

REFORMS IN INDIRECT TAXATION WITH REFERENCE TO GST

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ABSTRACT

A tax reform which is awaited long at least seventeen years to build up and finally we know the outcome is the biggest tax reform in the form of new law goods and services tax. The whole process started back in year 2000 when a committee builds for construct the GST law. It took a very long time to construct such a law which can remove all draw falls till now like cascading effect, loophole of current tax structure, complexity of the tax system as we know the saying that a coin has both sides, so do GST. The good and the bad there are both but this reform in itself is the biggest one till now. So there is going to be a huge impact on the Indian economy, but the journey is the best part.

KEYWORDS: GST, Indirect Taxation, Reform, Big Tax Reform, Tax Law, GST Bill.

Introduction

Economy of a country fully depends on its revenue structure and a major source of public revenue in any country is taxation. In India the tax is levied by the ancient time. It is written in a Sanskrit mahakavya raguwansham 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 taxation is a source of revenue was recognized in very ancient time when the kings rules here and the historical books are there to support this statement.

It was collected in different manner previously but as the time change, the collection and the nature of taxation also changed like Manusmriti and Arthashastra are the books in which we can find many chapters on taxation.

In these books there is well planned structure is given but it become Complex day by day and if country will possess a structure of taxation which is complex, then it will lose the interest of the people in it and people will start understanding as a burden minister of contribution towards the society.

So as a time in technology changes, we need to change and improve our tax structure in order to meet the complexity of the system, so that we need reforms to improve to change the system of taxation.

India has a tax system pre Independence was very complex and cruel over the people so what we adopt from British government at that time is not suitable for the country for the long run so that in the year 1980 the first step taken by the Indian government at a time to boost the process of tax Reform .As given the long term fiscal policy to our economy. In India there are two types of taxation first is direct another indirect in the present paper the focus made on only indirect taxation and related reforms.

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After 1980 the journey started to modify and simplify the indirect tax structure in the country this generic boost up after the year 1990 that is after the new economic policy which is having more focus on liberalization, privatization and globalization of the economy of the India, but this comforting process leads to more complexity at the Central level and as every state is having its own tax rates and process of taxation so the Indian government felt a need for tax structure which is uniform in whole country and which is same on all the commodities which are producing in different states, so on the Recommendation of Vijay Kelkar committee government decided to bring goods and services tax on board in the year 2006 but after long journey and the constitutional amendment it come into force from 1st July 2017. It is expected from this Reform that it is going to change the tax structure for economy of 2 trillion dollar.

Objective

This research paper is an attempt to find out the impact of goods and services tax on the Indian economy along with the journey of indirect tax reforms, with reference to advantages and disadvantages of goods and services tax.

Benefits of Study

This study is going to help in understanding the advantages and disadvantages of the current tax reform that is goods and services tax and also going to help in understanding the impact of the same.

Research Methodology

This study is based on the secondary data and different research papers articles published on the indirect tax reforms in India.

Overview of Major Tax Reforms in Indirect Taxation

The efforts for the indirect tax reforms started in 1980 when government announced a long term fiscal policy there is a table showing major tax reforms in India based on the Recommendation of the different committee and its impact and need:

The Journey of Major Tax Reforms

Year of Tax Reforms	Particulars	Special remarks
1935	Power of imposition of tax is assigned to state	The burden increased on Indian business man for the benefit of the British government and cost of Indian product increased.
1974	Introduction of V.A.T.	On the recommendations of L.K.Jha committee value added tax is introduced to remove the complexity and cascading effect of current tax structure
1986	Introduction of MODVAT	On the selected commodities the modified value added tax introduced and Government started cut down the different type of Duty such as custom duties etc.
1991	Recommendation of V.A.T. by Raja chelliah committee	This recommendation clear the path for new indirect tax system in India
1994	Introduction of services tax	This is a major breakthrough in the indirect tax structure of India because now along with the Goods the services are as well taxable.
1999	V.A.T. is adopted by the government of India.	A new tax system is there in which tax burden is reduced by making the text only on the value addition
2002	Introduction of CENVAT	Different type of Duty cut down
2006	GST is proposed in parliament	A new journey started for a unified tax structure in India
2009	The empowered committee (EC) released first discussion paper	The negotiation with states started to build up the GST law
2011	Constitution amendment bill and model GST law Introduced	A new age of tax reform started
2017	GST is now applicable in whole India.	The biggest indirect tax reform started.

GST will change the entire landscape of businesses are carried out till date. Therefore, it is appropriate time for the industries to gear up and strategize the integration of GST into their operations. In light of the Model GST laws released in June 2016 and business process reports released last year, companies should start assessing the GST impact on their business operations. Pricing pattern of products or services, supply chain optimization, warehousing strategies, IT, accounting and tax compliance systems are some of the aspects that should be re-looked at so as to align with this key reform.

Key features of the GST

- Goods and services tax is a dual taxation which is going to be governed by both the central and the state government. The duties and the power of the central government lies in CGST and SGST of the state.
- In GST the tax system which is design is complex but it is very efficient to check the tax evasion and removing the cascading effect.
- This is the first time we focus on the supply side of the market, GST is a destination based Tax so the government is having the track on the full chain of the market.
- The one feature which is very good and strong in GST is ITC i.e. input tax credit provided on the basis of invoice credit method due to that people will record all the transactions and will pay the due tax.
- There are separate accounts for the state in the central, so that the dispute between state and Central regarding the collection of taxation and payment of taxation will be minimized.
- The GST is going to apply on all the states including union territories as well so that the process of the taxation will be same in the whole country.
- The empowered committee included the states as well while forming the law due to that GST covered all the problems of the states which they are having so that now there is no second doubt for the unique taxation process.
- Due to the GST now transparency in the whole tax system is there which is very beneficial for the consumer because now they know the exact amount of the taxation which they are paying.

So we can say that GST is a supply based indirect tax which is going to replace the many indirect taxes and our economy will be going to boost at the end of the day and we will going to gain a lot from this but there have been some losses to let's have a look on some advantages and disadvantages of GST.

Advantages of GST

- GST has replaced all multiple indirect taxes at central and state levels. It is backed with the strong powerful end to end IT system that would be simpler and easier to administrate than all other indirect taxes at central and states level.
- A strong, powerful and comprehensive IT system would be the foundation of GST regime in India. Therefore, all the taxpayer services like registration, returns, payments etc. would be available online, which make compliance easy and transparent.
- GST has higher revenue efficiency as it is expected to decrease the cost of collection of tax revenues of the government.
- GST would reduce hidden costs of doing business as there is no seamless tax credit system throughout the value-chain and across the boundaries of states and along with this there would be minimal cascading of taxes as well.
- The complete set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of manufactured goods and services after subsuming of major central and state taxes in GST. This will result in increasing the competitiveness of Indian goods and services in international market and give boost to Indian exports. Same tax rates and procedures across the country will also go a long way in reducing the compliance cost.
- Transaction cost of doing business would eventually reduce and lead to an improved competitiveness for the trade and industry.
- Due to strong IT infrastructure tax compliance make implementation of GST better. Due to the seamless transfer of input tax credit from one to another in value addition chain there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

- After applying GST in all over India, it ensures that indirect tax rates and structures are common and it helps in doing business effectively. In other words, we can say that GST make doing business easy by neutral tax irrespective of the choice of place of business.
- Before GST, there are multiple indirect taxes levied by central and state government with incomplete or no input tax credits available at progressive stages of value addition and along with this the cost of most goods and services in the country was higher with many hidden taxes. Under GST, there would be only one tax from the manufacturers to the consumers and there will be transparency of taxes paid to the final consumer.

Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit to all. Despite of these advantages there are some disadvantages too.

Disadvantages of GST

According to the experts, GST which includes CGST, SGST, and IGST is nothing but just a new name in accordance with the existing tax system, kind of old wine in a new bottle. Though goods and services tax came into force after huge discussion but still there are many disadvantages of this new tax system.

- In goods and services tax all the services covered under a single text slab Tax slab that is 18 % which is higher than the previous date that is 15% so the services sector is going to have an adverse effect on the tax.
- In GST documentation of data is very complex, the major time of the Businessman is going to spend on clerical work instead of business so result is lesser business activity.
- There are many complexity in the procedure part and the businessman are also not literate so they have to create the dependency on the other person this is very harmful for the small businessman.
- There are many things which are necessity now they are going to be covered in the taxation so the burden on the poor people is going to increase.
- Due to the demonetization the money of the people is with bank and now the banks started charging different types of charges to these services so the purchasing power of the people becomes low.
- Government launched the goods and services tax in the mid of the Year due to that the burden on the companies and businessman increased because now they have to make the arrangement of books of account according to that.
- It is said that after GST there will be no indirect taxation but yet there are many indirect tax in the system such as custom duty on import, toll tax, entertainment tax.

So we can say that there may be many advantages but still the disadvantages make it less efficient. GST is the new regime of indirect tax in the nation which has modified the existing indirect tax rules. It has scheduled a coalition between central and state government amidst the cry for better taxation system which it duly delivered. However, a coin holds two sides, and as such GST has both, some advantages and some disadvantages.

Tax Structure in GST

It is said that after coming GST there will be no other indirect taxation in the country but government didn't covered all the indirect taxes in the GST but there are many taxes which are not covered under GST Such as Entertainment tax, toll tax, entry tax , custom duty etc.

So in the GST the tax structure is divided in 4 parts first is central goods and services tax, second States goods and services tax, third union territory goods and services tax and the last one is integrated goods and services tax, by this structure the GST is applicable in whole India. Every state has to pass its own GST law based on the central goods and services tax so that administration of taxation is in the both hands state as well as Central.

There are 5 types of rates in the GST for the different types of goods and services that is 0%, 5%, 12%, 18%, 28%. According to different types of goods and services the rate is different. Mostly those goods which comes under necessity they are covered in 0% slab and the goods which covers under the luxury goods they are covered in 28% slab this structure provides the low taxation on the necessities and high taxation on the luxury so the poor have to pay less tax and the purchasing power of the poor is increased.

Conclusion

GST may at first come across as a mere tax change, but as we ponder further, one may observe that GST will have a multifaceted impact on the business. Given the omnipresence of indirect taxes in almost every business transaction, any change in indirect taxes would practically affect every business. Thus in order to understand the real impact of GST we have to note that GST is not just a tax change but a big business change. At the outset GST may majorly affect supply chain, procurement, logistics, Finance and accounts, Taxation, Pricing and others.

GST is dual structured tax and due to its cross-check mechanism GST will reduce the fake transactions. We know that GST Council set-up 5 rates slab that is a 0%, 5%, 12%, 18%, and 28%. If there is only one tax rate then it will be very difficult for the government to sustain its revenues as well as the luxury goods will be cheaper and the need goods will be more costly that is why the government decided to have a multi slab taxation system.

GST is having many advantages but the major advantage of the GST is it going to charge on the supply which is the core area of any business. It is said previously that GST is going to abolish the all indirect taxation which were charged previously but it didn't. Yet the local body taxation is there and as well as the custom duty is there so the tax burden is not fully shifted or merged in the GST and that is the major drawback, previously the VAT law was different in different states And due to that many goods which were previously not covered in the taxation are now covered in it so the price for the end consumer is increased by this. Though there are many leakages in the system but GST in itself strong tax structure and it is going to bring the uniformity in the business all over the country.

Every change in indirect taxes, (however small or big it might be) always has a business repercussion. Then the real question that begs attention is, as to 'how is GST change different from other indirect tax changes? And why is the GST transition touted to be a game changer? The answer to this question lies in the very fact that GST will not just restructure taxation but it will influence the way Businesses will function in India. This ability to influence a major business change makes it the 'game changer'.

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