



Management

## **GOODS AND SERVICE TAX IN INDIA: A SWOT ANALYSIS**

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### **Abstract**

Goods and Service Tax (GST) is a Value Added Tax (VAT), which hypothetically to be put into effect from April 2010, but because of conflicting interest of stakeholders and various political controversies it has been passed in both Houses of Parliament on Aug. 3, 2016. It alone indirect tax which influence the whole economy directly. It is aspiring as iron out wrinkles of current indirect taxes and has a far-reaching impact on GDP. India is a centralized constitutional economy. GST is applicable on all States and Union territories, known as CGST (Central Goods & Services Tax) and SGST (State Goods & Services Tax). The ill effects of cascading can be mitigated after tie up the central and states taxes in solitary tax. The economy is expected to pave the way of common national market as it will provide benefits to consumer by reducing overall tax burden of goods, which is currently estimated at 25% to 30%. Thus, introduction of Goods and Service Tax (GST) is a gigantic tax transform in contemporary ancient times.

Ignorance of law is no excuse but is liable to panel provisions, hence why not start learning GST and avoid the cost of ignorance. We all need to know, whether GST is willingly or imposed. This paper describes a brief introduction of current indirect tax structure and GST in India. What are challenging factor in implementation and what can be the opportunities of GST in India.

**Keywords:** GST; VAT; GDP; CGST; SGST.

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### **1. Introduction**

#### *History of Taxation System in India*

The word “Tax” has been borrowed from Latin word “Taxo”, which means “To Estimate” and Taxation refers to the act of laying a tax, or of imposing taxes, as on the subjects of a state, by government, or on the members of a corporation or company, by the proper authority; the raising

of revenue; also, a system of raising revenue.<sup>1</sup> A tax may be defined as a "pecuniary burden laid upon individuals or property owners to support the government or a payment exacted by legislative authority."<sup>2</sup> In India, the roots of taxation system are found in ancient time.

#### *“Manu Smriti” Outlines on Taxation System*

In “Manu Smriti” the law-makers suggest that the king should levy tax on income and expenditure as describe in Sastras. The king should make the balance of taxation system, he should avoid the extreme points i.e., complete abolition and heavily charges of taxes. According to “Manu Smriti”, the king should charge in following manner:

- 1) The merchants and craftsperson of gold and silver should pay 1/5<sup>th</sup> of their profit.
- 2) The agronomist or farmers should be charged according to their circumstances. The rates can be as 1/6<sup>th</sup>, 1/8<sup>th</sup>, 1/10<sup>th</sup> of their production.
- 3) The taxes should be paid by all either professionals, artists like dancers, actors, singers in one or other way.
- 4) The taxes should be imposed on all manufacturers of gold coins, cattle, grains, raw-materials etc. and services rendered also be charged as per determined rates.

#### *References from Kautilya’s Arthasastra on Taxation*

Kautilya was first world’s economist. The suggestions and strategies given by him are applicable till today. He was financial advisor in *Maurya* Empire. He gives following opinions on levy taxes.

- 1) The state should assemble 1/6<sup>th</sup> part of total production from agriculture sector.
- 2) The water rates, toll tax, octori duties and custom duties should also be charged from people.
- 3) Excess profit of merchants should be collected in the form of wealth tax.
- 4) Income tax should be collected from above minimum amount and it should be proportionate basis, not progressive basis.
- 5) There might be other sources of revenue like profits from Stand land (Sita) religious taxes (Bali) and taxes paid in cash (Kara).
- 6) Sales tax should be levied on purchase and sales of building and on all assets which are heavily invested.
- 7) Imports and export of foreign goods should be charged as duties.

Thus, Kautilya’s philosophy was, taxes should be collected from all possible sources. The King was considered as only trustee of land and focus to make it more productive. The equilibrium of money can be possible if taxes are more charged from richer section and use it from development of weaker section.<sup>4</sup>

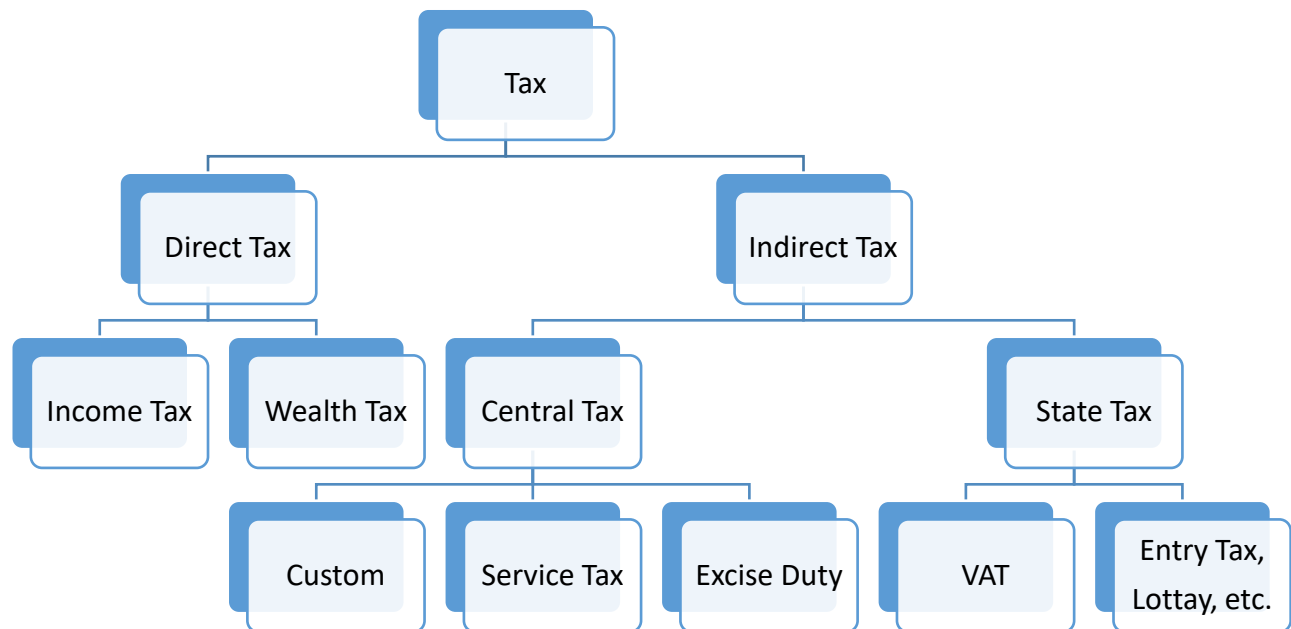
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<sup>1</sup> <https://en.wikipedia.org/wiki/Tax>

<sup>2</sup> <https://neerajbhagat.com/blog/index.../tax-law-of-india-direct-and-indirect-tax-laws/>

### Tax Structure from 16th Century to 19th Century

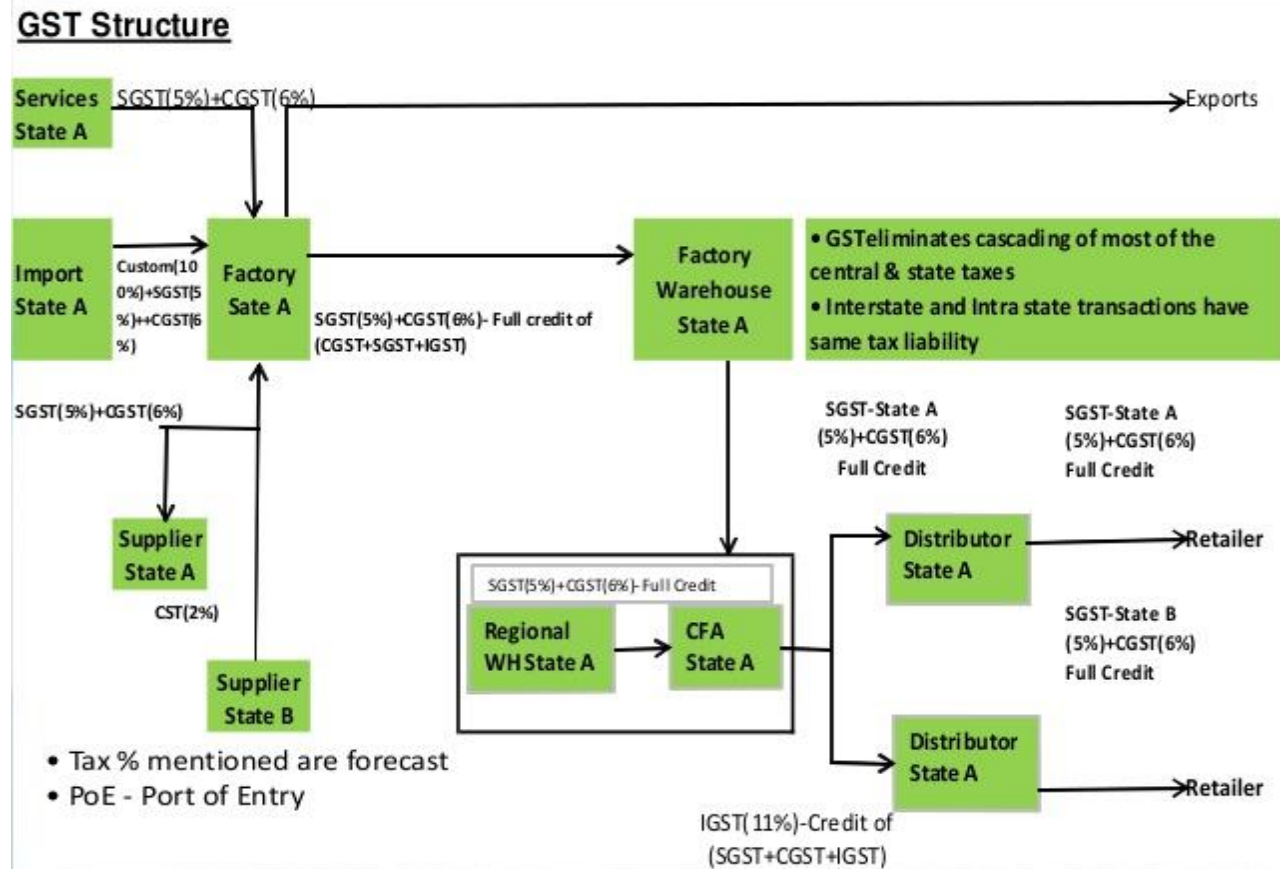
In India, Islamic rulers were first ruler who introduces per capita yearly tax, known as *Jizya*, which was imposed on non-Muslim community. After sometime, it was consecutively stamp out by *Akbar*. In 1679, Aurangzeb, the last Mughal Emperor, charge *Jizya* from *Hindu's*. The main inferences were financial harshness and personal biases. The era of British rule was eyewitness of significant changes in taxation system of India. Despite the fact, it was extremely benefiting the British government but it provides a base to modernized and scientific taxation system. The Britishers divide Indian taxation system in Direct and Indirect taxes. With the passage of time various amendments has been done for perfecting Indian taxation system. Presently, following taxation system is applicable in India-



### GST in India

In 2000, Vajpayee Government initiated groupthink on GST in India. But due to incompatible stakeholder's interests and political differences, its journey passes through numerous ups and downs. At the last, the day come and written in golden words in Indian taxation history. In December, 2014 the Constitution 122th bill was passed in Lok Sabha which make possible execution of GST from April, 2017. But in the interest of politicians, it was passed on Aug. 3, 2016 in Rajya Sabha.

Following is the proposed GST structure in India:



- i. The GST will substitute the following taxes currently levied and collected by the Centre:
  - a) Central Excise duty
  - b) Duties of Excise (Medicinal and Toilet Preparations)
  - c) Additional Duties of Excise (Goods of Special Importance)
  - d) Additional Duties of Excise (Textiles and Textile Products)
  - e) Additional Duties of Customs (commonly known as CVD)
  - f) Special Additional Duty of Customs (SAD)
  - g) Service Tax
  
- ii. The GST will incorporate following State Taxes:
  - a) State VAT
  - b) Central Sales Tax
  - c) Taxes on advertisements
  - d) Purchase Tax
  - e) Entry Tax in lieu of octroi
  - f) Entertainment Tax (not levied by the local bodies)
  - g) Taxes on lotteries, betting and gambling
  - h) State cesses and surcharges insofar as they relate to supply of goods and services
  - i) Luxury Tax

## 2. Review of Literature

Ehtisham Ahmed and Satya Poddar (2009) studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India”. They found that introduction of GST will sustain smooth and transparent tax system in India. But the success of GST is dependent on its rational implementation.

Dr. R. Vasanthagopal (2011) considered, “GST in India: A Big Leap in the Indirect Taxation System”. According to him, the decision of implementation of GST system in India will prove a transitional move and will boost Indian economy. The success story of GST can be found in 130 countries in world and its preference in Asia itself.

Agogo Mawuli (May 2014) examined, “Goods and Service Tax-An Appraisal”. The finding said that GST is unacceptable in low-income countries as it does not contribute in growth for poor countries. If under developed countries implement GST then GST rate ought to be less than 10%. Nitin Kumar (2014) presented, “Goods and Service Tax- A Way Forward”. The study concluded that implementation of GST in India is a positive aspect for taxation system. It will help in reducing economic biases which arise from current indirect tax system and expected to strengthen equitable tax structure all geographical locations.

Pinki, Supriya Kamma and Richa Verma (2014) studied, “Goods and Service Tax- Panacea For Indirect Tax System in India”. They conclude that if GST is successfully implemented it will benefits central and state governments. As GST is applicable on supply of goods and services, the consumers will also be served in long run.

Renu Tanwar (2014), “An Analytical Study of the Relevance of Arthshastra in Modern India” examined the importance of Arthshastra in present scenario. According to Arthshastra, the government should impose reasonable rate of taxes because if taxes are high, people will go for tax evasion and if tax rate is low people will pay willingly and government’s revenue will increase. The strategies of Kautilya also apply in today’s world.

Monika Sehrawat, Upasana Dhanda (2015) in, “GST in India: A Key Tax Reform”, presented that implementation of GST was need of era. It is required for simplified, user-friendly and transparent taxation system. If the government is able to successfully implement it, it will expand employment opportunities, lower cost of production, higher output, reduce the regional disparities and consequently increase GDP 1-1.5%.

## 3. Objectives of the Study

The study has following objectives:

- 1) To evaluate the history of tax structure in India.
- 2) To do a SWOT analysis of GST in Indian context.

#### **4. Strengths of Goods and Service Tax in India**

- 1) It will dropping out the cascading effects of tax on production and distribution of goods and services which will competitiveness and consequently, GDP will increase.
- 2) It will apply all goods and services except some exempted products.
- 3) Tobacco is not exempted from the area of GST. It is treated as Sin goods and come under the taxation with central excise tax.
- 4) Natural gas, Aviation Turbine Fuel (ATF), High Speed Diesel (HSD), Crude oil, Petrol products are exempted till the GSTC (Goods and Service Tax Council) discloses date of their formation.
- 5) Alcohol, real estate, custom duty and electricity are exempted from GST. (Proposed article, 366 (12A).
- 6) GST would be dual taxation system. It would be charged intra-State by Central and State governments. It would be called CGST (Central Goods and Service Tax) and SGST (State Goods and Service Tax).

#### **5. Weaknesses of GST System in India**

- 1) The doorstep goal is very ground level for traders and service providers. It will raise appropriation of government ways and means which are costlier than government's revenue.
- 2) GST is a subsume of various States and Central taxes like excise duty, cess, service tax, countervailing duty etc., but many more are left which should be included like electricity, alcohol etc.
- 3) GST for States and Central (SGST, CGST) seems to be different, further it can be diversified on the basis of location, geographical structure etc.
- 4) The tax rate is depends upon availability of fund in States. The States has power to increase the rate according to their need.
- 5) This system is very fond of technology, but India is a developing country where people are not habitual of technology.

#### **6. Opportunities of GST in India**

- 1) The rates of tax are set at ground level which will help States and Unions to collect more revenue.
- 2) It will reduce the transaction costs and wastages of scare resources because at a one registration people can do transactions from States and Unions. So, it will connect the whole nation from a single click.
- 3) In indirect tax structure multiple taxes were charged from taxpayers. But GST will eliminate the taxes on chain of transactions.
- 4) GST is also known as "One Point Single Taxation System". This is a helping hand for businessman's, they can come to agreement on price modalities, supply chain etc., without thinking too much about taxes imposed on them at later stages.
- 5) GST will reduce average tax burden of consumers. They will be certain about their taxes which will reduce evasion of taxes.

- 6) GST can provide the opportunity of Corruption Free Indian Revenue Services. The root of corruption found in political system. It will bring transparency in Indian political system.

## **7. Threats of GST in India**

- 1) Inter-States supply of goods and services are considered as import and IGST will be applied (1%) in addition to custom duties.
- 2) The Central government promised for compensation to loss making States for a period of 5 years. The compensation will be as: 100% for first 3 years, 75 % for 4<sup>th</sup> year and 50% for 5<sup>th</sup> year. So, it is possible that all States does not implement it in effective manner to get compensation.
- 3) GST is not friendly with banking sector. Because the cost of goods become cheaper after GST and it will promote export. Presently, 14% service tax is being levied on baking transactions. GST will make these transactions more costly. Over and above, in most of countries banking sector is excluded from GST.
- 4) GSTC (Goods and Service Tax Council) will set the benchmark for resolving the dispute on recommendations of GSTC. It means GSTC will lay down the criteria for GSTC itself. It is against the principle of natural justice.
- 5) GST is not a guarantee in itself that it would not be influenced by political parties and politicians will not use it as a win-loss game.

## **8. Conclusion**

The introduction of GST is a historical reform in Indian taxation system. It consolidates comprehensive Central and State taxes and allow set-off of prior-stage taxes. It will tone down the cascading affect and pave the way of growth. It can be prove as an effective tool of fiscal policy. Government collects highest revenue through taxes. According to a survey, India amasses total tax revenue 17.7% of its GDP. In 2015-16, the collection was 947508.12 crores rupee which is expected to increase 1054101.22 crores rupee in 2016-17. Thus, GST will help the government as well as consumers in determining their revenue and expenditures in specific time period. No doubt that GST will present India in a tops class taxation system which will grab the international eyes for investment. It brings international market more competitive and promotes the export. But this is entire depend upon rational design and timely implementation. There are numerous weaknesses and threats of GST which should be overcome by focusing on strengths and opportunities. There is a need to set different dispute settlement body on conflicting recommendations of GSTC.

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