THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Goods & Services Tax: Indirect Tax Reform in India

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Abstract:
This paper brings out not only the timeline of Goods and Services Tax in India, but also the possible circumstances that led to such a reform in indirect taxation. With the introduction of goods and services tax (GST), a variety of indirect taxes will be subsumed and the tax regime will be largely simplified. As such, light is also thrown on how GST differs from the existing indirect taxes and its advantages over them in terms of ease in collection and how it brings out the underground activities that are not taxed by the existing taxes. This paper also focuses on the potential consequences and the hurdles that India may face due to Goods & Services Tax. Since the concept of fiscal federalism is nestled by the GST, my paper also explains how taxes will be distributed between the centre and the state. The impact on manufacturer and consumer states is also investigated in this paper.

Keywords: *GST, Indirect Tax, Fiscal Federalism, Tax Reform*

1. Introduction

From the 2000-year-old decree by Ceaser Augustus that the entire world should be taxed; taxes were also levied by other European empire in various forms to fund the military as well as civil expenditure.

Being a compulsory contribution, tax is imposed on the subjects of a state, by government or by the proper authority. Tax is compulsory in the sense that failure to pay is punishable by law. The taxes are to be paid periodically as determined by the taxing authority, to meet the general expenses of the public. Forming a major part of the public revenue, the taxes don't reciprocate benefits only to those who pay the taxes.

In India, however, there are evidences of taxation from Manu Samriti and Arthashastra but modern system of taxation took flight only in 20th century. Since GST is an indirect tax, it is pertinent to study the evolution of indirect taxation in India.

2. Indirect Taxation: Evolution in India

The term "indirect taxes" generally refers to taxes levied on the basis of production, sale or purchase of goods such as import and export duties, excises, and sales taxes. Since the impact and incidence of tax is on different persons i.e. the tax can be shifted, they are called Indirect taxes. Indirect Taxes such as excise duty was collected on liquor and salt during Mauryan period, while the Mughals and the British assertively taxed salt, sugar, cloth, leather, and dairy products. A beginning was made towards a modern excise system when duty was imposed on cotton yarn in 1894. Gradually, it included motor spirit in 1917 and kerosene in 1922. Post independence, a variety of indirect taxes like Sales Tax, Customs Duties, Excise Duties, Service Tax and VAT began to be levied, increasing the tax base in India.

3. Indirect Taxation Reforms Prior to GST

In 1935**,** tax on sales of goods was made a provincial subject. The state of Madras introduced Sales Tax in 1939, Punjab in 1941while other states followed. Introduction of value added tax (VAT) in India was also suggested by L.K. Jha. Indirect Taxation Enquiry Committee was formed in 1976 to suggest reforms that enable picking out the loopholes in indirect taxation in India. It submitted its recommendations in 1978 consequent upon which, a Modified Value Added Tax (MODVAT) was introduced on March 1, 1986. Since MODVAT was levied only on few commodities, Raja J Chelliah headed another committee that was formed on August 29, 1991. Meanwhile Service tax was introduced in 1994. Chelliah recommended the introduction of VAT at the manufacturing level covering all goods; The recommendations were accepted and on April 01, 2000 MODVAT gave way to Central Level Value Added Tax (CENVAT). By 2005, all states of India introduced VAT, following Haryana which was the first to do it in 2003.

4. Why GST when VAT is there?

VAT is applicable only for goods sold while services were taxed by the Service tax. GST will be applicable for both goods and services. The tax rate will be the same for both under GST regime. The GST subsumes a variety of indirect taxes while VAT was just another tax. Also, the rate of taxation by centre and the state is same under GST unlike VAT. So definitely, GST is an improvement over VAT.

5. Goods & Services Tax: Timeline

The Empowered Committee was formed on July 17, 2000 members of which were FMs of seven states. The objective was to monitor the unhindered implementation of the then proposed VAT across the nation. Subsequently, the FMs of all the States joined EC and it was registered as a society on August 17, 2004.

In his 2006 budget speech, P Chidambaram, then FM mooted the idea of moving towards GST. He asked the representative body EC to come up with a framework. Consequently, after rigorous consultations between the centre and the states, the first discussion paper on GST was released by EC in November 2009. The concept of consumption based taxation was also backed by the 13^{th} Finance Commission.

The constitutional bill was introduced in Lok Sabha in 2011. Amid vehement oppositions, it continued to delay and the bill lapsed when 15^{th} Lok Sabha dissolved in May 2014. After taking to power, the NDA government introduced the revised constitutional amendment bill (122^{nd}) in Lok Sabha in December 2014, which was passed in May 2015. The bill was tabled in Rajya Sabha and was passed too.

According to the 122nd CAB, the term 'GST' means *"any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption."* while Services means '*anything other than goods*'.

6. Goods & Service Tax

As a substitute for all indirect tax levied by state and central government, GST is a consumption based tax levied on sale, manufacture and consumption on goods & services at a national level.

The subsuming of various central and state indirect taxes like Central Excise Duty, Additional Excise Duty, Service Tax, Countervailing Duty, and Special Additional Duty of Customs; State Value Added Tax/Sales Tax, Entertainment Tax, Central Sales Tax, Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling, into GST will make India a unified common market. Since, it will be levied and collected at each stage of sale, it is expected to make manufacturing more efficient.

7. Exception to GST

GST would apply to all goods and services barring crude petroleum, motor spirit, diesel, aviation turbine fuel and natural gas.

8. Administration of Goods & Service Tax

Though GST is being attributed as a single tax on the supply chain, it will be administered by Central GST, State GST and Integrated GST. The tax shall be levied separately but concurrently by the Union (CGST) and the States (SGST). The Parliament would have exclusive power to levy GST (IGST) on inter-State trade or commerce (including imports) in goods or services. With set-off credit benefits at all the previous stages, unlike the present tax regime, the final consumer will bear only the GST charged by the last seller in the supply chain.

9. Positive Consequences

The introduction of GST is a considerable step in the reform of indirect taxation in India. It amalgamates several central and state taxes into a single tax and as such, the positive consequences include:

- It will do away with the cascading effect of taxation, facilitating a common national market
- A common tax would facilitate easy compliance.
- Uniform accounting reduces the procedural costs, and as such GST implies easier administration and enforcement.
- The reduction in the overall tax burden on goods will be a reliever for the consumer lot.
- Since a lot of economic activities escape taxation, GST is expected to disincentivise tax evasion and raise larger revenue.
- GST is structured to reduce manufacturing costs. This makes exports more competitive.
- It facilitates hassle free supply of goods on account of reduction of stoppage time at check posts.
- GST also means cheaper goods; fairer prices for consumers.

10. Negative Aspect

- It is not a single taxation system but a dual tax on a single transaction of sale and service.
- Lot of administrative expenditure will have to be undertaken. There would be an increase in paper work and compliance costs.
- States with high consumption of Goods and Services will have better revenues. The manufacturing states will have to be compensated. One-size-fits-all policy is archaic.
- Cheaper imports would adversely affect make-in-india campaign.
- Credit benefits will be applicable only if proof of payment by the seller is furnished.

11. Conclusion

The transformational shift from a complex multilayered indirect taxation system to a unified indirect one brought about by gst will directly affect all stakeholders of the economy. Though GST is a reform long delayed. There are enough good reasons not to hurry it. India's GST will be the world's most complex versions of GST according to Arvind P. Datar & K. Vaitheeswaran. It should be implemented in stages, on a trial basis in a few manufacturing, trading and services sector. This will reveal possible hurdles that require attention and both infrastructural aisle.

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