EVOLUTION OF GST IN INDIA

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Abstract:

Tax system in India has undergone various reforms during the last decades. The tax laws have been simplified and tax rates have been rationalised in order to ease the system of taxation, ease of payment, compliance and better enforcement of tax reforms. Indirect taxation in India took a big leap on the implementation of Goods and Service Tax (GST). The objective behind it was to subsume various indirect taxes to avoid the cascading effect in taxation. GST laws and rates is in a continuous process of improvement in the various meetings conducted. GST and its future aspects show a positive sign of rapid economic growth of our nation as it is one of the keys to GDP and a strong indicator of Investment decisions. The objective of this study is to give an overview of historical scenario of taxation system and its structure, history behind the evolution of GST in India. This study also focuses on understanding the concept and structure of GST and its impact on Indian economy with benefits and drawbacks.

Introduction

Tax system in India can be traced back to the period of Manusmriti and Arthashastra. Direct tax took different forms from ancient times. Kautilya, in Arthashastra, emphasised equity and justice in the form of taxation.

In Arthashastra, the rate of tax was fixed and the schedule for the payment of tax was predetermined. The land revenue was at $1/6^{th}$ share of the property held and this could be increased during war times. Kautilya also advised the King to make the tax collection stringent during war times from $1/6^{th}$ to $1/4^{th}$ of the property in case of land revenue. Tax in various forms such as land revenue, export & import duties, road cess, ferry charges, tax on business income, tolls were levied during those days. Tax system followed today is based on the theory of maximum social welfare.

Taxation system during the Pre-Independence period

Tax system was introduced in its modern form in India for the first time in 1860 by Sir James Wilson in order to sustain financial losses in the economy caused by Military mutiny. It was levied on rich Britishers. Therefore it was not liked by powerful people.

The rates of tax in the year 1860 were as follows- 2% of income tax was levied on income between Rs. 200 and Rs. 500. Income above Rs. 500 was charged at 4%. Even during those days, exemptions on income w[as taken into consideration. Income below Rs.200 including the agricultural income was exempted from tax. Government property, religious and charitable institutions were also exempted from tax.

The period of 1860 to 1866 was a period of experiments on tax system. Tax rates and tax laws were changed from time to time, 23 Acts were passed in the field of direct taxation. The Act of 1860 was lapsed in the year 1865. Although, the Act of 1860 was not very successful, the system to collection of tax on the income continued. Amendments were made to this Act by introducing **License Tax** in 1867 which continued for one year and abandoned next year with the introduction of **Certificate Tax** in 1868. In 1869, **General Income Tax** was introduced and was followed till 1873. **License Tax on Trades andProfession** was introduced in 1878. This Act exempted Agricultural income from tax bracket and also raised the exemption limit to Rs. 500, whereas the rate of tax continued to be at 2%. This Act remained in force till 1886. Government realised the importance of imposition of tax on trade and profession as it was a major source of revenue to the government, where traders and

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professionals were prospering their respective fields.

In order to make Income Tax Laws more stringent afresh Act was passed in 1886.This Act was an important landmark in the history of Income Tax in India. This Act can be considered as the root of tax system prevalent today. Income was divided into different heads namely, 'Income from Salaries and Pension', 'Profits of Companies', 'Interest on Securities;, and 'Other Sources of Income' which included 'Income from House Property'. This Act again exempted the income from agriculture and gave a rise to the term 'Agricultural Income'. Tax was levied on heads of incomes separately, and not on the total income. In 1917, an additional tax by name 'super tax' was introduced in order to generate more revenues to the government. While other taxes were levied on 'step basis', super tax was levied on 'slab rate system'. This Act of 1886 was in force till 1918, with a number of amendments.

Further reforms were made in the Income tax system in 1918, where the term 'company' and 'previous year' were defined, assesse included individuals and Hindu undivided families. There were six heads of income – 'Income from salaries', 'income from house property' 'interest on securities', 'income from business' 'income earned from profession', 'income from other sources'.

The Income Tax Act of 1922, brought tremendous changes in the Income Tax laws. It laid ground for the establishment and growth of Income Tax Department. For the first time, Income Tax administration was centralised in the hands of Central Board of Revenue in 1924.

In 1945, due to shortage of manpower in the IT department, recruitment of IT officials were made through Indian Accounts and Audit Examination. This service of these professionals gradually came to be known as 'Indian Revenue Service'.

Tax on Capital Gains was introduced for the first time in 1946, which was amended later.

Taxation System in the Independent India

The important milestone in the history of tax system in Independent India was from 1953 to 1961. In the year 1953, The Estate Duty Act was passed for the levy and collection of duty on Estate. In the same year, Government appointed 'Taxation Enquiry Commission' under the chairmanship of Dr. John Mathai. The main objectives of this committee was to examine the incidence of tax, distribution of burden of tax system in the society, inequalities in wealth and income, suitability of tax system in the country keeping in view the development and progress of the nation, impact of tax system on capital formation and use of tax system during inflation and deflation to handle the situations.

In 1956, Mr. Nikolas submitted a report on Personal and Business Taxation which led to the enactment of several Taxation Acts, namely, 'Wealth Tax Act 1957', 'The Expenditure Tax Act 1957', 'Gift Tax Act,' 1958. The Government referred the Act to Law Commission, in order to make the laws simple and logical without affecting the existing Tax structure. The report from the Law Commission was received on 26th September, 1958. The Government formed 'Direct Taxes Administration Enquiry Committee' under the chairmanship of Shri Mahavir Tyagi, to design the measures to minimise the inconveniences caused to assessees, and to avoid tax evasion. This report was submitted on 30th November 1959. The recommendations of these two reports led to the Enactment of Income Tax Act of 1961.

Income Tax Act, 1961

Income Tax Act, 1961, came into effect on 1st April 1962, based on the recommendations of Law Commission and Enquiry Committee, which has 298 sections and 4 schedules and is applicable to whole of India, including Jammu and Kashmir.

This Act divides the Income under five heads namely- 'Income from Salaries', 'Income from House Property', 'Income from Capital Gains', 'Income from Business and Profession', 'Income from Other Sources'.

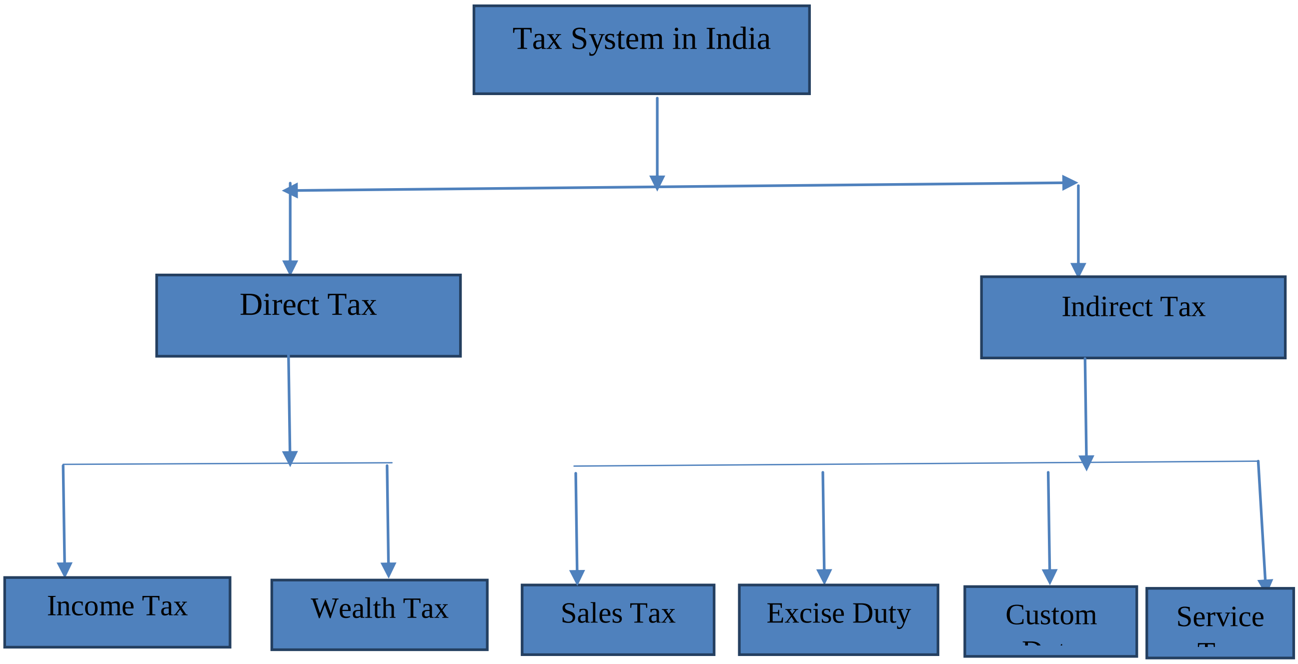
Tax Structure in India before GST

In India tax is levied by Central Government and State Governments. Minor taxes like municipality tax or local taxes are levied by the Local Body Authorities.

Tax can be broadly divided into two categories namely - Direct Tax and Indirect Tax.

Direct Tax is paid directly paid to the government by the tax payer, such as Income tax, corporate tax, wealth tax, capital gains tax etc. Direct taxes are levied on the income of the individuals or the corporate entities. Here the burden to deposit tax is on the assessees themselves.

Indirect tax is levied on the manufacture of goods and services. It is collected by an intermediary from the consumer who ultimately bears the burden of tax. Burden to collect and deposit taxes is on the sellers rather than the assessees themselves. Customs duty, excise duty, Value added tax (VAT), Central VAT (CENVAT), service tax etc. are the examples of indirect taxes in India.



Indirect Tax System in India

Indirect tax system in India has undergone several reforms over decades. Sales tax was a major source of revenue under indirect taxation until 1991. Central Board of Indirect Taxes (CBIT) administers the formulation of policies for levy and collection of Customs, Excise duties, Central Goods and Services Tax, and other indirect taxes in India.

Indirect taxes were levied at various stages like sales tax, excise duty, customs duty, and service tax.

- ***Sales tax*** is levied on the goods sold, and is paid by the dealer, whether it is inter-state sales or within the state or import or export of goods.
- ***Value Added Tax (VAT)***is a multi-stage tax which is levied on the value addition to a product at each stage of production to the point of sale. Credit is given for the tax already paid at all stages of addition to the value of the product. So the tax is paid on the cost of the product, less cost of the material which is already taxed in the earlier stages of production.
- ***Excise Duty***is an indirect tax which is levied on the goods manufactured within the country. After the introduction of GST, excise duty exists on very few items in India like liquor and petroleum. Excise duty is collected by an intermediary or a retailer from

the customers and then is ultimately paid to the government. Excise duty is administered by Central Board of Excise and Customs (CBEC)

- ***Custom Duty***is an indirect tax imposed on the goods transported across the international boundaries. It is calculated either on specific or ad valorem basis. Customs duty is calculated on the value of goods. Customs duties are divided into basic customs duty, countervailing customs duty, special customs duty, protective duty, anti-dumping duty.
- ***Service Tax***is an indirect tax levied on services provided by a service provider within a taxable territory. The Central Government via Finance Act 1994 governs the service tax in India. Service tax was initially on telephone services, Non-Life insurance services and stock brokers' services which later increased to 119 services. From July 1st 2012, service tax approach was changed from 'positive list regime;' to 'negative list approach'. Thereafter, services under negative list and those exempted by notification are exempted from service tax.

Roadmap towards GST

Goods and Services Tax is one of the most prominent indirect tax reform which brings subsumed other indirect taxes levied by State and Central Government. GST is a comprehensive indirect tax which is levied on manufacture, sales and consumption of goods and services throughout India. It was introduced in order to bring 'One Nation, One Tax' and avoid cascading effect in taxation.

Prime Minister of India, Narendra Modi in his speech during the implementation of GST on July 1st, 2017 said that GST would shred off around 500 taxes which were levied by Central and State Governments to have 'One Nation One Tax' throughout the nation.

Evolution of GST

The concept of Goods and Service Tax (GST) for India was first mooted sixteen years back, during the regime of Shri Atal Bihari Vajpayee as Prime Minister. From there on, on 28th February, 2006, the then Finance Minister in his Financial budget for 2006-07 suggested that GST would be implemented from 1st April, 2010. The Empowered Committee of State Finance Ministers (EC), were asked to define the plan and structure for GST. Joint Working Committee Officials of the state as well as Centre were set up to draw up reports explicitly on exemptions and threshold, tax collection of administrations and tax assessment between State supplies. In light of talks inside and among it, the EC discharged its First Discussion Paper

(FDP) on GST in November, 2009. The FDP spelled out the highlights of the proposed GST and has framed the basis for the present GST laws and rules.

In March 2011, Constitution (115th Amendment) Bill, 2011 was introduced in the Lok Sabha for the implementation of GST. However due to political reason Bill was not passed.

On 19th December, 2014, The Constitution (122nd Amendment) Bill 2014 was presented in the Lok Sabha and was passed by Lok Sabha in May 2015. The Bill was then taken to Rajyasabha and was passed on to Joint Committee on 14th May 2015. The committee submitted its report on 22nd July 2015. After ratification by required number of State legislatures and assent of the President, the Constitutional amendment was notified as Constitution (101st Amendment) Act 2016 on 8th September, 2016. This paved the way for the progress in the journey of GST.

After GST Council approved CGST, IGST, UTGST, and GST Bill in 2017, these Bills were passed in Loksabha on 29th March 2017. The Rajya Sabha passed these Bills on 6th April, 2017 and were enacted as Acts on 12th April, 2017

Thereafter, State Governments passed Goods and Service Tax Bills for the respective States. After enactment of various GST Laws, GST was successfully implemented by Honourable Prime Minister, Shri Narendra Modi on 1st July, 2017, in the Central Hall of Parliament of India.

Concept of GST

GST is a destination based tax system based on the consumption of goods and services. Under GST, only supply of goods will attract tax and is levied on the value addition made to the product at each stage of manufacture. GST comprises of Central Goods and Service Tax (CGST), State Goods and Service Tax (SGST) and Union Territory Goods and Service Tax (UTGST) for intra-state supplies. In case of inter-state supplies, Integrated Goods and Service Tax (IGST) would be applicable.

Input tax credit is available in order to avoid cascading effect of tax. It is based on the concept of VAT. The output supplier will avail input tax credit on the CGST, SGST, UTGST and IGST charged by the input supplier. So the supply of goods, services or capital goods will be taxed only once. This credit is available as follows:

- Input tax credit can be utilised for payment of SGST first and balance for IGST on outward supply

- Input tax credit of UTGST can be utilised for payment of UTGST first and balance for payment of IGST on outward supply
- Input tax credit of CGST can be utilised for payment of CGST first and balance for payment of IGST on outward supply
- Input tax credit of IGST can be utilised for payment of IGST, CGST and SGST on outward supply
- Input tax credit on GST compensation cess can be utilised only for payment of GST compensation cess

Threshold exemption: Taxpayers with an aggregate turnover of Rs.20 lakhs for a financial year will be exempted from paying GST. All taxpayers eligible for exemption will have an option of paying tax with Input tax credit benefits.

Composition levy:Small taxpayers with an aggregate turnover of upto Rs. 50 lakhs will be eligible for composite levy. Under this, a taxpayer will be eligible to pay GST, at a certain percentage over his turnover without benefit of input tax credit during the year. The tax rate for CGST and SGST/UTGST shall not exceed –

- 2.5% in case of restaurants
- 1% of the turnover in a State/Union Territory in case of manufacturer
- 0.5% of the turnover in a State/Union Territory in case of supplier

A taxpayer who wants to be eligible for composition levy shall not collect any tax from his customers nor will he get any benefit of input tax credit.

Harmonised System of Nomenclature (HNS): is used for classifying goods under GST regime. Taxpayers with a turnover below 1.5 crores need not mention HSN in their tax invoice, however, those with turnover above 1.5 crores but below 5 crores should mention 2 digit HSN and those taxpayers with turnover above 5 crores shall mention 4 digit HSN in their tax invoice.

Export and Import of goods and services: Exports and supply to Special Economic Zones (SEZ) are treated as zero-rated supplies. The exporter can claim refund over the output tax paid or can get input tax credit if export is made under bond without tax. Import of goods and services shall be treated as Inter-State supplies and will be levied IGST. In addition to this, customs duties also will be applicable on import of goods and services.

GST rates have been revised in the council meetings. The rates of 1,211 commodities and 119 categories of services were decided leading a further impetus to the roll out of GST. The rates imposed are at

5%, 12%, 18% and 28% across India. Special rates are imposed on certain commodities like gold, silver, precious stones etc. An additional cess of 22% is levied on items like tobacco, carbonated drinks and luxury cars.The commodities and services falling under each tax rate bracket gets revised in every GST Council Meeting.

Impact of GST on Indian Economy

GST roll out has turned Indian Economy into a single market of 1.3 billion citizens. GST has a wider tax base than any other form of indirect taxes. Excise duty threshold exemption was up to turnover of Rs.1.5 crores, under service tax laws, aggregate turnover up to Rs. 10 lakhs was exempted. The Threshold exemption limit for VAT ranges from Rs. 5 Lakhs to Rs. 10 Lakhs. However, under GST threshold exemption is provided up to Rs.20 lakhs (Rs. 10 lakhs in special category states).

After the implementation of GST, the revenue collection via, direct and indirect taxes has increased. India's tax-to-GDP ratio has increased significantly which will also help the government in lowering tax rates. This would definitely benefit the public without reducing the revenue to the government.

Manufacturers, distributors and retailers: The manufacturers, distributers and retailers suffered from high cost administration due to various indirect taxes. With GST, the tax burden has reduced and compliance has become easier. Small scale manufactures and distributors have registered for GSTN which also reduces tax evasion in the nation.

Consumers: From the viewpoint, of the consumers now they may have to pay higher taxes. Further cost of compliance of GST is included in it. However, in the long run, the tax rates will be lowered and minimum tax slabs will apply for most of the goods and services consumed. GST would bring lower rate for essential commodities and higher rate for luxury items which would be beneficial to middle class society.

Service Providers: Before the implementation of GST, more than 50% of the tax burden of the nation was borne by the top 50 service companies in the domains such as IT, banking and financial services, insurance industry, telecommunication industry. Roll out of GST has made the compliance of these top companies lesser as all service providers have to be registered under GST.

E-Commerce: In India, e-commerce is growing rapidly. As GST law proposes Tax Collection at Source (TCS) e-commerce companies will be affected largely.

Pharma: GST has been a boon to Pharmaceutical sector. It will be helpful to generic drug dealers, boost medical tourism and the prices of medicines will be made affordable which provide easy access to health facilities to all.

Automobile: Under previous tax system, several indirect taxes like excise, customs, VAT, road tax, sales tax, motor vehicle tax were applicable. But all these taxes have been subsumed by GST.

GST has benefitted sectors like telecommunication, textiles, agriculture, FMCG and start-ups. Logistics and distribution has been made affordable and easier under GST.

Benefits of GST

- GST ensures uniformity of taxes across the nation, removes the economic barriers paving the way for an integrated economy
- Suppliers can avail the benefit of input tax credit
- Consumers have to pay single tax – GST in place of other indirect taxes
- Price of commodities and services will be reduced in the long run which in turn will help the general public
- GST would boost GDP by 1.5-2%, which in turn will improve the fiscal deficit of the country.
- It removes the cascading effect of taxation
- GST is driven by the technology. This will reduce the human interface and fasten the decision making process
- GST will boost the 'Make in India' initiative by making goods produced in our country competitive in a global market
- GST brings more transparency in the Tax Laws.
- It is likely to boost the revenue of the government by widening the tax base

Disadvantages of GST

- GST cannot completely eliminate tax evasion and black money
- It can simply be called as new name for VAT, excise and customs duty
- GST increases the administrative and operational costs
- It is difficult to cope up with the online filing of GST and returns
- Small scale industries will face high tax burden

Conclusion

GST is a biggest tax reform towards a comprehensive indirect tax system in India. GST was introduced with the purpose of avoiding the cascading effect, bring more transparency and compliance in the tax system, boost GDP and economy, give more relief to industries, small scale manufacturers, distributors, retailers and agriculturists. It is an end to end IT enabled tax mechanism which would bring more revenue to the government. It is in the Government's capacity to make it successful by further lowering the compliance cost and make GST 'Good and Simple Tax'. GST can be a pain in the short term but a long term gain for the Indian Economy.

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