

A Comprehensive Study of Indian Indirect Tax Regime: Pre and Post GST

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Abstract

Indian indirect tax regime has witnessed a new era of transformation on July 1, 2017 with the harmonization of several indirect taxes into a Single Tax i.e. "Goods and Services Tax". The object of this study is to compare the old indirect tax with "GST" and to justify the people who unsatisfactorily criticise GST. Success doesn't happen overnight. It is achieved day by day with continuous efforts and progress. Likewise, we need to wait for the bright future of GST in form of greater transparency, self-policing character, much simplified process, reduced tax rates and much more. This paper will help us to understand in-depth benefits of GST from which common people are unaware.

Key Words: Indirect Tax, Goods and Services Tax (GST), GST Council, Input Tax Credit (ITC), E-Way bill.

Introduction

Indirect tax is imposed on almost all the products that we consume. Most of the people are unaware of the fact that they are paying tax on every commodity. It is wrapped in price of every product and service. In Indirect tax people don't realise that they are being taxed because there is no liability to pay indirect tax directly to the government.

Unlike the Direct Tax, the impact and burden of tax is not on the same person; It can be transferred from supplier / Manufacturer to consumer, who really bears the brunt of it.

Tax revenue is the major tool for greater economic development and growth. Indirect Tax plays a substantial part in government revenue as it cannot be escaped; if people desire to purchase a product, they cannot avoid paying tax.

Objectives of the Study

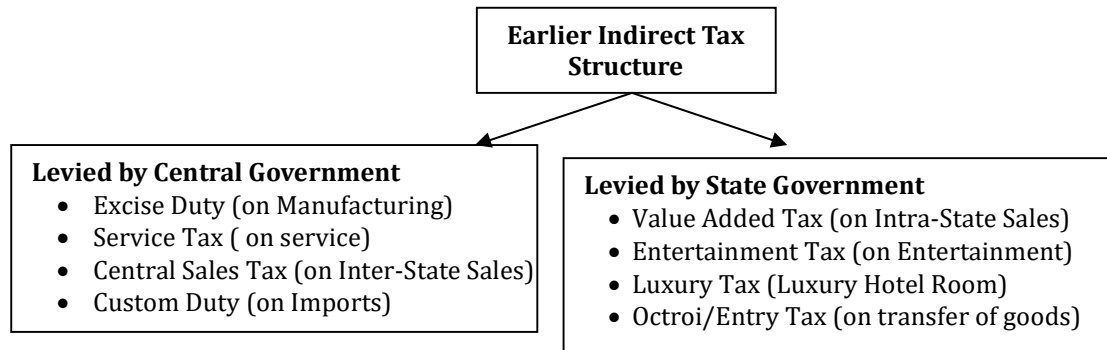
1. To understand in-depth concept of GST.
2. To differentiate GST and earlier Taxation system.
3. To assess benefits of GST over old taxation system.
4. To estimate future scenario of GST.

Pre GST Era

Before GST regime, there were myriad of Indirect taxes imposed on goods and service. Centre Government charged Excise Duty, Central Sales Tax (CST), Service Tax, Custom Duty, Surcharge and Cess while VAT, Entry Tax, Entertainment Tax, Tax on Lottery and purchases of luxury item etc. were levied by State Government. Every state had their own set of rules and regulations.

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GST Era

GST is a destination based tax levied on consumption of all goods and services at a national level except alcoholic liquor for human consumption, petroleum crude, Aviation Turbine Fuel (ATF), diesel and natural gas. It is levied from manufacture of goods to their final consumption with input credit of tax paid at previous stages available. Here only the value addition is taxed, thus removing the cascading effect of tax. It is path breaking reform introduced to create common national market and tax. It has successfully subsumed 17 existing indirect taxes including excise duty, service tax, VAT, CST, luxury tax, entry tax, entertainment tax and many more taxes.

Features of GST

- Destination-based consumption tax.
- Applies to all supplies of goods/services (as against manufacture, sale or provision of service) made for a consideration except:
 - * Exempted goods and services – common list for CGST & SGST
 - * Goods and services outside the purview of GST
 - * Transactions below threshold limits
- Dual GST having two concurrent components-
 - * Central GST (CGST) charged & collected by Centre
 - * State/ Union territory GST (UTGST/SGST) levied & collected by States [including Union territories with legislature] and Union territories without legislature
 - * An Integrated GST (IGST) levied on interstate supply (including stock transfers) and collected by Centre
- GST rate is notified by GST Council, Headed by Finance Minister and all states Finance Ministers are members.
- Rate structure - 0%, 5%, 12%, 18% and 28%. Category of 28%, only cover de-merit and luxury goods.
- No cascading of central and state taxes.
- Uniform forms- Returns, challan etc.

GST: A Historical Perspective:

- * 2000- Prime Minister Vajpayee set up a committee to draft GST laws.
- * 2004- A committee concludes GST must be implemented to improved current tax structure.

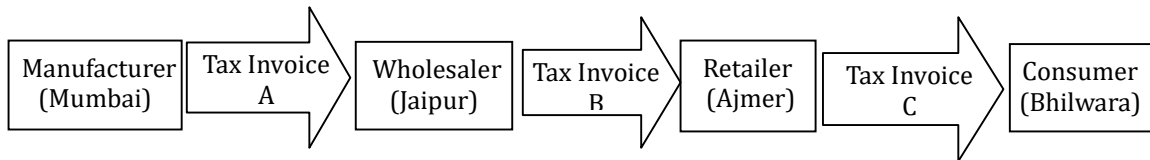
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- * 2006 - During the 2006-2007 budget, the Union Minister made the announcement that it would be introduced on April 1, 2010.
- * 2011-Constitution Amendment bill to enable GST law introduced.
- * 2014 - 122nd Amendment Bill was introduced in Parliament by Finance Minister.
- * 2015- GST bill passed in Lok Sabha but not passed in Rajya Sabha.
- * September 2016 - The first Meeting was conducted by GST Council.
- * March 2017 - GST Council recommended CGST, IGST and SGST/ UTGST.
- * April 2017 - CGST, IGST, SGST/ UTGST and Compensation Cess Act were approved and passed.
- * 1 July 2017 - GST laws were introduced all over India.

Feasibility of GST over Earlier Indirect System

Introduction of GST is a big tax reform and drastic change in indirect tax. It was required to mitigate double taxation, cascading effect, classification issues of goods, multiplicity of taxes in various states, improving the economic growth and infrastructure of the country as a whole. Under the earlier tax regime, several local levies were not included in State VAT such as luxury tax; entertainment tax etc. which led to increase in costs of goods and services, the ultimate burden was to be borne by the consumer. Obviously, it aims to provide a simplified, single tax regime and was introduced due to some drawbacks of old indirect tax system.



Old Indirect Tax Regime

(Table 1)

Particulars	Tax Invoice A	Tax Invoice B	Tax Invoice C	Total
Selling price	100	114.75+50*=164.75	164.75+50*=214.75	
Excise duty (12.5%)	12.50	-	-	
CST (2%) 112.5*2%	2.25	-	-	
VAT (12.5%)	-	20.59	26.84	
Selling Price (including tax)	114.75	185.34	241.59	
Credit available	-	-	20.59	
Total Tax Payable	14.75	20.59	6.25	41.59

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GST Regime (Table 2)				
Particulars	Tax Invoice A	Tax Invoice B	Tax Invoice C	Total
Selling price	100	100+50*=150	150+50*=200	
GST (18%)	18	27	36	
Selling Price (including tax)	118	177	236	
Credit available	-	18	27	
Total Tax Payable	18	9	9	36

*Value Addition

Reduce overall costing:

Due to lower burden and remove cascading effect of taxes i.e. public will have to pay less money to buy the same products that were costly earlier. As table 1 and 2 depict Selling price of manufacturer is Rs.100, on every stage, Dealers add Rs.50 as their profit. Table 1 reveals that the customer pays Rs.241.59 while under GST; customer pays Rs. 236 for the same product. It is obvious from the example that GST has reduced the overall cost of buying a product.

Simplified Tax Structure:

Before GST, there were separate rate for separate tax structure; 12.5% for Excise; 15% for Service Tax; 5%-14.5% VAT- Based on States. Now, there is one law on a PAN India basis i.e. GST.

Remove of Cascading Effect (Tax on Tax):

It is a situation where in the consumer has to bear load of tax on tax and increased price as a result of this. As table 1 shows CST is levied on selling price including Excise Duty (100+12.5) resulting in increased prices while in GST tax is levied only on Value Addition.

Ease in Compliance:

Earlier tax compliance was complex. Various rules and regulation had to be followed while in GST, many types of state and central indirect taxes were subsumed which will significantly reduce the cost of compliance.

Ease of doing Business:

The entire process of GST is available online which is very simple and easy process. Therefore it is really hassle- free for start-up businesses because they don't have to put much effort to get different registrations which were required under earlier Indirect Tax regime.

Faster moving of Goods across India:

Under the E-Way bill system in GST, manufacturers, traders and transporters are now able to generate E-Way bill for transporting the goods from one place to its destination with ease on a common portal. This new regime has reduced tax evasion, corruption and time because of disappearance of long queue at check posts.

Reduced flow of Black money:

GST is completely based on online process with GSTIN which is linked to PAN. It makes difficult to escape from tracking of your transaction in any case. Once a bill enters the system, automatically the scope of black money will be reduced.

Increase in Direct Tax Collection

Previously, dealers were showing different turnover in VAT and Income Tax as income tax officers

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were not having any access to VAT Documents. But now, GST and Income tax are deposited on common portal and Income tax Officer has an access to GST Documents.

Compliance Rating:

Every person responsible to pay GST shall be assigned a GST compliance rating score. The rating would be assigned on his compliance according to the provisions of GST. The compliance rating score will be updated time to time and will be intimated to the taxable person and will be published publicly.

Anti-Profitereing Measure:

The centre has propounded an ‘anti-profitereing’ measure to ensure that manufacturers and wholesalers pass the benefits of reduction in tax rates so that the customers can avail the benefits of reduction in tax rates.

Increase Government Revenue:

Table 3

Indirect Taxes Before GST (Finance Year 2016-17)		Indirect Taxes After GST (1 st July, 2017 to 31 st March, 2018)	
Types of Tax	Amount (Rs.)	Types of Tax	Amount (Rs.)
1. Excise	3,83,000	1. IGST	3,66,000
2. Service Tax	2,54,000	2. CGST	1,19,000
3. Other Taxes	3,46,000	3. SGST	1,72,000
		4. Cess	62,000
	9,83,000		7,19,000
Total		Per month (7,19,000/8)	
Per month (9,83,000/12)	81,916		89,889

Tax of July is recovered in August, thus tax collected in 8 months.

Source: “Good and Service Tax” Third addition 2019-20, RBD Publication House.

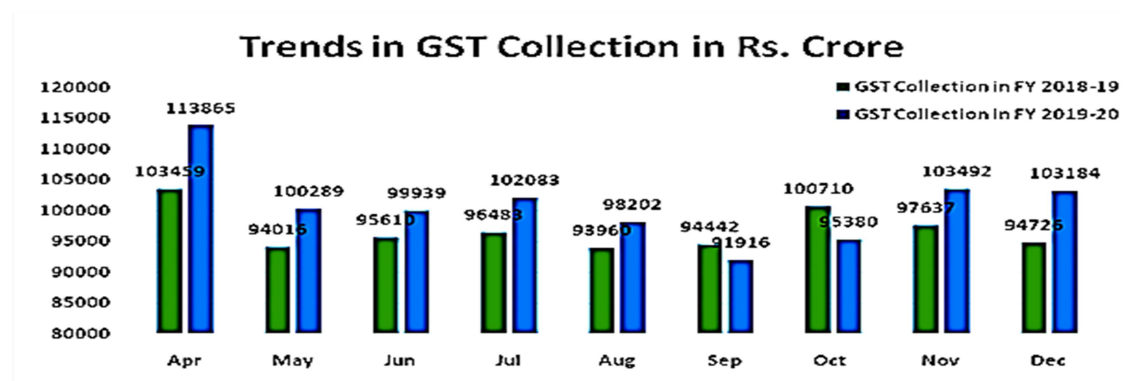


Fig.1 (Source: <https://nacin.gov.in>)

Table 3 reveals that indirect tax has increased after GST. May be, actual figure do not meet the estimated collections, even though; actual GST collections have increased year by year. As reported by National Academy of Customs, Indirect Taxes and Narcotics (NACIN), GST collections have increased from the previous year collection for the months – April 2019 to July 2019 (Fig. 1). Criticizers say that

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GST has led to decrease in Government collections, indicating economic slowdown, in the previous 2-3 months. The reasons for decline in revenue are GST rates cut on many goods and services; poor demand of Cement and steel, leading to decrease in production by manufacturers and hence GST revenue was decreased. However, this decline is very short-term as Government is looking forward to a wider tax base with more registrations coming over.

Increase Number of tax payer:

Increasing trend in GST registrations is a good indicator for government revenue, as more and more businessmen are becoming aware of benefits of GST in form of reduced tax compliances, removal of cascading effect etc.

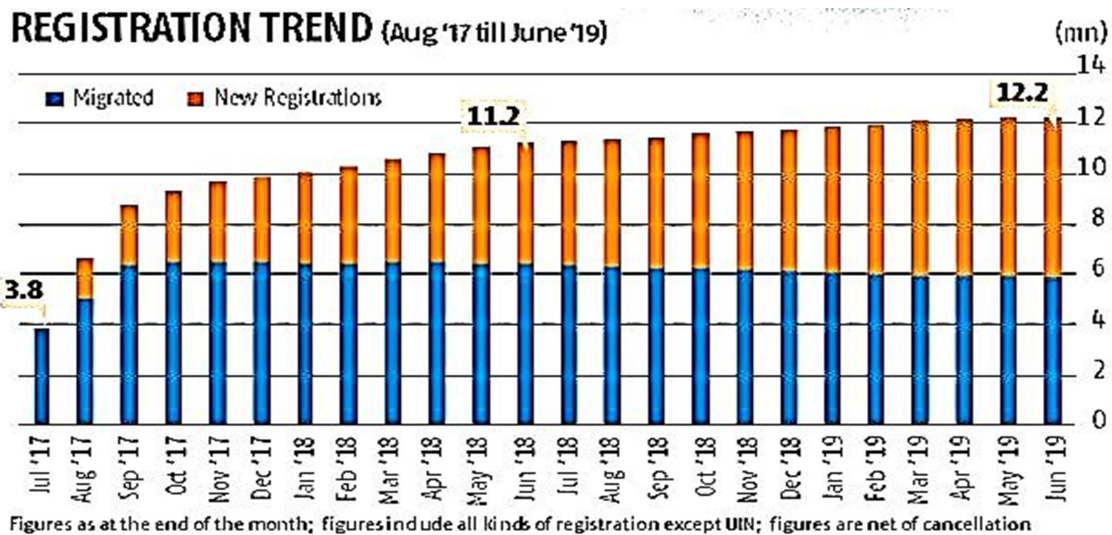


Fig.2 (Source: www.cbic.gov.in)

GST new Registrations have increased from the previous year registrations for the months – July 2017 to June 2019 (Fig. 2). Increasing registration would mean more tax revenue.

Lottery offers:

Lottery offers are given by government of Rs. 10 lakhs to 1 crore for motivating customers to ask for bills. Every bill under GST will be prize winning lottery ticket. As per the plan, the purchaser will upload the bill on a portal, a draw would be held and winners would be intimated automatically.

Some people criticize the process of return filing, uploading and reconciling the tax returns to be cumbersome. Critical reviews say that the tax rates are high and also GST has led to inflation. Besides increased costs, there have been delays in refund of input tax credit to exporters. "In such a situation, scarcity of credit will push people to delayed return filing or avoid paying taxes. They believe that GST has killed the unorganised and remote sectors due to lack of awareness and made the big corporate more bigger as they can afford this laborious legal procedures as they are self-sufficient with resources and awareness. Issues of server failure and technological glitches added to inadequacy of GST. Continuous changes in GST rates and variations in rules,

Suggestions and Conclusion:

Simplifying the return filing system:

Tax compliance need to be simplified and standardized by the government as it will facilitate ease of

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doing business. The government has already introduced new single simplified main return form GSTR-1 on the basis of two annexure GST ANX-1 and GST ANX-2 which is proposed to be made effective w.e.f. 01.04.2020. Law and procedures will require extensive revision to make GST a greater success.

Rationalising the Tax rates:

Tax slabs need to be rationalised for goods and services as they unnecessarily create complications for the tax payers.

Better Server Response:

At times, the return filing becomes unsuccessful due to server failure due to its inability to bear the load.

So, government need to take steps in betterment of server.

By judging the actual data and empirical observations, it is concluded that future of GST is bright, as it has made much progress from its early days of teething troubles. It is certain that GST is not a failure and will go a long way in shaping tax compliance in a better manner. GST has '**Much Achieved and More Required**' on the part of government to streamline the whole process. Disadvantages too exist like every other reform but these disadvantages are meagre and will be overcome on time.

GST certainly is beneficial for the entire population of India because of its transparency, ease of doing business, self polishing character. Within a few years, GST will be the win-win situation for all the stakeholders i.e. industry, government and customers.

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