

Tax System India: Before and After GST

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Abstract:- India is a developing country and India has a well developed tax structure, various indirect taxes were applied to goods and services in India by the central government and state government. An up-gradation was required to rectify the major fault of the indirect tax structure. Goods and services tax (GST) are becoming one tax which includes all these taxes. This paper deals with the structure of the Indian taxation at the past. The background, features of the GST and the impact of GST in the present scenario are also dealt with. It is considered that Goods and Services tax will remove all the complexity of the tax policy which was existing in India and will create a positive impact on Indian economy.

I. INTRODUCTION

The Indian had a tax structure, which can be broadly divided into two parts, namely, direct tax structure and indirect tax structure. Direct taxes were levied on individuals and corporate entities and cannot be transferred to others. In direct tax again two taxes were there: Income tax and wealth Tax. On the other hand, indirect tax were levied on goods and services rather than on income or profits. In case of indirect tax part, numerous taxes were there: Value Added tax (State Level), Central Sales tax (Central Level), Service tax (Central Level), Excise duty (Central & State Level), Customs duty (Central Level). A brief of review of Indirect Tax Structure which were in India are given below:

- Value Added tax (VAT): Formerly it was a state level sales tax, which was replaced by value added tax with effect from the year 1st April 2005. VAT is implemented in all states of India except Jammu & Kashmir.
- Central Sales tax: It is the Central level sales tax which is levied on sales if sales occur in the course of Inter State Sales. CST levied as per Central Sales tax Act, 1956.
- Service tax: It is the central level indirect tax, which is levied on the value of taxable services. Taxable services are mentioned in section 67 and 67A of Finance Act 1994. There is no Service Act, but there are service tax Rules which are inserted in the Finance Act.
- Excise duty: Excise duty is both Central as well as State level indirect tax, which is levied on all excisable goods.
- Customs duty: Customs duty is one type of indirect tax levied on goods imported into India as well as on goods exported from India. Taxable event is imported into or export from India.

II. BACKGROUND OF THE STUDY

There was some loopholes on the Indian indirect tax structure, which can be generalized as follows:

Substantial change was made in the state level Tax structure in the year 2005. State level Sales tax is replaced by Value Added Tax. This up-gradation is made due to major faults in Sales tax structure i.e. cascading burden. This limitation is eliminated through tax credit method. But the most vital disadvantage of Value Added Tax is that the different rates are charged on different goods under VAT. Charging Tax on inputs and outputs at different rates are really problematic. In the case of Central Sales tax another limitation is that the advantage of the tax credit is not available. The same problem was there in case of the State level Sales tax before implementation of Value Added Tax. Besides, export sale is considered under CST but that is exempted in form 'H' as per CST ACT.

In case of Service Tax only in some specified cases the advantage of CENVAT Scheme can be availed. CENVAT is available for excisable goods also. The main limitation of CENVAT is the involvement of additional customs duty. Surcharges are also excluded from CENVAT mechanism. Considering this background another concept of a tax has been newly introduced where, excise duty, special additional duty, service tax, VAT etc. to name a few will get replaced and will be added into a single tax named Goods and Services tax (GST).

III. OBJECTIVES OF STUDY

It may be considered GST is undoubtedly a good attempt to reform the existing indirect tax structure of India. Considering the benefits of implementing GST in other countries of the world, whether implemented GST can remove the complexity of tax policy which was in India or not. Whether the GST can work as the boost of economic growth of India or not? On the basis of the above requirements the objectives of the study can be formulated as follows.

- To provide a brief idea of the tax structure which was existing in India
- To assess the impact of Goods & Services Tax on Indian economy as a whole.
- To identify limitations of Goods & Services Tax.
- To identify the impact of Goods & Service Tax on consumer behavior.

IV. RESEARCH METHODOLOGY

Data from secondary sources have been used in this study. Information and data have been collected from different secondary sources like various websites, news papers, books, research papers and different PDF documents.

V. DATA FINDINGS AND ANALYSIS

This part of this paper covers GST related issues based on the objectives of the study. The concept of GST and its emerging issues, GST and its global scenario, impact of GST on the country's economy and some limitations of the study has been discussed.

Basic Concept and overview of Goods & Service Tax

The Indian government has implemented the new indirect tax regime GST from 1-7-17 to avoid the complexity indirect tax structure of our country. In the indirect tax structure numerous indirect taxes are imposed on the central and state level on the product which increases the selling price of

the final finished goods. As a result, people bear the huge amount tax burden. The socioeconomic conditions and income distribution pattern in India is not equal, so it is difficult to bear the indirect tax burden in various levels along with the direct tax. In this complicated situation, it seems to introduce something new which can reduce the average tax burden. GST is a single point indirect tax, which is proposed to replace all other taxes. The experts in this particular field realize that definitely GST will help to administrate the tax system transparently. Almost 140 countries have already implemented GST and positive results are coming out. On the basis of this reality, it may be expected that GST in India will also give a successful result.

Tax Covered Under GST Model

Tax under CGST: At central level, central excise duty along with additional excise duty, surcharge, service tax, additional customs duty and special additional duty etc. will be covered under CGST.

Tax under SGST: At the state level, value added tax, sales tax, entertainment tax, tax on lottery, gambling etc. will be covered under SGST. **Goods excluded GST:** Alcoholic products and Petroleum products are excluded from GST regime. Tax on Alcoholic and Petroleum products will be levied as per existing practice.

Global Comparison

India is now one among those countries who adopted GST. One should be wary of lessons learnt in countries that have implemented similar GST. Almost 140 countries in the world have already adopted the GST model in their tax policy. France was the first country who introduced goods & services tax structure in the year 1954. Only Brazil and Canada have adopted the dual concept of GST model. This dual GST system is proposed in India i.e. CGST and SGST model. Due

to its worldwide acceptability it is really helpful to overcome the tax complexity of different countries in the course of international trade. Except Brazil and Canada all other countries have adopted the Single GST model which is considered as far better than the dual system in terms of simplicity and tax burden. Europe is the top most continents in terms of indirect tax collection.

Impact of Goods & Services Tax

Tax structure in any country is very much essential for enhancing the economic growth of that country. A simple and effective tax structure can help to generate the government revenue, which can be used for the purpose of infrastructural development. As GST is the one tax which aims to replace all indirect taxes, definitely it is having simplicity which may help to enhance the tax structure in India. Following facts may be considered beneficial while introducing GST in India:

1) **International Trade:** A common and uniform tax rate may reduce more complexity on tax treatment. If a common tax structure is followed worldwide, really it is helpful in enhancing international trade. It may help in removing some trade barriers. International trade refers to the amount of export and import between two nations. The amount of export and import of goods & services is shown in an account called Balance of Payment (BOP) Account. There are two sides

of BOP Account. Transactions relating to export by which foreign exchange reserve increased are recorded in the Credit Side and transactions regarding import by which foreign exchange reserve decreased are recorded on the debit side of the BOP. Difference between credit and debit side is called either deficit or surplus.

One of the most common ways of recovering trade deficit is export promotion and import substitution. GST emphasizes on this by making export sales Zero Rated. This will help in increasing competition of Indian commodities in the International Market. If export can be

increased by reducing the tax burden then definitely that will help in increasing the foreign exchange reserve.

2) **Reduction in average tax burden:** GST is one tax or single indirect tax policy applicable for majority commodity. The tax burden is high in that case when various indirect taxes are imposed as the prices of the final products are increased. So, from customers' perspective tax structure is comparatively complex and may not be considered economical. On the other hand it is difficult for different industries, mainly for manufacturing industries to overcome the situation in the competitive business environment.

GST aims to reduce the average tax burden by imposing a moderate rate of tax which will definitely help in the manufacturing as well as the corporate sector. Service sectors, industries and customers can avail product at a low price which will enhance economic growth of the nation.

3) **Uniformity in Tax Structure:** Earlier, it was stated that

already 140 countries have implemented the GST model which is defined as a unified tax system. Although in the present age of globalization, the uniform tax rate is very essential, but in India till now this is in the implementing stage. So, the proposed dual GST system will definitely provide uniformity in tax structure which will be beneficial for the country.

4) **Simplicity in the Tax Structure:** Generally Indian tax structure is very comprehensive because different types of taxes are included in the tax system and their concepts are also different. If tax system can be made simple to some extent definitely that will be helpful for the public to understand the tax structure as whole easily. GST is such an aim which will make the existing tax Structure simple.

5) **Growth of manufacturing & service industries:** GST will enhance the growth of manufacturing industries and service industries, the growth of manufacturing & service industries by reducing the tax burden. Due to the reduction Tax burden price will reduce and demand of products will increase. Increase in demand will help in generating employment opportunity also.

Limitations of goods & services tax

Following are some of the disadvantages of goods and service tax.

1) **GST is nothing but a VAT mechanism :** GST mechanism is completely similar to the VAT mechanism. VAT is only applicable to state level basis, whereas GST is related to both state central levels. Under GST mechanism tax is to be paid on output and Tax paid on input will be allowed as “Input Tax Credit” like VAT mechanism. There is a marginal difference between the VAT and GST. Only all indirect taxes are merged with one name, adopting the VAT mechanism.

2) **Only a change in Tax structure, not Tax burden:** GST may be considered as the up-gradation of tax structure, not change of the tax burden. Although GST is a single indirect tax and one uniform tax rate is applicable, there are so many tax burdens included in GST i.e. Additional excise duty, additional customs duty. So, the question may arise whether GST can reduce the complexity of indirect taxes and the tax burden of Tax payers or not.

3) **The simplicity of the name, not in the tax structure:** In India dual concept (central level and State level) of GST has been proposed to replace almost all indirect taxes like VAT, sales Tax, service tax, and excise duty. Now the question is whether this structure will be successfully performed or not.

VI. CONCLUSION

As GST is “single taxation system”. The main expectation from this system is to abolish all indirect taxes and only GST will be levied both on goods and services. Goods & Services tax may be a remarkable taxation reform in India. GST will create a single unified Indian market to make the economy stronger. Through a tax credit mechanism, this tax is collected on value added goods & services at each stage of sales or purchases in the supply chain. It is nothing but the integration of Indirect tax structure with other countries of the world. Compared to the other countries it can be said that it is a well accepted tax policy all over the world.

BIBLIOGRAPHY

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