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A Critical Overview of Goods and Services Tax (GST) in the Indian Context

KiranShree Baruah[1*], Dr. Vishwanth GY[2]

[1*]Research scholar International School of Management Excellence Kirans.fpm24@isme.in
[2](Research Supervisor) Associate professor International School of Management Excellence vishwanathgy@isme.in

The Goods and Services Tax (GST), introduced in India on July 1, 2017, stands as a landmark reform in the country's tax structure since independence. Originally intended for launch in April 2010, political hurdles and differing stakeholder interests delayed its implementation. GST seeks to unify India's fragmented indirect tax system by consolidating various levies such as excise duty, VAT, and service tax into a single, transparent tax regime. This unified structure is projected to increase the national GDP by 1–2% and reduce tax evasion and corruption (Nayyar & Singh, 2018).

Historical Background and Pre-GST Scenario

The lengthy and changing history of taxation in India highlights the necessity of tax reform with the implementation of the Goods and Services Tax (GST). There is evidence of tax collection during the first dynasty in ancient Egypt, when rulers conducted biennial tours to collect taxes, as well as references to taxation in ancient texts like the Manu Smriti and Arthashastra (Chakraborty & Rao, 2010; Garg, 2014). During British colonial rule, India's tax system underwent substantial changes. The groundwork for the nation's current tax administration was laid by the British government, which implemented a two-tiered tax structure that included direct and indirect taxes (Nayyar & Singh, 2018).

A complicated range of taxes, including Central Excise Duty, VAT, Service Tax, and Sales Tax, were created as a result of the Constitution of India's post-independence division of tax collection authority between the Central and State governments under Article 246 and the Seventh Schedule. Depending on their respective jurisdictions, these taxes were imposed independently by the governments, which resulted in administrative difficulties and overlapping tax obligations. The absence of input credit on interstate sales (CST), the unequal treatment of goods and services, and the imposition of taxes at various supply chain stages all contributed to the indirect tax system's inefficiency and fragmentation, which ultimately resulted in a cascading tax effect where tax was levied on tax (Poddar & Ahmad, 2009).

Additionally, there were market distortions, revenue losses, and compliance burdens for businesses due to the limited tax base and inconsistent tax policies across states (Roychowdhury, 2012). A number of committees and reports, including the LK Jha Committee (1974), the Chelliah Committee (1991), and the Kelkar Task Force's recommendations, pushed for the implementation of a unified value-added tax, or GST, model in order to address these systemic problems. This model could provide coherence, cut down on inefficiencies, and bring India's tax system into line with international best practices (Kelkar, 2009; Jain, 2013). Therefore, the fragmented, multi-tiered, and inefficient tax structure that typified India's pre- GST situation made the comprehensive reform that was eventually accomplished through the implementation of GST necessary.

Challenges in the Previous Tax Regime

India's pre-GST tax system had a number of serious issues that highlighted how urgently reform was needed. The cascading effect of taxes, which increased the overall burden on end users and reduced the competitiveness of Indian goods in the international market, was one of the most important problems (Poddar & Ahmad, 2009). A complicated and ineffective system resulted from the Central and State Governments' disparate tax structures, which overlapped jurisdictions and had inconsistent tax rates and regulations. Administrative confusion and compliance issues resulted from the Constitution's allowance for both governmental levels to impose and collect various taxes, including Central Excise, VAT, Service Tax, and CST, on the same transaction or product (Nayyar & Singh, 2018). Additionally, businesses were not eligible for input tax credits on CST paid, despite the fact that interstate sales were subject to CST. This discouraged interstate commerce and promoted market fragmentation (Roychowdhury, 2012). Separate authorities handled the taxation of goods and services, which led to classification disputes. This was especially true for intangibles like software, copyrights, and digital goods, which were hard to classify under the current laws (Poddar & Ahmad, 2009). Furthermore, the growth of the service sector, which made up a sizable portion of GDP, brought attention to a structural problem because only the Central Government was able to impose taxes on services, which resulted in states losing money (Garg, 2014). Cross-verification and filing returns were difficult and prone to errors because the technology infrastructure needed to support compliance and tax administration was either non-existent or inconsistent across states. Because there were over 15 different kinds of indirect taxes at different levels, taxpayers had to deal with numerous registrations, return filings, and compliance procedures, which increased the cost of compliance (Chakraborty & Rao, 2010). According to Shokeen, Banwari, and Singh (2017), the overall tax-to-GDP ratio remained lower than in other emerging economies, indicating inefficiencies in tax administration and collection. A unified and simplified tax system, such as the GST, was required to address these complex issues and improve India's indirect taxation system's efficiency, fairness, and transparency.

Need for GST

Deeply ingrained inefficiencies, distortions, and injustices in India's prior indirect tax system made the Goods and Services Tax (GST) necessary. With its numerous levies imposed by various levels of government, including excise duty, service tax, VAT, CST, and entry taxes, the fragmented tax system led to a limited tax base, cascading tax effects, and an inability to facilitate smooth credit flow, all of which hampered economic growth and efficiency (Poddar & Ahmad, 2009). The Task Force on GST (2009) emphasised how the current system resulted in resource misallocation, deterred compliance, and charged businesses exorbitant compliance fees.

Furthermore, because the tax burden disproportionately impacted manufacturing and deterred formalisation, India's tax system failed to maintain equity and neutrality (Roychowdhury, 2012). The GST was intended to be a comprehensive reform that would consolidate all significant indirect taxes into a single, consistent tax that would be applied nationwide, uniting the Indian economy under a single market and encouraging cooperative federalism (Kelkar, 2009). One of the main justifications was to eliminate embedded taxes and establish a system in which the tax incidence was mainly on domestic consumption rather than production, thus promoting exports (Shokeen, Banwari, & Singh, 2017).

Additionally, it sought to increase revenue productivity for both the federal and state governments, decrease distortions by combining goods and services under a single regime, and expand the tax base (Garg, 2014). The GST was designed to be a technology-driven, transparent, and streamlined system that would improve tax administration, reduce tax evasion, and lessen compliance burdens for businesses. Nayyar and Singh (2018) claim that the GST promised to harmonise tax rates, minimise exemptions, redistribute the tax burden fairly between the manufacturing and service sectors, and encourage investment and consumption by lowering the overall tax burden on consumers. All things considered, the move to the GST was not just a change in policy; rather, it was a structural requirement to update India's tax code, increase GDP, and create a more integrated and competitive economy.

Structure and Working of GST

A complicated network of federal and state levies has been replaced by India's Goods and Services

Tax (GST), a comprehensive, destination-based indirect tax that creates a single national taxation system. In terms of structure, GST in India is divided into two parts: Integrated GST (IGST) for interstate supplies and Central GST (CGST) and State GST (SGST) for intrastate transactions. The Central Government collects CGST, the State Governments collect SGST, and the Centre collects IGST before allocating it to the states (Nayyar & Singh, 2018). This arrangement balances the fiscal autonomy of the States and the Centre, conforming to India's federal system. From manufacturing to the last sale, the tax is imposed at each step of the supply chain; however, credit is given for taxes paid on

The smooth operation of GST includes the input tax credit (ITC), which taxes only the value addition at each stage by crediting the tax paid on the purchase of inputs and services against the output tax due. For instance, a manufacturer paid VAT and excise duty under the previous system, which increased the base for additional taxes. ITC is said to lower tax liability, and GST imposes a single tax (Poddar & Ahmad, 2009).

While IGST is applied for interstate transactions, CGST and SGST are applied concurrently to the transaction value for intrastate supplies (Roychowdhury, 2012). According to Chakraborty and Rao (2010), businesses must register for GST and submit regular returns via the GSTN portal, a technologically advanced infrastructure that allows invoices and tax credits to be matched in real-time, minimising tax evasion and promoting transparency. By standardising tax rates and procedures nationwide, the input tax credit mechanism guarantees tax neutrality across goods and services and streamlines compliance. Additionally, rate slabs, exemptions, and policy changes are decided by the GST Council, which is composed of representatives from the Centre and the States (Garg, 2014). By creating a uniform tax system, the GST has simplified tax administration, decreased the burden of compliance by doing away with multiple returns, and made doing business easier (Shokeen, Banwari, & Singh, 2017). In conclusion, the structure and operation of the GST have transformed indirect taxation in India by combining different taxes into a single system, encouraging effectiveness, openness, and internal economic integration.

```plaintext
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                         |     Central Govt.    |
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          |                                               |
   Intra-State Supply                              Inter-State Supply
          |                                               |
+-------------------+                         +---------------------------+
|  CGST (Central)   |                         |          IGST             |
|  +                |                         |   (Collected by Centre)   |
|  SGST (State)     |                         |  Shared with State later  |
+-------------------+                         +---------------------------+
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Chart: GST Tax Flow – From Manufacturer to Consumer

Stage	Cost Price	GST Rate	Tax Amount	Sale Price	Input Credit	Net Tax Paid
Manufacturer	₹100	18%	₹18	₹118	-	₹18

Wholesaler	₹118	18%	₹21.24	₹139.24	₹18	₹3.24
Retailer	₹139.24	18%	₹25.06	₹164.30	₹21.24	₹3.82

Impacts on Stakeholders

Businesses, government officials, and consumers are just a few of the many stakeholders that have been profoundly impacted by the Goods and Services Tax (GST), which has significantly altered the Indian economy. By combining several central and state-level indirect taxes, including excise duty, VAT, service tax, and octroi, into a single tax system, GST has made compliance easier for companies and trade entities. This has reduced the number of taxes and associated expenses (Nayyar & Singh, 2018). Due to the elimination of state-specific entry taxes and check-post delays, this tax consolidation has improved business operations, particularly in the areas of supply chain management and logistics.

Furthermore, the availability of Input Tax Credit (ITC) throughout the supply chain has prompted companies to keep accurate records and invoices, increasing transparency and lessening the "tax on tax" cascade effect (Kelkar, 2009; Poddar & Ahmad, 2009). Indian goods are now more competitive in both domestic and foreign markets thanks to the removal of cascading taxes, which drastically reduced production costs overall, particularly for manufacturing sectors (Garg, 2014). The GST's zero-rating of exports, which made sure that no tax burden was incorporated into exported goods and improved India's standing in international trade, was especially advantageous to exporters (Roychowdhury, 2012).

However, because GST imposed a uniform tax rate (typically 18%) on the majority of services, service-oriented businesses initially found it difficult to adjust to the new system. This increased the tax liability in industries such as IT and telecom (Adhana, 2015).

The GST is viewed by the government as a revolutionary measure that will enhance tax administration and broaden the tax base. In order to reduce tax evasion and black market activities, the government has improved monitoring, invoice matching, and compliance by utilising technology through the GSTN (Goods and Services Tax Network) (Chakraborty & Rao, 2010). Through the Integrated GST mechanism, a more equitable distribution of tax revenue between producing and consuming states was made possible by the GST's transition to a consumption-based tax system (Poddar & Ahmad, 2009).

Additionally, as small businesses that were previously unregistered were brought under the formal tax system, revenue buoyancy improved and the tax net grew (Shokeen, Banwari, & Singh, 2017). By jointly determining tax rates, exemptions, and regulations, the GST Council—a federal body made up of representatives from the Union and the States—has been instrumental in maintaining cooperative federalism (Nayyar & Singh, 2018).

The introduction of GST promised a more predictable and transparent pricing structure for consumers. The GST's consistent tax application and smooth input credit helped lower prices in a number of industries, including consumer durables, FMCG, and automobiles, as the previous tax system had hidden costs from numerous cascading levies (Garg, 2014). Furthermore, in order to minimise the impact on the most vulnerable segments of society, basic necessities like unbranded food products, healthcare, and education services were either exempt or placed under the lowest tax brackets (Chakraborty & Rao, 2010).

Since the GST abolished state-specific taxes like entry tax and entertainment tax, consumers also benefited from consistent pricing across states, which promoted the development of a "one nation, one market" system (Roychowdhury, 2012). However, there were slight price increases in some sectors, especially services, which affected urban consumers' monthly expenses, particularly in areas like online subscriptions, insurance, and telecom (Adhana, 2015). A more transparent, effective, and inclusive taxation system in India's quickly changing economy is largely viewed as having been established by the GST, despite these transitional hiccups.

International Comparison

India's introduction of the Goods and Services Tax (GST) puts it in a larger global framework where numerous nations have streamlined indirect taxation by implementing comparable value-added tax (VAT) or GST systems. A comparison of GST systems in other countries reveals both the distinctiveness and similarities of India's strategy. Similar to nations like Canada and Brazil, where the federal and provincial governments share taxation authority, India uses a "dual GST model," in which the central and state governments impose taxes simultaneously (Nayyar & Singh, 2018).

This dual model was created to accommodate various regional fiscal needs while also fitting India's federal constitutional framework. The United States, on the other hand, does not have a federal GST and instead depends on state-level sales taxes, but nations such as Australia and China have national GSTs, in which the central government imposes the tax and distributes the proceeds to the states (Poddar & Ahmad, 2009). With models such as the Harmonised Sales Tax (HST) and the Quebec Sales Tax (QST), which reflect differing degrees of federal and provincial integration, Canada's GST system is even more diverse (Kelkar, 2009).

While most nations use a single standard rate with few exemptions, India has a multi-tiered structure with slabs of 0%, 5%, 12%, 18%, and 28%. For example, New Zealand has a single 15% GST rate, which simplifies administration and reduces compliance expenses (Garg, 2014). The Netherlands, France, and Germany have higher GST/VAT rates of 20–21%, 19%, and 20%, respectively (Central Board of Excise and Customs, 2017).

While Brazil maintains a similar dual structure with combined federal and state rates varying between 17% and 25% depending on the type of goods and services, China and Pakistan have rates among emerging economies that are comparable to India's, at about 17% (Roychowdhury, 2012). Aiming to strike a balance between revenue generation and social equity, India places luxury and sinful goods under the highest tax slab of 28% and exempts necessities from taxes.

However, this approach complicates administration and compliance (Shokeen, Banwari, & Singh, 2017).

India's widespread use of technology, as demonstrated by the GSTN portal, which permits online return filing and real-time invoice matching, is another unique feature. Given its enormous economic size, diversity, and levels of digital literacy, India has implemented the GST in a particularly ambitious manner, even though nations like Australia and Singapore have long embraced digital platforms for the tax (Chakraborty & Rao, 2010). The simplified models in smaller economies that prefer uniform rates and fewer exemptions have frequently been contrasted with India's multi-rate structure and compliance requirements, despite the fact that they were created for inclusivity and revenue neutrality (Adhana, 2015).

India's GST framework, in spite of the early implementation difficulties, is a noteworthy step towards conforming to international best practices while simultaneously modifying the system to suit its federal governance and socioeconomic diversity. As a result, the international comparison shows that although India has embraced global value-added taxation principles, it has also modified its model to accommodate regional administrative and constitutional realities.

Implementation Challenges

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Conclusion

The implementation of the Goods and Services Tax (GST) represents one of the most significant and ambitious tax reforms since independence and represents a radical change in the fiscal architecture of the nation. GST has greatly increased tax compliance, decreased cascading effects, and simplified the cost of doing business across sectors by replacing a disjointed network of indirect taxes at the federal and state levels with a single, transparent, and technologically advanced framework. Its dual structure, which was thoughtfully designed to fit India's federal structure, guarantees equitable revenue sharing and encourages cooperative federalism. All major stakeholders have benefited from GST, despite early transitional difficulties: businesses now operate in a simplified tax environment with seamless input credit; the government has increased its tax base and improved revenue buoyancy; and consumers enjoy more stable prices and less inflationary pressures. Furthermore, India's model is notable throughout the world for its inclusiveness, dynamic rate structure, and technological ambition—all of which strike a balance between social equity and efficiency. In addition to being in line with international best practices, India's GST is designed to take into account its wide-ranging and varied economic environment. GST has the potential to accelerate India's economic integration, competitiveness, and long-term growth trajectory as it develops and is further refined through active policymaking and stakeholder dialogue, thereby fulfilling its mission of "One Nation, One Tax, One Market."

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