



HISTORICAL PERSPECTIVE OF TAXES IN INDIA

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ABSTRACT :

India is politically one country but economically it is fragmented. There are multiple taxes when there is commerce across state borders. The system of taxation in India is traced to the period of Vedas. From the Mahabharata, description of the tax system can be seen that it envisaged fairness in calculation of duties, imposition of fines and forfeitures upon offenders in tax evasion. Chanakya's Arthashastra and the Brahmanical and Buddhist religious works reveals that the system of taxation had reached an advanced stage of development by the fourth century B.C. Duties were levied and collected not only on goods produced locally but also on articles imported from abroad. Taxes in India can be either direct or indirect. However, the types of taxes even depend on whether a particular tax is being levied by the central or the state government or any other municipalities. The constitution amendment bill passed by both the houses of parliament of India and rectified by the states in India for changing the overall principle of indirect taxation in India. Goods and service tax (GST) is a comprehensive tax levy on manufacture, Sale and consumption of goods and services at a national level. In order to create a common market, the GST would serve its role to achieve the objective of streamlining indirect tax regime in India, which will remove cascading effects in supply chain till the level of final consumers. Basically, it means that the most of existing taxes replaced by a single-point tax. In this article an attempt has been made to study the historical background of tax in India, understanding the concept of GST and the impact of GST in India.

KEYWORDS : Taxation, economy, reforms, historical, cascading, consumption, constitution, manufacture.

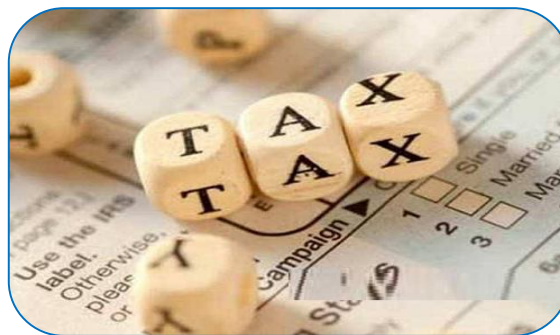
FOREWORD:

OBJECTIVES OF STUDY

- To study the historical background of tax in India.
- To study the concept and impact of GST in India.

INTRODUCTION

The word 'Tax' originates from the Latin word 'taxare' which means to censure or charge. As per oxford dictionary, tax is the money that must be paid to the state and it is charged as a proportion of personal income and business profits or added to the cost of some goods and services. In other words, tax is the compulsory contribution imposed by the Government on its citizens for public purposes enforceable by law. It is levied on individuals, goods, property, business, services and estates etc. The system of taxation in India is traced to the period of Vedas. From the Mahabharata, description of the tax



system can be seen that it envisaged fairness in calculation of duties, imposition of fines and forfeitures upon offenders in tax evasion. Chanakya's Arthashastra and the Brahmanical and Buddhist religious works reveals that the system of taxation had reached an advanced stage of development by the fourth century B.C. Duties were levied and collected not only on goods produced locally but also on articles imported from abroad. Our constitution generally follows British pattern, though concepts of federal structure are borrowed from American and other constitutions. India is a union of states. The structure of Government is federal in nature. Government of India has certain powers in respect of whole country and states and union territory has certain powers in respect of that of particular state. In the taxation system of our constitution the central government gets tax revenue from income tax except on agriculture income, excise (except on alcoholic drinks) and custom. The state government gets the revenue from sales tax, excise on liquor and tax on agriculture income. The Municipalities get tax revenue from octroi and house property tax.

TYPES OF TAXES IN INDIA

Taxes in India can be either direct or indirect. However, the types of taxes even depend on whether a particular tax is being levied by the central or the state government or any other municipalities. Following are some of the major Indian taxes:

DIRECT TAX

A direct tax is generally a tax paid directly to the government by the person on whom it is imposed. In a general sense, a direct tax is one imposed upon an individual person or property as distinct from a tax imposed upon a transaction. The direct taxes, which are imposed by the Indian Government, are:

- Personal Income Tax
- Corporate Tax
- Capital Gains Tax
- Fringe Benefit Tax
- Securities Transaction Tax
- Banking Cash Transaction Tax
- Double Tax Avoidance Treaty

INDIRECT TAX

Indirect tax is the tax in which burden of tax do not falls on the same person who actually pays the tax. In this case burden of tax is shifted to the others. It is the ultimate consumers who have to bear the burden of such tax. Following types of indirect taxes are imposed in India:

- Sales Tax
- Excise Duty
- Service Tax
- Value Added Tax or VAT
- Octroi
- Entry tax
- Custom Duty

GOODS AND SERVICE TAX

Goods and service tax(GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level .GST is levied on the supply of goods and services at each stages of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and

service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next in the supply chain.

NEED OF GST IN INDIA

Though the passage of Goods and Services Tax (GST) bill in India comes fourteen years after the idea was first mooted and a decade after negotiations begins. The 122nd constitution amendment bill passed by both houses of parliament and rectified by the states in India designed for changing the overall principle of indirect taxation in India. GST is the biggest reform in India and most of existing taxes merged and replaced by a single-point levy. It is a single tax at the final point of consumption and has removed the multiplicity of taxes at every level of the supply chain from the manufacture to the sale point. In order to create a common market the GST would serve better role to achieve the objective of streamlining indirect tax regime in India, which will remove cascading effects in supply chain till the level of final consumers. Therefore in order to eliminate the cascading impact of taxes on production and distribution cost of goods and services the need to bring GST arises in the country. As India is politically one country but economically it is fragmented. There are multiple taxes when there is commerce across state borders in India. Consequently, it increases costs for everyone and make economic activity with in India more complicated. The exclusion of cascading effects i.e. tax on tax may significantly improve the competitiveness of original goods and services and will make economy more strong. Moreover, this Goods and Service Tax would do much to alleviate the problems of India's current indirect tax system which is a serious impediment to the formation of a single common market. This historical reform is described as a game changer for the Indian economy.

FEATURES OF GST IN INDIA

- In India there is dual GST i.e. central goods and services tax (CGST) and state goods and services tax (SGST). The Centre and the states simultaneously charge GST on a common base.
- Central goods and services tax and state goods and services tax levied at rates to be mutually agreed upon by the centre and States. In this GST system both central and states taxes collected at the point of sale. Both components (the central and states GST) charged on the manufacturing cost.
- All goods and services except (Alcoholic liquor for human consumption and Petroleum products) are brought into the GST base. There is no distinction between goods and services.
- Central goods and services tax included central excise duty, Service tax and additional duties of custom.
- Value-added tax (VAT), central sales tax, entertainment tax, luxury tax, octroi, lottery tax, electricity duty, state surcharges related to supply of goods and services and purchase tax are included in the state level GST.

BENEFIT OF GST TO CONSUMERS

The GST in India will bring benefits to the consumers in following ways:

- All taxes will be collected at the point of consumption. It means if a good is taxed at 20 percent it will include both central government Taxes and state government taxes. Transparency in taxation would prevent government from indiscriminately increasing taxes.
- Once barriers between states are removed the consumers will not pay tax on tax that is what happened when goods moved across state borders. The constitution amendment bill o GST has changed the overall charging principles of indirect taxation in India in order to create a common market.
- This will benefit consumers as prices are likely to come down and lower prices will lead to lower consumption.

IMPACT OF GST

All sectors of the economy whether it is industry, business and services will be directly affected by the GST. Actual impact of GST on economy will be seen in the long run; still it is assumed that GST would impact Indian economy in the following ways:

- The services will become more expensive because the rate of taxation is between 18% and 20% and the cost of services will be higher.
- The operation for industry and service provider will be simplified. Manufacturer will feel easy to do business as they would have to pay only a single point tax instead of numerous excises, octroi and other taxes that have to be paid at each tier of production process.
- The movement of goods and services throughout the country will become easier, as goods can be moved from state to state without having to stop to pay octroi.
- The government revenues would increase as simplification will be an incentive to pay tax rather than evade or avoid it.
- The ease of doing business will improve, which in turn would lead to more investment, consequently giving a push to economic growth.

CONCLUSION

In the light of the empirical analysis in this paper, it can be concluded that GST is the most important step taken by the government towards the comprehensive indirect tax reform in India. This historical reform is described as a game changer for the Indian economy. All sectors of our economy will be directly affected by the GST. However the services will become more expensive. The operation for industry and service provider will be simplified. The movement of goods and services throughout the country become easier. The GST has created a single unified market. The taxation burden is divided equitably between manufacturing and services under a unified tax rate. The ease of doing business will improve, which in turn would lead to more investment, consequently giving a push to economic growth.

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