tax policies play an important role in the economy through their impact on both efficiency and equity. It is expected to bring about 2% incremental growths in the GDP of the country. (Khurana & Sharma, 2016)

3. Requisites of a Good Tax System

A good tax system should keep in view 4 R’s of taxation which are Redistribution, Revenue, Representation and Re-pricing.

1) Very first consideration is Redistribution, Tax should be levied in such a way that it will help to reduce gap between rich and poor so as to maintain equitable distribution of income in the economy.
2) Second consideration is Revenue; tax is the largest source of income for government of a country. Therefore, tax structure should be formulated in such a way as to support government expenditure on public services and infrastructure development.
3) Third is Representation; as citizens and government are in contractual relationship where citizens by paying taxes can expect for accountability.
4) Forth is Re- pricing; taxes are used by government as a stabilization measure for regulation of aggregate demand in the economy.

4. Tax structure in India

In India, taxation system is in existence from very early age as we can find its evidence from India’s ancient books. Setting up of administrative tax system in India was done by Britishers during their rule. However after Independence whole tax structure took major reformer changes over time period. India is a federal country where Tax is levied by Federal as well as State Government. The Taxation power at different levels of government has been well defined in Indian Constitution. Government has formed various committees from time to time to review tax structure of India and recommend changes according to needs of economy. At present, there are 37 Governments (a Central Government, 29 State Governments and 7 Union territories) who levy Tax at the different-different Tax rate on different products. Where Central Government collects Direct Tax as well as Indirect Taxes and State Government collects only Indirect Taxes. (devi, 2016)

Direct tax

Direct Tax is a kind of duty, which is charged directly on the Taxpayer and paid directly to the Government by the Taxpayer. In case of direct tax system, impact and incidence

of taxation falls on the same person. It cannot be shifted from one person (Taxpayer) to another. Direct tax is progressive in nature; it leads to more equitable distribution of resources in the economy. There are several Direct Taxes levied in India which are as follows:
1. Income Tax
2. Corporation Tax
3. Property Tax
4. Estate Tax
5. Gift Tax

Indirect tax

An Indirect Tax is one which is imposed on commodity (goods) or services that is paid by the consumer. Indirect Tax is basically collected from intermediary sources such as company, dealer and retailer while the mediator collects Tax from the end user (consumer). In case of indirect tax, impact and incidence may or may not fall on the same person. It can be shifted from one person to another and is not levied directly. Indirect taxation system is more regressive in nature. There are some Indirect Taxes which are as follows:
1. Custom Duty
2. Central Excise Duty
3. Service Tax
4. VAT
5. Entertainment Tax
6. Octroi

As a Progressive and social welfare oriented Country India needs to calculate the requirement of direct and indirect taxes in a fair process. Many studies have shown that a direct tax system generates greater accountability in governance as well as it is more progressive in nature. On the other hand, indirect taxes are more regressive in nature. But too much dependency on direct taxes will be coercive, while fleeting a heavy burden to the society devious indirect taxes will constitute hardships to the common citizen.

India has endorsed considerable transformations in Indirect taxes over the past two decades and displays the verge of new crucial transform action that will prompt this process to a culmination. In India, the Indirect tax is being imposed by the Centre as well as by the states. Both have multiple Special Additional Duty of Customs (SAD) kinds of taxes which include VAT, CST, Excise duty, entertainment tax, custom duty etc. India is one of the 123 countries across the world that is following the VAT mode.

VAT

Value added tax was first introduced by Maurice Laure, a French economist, in 1954. In India, White Paper with basic design for VAT was released on January 17, 2005 by the Finance Minister P.Chidambaram. VAT was introduced both at centre and state level. At first, it was implemented in Haryana in 2003 and later on 1st April 2005 it was introduced in remaining states as an Indirect Tax in the Indian taxation system. VAT replaced central excise duty at the national level. But there are some problems with VAT system. Firstly, it is calculated only on goods, services need to be defined separately and also taxed separately. Secondly, due to multiplicity of indirect taxes in India, many goods were taxed more than once. So there were cascading effects. Third, there were overlapping of taxes as it is taxed both by central and state government. Forth, there was no uniform tax structure in the nation, some states charged lower VAT as to attract investment because due to large population base tax revenue of government do not get adversely affected even after charging lower tax rates. Hence, to overcome these shortcomings of VAT system there was need for a new revolution in tax system of India. (Vasanthagopal, 2011)

History of GST

At present GST has been implemented by more than 160 countries in the world in some form. The first country to implement GST for reducing Tax evasion was France. While some countries like New Zealand and Singapore follows single tax system under GST where everything is taxed at single rate. Some countries follow dual GST structure like Canada, Brazil etc. Canada introduced GST in 1991 as federal GST & harmonized sales tax. Also, China implemented GST in 1994 but only on goods and the provision of repairs, replacement and processing services. There was separate business tax in the form of VAT. India has taken its dual GST model from the Canadian model of GST. GST will be dual in nature covering central GST and state GST.

Table 1: List of the countries implementing of VAT/GST

Region	Number of country
ASEAN	7
Asia	19
Europe	53
Oceania	7
Africa	44
South America	11
Caribbean, Central and North America	19
Total	160

Sources: http://gst.customs.gov.my/en/gst/Pages/gst_ci.aspx (as on 14/08/2015)

Seventeen Years journey of Goods & Services Tax in India:

In India, GST was first proposed by Atal Bihari Vajypayee in year 2000, for which he set up an empowered committee headed by Asim Das Gupta (Finance minister, west Bengal), he was embarked with the duty of planning out the structure for GST and also to have an idea about IT infrastructure through which GST will be rolled out. On the path towards major reform, in year 2004, Kelkar task force after having a detailed insight into impact & need for GST concluded that GST must be implemented. Accepting the recommendation of kelkar task force, in year 2006, finance minister (P. Chidambaram) in his budget speech announced for the implementation of GST from year 2010. In 2007, following the announcement of finance minister, empowered committee of finance ministers of states started working out on the preparation of roadmap for introduction of GST. Empowered task force after intensive discussions submitted its report in year 2008 over progress in the path of GST execution in India. In 2010 finance minister (Pranab Mukherjee) in his speech announced implementation of GST in April 2011, for which 155th constitution amendment bill was introduced by the government of India in lok sabha in

March 2011 for the levy of GST on all goods and services except specific goods. But the process of putting GST into effect could not succeed and was postponed. A second round of trial for the major reform took place in December 2014 and constitution 122nd amendment bill introduced in lok sabha for levy of GST which ultimately passed on 6th may 2015. Thereafter, with required modifications in constitution amendment bill according to certain recommendations for the implementation of GST, empowered committee introduced 122nd constitution amendment bill in Rajya sabha on 22nd July 2015. Finally in august 2016, constitution 122nd amendment bill got final approval in Rajya sabha and GST is imposed all over India from 1st July 2017.

Features of GST

- GST bill which is official known as 122nd amendment of constitution is a step to remove distinction between taxable goods and taxable services.
- It will be levied at the point of sales of good/service.
- It will be charged only on value addition made at each stage of production. For example: assuming GST rate at 8%. If a weaver sells fabric costing Rs. 100 per meter to a tailor then GST collected at this stage will be Rs. 8 per meter. Now tailor sells a readymade shirt to a retailer at sales price of Rs. 250, GST collection at this stage will be Rs. 12 because 8% will be levied only on value addition (sales price less input cost) which is 250-100=150. But price charged from retailer will be Rs. 270 because after input tax claim weaver will claim tax credit for Rs. 8. Hence this is another benefit of GST as it provide for tax credit deduction.
- There exists multiplicity of taxes in old tax system of India; as a result same product was subjected to taxation at many stages. With the implementation of GST all these taxes would be submerged with GST reducing tax burden.
- GST is dual in nature. It comprise of CGST and SGST. CGST is that portion of GST which will be credited to the account of central government and SGST is that portion which will be credited to the account of concerned state government.
- With the implementation of GST, concept of central sales tax will be subsumed with it. This means that in case of interstate trade IGST will be charged. IGST is total of CGST and SGST which will be credited only in the account of central government.
- As many as 1211items are categorized under various tax slabs of GST by Government of India. These slabs are 0% (no tax), 5%, 12%, 18% and 28%
- Gold and Rough Diamonds do not fall in 1211 items categorized by government.

GST Coverage (edelweiss research, 2015)

1) **Central Taxes subsumed under GST**
    - Central Excise Duty (on manufacturing)
    - CST (on interstate sales)
    - Service Tax (on services)
    - Countervailing Customs Duty (CVD)
    - Special Additional Customs Duty (on imports)
2) **Central taxes not subsumed under GST**
    - Basic Custom Duty (on imports)
3) **State taxes subsumed under GST**
    - State VAT
    - Luxury Tax
    - Taxes on lottery, betting, gambling
    - Entertainment Tax
    - Entry Tax
    - Purchase Tax
    - Octroi
4) **State taxes not subsumed under GST**
    - Stamp duty on properties
    - Excise duty on alcohol & petroleum
    - Electricity tax
    - Entertainment taxes levied by Panchayats /municipalities

Pros of GST

1) A solitary enrollment for both CGST and SGST will lessen exchange costs and furthermore superfluous wastages. To make this more viable Government needs to give important IT foundation and joining of States level with the Union.
2) With the introduction of GST, Tax on Tax i.e. variety of tax collection will be disposed of. Various charges right now demanded on each level of exchange will be lessened. This will help clearing the disarray made by existing indirect charges and furthermore decrease the paper work related with them.
3) There won't be any dread of tax collection that may manifest at any phase of inventory network. This won't just push the business group to choose value modalities and inventory network yet additionally the purchasers over the long haul. As the cost will not be the primary concentration of producers but rather the development and business insight will be, hence goods in the market will become more competitive.
4) With the implementation of GST, average tax burden will be reduced and consumers will be benefited the most as a result of it.
5) Execution of GST will reduce multiplicity of taxes thereby leading to reduction of corruption in the nation.
6) Input tax credit – full credit on input/input services will lead to lower cascading impact of taxes
7) Shift from unorganized segment – higher compliance, lower tax evasion & arbitrage, leading to shit of demand to organized players.
8) Logistics/ warehousing cost benefits – rationalization of warehouses and effective inventory/ supply chain management. (edelweiss report (manoj bahety, nilesh aiya, ankit dangayach), 2015)

Concealed Benefits of GST

In the wake of describing key advantages of GST, for example, assisting helpful federalism, decreasing debasement and spillage, rearranging complex tax structure and implementing one tax unifying the nation into one market, the overview goes ahead to list "concealed advantages" of GST. (economic times, 2017)

1) Textile sector inclusion – In earlier system of taxation, some parts of the value chain were not the part of tax net and fabrics was one of those not included leading to informalisation and avoidance. But with the implementation of GST, textile and clothing sector is now fully part of the tax net. A few oddities favoring

imports of textures over residential creation should be corrected yet generally speaking the tax base has extended according to economic survey II

2) Work contracts – greater transparency and formalization of cement, steel and other sales has been made possible with the implementation of GST as it lead to inclusion of work contracts into tax framework. The need for documentation of input purchases as to claim input credit by builders will be the cause of formalization.
3) Effective taxation of imports - Implementation of GST will lead to more adequate taxation of imports as compared to earlier system because in GST system tax will be levied at point of consumption thereby resulting in full taxes by central and state government on domestic sales of imported goods into the country as well as full tax credit available down the chain to a greater extent as compared to earlier system.
4) Financial inclusion- Under GST system, it is mandatory for many businesses to keep a detailed computerized record of their transactions making it possible to have a real time track record of tax liability of business. Also this data can be used by credit rating agencies for finding the creditworthiness of business for lending purposes. However due to some credit constraints, some businesses cannot credibly exhibit their budgetary capacity.
5) Smoother transport – On the roadmap of GST, as many as 24 states have so far obliterate there check- posts and many more are on the path of doing so. If this pattern proceeds, there will be reduction in fuel costs, transportation costs and corruption leading to increase in interstate trade widening the tax base.
6) Increase in foreign investment – The fruitful usage of GST will work as positive signal to foreign investors about India's expanded financial soundness, lesser consistence and procedural expenses in the tax assessment circle and evacuate the complexities confronted by the outside financial specialists who were hesitant to put resources into agreement with the presence of virtual monetary zones all through the nation.

Cons of GST

The inquiry is: is the photo as blushing as it is depicted?

Wall Street firm Goldman Sachs, in a note 'India: Q and A on GST — Growth Impact Could Be Muted', has put out appraisals that demonstrate that the Modi Government's model for Goods and Services Tax (GST) won't raise development, but will push up the costs of swelling for consumers and may not bring about expanded tax revenue accumulations for government (Thehindu) (mehra, 2015)

GST tax regime has certain loopholes which may be pernicious in furnishing the expected results. They are:

Adoption of dual GST rather than National GST has made the tax structure more complicated in India. Dual GST covers Central GST & State GST accordingly centre will need to coordinate with 29 states and 7 union territories for the smooth organization of GST regime. As such it is more likely to create many economic and political issues in the Economy. In the process of determination of GST rates, the States are likely to lose their say as soon as GST got implemented.

Success of GST in India is based on solid IT organization and as we all know very well that India is still in the developing stage of digitization. Moreover, the fast growing sector e-commerce seems to be ignored by the government as it is almost impossible to track transactions taking place through internet and e-commerce has left no other way of transaction outside internet. New methods can be produced to track such exchanges however until the point when such advances turn out to be promptly available, era of tax income from this area would keep on being dubious and much underneath the desire. Again E-business has been protected against tax collection under custom obligation ban on electronic transmissions by the WTO Bali Ministerial Conference held in 2014. (centre for public policy research, 2015).

5. Conclusion

GST structure in India can be concluded as different and more complex as compared to other countries because in India this unified system is actually dual in nature which is managed by centre and respective state governments. Also, many duties like electricity duty, stamp duty etc are not covered in the regime of GST. However Impact of GST falls on many broad sectors of economy like big, medium and small scale industries, traders, professionals and consumers. This will broaden the tax base as well as tax revenue of the government which thereby helps in boosting overall growth rate of the economy.

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