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A REVIEW ON INDIAN TAX STRUCTURE WITH SPECIAL FOCUS ON BENEFITS AND CHALLENGES OF GOODS AND SERVICES TAX IN INDIA

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ABSTRACT

This paper attempted to bring into light the general tax structure of the country besides focusing on the bill which recently passed in the parliament on August 8th 2016, relating to Goods and sales tax. This work proceeded a head explaining the various types of taxes that are levied in India and highlighting the importance, advantages and challenges for implementing it in the country.

KEYWORDS

impact, incidence, dumping.

1. INTRODUCTION

Meaning of Tax and Types of Taxes in India

Tax, in general, is the imposition of financial charges upon an individual or a company by the Government of India or their respective state or similar other functional equivalents in a state. The computation and imposition of the varied taxes prevalent in the country are carried on by the Ministry of Finance's Department of Revenue. During the last financial year of 2010 – 2011, the gross collection of tax amounted to around INR. 7.92 trillion, where the direct tax has got 56 % contribution and the indirect tax has got 44 % contribution[1].

Type of Tax in India

Prevalence of various kinds of taxes is found in the nation. Taxes in this nation can be either of direct or indirect ones. However, the types of taxes even depend on whether a particular tax is being levied by the central or the state government or any other municipalities. Following are some of the major Indian taxes, which are categorized below:

Direct Tax in India

This kind of tax is named so as such a tax is directly paid to the Union Government of India. As per a survey, the Republic of India has witnessed a consistent rise in the collection of such taxes over a period of the past years. The visible growth in these tax collections as well as the rate of taxes reflects a healthy economical growth of India. Besides that, it even portrays the compliance of high tax along with better administration of taxation.

Direct taxes are the personal liability of tax payer. These are collected directly from the tax payers and they have to be paid by the persons on whom it is imposed. To name a few of the direct taxes, which are imposed by the India Government are:

Banking Cash Transaction Tax, Corporate Tax, Capital Gains Tax, Double Tax Avoidance Treaty, Fringe Benefit Tax, Securities Transaction Tax, Personal Income Tax Tax Incentives

Indirect Taxes

As opposed to the direct taxes, such a tax in the nation is generally levied on some specified services or some particular goods. An indirect tax is not levied on any particular organisation or an individual. Almost all the activities, which fall within the periphery of the indirect taxation, are included in the range starting from manufacturing goods and delivery of services to those that are meant for consumption. Apart from these, the varied activities and services, which are related to import, trading etc. are even included within this range. This wide range results in the involvement as well as implementation of some or other indirect tax in all lines of business.

Impact and incidence of indirect Taxes fall on different persons as opposed to direct taxes where impact and incidence is on the same person. These taxes are recovered from different groups of people but the liability remains with the person who collects it. Tax payer recovers the indirect taxes paid from their consumers and clients and finally pays it to government. For example, when we purchase any product we pay VAT, when we eat in restaurants we pay service tax which are ultimately deposited in government's kitty by the service providers.

Usually, the indirect taxation in the Indian Republic is a complex procedure that involves laws and regulations, which are interconnected to each other. These taxation regulations even include some laws that are specific to some of the states of the country. The regime of indirect taxation encompasses different kinds of taxes. The organizations offer services in all or most of the related fields, some of which are as follows:

Anti Dumping Duty, Custom Duty, Excise Duty, Sales Tax, Service Tax, Value Added Tax or V. A. T., *Other Tax in India*

Besides the taxes, the names of which are mentioned earlier, the nation has got the prevalence of many other taxes. Listed below are some of those Indian taxes: Consumption Tax, Death Tax, Dividend Tax, Endowment Tax, Estate Tax, Flat Tax, which is even known as the Flat Rate Tax, Fuel Tax, Gift Tax Inheritance Tax, Sales Tax (Solely on goods that do not include payment of sales tax on services), S. E. T. or Self Employment Tax, Social Security Tax, Transfer Tax, Payroll Tax, Poll Tax, Property Tax, Wealth Tax[2]

Municipal or Local Taxes in India

The most known tax, which is levied by the local municipal jurisdictions on the entry of goods, is known as the Entry Tax or the Octori Tax in India.

2. REVIEW OF LITERATURE

2.1 Committee reports

John Mathai committee (1953)[3]: the taxation enquiry commission was appointed by the government of India on April 1st 1953 under the chairmanship of john mathai. The terms of reference of the commission were to examine the incidence and suitability of central, state and local taxation on various classes of people and in particular with regard to (1) modifications required in the present system of taxation and (2) fresh avenues of taxation. the committee made several recommendations to the government.

Nicholas koldar committee (1956)[4]; british economist Nicholas Koldar carried out on the request of the Government of India from January to march 1956, a review of the Indian tax system particularly with reference to personal and business taxation. The committee made the first systematic estimates of income tax evasion in india and recommended in favour of wealth tax, capital gains tax, gift tax and a personal expenditure tax.
Justice k. n. wanchoo committee (1970)[5]: On March 2nd 1970 the Government of India constituted the Direct taxes inquiry committee with justice kn wanchoo as chairman. The committee was asked to recommend concrete and effective measures to unearth black money and prevent its proliferation through further evasion to check tax avoidance through various legal devices, including the formation of trusts and to and to reduce the tax arrears. The committee suggested various measures against tax evasion and some of the measure were, reduction in tax rates, minimization of controls and licenses, regulations of donations to political parties, creation of confidence, among small tax payers, substitution of sales tax by excise duty, vigorous presentation policy and compulsory maintenance of accounts.
Kelkar committee (2002)[6]: the direct and indirect tax reforms committee was set up by the government of India in July 2002 under the chairmanship of Dr. Vijay L Kelkar. the major objectives of the committee were to recommend measures for simplification and rationalization of direct and indirect taxes. Consequently two task forces were set up. The committee suggested various measures under Direct taxes like expansion of tax payer services both quantitatively and qualitatively, easy access to tax payers through internet and e- mail and extension of facilities such as Tele- filing and Tele- refunds and incase of indirect taxes the task force recommended customs clearance to be based on trust and to be uniformly applied to all importers and exporters, multiplicity of levies to be reduced. on service tax the task force suggested the implementation of service tax on comp-rehensive basis.
Empowered committee on Goods and services Tax (2007): to achieve further significant break through and next logical step towards a comprehensive indirect tax reform in the country, Sri P Chidambaram the then union finance minister announced during central budget 2007-08 to the effect that GST would be introduced from April 1st 2010 and an empowered committee of state finance ministers was constituted. the committee would work with the central Government to prepare a road map for introduction of GST in India. After this announcement the Empowered committee of state finance ministers decided to set up a joint working group on may 10th 2007. The joint working group after intensive internal discussions as well as inter action with experts and representatives of chambers of commerce and industry submitted its report to the Empowered committee in November 2007. Deliberations and discussions are going on continuously to work out a mech-anism to introduce GST. Recently in the Budget speech during july 2014 the finance minister Mr. Arun Jaitly has announced that the GST would be roled -out by the end of the financial year 2014-2015 at central level.

2.2 Research articles

Research papers pertaining to the topic, published in recent years in research journals have been reviewed and some of them are briefly presented below.
Michael p. Devereux and et al (2002)[7] in his paper " **corporate income tax reforms and international tax competition "** analysed the development of taxes on corporate income in EU and 7 countries over the last two decades. The study finds tax cutting and base broadening reform have had the effect that, on average across EU and G7 countries effective tax rates on marginal investment have remained fairly stable. But those on more profitable investments have fallen. The study also discusses two possible explanations of these stylized facts arising from alternative forms of tax competition. First Governments may be responding to a fall in the cost of income shifting which puts downward pressure on the statutory tax rate second reforms are consistent with competition for more profitable projects in particular those earned by multinational firms.
Christoph Bohringer and et al (2003)[8] in their paper **" Green tax reforms and computational Economics"** states that the double or even triple dividend hypothesis of green tax reforms has been major issue of dispute in both the scientific community and political arena during the last decade. This paper aims at bringing the gap between stylized theoretical work and numerical analysis. The study develops a flexible and interactive simulation model which was accessible in which users can specify their own green tax reforms and environmental effects.
Shuanglin Lin (2004) [9]; in his work analyses the effects of chinas upcoming capital tax reform of switching from a dual tax system to a unified system. The study states a decrease in the tax rate on domestic capital has no effect on the domestic interest rate, capital labor ratio or output labor ratio, however it leads to an increase in domestic capital, a decrease in foreign capital and increase in the trade surplus. The study also found an increase in the tax rate on foreign capital increases the domestic interest rate and decreases the capital labor ratio, the output labor ratio and domestic capital, it may also decrease foreign capital and the trade surplus.
Somik v Lall and uwe Deichmann (2006*)* [10]**:** in their work states that property tax is an important local revenue source in many countries, but is often is underused as a sourse for financing local expenditures. The research examines the fiscal and distributional implication of ongoing and potential assessment reforms in two Indian cities, Bangalore and Pune. While the findings were specific to those two cases. The reform efforts and underlying problems are representative of most urban local Governments. Reform efforts that bring assessment of property tax base closer to market values have significant positive impact on revenue generation and donor have adverse consequences in terms of the tax burden faced by the poor.
Jean –yves Duclos and et al (2008)[11]**:** in their work proposes graphical methods to determine whether commodity tax changes are "socially improving" in the sense of improving social welfare or decreasing poverty for large classes of social welfare and poverty indices. This study also shows how estimators of critical poverty lines and economic efficiency ratios can be used to characterize socially improving tax reforms. The methodology was illustrated by using Mexican data.
Antonia Troisi and Laura Gatta (2010)[12]**:** in their work attempted to verify the validity of a pessimistic view on the role played by public finance in meeting and distributing the costs of transition from command to market economy. In conclusion the researchers say, even though referring to the specific case of Aalbania the model of the strudtural reform index allows them to discuss alternative views on the nature and causes of the impact of the fiscal phenomena on the transition process.
Ludwing F.M.Reinhard and Steven Li (2011) [13]: in their work analyzed the influence of effects of taxes and the 2000 tax reform included tax changes on the financing and investment decisions of a sample of German listed companies over the years from 1996 to 2005. In contrast to the perception of the German Government the results donor support the notion that companies deliberately adjust their financial structures in order to reduce their corporate tax payments. The study found that market opportunities and market pressures have a far larger influence on investment decisions than on tax considerations. Against the background of findings, the researchers doubt whether the recent tax reforms would be able to reach the objectives.

3. OBJECTIVES

1. This work aimed to explain general tax structure of the country.
2. Secondly it tried to explain the advantages of GST and the challenges for implementing it.

4. A DETAILED REVIEW ON GST IN INDIA

The present structure of Indirect Taxes is very complex in India. There are so many types of taxes that are levied by the Central and State Governments on Goods & Services.
We have to pay 'Entertainment Tax' for watching a movie. We have to pay Value Added Tax (VAT) on purchasing goods & services. And there are Excise duties, Import Duties, Luxury Tax, Central Sales Tax, etc As of today some of these taxes are levied by the Central Government and some are by the State governments. How nice will it be if there is only one unified tax rate instead of all these taxes?
In this post, let us understand – what is Goods and Services Tax and its importance. What are the benefits of GST Bill to Corp orates, common man and end consumer? What are the advantages, disadvantages and challenges?

What is GST?

It has been long pending issue to streamline all the different types of indirect taxes and implement a "single taxation" system. This system is called as GST). The main expectation from this system is to abolish all indirect taxes and only GST would be levied. As the name suggests, the GST will be levied both on Goods and Services.

GST was first introduced during 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Loksabha. The Bill tabled and taken up for discussion during the Budget session. The current central government was determined to implement GST Constitutional Amendment Bill. GST is a tax that we need to pay on supply of goods & services. Any person, who is providing or supplying goods and services is liable to charge GST. Finally GST bill approved in the parliament on August 8th 2016.

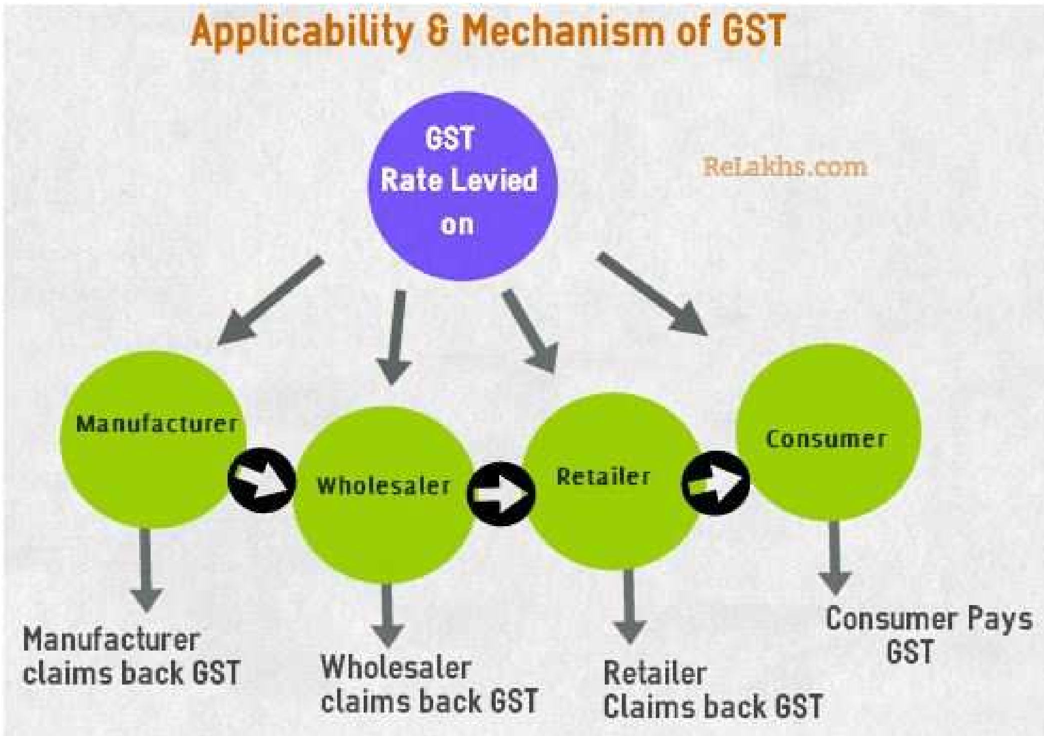
HOW IS GST APPLIED?

GST is a consumption based tax/levy. It is based on the "Destination principle." GST is applied on goods and services at the place where final/actual consumption happens.

GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services.The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.

But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.

FIG. 1



The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system.

Let us understand the above supply chain of GST with an example:

TABLE 1

GST Supplychain example (Assuming GST rate @ 8%)				
Supply of Goods	GST Flow	Input Costs (ex-GST)	Sale Price (ex-GST)	GST Collected
A weaver sells a fabric to a tailor for Rs 108 per metre	The weaver pays GST of Rs 8	0	Rs 100	Rs 8
The tailor sells a ready made completed shirt to a retailer for Rs 270	The tailor pays GST of Rs 12 (After input tax claim. Weaver claims tax credit for Rs 8)	Rs 100	Rs 250	Rs 12
The retailer sells the readymade shirt in his showroom for Rs 540	The retailer pays GST of Rs 20 (After input tax claim. Tailor claims tax credit for RS 12)	Rs 250	Rs 500	Rs 20
You purchase the shirt for Rs 540	No Tax credit claim. You pay entire GST Rs 40 @ 8%	NA	NA	Total : Rs 40
www.relakhs.com				

The current tax structure does not allow a business person to take tax credits. There are lot of chances that double taxation takes place at every step of supply chain. This may set to change with the implementation of GST. Indian Government is opting for Dual System GST. This system will have two components which will be known as

- Central Goods and Service Tax *(CGST)* and State Goods and Service Tax *(SGST).*

The current taxes like Excise duties, service tax, custom duty etc will be merged under CGST. The taxes like sales tax, entertainment tax, VAT and other state taxes will be included in SGST.

So, **how is GST Levied**? GST will be levied on the place of consumption of Goods and services. It can be levied on : Intra-state supply and consumption of goods & services, Inter-state movement of goods, Import of Goods & Services.

TABLE 2

Indirect Taxes	GST	Goods/Services Produced & Consumed in same State	Goods/Services Produced & Consumed in different States (Inter-State)	Goods & Services Exported	Goods & Services Imported
Excise Duty	CGST	CGST rate + SGST rate Levied	Integrated GST	GST not Applicable	CGST rate + SGST rate Levied
Service Tax					
Custom Duties					
Central Sales Tax					
State Sales Tax	SGST				
Entertainment Tax					
State VAT					
Professinal Tax					
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WHAT IS THE APPLICABLE GST RATE?

The rate (percentage) of GST is not yet decided. As mentioned in the above table, there might be CGST, SGST and Integrated GST rates. It is also widely believed that there will be 2 or 3 rates based on the importance of goods. Like, the rates can be lower for essential goods and could be high for precious/luxury items.

BENEFITS OF GST BILL IMPLEMENTATION

- The tax structure will be made lean and simple
- The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.
- It is good for export oriented businesses. Because it is not applied for goods/services which are exported out of India.
- In the long run, the lower tax burden could translate into lower prices on goods for consumers.
- The Suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consumers.
- It can bring more transparency and better compliance.
- Number of departments will reduce which in turn may lead to less corruption
- More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.
- Companies which are under unorganized sector will come under tax regime.

CHALLENGES FOR IMPLEMENTING GOODS & SERVICES TAX SYSTEM

- To implement the bill there has to be lot changes at administration level, Information Technology integration has to happen, sound IT infrastructure is needed, the state governments has to be compensated for the loss of revenues and many more.
- GST, being a consumption-based tax, states with higher consumption of goods and services will have better revenues. So, the co-operation from state governments would be one of the key factors for the successful implementation of GST

5. CONCLUSION

Since GST replaces many cascading taxes, the common man may benefit after implementing it. But it all depends on 'what rate the GST is going to be fixed at?' Also, Small Traders may be exempted from it.

France was the first country to introduce this system in 1954. Nearly 140 countries are following this tax system. GST could be the next biggest tax reform in India. This reform could be a continuing process until it is fully evolved. We need to wait few more months for more details on Goods & Services Tax system.

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