



# **TAX REFORM IN INDIA: A CASE STUDY OF GST**

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**Lecture in commerce**

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## ***ABSTRACT***

*The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of world. It will also improve the International cost competitiveness of native Goods and Services. GST will provide unbiased tax structure that is neutral to business processes and geographical locations. It will help to avoid distortions caused by present complex tax structure and will help in development of a common national market. The present research paper is an attempt to study the present tax structure in India and the relevance of goods and service tax in the tax structure.*

**Keywords:** *GST, Tax structure, VAT*

## **INTRODUCTION:**

The origin of the word "Tax" is from "Taxation" which means an estimate. These were levied either on the sale and purchase of merchandise or livestock and were collected in a haphazard manner from time to time. Tax policies play an important role on the economy through their impact on both efficiency and equity.

A good tax system should keep in view issues of income distribution and, at the

same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. This argument can be extended to international competitiveness of the adversely affected sectors of production in the economy.

Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy. Taxation refers to the act of laying a tax, or of imposing taxes, as on the subjects of a state, by government, or on the members of a corporation or company, by the proper authority; the raising of revenue; also, a system of raising revenue.

To tax (from the Latin *taxo*; "I estimate") is to impose a financial charge or other levy upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law. Taxes are also imposed by many sub-national entities. Taxes consist of direct tax or indirect tax, and may be paid in money or as its labour equivalent (often but not always unpaid labour). A tax may be defined as a "pecuniary burden laid upon individuals or property owners to support the government a payment exacted by legislative authority.

GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between

states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries.

Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST).

CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is

not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

## **LITERATURE REVIEW**

Agogo Mawuli (May 2014) 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.

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.

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.

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.

## **TAXATION IN INDIA**

"The king should take wealth from his subjects at the proper time. Like an intelligent man milking his cow every day, the king should milk his kingdom every day.

As the bee collects honey from flowers gradually, without causing harm to the tree; the king should draw wealth gradually from his kingdom for storing it."- Bhishma's counsel to Yudhishtira. (Mahabharata, Book 12: Santi Parva: Raja dharmanusasana Parva).

For a developing economy like India it is desirable to become more competitive and efficient in its resource usage. Apart from various other policy instruments, India must pursue taxation policies that would maximise its economic efficiency and minimise distortions and impediments to efficient allocation of resources, specialisation, capital formation and international trade. With regard to the issue of equity it is desirable to rely on horizontal equity rather than vertical equity. While vertical equity is based on high marginal rates of taxation, both in direct and indirect taxes, horizontal equity relies on simple and transparent broad based taxes with low variance across the tax rates.

Traditionally India's tax regime relied heavily on indirect taxes including customs and excise. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy

reliance on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations. Another argument for reliance on indirect taxes was that agricultural income was not subjected to central income tax and there were administrative difficulties involved in collecting taxes.

Taxes in India are levied by the Central Government and the state governments. Some minor taxes are also levied by the local authorities such as the Municipality. The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State.

The Central Board of Revenue or Department of Revenue is the apex body charged with the administration of taxes. It is a part of Ministry of Finance which came into existence as a result of the Central Board of Revenue Act, 1924. Initially the Board was in charge of both direct and indirect taxes. However, when the administration of taxes became too unwieldy for one Board to handle, the Board was split up into two, namely the Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) with effect

from 1 January 1964. This bifurcation was brought about by constitution of the two Boards under Section 3 of the Central Boards of Revenue Act, 1963.

### **RESEARCH METHODOLOGY**

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

### **SIGNIFICANCE OF GST**

Traditionally India's tax regime relied heavily on indirect taxes including customs and excise. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations. Another argument for reliance on indirect taxes was that agricultural income was not subjected to central income tax and there were administrative difficulties involved in collecting taxes.

Even though the country has moved on the path of tax reforms since mid 1980s yet there are various issues which need to be restructured so as to boost productivity and international competitiveness of the Indian exporters. Sales of services to consumers are not appropriately taxed with many types of services escaping the tax net. Intermediate purchases of inputs by the business firms do not get full offset and part of non-offset taxes may get added up in prices quoted for exports thus making exporters less competitive in world markets.

In order to simplify and rationalise indirect tax structures, Government of India attempted various tax policy reforms at different points of time. Through 1950s to 1970s, base of the indirect taxes particularly excise duties was widened. In case of excise duty, attempts were made to curb the consumption of luxury and semi luxury items, mopping excess profits in the case of commodities in short supply and for encouraging exports. In 1975-76, a general levy of one per cent ad valorem covering all goods produced for sale or other commercial purposes not specified in the central excise tariff was imposed with exemptions for a few items

### **FEATURES OF GST**

## **AMBIT OF GST**

1) It is applied to all taxable goods and services except the exempted goods and services and on transactions below the threshold limit.

2) Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate.[Proposed article 366(12A)]

3) Petroleum products [crude oil, HSD(high speed diesel),motor spirit( petrol), natural gas, ATF(aviation turbine fuel)] are initially exempted from GST till the GST Council announces date of their inclusion.

4) Tabaco products are included in GST along with central excise tax.

## **IMPOSITION AND COLLECTION OF GST**

1) The power of making law on taxation of goods and services lies with both union and state legislative assemblies. A law made by union on GST will not overrule a state GST law.(proposed article 246A)

2) GST has two components CGST and SGST as discussed above. CGST will be collected by central government whereas states governments will collect SGST.

3) I GST is levied on supplies in the course of interstate trade including imports which is collected by central government exclusively and distributed to imported states as GST is destination based tax. The proportion of distribution between center and states is decided on recommendation of GST Council.(proposed article 269A)

## **CONCLUSION**

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 simplify, 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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