GST and its Far-Reaching Impact on India's Financial Sector: A Descriptive Study

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Abstract*— *Tax is an essential aspect of every individual's life in this world. Every human being is affected by it. During ancient civilization, the king used to collect revenue from citizens of his kingdom in the form of cash and kindness. No one is left out from the payment of tax of his kingdom. Merchants and traders from outside used to trade after rewarding the king with valuables. King, in return, was taking welfare activities from the funds collected in the form of tax. The traces of taxation are found in Kautily's arthshatra. Over the years, the global taxation landscape has undergone significant changes. Most countries have restructured their tax systems to be more people-friendly, resource-driven, and easy to comply with, in order to mitigate tax evasion and avoidance. The pioneering move was made by France, which introduced the concept of VAT or GST, marking a significant milestone in the history of taxation. Currently, most countries, including India, follow a regressive taxation structure. In advanced countries like America, France, Germany, etc., the proportion of tax collection, Direct, and Indirect, is 70:30. In India, this ratio is reversed, standing at 30:70. The former taxation structure benefits society as a whole in terms of providing goods and services at an affordable cost, whereas the latter is quite the opposite. It is a quintessential taxation structure for tax evasion, tax avoidance, and non–adherence to compliance. Today, In India, many traders and industrialists have bills for their sales without TIN & TAN, respectively. Quintessential India has the same old taxation structure, full of cascading effects, jugglery in filing, many loopholes in the collection, and increasing corruption among tax officers, ultimately burdening the common man. With its potential to eliminate tax evasion, avoidance, and non-compliance, GST offers a promising future for India's taxation system. This paper provides a comprehensive view of the pre-GST taxation structure, highlighting its limitations in addressing economic challenges. It also explores the post-GST structure, which promises benefits for manufacturers, the common man, and the economy as a whole, instilling hope for a more transparent and efficient tax regime.

Index Terms*- *GST, Indirect Tax, India, Direct Tax.

I. EXISTING INDIRECT TAXATION STRUCTURE IN INDIA

Currently, tax is imposed on the happening of taxable events. Any transaction occurs concerning goods and services, either the manufacture, import/export, sale, or service provision. If, as per the rule's definition prevailing in rule is in force if it attracts a taxable event, tax is levied and collected on such particular transaction or event.

Diagrammatic Flow of Current Indirect Taxation System in the Country

CONSTITUTION OF INDIA

UNDER ARTICLE 246, 7SEENTH SCHEDULE PART III

Entry	84	83	97	54	92A	52
Type of Tax	Excise Duty	Customs Duty	Service Tax	Sales Tax/VAT	Central Sales Tax	Local Taxes
Schedule	VII	VII		VII	VII	VII
List	Union List	Union list	Union List	State List	Union List	State List
Taxable Event	Manufacture	Import/ Export to outside India	Provision of service within taxable territory	Sale of Goods within the state	Sale of goods between states	Entry of goods from outside state

Tax Levied by	Central Government	Central Government	Central Government	State Government	Central Government	State Government
Tax collected by	Central Government	Central Government	Central Government	State Government	State Government	State Government

Source: Indian Constitution

Cascading Effect/ Double Taxation Effect/ Tax on Tax Effect (Sale within the State)

Excise Duty and Sales tax are under the VAT regime, but the set-off of the taxes paid is not applicable to these two taxes. Hence, on excise duty, the sale tax is paid, which means TAX ON TAX.

Different Tax rates by other states for the same product
The existing tax regime allows the states to decide their VAT rates for goods/services manufactured and sold. The Constitution has empowered the state list to levy tax rates. Currently, we have 33 states, including union territories. Each state has different tax rates for the same products, distorting the unified common market. It is imperiling the standard economic market. States that are levying lesser tax rates attract more investments, whereas other states are at a disadvantage. For example, in Delhi, the Ex-showroom Price of the car is 500000, whereas the same car sold in Karnataka is 600000 due to the difference in tax rates. Delhi Charges

Table showing the different tax rates for same product in different states

State	Delhi	Andhra Pradesh
Product	Petrol	Petrol
Point of levy	At the point of the First Sale	At the point of the First Sale
VAT	32.55%	20%

Goods and services are taxed separately.
The existing provision lays down that service tax is levied by the center. The tax rates for services and goods are different. Currently, the service tax rate, effective July 2016, is 15%, while the effective product tax rate is 12.5%. The different tax rates lead to an imbalance of growth between service and manufacturing.

Ambiguity in tax laws: Multiple tax laws, different rulings in different courts on tax issues, controversial provisions in taxation laws, overriding of mother law by subordinate legislation and rulings, constitutional pluralism, etc., lead to an increase in litigation, a confusing aura, and misinterpretation.

Anti-business Environment: The existing taxation regime is an anti-friendly environment in India for doing business. Once litigation on tax disputes enters the court, it takes years to reach a verdict, which hinders business growth. High compliance costs in filing, registration, and payment also lead to slow business growth.

Certain sectors are exempted from tax: The products which are exclusively processed in SEZ are free form levy of VAT. The state exchequer tends to be marginalized due to poor collection of taxes.

Due to all these challenges thrown by the existing regime of indirect taxation, the Indian economy has not reached double-digit growth until today. Industrialists are behind-the-top lawyers to avoid taxes and protect themselves from tax disputes. The increase in overhead costs, fees, and commissions has resulted in high prices for goods and services,
. Notwithstanding essential commodities as well.
Goods and services taxes regime to iron out the wrinkles of Current Indirect Tax regime

With the above backdrop, it is imminent to eradicate distortion, cascading, double taxation, non-compliance, etc. to make India a unified, common economic growth country that fosters double-digit growth. With this aspect, India took a step forward in adopting and adapting the GST.

The Indian constitution, in its basic tenets, adopts fiscal federalism. The fundamental essence is that the center and states should be independent in resource mobilization and financial independence. Financial independence is the backbone of budgetary federalism. Every state should be independent in discharging its functions to ensure the welfare of the state. At present, due to controversial legislation on indirect taxes both by the center and the state, the federalism form of Government. To explain this with the example of central sales taxes, the legislation is enacted, and the center levies taxes, but the state collects the tax. Excise rules or rates or decided by the center where in goods are manufactured in states. In some cases, the center is prohibited from imposing taxes; in others, the state is not permitted to do so. These intricacies defeat the fundamental principle of fiscal federalism.

With all these, it is ardently necessary for the economy to shift towards a value-added tax regime or a goods and services tax regime to attain the unification of the common market and inclusive economic growth.

Goods and services tax in India: GST is the major tax reform of the century to eliminate the distortion in indirect tax. Even though the country started tax reforms in 1980, it could not achieve the expected results. Even today, our country's exports are costlier in Western markets. Though import substitution/contraventions tax schemes are prevailing, they cannot stop more imports and fewer exports. This trend results in the amassing of the economic wealth of our country by Western countries. Consumers are paying high prices due to double taxation on products and services. Some services are escaping from the tax net.

The current GST would be reformatted and would bring major benefits to Consumers, the Industrial environment, and the Government. This is a comprehensive tax policy that contributes to the growth of the Indian economy.

Significance of GST: The relevance of GST is discussed under four categories

Transparency	Easiness	Optimistic Growth	Avoidance of anomalies in existing tax regime
Every supply of goods & services comes under the GST ambit. There are no chances of escaping from tax. Input tax credit across the value chain Every dealer has to register based on the threshold limit. An invoice carries the accurate tax element, which tells the consumer the amount of tax he is paying. All the services come under the GST. Prohibition of tax evasion and avoidance	Very simple in understanding and compliance Unified Common Law for both center and state Nullifies double taxation Reduction in cascading effect Removal of state barriers, that is, entry tax All taxes, such as Excise duty, service tax, sales tax, etc, are subsumed.	Reduction in prices of goods and services Higher revenue to the Governments Accelerating economic growth Industrial Friendly/business-friendly environment Exports would be cheaper. Attracts more investment by way of FDI(Foreign Direct Investment) Imports costlier Win-win situation	No Double taxation Not too many taxes No difficulty in compliance GST- Brings One market, One Tax, One economy One Nation

Brief list of Key features and impact of current tax regime vis-vis GST

Existing Indirect Tax regime	GST- Tax Structure Regime
Key Features/ Impact	Key Features/ Impact
Feature: Goods and services are taxed separately. Goods tax and service tax Impact: Two taxes with different rates create confusion and make it challenging to take input tax credits if Goods & services are clubbed and provided to consumers.	Feature: Goods and services are taxed uniformly, both subject to a single tax Impact: No hassles in taking input tax credit, thus decreasing the price of the product
Feature: Levy of Tax is the point of origination and point of sale. That is where goods/ services are originated as well as sold Destination-based Impact: one commodity is taxed two times. Hence, double taxation	Feature: Destination-based tax system. The point of the tax levy is on consumption. That is the place where goods are consumed. Consumption-based Impact: Exports would be cheaper, and imports would be costlier.
Feature: Central Government imposes Excise duty, Service tax, customs duty, and central sales tax, whereas State Government imposes sales tax/VAT and local taxes: Impact: Increase in overhead cost due to more stringent compliance.	Feature: All taxes are subsumed, and one single tax levied by center and state Governments parallel Impact: Decrease in product price, ease of compliance, and business-friendliness.
Feature: Input tax credit is not available for CENVAT against VAT. Impact: Traders search for alternatives to avoid taxes, as this increases their cost of production	Input tax credits available across the jurisdiction of the center as well as the state Impact: Transparency in business transactions
Feature: Different tax rates for the same product across the states Impact: No common market or economy	Feature: Single Tax rate irrespective of any state that is CGST & SGST Formation of the unified common market
Feature: Some sectors are exempt from VAT and central tax Impact: Lesser revenue to the Government, which impediments taking up welfare schemes	Feature: No sectors are exempt from GST. Every transaction is taxed Impact: Higher revenue to the Government. More welfare schemes were undertaken.
Feature: Tax on Goods & Services manufactured/ rendered Impact: Scope to escape from tax.	Feature: on supply of goods & services Impact: Every transaction is taxed in the country
Feature: Intra-state transactions get input tax credit but not inter-state transaction Impact: Impact on distributor profits, higher intra-state goods & services prices.	Feature: Both inter-state and intra-state transactions get input tax credit Impact: Less cost to the distribution and supply chain.

The basic proposition of GST/VAT is a tax on final consumption; that is, Tax is levied where exactly the consumption takes place so that businesses are accessible from the burden of the tax.

Following are the key benefits to stakeholders of the GST/VAT

Table showing the key benefits of GST/VAT to the respective stakeholders

Trade & Commerce:	Consumer:
Exports would be a cheaper level playing field to the international market. Reduction in compliance costs ensures high competitiveness for domestic industries Reduction in tax cost results in a decrease in cost	Consumers are the final beneficiary in respect of payment of lesser taxes on the goods /services consumed Well aware of the tax amount paid for consumption as the invoice entails the exact amount of tax Lesser price for goods/services

Straightforward tax regime. There are no complexities in filing returns. Claiming input tax credit is seamless across the supply and distribution channels. Mitigation of double taxation/cascading A few tax rates and fewer exemptions Uniform market enables domestic industries competitive advantage Small traders also come under the umbrella of taxation No scope for evasion and misleading in filing tax returns Lesser litigations	Increase in purchasing power capacity Rise in income level Rise in savings Proliferation in investment avenues Capital formation and economic growth
Government: Huge revenue to the Government, which facilitates welfare schemes Lesser litigation Avoidance of tax erosion Achievement of fiscal feudalism Avoidance of multiple taxes, multiple levies, the proliferation of legislation All economic transactions come under the ambit of taxation Brings cordial relationship between center and state in revenue generation and sharing Harmonization of taxation Smaller states get enormous benefits for achieving their development Uniform taxation across the country	Economy : Unified Economic market Lesser litigation of tax disputes Harmony with other Countries Business interest of FDI is secured Acceleration of economic activity Domestic industries do get level plying filed with counterparts Higher exports and fewer imports result in growth in foreign exchange reserves Reduction in deficit balance of payments Growth across all the sectors of industry, agriculture, service, and foreign trade

Important elements of GST

GST – Destination-based tax Instead of Origination.
Currently, tax is levied and collected based on origination, whereas in the proposed GST model, it is consumption-based. This principle will benefit the state where more consumption takes place. The consumption states get more revenue. Of course, it is imperiled to the manufacturing states. Most manufacturing states, such as Tamil Nadu and Gujarat, would lose revenue. However, the center is proposed to compensate the states for their losses.

Unified Common Economic Market: Article 301 of the Indian constitution provides freedom of free trade and commerce across the country. The Supreme Court of India even upheld this provision in the Amazon v/s State of Gujarat, Karnataka case. Amazon, Snapdeal, and Flipkart are online merchandise portals facilitating sales of goods and services across the states through an E-commerce model.

For example, " A person sitting in Mysore can book a mobile for his mother staying in Kolkota through a Bangalore-based online portal, Flipkart, where the mobile is delivered from the State Maharashtra. Such being the case, in the current taxation regime, it is the state providing the mobile gets the revenue through sales tax /VAT, whereas the state that consumes Kolkota is in revenue loss. Understanding this states such as Karnataka and Gujrath levied entry taxes on the products purchased through e-portals. This was questioned by an online portal(Amazon) in the High Court and was appealed to the Supreme Court. The Supreme Court, in its judgment, quoted Article 301 and upheld the provision. The case is still pending for judgment. In the proposed GST model, the above intricacies would be resolved.

Issues to be addressed in the current GST tax regime
Tax litigation: In tax regimes, the states can punish or exempt dealers involved in tax litigation. To explain this with an example, the state's chief minister has the power to waive off the interest on default of state VAT. But what happens once the GST is implemented? States lose empowerment, and they refuse to forego authority.

Small traders and companies suffer: Fixing the threshold limit is the major challenge to convince the states. Under the proposed GST is stipulated to be 10 lakh per annum. This covers all small-scale industries that are currently exempt from tax. States are arguing that they need a share of the revenue from tax whose business turnover exceeds the threshold limit, for which the center is not agreeing.

Eliminating concessions and rebates hinders business growth: Under the current tax regime, several exemptions, concessions, and rebates from taxation are based on the nature of the product/service, transaction, area of establishment, etc. However, in the GST regime, all these are subsumed. This hinders business development and growth.

Essentials are under the scope of GST: The current tax regime exempts levying taxes on basic food items and essentials such as agricultural products to mitigate the burden on the commoner. Some goods/services are taxed at minimum rates, but this would not be the case with the GST regime. If taxes are imposed on the essentials, then inflation severely affects the commoner.

The cascading effect continues GST on petrol and diesel: Currently, petrol and petroleum products are excluded from GST, which the GST council will decide. The levy of excise duty continues on these products. If these products are taxed in the GST regime, the cascading effect continues as the tax paid on petroleum used in manufacturing cannot be given input credit. This would continue the plethora of cascading regimes.

Registration ambiguity: Under the proposed GST model, 1 CGST and 33 SGST legislation are needed. In this case, a dealer doing business in 12 states has to take 12 registrations; if he is doing business in 33 states, then 33 registrations are required. This increases the cost of working capital and the complexity of doing business.

Free supplies are taxed: The existing indirect tax regime exempts the tax on free sales. These sales are part of promoting the brand or product, and business firms leverage them for success. However, in the proposed GST regime, a levy is on the supply of goods/services; hence, businesses suffer from an additional levy. This impacts the economic growth of business firms.

CONCLUSION

India is a country of diversity; it may be in culture, race, religion, language, etc. Economic development in a nation with distinct diversity, which cannot be seen anywhere worldwide, is complex. From a world perspective, India has great potential to grow in industry, agriculture, services, and technology. Most one-third of world MNC companies have a presence in India. Even Indian companies also have footprints across the world. Her major strength is human resources, which accounts for one-fifth of the world's population. Having these strengths still, economic development is far due to several factors. One such factor that is curtailing growth is a distorted taxation regime. To eliminate the perils of a distorted indirect taxation regime, GST is a significant reform taken by the Indian Government. This would bring positive results in economic growth, and it is not far to see India as a developed nation.

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