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# TAX, GST AND GOVERNMENT

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## ABSTRACT

*Taxes are the primary source of income or revenue for all governments worldwide since they are needed for welfare programmes that support and contribute to the state's balanced development. One of the most significant economic reforms to the Indian economy since Independence is the goods and services tax, sometimes known as the good and simple tax. The main intention of introducing GST was to reduce black money and boost transparency among government officials.*

*With a decrease in transaction costs, trade and industry would progressively become more competitive. The Goods and Service Tax (GST) rollout and the elimination of interstate checkpoints are seen by the World Bank as the two most major reforms that could improve India's manufacturing sector's competitiveness.*

## INTRODUCTION

*“Isn't it appropriate that the month of the tax begins with April Fool's Day and ends with cries of 'May Day!?'” Rob Knauerhase:*

The word 'tax' is derived from a Latin word, 'taxare' which means to estimate. In the first dynasty which lasted from 3000 BC to 2800 BC, ancient Egypt initially instituted taxation. According to historical records, the Pharaoh would visit the kingdom every two years to levy taxes on the populace. For the government to keep functioning and for the maintenance of the nation's law and order, it needs funds. The government requires money for welfare programmes to support and contribute to the state's balanced development. Subsequently, taxes are the main source of income or revenue for all governments worldwide.

India is the largest democracy in the world and also it is a republican and socialist nation with a federal structure being the central and state governments are part of the framework. The government share foremost accountability for handling the nation's expanding development demands, which are majorly taken care by the taxes as taxes are the main source of revenue, to promote economic growth and accomplish socio-economic objectives. It is pertinent to note that a supporting law must be passed by the State Legislature or the Parliament to support any taxes that are imposed for better effectivity.

**Goods and Services Tax** is known as the **GST**; it was passed in Parliament on 29th March 2017 and came into effect on 1st July 2017. This is an indirect tax replacing many indirect taxes in India (such as excise duty, VAT, services tax, etc)<sup>1</sup>. The idea of implementing GST was first recommended by the Union Finance Minister of that time, P. Chidambaram in his budget speech in the year 2006-07. Thereby, it was planned to initiate the idea of GST from 01 April 2010 but was later enacted 7 years later by the present government.

Many economists ascertain that the implementation of the Goods and Services Tax (GST) is a major development in India's indirect tax reforms. GST has and will significantly reduce the negative impacts of cascading or double taxation by combining a variety of Central and State taxes into a single tax and opening the door to a single national market.

Primarily the enactment of GST would benefit the consumer since there would be a decrease in the overall tax burden on goods, which is now estimated to be between 25% and 30%. Also, it would help the consumer to have much better access to information about the true cost of indirect taxes on goods and services. Additionally, due to the complete neutralisation of input taxes along the whole value chain of production and distribution, the introduction of GST will also increase the competitiveness of Indian products in both home and foreign markets. Hence, adding to the economic growth of the country with aware consumers in the economy.

As quoted by then Finance Minister Arun Jaitely, "The old India was economically fragmented, the new India will create one tax, one market and for one nation<sup>2</sup>". Before GST, the tax used to be collected separately by the Centre and the State which caused the actual taxpayer levy from paying the taxes and the burden of paying the tax was shifted from one person to another person, to add on the complication the tax laws were varied from state to state.

According to the Income Tax Act of 1961, beneficiaries who earn more than the maximum exemption amount shall be subject to income tax at the rate or rates set forth by Finance law. A person, a HUF, an association, a group of people, a business, an enterprise, a municipal authority, etc. can all be assessed and the entire income of an individual depends on their residence status in India (Individuals might be residents, non-residents, or non-ordinary residents for tax purposes).

"A tax on products and services with value creation in every phase with a comprehensive and continuous chain of benefits from service providers point to the retailer level where only the end customers should face the tax," defines goods and services tax (GST), it is a destination-based consumption tax levied on several production distribution stages of goods and services. In addition to state and local taxes, entertainment taxes, excise taxes, surcharges, and octroi are all combined in one tax. It is applicable to the transaction value, which takes packing, commission, and other sale-related expenses into account. Whether it be goods or services both are treated equally under the GST, and throughout the supply chain, they are taxed only once before being made available to customers, making it less complicated and keeping track of double taxation.

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<sup>1</sup> CLEAR TAX, *Goods & Services Tax GST (India) What is GST? Indirect Tax Law Explained*, (Jan 11, 2022), available at: <https://cleartax.in/s/gst-law-goods-and-services-tax> (Last visited on Oct 17, 2022)

<sup>2</sup> INDIAN EXPRESS, *GST in reality is 'Good and Simple Tax': Top quotes from GST rollout launch*, (July 1, 2017), available at <https://indianexpress.com/article/india/goods-and-services-tax-rollout-narendra-modi-arun-jaitley-pranab-mukherjee-parliament-4729802/>, (last visited on Oct. 15, 2022)

## HISTORY

Despite having a long history, the tax had a very limited impact in the ancient world. There were consumption taxes which were imposed in ancient Greece and Rome. In terms of generating revenue, tariffs—taxes on imported goods—were substantially more significant than internal excises. When it came to property, taxes on the property would be temporarily imposed during times of war as a way to raise additional revenue, these taxes were initially only applicable to real estate, but they were eventually expanded to cover other assets. Transactions involving real estate were also taxed. The tax laws of the Roman Empire made distinctions between citizens and residents of conquered lands in Greece, where free citizens had different tax duties from slaves.

Many of these old taxes, particularly the direct levies, were replaced by a system of "aids" and various required duties during the Middle Ages (most of which amounted to gifts). Transit tariffs, which are levied on products passing through a country, and market fees were the principal indirect taxes. In the cities, the idea of a universal tax responsibility emerged; taxes on certain foods and beverages were meant to be paid in equal measure by consumers, producers, and businesspeople. The introduction of head taxes for the poor and net worth taxes or, sporadically, crude income taxes for the wealthy occurred during the later Middle Ages in various German and Italian cities. Land and housing taxes eventually went up.

Much more than taxes have impacted the Revolutions, wars have been significant in influencing taxation. Many taxes, like the income tax (first enacted in Great Britain in 1799) and the turnover or purchase tax (first enacted in Germany in 1918; Great Britain in 1940), was initially intended to be "temporary" wartime measures. Similar to this, France, the US, and Britain all developed the withholding technique of income tax collection during the Second World War. Income taxes in various nations were changed during World War II from being upper-class levies to mass taxes.<sup>3</sup> Henceforth, the context of tax was similar to what it is today that is generating revenue for the working of the empire then and the government today.

Even before taxes made up a significant portion of the national revenue, they have historically been a contentious political issue. The American colonies' insurrection against Great Britain is a well-known example. In that uprising, the colonists refused to pay taxes levied by a Parliament in which they had no say, hence the slogan "No taxation without representation" began to oppress the parliament. Another example is the French Revolution of 1789, which had a significant impact due to the unequal distribution of the tax burden.

## HISTORY OF TAX IN INDIA

India had a formal tax established since the Mauryan period. The wealthier folks paid 1/6th of their income in taxes. According to history, the tax was scripture in Manu Smriti, one of India's oldest books, even before the Mauryas. Later Mughal invaders brought their own revenue system with them. The infamous Jizya was levied against the nation's non-Muslim residents, which was later abolished by the third Mughal emperor Akbar, in 1579<sup>4</sup>.

In 1860, the British first imposed the income tax in India in the form we know today. It was put in place to make up for the losses the government suffered as a result of the 1857

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<sup>3</sup> BRITANNICA, Maria S. Cox and Charles E. McLure, *History of Taxation*, <https://www.britannica.com/topic/taxation/Principles-of-taxation> (last visited on Oct 22, 10:53)

<sup>4</sup> WIKIPEDIA, *Jizya*, available at <https://en.wikipedia.org/wiki/Jizya>, (last visited on Oct 12, 2022)

insurrection. The annual charge imposed on both earned income (*Income is the amount that a person or company receives in return for rendering goods or services*) in the form of wages, salaries, or commissions and unearned income, such as dividends, interest, or rent, is known as income tax.

Progressive income tax in simple words is the tax imposed upon the taxpayer on the basis of his income that is if his income is less then, a less percentage is levied upon him than the one with a higher income. This type of tax is intended to finance a government's activities as well as more equitably divide the wealth among the populace and act as a safety net during economic cycle changes. Personal income tax and corporate income tax are the two main categories of income tax.<sup>5</sup>

Since the Income Tax Act's enactment in India in 1886, it has undergone numerous amendments and improvements. A new Income Tax Act was enacted in 1918 following the First World War, once more to combat the lingering effects of the economic destruction brought on by the war. Up until 1922, when it was replaced by another Act, this income tax law was in effect.

Change is the key to success, to be one the Income Tax Act was reformed once more after 40 years after India had obtained independence from the British. The current Income Tax Act was enacted on April 1, 1962, following its adoption in 1961 including Sikkim, Jammu, and Kashmir, as well as all of India. Under the regulations of the Central Board of Revenue Act, of 1963, the Central Board of Revenue divided the two types of taxes i.e., direct and indirect tax and established a separate board for direct taxes, known as the Central Board of Direct Taxes.

## GOVERNMENT AND GST

Goods and service tax or Good and simple tax is considered to be one of the greatest reforms in the Indian economy after the Independence. It was brought with aim of removing black money and eradicating corruption from the government functionaries promoting transparency. The Concept of GST is however not new to India, but the mechanism of the GST Council is significantly unique, as India is a quasi-federal economy GST council came with provisions which matched the demands of the Centre and State resulting in the amalgamating seventeen laws to bring up one that is GST.

GST, as it is today, was brought into force during the reign of the Bhartiya Janta Party, which once opposed it when Congress tried to implement it. As it is believed it was the dream of the congress party, ironically it was then opposed by Bhartiya Janta Party. However, whoever proposed it, now that it is in force and it has been more than five years, it seemed to have faced various challenges politically as well as economically in the practical aspect.

Every coin has two sides; GST has its too, one where it seems to be promising in the long run and another where it is technologically uplifted which creates problems for those who are not prone to technology although it will be accessible to all in the coming era as with use the usage gets easier.

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<sup>5</sup> LEVARE, *History of Taxation in India*, <https://www.levare.co.in/articles/history-taxation-india> (last visited on oct 23, 10:14)

## COVID AND GST

Covid 19 pandemic affected not only India but the whole world leaving none, it did not just destabilize the health sector and economy of not just developing countries but also developed countries. As GST was introduced in 2017 and as it completed its 2-year anniversary a few months later the whole country went into lockdown except for the health sector which required governmental funds, funds which are maintained via tax collection. Subsequently in its early GST was tested by the pandemic situation. The government collects GST from the goods and services offered but as the country was in lockdown it was difficult to collect tax from these means.

The places with higher tourism and travel offering services hit a steep fall in the collection of the GST, as this is the service sector wherein everything came to a halt and there were no services left to offer for the GST to be collected. The manufacturing sector suffered as there was a suspension on the activities of production, which disabled the GST collection on the majority of the goods. However, the manufacturing sector contributes less to than the services sector to the GDP and both sectors were affected by this global epidemic which knocked out the GDP of the country<sup>6</sup>.

The government initiated new cultures such as Digital India Culture and other aspects like work from home and online education system etc., such initiatives kept the economy to not fall. The collection of the GST was extended and the loan payments were deferred as the banks relaxed the customers from payment of the loan amount. As they say, the test is on a rocky road and if you drive past that then you will pass the test, on that same note it appears that with some relaxation and initiative the government was able to keep the economy intact.

## BENEFITS OF GST

With expanding the tax base and enhancing taxpayer compliance, the GST is anticipated to boost government revenue, and many other benefits will be and are offered via GST some of them are as follows: -

- By eliminating rate arbitrage between neighbouring States and between intra- and inter-State sales, uniform GST rates will lessen the incentive for evasion.
- Compliance will be made simpler and easier by the harmonisation of laws, regulations, and tax rates. Through the GST portal, there would be uniform definitions, forms and formats, and an interface, leading to efficiencies and synergies everywhere. Additionally, this will end interstate conflicts regarding entry tax and e-commerce taxation as well as multiple taxations of the same transactions. All of this will also assist in lowering compliance costs and removing the need for numerous records keeping for various taxes, both of which will result in a decrease in the resources and labour used in preserving records.
- The ability of trade and industry to compete would gradually increase with a reduction in transaction costs. The World Bank considers the Goods and Service Tax (GST) rollout and the removal of interstate checkpoints to be the most significant reforms that could increase the manufacturing sector of India's competitiveness.
- The GST is anticipated to reduce the average tax burden on business and commerce, which will lead to lower pricing and higher consumption, ultimately leading to improved production

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<sup>6</sup> Dr. Arundhati Roy Biswa Bhusan, *Impact Of Covid-19 On Goods And Services Tax (Gst) With Respect To Micro Small And Medium Enterprises (Msme) Sector*, Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(9). ISSN 1567-214x, (Sep 17, 2020)

and better industry growth. It is anticipated that domestic demand would rise and that local enterprises will have more chances, leading to an increase in employment nationwide.

## DISADVANTAGES OF GST

As we all know, the GST is changing how tax is paid, businessmen are now required to hire tax professionals in order to be GST-compliant, and due to this added expense of hiring experts, this will gradually raise costs for small enterprises. Additionally, firms will now need to teach their staff members about GST compliance, which will increase their overhead costs. Only companies with annual sales of more than Rs. 1.5 crore were required to pay excise duty under the old tax system. Whereas now with the new tax system i.e., GST, businesses with annual sales of more than Rs. 40 lakhs are also required to pay tax.

## IMPACT OF GST

GST being the regime was introduced to bring change in the present economic structure which led to major and minor impacts in the economy, some are visible today and others will be in the long run. The authors have attempted to analyse the past and present situation elaboration is mentioned below:

1. Common man: So far since the last 5 years of implementation of GST, it has been a win-and-lose situation for the common man, as there have been certain complexity removal as well as there is heavy imposition of tax on certain goods and services. Although a wide perception as per the survey organized by the Local Circle of Consumer Affairs, the Local Circle nearly 54 per cent of the people believed that the GST implementation has enhanced the expenses of the household of the month nearly by 30 per cent<sup>7</sup>. However, initially the inflation which is observed in the short term will be eradicated in the long term.
2. Businesses: GST has helped the manufacturer in simplifying the tax structure but at the same time due to it being a new regime hiring professionals for them to understand the concepts of the same increased their short-term cost however it will have a good impact in long run.
3. Government revenue: For the government, GST is going to be a good income generator in long term, despite all the challenges faced today and in the past just because of the change implemented, and change is always difficult in the beginning.
4. Real Estate: Real estate is considered to be the best investment as it never disappoints in long run and with the introduction of GST the stamp duty is excluded hence the extra cost which was incurred later with the property will be reduced.

## CONCLUSION

GST is a simplified tax reform, it has had a long and refined journey. Initially, it will be difficult for all the sectors to cooperate accordingly but eventually, it will be observed as a boon in all the sectors of the economy. It is just not India, it has already been implemented in many other developing and developed countries, long before India. A simplified and single tax form has escalated the development of the country with increased GDP in the longer run.

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<sup>7</sup> SAGINFOTECH, Sourabh, *GST impact on common man* (Dec 29, 2021) <https://blog.saginfotech.com/gst-impact-on-common-man> (last visited on Oct. 26, 2022)