AN ANALYSIS OF THE TAX POLICIES OF A FEW INDIAN BUSINESSES BOTH BEFORE AND AFTER THE GST

Harshit Garg*

Garg Residency, 38/1, Sector-1, Huda, Narnaul, Haryana, India

Email ID: harshitgarg95@gmail.com

Accepted: 29.08.2022 **Published**: 01.09.2022

Keywords: GST, Central GST (CGST), Special additional duties of customs (SAD), GST Portal

Abstract

The founder of modern economics once said that having a consistent tax system has many advantages. Whether this was due to possession of the "jewel in the crown" or uniformity of taxes and the ensuing free internal commerce is up for debate, but it is important to remember this. A complex web of federal, state, and municipal taxes existed in India prior to the introduction of the Goods and Services Tax (GST). The route to a harmonised indirect tax system has been prepared by the inclusion of over a hundred levies under the GST, connecting India to the rest of the world economy. In the history of India since independence, the GST is the most significant and ambitious indirect tax reform. Its goal is to impose a single, uniform national tax on all commodities and services in India. A number of Central and State taxes have been replaced by GST, which has also increased India's level of national integration and increased the number of producers subject to taxation. It may significantly boost government revenues and growth by increasing efficiency. It may be the first time in the history of contemporary global taxes for the Centre and the States to implement a new tax that covers both commodities and services within a vast and intricate federal structure. GST is a tax on products and services that offers a long-lasting chain of advantages that may be deducted up to the merchant level. In essence, it is a tax only on value addition at each level, and a provider is allowed to deduct the GST paid on the acquisition of goods and services at each stage using a tax credit method. In the end, the person who uses the good or service—the final consumer—bears the cost of GST.

Paper Identification

**Corresponding Author*

Introduction

In India, the services industry now makes up a sizable tax base with untapped potential. The GST is justifiable in this particular scenario since it has included nearly all services for the purpose of taxing. The GST has significantly decreased the multiplicity of taxes, which would lower the country's tax system's operational expenses. Major indirect taxes from the federal and state levels have been merged into it. Costs associated with compliance will be significantly decreased by national consistency in tax rates and practises. GST is essentially a national indirect tax imposed on the production, distribution, and use of goods and services. For the purpose of creating a single, cohesive market throughout all of India, GST is an indirect tax. India's goal with the GST is to enhance tax collections and provide a top-notch tax system. The disparate treatment of the industrial and service sectors would cease to exist, ending long-standing distortions. A uniform tax base and seamless credit will be made possible by GST throughout the whole supply chain and across all States.

India's GST evolution

An Empowered Committee led by West Bengal Finance Minister Asim Dasgupta was established by the Vajpayee Government in 2000 to begin the process of designing the GST model. Subsequently, the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003, led by Vijay Kelkar, proposed a comprehensive Goods and Services Tax (GST) based on the value-added tax (VAT) model and recommended eliminating all inefficient. A goods and services tax that applies to both the federal government and the states should cover the entire production-distribution chain, according to then-Union Finance Minister P. Chidambaram, who made the proposal to move towards a GST in his 2005 budget speech. His proposal to introduce GST on April 1, 2010, which he restated in his budget statement for 2006–07, was made. Interestingly, the Constitution does not specifically provide the Central Government or State Governments the authority to impose taxes on the "supply of goods and services," which is why the implementation of the GST need a constitutional amendment. The States had the authority to tax the sale of products, but the Centre was authorised to tax goods and services up until the point of production. A constitutional change was required since the GST scheme mandates that the Central and State Governments tax goods and services concurrently.

Salient Features of GST in India

The following highlights the key elements of GST in India:

1. Base of supply: GST would be applied to the "supply" of products or services, as opposed to the previous idea of taxing the production, sale, or provision of goods or services.
2. Destination-based taxation: The GST would be based on the concept of destination-based consumption taxes rather than the historical origin-based taxing basis.
3. Dual GST: A single tax would be imposed concurrently by the federal government and the states. Central GST (CGST) would be the name of the GST imposed by the federal government, and State GST (including Union territories with lawmaker) will be referred to as State GST (SGST).
4. Inter-state supply: The inter-state supply of products or services would be subject to an integrated GST (IGST). To prevent a break in the credit chain, this would be gathered by the Centre. Goods and services imports would be regarded as interstate supplies and be liable to the IGST. (This would be on top of any relevant charges for customs).
5. Central taxes absorbed: The following levies and revenues that the Centre assessed and collected would be absorbed by the GST: Service tax, additional excise taxes, countervailing duties, additional duties of customs, special additional duties of customs (SAD), central excise duty, and cesses and surcharges pertaining to the delivery of goods or services.

GST's Potential Advantages

As will be covered below, the introduction of the Goods and Services Tax is anticipated to yield several advantages.

1. India would become a dynamic single market with positive externalities generated by the introduction of GST. It will greatly facilitate conducting business by guaranteeing that indirect tax rates are consistent throughout the nation.
2. Cascade effect elimination: If seamless input tax credit is provided across transactions under the GST, double taxation will not occur, tax cascading will be avoided, and resource allocation would be enhanced.
3. Efficient taxation: By including all significant indirect taxes, inefficient taxes will be eliminated. Exports may increase if manufacturers have to pay only one tax, making them more competitive.

Constitutional Scheme of Indirect Taxation in India before GST

According to Article 265 of the Indian Constitution, taxes can only be imposed or gathered with legal authorization. According to Article 246 of the Constitution, the State Government has the sole authority to enact laws pertaining to the subjects included in the State List (List II of the Seventh Schedule), while the Parliament has the exclusive authority to enact laws pertaining to the subjects listed in the Union List (List I of the Seventh Schedule). Legislative authority for the subjects included by the Concurrent List (List III of the Seventh Schedule) is shared by the Federal Government and the State Governments. Customs duty (item 83 of the Union List), central excise duty (entry 84 of the Union List), and service tax (entry 97 of the Union List) were the three main sources of indirect tax income for the Union prior to the implementation of the GST. Despite the fact that the Constitution (Eighty-eighth Amendment) Act, 2003 included entry 92C for the imposition of service taxes to the Union List of the Seventh Schedule of the Constitution, it was not announced. Thus, before the implementation of the GST, taxes on services were still assessed under the residual item, or entry 97, of the Union List. In addition, the Union imposed a tax known as the Central Sales Tax (CST) on the purchase and sale of products between states as well as on interstate consignments of commodities through entries 92A and 92B, respectively. The State of origin is the designated state for CST, according to the Central Sales Tax Act of 1956, which was enacted under Article 269 of the 11th Constitution.

Literature Review

Additionally, it looks at several studies that analyse the variables influencing how different countries have fared in terms of their use of uniform taxation. Finding research gaps from current notions, beliefs, and practises is the goal of this study of the literature. In addition to suggesting managerial implications, the identified research need will aid in testing hypothetical constructs. The literature categorised as Committee Reports, Research Papers, Research Articles, and Doctoral Theses is examined in this section of the study in order to identify and analyse the variables that influence how an organisation designs its taxation strategies in light of modifications to India's indirect tax structure.

Recommendations of Taxation Reforms in India

Committee on John Mathai (1953) On April 1, 1953, the Government of India created the Taxation Inquiry Commission, which John Mathai chaired. The commission's mandate included examining the prevalence and appropriateness of federal, state, and local taxes on different categories of individuals, with a focus on two main areas: (a) necessary changes to the current tax system and (b) new taxing options. The government received many suggestions from the committee.

Nicholas Kaldor Committee (1956) British economist Nicholas Kaldor 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 firstsystematic estimates of income tax evasion in India and recommended in favour of wealth tax, capital gains tax, gift tax and a personal expenditure tax.

Expert Committee on General Anti-Avoidance Rules (GAAR) (2012): In July 2012 the then Prime Minister Dr. Manmohan Singh constituted an expert committee under the chairmanship of Dr. Parthasarathi Shome. The terms of reference of the committee were to receive comments from stakeholders and general public on the draft of GAAR guidelines which have been published by the Government on its websites and finalise the GAAR guidelines.

Raja J. Chellaiah Committee (1991) The Government of India constituted a committee of experts under the chairmanship of Dr. Raja J. Chellaiah to examine the structure of direct and indirect taxes on August 29, 1991. The committee submitted its report in three installments, an interim report and final reports in two parts. These reports contained recommendations for restructuring and rationalization of personal income tax, corporate income tax, wealth tax, excise duties, import tariffs, tax administration and enforcement machinery. The committee also recommended imposition of tax on certain selected services. The committee recommendations coinciding with the introduction of globalization andliberalization policies have helped in crafting the new economic regime and give fillip to the simplification and rationalisation of tax policy.

International & Indian Experiences of Indirect Tax Reforms (Pre & Post VAT Era)

Peter J. Lambert (1993) in his survey provides coverage of the inputs from the theory side which go into the empirical analysis of impact effects of tax reforms. Inequality. Social welfare, progressivity and horizontal inequity effects are considered. The value judgments inherent in selecting the target group for analysis, specifying welfare through household utility, equivalizing incomes and otherwise incorporating differences in household needs into utilitarian analysis, are all explained.

Jason G. Cummins and et al (1995) suggests to improve upon existing approaches used to estimate investment models by exploiting tax reforms as 'natural experiments'. The researchers find, tax policy has aneconomically important effect through the user cost of capital on firms equipment investment following major tax reforms enacted in 1962, 1971, 1981 and 1986. This effect was most pronounced for firms not in tax loss positions and , thus, more likely to face statutory tax rates and investment incentives. The study also demonstrates that tax-induced variation in the user cost of capital across equipment asset classes was negatively related to asset-specific investment forecast errors following major tax reforms, suggesting that extent knowledge of an impending tax reform can improve forecasts of investment.

J. P Hutton and T. Kenc (1998) elicit the effectiveness of proposed reforms to the tax system intended to stimulate investment depends on how capital structure affects corporate behavior. The researchers use a dynamic general equilibrium model, calibrated for U.K, to investigate the difference between three models of financial structure, including one of endogenous structure motivated by agency theory. It was shown that the difference in predicted effects can be significant, and that the impact of the reform on the marginal source of funds is crucial.

Ranjan Ray (1999) shows in his study that, the insensitivity of marginal commodity tax reforms to demand specification does not extend to the nonmarginal case. The size of the tax change has a sharp impact on commodity tax reforms unlike price effects, neither household composition nor quadratic Engel curves alters significantly the direction of tax change. The researcher also says, the first order approximation overestimates the welfare cost of tax change, and the bias increases sharply with the size of the change.

Conclusion

There are always challenges and issues while implementing any new development. The government, the business sector, the tax administration, and even the general public of the nation will undoubtedly face certain difficulties as a result of a reform as extensive as GST. A few of these difficulties are related to not being comfortable with the new regulations and IT systems, legal difficulties, submitting returns and reconciliations, and transferring transition credit. For the taxpayers, compliance is challenging due to a weak IT infrastructure and system lag. For small and medium-sized business formalities, a large number of the GST procedures are new. Electronic submission of refunds, including with all supporting documentation and invoices, has been permitted via the common portal to speed up the approval process. To assist the field formations of the CBIC and States in this respect, clarifying circulars and notifications have been released. The government has implemented an IT grievance redressal system to help taxpayers who are experiencing problems with the GST site due to technical issues. The implementation of the Goods and Services Tax (GST) has significantly altered the Indian economy by substituting a technology-driven, transparent, and easy-to-understand tax system for the intricate, multi-layered indirect tax structure. By removing obstacles to inter-state trade and business, it will unite India into a single, shared market. The ―Make in India‖ campaign will gain momentum and the country's ease of doing business will improve with the removal of cascading taxes and transaction expenses. With GST, there would be "ONE NATION, ONE TAX, ONE MARKET."

REFERENCE

1. A. Yashoda (2016) IMPACT OF GST ON ECONOMY, International Double-Blind, Peer Reviewed, Refereed Open Access Journal - Included in International Indexing Directories International Journal of Business Economics and Management Research Vol. 7, Issue 9, Impact Factor: 4.611 ISSN: (2229-4848) Page No 36-54.
2. Aamir M., Qayyum A., Nasir A., Hussain S., Khan K. and Butt S., 2011, Determinants of Tax Revenue: Comparative Study of Direct taxes and Indirect taxes of Pakistan and India, International Journal of Business and Social Science, Vol. 2, Issue 19, Pg. 173-178
3. AfifahAbdHalim ,NurFatinZahari , FarhanaMohamadFazi and Sultan Haji Ahmad Shah.(2014) EDUCATORS' AWARENESS AND ACCEPTANCE TOWARDS GOODS AND SERVICES TAX (GST)
4. IMPLEMENTATION IN MALAYSIA: STUDY IN BANDAR MUADZAM SHAH, PAHANG, International Journal of Business, Economics and Law, Vol. 4, Issue 1, ISSN 2289- 1552,Page NO 1-10.
5. Agrawal. A (2011), India's Goods and Services Tax – Primer, STCI Primary Dealer Ltd.PP 1-11 Gelardi. Alexander M. G. Value Added Tax and Consumer Spending: Graphical Descriptive Analysis, Asian Journal of Finance &Accounting,ISSN 1946-052X , Vol. 5, No. 1
6. Ahmad E. and Poddar S., 2009, GST Reforms and Intergovernmental Considerations in India, Asia Research Centre, Working Paper 26, Pg. 1-43
7. Ahmad E., 2010, Why is it so Difficult to Implement GST in Pakistan?, Lahore Journal of Economics, Vol. 15, Pg. 139-169
8. Aizenman J. and Jinjarak Y., 2005, Collection Efficiency of Value Added Tax: Theory and

International Evidence, NBER, Working Paper 11539, Pg. 1-24

9. Akanksha Khurana, Aastha Sharma (2016) GOODS AND SERVICES TAX IN INDIA - POSITIVE REFORM FOR INDIRECT TAX SYSTEM, INTERNATIONAL JOURNAL OF ADVANCED 200 RESEARCH RESEARCHARTICLE. ISSN 2320-5407 International Journal of Advanced Research (2016), Volume 4, Issue 3, Page No500-505.
10. Albrecht, Johan, (2006), "The Use of Consumption Taxes to Re-launch Green Tax Reforms", International Review of Law and Economics, Vol.26, No.1, pp 88-103.
11. Alexandre, Cunha and Arilton, Teixeira, (2004), "The Impacts of TradeBlocks and Tax Allen Huang and Benjamin Liu (2013) Impact of Goods and Services Tax on Mortgage Costs: Evidence from Australian Mortgage Corporations Department of Accounting, Finance and Economics, Griffith University, ijfr International Journal of Financial Research Vol. 4, No. 1; Published by Sciedu Press 54 ISSN 1923-4023 E-ISSN 23-4031,Page 170-189.
12. Angad Singh Maravi, Dr. Harisingh(2016) Goods and services Tax(GST) in India and its Impact on Indian Economy. International Journal of Academic Research.ISSN: 2348-7666; Vol.3, Issue3(2),Page No 121-128.
13. Asongo, A.I1, Jamala G.Y, Joel L and Waindu C (2013) Impact of Trade Liberalization on Performance of Manufacturing Sector in Nigeria (1989 To 2006) IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321- 5933, p-ISSN: 2321-5925. Volume 2, Issue 2 (Nov. – Dec. 2013), Page NO P 17-22.
14. B.S. Gosavi (2015) GST : CONCEPT AND FEATURES, Vidyabharati International Interdisciplinary Research Journal 4(1) ISSN 2319-4979, Page No-51-53. Benedict K., 2011, Australian GST regime and financial services: How did we get here and where are we going?, E Journal of Tax Research, Vol. 9, (Issue 2), Pg. 174-193
15. Benjamin Liu, Allen Huang,(2011) Impact of GST on Mortgage Yield Spreads of Australian Building Societies, Journal of Modern Accounting and Auditing, ISSN 1548-6583, Vol. 7, No. 9, Page No 986-993. 201
16. Bhattarai, Keshab R., (2007), "Welfare Impacts of equal-yield Tax Reforms in the UK Economy", Applied Economics, vol.39 No.12, pp1545-1563.
17. Bhawna Manyal Aanchal Nagpal (2016) GST on e-commerce in retail sector: BOON or BANE XVII Annual International Seminar Proceedings, ISBN no. 978-81-923211-8-9, Page No 1058-1067.
18. Bibi, Sami and Duclos, Jean-Yves, (2007), "Poverty decreasing Indirect Tax Reforms: Evidence from Tunisia", International Tax and Public Finance, Vol.14. No.2, pp165-190.
19. Bikas E. and Andrukaite E., 2013, Factors affecting Value Added Tax revenue, European Scientific Journal, Vol. 1, Pg. 41-49
20. Bird R. and Gendron P., 2009, Sales Tax in Canada: GST-HST-QSTRST "System", Pg. 1-52
21. Bird R., 2012, GST/HST : Creating Integrated Sales Tax In Federal Country, School of Public Policy Research Papers, Vol. 5, Issue 12, Pg. 1-38
22. Bohringer, Christoph and et al, (2003), "Green Tax Reforms and Computational Economics: A
23. Borec T. and Merz M. and Salanki A., 2013, World Wide VAT Forum: E Commerce, Tax

Planning International – Indirect Taxes, Vol. 5, Pg. 13-15

24. Brew L. and Wiah E.N., 2012, As assessment of efficiency in collection of VAT Revenue in Tarkwa- Nsuaem Municipality (Ghana) using Time Series Model, British Journal of Arts and Social Sciences, Vol. 6, (Issue 2), Pg. 140- 150
25. C.S, Basavaraj (2014), “Demands of Globalization and Reforms in Direct and Indirect Taxes –
26. C.S, Basavaraj (2014), “Demands of Globalization and Reforms in Direct and Indirect Taxes –
27. C.S., Basavaraj & Math, Revanasiddayya B. (2013), “Globalization and Indian Taxation”,
28. C.S.Prasad, Vibha Mathur, Anup Chaterjee (2007), “Sixty Years of Indian Economy 1947 to 2007”, New Delhi, New Century Publications, pp.104-46