GOODS AND SERVICE TAX: - TAX TO UN-TAX 
THE INDIAN ECONOMY

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Abstract: Indirect taxation system has evolved gradually in India, and mainly includes Customs Duty, Excise Duty, Service tax and VAT. These taxes are gradually refined so as to make them more systematic and easy to administer. MODVAT scheme was later replaced by CENVAT scheme in Central Excise and Sales Tax was further refined with the introduction of VAT at the state level. More gradual and systematic introduction of VAT in all the states turns out to be a very positive step. VAT made the credit of purchases to be used for off-setting the output tax liability, thereby effectively reducing the total tax outgo on purchases. But the states are limited in the administration of any tax by their geographical boundaries and hence the Credit of inter-state purchases is not allowed by states to be used for off-setting the output tax liability of a trader. So even VAT was limited in its application by the boundaries of state. Further only the Central government has the authority to tax Services. So, the trade-off of Credit between Service tax and VAT was also not possible. It is under these compelling circumstances, need was felt to conceive the idea of a tax which will have its authority pan India and allows for seamless transfer and utilisation of inward credit to offset any outward tax liability. GST (Goods and Services Tax) was the resultant output of this conceived idea, having its applicability throughout the territory of India and encompassing most of the indirect taxes hitherto existed in India.

It was in the Union Budget of 2006-07, on 28th February 2006, the then Union Finance Minister proposed that GST would be introduced from 1st April 2010. GST is considered to be the most comprehensive and radical tax reform in India since independence. Integration of taxation on goods and services would provide India a world class tax system. It will lead to the abolition of various indirect taxes such as octroi, central sales tax, state level sales tax, entry tax, purchase tax, LBT etc. It would end distortions due to differential treatments of manufacturing and service sectors. GST is expected to provide a continuous chain of credit system and with the help of analytical software makes it quite difficult to evade taxes, thereby improving the tax base, which in turn leads to more revenue for the government.

KeyWords: - Tax set-off, Input Credit, Credit Chain, Tax Evasion.

1) Introduction:-

Taxation raised by the king is like the moisture sucked up by the sun, to be returned to the earth as fertilizing rain.

...Anonymous.....

Taxes help in the nation building. They are an important source for providing infrastructure, high end research and development projects, space research, universalizing the education, providing the basic medical facilities, subsidizing the food distribution system and protect the nation against any adversity by building a strong military.

Tax can broadly be configured as Direct Tax and Indirect Tax. If the incidence of the tax falls on the same person who pays it, then it is a direct tax otherwise if tax is paid by a person after collecting it from someone else, then it is an indirect tax. Income Tax is a direct tax while Customs Duty, Excise Duty, Service tax and VAT are main indirect taxes. Customs duty was known to us since time immemorial. Central Excise Duty came in existence much later and levied at the manufacturing stage on the specified goods. Later, Service Tax was introduced in 1994, and was initially levied only on three services and gradually its scope was extended to cover almost one hundred and fifteen services. Article 265 of the Indian Constitution provides that “no tax shall be levied or collected except by the authority of law”. The authority for levy of various taxes has been provided for under Article 246 and the subject matters enumerated under the three-list set out in the Seventh Schedule to the Constitution.

**Seventh Schedule to Article 246 of the Indian Constitution**

- List I or Union List Article 246(1)
- List II or State List Article 246(3)
- List III or Concurrent List Article 246(2)

Further entries are provided for under these sub-Articles for the levy of various taxes.

Since, the Constitution provides for clear cut division of power to levy taxes by the Union and states, so for any tax reform which seeks to alter this division, it is imperative to first amend the Constitution. The same was done by passing the Constitutional amendment Bill on 8th September 2016, in the form of Constitution (101st Amendment) Act 2016.

GST was launched with effect from 1st July 2017 by Sh.Narendra Modi, Hon’ble Prime Minister of India, in the presence of Sh.Pranab Mukherjee, the then President of India, at a special mid-night function at the Central Hall of Parliament of India. Passing of the GST Bill clearly underlines the maturing of the Indian Federal Structure. Both the Union and states pooled their sovereignty so that a common indirect taxation system can be evolved for a better nation building and ease of doing business.
2) **Objectives of the study:-**
   - To learn about shortcomings of current taxation system in India
   - To understand the concept of GST (Goods and Service Tax)
   - To understand how GST will work in India
   - To understand the benefits of GST over the current taxation system in India

3) **Research Methodology:-**
   The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service Tax.

<table>
<thead>
<tr>
<th>List I or Union List</th>
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<tbody>
<tr>
<td>• Entry No. 82 - Tax on income other than agriculture income</td>
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<tr>
<td>• Entry no. 83 - Duties of Customs including export duties</td>
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<tr>
<td>• Entry No. 92A - Taxes on sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of interstate trade or commerce</td>
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<tr>
<td>• Entry No. 92C - Taxes on Services</td>
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<td>• Entry No. 97 - Any other residual taxes not mentioned in List II and List III</td>
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<th>List II or State List</th>
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<tr>
<td>• Entry No. 46 - Taxes on agriculture income</td>
</tr>
<tr>
<td>• Entry No. 51 - Excise Duty on alcoholic liquors, opium and narcotics</td>
</tr>
<tr>
<td>• Entry No 52 - Tax on the entry of goods into a local area for consumption, use or sale there in</td>
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<tr>
<td>• Entry No. 54 - Tax on sale or purchase of goods with the state other than newspaper</td>
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<th>List III or Concurrent List</th>
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<td>• Entry No. 17A - Forest income</td>
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<td>• Entry No. 25 - Education income</td>
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4) **Current Taxation and Its Shortcomings:-**
   a) Value Added Tax (VAT) & Central Sales Tax (CST):-
   VAT was introduced in April 2005, after long deliberation at the national level and is collected on the sales and purchase of goods within a state. It was introduced to address the short comings of Sales tax, wherein no credit of tax paid on purchase is allowed to off-set the output tax liability on the sale of goods, thereby leading to cascading effects of tax and consequent inflation. VAT is an indirect tax levied on the producers, manufacturers, retailers, or any other dealer who add value to the goods and that is ultimately passed on to the end consumer. The tax is collected by the state government and is retained by the state government and thus forms part of the revenue corpus of the state. Credit on purchase is allowed to set-off the tax liability on sale of goods.

   CST on the other hand is tax on the sale of goods on inter-state trade of goods. It is levied by the Union of India but collected and administered by that state where the movement of goods originate during the inter-state trade. The tax paid in the purchase of goods during inter-state trade is not allowed by most of the state governments to off-set the tax liability on the sale of such goods after doing the required value addition. So, in a way tax credit is limited by the boundaries of the state and credit chain is broken when the goods cross the boundaries of each state.

   b) Central Excise Duty and Service Tax:-
   Central Excise Duty is levied on the manufacturing of goods and is administered and collected by the Union of India. Also, Service Tax is introduced in 1994 vide Finance Act, 1994, and is in the sole authority of the Central Government. The cross utilization of Cenvat Credit between Excise and Service tax is allowed vide the introduction of Cenvat Credit Rules, 2004, made commonly applicable to both Excise and Service tax.

   So, it can be seen that each of these taxes are functioning in separate compartments and any symbiotic breathing among them is limited by the Constitution of India, which provided for different financial boundaries and powers to both the Union and to all the state and Union Territories of India.

   So, in order to bring about coherence among these taxes and also to evolve a common tax structure for the entire nation it becomes very essential to first amend the constitution. The same was achieved by passing the Constitutional amendment Bill on September 8th, 2016 in the form of Constitution (101st Amendment) Act 2016 and launching of GST from 1st July 2017.

5) **Goods & Service tax (GST) – The Beginning:-**
   GST is cherished to be a single indirect tax that is going to bind the entire nation in one common market. This ethos is at the core of GST – One Nation One Tax One Market. GST subsumed many indirect taxes so as to evolve an all-encompassing single indirect tax.
GST is a destination-based consumption tax. Its skeleton is same as that of the erstwhile VAT, with the diverging point being that in case of inter-state sale of goods, it is the destination state that will be availing full credit of tax paid on purchase invoices, unlike that of VAT where such a credit is not allowed to be utilized for off-setting the output tax liability.

c) Apex Federal Body of GST: GST Council

When the states are pooling their financial powers with the Union, it becomes essential that they must be protected by some Constitutional Guarantee that not only their financial needs are to be taken care of but they will have major say in all the future financial decisions as far as indirect taxation in India is concerned. To satiate this demand of the states, necessary amendment is done in the constitution and GST COUNCIL, under Article 279A of the amended Constitution, is created. GST Council is a joint forum of the Centre and the States, and consists of the following members:

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<tr>
<th>Union Finance Minister</th>
<th>Chairperson</th>
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<td>The Union Minister of State, in-charge of Revenue, Min. of Finance</td>
<td>Member</td>
</tr>
<tr>
<td>The Minister In-charge of Finance or Taxation or any other Minister nominated by each State Government</td>
<td>Members</td>
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GST Council was created on 12th September, 2016, after the Central Cabinet has given its nod for the setting up of GST Council. It shall be the apex federal constitutional body in the field of indirect taxation in India, with its headquarters in New Delhi. All the major decisions for GST are to be taken by the council only. The mechanism of GST Council would ensure harmonisation on different aspects of GST between the Centre and the States as well as amongst the States. The Constitution (One Hundred and First Amendment) Act, 2016 provides that every decision of the GST Council shall be taken at its meeting by a majority of not less than 3/4th of the weighted votes of the Members present and voting. The vote of the Central Government shall have a weightage of 1/3rd of the votes cast and the votes of all the State Governments taken together shall have a weightage of 2/3rd of the total votes cast in that meeting. One half of the total number of members of the GST Council shall constitute the quorum at its meeting. Such an arrangement ensures that neither the Centre nor the states can afford any high headedness in the council and decisions are necessarily to be taken only through the process of consensus. The same is vindicated by the fact that during all of the 14 meetings of the council, decisions are only arrived at through consensus and not even a single instance of voting has happened till now.

d) Structure of GST:

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a logical step forward.

The introduction of GST will not only include comprehensively more indirect Central taxes and integrate goods and services taxes for set-off relief, but also capture certain value addition in the distributive trade. The GST model has some aspects which are as follows:

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<tr>
<th>GST</th>
<th>IGST</th>
<th>SGST/UTGST</th>
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<tr>
<td>1. Central Sales Tax</td>
<td>1) GST</td>
<td>1) VAT</td>
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<td>2. Service Tax</td>
<td>2) CST</td>
<td>2) Purchase Tax</td>
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<tr>
<td>3. Additional Duty of Excise</td>
<td>3) CVD &amp; SAD</td>
<td>3) Entry Tax</td>
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<td>4. Cess and Surcharges</td>
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<td>4) Luxury Tax</td>
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e) IGST Model– CST In A New Way:-
IGST is not a new kind of tax, but it is simply a mechanism used for passing on credit on goods in case of inter-state sale/purchase. In the CST era, the assessee in the destination state of goods is not allowed to take the credit of CST paid in the originating state. This leads to a discontinued chain of credit. IGST has very well addressed this shortcoming of the CST system. IGST paid in one state is allowed to be credited in the destination state of goods/services. The following are some of major advantages of the IGST scheme:-
1) Maintenance of uninterrupted ITC (Input Tax Credit) chain on inter-State transactions.
2) No refund claim in exporting State, as ITC is used up while paying the tax.
3) As credit is allowed to travel along with goods during inter-state trade, IGST has self-monitoring mechanism.
4) Model can take ‘Business to Business’ as well as ‘Business to Consumer’ transactions into account.
5) With the introduction of e-Way Bill, the border check posts are further decongested and will lead to smooth and un-interrupted supply of goods.

6) e-Way Bill – Un-fencing the State Borders:-
e-Way Bill is a mechanism by which the movement of goods in lorries is tagged by issuing a centrally generated tagging serial number for each such movement and before the commencement of such a journey. Each truck is required to get himself registered on the e-Way Bill Portal (ewaybill.nic.in) before commencing any journey of more than 10 Kms, failure of which will attract strict action from the tax authorities. With its introduction, all the physical checking of goods at the state border will soon become history as credit is allowed to travel along with goods, thereby reducing the burden of multiple checks and balances at the state borders.

7) GST Impact on Indian Economy:-
The implementation of GST assures a single taxation system in the entire country for all goods and services thereby making tax compliance easier and more effective. The major benefits of GST, according to Report of Task Force on Implementation of GST are:-
- to the Economy - It will simplify India's tax structure, broaden the tax base, and create a common market across states. This will lead to increased compliance and increase India's tax-to-gross domestic product ratio. According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent. Exports are expected to increase by between 3.2 per cent and 6.3 per cent, the study found. From an assessee base of 78 Lakhs in August, 2017, it has already crossed the figure of 1 Crore at the end of January, 2018. And this is just the beginning.
- to the Corporate - It will be beneficial for India Inc. as the average tax burden on companies will fall, with the gradual broadening of the tax base. Reducing production costs will make exporters more competitive.
- to the Exporters - The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input credit and allowing the credit on inter-state purchases would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports.
- to the Industry - Manufacturing sector in India is one of the highly taxed sectors in the world. A complex and high taxation structure has the tendency to render products uncompetitive in the international market or consume large portions of the cost arbitrage available in manufacturing set-ups in low cost economies such as India. GST is destined to do away with these complexities in the present taxation structure. “A well-designed GST is the most graceful method to get rid of distortions of the existing process of multiple taxation” Sanjay Pant, Commissioner Service Tax, Bangalore.
- to the Centre & States - Approximately $15 billion of profits per year are predicted by the government with the implementation of GST as it is speculated to bring about raise in employment, promotion of exports and consequently a significant boost in overall economic growth. “The implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. This would translate into enhanced economic welfare and returns on the factors of production, viz. land, labour and capital” Mr. Premnath Hegde H.N., Chartered Accountants, Premnath Hegde and Co.
8) **GST – The Conclusion:**

The passing of GST Bill by the Parliament of India, is itself a reflection of the maturity of Indian federal polity. The political class, both at the Centre and States level, of such a diverse country agreed to pass such an important legislation by pooling their financial sovereignty so that India can grow at a faster pace. Tax policies play an important role in the growth of any nation. 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. GST, being a Good and Simple Tax, eliminated the necessity of an assessee to interact in-person with both the central and state administration. By using the IT infrastructure to the highest level in GSTN, the government has tried its best to automate most of the computational aspect of this indirect taxation system.

GST is more than just a tax change. It is also a ‘behaviour change’ and its successful implementation will put India in fast track of economic development. Post the initial teething troubles, GST will bring in much good for all sectors of the economy. GST is destined to bring in collective gain for industry, trade, agriculture, common consumers, and good tax buoyancy for the central government and for the state governments. The real fruits of GST can only be harnessed 3/4 years after its implementation. Posterity will definitely loud our political class for ushering in such a drastic and radical tax reform at the stroke of midnight of June 30th, 2017.

**REFERENCES:**


