



COMPARATIVE STUDY OF OLD TAX SYSTEM AND GST IN INDIA

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Abstract :

The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. GST was planned to be implemented in April 2010, but was postponed due to political issues and conflicting interest of stakeholders. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. The paper highlighted the background of the taxation system, the GST concept along with significant working, comparison of Indian GST taxation system rates with other world economies, and also presented in-depth coverage regarding advantages to various sectors of the Indian economy after levying GST and outlined some challenges of GST implementation.

Key words : Tax, Old tax, goods, services, GST

Introduction :

The word “tax” is derived from Latin word “tax are” meaning to estimate. A tax is not a voluntary payment or donation, but enforced contribution, exacted pursuant to legislative authority and is contribution imposed by the government, whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or any other name.

Taxation was first imposed in Ancient Egypt around 3000 B.C.- 2800 B.C. during the first dynasty of the old kingdom. Records indicate from that period that the Pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other data indications are granary receipts on limestone flakes and papyrus.

Taxes are the only way for financing the public goods because of their inappropriate pricing in the market. It can only be levied by the government, via funds collected from taxes. It is highly important that the taxation system is designed in such an appropriate manner that it doesn't lead to any sort of market distortions and failures in the economy. The taxation laws should be highly competitive so that revenue can be raised in a highly efficient and effective manner.

In India, the taxation system was started in ancient times. The early taxation system's existence can be seen in many ancient books like *Manu - Smriti* and *Arthashastra*. During the British empire, the entire taxation system of India was transformed. It was entirely in favor of the British empire, but it also incorporated modern and scientific techniques of taxation systems. Another remarkable transformation came in the year 1922 in the taxation system when Bristow established an entirely new administrative and taxation system in India. In this system, the taxation system was categorized in two main categories: Direct Taxes and Indirect Taxes. In India, the taxation system is entirely controlled, imposed, and updated by Central and State governments. The authority to levy tax is derived from the Indian Constitution, which allocates the power to levy taxes between Central Government System and State Government System.

The Indian Taxation System - Scenario Before GST :

Tax policies play a vital role in any country's progress and have a direct impact on any country's economy in terms of efficiency and equity. A good taxation policy is that which takes care of the entire income distribution and also generates tax revenues in such a manner for Central and State Governments, which can lead to overall benefit in the nation's infrastructure, defense, public amenities, people's security, and a country's exports.

The entire framework to impose indirect taxes comes under Constitutional provisions of India. Article 246, Seventh Schedule gives the right to Central and State Governments to levy taxes and collect indirect taxes on the basis of goods and services transactions. The taxation system varies from manufacturer to manufacturer on point of sale or level of imports or exports. Indirect taxation based collection systems are based on origin, and are designed to impose tax and collect the same at the event of happening of any taxable activity.

Journey of Indirect Taxation Tax & Important Turning Points in India :

The following points highlight the journey of Indian indirect taxation and turning points, which reformed the taxation system till date before the introduction of GST taxation system in India.

1974: Report of LK Jha Committee suggested introduction of VAT system.

1986: Introduction of restricted VAT called “MODVAT”.

1991: Chelliah Committee report recommended “VAT/GST” and recommendations accepted by the Government.

1994: Service Tax introduction.

1999: Empowered Committee formation on State VAT.

2000: Introduction of Uniform Floor State Tax Rates and abolition of tax-related incentives granted by State Governments.

2003: Implementation of VAT system in Haryana.

2004: Strong progress towards introduction of CENVAT.

2005-06: Implementation of VAT based taxation system in 26+ states in India.

2007: First GST Stuffy released by Mr. P. Shome in January; Finance Minister speech carries the introduction of

GST in Budget; CST phase out starts in April 2007; joint working group created and reports submitted.

2008: EC rolls out the GST Structure of Taxation System in April 2008.

2009: Date proposed for Implementation as April 1, 2010.

2010: Department of Revenue commented on GST discussion paper and finance minister suggested probable GST rate.

2011: Team was created to lay down the road map for GST and 115th Constitutional Amendment Bill for GST was laid down by the Parliament.

2012: Negative list regime for service tax was implemented.

2013: Parliamentary Standing committee submitted its report on the Bill.

2014: 115th Amendment Bill lapsed and was reintroduced in 122nd Constitutional Amendment Bill.

Research Methodology :

This paper is based on exploratory research technique and data cited in this paper were collected via secondary sources available like statistical data available on various websites of Indian Government like Finance Ministry (finmin.gov.in), GST Council (gstcouncil.gov.in), GST Council Archives (gstindia.com), and many more ; literature review from journal papers ; annual reports ; newspaper reports ; and wide collection of magazine based articles on GST. Based on the analysis of above mentioned data collection sources, the objectives of the study are defined and research design is drafted which is highly descriptive in nature.

Objectives of the Research :

1. To gain an in-depth understanding of GST taxation system evolution.
2. Understanding the features, working, and differentiating the current taxation system in India v/s GST
3. To evaluate the advantages and challenges surrounding GST.
4. Scope of the Study
5. This paper provides a detailed insight regarding implementation of GST tax among various sectors of the country.
6. GST after implementation will bring uniformity with tax rates and will also overcome lots of shortcomings in the
7. Indian taxation system with regard to indirect taxation. The Good and Services Tax would surely be highly
8. advantageous for major areas of the India economy.

Goods and Services Tax (GST) – Current Scenario :

(1) Need for GST- Goods and Services Tax :

As per the reports of Task Force on Goods and Services Tax (2009), the Indian taxation system led to misallocation of resources and lower productivity in terms of economic growth, international trade, and overall development of the Indian economy. Therefore, there was an emergent need to replace the existing tax system with a new engine of taxation of goods and services to attain the following objectives (Roy chowdhury, 2012) :

1. The tax incidence fell primarily on domestic consumption.
2. The optimization of efficiency and equity of the Indian system is desired.

3. The Indian market should be brought under a single umbrella of common market

(2) Introduction to the Goods and Services Tax (GST) :

New Article 366 (12A) of the Indian Constitution (GST India.com, 2016) defined Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of alcoholic liquor for human consumption. New Article 366(26A) defines service to

mean anything other than goods. Existing Article 366(12) defines goods to include all materials, commodities, and articles.

As per the government, the Goods and Services Tax (GST) is regarded as a '*Reform*' rather than amendment in the existing Indian taxation system to sort out all backdoors and cons of the indirect taxation system. India was one of the 123 countries in the world following the VAT taxation system. VAT was designed and introduced on January 17, 2005 at the Centre and State levels by finance minister P. Chidambaram. VAT replaced Central Excise Duty

Taxation at the national level and Sales Tax System at the state level, bringing major reform in the taxation system.

Goods and Services Tax (GST) was proposed in 2014 to be implemented with effect from (w.e.f) June 2016. The GST implementation is "dual" in nature - one component is implemented by Centre (CGST) and another component by State (SGST). The base of tax would be the same by Centre and State governments. GST came into effect in India on July 1, 2017. With some major modifications, the GST would now have three prime models :

(i) Central GST : GST to be levied by the Centre.

(ii) State GST : GST to be levied by the States.

(iii) Dual GST : GST to be levied by the Centre and the States concurrently.

(3) GST Council (GST Council, 2017) :

In order to implement GST taxation effectively in India, the Constitutional (122nd Amendment Bill) was introduced and passed by Rajya Sabha on August 3, 2016 and by Lok Sabha on August 8, 2016. The GST council was framed officially on September 8, 2016 after clearance from the Honorable President of India.

As per Article 279A (1) of Amended Constitution, the GST Council was created by the President within 60 days of the commencement of Article 279A. The GST Council comprises of the following members : (a) Union Finance Minister- Chairperson, (b) The

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Union Minister of State, In - Charge Revenue of Finance - Member, (c) The Minister In-Charge or Taxation or any other minister nominated by each State Government - Members. The GST Council was setup to perform the following duties : (a) taxes, surcharges, cess of Central and States which will be integrated in GST, (b) goods and services to be exempted from GST, (c) interstate commerce - IGST – distribution between State and Central governments, (d) registration threshold limit for GST, (e) GST floor rates, (f) calamities special rates, (g) provision with regard to special category rates, especially North- Eastern states.

(4) GST Models :

Considering the importance of taxation reforms and other countries' based GST implementations, the following are the various GST models that are designed and proposed by experts for successful implementation of GST :

- (i)** The Kelkar - Shah Model
- (ii)** The Bagchi - Poddar Model
- (iii)** The Australian Model
- (iv)** The Canadian Model

Limitations of the Study and Scope for Future Research :

The following are the limitations of the study:

- (a) GST is still in maturity phase, so tax reforms can occur from time to time via GST council meetings regarding finalization of tax rates and even imposition of new rates and even deduction of existing rates,
- (b) most of the data cited in the paper was speculatively exploratory in nature as GST meetings are going and still, a lot more needs to be done,
- (c) final conclusions may vary considering different perceptions.

After GST implementation, there is emergent requirement of modern technology based infrastructure like GSTNET for successful monitoring of taxation system as well as the GST Council should regularly conduct meetings for change in tax reflections. These areas can be covered by researchers in future studies.

Conclusion :

Primarily, the concept of GST was introduced and proposed in India a few years back, but implementation has been done by the current BJP government under the able leadership of Prime Minister Shri Narendra Modi on July 1, 2017. The new government was in strong

favor for the implementation of GST in India by seeing many positive implications as discussed above in the paper. All sectors in India - manufacturing, service, telecom, automobile and small SMEs will bear the impact of GST. One of the biggest taxation reform- GST will bind the entire nation under a single taxation system rate. As forecasted by experts, GST will improve tax collections and boost up India's economic development and break all tax barriers between Central and State Governments. No doubt, GST will give India a clear and transparent taxation system, but it is also surrounded by various challenges as discussed in this paper. There is need for more analytical based research for successful implementation.

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