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Critical Analysis of the Current GST Regime

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Abstract: The Goods and Services Tax (GST) is India's most significant tax reform since the country's independence in 1947. The main goal of development of GST was to unify India's indirect taxation landscape by subsuming all existing indirect taxes including service tax, VAT/sales tax, and central excise duty. On March 29, 2017, Parliament passed the Goods and Services Tax Act, which came into force on July 1, 2017. In India, it is an indirect tax that has replaced many other indirect taxes including service tax, VAT, and excise duty. For the entire country, there is only one domestic indirect tax law, or GST. Tax is levied under the GST framework at each point of sale. Both state and central taxes apply on sales within the same state. Integrated GST is applicable on all interstate sales. Under the GST based taxation system, tax evasion and corruption also reduce in the country.

The paper included an overview of the tax system's history, the GST concept and its important workings, a comparison of the rates of the Indian GST tax system with those of other global economies, a detailed discussion of the benefits and dificulties that the GST has brought to various Indian economic sectors, and an outline of the implementation challenges.

Key Words: Tax, Indirect Tax, Taxation reforms, Indian taxation system, GST

Introduction:

The taxation system in India dates back thousands of years. Several old texts, like Manu-Smrti and Arthasastra, mention the early taxing system. In the British Empire, the entire Indian tax system was replaced in 1922 using more advanced, scientific methods. A whole new tax system was implemented by the British. Direct taxes and indirect taxes are the two primary tax categories in this administrative and taxation system. Following independence, The Central and State governments in India are in complete control of and implement the taxation system. The Indian Constitution, which divides the right to raise taxes between the Central government System and the State Government System, is the source of this power.

The Indian Constitution has rules that govern the complete framework for the imposition of indirect taxes. The Indian Constitution has rules that govern the complete framework for the imposition of indirect taxes. The Central and State Governments are authorized to impose taxes and gather indirect taxes based on transactions involving goods and services under Article 246, Seventh Schedule. The taxation structure differs amongst manufacturers based on the volume of imports or exports or the point of sale. Systems of collection based on indirect taxation are origin-based and intended to levy and collect taxes if any taxable activity takes place.

To address the loopholes and drawbacks of the indirect taxation system, the government views the Goods and Services Tax (GST) as a "Reform" as opposed to an adjustment to the current Indian tax system. The products and Services Tax (GST) is described as any tax on the provision of products or services, or both, except for levies on the supply of alcoholic liquor for human consumption under New Article 366 (12A) of the Indian Constitution (GST India.com, 2016). Anything other than goods is defined as a service under the new Article 366(26A). Article 366(12) now in effect defines goods as all commodities, resources, and objects.

The only way to pay for public goods is through taxes because of their unreasonable cost on the market. It can only be imposed by the government using tax revenue. To raise funds in a highly efficient and successful manner, tax laws ought to be very competitive. It is imperative that the tax system be designed to avoid any type of distortions or market failures that could damage the economy. India was one of the 123 nations that used the VAT taxation system worldwide.

The Indian Tax System: Pre-GST Scenario:

Tax laws are essential to the development of every nation and directly affect the efficiency and equality of its economy. A good tax policy balances the distribution of income and provides the governments with the necessary tax revenues. This can benefit the country's infrastructure, defense, public services, citizens' security, and exports. A product passes through several hands throughout its supply chain: from the point of manufacture to the point of sale to the customer. Let us think about the subsequent phases: Purchasing raw ingredients, Manufacturing or production, Storage of completed items, supplying wholesalers, Product transfer to retailers and selling to final customers. It is a multi-stage tax since the Goods and Services Tax is imposed at each of these steps.

Both the state and the federal government imposed many indirect taxes under the previous indirect tax system. Value Added Tax (VAT) was the primary tax revenue source for the states. There were various sets of laws and regulations in each state. The center levied taxes on products sold between states. If a good was sold across state lines, the Central State Tax, or CST, was due. State and central governments jointly imposed indirect taxes, such as the entertainment tax, the octroi, and local taxes. This resulted in a great deal of overlap between the central government's and the state's levies. For instance, the center assessed excise duty on items that were produced and sold. In addition to the excise fee, the state levied VAT. It resulted in the cascading effect of taxes, commonly referred to as the tax-on-tax effect.

Table 1. Taxes Imposed and Collected by Central and State Governments in India:

Name of Tax	**When it was Imposed?**	**Imposed & collected by**
Central Excise	Goods manufactured in India (Excluding	Central Govt.
Duty	Goods manufactured in SEZ in India).	
Service Tax	Any sort of service in territory (wherever applicable).	Central Govt.
Customs Duty	Import of goods to India	Central Govt.
Central Sales Tax	Inter-State goods sale.	Central Govt. State Govt.
Sales Tax / VAT	Sales of Goods within state.	State Govt.
Local Tax (Entry/)	Goods entry to a state outside of state.	State Govt.

The GST's Journey in India:

Prior to the implementation of the GST tax system in India, the trajectory of indirect taxation in India and its turning points were examined. In 1974, The LK Jha Committee's report recommended implementing a VAT system. In 1986, introduction of "MODVAT," a restricted VAT. In 1991 saw the government accept the "VAT/GST" suggestions made in the Chelliah Committee report. In 1994, Introduction of Service Tax. In 1999, empowered creation of a state VAT committee. In 2000, State government tax incentives are eliminated and uniform floor state tax rates are implemented. In 2003, The VAT system is being implemented in Haryana and. 2004 saw significant advancements in the implementation of CENVAT. 2005–06: More than 26 Indian states implemented a VAT-based taxation system with uttrakhand.

2007: The Finance Minister's speech introduces the GST in the Budget; the first GST items are released by Mr. P. Shome in January; the CST phase-out begins in April 2007; a joint working group is formed and reports are submitted. 2008: In April of that year, the EC implements the GST Structure of Taxation System. 2009: in 2010, The finance minister proposed a likely GST rate, and the department of revenue made comments on the GST discussion paper. A team was established to develop the GST roadmap, and the Parliament approved the 115th Constitutional Amendment Bill. 2012 saw the implementation of the service tax negative list regime. 2013: The report on the Bill was submitted by the Parliamentary Standing Committee. 2014: The 115th Amendment Bill was reintroduced as the 122nd Constitutional Amendment Bill after it expired. The GST journey formally began in 2000 with the formation of a committee tasked with drafting legislation. After that, the Law remained unchanged for a further seventeen years. In 2017, the Rajya Sabha and Lok Sabha passed the GST Bill.

1. <u>Goals of The GST</u>

(1) To fulfill the "One Nation, One Tax" philosophy.

Several indirect charges that were in force under the old tax structure have been replaced by the GST. One benefit of a single tax is that it guarantees uniform prices for goods and services throughout all states. Tax administration is made easier by the Central Government's setting of tax rates and policies. Tax compliance is also enhanced because taxpayers are not burdened by several return forms and deadlines. The nation has taken on value added tax (VAT), central excise, service tax, and other previously imposed indirect taxes that were assessed at different stages of the supply chain. The main indirect taxes were combined into one under the GST. For the government, it has made tax administration simpler. One of the primary objectives of the GST was to remove the cascading effect of taxes. Differential indirect tax laws historically prevented taxpayers from offsetting the tax benefits from one tax against the other. This led to a cascade of taxes. Under the GST, only the net value contributed at each supply chain level is liable to taxes. As a result, input tax credits for both goods and services are now flowing smoothly, and the cascading effect of taxes has decreased.

(2) To increase the number of taxpayers and eradicate tax evasion:

India's GST regulations are noticeably stricter than any previous indirect tax legislation. Taxpayers may only submit invoices uploaded by each of their individual suppliers to be eligible for an input tax credit under GST. This removes the possibility of obtaining input tax credits on imaginary invoices. This goal has been further reinforced with the advent of electronic invoicing. As a result, the GST has considerably reduced the prevalence of tax fraud and tax evasion. India's tax base has grown thanks in part to the GST. The number of businesses that are registered with the government has increased as a result of the Goods and Services Tax (GST). Furthermore, due of the stricter rules controlling input tax credits, certain unorganized sectors have been included in the tax system. Consider the Indian construction industry.

(3) Online processes to make doing business easier:

In the past, taxpayers had a great deal of trouble communicating with different tax offices under each tax law. Furthermore, even though returns were filed online, most of the examination and reimbursement procedures were carried out offline. Nowadays, almost every GST operation is finished online. All tasks, including registration, return filing, refunds, and creating e-way bills, can be completed with only one button click. It has significantly improved India's overall ease of doing business and expedited taxpayer compliance. Under a single indirect tax system, the supply of goods is not subject to several document requirements. GST improves supply chains and shortens transportation cycle times. Because of the e-way bill system under the GST, the industry gains the most in terms of transit and destination efficiency from the removal of interstate checkpoints. Ultimately, it helps to lower the high costs associated with logistics and storage.

Consumption and indirect tax collections have increased by the GST's implementation. Thanks to consistent GST rates, prices are now more competitive both domestically and internationally. Both revenues and consumption have grown as a result. The GST has largely removed the cascading effect on the sale of goods and services. The cascading effect has been eliminated, which has changed the price of the items. Because the GST regime eliminates the tax on tax, things become more affordable. Technology also has a significant impact on GST. By mandating all required online registration, return filing, refund applications, and notice response steps, the GST portal speeds up the process.

2. Research Methodology

The exploratory research technique used in this paper is the basis for the data cited in it. Secondary sources included statistical data from the Finance Ministry (finmin.gov.in), the GST Council (gstcouncil.gov.in), the GST Council Archives (gstindia.com), and many other websites of the Indian government; a review of the literature from journal papers; annual reports; newspaper reports; and a large selection of magazine-based articles on GST. The goals of the study are established, and a highly descriptive research design is produced, based on the examination of the data gathering sources.

3. Objectives and scope of the Research

The primary goals of the research were to understand, evaluate, and differentiate the Goods and Services Tax (GST), the new taxation scheme that was introduced in India. to evaluate the benefits and challenges of GST. to evaluate various items and services' possible tax status in India. to supply information for future research on the GST-based taxation system. This paper offers a thorough analysis of how the GST tax is being applied across the nation's sectors. After it is implemented, the GST will standardize tax rates and fix many of the inadequacies in the Indian indirect taxation system.

4. Goods and Services Tax (GST) – Current Scenario

The implementation of the GST is "dual," with the State implementing one component (SGST) and the Center implementing the other (CGST). The federal government and the state governments would use the same tax base. India's implementation of the GST began on July 1, 2017. After a few significant changes, the GST would now have three main models: (i) Central GST: The GST that the Center will impose. (ii) State GST: The States will impose GST. (iii) Dual GST: This refers to the concurrent imposition of GST by the States and the Center.

In addition to mitigating the potential risks of double taxation and inadvertent nontaxation, the GST will tackle certain development-related issues that have been left unaddressed by the VAT and GST systems. In the early stages of value addition, GST will create a strong foundation for tax revenue. Tax control, tax collection, and tax remittance in the amount corresponding to each company's margin would all be involved. Therefore, on supplies shipped to the final client, the business will be liable to GST.

The list of products free from the Goods and Services Tax (GST) is as follows: (a) All government-provided public services, including banks, insurance, railways, postal and telegraph services, public sector enterprises, health and education services; (b) any service exchanges between employers and employees, whether as service provider or recipient; (c) education services rendered by private schools and colleges; (d) health services rendered by private agencies; and (e) any unbranded food products.

GST Council:

The Constitutional nd (122 Amendment Bill) was presented and approved by the Rajya Sabha on August 3, 2016, and the Lok Sabha on August 8, 2016, to successfully implement GST taxation in India. On September 8, 2016, the GST council was formally established following approval from the President of India. The President established the GST Council within 60 days of the Amended Constitution's Article 279A (1) taking effect. The members of the GST Council are as follows: The individuals listed are the Union Finance Minister, who serves as the Chairperson; the Union Minister of State, responsible for Revenue in the Finance Ministry; the Minister in charge of taxes, or any other minister designated by each State Government; and members. The GST Council was established with the following objectives.

The GST Council was established to handle the following tasks: (a) taxes, surcharges, and state and central cess that will be combined into the GST; (b) goods and services that will be exempt from the GST; (c) interstate commerce - IGST - distribution between State and Central governments; (d) the GST registration threshold limit; (e) GST floor rates; (f) special rates for calamities; and (g) provisions regarding special category rates, particularly in North Eastern states.

Impact and Challenges of GST Implementation:

The Indian economy into one common market underr a single umbrella of gst tax rates, making it easier to start and run firms, increasing savings and lowering costs across a range of industries. The GDP is predicted to expand by 2% under the GST, although these projections cannot be evaluated until the GST is successfully implemented. The GST rate is applied in different slabs, such as 5%, 12%, 18%, and 28%. The government will automatically get significant tax increases from these slabs, while the manufacturing sector would experience significant growth due to the tax rate reduction. Everything must be carefully designed for the GST to have a structured tax rate. There are still many industries that need to be covered by GST, therefore careful planning is necessary.

The major challenges for GST implementation in India are (a) Nature of Taxes, (b) GST Types, (c) The Tax Rates, (d) Infrastructure for Technology and Tax Management: There are several different taxes in India, including Central Excise, VAT, CESS, and other state-level taxes. These will all be eliminated and combined into one tax, known as GST, but there are still many states and union territories with additional taxes that are not covered by GST that need to be addressed. There will be two types of GST: Central GST and State GST, further division based on absolute necessity and property-based factors such as need, location, geography, and resources that need to be addressed is necessary. Considering the standard of living in India, many more considerations need to be made before the tax rate is established. To implement appropriate policies and objectives, it is imperative that infrastructure and tax management be done properly.

Table 2. List of GST Rates Applicable in Various Countries:

Name of Country	GST Rates (in %)
Netherlands	21%
United Kingdom, France	20%
Germany	19%
India	0%, 5%, 12%, 18% and 28%
Russia	18%
China, Pakistan	17%
Mexico	16%
New Zealand	15%
Australia, Brazil, Indonesia, Korea	10%
Japan, Switzerland	8%
Thailand, Singapore	7%
Malaysia	6%
Canada, Jersey	5%

Note: Ranking as per Descending Order. Source: Central Board of Excise and Customs (2017)

A critical evaluation:

There are several unanswered questions as the country finishes its seven years under the GST framework. The income streams did not meet the desired results. States express dissatisfaction over revenue losses, and some claim they are not receiving prompt compensation from the Center as promised. But it is impossible to ignore the positive improvements, which include increased transparency, expanded revenue base, and improved compliance. Maybe seven years is not long enough to assess such a revolutionary change that changed the nation's tax system.

The GST debate revolves around the idea of "one nation, one law," with distinct regulations for large and small states, as well as differences in registration deadlines and turnover limits. They are also distinct in that most traders in the nation are unaware that emails are being sent, that notices are being sent, or that unfair demands are being made by giving an ex-party decision for failing to respond. The right to amend returns has not even materialized in the last seven years. To inform businessmen about the notices they have received and the officers who are not aware of them, you can register for GST by phone or email. You can also send notice messages regarding GST over the phone.

Study Limitations:

The study's shortcomings are as follows: Since the GST is still in its maturity phase, tax reforms pertaining to finalizing tax rates, imposing new rates, or even deducting existing rates may occur occasionally through GST council meetings. Additionally, most of the data cited in the paper was of a speculative and exploratory nature, indicating that much more work needs to be done. Finally, final conclusions may differ based on differing perspectives. Following the adoption of the GST, the GST Council should have monthly meetings to discuss changes to tax reflections. Additionally, new technology-based infrastructure like as GSTNET is now necessary for the effective monitoring of the taxing system. Researchers may examine these topics in later investigations.

5. Conclusion

There were over 14 million taxpayers in India in the six years since its inception, finance minister Nirmala Sitharaman told the Lok Sabha dec 2023. The primary cause of the sharp increase in voluntary registrations particularly by small businesses looking to claim input tax credit on purchases made from larger corporations was the rise in the number of GST registrants. This is an excellent sign of people's positive compliance behavior. It is anticipated that the Goods and Services Tax (GST) will improve the welfare of all Indian states, making it an inclusive policy that will boost overall welfare levels in the country. The GST would affect every industry in India, including small SMEs, manufacturing, services, communications, and the automotive sector. One of the largest tax reforms, the Goods and Services Tax (GST) would impose a single tax rate on the entire country. Experts predict that the Goods and Services revenue (GST) will enhance revenue collection, accelerate India's economic growth, and eliminate all tax barriers between the Central and State Governments. GST would undoubtedly provide India with a transparent and easy-to-understand tax system, but there are a number of obstacles in its way, as this article explains. For successful deployment, additional analytically based study is required.

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