



## Multiple taxation to unified tax system: An Indian scenario

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### Abstract

Indirect Taxation in India has undergone a revolutionary change with the rolling out of GST (Goods and Services Taxes) on 1st July 1, 2017. Government has made several changes and modifications in tax rates, tax structure, and even implemented VAT (Value Added Tax) ever since iconic, economic reforms were introduced. But none of these changes and reforms yielded the expected results. Indian taxation system has remained highly convoluted and has made the manufacturing sector in-competitive. Too many types of taxes levied by central and state governments have increased the prices of goods manufactured in India. As a result, Indian goods were not able to compete in the international market. The main objective of the research paper is to throw light on concept of GST, different types of indirect taxes levied earlier in India. The paper also discussed the salient features of GST Bill, GST council, implications on Indian industries, challenges ahead.

**Keywords:** indirect taxes, GST, VAT, GST council

### Introduction

Taxes are the main source of revenue for the government. In order to meet public expenditure, government imposes levy on tax payer called tax. In India, taxes are segregated into direct and indirect taxes. Direct taxes are collected directly from tax payers such as income tax, corporation tax and wealth tax. Indirect taxes on goods and services are collected from the intermediaries like manufacturers, wholesalers and retailers. Ultimately, it is the end user who has to face the brunt of host of taxes levied on goods and services.

Indirect tax system in India has undergone a sea change since the post era of liberalization reforms. To accelerate growth of the economy, and to make Indian industries more competitive, government has taken several measures. Indian taxation system has also witnessed several changes since then. Slew of reforms have been announced progressively to have a check on tax evaders and improve tax compliance. Customs duty was gradually reduced from 300 percent to 10% and excise duty was reduced from 220% to 16%. Traditional general sales tax was replaced by value added tax (VAT) in 2005. This was considered as an iconic reform. The need for further comprehensive reforms in indirect taxation led to the implementation of GST model in India.

### Why GST in India?

Despite the several reforms made in Indian indirect taxation system since 1990's, it remained highly complicated with multiplicity of taxes, tax rates, threshold limits and plethora of provisions. Cascading effect of taxes was one of the major distortions of the Indian taxation regime. Federal structure allows both states and centre to levy taxes separately and this has resulted in cascading effect. Centre levied income tax, excise duty, service tax and central Sales tax (CST), securities

Transaction tax. VAT/sales tax, Entry tax, State excise, Property tax, Agriculture tax and Octroi were levied by the state governments. The Market price of manufactured products became ballooned because of multistage cascading tax structure rendering them in-competitive in the international market.

The tax system also acted as a barrier to inter-state trade. Doing business in such a complicated framework was a herculean task for the companies. Country was in dire need of further reforms in taxation in order to improve country's international competitiveness and to bring about simplicity, better tax compliance and boost GDP rate.

### Objectives of the study

- To understand the concept and frame work of GST
- To study different indirect taxes levied currently in India
- To understand the advantages of GST
- To analyse the effect of GST on different sectors

### GST Concept

Both goods and services come under the ambit of GST. GST would be charged on every sales transaction in the supply chain. Every entrant in the supply chain is entitled for reimbursement of the taxes that are already paid for the procurement of goods and services. Sellers or service providers collect tax from their customers and deposit just the difference tax received minus tax paid already. The manufacturer will get the reimbursement of all the taxes paid by them on the raw materials and also on the services. The idea behind the GST is to expand the taxpayers' base and reduce tax burden on business/ individual tax payers. GST is a comprehensive indirect tax on all goods and services except on alcohol.

### Journey of GST

- 1986-87--Stage set for GST
- 1991-96-Introduction of service tax
- 2005-06- Implementation of VAT
- 2008-Finalisation of GST structure
- 2011- Introduction of constitution of amendment bill
- 2012-213-GST network for IT architecture
- 2014-Introduction of revised constitution of amendment bill
- 2016-2017-Passage of GST bill, finalization of rates and rules
- July 1<sup>st</sup> 2017- GST came into effect

### Salient features of Indian GST Bill

- Since India has a federal system, Dual GST came into effect with Central levying Central GST and state and union territories levying SGST and UTGST respectively based on destination principle.
- CGST and SGST would be applicable to all transactions of goods and services except for
- those that do not come under the purview of GST. IGST would be leviable on Import or Inter-State supply of goods or services or both.
- CGST and SGST would be levied at the rates mutually agreed by central and state governments.
- The Central GST and State GST collected are to be paid to the accounts of the Centre and the States separately. Taxes paid against the State 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.

- Central GST legislations and State GST legislations prescribe the procedure for collecting central GST and State GST respectively.
- The taxpayer has to submit periodical returns (monthly), in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities. Each taxpayer 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 data exchange and taxpayer compliance.

### Operational frame work of GST

- Under the new tax regime, sale transaction within the state shall have the following taxation
- CGST collected by the Central government
- SGST, collected by the State government UTGST collected by Union territories
- IGST: it refers to the tax on inter-state movement of goods. Sale from one state to another shall have only one type of tax.



### Types of Indirect taxes that are subsumed

Hitherto, a plethora of indirect taxes were levied by the government. Taxes were levied on import, manufacture, sale and even purchases of goods and services. In the absence of well-defined laws and acts, it is rather cumbersome and

complicated to understand every aspect of indirect taxes. As such, it can be cumbersome trying to understand every feature of indirect taxes in India. GST Act is expected to streamline the indirect tax structure. The taxes that are subsumed under GST regime are listed below.

### Taxes levied by centre



**Central Excise duty:** Central government levied excise duty on manufactured goods and this came under Central Excise Duty Act 1944. Excise duty varied from product to product.

**Additional Excise duty**

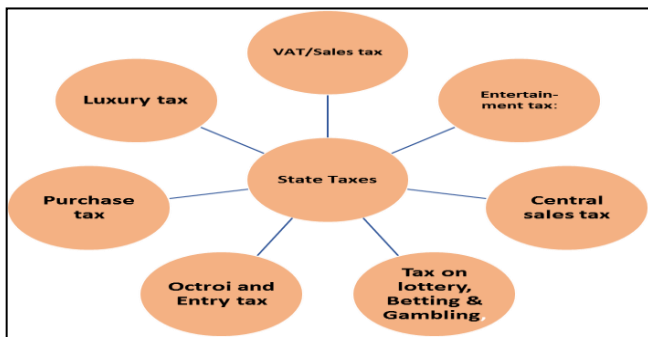
Additional duties of Excise duty were levied on goods which were of special importance and was levied in lieu of sales Tax and shared between Central and State Governments.

**Service Tax:** Service tax was introduced in India way back in 1994 and was applied on 3 basic services viz. general insurance, stock broking and telephone. Before 1<sup>st</sup> July 2017, more than 100 services were subject to service tax. Tax rate had also progressively increased from a mere 5% to 12% on specific services.

**Additional Customs duty:** It was levied as additional duty on goods imported into the country and the tax rate applicable is equal to the excise duty on similar products manufactured in India.

**Special additional customs duty:** This was levied in addition to the regular customs duty.

**Taxes levied by state**



**VAT/Sales tax:** VAT is a multi-stage tax on goods. It was levied across various stages of production and supply with credit given for tax paid at each stage of Value addition. VAT replaced state level sales tax and was introduced in 2005 and implemented by all states in India.

**Entertainment tax:** It was levied on any activity leading to entertainment such as cinema, video shows, cable T.V. operators, amusement, recreation parlors, exhibition,

performances, sports activities, celebrity shows etc., It differed from state to state.

**Central sales tax:** The Central Sales Tax (CST) was a levy of tax on sales generated during the course of inter- state trade or commerce.

**Tax on lottery, Betting & Gambling**

**Octroi and Entry tax:** It was levied on the movement of goods from one state to another state and it was levied at the entry point by the recipient state.

**Purchase tax:** Tax was added to the price of goods on sale of goods to the consumers.

**Luxury tax:** It was a tax levied on luxury goods that are not considered as essential. Ex. Expensive cars, jewelry.

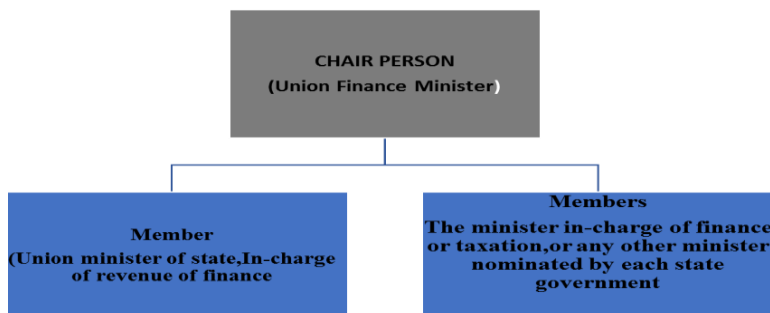
**GST Genesis**

- The idea behind GST implementation is to have “one tax, one nation”. GST was first mooted by Kelkar task force in 2003. It took almost 13 years for GST to become a law in India. Shortly, India will join the global band wagon of 150 countries who have already executed GST.
- GST bill was passed in Rajyasabha and Lok Sabha and on 3<sup>rd</sup> and 8<sup>th</sup> Aug 2016 respectively. This is considered as a revolutionary reform in the Indian taxation system.
- Constitutional amendment bill passed by parliament to replace existing indirect taxation system with GST was notified on Sept 16, 2016.
- The new system is all set to roll out from 1 July 2017.
- CBEC (Central Board of excise & Customs) will be renamed as Central Board of Indirect taxes and Customs (CBIC)
- 4 legislations – CGST, IGST, UTGST and Compensation laws were passed in parliament

**GST Council**

- GST council is set up as per Article 279A of the amended Constitution and GST council secretariat office is located at New Delhi
- GST council is a statutory body with Union finance minister is it's the chairman. It is empowered to take all decisions regarding GST with representation from both central and state governments. It is one of the most powerful federal bodies in India.

**Composition of GST Council**



**Functions of GST council**

It can make recommendations on the following

1. Subsumation of the different types of taxes, cess or surcharges levied by central, state governments or local bodies.
2. The type of goods or services which come under the ambit of GST or which escape GST
3. Model GST legislations in the form of apportionment of IGST.
4. According to the decision taken by GST council, India is going to have 4-tier rate structure of 5%,12%,18% and 28%.
5. Fixation of threshold limit of turnover below which goods and services get exempted from GST
6. Special rates in order to augment resources during natural calamities.
7. Special provision with respect to socially and economically under-developed states like Arunachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya,

Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand;

8. Decisions relating to modalities of resolving the disputes arising out of its recommendations
9. Compensation to states for any loss arising out of GST implementation for the first five years
10. Decision relating to when the five products ie, petroleum crude, high speed diesel, motor spirit (petrol), natural gas, and aviation turbine fuel should come under the purview of GST and any other matters.

**Rate Structure**

To start with India is going to have multiple GST rates instead of one rate. To protect the poor and common man, common use items will attract lower rate of interest and demerit goods and luxury items will attract higher rates of tax. Nearly 50% of essential items included in consumer basket index will be charged at zero tax rate. Essential items include food items. This move is aimed at containing high inflation.

**Table 1**

Items	Examples	Tax rate
50% items included in consumer price index basket	Food grains: ice, Wheat, Ragi etc.	Zero percent
Mass consumption items	Spices, mustard oil, tea	5%
Majority of the items used by the common man	Processed items	12 %
	Toothpaste, refrigerator, soaps, smartphones	18%
De-merit foods and luxury items	Luxury cars, pan masala, aerated drinks and tobacco	28%

Additional cess will be levied on luxury cars, aerated drinks and tobacco products. The cess collected on demerit goods and clean energy cess will be used for compensating states for the revenue loss during the first 5 years of GST implementation.

- Turnover (annual) threshold limit is fixed at 10 lacs for businesses in north eastern and hilly states and 20 lakhs for businesses in rest of India. Threshold limit is set for the annual sales turnover below which traders, business men are exempted from paying GST.
- The Central Board of Excise and Customs (CBEC) has unveiled three draft rules and their formats relating to registration of business, invoice and payments for public comments.
- The IT backbone, GST portal [www.gst.govt.in](http://www.gst.govt.in) went live on 9<sup>th</sup> Nov 2017. This has facilitated online registration of tax payers, tax payment and return filing. The portal serves as a front-end system for trade and industry and backend system for all government agencies to collect taxes.

**Advantages of GST**

- It will simplify the current complex tax structure and will subsume almost all indirect taxes.
- Tax compliance by citizens will improve.
- Currently Indian market is fragmented resulting in cost escalation to the extent of 25 to 30%.
- Both centre and state governments can expect increase in revenue.
- Double taxation and cascading effect would be avoided.
- Tax leakage, which is major problem in India, can be

plugged.

- GST reforms will increase tax deducted at source.
- GST is expected to bring more uniformity and simplicity and is expected to reduce cascading effect of taxation.
- GST reforms are expected to have a positive brunt on GDP and economic growth rate is expected to increase in future.
- It helps to fight corruption.
- The new tax system will be fair, transparent.
- Registration, refunds, return filing and payment process will be online. GST can be paid online using any mode of payment like electronic fund transfer (NEFT) real time gross transfer (RTGS), debit and credit cards.
- GST enables traders and companies to access input tax credit with more ease.
- It is intended to tear away the barriers between 29 states of India.

**Implications on Indian Inc.**

GST is expected to bring noteworthy change in Indian economy. It is going to bring radical change in almost all aspects of business operations like pricing of products & services, supply chain management, distribution, Logistics, IT, Accounting and Taxation. GST will transform Indian market into a single market. Companies would be able to do business with greater ease and to save huge amounts in logistics costs. Some sectors gain and some sectors may lose depending on whether the current rate of tax they pay would be lower or higher than the effective GST rate.

1. GST will bring down the market price of goods. Manufacturers will switch over to single uniform tax

- regime. Currently they are paying excise, VAT and service tax.
- 2. Currently, Certain essential items like food products are either not taxed or subject to low tax rates of 6 to 8%. Nearly 55% of the food items and medicines do not fall under GST regime. This certainly provides a sigh of relief to common man.
- 3. GST offers an excellent opportunity to rationalize automobile tax. Hitherto 4 slab differential tax structure was applicable to automobiles, with small cars subject to 12.5% and by the heavy vehicles in the range of 27 to

- 30%. For the auto industry, the implementation of GST would result in manufacturers paying lower taxes and the customers may also be benefitted.
  - 4. Services like eating out sporting events have become costlier.
  - 5. Gold and diamond are subject to 3% and 0.25% tax.
  - 6. Hotel and lodges with tariff below Rs 1000 are exempted from GST.
  - 7. Hospital services are exempted from GST.
- Likely impact on different sectors is summarized below.

**Table 2**

Sector	Positive points	Negative points
Information Technology	Eliminated multiple levies	GST rate applicable is 18%. Cost of service will increase under GST regime.
FMCG	GAT rates for most of the FMCG are lower than existing tax rate.	
Airlines	Common man will benefit marginally	Economy class fares cheaper (down by 0.6%) and business class fares have flared up(3.6%)
Railways	Unchanged for II class	Ac First class fares have gone up
Cement	Going to benefit in terms of savings in transportation cost and lower tax incidence	
Insurance		Health, motor and life insurance policies and premium have gone up
Telecom	Mobile handsets to become cheaper.	Call charges and data card rates have gone up.
E Commerce	Facilitates free movement of goods and services. Cascading effect will be reduced.	Administration and documentation costs to go up.
Automobiles	Tax rate on two/three-wheeler vehicles have come down 31.4 % to 29% whereas for SUV will attract a tax rate of 43 % as against the earlier 55.3%.	
Banking		Service charges have increased
Real Estate		GST will rationalize the tax structure in real estate with 12% tax rate.

**Challenges**

There are host of transition challenges before the government as well as the industry for its successful implementation. Initial period is marked by utter confusion and complaints. Government is taking measures to rectify initial snags. Complaints regarding the operations of GSTN persist. Some of the problems are listed below.

- 1. Tax payers are facing difficulties in uploading returns and invoices in portal
- 2. Since GST is in nascent stage, clients are still finding it difficult to understand its provisions and its impact on their business.
- 3. Various provisions of GST are still vague and ambiguous. Categorization of certain goods and services under different tax rates are still unclear.
- 4. Clients need to file multifarious returns depending upon their business models. Clients must ensure timely compliance by registered suppliers to make sure that there is no loss of input credit. To make this happen, accurate returns must be filed.
- 5. Many businesses and MSMEs do not have accounting software and IT systems in line with the new tax provisions, to create GST invoices, and extract required reports.
- 6. Lack of skilled and trained staff with updated GST subject knowledge are not easily available.
- 7. GST offers both s challenge and opportunities for tax and

accounting professionals, and the need of the hour is to have professions who are well versed with knowledge of cloud, analytics, and business applications and financial and accounting knowledge.

**Conclusions**

GST is considered as a game changer. GST has the credit of unifying \$ 2 trillion economy and billion people in to single market. Despite the initial problems and challenges, the roll-out of the goods and services tax (GST) has been a much smoother affair and the industries have transitioned to the new system without major hassles. Of the 81 lakh existing taxpayers, 68 lakhs have migrated to GSTN while nearly 2 lakh new taxpayers have also registered on the portal at the end of June. Indian manufacturers, traders, and service organizations no longer need to comply with muddled tax system which forced them to pay as many as 17 taxes. GST has provided a tax and finance professionals manifold opportunities provide consultancy services to their clients to ensure seamless migration to GST.

GSTN portal is in place and has undergone all initial trails and tests. It has already started accepting registrations from June 25<sup>th</sup> 2017. GSTN portal will enable tax payers to meet GST compliance requirements like filing returns and making payments.

Indian is progressing towards simplified, unified taxation system from muddled up indirect taxation system. The

objective is to create undivided, single, harmonized market to make India as a powerful, strong nation. It will be a boon for manufacturing sector. GST is expected to increase tax compliance, augment the revenue for the government, promote exports, improve the competitiveness of manufacturing sector, increase employment opportunities, reduction in prices of manufactured products, increase consumption and improve GDP of the country. It is also expected to check tax evasion.

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