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GST Regime Previous Indirect Tax System : A Comparative Analysis and Understanding

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Abstract

In India, GST replaced almost all the indirect taxes and brought a common market for easy tax structure and simple tax payment. It is being assumed by the leading Market Players that the cost of tax on all the commodities will lower as the result of implementation of GST. GST is commonly applied to both goods and services in a comprehensive manner. It is thus, a value-added tax levied at all points of the supply chain. Approximately 17 taxes have been eliminated with their comprehensive effects through GST Regime. The complications under Previous Indirect Taxation System have been made easy and simplified upto an unexpected results. The incidence of tax is spreaded over to all. And, the divide between the central taxation and state taxation is clearly demarcated through GST Regime. Now, the Government is able to maintain the entire undirect tax records through online electronic system for more transparent and good governance. Government can reduce administrative comliance and effectively run tax net in the country. In this paper the author has done a Comparative Analysis and Understanding of Previous Indirect Tax System and present GST System.
Key words: *MODVAT, GST, CGST, SGST, CVD, SAD, CST*

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1. INTRODUCTION

The political and economic scene changed greatly after 1947 when India emerged as an independent country merging with itself the former Princely states. The tax system of India reflected characteristic of a traditional agricultural economy. Revenue of the Central Government were dominated by customs duties as domestic requirements for manufactured goods were met mostly by imports, chiefly from Britain and other commonwealth countries. Import duties were levied on almost all items of imports whereas major items subject to export duties were jute and tea in which India enjoyed near-monopoly in the world market. Various customs and tariff enactments were passed from time to time but the following two were the main: (1) The Sea Customs Act, 1878 and (2) The Tariff Act, 1934. After Independence, the Sea Customs Act and other allied enactments were repealed by a consolidating and amending legislation entitled the Customs Act, 1962. Similarly, the Tariff Act of 1934 was repealed by the Customs Tariff Act, 1975. Another important source of tax revenue for the Central Government was excise duty levied on a few commodities. Excise taxation in its modern form dates back to 1894 when for the first time a duty at the rate of 5 per cent ad-valorem was imposed on cotton yarn of more than twenty counts. In 1934, excise duties were imposed on sugar, matches and steel ingots. Duties were imposed on tyres in 1941 and on vegetable products and tobacco in 1943. Before 1944, excise duties were levied under separate enactments for different goods. About 16 such separate laws were in force till 1944. However, in that year the various enactments were consolidated into the Central Excises and Salt Act and the Central Excise Rules, 1944. Among the direct taxes, the only important source of revenue was the income tax introduced in India by the British in 1860 to overcome the financial difficulties created by the events of 1875. As for the British Indian Provinces, the chief source of income was land revenue follows by Provincial excises, mainly on liquor. The Princely states did not form part of the structure of public finance of British India. They had separate budgets and separate sources of revenue. The maritime States imposed their own customs duties.

The Indian tax system has undergone major structural changes since Independence. It has been successfully used to mobilize resources to finance administrative and developmental activities of public authorities. However, it has become unbalanced and complicated in the process. Heavy reliance on indirect taxes has serious equity and efficiency implications. The intermingling and overlapping of excise duty and sales tax over wide range of products has hindered rationalisation and simplification of commodity taxation in order to determine judiciously the impact of these levies on investment, production and burden on the consumers. The varying sales tax practices in different state have impeded free flow of trade and industrialisation. Quite often, revenue-raising objective is paramount, relegating equity and efficiency to the background. Reforms at the Central level like introduction of MODVAT are incomplete in the absence of similar measures by the State Governments. Widespread tax evasion is another bane of the Indian tax system in this MODVAT era. Therefore, after five years of introduction, states showed their power of difference and changed the agreed rates of taxes. Later, it has become so haphazard that every state has established their own MODVAT tax system and the Central Government was put aside. It can be said that basic objective of MODVAT defeated unexpectedly.

2. NEED OF THE PAPER

A need, thus, arised to reform the anomalies of MODVAT system. The unification of separated national market into 29 state markets was not a easy task. Government started to work upon a basic theme 'One Nation One Tax' to abolish the differentials in the present tax system at that time.

But, the India Economic System did not allow the policy makers to frame a single indirect taxation system. Hence, dual indirect taxation system was adopted viz. CGST for Central Government and SGSTs for State Governments. It is a good tax system in making the entire nation to be a single market, in maintaining all the tax records online supposed to support good governance and transparency.

Thus, the author conceived the idea to compare the GST Regime and Old Indirect Taxation System with a more clear outlook for the researchers and academicians. The paper focuses on the comparative analysis between GST and Indirect Taxation.

3. GOODS AND SERVICE TAX : CONCEPT COMPARISON AND UNDERSTANDING

In India, GST replaced almost all the indirect taxes and brought a common market for easy tax structure and simple tax payment. It is being assumed by the leading Market Players that the cost of tax on all the commodities will lower as the result of implementation of GST. GST is commonly applied to both goods and services in a comprehensive manner. It is thus, a value-added tax, levied at all points of the supply chain.

1. **Various Taxes :** In the GST Regime, Central GST, State GST (State-wise), GST on Services and Customs Duty are the various sub-field.

   In the previous Indirect Taxation System. There were two fields-central taxes (Excise Duty, Service Tax, Customs Duty, CVD, SAD, CST, CESS etc.) and State Taxes (VAT, Octroi and Entry Tax, Purchase Tax, Luxury Tax, Taxes on Lottery, Betting and Gambling, State cesses and surcharges, Entertainment Tax, Central Sales Tax).
2. **Act & Statutes :** GST Regime is governed by CGST Act, 2016, SGST Act, 2016 (States), IGST Act 2016, and Customs Act, 1962.

   While the Previous Indirect Taxation System was governed by multiple tax acts & statutes like, Central Excise Act, 1944, Finance Act 1994, various VAT laws - State wise, CST Act, 1956, Customs Act, 1962 and others.

   GST is given constitutional power through Article 246A while Previous Indirect Tax System is given constitutional power Through Article 246 (List-I, II & III).
3. **Conceptual Output:** GST Regime will observe CGST and SGST on supply of goods or services within the state. IGST will be observed on supply of goods or services inter-state including importation of services. On import/export of goods, Customs Duty will be observed. On Petroleum product, existing system shall continue until GST council notifies it.

   While previous Indirect Taxation System observed VAT on sale of goods within the state, Excise duty levied on manufacture of goods, customs Duty on import/export of goods, service tax on provision of services, CST on sale of goods inter-state etc.
4. **Taxable limits:** The taxable limits have also been eased in GST Regime. CGST/SGST observes Rs. 20 lakhs and Rs. 10 lakhs respectively.

While in previous system excise duty followed Rs. 1.5 crore, service tax followed Rs. 10 lakhs, VAT followed Rs. 5 lakhs, Customs Duty and CST followed no limits.

5. **Common difference:** GST Regime will observe tax on same amount of the supply. Therefore, to the extent of above transfer, Central Government will play a role of custodian of the consumering state.
   While in Previous Indirect tax system, there was no question of originating state or consumption state. It always forms part of Central Government revenue. And, in case of VAT & CST, the revenue is generated for the originating state.
6. **For the purpose of Business:** Section 37 of the Income Tax Act has used the word 'for the purpose of business'. It is observed that the word, "in the course of furtherance of business" has a wider meaning even than that of "for the purpose of business". In GST Regime, a registered person is entitled to take credit of input tax charged on any supply of goods or services to him which are used or intended to be used in the course or furtherance of his business. While Previous Indirect Taxation System observes Excise Duty, Service Tax, CST and VAT.
7. **Comprehensive:** GST has no comprehensive TAX System. No tax credit is available in this regard and results in cascading effect of tax. While in previous taxation systems comprehensive effect of tax was present.
8. **Tax Returns:** In GST, monthly 3 returns are compulsory and one return annually. It means all registered persons have to fill 37 returns. In previous Indirect taxation system returns to be filled according to the state VAT laws separately for manufacturers, service providers and Traders.
9. **Tax Credit:** Under GST, majority of levies are eligible for tax credit irrespective of manufacturer, service provider or trader. While in old system, Tax credit for indirect taxes such as octroi, entry tax, luxury tax, VAT, CST can not be tax credited.
10. **Tax rate and tax burden:** Rate of GST is 0 per cent for more than 50 per cent of goods falling under consumer price index. 5 per cent for essential good items and goods commonly used, 12 per cent for standard rate, 18 per cent for services and rest of the goods not covered else where 28 per cent for luxurious goods and cars.
    Tax Burden is reduced owing to comprehensive effect of tax.
    In Previous Indirect taxation system Excise Duty was 12.5 per cent, service tax was 15 per cent, VAT was 5 per cent & 15 per cent (normally state to state differs) and CST was 2 per cent against Form-C. And one to comprehensive effect of tax there was heavy Burden of tax on consumer.
11. **Tax Compliance and Power:** In GST Regime only point compliance is administered. Business organisations have to deal only with one tax administration.
    Article 246 A of the Indian Constitution provides concurrent power to the Central Government and state government while the previous Indirect tax system used to follow lots of compliance like filling of returns, payment of taxes, obtaining tax audit report and filling of tax audit report, assessment, issuing different forms, getting VAT, Central Excise, Service Tax and CST registration. Schedule-VII of Article 246 of the Indian Constitution provided power

to Union Government and State Government separately by way of List-I-Union List, List-II state List & List-III concurrent List.

Classification: In GST Regime, classification of tax is based on Harmonized System of Nomenclature Code (HSN Code).

While in previous system under excise duty classification was based on HSN, under state VAT, classification was not based on HSN and under service tax, no classification was available.

4. CONCLUSION

Approximately 17 taxes have been eliminated with their comprehensive effects through GST Regime. The complications under Previous Indirect Taxation System have been made easy and simplified upto an unexpected results. The incidence of tax is spreaded over to all. And, the divide between the central taxation and state taxation is clearly demarcated through GST Regime. Now, the Government is able to maintain the entire indirect tax records through online electronic system for more transparent and good governance. Government can reduce administrative compliance and effectively run tax net in the country.

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