



African Journal of Biological Sciences

Journal homepage: <http://www.afjbs.com>



Research Paper

Open Access

Goods and Services Tax - A New Era in Indirect Taxation System of India

Kali Charan¹, Dr. Richa Ranjan², Dr. Shwetta Bajaj³, Dr. Monika Negi⁴

¹Excise & Taxation Officer, Research Scholar, Ph.D. persuing, University School of Law, Rayat Bahra University, Mohali

²Former Prof. & Dean of Law, Rayat Bahra University, Mohali

³Professor (Adjunct), Department of Law, Gurugram University, Gurugram

⁴Associate Professor, University Institute of Legal Studies, Punjab University, Regional Centre, Hoshiarpur

ArticleInfo

Volume6, Issue Si3,July2024

Received: 25 May2024

Accepted:23 June 2024

Published:17 July2024

doi:

10.48047/AFJBS.6.Si3.2024.3218-3226

ABSTRACT:

Any Government Federal or Provincial need funds to run the State Machinery, for the implementation of welfare schemes and providing infrastructure like public building transports and roads etc. for the general public residing within the State. For the collections of these funds (State Exchequer) government impose taxes on the people those who can afford to pay. This Taxation System can broadly be categorized into two types i.e. Direct Taxation System and Indirect Taxation System. Direct Taxation system are the taxes which are collected from the person/persons who themselves are liable to pay the same and they furnish returns during a specified period and pay the due tax to the government as their own liability. Income Tax is a good example of Direct Taxation where a person (A person, A partnership firm, An Association or A Company having legal status termed as Legal Entity in Income Tax Laws) pays taxes to the State if he crosses a certain amount of income as prescribed by the State as threshold in a specified period. Whereas indirect taxation System is a system of taxation where government collect levy not from the taxpayer directly but from the person other than the taxpayer who is paying the said levy. e.g. in previous VAT regime or present GST regime the business entities collect tax from the end consumers and deposit it to the state exchequer and the state only interacts with the business entities who are manufacturing or selling the goods. A manufacturer or Trader gets registration with the government and files monthly/quarterly/annual return and he is solely liable to pay the taxes on the manufacturing or sale of goods. Consumer who is utilizing the end product pays the tax but the Manufacturer / seller pay the tax so collected from consumer to the government that's why its called indirect taxation system.

The Government in recent times has gone through many indirect tax regimes trying to make this cumbersome system a little easy to understand to the tax payer so that they can abide the law in letter and spirit and the pilferage of tax can be reduced up to some extent. Goods and Services Tax Act, 2017 was remarkable step of the Government of India which made this system of Indirect system little user friendly, making it easy to understand and adopt it to the common public. In this article, the author is going to study the problems in the previous indirect taxation (VAT) systems and also throwing some light to the objectives attained by the Government in the present regime (GST) in the last seven years of the implementation of the GST Act, 2017.

Keywords: Direct Tax, Indirect Tax, VAT, GST

© 2024 Kali Charan, This is an open access article under the CC BYlicense (<https://creativecommons.org/licenses/by/4.0/>), which permitsunrestricteduse,distribution,andreproductioninanymedium,pr ovidedyougiveappropriate credit to the original author(s) and the source, provide a link to theCreative Commonslicense,andindicateifchangesweremade

1. Introduction

Goods and Services Tax (GST) is a system of indirect taxation based on the concept of value addition already implemented by more than 100 countries is now implemented in India as well subsuming most of the existing taxes into single system of taxation. It was introduced by the constitution amendment Act, 2016 after a long journey of debates in the parliament which continued over two decades.

“Good and Services Tax” is a comprehensive indirect tax on manufacturing, sale and consumption of goods and services throughout India, which is introduced on 01st of July 2017 to replace multiple taxes levied by both the central and state Governments. Goods and Services Tax is levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method (ITC Method). This method allows GST-registered businesses to claim tax credit against the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility generally rests with a single authority to levy tax on goods and services with a freedom of cross empowerment vested with both the CGST & SGST authorities. Exports are a zero-rated and imports are levied the same taxes as domestic goods and services adhering to the destination principle.

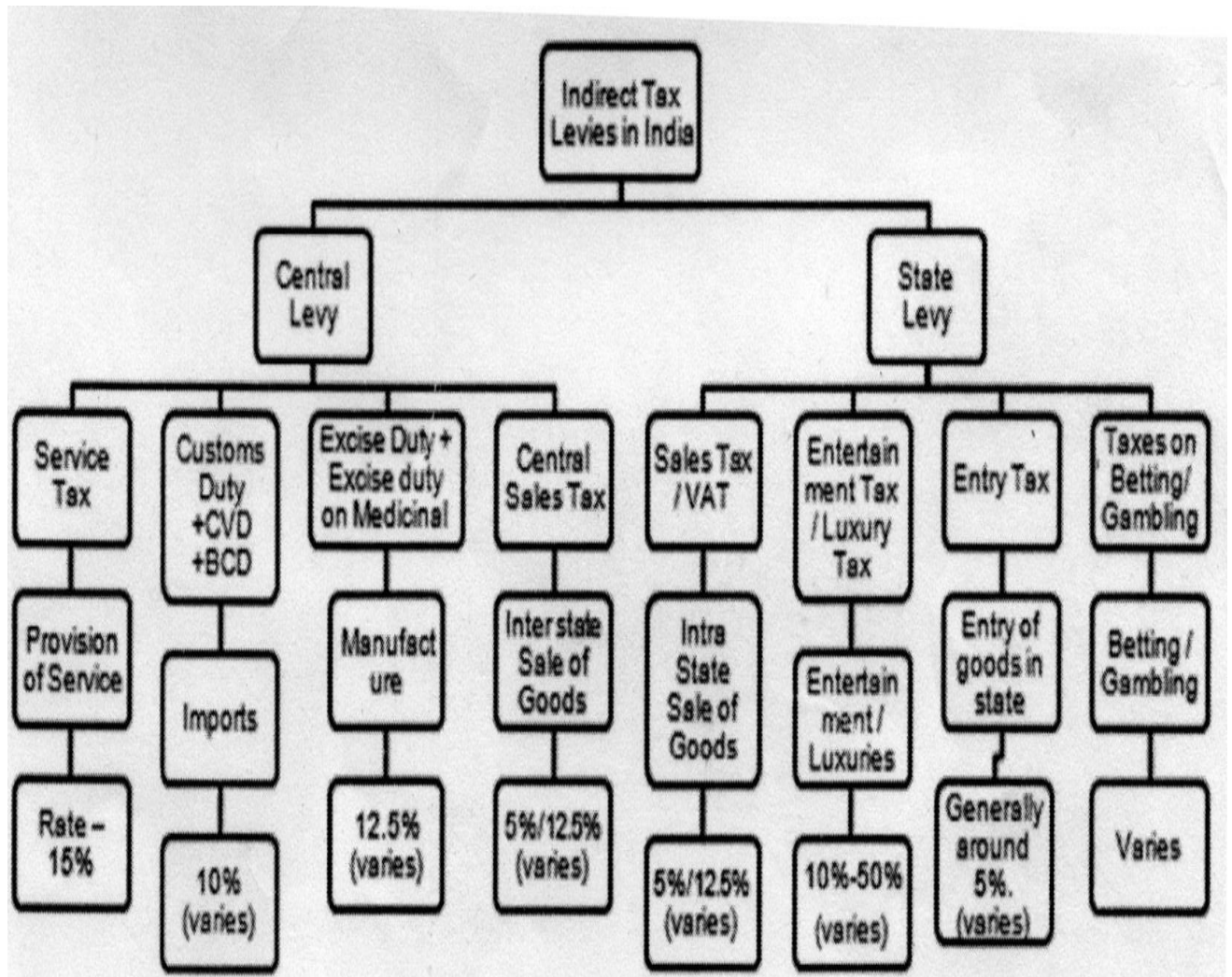
The introduction of Goods and Services Tax (GST) is a significant step in the reform of indirect taxation in India, amalgamating several Central and State taxes into a single tax which has mitigate cascading effects or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent.

Changes happened in India after launch of GST- “The tax rates under GST are 5%, 12%, 18% and 28% for the initial period. It has been proposed to insulate the revenues of the States from the impact of GST, with the expectation that in due course, GST will be levied on petroleum and Petroleum products.” The central government has assured states of compensation for any revenue losses incurred by them from the date of introduction of GST for a period of five years which has already completed. Now the debates are going on to bring liquor & petroleum products into the ambit of GST.

GST is a revolution in the history of 70 years of indirect taxation system in India. If we take an example of State of Punjab, The General Sales Tax Act was implemented in 1948 which was switched over to Punjab Value Added Tax in year 2005 by introducing Punjab Value Added Tax Act, 2005 and now replacing it with Goods & Services Tax in 2017. This GST Tax has Amalgamated several Central and State taxes into a single tax. This pragmatic shift in indirect taxation has mitigated cascading effect or double taxation which was a considered as a loop hole of VAT system overburdened a common man paying double tax on the one good or service. In addition GST has also facilitated a common single national market because in previous regime different states were having different tax slabs which in turn were creating insecurity amongst states regarding revenue loss if your neighbouring state has reduced tax on a commodity or service. The Goods & Services Tax (GST) was need of the hour as the previous structure of Indirect Taxation System in India was having many awbacks which got eradicated in the GST system. Let’s see the problems of the previous structure as VAT regime.

2. Problems in The Previous Indirect Taxation (Vat) Systems

Present Indirect Taxation System in India has the following problems and disadvantages in brief: -



2.1 Multiplicity of Taxes

Earlier, the Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Further, it empowers the States Governments to levy sales tax or value added tax (VAT) on the sale of goods. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country. In addition, central sales tax (CST) is levied on inter-State sales of goods by the Central Government, but collected and retained by the exporting States. Further, many States levy an entry tax on the entry of goods in local areas. Taxes by Union Government, States Governments and the local governments have resulted in difficulties and harassment to the tax payer. He has to contact several authorities and maintain separate records for each of them.

2.2 Complex in Nature

The taxes which are subsumed in GST were earlier levied by Central Government as well as the State Government. So, a person has to maintain accounts which will comply with all the applicable laws. This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that is accompanied with many hidden costs for

the trade and industry resulting higher cost of goods and services consequently resulting in inflation in the market.

2.3 Cascading effects of taxes

In Previous indirect tax structure in India, there was cascading of taxes due to 'tax on tax'. No credit was available to the traders of excise duty and service tax paid at the stage of manufacture while paying the State level sales tax or VAT, and vice versa. Further, no credit of States taxes paid in one State can be availed in other States. Hence, the prices of Goods and Services get artificially inflated to the extent of this 'tax on tax'.

2.4 Tax Arbitrage

The problem of tax arbitrage for a single nation poses an invisible barrier for free trade. In many cases, a small difference in rate of tax can result in manifold implications and thus, can induce the business to move into a lower tax territory. As an example, the difference rate of VAT as levied on sale of Goods in different states usually a great impact like in previous regime the sale of automobiles was much higher in Chandigarh as compared to Punjab and Haryana because Tax in Chandigarh was 12.5% as compared to higher rates of neighbouring states.

3. Gst Is Seen as A Solution to the Above Problems

GST has subsumed many taxes into a single tax which were being dealt by various legislation in previous regime in the different States, Union territories and the Central Government of India. Many countries of the world are already having this tax structure i.e. Goods & Services Tax in their federal and provincial markets having different type of tax rates. France was the first country to implement GST and after that many large nations having the same Government Architecture & functioning like India having dual government structure of federal & provincial government as India is having implemented and successfully running with dual GST pattern from many years. Observing the success of the GST in large countries like Canada and Australia, there was a long pending need of the Union Government & the State Governments to have one common tax structure so that multiple taxes may be clubbed in a single tax on the same line these countries are having. There were many taxes which were levied by the States for meting out their revenue needs which were creating huge compliance problems for the tax payers. These all taxes were subsumed in a single tax structure i.e. GST in year 2017. The details of all the taxes which were subsumed in GST are.

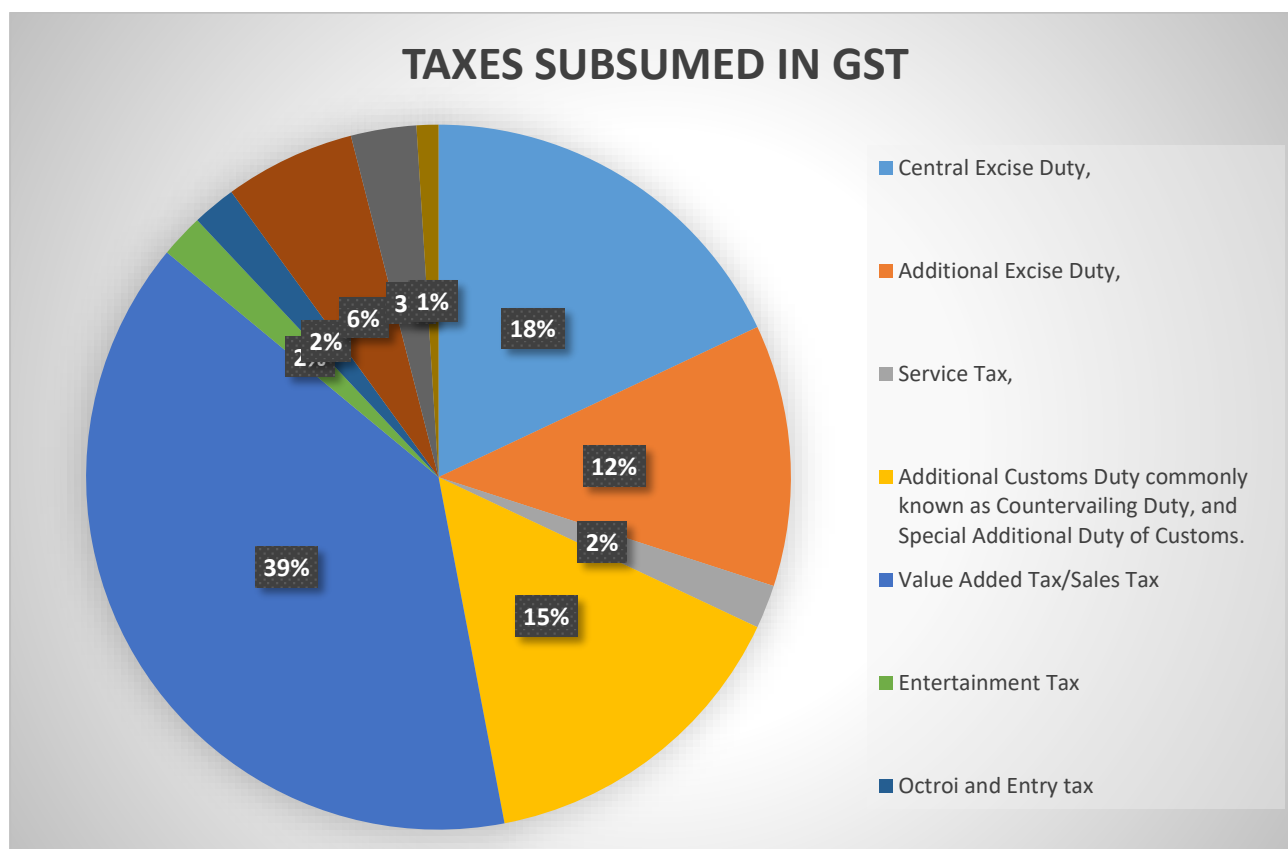
3.1 At the Central level, the following taxes are subsumed:

- 3.1.1 Central Excise Duty,
- 3.1.2 Additional Excise Duty,
- 3.1.3 Service Tax,
- 3.1.4 Additional Customs Duty commonly known as Countervailing Duty, and
- 3.1.5 Special Additional Duty of Customs.

3.2 At the State level, the following taxes are subsumed:

- 3.2.1 Subsuming of State Value Added Tax/Sales Tax,
- 3.2.2 Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
- 3.2.3 Octroi and Entry tax,
- 3.2.4 Purchase Tax,
- 3.2.5 Luxury tax, and

3.2.6 Taxes on lottery, betting and gambling



PIE CHART OF THE SHARES OF THE TAXES SUBSUMED IN GST

4. The Gst Regime Has the Following Features:

- It is a destination-based taxation i.e. Tax is levied when the goods reached the destination
- It is a Dual Administration – Centre and state both have the administration control over the tax base i.e. half of the tax payers are under the control of state tax department and half of them are under CGST department
- State wise determination of taxable person – no more centralized registration.
- Seamless credit amongst goods and services.

4.1 Tax Rates under GST

As per the decisions made by GST Council on November 3, 2016, the tax rates applicable initially were divided into 4 slabs of 5%, 12%, 18% and 28%. Luxury and demerit goods were taxed at 28% plus cess.

4.2 Migration of the VAT Registered taxpayers to GST regime

All the VAT registered taxpayers, Service Tax, and Excise were directed to furnish the details at GST Common portal for the purpose of migrating themselves into GST regime providing them all the benefits of input tax they were having at the time of migration so that there should not be any increase in cost of goods or services happens because of GST. To begin with, the taxpayers registered under the State Vat Department provided their details and period for furnishing these details are specified for every state differently. Once the taxpayers provided their details there was no need for them to register again with the State or Centre once the GST Act was implemented and their VAT TIN number was transferred to GST as

GSTIN giving them all the transitional benefits. New tax payers got fresh registrations after 01st July 2017 as per the provisions of GST Law.

5. Benefits of Gst Law as Compared to The Vat Law

Starting from the day of amendment in constitution where the Parliament of India with consultation of the states has amended the powers of levy of taxes on the sale of goods and excise which was the state subject and making it a union subject which empowers parliament to enact law on sales of goods. The Government of India faced many difficulties in the implementation of GST in a country like India where the maximum population resides and work in rural areas of the country.

First difficulty was the ratification of the new law by the 50% of the states so that the necessary amendment may be done in the constitution of India for the enactment and implementation of the new indirect taxation law i.e. Goods and Services Tax Act, 2017. Secondly when the required amendment was done in Constitution and the Law was enacted then the implementation of the new law was a major challenge in front of the finance department of Government of India. Government of India in a very efficient manner removed all hurdles came during the implementation of the new Goods and Services Law and consequently with the passage of time these difficulties got eliminated with its implementation on day to day basis as the law evolves daily and it's a continue process.

5.1 Eliminated Cascading Effect: -GST was implemented to reduce the tax burden from the common man as different states were levying different taxes which are resulting for cascading i.e. tax on tax making the commodity more costly than the international market. So GST became a good tool to mitigate this ill effect of cascading of taxes.

5.2 One Nation One Tax: -There were many tax rates amongst different states on the same commodity which makes cause for the loss of one state and beneficial for other. If an example is to be quoted here then the example of luxury cars is very suitable as these were having lesser rate of VAT in Chandigarh as compared to Punjab so people of even Punjab and Haryana usually bought luxury cars from Chandigarh saving their tax. Now after the implementation of GST this problem also resolved up to an extent except the value difference due to logistic cost

5.3 Higher Threshold Limit: -In VAT regime majority of the States were having 5 Lacs as threshold limit for registration in VAT Act whereas it was increased upto 20 Lacs initially in 2017 and now it is doubled to 40 Lacs making ease for small traders and manufacturers. Small Traders / Manufacturers who has turn over less than 40 Lacs need not to get registration and compliance of Tax is not a obligation for them. Even the traders or manufacturer upto One Cr turn over can opt for Composition levy i.e. lump sum payment of tax without benefit of Input Tax credit.

5.4 Compliance Ease: - GST is user friendly and easy to comply with having easy return system and lesser number of returns as compared to previous VAT regime.

5.5 Logistic Time Reduced And Competitive Quality Of Goods: - In GST regime a single Invoice and E-way bill is valid throughout entire nation consequently reducing logistic time up to a great extent. Due to this lesser time wasted in logistic the quality of goods also remains intact making it internationally more competitive.

5.6 Online Transactions Making System More Globally Competitive: -After the launch of GST Act, 20176 all the transactions are happening online which reduce internationally logistic time and even made us globally more effective which we were lagging during VAT regime because of manual operations.

5.7 Helps in Eradicating Corruption: - Corruption also reduced because of the online system as the official are unable to take bribe money online in their bank account. Because the system is online and human interface is reduced GST also become a good tool for reduction in the corruption.

5.8 International Acceptance of Goods and Services Due to Better Quality and Reduced Cost: - By the reduction of THE cost of our goods and services our product became globally more competitive hence they are now getting more international acceptance. This thing we can observe that many global brands are shifting their work place to India shifting from other countries like China Indonesia and Bangladesh etc.

6. Conclusions

Transformation in any direct or indirect system is not a single day event whereas it is always an ongoing phenomenon, and Indian GST is not an exception in the case. Designing a destination-based dual VAT system for a federal country like India was a challenge. The GST system of India is unique for its structure, design, and administrative framework. It has many unique features like IGST which none of the countries have which has GST system from years. The vast country like India has many problems in implementation of the complex tax structure like GST we have yet we have successfully implemented it in phases and even eradicating the hurdles one by one in a very effective manner. The present paper highlights the difficulties faced in last seven years in administering and implementation of the GST in a country like India where we have many languages, different people behaviours, different needs and having different geographical produces. It is understandable that no tax reform could be launched at once as a full proof system and therefore initial glitches and technical difficulties are obvious. However, the structure, processes and procedures of GST though improved, are yet to stabilize and with the passage of time we are making required changes as we have reduced to three tax slabs from five now.. Simplicity of any tax system is desirable as it facilitates ease-of-tax compliance of taxpayers as well as ease-of-tax enforcement of tax officials. Therefore, it would be important for all of us including common people or consumers of goods and services, Traders and manufacturers and official / officers of tax administration all has to work together to weed out difficulties in the GST system and improve tax efficiency. This can be done by projecting the problems and needs of end consumers to the Law enactment and enforcement agencies and official so that they can reduce these difficulties making the legislation more effective competitive and user friendly so that the tax should look like a duty to perform rather than a forced burden.

Keywords

Direct and indirect taxation, cascading effect, subsumed, Enactment, Tax Administration, Compliance Ease, Threshold Limit Demerit goods, Amendment Act, Comprehensive, Overburdened, CGST, SGST & IGST

7. References

1. Paper published by National institute of Public Finance and Policy, New Delhi Emerging Issues in GST Law and Procedures: An Assessment- Diva Mehtaand Sacchidananda Mukherjee.
2. Online Article on GST bogus Billing, <https://taxguru.in/goods-and-service-tax/bogus-billing-gst-false-claim-assessee.html>
3. Inverted Duty Structure, <https://cleartax.in/s/gst-inverted-duty-structure>
4. A chrono-legal Study of the Goods and Service Tax For Punjab, By V. Vashisht Taxlaw Publication, 3rd Edition 2017
5. GST – How to meet your Obligation Volume 2, Taxmann’s, 3rd Edition July 2017
6. Taxmann’s Central Sales Tax Law & Practice, 16th Edition February 2017
7. Various Research papers on GST – A comprehensive study
8. PHT Journal Punjab and Haryana Taxes, Volume 59 & Volume 60 of year 2018 By Om Law Publications Karnal – 132001 (Hr)