# Goods and Services Tax (GST): The Modern Tax Reform in India

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***Abstract*****:** Goods and Services Tax (GST) is a contemporary reformation of Indian tax system. GST is basically a tax on final consumption. The new Article 366(12A) of the Indian Constitution defines GST as any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption. In India, the GST has started from 1st July, 2017. The GST rates ranges between 0-28 percent. The present paper is an endeavor to develop the understanding of GST and its impact on Indian economy with the help of secondary published and unpublished sources. The idea of GST was first devised by a German economist; however, it was first introduced in France in 1954. References to taxes in ancient India are found in 'Manusmriti' and 'Kautilya's Arthashastra'. GST is the latest step towards a widespread indirect tax reforms in the country. The impact of GST is manifold. However, the most significant impact of the introduction of GST will be the removal of the cascading effect of the various taxes and removes distortion in the economy. However, the success of GST depends on proper administration.

***Index Terms*** **– Goods and Services Tax, Indian Economy, Impact, Administration.**

## I. INTRODUCTION

Globally, more than 160 countries have introduced the Goods and Services Tax (GST) or the Value Added Tax (VAT) or Harmonized Sales Tax (HST). By and large, GST is a contemporary reformation of Indian tax system. The idea of GST was first devised by a German economist during the 18th century. However, France was the first country to introduce GST system in 1954. The standard GST rates in most of the countries ranges between 15-20%. In Scandinavian countries, it ranges between 22-25 percent. Though, country such as Singapore virtually taxes everything at a single rate. In India, the Dual GST which subsumes many consumption taxes was implemented from 1st July, 2017. The GST rates ranges between 0-28 percent. However, the unified tax rate is still not finalized in the country.

References to taxes in ancient India are found in 'Manusmriti' and 'Kautilya's Arthashastra'. However, the concept of the tax in India has been, and remains, evolving. The introduction of the VAT at the Central and the State level was a major step in the globe of indirect tax reforms. GST is the latest step towards a widespread indirect tax reforms in the country. The new Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption. The introduction of GST primarily due to removal of the cascading effect of the various taxes - all indirect taxes will be creditable against one another.

GST is basically a tax on final consumption. Reforming the consumption tax system in an inter-governmental context is an extremely difficult issue. In a globalizing environment, it is necessary than the tax system generates sufficient revenues to provide efficient infrastructure. However, competent infrastructure is scarce. Proper administration is missing in the country. The strong political and economic will is lacking. The States have not given its consent on the proposed structure. The basic intricacies of the unified tax are still not finalized. Lately, but Indian polity has started to show positive outlook about GST. Indian government has taken some serious steps to implement the GST. But, adequate measures is still lacking.

The force of GST is manifold. Still, the most significant impact of the introduction of GST will be the removal of the cascading effect of the various taxes and removes distortion in the economy. Eventually, it will result in widening tax base and increased revenue to the Centre and State and reduces administrative cost for the Government. However, much will depend on its simplicity and efficient implementation.

## II. OBJECTIVE

GST is a contemporary tax reformation in Indian tax system. Operation of GST is vital. The unified GST rate is still undetermined. The objective of the present paper is to develop the understanding of GST and its impact on Indian economy.

## III. METHODOLOGY AND DATA SOURCES

Investigation is made in some vital areas of concept, structure and the impact of GST in order to address the problem of implementation of GST. Political will and administrative measures and policies are two important areas.

This paper is undertaken with the help of published government and private information. Secondary published and unpublished sources are the main sources of information. Information has been collected from various books, National and international Journals, government reports, publications from various websites which focused on various aspects of Goods and Services tax.

## IV. A BRIEF HISTORY OF TAXATION– INTERNATIONAL AND NATIONAL OUTLOOK

Taxes are as old as civilization. However, this tax has grown and evolved as civilizations themselves evolved. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public policies and infrastructure development. Taxes are imposed so that a government may perform its traditional functions, undertaking welfare and developmental activities and to make provision for public goods and services to satisfy collective needs of people. The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom. References to taxes in ancient India are found in 'Manusmriti' and 'Kautilya‟s Arthashastra'. An epigrammatic history of taxation is being highlighted here.

**Egypt (Pre 3000 BC to 300 BC)**

In ancient Egypt, the ruler '*pharaoh*' - the highest authority of the land, a god, organized to collect taxes from all citizens of kingdom and those owing taxes were forced to hand over portions of their land, livestock etc, to the scribes and courts. The ancient Egypt's taxed grain, cooking oil, livestock, beer, other farm produce, personal livelihood (*beku)*, Nile usage for transportation of merchandise, and foreign trade. Local officials (*apu* ) were also taxed. The rich nobles and even the tax collectors were not exempted from the collection of taxes.

**China (2100 BC to 1911 AD)**

Ancient Chinese taxation history is denominated by mainly agrarian economy with hear taxes levied by Emperors that roiled during the 2000 year Imperial period, from the qin (chin) dynasty in 221 BC, to the Xinhai Republication revaluation in 1911 AD. In China, the state controlled all production. Income tax was introduced in 1980 after an economic reform in the 1970s. Today china levies product Tax which is levied on most agricultural and industrial products; value added tax (VAT) which is levied on selected industrial products Business Tax; which is levied on services and trades, and sale tax, which is levied on salt producers and distributors. Apart from the VAT, these taxes were all charged on goods and services at each stage of production and marketing. Finally the Chinas tax systemic like its political system is constantly undergoing reform, and the future can only promise further developments in this area for China.

**Greece (Pre 1600 BC to 146 BC)**

In ancient Greece, the important sources of tax were certain manufacturing processors and products like olive oil, leases on publicly owned lands and mines, import export, port fees and foreign resident. Ancient Greece financed the tax revenue in the essential areas like Government, Administrative processes, public festivals, the building of city walls, maintenances at cities, Building and maintenance of temples for its gods. The state also minted coins to aid in the collection of taxes moving away from the barter system.

**Great Britain (1798)**

In Great Britain, income tax system started in 1798 in the financial necessity caused by the war with France. However, it was repealed in1816 and for the next quarter of a country the tax remained an unused instrument till it was revived by Sir Robert Peel in 1842. Since then it has passed into permanent feature of British Budgets and has occupied a place of ever increasing importance.

**United States (1895)**

The history of taxation in the US began from the colonial period. After independence from Europe the US collected poll taxes, tariff and excise taxes. The U.S. imposed income taxes intermittently until 1895 when unapportioned taxes on interest, dividends and rents were ruled unconstitutional. However, in 1913 the 16th Amendment to the U.S. constitution modified and since then the income tax has becomes one of the means of funding the federal government.

**India (Pre 300 BC)**

References to taxes in ancient India are found in 'Manusmriti' and 'Kautilya‟s Arthashastra'. Manu the ancient sage and law giver stated that king should levy taxes according to sastras. He advised that taxes should be related to income and should not be excessive. He laid down that traders and artisans should pay 1/5th of their profits in gold and silver, while the agriculturists were to pay 1/6th, 1/8th and 1/10th of their produce depending upon their circumstances. The detailed analysis given by Manu on the subject clearly shows the existence of a well planned taxation system, even in ancient times. Kautilya‟s Arthasastra was the first authoritative text on public finance, administration and the fiscal laws. Collection of income tax was well organized during Mauryan Empire. Schedule of tax payment, time of payment, manner and quantity were fixed according to Arthasastra. It is remarkable that the present day system of taxation is in many ways similar to the system of taxation given by Kautilya 2300 years ago.

## V. GST – THE CONCEPT, FEATURE

Concept of tax is very old. The word tax is derived from the Latin word '*taxare'* meaning to estimate. A tax - under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name - may be defined as a pecuniary burden laid upon individuals or property owners to support the government, a payment exacted by legislative authority. Taxation is a significant source for the development and growth of an economy. The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom.

However, around the globe, tax systems have undergone significant changes during the last 20 years as many countries across different ideological spectrum and varying levels of development have undertaken reforms. The Goods and Services Tax (GST) is the modern tax reform. Goods and Services Tax also known as the Value Added Tax (VAT) or Harmonized Sales Tax (HST). Goods and Services Tax is a comprehensive**,** multi-stage, destination-based tax that will be levied on every value addition.

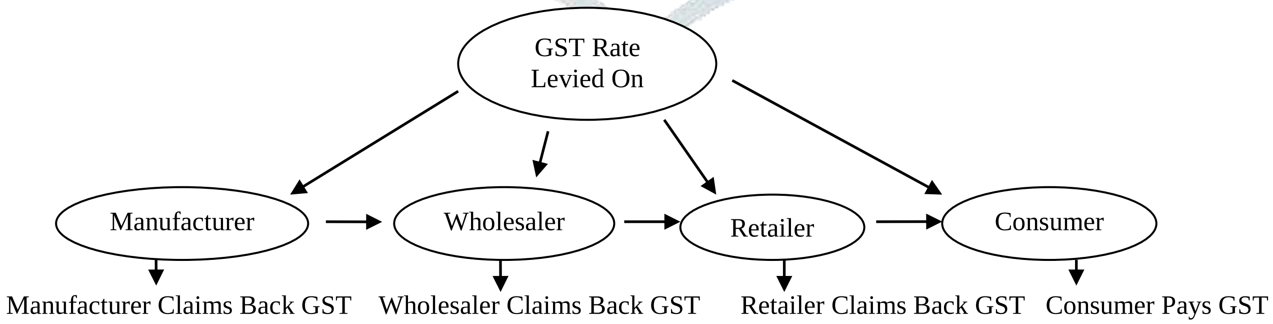
The Indian indirect tax regime is characterized by multiple levies, such as excise duty, Customs duty, VAT, Central sales tax, service tax, and including local levies, such as octroi and entry tax. The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, seeks to amend the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The proposed amendments in the Constitution will confer powers both to the Parliament and the State legislatures to make laws for levying GST on the supply of goods and services on the same transaction. However, Indian tax history is not very recent.

Indian system of taxation of goods and services is characterized by cascading, distortionary tax on production of goods and services which leads to misallocation of resources, hampering productivity and slower economic growth. To remove this hurdle, a pure and simple tax system like GST (Goods and Service Tax) is need of the hour in the country. The salient features of proposed GST Model are following -

1. The GST shall have two components - one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability.
2. The Central GST and the State GST are to be paid to the accounts of the Centre and the States separately.
3. The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except exempted goods and services, goods which are outside the purview of GST.
4. Since the Central GST and the State GST are to be treated separately; taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.
5. The administration of Central GST to the Centre and for State GST to the States would be given.
6. To the extent feasible, uniform procedure for collection of both central GST and the State GST would be prescribed in the respective legislation for the Central GST and the State GST.
7. The tax payer would need to submit periodical returns, in common format as far as possible to both the Central GST authority and to the concerned State GST authorities.
8. Each tax payer would be allotted a PAN-Linked taxpayer Identification number with a total of 13/15 digits. This would bring the GST PAN-Linked system in line with the prevailing PAN-Based system for Income Tax, facilitating exchange and taxpayer compliance.

## VI. GST – OPERATION AND STRUCTURE

Indian tax system is constantly undergoing reform from the ancient tax system. Goods and Services Tax is the current reform. Normally, Goods and Services Tax (GST) is the tax on supply of goods or services or both. It is collected on value added at each stage of sale and purchase in the supply chain without State boundaries. In GST regime, goods and services are not differentiated as it moves through the supply chain. The fundamental feature of GST is the eligibility of the manufacturers and dealers to claim credit for tax paid at each stage without any limit or the barriers of State boundaries till it reaches the ultimate consumer. In GST structure, different stages of production and distribution are interpreted as a mere tax pass-through, and the incidence of tax is essentially borne by the final consumer within a taxing jurisdiction. A well-designed GST on all goods and services is the most efficient method of taxation to eliminate distortions. In India, the GST would integrate all taxes currently levied in India by Central and State governments on goods and services like excise duty, service tax, State VAT/sales tax, entry tax or octroi, State excise, countervailing Custom duty, telecom license fee, luxury tax, tax on consumption/ sale of electricity, entertainment tax etc. How GST works, it has shown below.




**(Source: http://www.relakhs.com)**

However, the success of GST depends on proper administration. In India, the GST council has announced the GST rates across goods and services and item wise GST rates on Goods and Services which will be applicable from 1st July, 2017. The Council has broadly approved the GST rates for services at Nil, 5%, 12%, 18% and 28%. However, the unified tax rate is still not finalized. In India, generally, five types of rates collect under GST -

Standard tax rates - Most of the taxes come under this category.

Limited tax rates - Tax is been collected for the medical and other major basic goods in this category.

Special tax rates - Special tax is been collected on the goods and items like tobacco, Liquor, jewellery etc; under this category.

Redemption rates - This kind of tax is applicable to the backward areas & there is redemption of taxes for goods under this system and where GST & credit facility is not applicable. All these kinds of procedures will be banned if GST exists.
Zero rate - Though tax is not applicable to the goods that are imported there is the facility of refund under this system.
The standard GST rates in most of the countries ranges between 15-20%. In Scandinavian countries, it ranges between 22-25 percent. Though, country such as Singapore, New Zealand virtually taxes everything at a single rate; some countries have more than one rate. The standard GST rate of some selective countries has given in the following table.

**Table - GST Rates of Selective Countries**

| Country Name | Standard Rate (%) |
|---|---|
| Austria | 20 |
| Belgium | 21 |
| Portugal | 19 |
| Ireland | 21 |
| Poland | 22 |
| France | 19.6 |
| Germany | 16 |
| Australia | 10 |
| Barbados | 15 |
| Canada | 7 |
| Botswana | 10 |
| Zambia | 17.5 |
| Greece | 18 |
| Argentina | 21 |
| Chile | 19 |
| Spain | 16 |
| Romania | 19 |
| Luxembourg | 15 |
| Netherlands | 19 |
| Columbia | 16 |
| Japan | 5 |
| Mexico | 15 |
| Latvia | 18 |
| Norway | 25 |
| Denmark | 25 |
| Sweden | 25 |
| Finland | 22 |
| Italy | 20 |
| Switzerland | 7.6 |
| United Kingdom | 17.5 |
| Maldova | 20 |
| Indonesia | 10 |
| China | 16 |
| South Africa | 14 |

**Source: http://en.wikipedia.org/wiki/Tax_rates_around_the_world**

## VII. IMPACT OF GST

In many countries GST has been functioning successfully from long times. Indian Government has been trying to implement the Goods and Services Tax (GST) for last few years but it has implemented recently. The goods and services tax (GST) is the brainchild of Ex-Finance Minister Mr. P. Chidambaram. It is a multi-stage consumption tax to be imposed on wide range of goods and services. The process of introduction of VAT started in 2003 but was completed recently. As Indian economy more globalized, the introduction of GST is significant. Though the impact of GST is multiple.
The introduction of GST would result in abolition of multiple types of taxes on goods and services. It reduces effective rates of tax to one or two floor rates. It also reduces compliance cost and increases voluntary compliance. The most significant impact of the introduction of GST will be the removal of the cascading effect of the various taxes and removes distortion in the economy. The overall impact of taxes on businesses is reduced. Besides, the artificial (tax) barriers to trade that currently exist should be fully removed. All of these, coupled with the relative clarity that a GST regime offers, should result in the reduction or rationalization of prices. Another equally significant offshoot of this regime is streamlining of the administration and collection of the indirect levies, since GST will attempt to tax the value added at each stage of the supply chain. The government revenue is not boosted but brings to book many of the defaulters, and hence results in the creation of a robust tax regime.
Overall, GST enhances manufacturing and distribution efficiency, reduces cost of production of goods and services, increases demand and production of goods and services. As it is neutral to business processes, business models, organization structure,

geographic location and product substitutes, it will promote economic efficiency and sustainable long-term economic growth. It will give competitive edge in international market for goods and services produced in India, leading to increased exports and reduce litigation, harassment and corruption. Eventually, it will result in widening tax base and increased revenue to the Centre and State and reduces administrative cost for the Government.

## VIII. CONCLUSION

The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. Under GST there will be uniform tax structure where the tax revenue will be divided among states and center according the to the consumption cycle.
Taxes are as old as civilization. However, this tax has grown and evolved as civilizations themselves evolved. References to taxes in ancient India are found in 'Manusmriti' and 'Kautilya's Arthashastra'. However, the concept of the tax in India has been, and remains, evolving. GST is the modern reformation. Indian Government has been trying to implement the Goods and Services Tax (GST) for last few years but due to political and state governments autonomy issues the Federal government has been unable to make it law.
The impact of GST is multiple. The most significant impact of the introduction of GST will be the removal of the cascading effect of the various taxes and removes distortion in the economy. GST enhances manufacturing and distribution efficiency, reduces cost of production of goods and services, increases demand and production of goods and services. However, improvement in GST implementation is essential.

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