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GST (Goods and Services Tax) Implementation and Its Effects in India

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Abstract

The goods and services tax (GST) is a type of tax applied on the value added to the sale of both goods and services in India. It is a broad indirect tax that has largely replaced several other taxes, including service tax, value-added tax, and central excise duty. GST was implemented in India to simplify the tax structure, improve compliance, and promote the ease of doing business. The paper provided an overview of the historical background of the taxation system in India and explained the concept and functioning of the GST. It also included a comparative analysis of the GST rates in India with those in other economies around the world. The study examines how the implementation of the GST has been advantageous for different sectors of the Indian economy. It also highlights the obstacles and difficulties that were encountered during the GST implementation process. Overall, the paper provided a comprehensive analysis of the GST system in India and its impact on the economy.

Keywords: Compliance, economic impact, goods and services tax (GST), indirect tax, taxation system

INTRODUCTION

The term "tax" comes from the Latin word "taxare", which means "to estimate". Taxes are not voluntary contributions or donations, but rather mandatory payments imposed by the government under statutory authority. Tolls, tribute, impost, duty, custom, excise, subsidy, aid, supply, and other names are all used to describe taxes. Taxation was first recorded in Ancient Egypt between 3000 and 2800 BC, during the first dynasty of the Old Kingdom [1]. During this time, the Pharaoh made biennial tours of the kingdom, collecting taxes from the people. Granary receipts on limestone flakes and papyrus provide evidence of tax collection.

Taxes are crucial for financing public goods, as they are not appropriately priced in the market. Only the government can levy taxes and collect funds through them. The taxation system should be designed in a manner that avoids market distortions and failures in the economy. The taxation laws should be highly competitive, allowing revenue to be raised efficiently and effectively.

LITERATURE REVIEW

The method employed in this study is exploratory, utilizing secondary sources like statistical data from different Indian government websites such as the Finance Ministry, GST Council, and GST Council Archives, as well as reviews from academic journals, newspapers, annual reports, and magazines. Based on the analysis of the gathered data, the study defines its objectives and outlines a descriptive research design.

The Indian Taxation System Prior to GST [2]

Any nation's progress depends heavily on its tax policies, which directly affect the economy's efficiency and equity. A good tax policy is one that

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accounts for the complete income distribution and also produces tax revenues for the federal and state governments in a way that can improve the country's infrastructure, defence, public amenities, citizen security, and exports as a whole.

Prior to the introduction of the GST, India's taxation structure was complicated and onerous. The central and state governments of India imposed a number of taxes, which resulted in high tax rates and a cascading impact. The pre-GST period's taxation included the following.

Before the implementation of GST in India, the taxation system was complex and cumbersome. The Indian tax system was characterized by multiple taxes levied by the central and state governments, leading to high tax rates and a cascading effect. The taxes included in the pre-GST era were:

1. *Central excise duty:* It was a tax levied by the central government on the production of goods.
2. *Service tax:* It was a tax levied by the central government on the provision of services.
3. *Value-added tax (VAT):* It was a tax levied by the state governments on the sale of goods.
4. *Central sales tax (CST):* It was a tax levied by the central government on the sale of goods between states.
5. *Octroi:* It was a tax levied by the municipal corporation on the entry of goods into the city.
6. *Entry tax:* It was a tax levied by the state governments on the entry of goods into the state.

The multiplicity of taxes led to a complex tax structure, making it difficult for businesses to comply with the tax laws. It also resulted in tax evasion and corruption. Moreover, businesses had to maintain separate records for each tax and undergo multiple assessments, leading to an increase in the cost of doing business. Overall, the pre-GST taxation system in India had several limitations, which were addressed with the implementation of GST.

The History of Indirect Taxes in India and Key Turning Points

The journey of indirect taxation in India has been a long and eventful one, with various turning points that have shaped the current taxation system.

- In 1947, India gained independence from British colonial rule, and the government introduced the Sales Tax Act, 1948. This Act introduced a tax on the sale of goods by the state governments [3].
- In 1954, the Central Excise Act was introduced, which levied a tax on the manufacturing of goods.
- In 1962, the Customs Act was introduced, which imposed taxes on the import and export of goods [4].
- In 1986, the modified value-added tax (MODVAT) scheme was introduced, which allowed manufacturers to claim credit for taxes paid on inputs [5].
- In 1994, a service tax was introduced on certain services provided by the government or individuals.
- In 2002, the value-added tax (VAT) system was introduced by the state governments, replacing the Sales Tax Act [6].
- In 2017, the goods and services tax (GST) was introduced, subsuming various indirect taxes such as VAT, central excise, service tax, and others.

These turning points have led to significant changes in the indirect taxation system in India, leading to a more streamlined and simplified system. The implementation of GST has been the most significant reform, unifying the indirect taxation system in India and reducing the cascading effect of taxes.

The GST has also simplified compliance for businesses and reduced corruption and tax evasion. Overall, the journey of indirect taxation in India has been towards a more transparent and efficient tax system.

Limitations and Problems with the Current Indian Tax Structure

The Indian taxation system faces several limitations and issues that need to be addressed to improve its effectiveness and efficiency.

- One significant issue is the complexity of the taxation system, which makes it challenging for businesses and individuals to comply with tax regulations. The system involves multiple taxes, each with different rates, exemptions, and procedures, leading to confusion and a high compliance burden.
- Another issue is the high tax rates, which reduce the disposable income of individuals and discourage investment and economic growth. The high tax rates also contribute to tax evasion and avoidance, leading to revenue losses for the government.
- The existing tax system also suffers from inadequate technology infrastructure and systems, leading to delays in tax processing and refunds, and increasing the compliance burden for taxpayers.
- The system's lack of transparency and accountability is also a significant challenge, leading to corruption and tax evasion. The absence of effective enforcement mechanisms and penalties further exacerbates these issues.

The low tax base and limited coverage of the taxation system are also major drawbacks that limit the government's ability to generate income. Comprehensive tax reforms, including the simplification of tax laws, the rationalisation of tax rates, and investments in technological structures and systems are necessary to address these restrictions and problems. To produce long-term funding for public goods and services, the government must also improve enforcement practises and broaden the tax base.

Goods and Services Tax (GST): Current Scenario

The GST was introduced in India on July 1, 2017, as a comprehensive indirect tax reform that aimed to simplify the tax structure and reduce the cascading effect of taxes. The GST is a destination-based tax system that applies to all goods and services except for a few exempted items. Currently, the GST system in India has four tax slabs of 5%, 12%, 18%, and 28%. Additionally, certain goods and services attract a cess that is levied on top of the applicable GST rate [7].

Since it was put into place, the GST system has encountered a number of difficulties, including problems with compliance, technical difficulties, and disagreements over income sharing between the state and federal governments. To address these issues and enhance the performance of the GST system, the government has implemented a number of steps. Overall, the GST has significantly improved the transparency, effectiveness, and uniformity of the Indian indirect tax system.

CONCLUSION

After being proposed for several years, India's GST system was eventually put into effect on July 1st, 2017, under the direction of Prime Minister Shri Narendra Modi and the current BJP government. The Indian government supported the implementation of GST because it believed that it would have a number of positive effects. It is anticipated that it will have an effect on a number of industries in India, including manufacturing, services, transportation, telecommunications, and small and medium-sized enterprises (SMEs). The country's tax framework will be unified under the new system, which is anticipated to improve tax collection, spur economic expansion, and eliminate tax barriers between the federal government and state governments. While GST has the potential to create a clear and transparent taxation system in India, it also faces several challenges that require further analytical research for successful implementation.

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