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“REVOLUTIONARY DEVELOPMENT OF SALES TAX TO GST IN INDIA”

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Abstract

Sales Tax is an Indirect Tax charged on the sale of goods and services. The study focuses on the pre and post development of sales tax in India. Sales tax was charged as the Central Sales Tax and VAT. Here we are standing in between the history of Sales Tax and the effect on Sales Tax and VAT after effects of implications of the GST. The researcher has done an explanatory research which focuses on the theoretical aspect related to the Sales tax. The basic objective of the study is to know the history of Sales Tax, effect on Sales Tax after VAT and the effects after the implementation of GST. Through the observation analysis the researcher has come to a conclusion that VAT has been started with a point to remove the system of tax on tax, but this system is unable to achieve the ultimate objective of it, which has been achieved successfully after the implication of GST in the Indian Taxation System.

Key Words: Goods and Service Tax (GST), Sales Tax, Value Added Tax (VAT)

INTRODUCTION

A. Meaning of Tax

Tax is basically a earning to the government for the upliftment of the society. It is a financial charge or we can say a compulsory fees which is levied by any government in the whole world.

This charge or fees can be collected by any mediate individual or any of the organization for the purpose to submit it to the authorities for providing the common people with upgraded infrastructure and the best facilities in the country. This collected fund in the form of mandatory fees by the government is used later for different public expenditure program throughout the country.

There are basically two types of taxes charged in India:

Direct Tax:

Direct tax is the type of tax which is directly paid to the government as it is clear from its name. This tax is applicable on the individuals and the organizations, and they pay these taxes to the government directly without the involvement of any other third party in it. The examples of it can be Income tax, corporation tax, wealth tax etc. The number of direct taxes has been withdrawn by the government with number of reasons for it, like gift tax. In this type of tax where the incident and the impact is on the same person, the burden of direct taxes cannot be shifted and basically charged on the individuals and the organizations. The direct taxes have lesser burden than the indirect taxes as it is totally chargeable on the earning capacity of the individual.

Indirect Tax:

This tax is not based on the earning capacity of the individual, this is just charged on the value of the product, Indirect tax is primarily paid by the intermediary to the government, who actually add the value of tax in the total value of the product and services and then finally pass it on to the ultimate customer of the product and services irrespective of their earning capacity but on the value of the product and services they are using. This tax is different from the direct tax here the impact is on one person and the incidence is on another. Indirect tax allows the tax payer to shift the burden of tax which is to be charged on the commodity. This tax is irrespective of the financial capacity of the user of that commodity as the MRP of the product is inclusive of all taxes. The indirect taxes in India are the major source of revenue to the government and include very less cost of collecting such taxes.

B. Meaning of Sales Tax

Sales tax is a type of indirect tax which is imposed and burden is on the taxpayer are shifted indirectly. It is levied indirectly on the consumption that many states and local government impose when they purchase the goods and services. The sales tax includes central sales tax which is collected by the central government collected by the central government and VAT (value added tax) which is collected by the state government. Sales tax burden can be shifted to the next level of the purchaser.

Sales tax is a type of tax which is to be paid to the concerned governing body for the sale of particular goods and services. Sometimes the law allows the seller to collect funds for the tax from the consumer at the point of purchase, only when the tax on the goods and services is paid to the governing body directly by the consumers; it is usually called use tax. Often these laws provide the exemption of particular goods or services from sales and use such taxes.

VAT is a Value Added Tax which is a type of consumption tax that is placed on the product. Value added tax is a tax that is levied for the removal of the system of cascading effect of tax on tax. This tax was introduced by the government in the year 2005 as an upgradation of the sales tax. The amount of the VAT that the users pay is the cost of the product, less any of the costs of materials used in the product that have already been taxed. This is a type of the tax which is collected by the state government. Value-added taxation that is commonly known as VAT is based on a taxpayer's consumption of these goods and services rather than his/her income.

GST is Goods & Services tax which is applicable on almost all the goods and services after its application i.e. July, 2017, it has been passed by the government very early but it took time for its application. It is considered as the type of the Canadian value added tax levied on most of the goods and services sold for the domestic consumption. The purpose to levy this tax is just to provide growth and create some revenue for the federal government. The GST is ultimately paid by the consumers as it is a substitute to the all related indirect taxes in the current taxation system.

REVIEW OF LITERATURE

The number of studies has been conducted in the past in relation of the sales tax and GST. Sthanumoorthy (2010) reported that states in India carried out a path-breaking tax reform by replacing defective sales tax with Value Added Tax (VAT). He pointed out the weakness through which the sales tax has gone through and what may be the possible reasons for the implementation VAT over Sales Tax. Purohit (2008) examined the fiscal importance of sale tax in the state finances in India. He focuses on the share of the sales tax in the overall revenue in the states of the country.

The researcher has gone through number of studies based on the Sales Tax, VAT and GST individually or comparing two of them, but has not come across any study which is based on collective study of sales tax with looking for the effect of the VAT and GST with taking all the points in consideration related to the approved GST with different tax slab and unique GST model in existence. So this study majorly focuses on the comparison and changes that occur after the introduction of VAT (Value Added Tax) in the system of sales tax and later the revolution which GST (Goods and Services Tax) bring in the overall taxation system in the country.

OBJECTIVES

1. To know the history of Sales Tax.
2. To compare the existing taxation system with the effect after the implication of GST.

RESEARCH METHODOLOGY

The researcher has done an explanatory research and based on the secondary data which is collected from the official website of government related to sales tax and the other related websites. The researcher has adopted an observation analysis as a tool for the achievement of the set objectives. The researcher has taken sales tax for the study as the GST will affect the sales tax to maximum and will lead to an end, on the other part the sales tax contribute maximum in the overall indirect collection in India (as per 2014 data) but still the loopholes encourage maximum tax evasion in the system and minimize the collected revenue. As per the figures mentioned in the study it will make very clear in the mind of readers that the application of new change in the system minimizes loopholes and increases revenue collection immediately (as reflects in the table 01) for better understanding. The limitation of the study restricts the researcher for the effective results is the time boundation for its framing and on the second hand there were no clear framework mentioned by the authority in the books, the authority also not cleared the facts and reasons for these revolutionary changes in the system of taxation which also bounds the research to a clear perception and accurate result for better understanding of the study.

C. HISTORY OF SALES TAX

Sales tax was first introduced in India in the province of Bombay, where a tax was imposed and came into force on the 24th March, 1938. Later in the year 1939, it was introduced in the different provinces of Tamil Nadu. In the very beginning of introduction of Sales tax was for the purpose of making up for the loss in revenue arising source as a result of prohibition by the authority during that period. The idea first introduced in Bombay but it was first imposed by the Tamil Nadu in India. After all this The Bombay Sales Tax Act of 1946 which was enacted on 8th March, 1946, provided for the charging of a tax at the last stage of sale of any goods. At very first when this sales tax was introduced in Tamil Nadu, it was regarded as the multi point tax and this tax was started with a minimal charge of 0.5 percent in the beginning after this when it was

imposed in Bombay the rate of tax under the Bombay Sales Tax Act, 1946 was six paise per rupee of the sale price was the chargeable amount decided by the authorities. As this was introduced in early nineties so, to control the panic which may be created by the public, the authority announces that the person with the excess turnover of Rs. 20,000 are only liable to pay this tax under this category, but they added to this statement that the person who is having excess of turnover for Rs. 10,000 or above up to Rs. 20,000 are also liable to pay tax in the slab rate category of Rs. 5 per month. This mandatory norm was introduced and levied to almost all category of products and commodities other than agricultural products, horticulture products, bull and species, cotton, cotton yarn, cloth woven and handlooms were included in the list of exempted products under this category other than this all the products are chargeable under this new tax introduced. This tax was paid by the producers who sell these products during that period. The Bombay Sales of Motor Spirit Taxation Act, 1958, act has provided to levy this tax on the sales of Motor Spirits within the State, after the introduction of this act remained in operation from 1958 till 31/03/2005. After this authorities were free to work on their own and after getting through all the studies they came to a conclusion that this tax which has been imposed by the government from years is not that effective and have number of loopholes to be used easily by the tax payers. So for the solution of this Thereafter on important change in the State indirect tax as a new reform took place from April 1st, 2005 by introduction of Value Added Tax (VAT) system. Before the introduction of VAT there are number of changes that took place in the sales tax in India but this was the most effective movement took by the government to change the overall scenario and working under sales tax in India. So after this in 2005, April the Sales tax was known as Central sales tax (CST) and VAT(value added Tax) and the purpose was to bring the change by removing cascading effect of tax on the goods and services.

Sales tax is the blunder and the burden on the taxation system of the country as it has a huge effect of tax on tax as a result of which government introduce the VAT. But later the government realizes that the purpose for which this VAT was introduced is not solved yet, hence the government decided to introduce the revolution in the whole indirect taxation system in India including sales that and that was GST (Goods and Services Tax).

D. COMPARISON

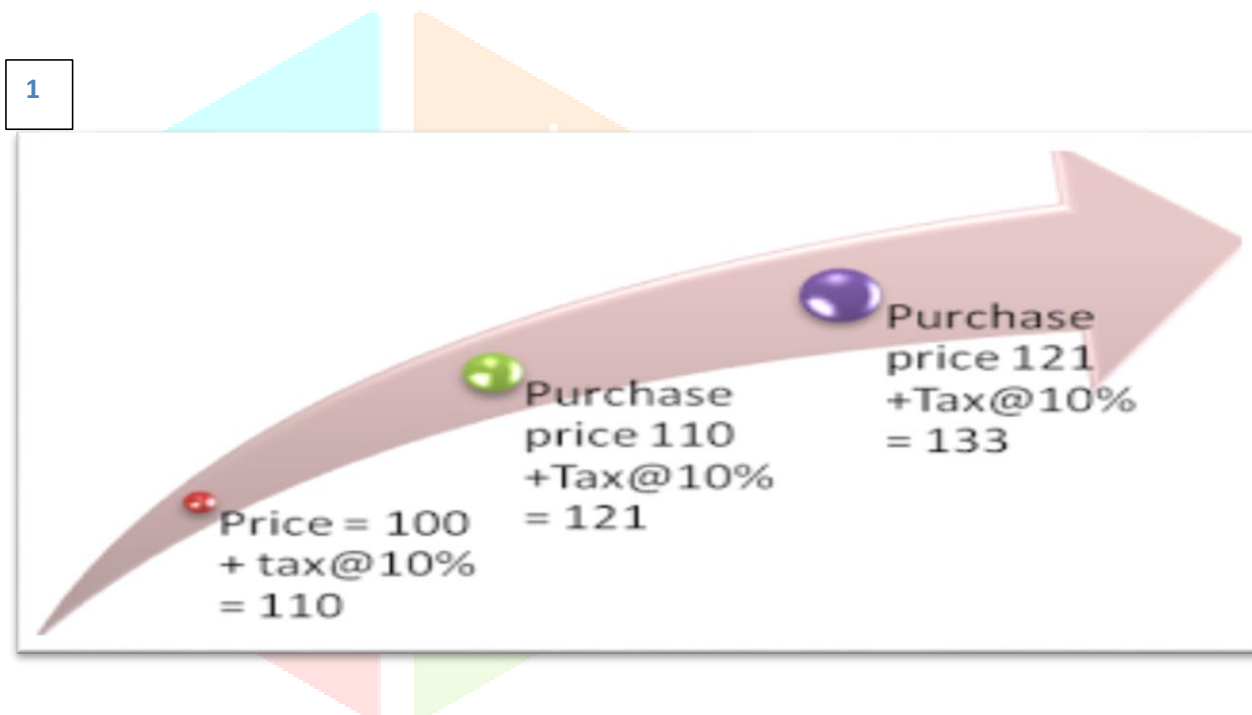
- **Sales Tax to the introduction of Central Sales Tax + VAT (Value Added Tax):**

This defines the existing taxation system in India but this brings the minute change after the introduction of VAT on the state level by the taxation authority of the country. The earlier taxation system in the country includes the central sales tax and the VAT in it.

Sales tax is the Indirect tax which is levied on the value of the goods and services this tax is a burden to the Indian taxation system by the view of their tax payers as it creates the cascading effect of tax on tax which is

providing good revenue to the government but creating a mess for the taxpayers. Sales tax is a tax levied in the Indian taxation system from a very long time but this taxation system creates a great burden on the tax payers on this indirect tax in the taxation system of the country. For removal of this system of tax on tax is tried to be removed by the Indian government by the introduction of VAT in the taxation system of India on April 2005 which brings the enhancement of the situation of drawbacks created by the sales tax, but it does not create the best pathway for the removing the system of the tax on tax. This change of sales tax to the introduction of VAT can be understood by the following example:

Suppose Mr. A sells goods to Mr. B and charges sales tax; then Mr. B re-sells those goods to Mr. C after charging sales tax. While Mr. B was actually computing his sales tax liability, he also included the sales tax paid on previous purchase, which is how it becomes a tax on tax which is commonly known as cascading effect of tax in India.



Source: “<https://gsthelpline.com/difference-between-the-current-taxation-and-gst/>”

This was the earlier case which was related with the sales tax few years ago. At that point of time, VAT (value added tax) was introduced in which tax payer at every next stage person gets credit of the tax paid at earlier stage. This means that when Mr. B pays tax of Rs. 11, he deducts Rs.10 paid earlier.

This example was introduced in this study just to be noted that the user can understand the drawbacks of the earlier sales tax system in India. This system was complicated and not in favor of any of the concerned parties. The Earlier tax system of sales is the thing which is to be studied by each and every individual in the society as this is indirectly paid by end users of the product and when this got effected it is definitely going to effect the pockets of the customers later to cover the drawbacks of this sales tax VAT (value added tax) was introduced.

The VAT also fails to remove the cascading effect of the taxation totally as VAT is computed on a value which includes excise duty. This shows that there is still a tax on tax. As a result of which this introduction of the VAT by the government does not give the permanent solution to the problem of the cascading effect of tax on tax.

GST (Goods and Services Tax):

Goods And Services Tax is the **new** tax regime in India was introduced with the name GST (goods and service tax) which is introduced in place of the whole indirect taxation system in India. The purpose of this Tax is to centralize the whole Indirect tax system in India applicable throughout the Country, this tax is chargeable on the goods and services transmitted and transact in the country. This whole tax subsumes about fifteen or more taxes in one role. The aim of this tax imposed by the government is to make the one Tax, One country System.

GST is the Replacement of the other central and state Indirect taxes, this indirect tax is uniform and single; it is the replacement of VAT, CST (Central Sales Tax) and others. The applicability of this tax is on all types of small and large enterprises. As per this change in the country it can be considered as the biggest tax reform in the country. The introduction of this tax to the whole nation will allow everyone to follow the unified Tax structure.

The introduction of this unified tax has made a dual system of GST, which makes both center and state independent from each other, this unified Tax council i.e.; GST council is headed by the union finance minister and also includes number of state finance ministers in it.

GST model includes:

1. SGST – State GST, collected by the State Govt.
2. CGST – Central GST, collected by the Central Govt.
3. IGST – Integrated GST, collected by the Central Govt. (when two states are involved in one transaction)

Replacement of previous taxes by the goods and services tax:

There was list of indirect taxes which was earlier charged by central and state, and this list will be replaced by the GST and this tax designed as a uniform tax for the entire country.

1. Tax charged and collected by the central:

Additional Duties of Customs (countervailing duty which is commonly known as CVD), central excise duty, service tax and special additional duty of customs (SAD)

2. Tax charged and collected by the state:

Entertainment tax and amusement tax (charged on the local bodies), state VAT, central sales tax, taxes on lotteries, betting and gambling

• **Situation after GST (Goods and Services Tax):**

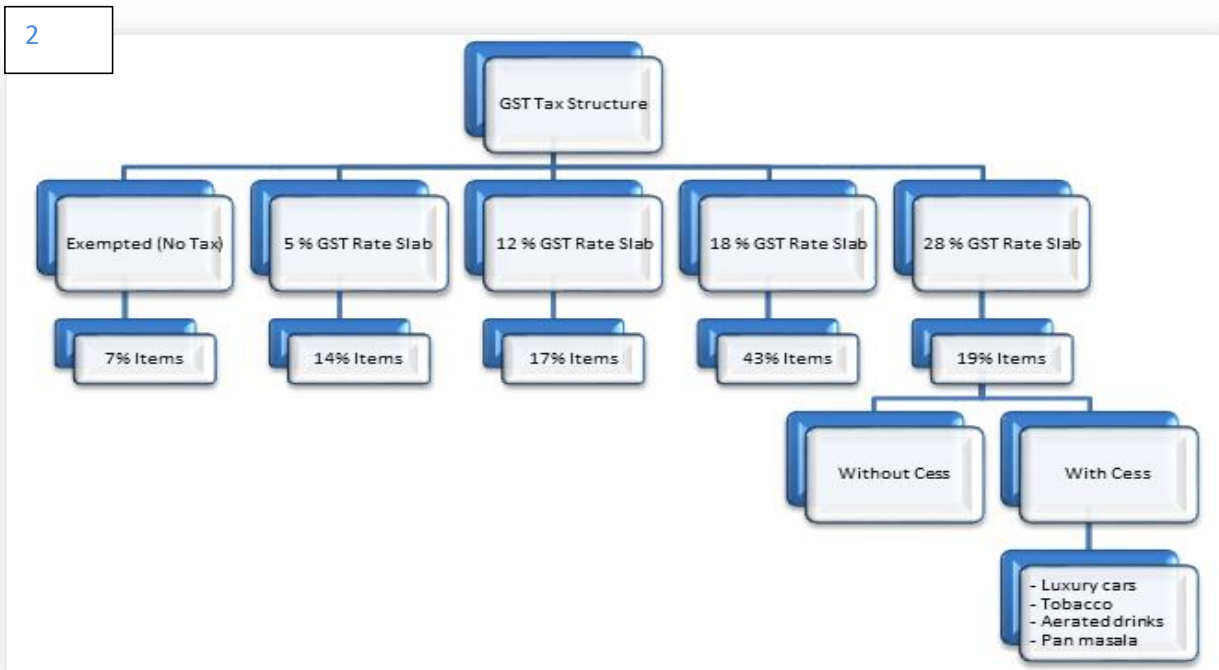
GST will target all those things which are unable to be achieved by the VAT. Basically what are those points which VAT is unable to achieve is the unified taxation system in the entire country where when we talk about VAT the things are more complicated and based on the tax related to states and the person talk less about the country as a whole, here GST has unified the taxation system and charge the same rate and prices of tax throughout the country and will not affect the fact that the person belongs to which state. This can be summarized with the line that GST eliminated the system of “tax on tax” and not related with any of the state. So this GST is more efficient and effective system of tax which there are less loopholes for the tax payers and more efficiency in calculating it. GST is Goods & Services Tax which has brought the drastic effect to the overall indirect taxation system of the country. It is basically a common tax charged on all the goods and services and after its application it has affected and make all the indirect taxes come to an end except the basic custom duty charged on the goods and services being imported by the other countries. All of the earlier taxes has been vanished and complied as one tax. This will make easy for all the tax payers and the others to pay tax to the government. GST will lead to the new Indirect Tax Regime in India. The application of the GST has made the India one Tax economy.

GST points that it has been passed on august 2016 in both the parts of the parliament. All the rates are decided by the government and have been passed in the meeting held on the 4th November 2016. Finally the GST bill was passed in the parliament and came in to existence from July 2017. This system of GST is totally online based and there is no or very less paper work included under this as it has been made compulsory by the government to fulfil all the necessities related to filling of GST must be done online by the tax payers and must be checked by the tax collectors. This brings the ease of functioning between the parties

Rates which are decided by the Indian Government under GST (Goods and Services Tax):

The Tax structure under GST is divided in the tax slabs of 5%, 12%, 18%, and 28% categorized with different categories of product and services, there is a tax slab which is especially designed for the essential goods such as rice wheat and other essential eatable items. The GST tax structure which has been categorized in different tax slabs. This structure categorization has no tax on certain necessary items and

maximum tax slab on luxury items which will definitely minimize the difference between rich and poor and remove the principle of rich people getting more richer in the country.



Source: “<https://www.kotak.com/en/stories-in-focus/gst-rate-slabs.html>”

The figure states the overall tax model under GST (Goods and Services tax), this figure clarifies the Tax slab structure which has been passed under Goods and Services Tax. This also make the importance of the introduction of GST in the Indian taxation system as this slabs mentioned in the above chart also clearly states the decreasing gap between rich and poor by decreasing the tax burden on poor and increasing the same on luxury products and in this GST the user will pay the tax depending on the fact that what type of basic product they are using.

What happened when the system moved from VAT (Value Added Tax) to GST (Goods and Services Tax)?

Deficiencies of VAT System which were later covered by the introduction of GST (Goods and Services Tax) in India:

- Input Tax Credits was only given within the State purchases.
- The Central Excise Duty is the component which was taxed under VAT.
- Central sales tax (CST) was paid on inter-state purchases which was not creditable.
- The Taxes paid on services were not creditable under VAT.

- The Taxes which are charged on inter-state sales were not given to State of consumption but was given to the State of Origin.

Thus tax on tax which for which the VAT actually came into existence, authority later noted that it was continued, and GST was introduced to overcome all of the above.

Let's take an example for the better understanding of what actually happened after the introduction of GST in India. Say there is a consultant service company providing certain services to their clients, so in this there are two scenarios one under VAT and another is under GST. **Under Value Added Tax** this consultancy firm is charging 15% as service tax on the services cost Rs. 70,000. Here the person has to pay 15 percent of Rs. 70,000 which is Rs. 10,500 only on the services after this if the person goes ahead with buying assets or office supplies worth Rs. 25,000 here the person has to pay 5 percent VAT on the net value which is 5 percent of Rs. 25,000 i.e.; Rs.1,250. Here the person has to pay Rs. 10,500 as the chargeable service tax without any deduction in the amount of Rs.1, 250 this includes the amount of VAT which has already been included in the amount of stationary payment. The total tax amount which is to be paid by that person is Rs. 11, 750 **Under Goods and Services Tax:** The payment of Tax to be made by that person on the same listing of Rs. 70, 000 at the chargeable rate of 18 percent will be Rs. 12, 600 but the thing to be considered under GST is that that is no extra amount which is included in the Taxable category of the person, so if we look at the same case and consider the office supplies of Rs. 25, 000 which was chargeable at 5 percent rate which amounted to Rs. 1, 250 need to be deducted from the amount which the person is paying already on the services at the rate of 18 percent so the Net tax need to be paid by that person after deducting the amount of Rs. 1,250 will be Rs. 11, 350 so the net saving in GST will be Rs. 400 to that person in the same case. This will enhance the taxation system by removing multiple and cascading effect of tax on the same product and help both the parties to calculate and making it more efficient.

Revenue Collection:

Here are certain figures which make the point more clear about the need of this change in the taxation system of the country. This table has 3 columns one is the sales tax which was till 2005 April after this new sales tax with the name VAT and central sales tax was introduced to fulfil all the duties which were earlier taken care by sales tax. After this third column denotes the collection from GST in the first year after the introduction of GST.

1	Rupees (in crore)	
S.No.	TAX AND YEAR	COLLECTION
1.	SALES TAX (2004-05)	Rs 522
2.	CENTRAL SALES TAX and VAT (2005-06)	Rs. 8441.76
3.	GST (2017)	Rs 2,14,610 (Total)
	Central GST	Rs 1,03,458
	State GST	Rs 25,704
	Integrated GST	Rs 50,548

Source: “Annual reports of Ministry of Finance for the mentioned years”

The purpose to bring these figures in notice is to make the point clarify that the upgradation in the Indian taxation system only helps the system to collect more amount of valid tax from the tax payers and minimize the loopholes of the system which is clearly visible in the figures showed in the table above. The researcher never said the system framed it wrong but the purpose to bring it in frame is that the system understood the need of change in the current collection method on sales and after all the research the study can clearly state that the authorities has bring out the system to work smooth and best in the present scenario and will definitely uplift the society as a whole as there are less chances left to the tax payers to escape from the system easily to pay the valid amount of tax to the authorities.

Effects after the implementation of GST (Goods and Services Tax):

- It has clubbed all the indirect taxes in the present taxation system.
- It has made the taxation system more accurate and efficient.
- It has definitely remove the system of tax on tax as only one tax was levied on almost all the goods and services.
- It defines the accurate system of e-commerce companies.
- It mainly removes the cascading effect of tax that means removes the system of “tax on tax”
- The system of GST will encourage lesser compliance and decrease the loopholes in the system.
- It has made the whole system simple online procedure for the application of the Tax and even for its payment.
- It has not bring any positive effect for the users of the luxury items but definitely be a blessing for the needy persons in the country from the taxation point of view.
- By the implementation of GST, the manufactures are paying the tax at one level as the name of GST, in spite of different types of tax on the same product.
- It has directly & indirectly minimize the amount of tax paid by the payers to the government.
- It creates India as a single market.
- It taxes goods and services at the same rates so many disputes are eliminated on tax matter.
- It makes easy to understand and pay for the taxpayers rather than making it easy and beneficial for the government.
- It makes easy to pay the tax by the tax payers.
- It has ultimately brought the tax rate down for the tax payers like normal producers working in the country from the taxation point of view.
- Single tax payment system on all the goods and services prevailed but rates may differ with in for special cases like basic need items.

FINDINGS & CONCLUSION

The sales tax is one of the most revenue generating Indirect tax in the country, the whole economic strength and trading is directly or indirectly connected with the generation of sales tax revenue in the country. The study can be concluded with the fact that the taxation on the sale of the product is collected by the related authority from a very long time defined in the history of sales tax which can be an effective method of collecting tax in past but cannot be considered as a best method of collecting tax on sales in the present era, as the working method and more electronic way of dealings are included in the trading and the operations of the business, a result of which the sales tax continues till April 2005. The drawbacks in the earlier taxation system forced the authorities to reframe the sales tax in India, the basic two things which were earlier taken strictly as the drawback is the cascading effect of tax in addition to it authorities find lot of loopholes in the system of sales tax in India, after which the sales tax was collected as the Central sales tax and the VAT (Value Added Tax). This was divided in two categories so as to make the system bit easier and less complicated for both the parties i.e. the Tax payer and the Tax collector. VAT is the introduction by the taxation authority of the country in the year 2005 for the purpose of removing the cascading effect of tax on tax, but later it was realized that there is a need by government to think over it again as it has not been able to achieve the ultimate target of removing the cascading effect of tax on tax as VAT is computed on a value which includes excise duty and this is the major thing which was later noticed by the authorities. So after the discussion on the same, the government of India introduced the GST which will bring the new Indirect tax regime in the country, it not only focuses the sales tax but makes the country as the single tax paying country; known as “one tax one nation”. The introduction of it will club all the different indirect taxes as one and make it more effective by achieving the ultimate target of removing the system of tax on tax. It was noticed that all the objectives are achieved by the introduction of GST as a new tax regime in the country, this majorly removed the cascading effect of tax and also proved as most effective in the deletion of loopholes to the maximum in the indirect taxation system of the country as a whole. In addition to this GST helps the tax payers to pay only as per the slabs divided in different categories which was earlier not introduced in both the sales tax and VAT. Both the earlier taxes introduced before GST was irrespective of the fact that the customer can pay this or not, the tax was indirectly beard by the tax payer. Now these introduction of slabs will simplify it and make the product available as per the buying Capacity of the customer. So, we can conclude with the fact that GST introduction has definitely brought a new ray of hope in the Indian taxation system and a new revolution in the country.,

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