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GOODS AND SERVICE TAX (GST) AND OLD INDIRECT TAX SYSTEM: A COMPARATIVE STUDY

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Abstract:

Goods and Service Tax also known as GST is defined in the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by Loksabha on 6th May 2015 and by Rajyasabha on 3rd August 2016. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country. GST model is proposed to be a dual structure (like in Canada) to be levied and collected by the Union and State governments. The new GST is consumption type VAT where only final consumption is treated as the final use of goods. GST integrates taxes on goods and services across all supply chain for availing set off. This paper analyzed the New GST frame work and existing Indirect Tax System, first identifies the proposed GST and Old Indirect Tax structure and compared the proposed GST framework and existing Indirect Tax System. However, the researcher also observed earlier studies. Government of India has introduce GST in India on 1st July 2017.

Keywords: GST, Comparison, Framework, Sectors and taxation.

Introduction:

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level.

The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system.

The amendment bill reveals that it not only sees to empower the Centre and State with the concurrent tax jurisdiction over transaction of supply of goods and services or both but it also provides a prime facie broad frame work by which GST would be in terms of its coverage, its operating mechanism, implementation and dispute resolution.

Goods and Services Tax (Article 366 12A) – Goods and Service Tax means tax on supply of goods or services or both excluding taxes on supply of alcoholic liquor of human consumption. Alcoholic beverages" only items excluded from purview of GST. Petroleum and Petroleum products such as (petrol), high speed diesel, aviation turbine fuel, natural gas have been subsumed in the GST and not finalized whether GST will be applicable or not. The current taxes imposed by the States and the Centre on petroleum and petroleum products i.e. Sales tax/VAT, CST and Excise duty only will be continue till the next amendment.

Scheme of Taxation (Article 246A, Article 270, and Article 286) – GST would have two components: Central GST (CGST) and State GST (SGST). Further, the Centre will have the power to tax inter-state supply of goods and services through levy of Integrated Goods and Service tax. Such GST will be apportioned between the Centre and the State in the manner may be provided by Parliament by law on the recommendation of GST council.

Review of Literature:

Garg (2014) focused on the impact of GST (Goods and Services tax) with a brief description of the historical scenario of Indian taxation and its tax structure and discussed the possible challenges, threats and opportunities that GST brings to strengthen our free market economy.

Shah (2014) highlighted the objectives of proposed GST and discussed the possible challenges, threats and opportunities that GST bring before is to strengthen our force marked economy.

Objectives:

1. Identify Old Indirect Tax System and New GST framework.
2. Compare New GST framework and Old Indirect Tax System.
3. To know why GST is important to replace Old Indirect Tax System

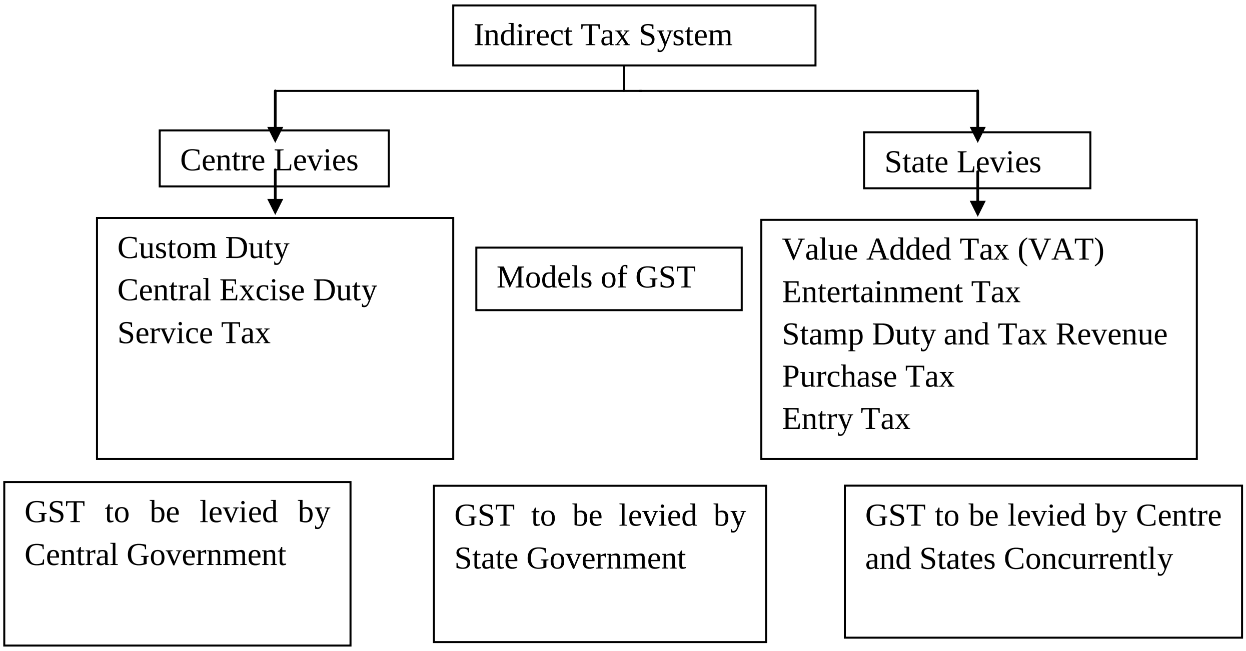
Research Methodology:

The present study is based on secondary data. The relevant published secondary data is collected mainly through newspaper, books, research studies and websites.

Identifying Old Indirect Tax System and New GST Framework:

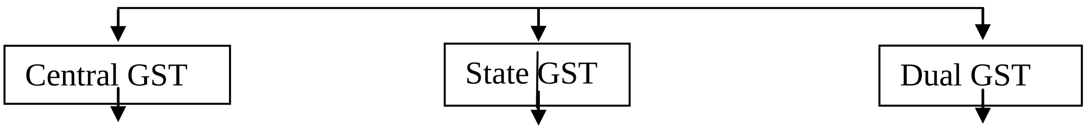
Old Indirect Tax System:

Present structure of indirect taxation in India can be divided into Central levies & State levies.



New GST Framework:

The proposed Goods and Service Tax (GST) introduced will subsume all the indirect taxes in the present indirect tax system except the 'Basic Custom Duty' that will continue to be charged even after the roll out of GST. The proposed GST Structure is mainly classified into 3 types.



New GST framework and Old Indirect Tax System: Comparison

Old Indirect Tax System	**New GST framework**
Goods and services taxed separately*	No differentiation between a good and a service; both subject to one tax
VAT applies at manufacturing stage (CENVAT i.e. excise duty) as well as at sales stage (state VAT i.e. sales tax).	VAT applies at point of consumption. Set-off on the inputs gets credit through the production and distribution stages
Input credit set-off not available across different taxes. For example, set off not available for CENVAT against state VAT.	Input tax credit available across state and central tax jurisdictions.
Some taxes (CENVAT, service tax) levied at the stage of production, while some (state VAT) levied on sale	Follows a destination based principle where tax is collected on final consumption
Many indirect taxes not included in	Subsumes all indirect taxes under one

central and state VAT**	tax.
Different tax rates levied across products and across states	Single tax rate to apply on all goods and services
Intra-state transactions get input credit set off but not inter- state transactions	Input credit set off to be available across intra-state and inter-state transactions.

* Service tax cannot be levied by states. It is levied by the centre.

**CENVAT does not include additional excise duty, additional customs duty, central surcharges and cesses. State VAT does not include luxury tax, entertainment tax, taxes on lottery, advertisements, entry tax etc. CENVAT applies only at the manufacturing stage, and does not extend down to the distribution stage till the retail sale of goods.

Probable Results of implementation of GST:
Implementing GST will lead to various key benefits to common man, businesses, Government and to whole nation at large which are explained below:

Simpler tax structure: As multiple taxes on a product or service are eliminated and a single tax comes into place, the tax structure is expected to be much simpler and easier to understand. Paperwork will become simpler and there will be a reduction in accounting complexities for businesses. A simple taxation regime can make the manufacturing sector more competitive and save both money and time. Experts opine that the implementation of GST would push up GDP by 1% to 2%.

Increased tax revenues: A simpler tax structure can bring about greater compliance, thus increasing the number of tax payers and in turn tax revenues for the Government. The current state of the Indian economy demands fiscal consolidation and reduction in fiscal deficit. A recent report by CRISIL states that GST is the country's best bet to achieve fiscal consolidation. As there is not much scope to reduce Government expenditure, increasing tax revenues is the best alternative to improve the fiscal health.

Competitive pricing: GST will eliminate all other forms of indirect taxing. This will effectively mean that the tax paid by the final consumer will come down in most cases. Lower prices will help in boosting consumption, which is again beneficial to companies. The biggest positive of GST is that goods and services will be taxed on a common basis.

Boost to exports: When the cost of production falls in the domestic market, Indian goods and services will be more price-competitive in foreign markets. This can bode well for exporters, who compete with manufacturers abroad facing a lower cost structure.

The exact rate of tax levied under GST will obviously be clear only when the final announcement will be made. Irrespective of the tax rate, it is logical and apparent from examples of other countries, that GST is a critical reform needed for the country. However, many state Governments are not in favour of this move, as it will result in a fall in their tax revenues. Arriving at a suitable formula to solve this problem, making constitutional changes and considering all the dynamics in the economy has resulted in a considerable delay in GST's implementation.

The CRISIL report states that at best, only a partial rollout of GST will be possible by the Government in the next financial year. The majority win by the ruling party in the recent elections has given a renewed hope that such important structural reforms will be brought into place without much delay. It is hoped fervently by the industry that Budget 2014 will spell out some solid measures and give a roadmap to the implementation of the GST.

Conclusion:

Goods and service tax (GST) will replace the existing indirect tax system and will benefit to the consumers, businessman and Governments State as well as Central and will also help to maintain a competitive business environment, boosting exports thereby expanding international business.

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