

“GOODS AND SERVICES TAX: A FRAMEWORK FOR DEVELOPING A UNIFORM MARKET IN INDIA”

Parmil Kumar

Asst Prof Commerce, Govt. P.G. College Ambala Cantt.

I. INTRODUCTION

Goods and Service tax is the first comprehensive tax structure which is expected to bring to reality a national common market removing geographical tax barrier to the movement of goods and services with minimum number of tax rates as well a simple tax structure. This new legislation will provide opportunities for use of advance technology solutions with reduced human inter-face in tracking transactions and movements of goods resulting in prompt detection of defaults and evasion thereby substantial increase in tax compliance along with increased tax revenue. This revolutionary reform in indirect taxes will not only integrate Goods and service tax structure but also integrate tax structure of the government of India and state governments, with a fresh look at tax rate structure.

Non compliance of taxation laws and sub optimal realization of the tax revenue have engaged the maximum attention of the government. Majority of the improvements in the tax law, organizational set up and the monitoring systems have been effected with an aim to remove various deficiencies. The basic objective of any taxation policy should be that the trade and industry should be able to comply with the provision of tax law with the least of time and money cost. The taxation laws should be simple and unambiguous and the nature of record to be maintained, return to be submitted, in term of content and periodicity, should be commensurate with the size and complexities of the business. Secondly, the rate of tax should not be prohibitive. Single point tax system, was considered an inefficient way of taxation because it led to huge tax evasion, very high rates of taxes, multiplicity of tax rates and large number of disputes. Major historical step in this direction was the adoption of Value Added Tax (VAT) system. Thus VAT, which has fixed at a country wide uniform rate 12.5 percent on all but a few commodities, is based on simple idea that one man's output is

another's input in the production or sale process and a tax should be paid on the value added at each stage. This has replaced the structure of tax rates with two or three rates within specified bands, applicable in all the states and union territories. VAT is a simple and

transparent tax on articles which had removed cascading nature of sales tax. Moreover, the rationalization of taxes resulted in lower tax burdens and higher tax revenues that resulted as most ideal form of substitute for cumbersome indirect taxes.

The next revolutionary reform in indirect taxes will be in the form of Goods and Services Tax. Dual Goods and Services Tax, proposed to be levied by the GOI (Government of India) and the states on the common base, is expected to bring about further substantial reforms which will help in removing distortions in the tax structure and provide a level playing field to the enterprises. Several state level and central

indirect taxes i.e. VAT, Entry Tax, Tax on Consumption, Entertainment Tax, Central Sales Tax, Central Excise Duty Service Tax and CANVAT on import are likely to be subsumed in Goods and Services Tax (GST) which will not only integrate Goods and Services tax but also integrates the tax structure of the GOI (Government of India) with the tax structure of the state governments, having a fresh look on the tax exemption and rates structure. Simple tax laws and low tax rates are the very important factors in increasing tax compliance. Moreover, good governance plays more vital role and yield better tax revenues. Good governance implies

1. Designing simple and rational taxation laws
2. Efficient administration of the tax laws
3. Optimum utilization of the tax and other revenue of the government
4. Accountability, transparency and consistency in the interpretation of the provision of the law and its enforcement
5. Stability in the administration, easy access to stakeholders, participation of stakeholders, rule of law, capacity and competence
6. Moreover it should provide a level playing field to all the parties i.e. participating business units and the states.

Level playing field here means the providing equal economic and regulatory framework to the trade and industry so that market forces may determine the performance of the business.

Level playing field comprises the following elements:

Legislative aspect:

Legislative aspect means ensuring equality of law.

Extraordinary large benefits should not be offered to new industrial units or existing units with no quantified economic justification this creates significant unequal situation for other existing or new units. Grant of excise duty exemptions or sales tax exemptions means benefits to new units enjoying such incentives, making it difficult for the other units to compete with such units despite having comparable technical, economical and managerial efficiency. This exercise results in closing down the existing units and establishment of new units by the same manufactures to avail the financial incentives or exemption/benefits. Another important aspect of legislative structure is the differential tax rates for the same products across the country and particularly in the nearby states leading to physical or paper diversion of the trade and various other unlawful activities with very adverse impact on the compliance of the law as well depriving a particular state of its legitimate revenue.

Administrative Aspects: means equal interpretation and equal enforcement of all the provision of law, this could be ensured with the transparency and accountability in the administrative system which again supplemented by independent judicial system. Lack of equal interpretation and enforcement of law erodes faith in the administrative system leading to increased non-compliance. This type of flaws results in unjust enrichment of a few, in collision with the corrupt official or with political patronage. These practices tend to develop into a typical culture identified with the particular trade or industry. Such types of practices could be wiped out by strong political and administrative will and wide spread publicity of the consequences of non compliance.

Hence new law will have the following:

1. Simple and rational taxation law
2. Efficient administration of the tax law
3. Accountability, transparency and

consistency in the interpretation of the provision and enforcement of the law

All these measures will provide a level playing field to all the enterprises and moreover will bring faith in the administrative set up which will bring assured compliance and more revenue.

If we want to analyze the reasons for non compliance of tax laws following factors are more responsible for non compliance-

Higher tax no doubt is the most responsible factor resulting in massive tax evasions. However simple tax laws are essential in facilitating compliance, in reducing transaction cost, and in making it easier to do business. Moreover policy makers has to make conscious efforts to evolve an administrative and legal framework which will ensure a level playing field to the various units in the same class of business in its final impact, which would include aggregate impact on profits due to fiscal and non fiscal benefits.

It would therefore results in substantial ease of compliance for dealers who will be required to deal with less number of agencies. Since GST will involve both Government of India and States, there to be near uniformity in the Acts and Rules of various states which will help in easier compliance not only by within state organization but also by multi state organizations.

Thus GST, therefore, has the potential to bring in additional revenue gains on account of fair tax system, by providing level playing to the dealers, along with wider tax base and moderate tax rates. Perquisites, of course remain a well designed GST, comprehensive preparatory steps and effective monitoring at the implementation stage over a period of time