



# A STUDY ON TAXATION POLICY AND STRUCTURE OF TAXATION SYSTEM IN INDIA

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## **ABSTRACT**

This paper provides an overview of the key economic factors that shape tax policy reform and tax structure in India. Tax is the major source of revenue for the government, the development of any country's economy largely depends on the tax structure it has adopted. The paper describes and evaluates about Tax policy, it is the choice by a government as to what taxes to levy, in what amounts, and on whom. It has both microeconomic and macroeconomic aspects. The macroeconomic aspects concern the overall quantity of taxes to collect, which can inversely affect the level of economic activity; this is one component of fiscal policy. The microeconomic aspects concern issues of fairness (who to tax) and allocative efficiency (i.e., which taxes will have how much of a distorting effect on the amounts of various types of economic activity). And also taxation structure which facilitates easy of doing business and have no chances for tax evasion brings prosperity to a country's economy. On the other hand Taxation policy plays a very crucial role on the economy in every countries.

The revenue of the countries collected or earned from both direct and indirect tax system. In India the indirect tax system policies complicated with multiple taxes levied by the government in different various aspects. But, today the various types of indirect system will fall under single umbrella and government made reduce complexity policies. It will help to manage the various sectors of clients. The Central Government of India levies taxes such as customs duty, income tax, service tax, and central excise duty. The taxation system in India empowers the state governments to levy income tax on agricultural income, professional tax, , GST and value added tax (VAT), state excise duty, land revenue and stamp duty.

**Keywords:** Tax reform, Indirect Tax Structure in India, GST and value-added tax.

## I. INTRODUCTION:

The tax system in India has undergone a radical change, in line with the liberal policy. Some of the changes include:- rationalization of tax structure; progressive reduction in peak rates of indirect tax system ; introduction of value added tax ; widening of the tax base; tax laws have been simplified to ensure better compliance.

Tax policy in India provides tax holidays in the form of concessions for various types of investments. These include incentives to priority sectors and to industries located in special area/ regions. Tax incentives are available also for those engaged in development of infrastructure.

Taxes are levied by governments on their citizens to generate income for undertaking projects to boost the economy of the country and to raise the standard of living of its citizens. The authority of the government to levy tax in India is derived from the Constitution of India, which allocates the power to levy taxes to the Central and State governments. All taxes levied within India need to be backed by an accompanying law passed by the Parliament or the State Legislature.

The Goods and Service Tax (GST) is a comprehensive tax levied on manufacturing and sales of products, consumption of goods and services at a national level. It is the tax on value-added products and services to each assessment practice that has a complete and continuous chain of benefits, from the producer/service provider's point of view at the retail level, where only the final consumer has to pay the taxes. GST was discussed first time in India on 1st July 1999 at the time of "Vajpayee" (NDA government) by the setting of an empowered committee. But an announcement to GST for the first time was by P. Chidambaram (UPA govt), the Finance Minister, during 2007-08 union budget. The effect of GST as of April 1, 2010, and that. At its request, the Committee of State Finance Ministers will work with the central government to prepare a roadmap for the introduction of the GST in India.

The proposed Goods and Services Tax in India is to reform the current structure of single indirect taxation. The tax reform of the proposed GST is a long awaited and much anticipated in which India should smooth out contraction in the existing system of indirect taxes. In India, the taxation system was constantly changing to rationalize tax administration and generate more revenues for social protection, infrastructure, and several other activities. After passing of the 101st Constitutional Amendment (GST) Act 2016, the highly-anticipated tax products Goods and Services Tax (GST) appears to be an actuality in 2017.

## II. OBJECTIVES OF THE STUDY:

1. To grasp the concept of GST.
2. To assess the advantages and challenges in implementation of GST
3. To identify benefits and challenges of GST after implementation.

## III. RESEARCH METHODOLOGY & DESIGN:

The study is based on the secondary sources that are from various online sources, government official websites, and repeated journal articles, related to GST. Past statistical data has been used for analysing the concept of GST and its impact on Indian business sector and economy.

## IV. ADVANTAGES OF PAYING TAXES:

The advantages of paying taxes are manifold. Mentioned below are some of the benefits of paying taxes.

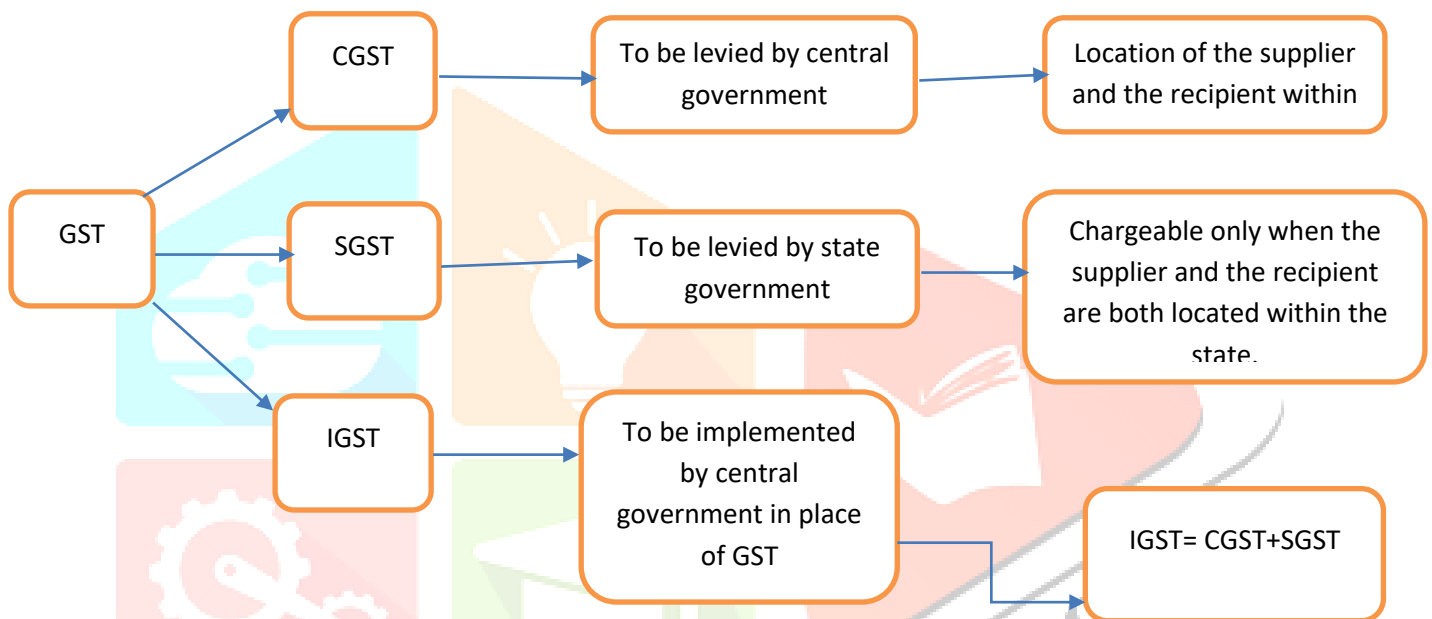
- **Development of the nation:** The proceedings from tax collection are used to fund the plans for the development of the country. It is also spent on the protection of the nation.
- **Welfare activities:** The money collected in the form of tax is used for different welfare activities.
- **Betterment of infrastructure:** The collected tax money is utilised for the betterment of infrastructure facilities.
- **Upliftment of the society:** The money sourced from tax collections are also used for the upliftment of the society.

## V. PROPOSED RATE STRUCTURE OF GST IN INDIA.

The rate of long-delayed GST has been announced by the finance minister along with the GST Council. The current GST structure has four types of rate slabs these are 5%, 12%, 18% and 28 % for different items or services and earlier it was proposed 6%, 12% 18%, and 28%. The 5% GST rate is applicable on items of mass consumption used by common people. 12% is applicable for processed goods, 18% is applicable for soaps, oil, toothpaste, refrigerator, smartphone and 28% is applicable for white goods. There are also another two rates that are 0% and 28% plus Cess. The zero percent rate tax won't be any tax on almost 50 % of items in the Consumer Price Index basket, including grains used by the common man. In case of luxury cars, pan masala, tobacco, and aerated drinks 28% plus Cess will be collected.

## VI. APPLICABILITY AND MECHANISM OF GST

GST is a tax based on consumption on goods and services in the place where actual consumption occurs. It is levied on value-added goods and services at each stage of the sale or purchase of the supply chain. The GST paid on purchases of goods and services can be offset by the amount payable for the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last point retail tax. GST is going to be collected at the point of Sale. The current indirect tax system like vat and service tax structure does not allow a business person to take tax credits. There are a lot of chances that double taxation takes place at every step of the supply chain. This may set to change with the implementation of GST.



**The government of India is opting for Dual System GST.** This system will have two components which will be known as

- i. Central Goods and Service Tax (CGST)
- ii. State Goods and Service Tax (SGST) and
- iii. Integrated GST (IGST) the current taxes like Excise duties, service tax, customs duty etc. will be merged under CGST. The taxes like sales tax, entertainment tax, VAT and other state taxes will be included in SGST.

## VII. FEATURES OF GOODS AND SERVICES TAX.

- Indian GST will have followed the dual GST model i.e. Central GST & State GST. Both center and state levied the GST across the value chain on the supply of all the goods and service except exempted goods and services, goods which are outside the purview of GST and treated it separately.
- Tax paid against the central GST will get input tax credit against the payment of central GST and tax paid against the state GST will get input tax credit against the state GST and there is no cross-utilization of credit. Therefore, for input tax credit of the exporter/taxpayer shall maintain separate books of account for utilization of the credit.
- On inter-State supply of goods and services Centre will levy IGST. In that case center, additional 1% tax will be collected based on origin to be levied on the inter-State supply of goods will be non-creditable in GST chain.
- This tax will be collected for two years as per the recommendation of GST council. The taxpayer of this GST system would be allotted a PAN and Adhaar linked 13-digit GSTIN identification number. GST is applicable to all taxable goods except some exempted goods.
- Exempted goods and service includes alcohol for human consumption, petroleum products, tobacco products, electricity, customs duty, real estate. Central taxes like, Central Excise Duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty and State level taxes like, advertisement taxes, taxes on lottery gambling, Luxury Tax, Entertainment tax, Octroi, VAT, Sales Tax, Central Sales tax, Entry tax, Purchase tax, and will include in GST.
- The Provisions relating to removal of Octroi or entry tax across India will be made. Entertainment tax, imposed by States on the movie, theater, etc. will be included in GST, but taxes on entertainment at panchayat, municipality or district level to continue. GST may be levied on the sale of newspapers and advertisements and this would give the government's access to substantial incremental revenues. Stamp duties, typically imposed on legal agreements by the state, will continue to be levied by the States.

## VIII. BENEFITS OF IMPLEMENTATION OF GST

Indian economy will create a revolutionary impact on the successful implementation of the GST. It will help to increase the accountability, uniformity, efficiency, and transparency of indirect taxation system of the central and state GST and a radical step towards India's transformation into a common market, was launched on 1st July 2017 by the President of India and Prime Minister of India in a formal function in the Central Hall of Parliament.

Prime Minister Shri. Narendra Modi, at the launch event, said GST was not just about taxation reform that would help businesspersons by putting an end to tax terrorism but is a measure to be levied by central government to be implemented by central government in place of GST.

To be levied by state government IGST GST SGST CGST Location of the supplier and the recipient within the country is immaterial for the purpose of Cost. Chargeable only when the supplier and the recipient are both located within the state. IGST= CGST+SGST unlike CST credit of IGST shall be available and that will help in the fight against corruption and black money. Here's how GST will help the common man and economy.

The Goods & Service Tax or GST is one of the biggest fiscal reforms in India since Independence. All businesses, small or large, will be impacted by this new indirect tax regime. Some of the benefits of GST to the Indian economy are:

## **IX. CHALLENGES IN IMPLEMENTING GST.**

The tax on goods and services is the largest indirect tax reform in India since the economy began to be heard 25 years ago, it finally seems to be coming true. The 122nd constitutional amendment bill comes up in Rajya Sabha on the back of a broad political consensus and driven by the good wishes of Congress, who hold crucial cards on its passage.

GST bill must be changed from the level of management, the integration of information technology must occur, sound infrastructure is necessary, state governments must be compensated for the loss of revenue and many others. Since it is a consumption-based tax, states with the highest consumption of goods and services will have better incomes. Therefore, the cooperation of state governments with the central government would be one of the key factors for the successful implementation of the GST.

GST will help to eliminate the multiplicity of taxation and simultaneously reduce the paperwork and clean up the current mess that is brought by existing indirect tax laws and finally it will help to ultimate consumer to reducing their average tax burdens and reduce tax corruption.

## **X. CONCLUSION**

From the above research analysis the following conclusions are drawn:

1. It is clear that the economy is slowing down due to unplanned implementation of GST thus the disruptions may have accelerated the decline. ]
2. The only possible remedy for this disruption is to make the transition to GST simpler
3. The Goods and Services Tax (GST) dominion is an unconcerned attempt by the government to justify the indirect tax structure of the country.
4. The government should study in depth the GST mechanism set up by different countries around the globe and also their fall outs before implementation.
5. No doubt GST had simplified the existing indirect tax system and helps to overcome the effect of tax. The bill was introduced to implement one country one tax but resulted into a pitfall as the price of basic goods and services had gone upward, in spite of government demand for a positive change in the economy with a GDP growth rate of 6.3% in Q2 of 2017-18 as against 7.5% in the

second quarter of last year and also growth rate for the second-quarter (July-September) for the financial year 2018-2019 came in at 7.1 per cent, according to data released by government on Friday, 30 November 2018.

6. The GDP growth rate in the second quarter was higher as compared to Q2 FY18 GDP growth rate of 6.3 per cent but was lower in sequential basis (Q1 FY19).

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