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GST & INDIRECT TAXES IN INDIA

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ABSTRACT:

You will be able to grasp the Types of Taxes in India, the Features of Indirect Taxes, the Provisions in the Constitution about taxation, VAT; Concept and Features, and the Provisions in the Constitution regarding taxation after reading this paper. Variations in VAT, Indirect Tax Structure Flaws, and Taxes Prior to GST The government requires funds to maintain peace and order in the country as well as to implement specific welfare programs in order to achieve a more balanced development of the country. Taxation is the government's primary source of revenue. The tax is classified into two sorts based on the frequency and magnitude of its application. There are two types of taxes: direct and indirect. Direct tax is a type of income tax that has the same impact and incidence on everyone.

KEYWORDS: *GST, Advantages & Disadvantages of GST, Taxation System of India, Taxation System before GST, Indirect Tax, Types of taxes, VAT, etc.*

1.INTRODUCTION

Taxation is the only instrument a country has to accomplish long-term growth and economic development, and it is critical to understand the tax components that must be targeted in order to achieve economic growth. In general, personal income taxes had little or no impact on economic growth, whereas corporate income taxes had a significant impact. In order to achieve long-term economic growth, it is critical to identify targeted income sources as well as which tax components are significant in the context of achieving long-term economic growth. [1]

India is a country that is socialist, democratic, and republican. India's federal government is made up of both central and state governments. Both governments share primary responsibilities, including meeting the country's growing development demands. Only taxes are levied as a primary source of revenue. In fact, the tax is regarded the most essential source of revenue for the government in order to support economic growth and achieve socio-economic goals.

A tax is a mandatory contribution by an individual to the state's expenses in the common interest of everyone, with no regard for specific advantages given on any individual. The tax cannot be considered a contribution or a voluntary payment. Rather, it is a compelled contribution imposed by legislative authority. The word tax comes from the Latin word "taxo," which meaning "sharply touch" or "charge."

"A tax is an obligatory financial charge or some other sort of levy imposed by the government on a tax payer (an individual or other legal entity) in order to fund certain public expenditures," according to Wikipedia. It's worth noting that the tax is a necessary payment because failing to pay, as well as evasion or resistance to taxation, is illegal. [2]

2. GST:

GST (Products and Services Tax) is a single tax policy that applies to the supply of goods and services from the manufacturer to the final consumer. GST will effectively be a tax on the value addition at each stage, with credits for input taxes paid at each stage from manufacture to ultimate consumption accessible in the subsequent stage of value addition. With set-off benefits at all earlier stages, the ultimate customer will only be responsible for GST charged by the last dealer in the supply chain. [3]

- **Taxes are being subsumed at the central level,:**
- Additional Excise Duty
- Service Tax
- Central Excise Duty
- Additional Customs Duty commonly known as countervailing duty and
- Special Additional Duty on Customs

- **Taxes are being subsumed at the state level:**
- Subsuming of State Value Added Tax/Sales Tax
- Entertainment Tax
- Octroi and Entry Tax
- Purchase Tax
- Luxury Tax, and
- Taxes on lottery, betting and gambling

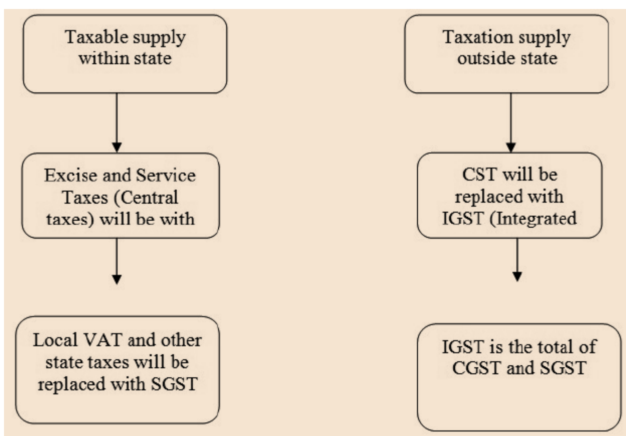

Figure 1: Structure of GST (Source:https://www.researchgate.net/figure/Gst-Tax-Structure) [4]

GST, or Goods and Services Tax, has a tax system that includes:
- CGST: Central Goods and Service Tax
- SGST: State Goods and Service Tax
- IGST: Integrated Goods and Service Tax (CGST+SGST)

The GST has the ability to boost India's economic growth. With the adoption of GST, taxpayers will be able to breathe easier because they will no longer be required to fill out multiple compliance forms for various states. A single registration and return are required under the GST regime. Furthermore, it supports the Government of India's MAKE IN INDIA goal by attracting new foreign investment and lowering manufacturing costs through reduced compliance costs and taxes. [5]

3. Advantages & Disadvantages of GST:

The GST, or Goods and Services Tax, replaces many of the indirect taxes that the federal government and states previously imposed, such as excise, VAT, and service tax. GST is a tax that is levied on both products and services sold in the country. The benefits of GST are as follows: [6]

- Composition method for small businesses
- Eliminates the tax cascade effect
- Simple and straightforward online procedure
- Saving more money
- The unorganized sector is regulated under GST Doing business is easier Logistics costs and time taken across states are reduced
- Higher tax exemptions for new businesses
- Financial inclusion
- Increased revenue
- Easier tax filing and paperwork
- More competitive product
- Increased GDP
- More job prospects
- Tax avoidance decreases

Disadvantages of GST:

- GST raises operating costs;
- it's difficult to deal with the internet taxation system;
- SMEs will have a higher tax burden;
- the real estate market will suffer;
- it's just a new term for VAT,
- excise duty, customs duty, and other taxes;
- it won't totally eliminate black money and tax fraud.

4. TAXATION SYSTEM OF INDIA:

The Indian taxation system has undergone massive revisions in the recent decade. Tax rates have been rationalized and tax rules have been streamlined to improve compliance, convenience of payment, and enforcement. As a result of the foregoing, the process of tax administration rationalization is still ongoing. The Indian tax system is divided into two categories: direct taxes and indirect taxes. [7]

4.1 Taxation System before GST:

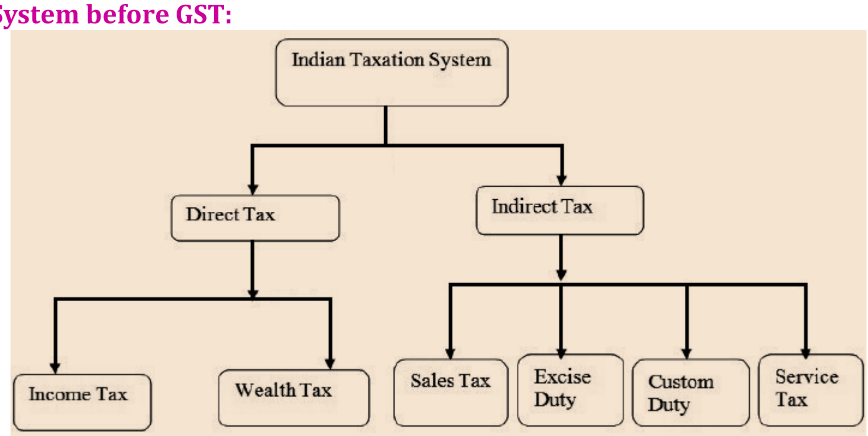

Figure 2: Taxation System before GST (Source: https://www.darbaar.com)[8]

TYPESOF TAXES:

Direct and indirect taxes are the two types of taxes that are commonly used. [9]

- *Direct Tax:*A direct tax is one that is paid directly to the imposing entity by an individual or company. The direct tax is a sort of tax in which the taxation has the same incidence and impact on the same entity. It indicates that the burden of direct taxation cannot be moved from the taxpayer to a third party. Income Tax is India's most major direct tax.
- *Indirect Tax:*The indirect taxes are imposed on goods/services. The immediate liability topay indirect taxes lies on the manufacturer/service provider/seller, etc. but the burden isultimately transferred to the consumers. Since this tax is indirectly borne by the consumer,it is called as indirect tax. Hence, an indirect tax is collected by an intermediary from theperson who bears the ultimate economic burden of the tax. It may be noted that the burdenof indirect tax is transferred not in the form of taxes but as a part of the price of such goods/services.

5. CHARACTERS OF INDIRECT TAXES:

- Indirect taxes are levied on the acquisition, sale, and manufacturing of commodities, as well as the provision of services.
- In the case of indirect taxes, the incidence and impact are split between two individuals. It means that the provider shifts the tax burden to the customer or user of products or services.
- Indirect taxes are not regressive because the tax payable on a commodity is the same whether it is purchased by a rich person or a poor person. As a result, indirect taxes are inherently regressive. There are certain exceptions to this logic, such as greater taxes on luxury products.
- The impact of indirect taxes on products and services is that they become more expensive. As a result, an inflationary trend develops.
- Promotes Welfare: Harmful or sinful products such as alcohol, tobacco, and other tobacco products may be taxed at a greater rate. This method not only discourages the consumption of such goods, but also boosts government revenue.
- Major Revenue Source: In India, indirect taxes account for more than half of total tax revenue. As a result, it is a significant source of money for the government.

6. TAXATION AUTHORITY OF UNION & STATE GOVERNMENT:

In India, the constitution is supreme, and all government laws and activities are subject to it. The constitution states that no tax can be imposed or collected unless it is authorized by law. India's government is based on a federal structure. India is a union of states, according to article 1(1) of the constitution. Between the union and the states, there is a separation of powers. The Indian government (the central government) has significant powers over the entire country. Each state (and union territory) has significant authorities over its own area (Union territory). The Union Government, State Governments, and Local Governments are all part of India's three-tier federal framework. [10]

According to the provisions of the Indian Constitution, the ability to impose taxes and duties is divided among the three tiers of government. A prologue, 25 parts totaling 448 articles, and 12 Schedules make up the constitution.

The Indian constitution grants the government the authority to levy and collect taxes. The following are the most important tax clauses in the constitution:

- Article 265 stipulates that no tax can be imposed or collected unless it is authorized by the law. In fact, it forbids arbitrary tax collection.
- Article 246: Article 246 of the constitution grants the right to enact laws and charge taxes and duties. The Parliament may pass laws that apply to all or part of India's territory, and the State legislature may pass laws that apply to all or part of the state.
- The Seventh Schedule (to Article 246) has three lists that outline the topics over which the federal and state governments have the authority to create laws.

View of value added tax (VAT):

In 2005, India implemented a value-added tax (VAT). It is a multi-point scheme of taxing on products sales that includes a method for crediting tax paid on inputs. The tax is collected in stages during transactions involving the sale of goods under the VAT system. The input tax (that is, the tax paid on purchases) is deducted from the output tax (i.e. tax payable on sales). The net tax due under the VAT system is determined in the following way: VAT is the difference between the tax received on sales and the tax paid on purchases. [11]

7. CONCLUSION:

With an end-to-end IT-enabled tax mechanism, the Goods and Service Tax is expected to bring in a significant amount of income for the government. It is envisaged that under the GST regime, the nefarious practice of tax evasion will be greatly reduced, benefiting both governments and consumers. In actuality, the extra money expected by the government would come from a reduction in tax evasion rather than from the pockets of consumers. Though the GST system isn't ideal, once implemented, it would make India a more attractive economy for international investment. Multiple tax rates by the federal government and the states are avoided by the GST.

The implementation of GST in India is perhaps the world's largest tax reform, and the effort put in by all stakeholders, including the Central Government, State Governments, the Department of Revenue, the Central Bank of India, the GST Network, the MSP, and those businesses that were ready, that made it possible is commendable. With the introduction of GST, a common national market for goods and services was created, paving the way for tax cascading to be reduced by providing ITC across the value chain of supply of all goods and services, with the exception of a few goods and sectors that were left outside the scope of GST. The GST brought uniformity to tax rates and the formats of registration forms, returns, and challans all over the country. Manual check posts have largely been replaced by e-way bills.

The GST payment and settlement scheme was to be based on invoice-matching and the use of input tax credits, as well as IGST settlement based on invoice-matching. Neither is currently achievable due to the lack of an invoice-matching scheme. The fundamental prerequisite for reaping the full benefits of this big tax reform is invoice matching. It would safeguard both the Centre's and States' tax collections, lead to effective IGST settlement, and reduce, if not eliminate, the tax official-assessor interface. In fact, "assessment" in the sense of the manual scheme may be obsolete (returns can be generated by a scheme that matches invoices); and cases of evasion, for example, might be discovered using analytical tools and AI applied to the huge data generated by crores of invoices.

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