Comparative Study Of Conventional Taxation System With Goods And Service Tax

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ABSTRACT

After a long set back Goods and Services Tax(GST) acted as a pathway and got the common consensus in the house of parliament and implemented in month of July 2017. Complex nature of taxation system has come to an end just because of the step taken by government to overcome the issues and loopholes. Goods and Service Tax which is unanimously known by the abbreviation of GST went through different procedures of implementation under difference governance and bureaucracy. It is also known by acronym "One Nation One Tax". The basic purpose of the paper is knowing the concept of indirect taxation system and phases of implementation under different tax regime. The paper also brings into limelight the historical and current perspective of the indirect taxation system.

Key words: Value added tax, Goods and Service tax, Taxation regime, Implementation.

1. INTRODUCTION

It had been a great initiative on part of government to implement Goods and Service Tax in the country in July 2017. It is an indirect tax that is imposed on goods and services. Before GST the system of taxation was Value Added Tax (VAT) which went through different transition and used to suffer from various loopholes that was removed through introduction of GST. It is comprehensive taxation system that absorb all kinds of indirect taxes beside few state taxes. GST is bifurcated into different tax slabs of 5%, 12%, 18% and 28% based on the category or nature of items for collection of revenue. There is certain nature of products like petroleum, electricity, liquor are not taxed under Goods and Service Tax and they are taxed as per the discretion of individual states. It is anticipated that through GST the vision of 2.5 trillion economy would be feasible. The reforms of GST tax regime were initiated in the year 1986 by Vishwanath Pratap Singh and under the finance ministry of Rajiv Gandhi with the introduction of Modified Value Added Tax (MODVAT). In 1999 Prime Minister Atal Bihari Vajpayee set up a committee which was headed by Finance Minister Asim Dasgupta to work on the model of GST. The

committee further decided to provide the support technology by abbreviating it into GSTN i.e. Goods and Service Tax Network. Moreover, UPA government introduced the 115th Constitutional Amendment Bill on 22nd March 2011 to roll out the GST. In February, 2015, Jaitley set another date for its implementation which was 1st April 2017. Finally on 1st July 2017 GST came into inaction.

2. LITERATURE REVIEW

Multiple studies and research have been conducted in the past wherein Garg(2014) studied the historical perspective of taxation regime and discuss the threats and opportunities predominant in Indian taxation system and Goods and Service tax. As per the study of Bhatt (2014) with reference to Goa and Kerala there was e-governance of the conventional VAT system. Till 2005 number of states step ahead for the adoption of Value Added Tax rather than sales tax. Emmanuel (2013) conducted study in the region of Nigeria and found that their exist strong relation between VAT system, revenue from taxes and economic growth and the government system should develop awareness campaign to explain the advantages of VAT system. Ciobanasu (2012) examined the correlation between the categories of taxes and their impact on estimated revenues and fisal development of Romania. Indirect taxes though it increases revenue of the government but also its inflationary. The researcher had concluded that both direct and indirect taxes contribute in consistent growth of the country. Halakhandi (2007) Goods and Service taxes was anticipated to be inaction in 2010 but due to absence of common consensus between different states and centre it was delayed. Various advantages and limiting factor have been discussed in his research paper. Collins (2014) examined the study of both taxes and conducted it in Ireland based on reforms done under indirect taxes. According to Fathi (2012), the researcher has done study on factors of rates of taxes and evasion of taxes and it had been found that where the rates are low entities try to evade taxes and wherever it is levied high, its compliance is more. Feria (2019) in his research paper studied whether Australian system of indirect taxes is better and can it be enforced in the entire European Union. Herekar (2012) stated that Finance Ministry had initiated a task force under the chairmanship of Mr. V. Kelkar to know the impact of Goods and Service Tax on the business firms and the economy as a whole. The study was conducted through secondary data and the overall impact was found positive. Several categories of GST like CGST, SGST and IGST have been discussed. Zhou (2013) discussed and analysed Malaysia Goods and Service Tax on price levels, growth factor and revenue perspective of the economy. The research concluded that it would decrease the price level on one side and encourage the GDP of Indian economy.

## 3. OBJECTIVES OF THE STUDY

To study the phases of taxation system
To study the limiting factors of conventional taxation system
To study the GST implementation system

4. CASCADING EFFECT OF CONVENTIONAL TAX SYSTEM

It is the effect that was prevalent in the conventional system of tax collection and quite common under Value Added Tax (VAT). This is the system wherein the taxes were levied upon goods and services not only once rather the entire mediators used to bear the burden of taxes repeatedly. As per the nomenclature of taxes it is supposed to be levied only once at the time of final output being released from the factory outlet for sale in the market. In the previous conventional system this was not embed in the taxation system and due to which right from producer till retailer, the intermediaries used to bear the burden of taxes upon the value calculated by adding all taxes upon tax and further passing the burden to the next intermediary. In this way multiple times taxes were collected from mediators which was not supposed to reflect fair price of the product and ultimately the burden was shifted finally upon the user or the consumer. For example, a product is produced at cost of Rs 100 on which a tax rate of 28% is imposed. According to the conventional system VAT the taxes were calculated at the producer end further at distributor, wholesaler, and then at retailer end. It shows multiple calculation of taxes and quite complex. This cascading effect was neutralised through introducing GST and completely eradicated by imposing the taxes only once at the producer level and rest of mediators will share their burden in the total amount of taxes so levied at one point. Government had categorized the nature of items under the tax slabs of 5%, 12%, 18% and 28%

Figure 1 Goods and Service Tax Structure
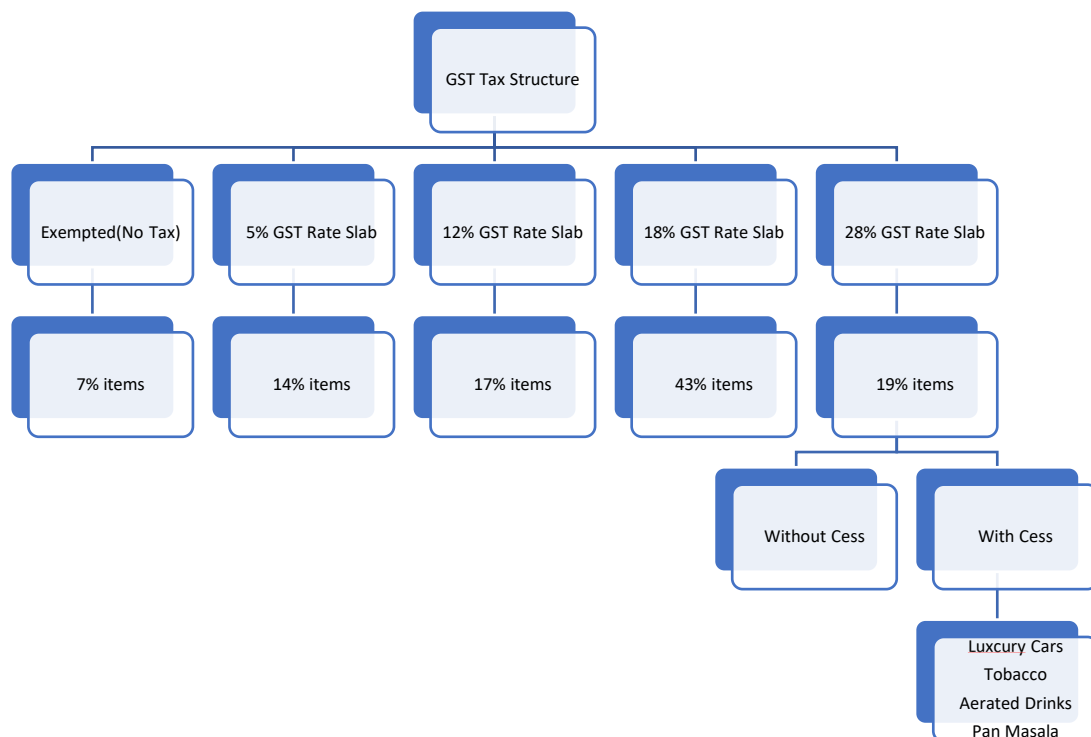
The above Figure 1 reflects the different GST tax structure and the rates under which their defined list of items that are covered for no exemption till 28% slab. Certain items are 7%, 14%, 17 items, 43% and 19% with and without cess. Through the structure it is

reflected the government and bureaucracy have made a simplified structure of levying taxes so that more transparency shall be ensured for the taxpayers that can provide benefits to states to know their status of revenue and predict their investments in potential projects.

5. CONCLUSION

It is concluded that the initiative taken by Government to implement Goods and Service taxes will overcome the issue of cascading effect for business entity and government. It would be a simplified system of government to collect revenue in form of taxes through producers, mediators and retailers. They will have ease to collect their input taxes in form of tax credits. Moreover, implementation will assist in increasing the horizon of numerous goods and services under one nation and one tax system which will further escalate the predictive growth of the economy and bring more transparency in the entire system and bureaucracy. Due to simplified system of indirect tax number of manufacturing units will have privilege to register themselves under such taxation system and give their contribution for the economic development of the country.

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