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A Study on Paradigm Shift of Indirect Tax System to Goods and Service Tax in India

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ABSTRACT

The concept of tax is not new to India. It was prevalent in ancient times too. But in independent India lot of changes took place in the structure and system of taxation. Tax may be direct or indirect but to put forward changes, there is necessary to create statutes and amendment to the Constitution of India. After 2014, lot of changes brought about in indirect tax regime. The administrative system of India is federal in structure and unitary in spirit. There was segregation of taxes levied by the states and by the centre. But as per the new amendment which brought to the Constitution of India in 2016, dual tax system has been followed which includes Central Goods and Service Tax and State Goods and Service Tax, which are levied and collected by the Central and State Governments on intra-state transaction as well as Integrated Goods and Service Tax, which is levied and collected by the Central Government on inter-state transactions. They are distributed by the Central Government between the States. Now, Central and State taxes are subsumed in GST. It is a multi-stage destination-based tax system which also eliminates cascading effect of tax. Other than tax, there are cess and surcharges which are levied and collected by the Governments mainly for the development in the field of education, agriculture etc, and also for other welfare activities. The efforts to formulate the GST law made under The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014 but the Goods and Service Tax came in to force as perThe Constitution (One Hundred and First Amendment) Act, 2016, and implemented on 1st July 2017.

Key words: Taxation, Constitutional Amendment, Cascading Effect, Goods and Service Tax.

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INTRODUCTION

The system of taxation saw developmental change after the implementation of the Goods and Service Tax system in India. Earlier there were both direct and indirect taxes which consisted of various subcategories wherein cascading effect was high. But, by the Constitutional (One Hundred and Twenty Second) Amendment in 2016, all indirect taxes have come under the same umbrella of the Goods and Service Tax. As a result of it, changes are brought in structure of tax, tax incidence, tax computation, tax payment and compliance, credit utilization, as well as reporting.

Objectives of the Research

The main objectives of the study are as follows: -

a. To study the indirect tax system prevailed in India.

b. To Study the new tax regime introduced by the Government

c. Toanalyse major changes in indirect tax system after incorporation of the GST.

Research Methodology

The study has been made through secondary data collected such as journals, magazines, periodicals, newspaper articles, books and from online database.

Indirect Tax System in India

There are two types of taxes in Indian tax structure. One is directtax and other is indirect Tax. Direct Tax can be levied directly on the income, wealth, and profession of an individual. Income Tax and Corporation Tax are also considered as major direct taxes. But Indirect tax is not chargeable on the direct income of an individual rather it is levied on the goods and services consumed by the ultimate consumer. The GST and customs are the major indirect taxes in India.

Before the commencement of Goods and Service Tax regime, there was indirect tax system comprised of separate Centre and State laws. The taxation system was more complex in nature. There was cascading tax effect in indirect tax system before the Goods and Service Tax came in to force.Under the previous indirect tax regime, taxes were levied separately by both the Centre and State Governments on goods and services. The tax collected was as per the respective subjects enumerated in the Union and State Lists. In relation to the goods, the Centre had powers to levy tax on the manufacture of goods but alcohol for human consumption, narcotics etc were exempted. At the same time, the State governments had

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powers to levy tax on the sale of goods. In respect of Services, only the Centre had the power to levy and collect Service Tax.

The main components of indirect taxes for the Central Government were Central Excise, Customs and Service Tax. The Value Added Tax and Central Sales Tax (CST) were the major taxes for the State Governments along with Octroi, Entertainment Tax, luxury tax, entry tax, state cess, surcharges etc. also collected.Thetaxes were levied by different authorities on the same subject or transaction.

The GST as an Indirect Tax system

The Goods and Service Tax is an Indirect Tax which has replaced many Indirect Taxes in India. The GST journey began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2014 the efforts were made to formulate the GST Bill but it was framed in 2016 and put forwarded in the Houses of parliament for discussion and to pass the same. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. On July 1st, 2017 the Goods and Service Tax Law came into force in Indiaand this law is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. So, the Goods and Service Tax is one indirect tax for the entire country. It has been formulated under the slogan one nation one tax.

The main sources of The Goods and Service tax law are Sources of GST Law are the Constitution (Constitution 101 amendment Act), Statutes, the IGST Act 2017, The CGST Act, The SGST Act 2017, The UTGST Act 2017, The Compensation Cess Act, Notifications, Circulars, Orders, etc.

The Goods and Service Tax is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India andmany other indirect taxes levied by the Central and State Governments are subsumed in it.There are two principles on which The Goods and Service Tax is focused. One is Destination Principle and other one is Value Added Principle.Destination Principle means and states that the supply of goods and services would be taxed at the point of consumption. This means that GST replaces source based tax system with destination based tax regime.

Value Added Principle states that the tax shall be collected on value-added to goods or services in every stage of the supply chain. It is levied from the original producer or service provider to the ultimate consumer, GST will be collected on value added at every stage of the supply chain.

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There are Goods and Service taxes levied by both central and state Government. The SGST (State GST) is one of the two taxes levied on every intra-state (within one state) transaction of goods and services. The other tax is CGST, which is levied by the central Government on intra state transaction along with SGST. The SGST is levied by the state where the goods are being sold/purchased. Integrated Goods and Servicer Tax (IGST) can be levied by the Central Government on Inter-State Transactions which happens between different states.

Salient Features of the Indian GST System

- The system of Goods and Service Tax is a destination-based tax, and the end user consuming any goods or services is liable to pay the Goods and Services Tax.
- The GST is introduced to avoid multiplicity of taxes levied by the Centre and State. And to bring uniformity in tax rates and structure across States. The GST avoids cascading of taxes due to 'tax on tax.
- The GST can be levied on the supply of goods and services other than on alcohol for human consumption.
- The law-making power in respect to supplies in the course of inter-state trade or commerce will be vested only with the Central Government. States will have the right to levy GST on intra-state transactions, including on services.
- The GST will subsume both central taxes such as central excise duty, additional excise duty,service tax, additional custom duty and special additional duty) and the taxes levied by the states such as (VAT or sales tax, central sales tax, entertainment tax, entry tax, purchase tax, luxury tax, and octroi tax).There are four tax slabs as per the act – 5%, 12%, 18% and 28%.

The Goods and Service Tax Council

As per Article 279A (1) of the Amended Constitution, the GST Council had to be constituted by the President within 60 days of the commencement of Article 279A. The composition of the GST Council is the Union Finance Minister as Chairman, The Union Minister of State in-charge of Revenue or Finance and The Minister in charge of Finance or Taxation or any other Minister, nominated by each State Government to the GST Council. Other than these, it also consists of The Secretary for Revenue as the Ex-officio Secretary to GST Council, the Chairperson, Central Board of Excise and Custom (CBEC), as a permanent invitee (non-voting) to all proceedings of the Council, Additional Secretary to the Council in the GST Council Secretariat (at the level of Additional Secretary to the Government of India) and four

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posts of Commissioner in the GST Secretariat (at the level of Joint Secretary to the Government of India).

CONCLUTION

To conclude, we can say that, the present indirect tax payment system introduced in India, that is Goods and Service Tax, has advantages and beneficial even to the nation. It has simplified complex procedures and cascading effect of taxation.

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