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Comparison of GST with Previous Tax Structure and its Impact on Indian Economy

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Abstract:

Goods and Service tax is universally known as GST which is consumption tax currently used in on the supply of goods and service. It is comprehensive tax because it has subsumed almost all the indirect tax except a few state taxes. Before this tax model there are two types of tax in India which is levied by the government in different way. Old tax system of India is lengthy and complex, to file tax individual has suffered some paper work which is typical for common man. This paper compared current GST Framework and old taxation system and describes its impact on Indian economy in brief. However researcher observed also earlier studies. More than 160 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and after having much discussion with different party it was passed on Aug 4, 2016 by the Rajyasabha. Finally India had implemented GST from 1 July, 2017.

Keywords: : GST, Previous Tax system, Comparison.

Introduction

The Government needs money to preserve law and order in the country and to carry out certain welfare step to bring the balanced evolution of the state. The government's most important source of revenue is tax. The tax is divided into two types depending on its prevalence and impact. One is direct tax and another is indirect tax. Direct tax is a form of income tax wherein its impact and burden is on the same person such as income tax. Income tax Act was first introduced in India in February, 1860 by James Wilson who becomes India's first Finance Member. It was divided into 21 parts consisting of no less than 259 sections. Now presently the Act runs into 23 chapters, 298 sections and 14 schedules. Indirect tax is a type of tax that is not levied directly from the consumer. Taxation is the only utensil to achieve growth and economic development in the long run of any country and it is very significant to understand the constituent of tax which are to be targeted in order to attain economic growth. Generally the personal income tax has little or no effect on on economic growth in turn corporate income tax had extensive impact on economic growth. In order to attain the long term economic growth, it is absolute necessary to know targeted revenue sources and it is also very important to understand which tax components are important in context to attain long run economic growth. GST, is a unified tax which is levied on the value added for the delivery of goods and services. GST was implemented in accordance with GST bills passed by the government. The government enacted four bills on 12th April 2017 such as CGST, SGST, UGST, and IGST.

Review of Literature

- Dr. Shant kumar A.B, Dr. Sanjeev kumar conclude that Goods and Service Tax, with end-to-end IT enabled tax system, is likely to bring good amount of revenue to government. They say that the GST structure is not be a perfect but once it is placed, this tax structure will be found better for Indian economy advantageous for foreign investments.
- Raj Kumar conclude that Initiatives step of Government towards Indirect taxes for reducing cascading effect, beneficial to both Government and Sellers. Indirect taxes system will be clear and simple and manufacturer, wholesalers, and retailers can be easily recovered input taxes in form of tax credits.
- Nishitha Gupta (2014) in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which are untouched by the VAT system and would essential lead to economic development.
- Ms.Joyline Clara, Meghana.M.R, Dr.RaviKulkarni in their study stated that GST is mainly implemented to reduce the burden of the consumers who are suffering from cascading of tax. Our economy should make up our mind to study GST concepts with our interest and practice well and gain the maximum benefits out of it. GST will definitely make the tax the simplest form and help both the consumers and the economy.

Methodology

The study used the secondary source of information

Prime objectives for the study:

- Explain previous taxation system and GST framework.
- Differentiate previous taxation system and GST framework.
- Examine the impact of GST on Indian economy in brief.

Taxation System of India:

In the last decade, amendments have been implemented in the Indian taxation system. For better performance, Simplification of tax payment and better execution, the tax rates has been rationalized and tax laws have been enacted. The impact on the above the process of rationalization of tax management is ongoing. The Indian taxation system is categorized in two parts namely direct taxes and indirect taxes.

Taxation System before GST:

Direct and Indirect taxes:

Tax levied by governments can be classified into two categories: (1) Direct taxes, and (2) Indirect Taxes**.**

Direct Tax

Those taxes whose burden cannot be shifted to other and the person who pays this tax to the government have to bear it are called direct taxes. In other words direct tax is imposed on an individual or group of individual, that affects them directly i.e. which they have to pay to the government directly. For example, Income- tax, Wealth-tax, Capital gain-tax, Corporate-tax, Gift-tax etc.

Indirect Tax

Indirect tax are those tax whose burden can be shifted to other so that those who pay these taxes to the government do not bear the entire burden but pass it on entirely or somewhat to others. Indirect taxes such as under

Sales Tax:

A sales tax is consumption tax applied by government on sale of goods and services. A customary sales tax is levied at the point of sales, collected by retailer, and passed on to the government.

Value Added Tax (VAT):

A value-added tax is a multiple tax system imposed by government on a product whenever any value is added in the cost of product at each stage of the supply chain, from production to the point of sale. A VAT is a Tax that the user pays to the government only after deducting the tax already paid on material, which in used in product.

- VAT to be paid to Government = Output VAT – Input VAT
- Example: Suppose Mohammad owns car making company and spends Rs. 50,000 towards obtaining raw materials. And pay input tax is 10%, , so input tax become 10% of Rs.50,000 = Rs. 5,000

  Now after selling the car made by using the raw materials, Mohammad was able to make Rs, 1, 00,000. Supposing 10% output tax, output tax becomes Rs.10, 000.

  So, final VAT payable by Mohammad
  = Output VAT – Input VAT
  = 10,000 – 5,000
  = 5,000

Excise Duty:

Excise duty is indirect tax which is collected by central government. This duty is levied on goods which are manufactured in India and it levied at time of removal of goods. Excise duty imposed on goods which have been specified in the central excise tariff act as being subjected to duty of excise. After July, 2017 it was subsumed in GST.

Custom Duty:

Custom duty is also known as import duties. It is levied by the central government of India on the imported Goods into India. The objective behind levying custom duty is safeguarding each nation economy. The customs duly rate which is levied on the goods depends on the classification of the goods that are determined under the Customs Tariff.

Service Tax:

Service tax was introduced in year 1994. It is collected by central government on certain services which are categorized under indirect tax but it is actually borne by the customers. It has been observed a steady increase in the rate of service tax also. At present service tax rate is 12%. Education cess and Secondary Higher Education cess is applicable at 2 + 1 on service tax. Effective tax rate is 12.36%

Taxation System after GST:

Major tax reform in India

GST (one nation one tax program)

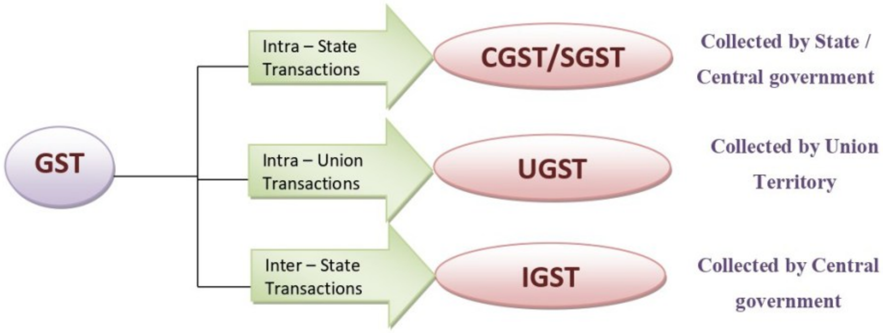
There are 160 countries that have implemented GST. France was the first country who introduces GST in1954. Only Canada has dual GST model (India is also implemented Dual GST Model). GST Rates are usually between 5% - 28% generally.

Goods and Service Tax (GST) has been introduced in India w.e.f.1st July, 2017. It brings out a new era of indirect taxes in India. It combines a mixture of indirect taxes and allows tax-credit against goods as well as services. It is levied at all stages right from manufacture up to final use with credit of taxes paid by at previous stages available as set-off. In short, only 'value addition' will be taxed and it is to be borne by the final consumer. The final consumer will, however, bear only tax charged by the last dealer in the supply chain with the 'set-off' benefits that are allowed at all the previous stages. This is an indirect tax that will make India a united general market. We hope this new tax is beneficial not just for the common man but for the whole country.

GST rates of some countries are as below:

Country Name	GST Rate
Australia	10%
Bangladesh	15%
Brazil	17%-25%
Canada	15%
China	16%
France	20%
Germany	19%
India	5%-28%
Iran	9%
Italy	10%-22%
Japan	10%

The Duel GST Model:



Broad idea about rates of GST:

Tax Rate	Goods	Services
0% NIL	• Hulled cereal grains like barley, wheat, oat, rye, etc. • Bones and horn-cores unworked and waste of these products. • Palmyra jaggery • All types of salt • Dicalcium Phosphate (DCP) of animal feed grade conforming to IS specification No. 5470 :2002 • Kajal [other than kajal pencil sticks] • Picture books, colouring books or drawing books for children • Human hair – dressed, thinned, bleached or otherwise worke • Sanitary Napkins • Unit container-packed frozen branded vegetables (uncooked/steamed) • Vegetables preserved using various techniques including brine and other preservatives that are unsuitable for immediate human consumption. • Music Books/manuscripts	• Chargeable services offered on Basic Savings Bank Deposit (BSBD) account opened under the PMJDY (Pradhan Mantri Jan Dhan Yojana)

5%	• Cashew nuts/cashew nuts in shell • Ice and snow • Bio gas • Insulin • Aggarbatti • Kites • Coir mats, matting and floor covering • Pawan Chakki that is Wind-based Atta Chakki • Postage or revenue stamps, stamp-postmarks, first-day covers, etc. • Numismatic coins • Braille paper, braille typewriters, braille watches, hearing aids and other appliances to compensate for a defect or disability • Fly-ash blocks • Walking sticks • Natural cork • Marble rubble • Accessories/parts for carriages designed for differently-abled individuals	• Railways-Transportation of goods, passengers • Goods transported in a vessel from outside India • Renting a motor cab without fuel cost • Transport services in AC contract/stage or radio taxi • Transport by air (scheduled)/air travel for purpose of pilgrimage via chartered/non-scheduled flights • Tour operator services • Leasing of aircrafts • Print media ad space • Working for printing of newspapers
12%	• Preparations of vegetables, fruits, nuts or other parts of plants, including pickle, murabba, chutney, jam, jelly • Ketchups, sauces and mustard sauce but excluding curry paste, mayonnaise and salad dressings, mixed condiments and mixed dressings	• Rail transportation of goods in containers from a third party other than Indian Railways • Air travel excluding economy • Food /drinks at restaurants without AC/heating or liquor license

	• Bari made of pulses including mungodi • Menthol and menthol crystals, peppermint, fractionated/de-terpenated mentha oil, dementholised oil, Mentha piperita oil and spearmint oil • All diagnostic kits and reagents • Plastic beads • Exercise books and note books • Glasses for corrective spectacles and flint buttons • Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs • Fixed Speed Diesel Engines • Two-way radio (Walkie talkie) used by defence, police and paramilitary forces etc. • Intraocular lens • Corrective spectacles • Playing cards, chess board, carom board and other board games, like ludo, etc. • Debagged/roughly squared cork • Items manufactured from natural cork • Agglomerated cork	• Renting of accommodation for more than Rs.1000 and less than Rs.2500 per day • Chit fund services by foremen • Construction of building for the purpose of sale • IP rights on a temporary basis • Movie Tickets less than or equal to Rs. 100
18%	• Kajal pencil sticks • Dental wax • Plastic Tarpaulin • Headgear and parts thereof • Precast Concrete Pipes • Salt Glazed Stone Ware Pipes • Aluminium foil • All goods, including hooks and eyes	• Food/drinks at restaurants with liquor license • Food /drinks at restaurants with AC/heating • Outdoor catering • Renting for accommodation for more than Rs.2500 but less than Rs. 5000 per day

	• School satchels and bags other than of leather or composition leather; toilet cases, Hand bags and shopping bags of artificial plastic material, cotton or jute; Handbags of other materials excluding wicker work or basket work • Rear Tractor tyres and rear tractor tyre tubes • Rear Tractor wheel rim, tractor centre housing, tractor housing transmission, tractor support front axle • Weighing Machinery other than electric or electronic weighing machinery • Printers other than multifunction printers • Ball bearing, Roller Bearings, Parts & related accessories • Transformers Industrial Electronics • Electrical Transformer • Static Converters (UPS) • CCTV including CCTV with video recorders • Set top Box for TV • Computer monitors not exceeding 17 inches • Electrical Filaments or discharge lamps • Winding Wires, Coaxial cables and Optical Fiber • Perforating or stapling machines (staplers), pencil sharpening machines	• Supply of food, shamiyana, and party arrangement • Circus, Indian classical, folk, theatre, drama • Supply of works contract • Movie Tickets over Rs. 100

	• Swimming pools and paddling pools • Televisions/Monitors (upto 32 inches) • Power banks powered by Lithium-ion batteries • Sports goods, games consoles and related items with HS code 9504 • All items with HS code 8483 including gear boxes, transmission cranks and pulleys • Used or retreaded pneumatic rubber tires	
28%	• Caffeinated Beverages	• Entertainment events- amusement facility, water parks, theme parks, joy rides, merry-go-round, race course, go-carting, casinos, ballet, sporting events like IPL • Race club services • Gambling • Food/drinks at AC 5-star hotels (above Rs.7500/night) • Accommodation in 5-star hotels or above (above Rs.7500/night)

Following indirect taxes are subsumed under GST:

Central taxes	**State GST**
Central excise duty Additional excise duty Service tax Countervailingduty(CVD) Additional duty of customs(ADC) Surcharge, Education and Secondary/Higher secondary cess	VAT Purchase tax Entertainment tax Luxury tax Lottery tax State surcharge and cesses leviable on the above as of now

Current tax structure and new GST Model: Comparison

Basis	Old scenario (Tax structure before GST)	Current scenario (Tax structure after GST)
Broad scheme	There were separate laws for separate levy. For e.g. service tax Act 1994.	After GST, only one tax because GST subsumed verity of taxes as discuss above.
Tax rates	They had different rates for different taxes. E.g. Excise 12.36%, Service Tax 15$.	Now, there is only one rate for CGST and single rate for SGST across all states.
Registration	There was decentralized registration process under central state authorities.	Under GST Uniform E- Registration process Based on PAN of entity.
Cascading effect	Credit between Excise duty & Service tax was available but no credit for many other taxes.	Credit available on the full amount of taxes up to retailer.
Tax burden	Under old scenario, tax burden on tax payer is high	Under this, tax burden is expected to reduce since all taxes are integrated which make it possible the burden to be split equitably between manufacturing and services.
Cost burden on consumer	Due to cascading effect, certain taxes became part of cost.	As GST mechanism removes such effect by providing credit, cost burden is reduced.
Parallel Power	There was no such power to both centre and state on same subject tax matter	Now, according to Article 246A of the constitution, the power to legislate on GST to both centre and state
Compliance	Tax compliance was complex because of multiplicity of laws and their provisions to be followed	Tax compliance is easier as only one law subsuming other taxes need to be followed
Transparency	No transparency, tax is levied at two stages in broad manner i.e. 1. When product move out of factory. 2. At retail outlet.	GST is levied only at final destination of consumption ant not at various points.
Excise Duty	Excise duty charged up to the Point of manufacturing.	Replaced by CGST to be charged Up to retail level.
Entry Tax	Charged by selected states for inter-state transfers, held as import in local area.	No entry tax, Additional 1% of tax to be levied on inter-state supply of selected goods, list yet To be finalized.
Cross set-off of Levy	In Excise duty and Service tax Currently set-off of allowed.	No cross set-off between CGST And SGST.
Threshold Limit	Central Excise- 1.5 Crores VAT - varies from Rs. 5 to 20 Lacs from state to state. Service Tax- Rs. 10 Lacs	CGST- limits to be decided. SGST- Rs. 10 Lacs to 20 Lacs as Recommended by GST council.
Basis of levy	Under VAT, tax was levied at the place where goods are manufactured or sold.	Under the GST, tax was levied at the place of consumption.
Basic Customs Duty	Under VAT, the center charges tax on imports under a separate act.	Same like VAT system.
Special Additional Duty	Under VAT, the center charges tax on imports separately.	Under GST, the duty is subsumed by State GST.
Central sales tax	Under VAT, CST is charged at a concessional rate of 2% so far as interstate transfers are concerned against C- Forms. The full rate applicable otherwise ranges from 5% to 14%	Under GST, the integrated GST subsumes CST.
Exemption	Under VAT, certain areas such as the North-East will be able to enjoy exemptions.	Under GST, there will be no such exemptions.

Comparison of previous and current system (GST) of taxation with an example:

Previous system	Picture	Current system (GST)
50 (Material)		50 (Material)
50 (Production Cost + margin)		50 (Production Cost + margin)
100 Total		100 Total
10 (10% tax of Total Cost)		05 (10% tax of P.cost only)
110 Total Cost	Manufacturer	105 Total Cost
110 (purchase rate)		105 (purchase rate)
10 (profit)		10 (profit)
120 Total cost		115 Total cost
12 (10% tax of 120)	Wholesaler	01 (10% tax of 10 value add)
132 Total Price		116 Total Price
132 (Purchase rate)		116 (purchase rate)
10 (Profit)		10 (profit)
142 Total Cost		126 Total cost
14.2(10% tax of 142)	Retailer	01 (10% tax of 10 value add)
156.2 Total Price		127 Total Price
Consumer pay 156.2		Consumer pay 127
	Consumer	

Impact of GST on Indian Economy:

Positive impacts:

- **Redesign Indirect Tax structure:** By subsuming majority of indirect taxes like Excise duty, Service tax, Sales tax, VAT, Purchase tax GST reshape the indirect tax structure.
- **Removal of Double Taxation:** Under the old tax structure every invoice had the value of goods came as well as services. Both of these attracted a rate of 70% each giving a total rate of 140%. Under the current taxes are unified under the supply of services and the taxation system is unified.
- **Greater tax revenues:** GST has made simple tax structure. Due to this simple tax structure, the tax revenue of government has increased as the number of taxpayer increase.

- **Push to Export:** GST has eliminated the custom duty of export which increases export of goods which has increased international transactions and made easier.
- **Growth of Industries:** as per the Indian retail industry, the total tax component is around 30% of the product cost. Due to impact of GST the taxes have gone down. So, the end consumer has to pay lesser taxes. The reduced burden of taxes has enhanced the production and growth of the retailer and other industries.
- **Uniform tax regime:** With only one or two tax rates across the supply chain as against multiple tax structure at present, state specific advantages / disadvantages are gone. This provides a fair play ground for all stakeholder and focus be brought in to efficiency rather than vantage points.
- **Clarity for Software Industry:** The software and IT giants of the country have become clarity for the payment of taxes. Under the old scheme of taxation, there was some controversy over whether or not they need to apply for VAT or Service charge on their products. GST clearly distinguishes between products and services and stating which tax is imposed to them.
- **Inputs held in stock:** The service providers will be able to right to use the CENVAT credit of input that is held in the stocks. The provision is best applicable when user migrate form taxation form to the other such as from exempt category to a taxable category.
- **Reduction of Input Costs:** After the elimination of the multiple taxation system and the imposition of single tax on value addition, the value of inputs will decrease. The taxation on inputs like VAT, Excise duty is not valid and now not a headache of service provider.
- **Transparency to customers:** There is more transparency in the structure as the customers know exactly how much taxes they are being charged and on what base.
- **Ease of starting business:** A business having procedure across different state needs VAT registration. Different tax rules in different states only add to the complications and gain high procedural charge. GST enables a centralized registration that will make starting a business easier and the resulting development an added advantage for SMEs.

Negative GST impacts:

- **Lack of centralized registration:** the previous taxation system allowed the taxpayer to register form all over the country via central authority however, with the implementation of GST, Taxpayer have to register GST from their state and pay the central tax.
- **Taxation for Free Services:** Even if a particular provide any services for free they are still eligible to tax for it.

Supplies made without consideration will now be taxable.

- **Service Costs to Consumer:** The rates of taxes to the end customers will increase. The GST is destination based tax which means the tax burden falls on the end customer.
- **Lack of centralized System of Accounting:** Due to absence of a centralized business, each business has to maintain its own personal accounts. Each state is financially answerable to that state taxation will be separate for center and state taxation for every business.
- **Return filling:** as a business owner, you have to file GST return which includes all the trading transactions such as purchase and sales etc periodically. The reason for filing many returns is decentralized registration, so you have to file the returns for every state your business expands into. A business owner has to file close 37 returns in a financial year. This procedure increase burden.
- **Public education:** Ever since the new tax system came into force, every taxpayer and businessman has to be educated to learn the new tax system. The GST tax regime has changed the system totally and hence to be informed on how this will impact day to day business activities. This will take up a lot of resources and money.

After Everything, There Are Still Some Issues With The New Indirect Tax System:

- GST compliance procedure is to be carried out through the online portal only. Small and medium businessmen find it difficult as the compliance cost has increased and many of them are not aware of the latest technology;
- The burden of the lower threshold was an issue in previous law; manufacturers were not necessitated to comply with excise rule if the turnover is 1.5 crore or less. With merging into GST, they have to register in case of turnover crosses the limit of 20 lakhs under GST. This has created the problem for Small Business Holders;
- Monthly every assessee has to file 3 returns and 1 annual return which makes total 37 returns to be filed annually. This process has up surged the workload;
- In GST, three types of taxes are levied i.e. CGST, SGST, and IGST. CGST and SGST are levied on intrastate sale and IGST is levied on the inter-state sale. This is creating a dispute related to confusion between types of category to be mention under which head;
- The effective rate of Service Tax was 15% which has increased to 18- 28% in GST. Therefore, Service Industry is now addressing the higher taxes;
- Sixthly, Excess Working Capital Requirement. Tax on the stock transfer jounced the working capital

requirement. The increased Interest cost has resulted in higher cost of goods;

- There is no huge discrepancy between the tax rate for luxury goods and normal goods compared to earlier laws, makes it hard for SMEs to compete with Non-SMEs;
- There are many more disputes; the businessmen are facing due to the type and nature of businesses and divergent industries.

6 critical amendments in GST form 1January, 2021

The year 2021 has come up with the various changes in Goods and Service Tax (GST) Rules which will have a direct impact on the business registered under the GST regime and the businessmen who are planning to get themselves registered under GST.

- The CBIC has revised the extent of provisional Input Tax Credit (ITC) claims from 10% to 5%, with effect from 1 January 2021.
- The CBIC amended the rule 21, which in respect of the suspension or cancellation GST registration. The amended inserted the additional situation wherein the registration of a person can suspended if he avails input tax credit in violation of the provision of section 16 of the act of furnish the details of outward supplies in FORM GSTR-1 for one or ,more tax periods which is in excess of the outward supplies declared by him in GSTR3B for the said tax period, or violates the provision for rule 86B
- The Board inserted Rule 86B wherein all the registered persons have to pay 1% cash liability so as to curb tax evasion by way of fake invoicing. The Rule 86B is applicable to only those registered persons whose value of taxable supply, other than exempt supply and export, in a month exceeds Rs 50 lakh that means those whose annual turnover is more than 6 crore.
- the CBIC has amended Rule 8 and 9 which pertained to New GST Registration, which provides for the biometric verification i.e. Aadhaar authentication and taking photographs or taking biometric information, photograph and verification of such other KYC documents for the applications for new registration. However, in the case of those opting not to use Aadhaar, GST registration would be given only after physical verification of the business premise, which could take upto 21 days and in case a notice is issued, even more time.
- Fifthly, the Board has amended Rule 59, not to permit the taxpayer to file GSTR 1 if the taxpayers have not furnished the return in FORM GSTR-3B for the preceding two months (for a taxpayer filing monthly returns); he has not furnished the return in FORM GSTR-3B for preceding tax period (for a taxpayer filing quarterly return)

and he is required to discharge the tax liability of at least 1% by cash and he has not furnished the return in FORM GSTR-3B for preceding tax period instead of two months.

- The CBIC has amended Rule 138(10) which related to E-way Bill wherein the available travel time has been enhanced form 100 Kms to 200 Kms.

Conclusion:

Winding up, I would like to indicate to that the introduction of GST has been breath of fresh air to the taxation system in India. It is implemented to reduce the burden of the consumers who are suffering form cascading of tax. GST is not purely VAT plus service tax, but a major improvement over the previous system. This simplifies a lot of the taxation problems with accepting new GST model. In addition even though it will take a lot of time to educate businesses and make them complain to the new taxation system in India, it is a step in the right direction for businesses in the long run.

Though the structure of GST due to the negative effects, might not be a perfect one but this tax structure will the best after long term improvement.

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