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An overview of Indian Tax System Before and After GST

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I. Introduction

The Government needs money to maintain law and order in the country and to undertake certain welfare measures to bring the balanced development of the state. The government's prime source of revenue is tax. The tax is divided into two types depending on its incidence and impact. One is direct tax and another is indirect tax. Direct tax is a form of income tax wherein its impact and incidence is on the same person.

Taxation is the only tool to achieve growth and economic development in the long run of any country and it is very important to understand the components of tax which are to be targeted in order to attain economic growth. Generally the personal income tax had less or no impact on economic growth in turn corporate income tax had considerable impact on economic growth. In order to attain the long term economic growth, it is absolute essential to know targeted revenue sources and it is also imperative to understand which tax components are relevant in context to attain long run economic growth.

II. Methodology

The study used the secondary source of information

Prime objectives for the study:

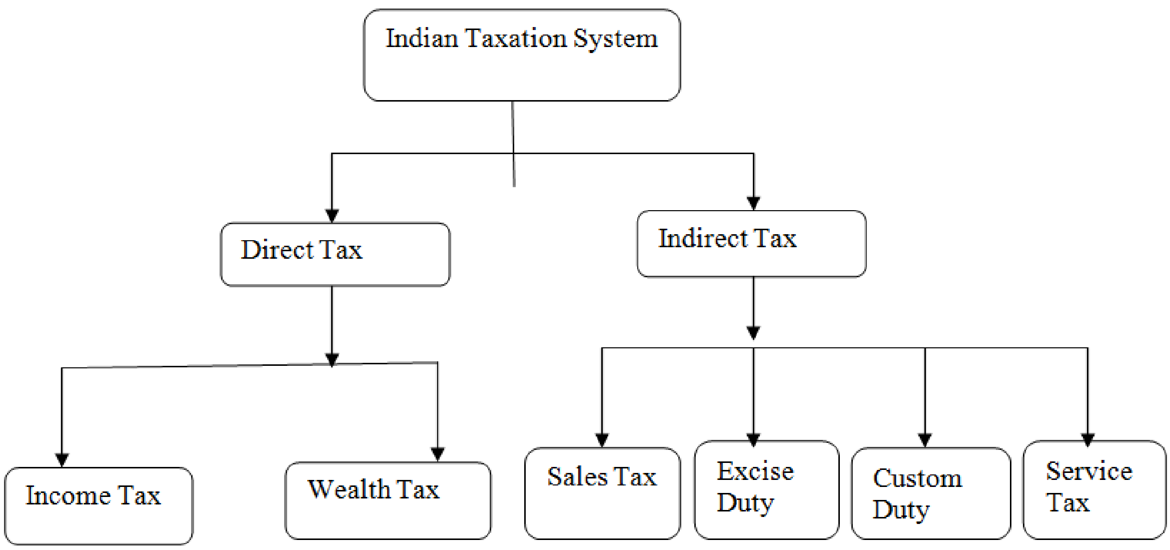
The important objectives of the present study are:

- To study the Indian Taxation System before GST
- To offer the suitable suggestions based on the study

Taxation System of India:

In the last decade, Indian taxation system had undergone reforms tremendous. For better compliance, ease of tax payment and better enforcement, the tax rates have been rationalized and tax laws have been simplified. Effect of the above the process of rationalization of tax administration is ongoing. Indian taxation system is classified in two segments namely direct taxes and indirect taxes.

Taxation System before GST:



Direct and Indirect Tax:

In case of indirect taxes, tax is imposed on one person and burden is on another person where as in case of direct taxes burden directly falls on the taxpayers.

Income Tax:

According to Income Tax Act 1961, every person who is an assessee and whose total income exceeds the maximum exemption limit. Shall be chargeable to the income tax at the rate or rates prescribed in the Finance Act. An assessee may be individual, HUF, association of person, body of individuals, company, firm, local authority etc.

The residential status of an individual in India determines his total income. For tax purposes, individuals may be a resident, non-resident or not ordinarily resident.

Incidence of Tax

Residential Status	Indian Income	Foreign Income
Resident and ordinarily resident	Taxable	Taxable
Resident but not ordinarily resident	Taxable	Not taxable
Non-Resident	Taxable	Not taxable

Income tax is levied to Persons by the central government and its administration is take care by CBDT.

Sales Tax:

Sales tax which is levied on the sale of all goods generally is payable by a dealer in the course of trade whether it is inter-state, outside a state or in the case of import into or export from India.

Value Added Tax (VAT):

It is a system of multi-stage tax on goods introduced where in tax is levied across various stages of supply and production with credit given for tax already paid at each stage of its value addition. Introduction of state level VAT is also the most significant tax reform measure that has been brought at state level also. The state level VAT was replaced by then existing state sales tax. All the state taxes on purchase or sales of goods are now required to be subsumed in VAT system only.

Excise Duty:

Central excise duty is an indirect tax levied on goods manufactured in India. Excisable goods have been defined as those, which have been specified in the central excise tariff act as being subjected to the duty of excise.

Customs Duty:

Custom duty also known as import duties are levied by the central government of India on the imported goods to into India. 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 in India was introduced way back in year 1994. It was started with mere three basic services viz, stock broking, general insurance and telephone. Today almost all the services come under the ambit of service tax barring those mentioned in negative list. It has been observed a steady increase in the rate of service tax also.

GST:

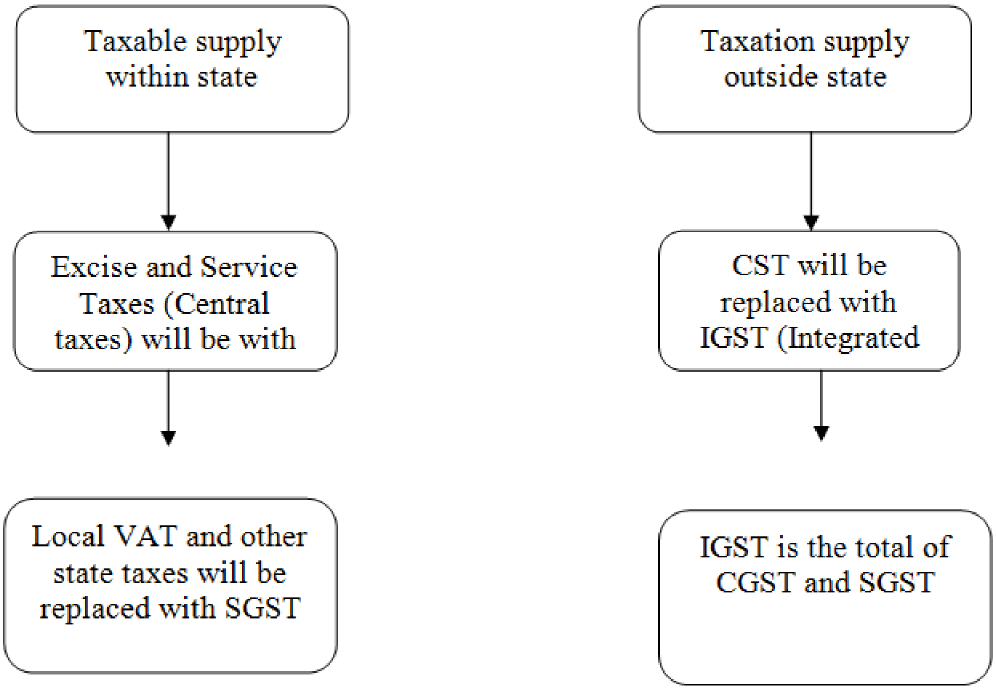
GST is a single tax policy on supply of goods and services from the manufacturer to the ultimate consumer. Credits of input taxes paid at each stage from manufacturing to ultimate consumption will be available in the subsequent stage of value addition, which makes GST essentially a tax only on the value addition at each stage. It is the final consumer who will only bear GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stage.

The following taxes are being subsumed at the central level,:

1. Additional Excise Duty
2. Service Tax
3. Central Excise Duty
4. Additional Customs Duty commonly known as countervailing duty and
5. Special Additional Duty on Customs

At the state level, the following taxes are being subsumed:
1. Subsuming of State Value Added Tax/Sales Tax
2. Entertainment Tax
3. Octroi and Entry Tax
4. Purchase Tax
5. Luxury Tax, and
6. Taxes on lottery, betting and gambling

Structure of GST:



The tax structure of GST, Goods and Service Tax Taxation Structure comprises
CGST: Central Goods and Service Tax
SGST: State Goods and Service Tax
IGST: Integrated Goods and Service Tax (CGST+SGST)

The GST has the potential to enhance India's GDP. With the implementation of GST, the taxpayers will respire as they are likely to get free themselves from the requirement of multiple compliances filling under various states. GST regime provides for a single registration and a single return. Further, it provides major impetus to MAKE IN INDIA initiative of Government of India by attracting new foreign investment and by reducing manufacturing cost in the form of reduced compliance cost and taxes.

Advantages of GST:

The GST, Goods and Service Tax subsume many of indirect taxes which centre and state were imposing such as excise, VAT and service tax. GST is levied on both goods and Services that are sold in the country. The following are the advantages of GST
1. Composition scheme for small business
2. Eliminates the cascading effect of tax
3. Simple and easy online procedure
4. Saving more money
5. Unorganized sector is regulated under GST
6. Easier to do business
7. Reduction in logistics cost and time taken across states
8. Higher exemptions to new business
9. Financial Inclusion
10. Increase revenue

11. Easy tax filing and documentation
12. More competitive product
13. Increase GDP
14. Creates employment opportunities
15. Decreases in Tax avoidance

Disadvantages of GST:

1. GST increases operational costs
2. Difficult to cope with online taxation system
3. SMEs will have a higher tax burden
4. Negative impact of real estate market
5. Simply new name for VAT, excise duty, customs duty etc
6. It cannot completely eliminate black money and tax evasion

III. Conclusion

Goods and Service Tax, with end-to-end IT enabled tax mechanism, is likely to bring good amount of revenue to government. It is expected that the nasty activity of tax theft will be drastically reduce under GST regime in order to benefit both governments and the consumers. In reality, that extra revenue that the government is expecting to generate would come from the reduction of tax theft instead from the consumer's pocket.

Though the structure of GST might not be a perfect one but once it is placed, this tax structure will make India a better economy advantageous for foreign investments. GST avoid with multiple tax rates by central and states