

## IMPACT OF INDIRECT TAX REFORMS TO GST

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### ABSTRACT

*Taxation is the backbone of any developing Economy. Country fully depends on its revenue structure and a main cause of public revenue in any Country is taxation. So, tax reform is the way of changing in the process of taxes which is the improving the tax system and tax reform is benefits for tax evasion. The efforts to reform India's tax system began in mid-1980s. After the implementation the multi indirect tax converted into one tax system in India i.e. GST. The GST came into at 1 July, 2017 under implementation 122nd amendment by the India. GST implementation in country was a big impact on every sector. After the GST introduce a manufacture sector should stand to benefit due to removable of complex tax system. GST has reduce the some of the tax rate from 25% to 40% with certain categories being tax to low rates. GST rates can be classified 0% to 28% there could be a reduction of tax rates in several item. This paper presents an overview of GST impact on India like business affect, tax revenue of government increase or not, advantage or disadvantages of GST, features of the GST, four-tier tax rate structure, etc.*

**KEYWORDS:** Tax, Indirect Tax, GST, Developing Economy, Revenue Structure, Tax Reform.

### Introduction

Economy of a country fully depends on its revenue structure and a public revenue source in any country is taxation. In India the tax is imposed by the ancient time. It is written in a Sanskrit mahakavyaraguwansham by the Kalidas for the king Delip that "It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold." In India, the system of taxation is not known today, it came from ancient times. That are mentioned in Manu Smriti and Arthasastra to a multiplicity of tax methods on the subject openly shows the presence of a well-planned taxation system, will develop a state. So if the tax structure of any country is simple and understandable by its citizens then the country will grow and people will willingly contribute in taxation and we will get the Progressive GDP and vice versa.

As the time changes, we need improvements in the methods and structure of tax system. So increase the tax collection and make it simple, transparent and understandable to the citizens. So tax reform is the way of changing in the process of taxes which is the improving the tax system and tax reform is benefits for tax evasion. In India the tax structure opted after the Independence was very critical and filled with numerous problems such as tax evasion, irregular tax collection, dual taxation etc. Due to that people started taking tax as a burden instead of contribution so government felt the need for reforms and the first step taken by the government towards tax revolution in the mid-1980, government issued first long term fiscal policy and as well as prepared the new system for Indirect tax structure after that the reforms accelerated in 1990s due the liberalization after that government never look back and the process to make taxation simple started but the process and tax-rats was different in different stats so government felt the need of a uniform tax structure and on the reference of Vijay Kelkar committee government introduced GST in 2006 and the GST come into act from 1 July 2017 i.e. implementation 122nd amendment by the India. After the implementation the multi indirect tax converted into a one tax in India i.e. GST.

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### **Objective**

To analysis the effect of GST in the behalf indirect tax system in India.

### **Research Methodology**

Being an explanatory research it is created on secondary data of various source. Considering the aims 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.

### **Benefits of Study**

The study helps in understanding the impact of Goods and service tax launched by government to resolve the challenges and problems in current indirect tax structure in India.

### **Overview of Major Tax Reforms in Indirect Taxation**

The efforts to reform India's tax system began in mid-1980s when the government announced a Long Term Fiscal Policy, 1985. This policy recognized that the fiscal position of the country is going downhill and they need to make changes in the taxation system. In that decade, a technical group to review and rationalize the central excise duties was established and this led to introduction of Modified System of Value-Added Tax (MODVAT) in 1986. To rationalize the custom duties, the harmonized system of the classification of goods was introduced. Government appointed a Tax Reforms Committee under Prof Raja Chelliah to lay out plan for restructuring India's tax system. This TRC came up with three reports in 1993, 1992 and 1991 with several measures, which can be summarized in these points:

- Improving the quality of tax system.
- Improving the personal taxation system by decreasing the marginal tax rates,
- Corporate tax rates,
- Cost of imported inputs by lowering the customs duties,
- Number of Customs tariff rates and its rationalization.
- Make simpler the excise duties
- Excise duties mixing with a VAT system.

Making a tax information and computerization makes the quality of tax administration increase. Chelliah committee are still going on for tax system. Later on Vijay Kelkar provide further direction in tax system changes in the country. The states also followed the suit and enacted the VAT acts to replace the sales tax with Value Added Tax. Following are the key indirect tax reforms done

### **Reduction in Custom Duties**

Duties In 1990, the custom duty on non-agricultural products was around 128%. It was brought down gradually. Currently, the average custom duties are 11-12%, however, they range from 0 to 150%.

### **Central Excise**

Central Excise duties were first replaced with MODVAT and now CENVAT is applicable. The number many types of duties was cut down..

### **Service Tax**

Service tax was first introduced on some limited services in 1994-95 at 7%. The rate was gradually increased and so was the number of taxable services. Currently, we pay up to 15% service tax on around 119 services.

### **Goods and Services Tax**

The GST is a biggest change in the current tax system when it is introduced on 1st July 2017 in the India. GST implementation in country was a big impact on every sector .After the GST introduce a manufacture sector should stand to benefit due to removable of complex tax system.

GST has reduce the some of the tax rate from 25% to 40% with certain categories being tax to low rates. GST rates can be classified 0% to 28% there could be a reduction of tax rates in several item

### **Main Structures of the GST are as under:**

- **Dual Goods & Service Tax:** Central Good and Service Tax and State Good and Service
- **Inter-State Transactions & the IGST:** The Central Government levied IGST when goods sale one state to another state or inter-state sale .IGST pay to Central government after adjusting of input tax which already pay to the government on behalf of purchase goods

- **UTGST:** The Unitary Government leaved UGST when goods and services supply with in the UT.
- **Consumption Tax:** GST will be a consumptions tax.This means that all SGST which is collected by the customer is merged in GST.
- **Computation of GST on the base of Output tax and Input Tax :** The output tax collected by assessee when the goods sold to the customer and input tax pay the assessee when Goods purchase to the dealer after the adjustment of output tax and input tax final amount pay to Government. For e.g.: output tax is 1000 Rs and input tax is 300 Rs so final GST pay to Government is 700 Rs.
- **Payment of GST When Goods and Services Supply in State:** The Central and State GST paid each other respectively in his accounts.
- **GST IT System:** GST network are setup online that share services over network i.e. tax payer,tax return GST registration etc.
- **Procedure of Input Tax in GST:** Central and state government allow to Input Tax Credit for CGST & SGST
- **GST on Imports:** Import of goods will be subject to basic customs duty and IGST.
- **Keeps of Records:** A Taxpayer maintain the separate books of accounts for the utilization and refund of the input tax credit.

GST convert many indirect tax and cess which earlier levied in the country. The tax revenue collect by central or state government in various indirect source but current economic want to reforms in tax system so the economy of India are increase and easy taxation system to understand every human being. Now GST will be boot of the Indian economy market its beneficial for all person. Our nation has gained a lot from GST.

#### **Advantages of GST**

- All GST system is online is called GSTN. It is helpful to assess to do everything in online like registrations, returns, payments, etc. which would make easy and transparent.
- It is paperless system.
- GST will be common for all the state and UT such as tax rate of GST is equal to across the country and it is ease to doing business.
- GST will reduce hidden charges of business and the customer easy to know GST amount which is to be pay
- Decreasing the charge of tax return because in old system business man pay different tax return like excise duty, sale tax, service tax, etc but in new system only one return pay is GST return.
- The FDI was facing problem to development in India because they don't understand the multi tax system in India. Now is easy to know the tax system after the execution of GST because it already implemented around 150 other countries.
- GST was replaced multiple tax system which was levied by Central and State Government.
- GST is the better result of different tax combine into a single. In making of GST structure is tax agreement by traders.
- After apply of the GST is assumed that the cost of the collection of the tax revenue is decrease because GST system is purely online system. So GST is paperless and systematic way of collection. GST evasion of the tax and leakage of the tax and also decrease the tax burden of lots of commodity.

#### **Disadvantages of GST**

According to the specialists, GST only the new name of tax system almost around they apply previous tax system such as , kind of old wine in a new bottle, central sale tax convert into IGST both are similar.

- The Service Tax which stood at 15% in the previous regime has now been replaced with GST at 18%. As such many services have become costlier after implementation of the GST like banking sector, transport medium, handicraft, and education sector in GST.
- The GST Act is binding by the law of Central and State Government to businessman. This has increase the complexity for many businessmen across the nation.
- Post GST implementation, the first few instances of application have resulted in high tax outgo

for businesses. Claims are made by business of input tax but several tax cases are mismatch of information .As a result, there is confusion among the tax filers.

- As many of the thing is related to disable people which were previously tax free are now in GST(brail paper, typewriter, hearing aid and motorized wheelchair were tax-free whereas these are include in GST taxation) so opposition is called as Disability tax.
- On the other side government has decide to tax banking and insurance service at high rates in comparisions to previous one.
- GST has also had an impact on discount and reward programs as well. The product is being taxed on the rates pre-discount whereas earlier taxed at post discount prices. Because of the complexities of GST many of the company cancelled the rewards programs.
- The government has launched in mid-year of accounting year so many problem facing by the businessman like as policy change, software change etc.
- As per GST system the business man register every branch in every state where it is doing his business like one branch in Gujrat and another on in Mumbai So, both branch has to register separately and if one branch send goods to another branch then it also pay the GST.

GST has been collaborate between Central and State government for better taxation system which is duly delivered. So both aspect some advantages and some disadvantages.

#### **Tax Structure in GST**

GST tax structure is classified in CGST, SGST,UTGST and IGST.GST Tax Rate is 0%, 5%, 12%, 18% and 28% apply on goods in India and GST high peak rate is 40% after discussion of the council. The lowest rate apply on daily bases product and highest rate is applicable on luxury items. Service tax was raised rapidly from 12% to 14% to 15 % which was harmful for the service industries like airlines, telecom, restaurants, hotels etc. Service industries is beneficial after apply the GST. FMCG raised up to 24 to 25 percent but after the GST tax procedure it may reduce to 18 percent but some of the tax are in 28% which is disappoint for the market . As the telecom affected by GST system 18 to 15 %.Therefore, these item cannot come under VAT and input tax credit.

Central taxes to be engaged under GST are Central Sales Tax, Service Tax, Central Excise Duty, Countervailing Duty,Custom Additional Duty, Central Surcharges and Cesslike cess on coffee, rubber and tea, and national calamity contingent duty. State taxes to be absorbed under GST are Value Added Tax, Entertainment tax, Luxury tax, Taxes on lottery, betting and gambling, Tax on advertisements, State Cess, Octroi, entry tax and purchase tax. Excise and service taxes convert to CGST, Value Added Tax and other state taxes convert to SGST. Central Sale Tax will be changed into IGST.

#### **The Four-Tier Tax Structure**

In GST system four separate tax rate are introduced by the finance minister like zero rate, lower rate,high rate and standard rate.

##### **Zero Rate**

Zero rate only that item apply which is the very important for common man .It apply only daily full fill of the need of the common person. In zero rate is apply on those product is fully exempted by tax. As per CPI index 50% of items are zero rate bases items such as, food grains, milk, curd, and other food items like eggs, cereal and meat. Also, education and healthcare are exempted from GST.

##### **Lower Rate**

The lower rate apply 5% on product under GST which is apply by the central and state government. Such, as electrical item like a wire, cables, conductors, switch, shampoo hair cream, lamp battery, office equipment around 200 items including in lower rates. Since the taxation on coal is likely to reduce from 11.69% to 5% under the GST. Ola and uber transports services are cover under the GST in lower rates of 5%.

##### **Standard rate**

Standard rate are decide by the GST council is 12% & 18%.Such as product, under the rate of tax is supposed to 13%, charge as 18% in GST. This would increase the rate of product. To avoid this GST council makes the slab of 9-15% at standard rate 12% and the reaming goods and services will be charge to second standard rates 18%. Item in 12% tax rate butter, ghee, packed dry foods, namkeen, fruit juice, tooth powder, agarbatti, umbrella, pictures books, cell phone etc. Items in 18% tax rate perfume, fan, toilet waters, makeup kits, marbles, watch, clothes, wallpaper, all musical instruments.

### Higher Rate

The high rate is apply on luxury item such as coco butter coco powder , chocolates, pan masala, tobacco, cigarettes, washing machines, air conditioners, refrigerators, small cars, etc. Drinks products and cement also included in high rate by apply the GST rate it will be reduce earlier it was 30-31% but now it is 28%.

### Conclusion

GST may first thing the single tax but we ponder further that it has a multiphase impact on business after introducing .It is a reform not a change in a tax system .GST will affect majorly on finance and accounts system, taxation, Pricing etc. Every change in indirect taxes, (however small or big it might be) always has a business repercussion. GST also a simple understanding tax system for every person because they have limited provisions under the GST Act like similar product in any state the GST rate are equal. Then the real question is arise that 'how GST modification is changed from other indirect tax alterations? And why is the GST is beneficial for Indian person? The answer for that is GST is not a change in tax but it is a reform in the taxation system of India which is currently function. And the GST is helpful for the tax evasion. GST is beneficial for the Indian person is that it rate is same all over the country and It is very simple as compare to indirect tax.

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