GST – A DIRECTION FOR TAX REFORMS

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Abstract: **Tax reforms have been one dynamic process through successive governments until 2016. The principles have largely remained the same, a transparent, just equitable and fair taxation system that was easy to administer. Consistently, the governments of the day have been rationalising the Direct tax structure in such a way that the individual tax payer benefitted. The reforms for achieving simplicity in tax laws and their harmonisation are an ongoing process and the Goods and Services Tax (GST) is aimed at addressing this objective. The GST recommended by the 13th Finance Commission as 4th generation reform. The significant role that IT can play in comprehensive automation and integration of processes, minimising discretion by officials, data capturing and analysis for guiding policy decisions and for enhancing taxpayer services.**

I. INTRODUCTION:

The Indian constitution describes India as a union of states. Financial relation between the union and state governments are governed by constitutional provisions. The constitutions describes separately the source of resources tax and non tax revenues and borrowed funds for union and state government needed for discharging the administrative responsibilities entrusted to each. The basic point of financial relations is the division of tax sources between the centre and the states. There should be no overlapping of tax jurisdiction; otherwise it will cause confusion and conflict. The distribution of taxes in India is more logical and thorough then in other federation. Articles 268 to 281 of the Indian constitution deals with the distribution of revenue between the union and states. In the seventh schedule items 82 to 92(a) in the union list and items 45 to 63 in the state list refer to sources and taxation.

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COUNTRY	YEAR	RATEOF GST %
Australia	2000	10.0
France	1954	19.6
China	1980	5.0
U.K.	1994	17.5
Thailand	1991	7.0
Singapore	1994	5.0
New Zealand	1985	12.5

Sources: Economic Survey 2015.

The proposed GST will be a comprehensive Indirect Tax levy on the manufacture, sale and consumption of goods as well as services at a national level. It will allow a single price for each product across the country. The GST lies likely to reduce indirect taxes paid on most of the goods and services as it would avoid the cascading effect. In addition, the integration of good and services taxes will improve Introduction of a GST to replace the existing multiple tax structures of centre and state taxes are not only desirable but imperative in the emerging economic environment. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market.

Share of Tax Revenue in GDP (per cent)

	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2009-10
1) Central Taxes	4.2	6.0	8.0	9.7	10.11	8.80	10.29
a) Direct	1.8	2.0	2.2	2.2	1.94	2.97	5.84
b) Indirect	2.4	4.0	5.8	7.5	8.17	5.83	4.45
2) State Taxes	2.3	3.0	3.8	4.9	5.29	5.55	5.71
a)Direct	0.6	0.7	0.3	0.2	0.22	0.16	0.13
b) Indirect	1.7	2.3	3.5	4.7	5.08	5.39	5.58
3) Total Tax Revenue	6.6	9.0	11.8	14.6	15.4	14.52	16.0
a)Direct	2.4	2.7	2.5	2.4	2.15	3.41	5.97
b) Indirect	4.2	6.3	9.3	12.2	13.25	11.11	10.03

Source: *Government of India – Indian Public Finance Statistics (Various issues)*

tax collections and thereby help increase economic growth.

A country's tax-GDP ratio is an important indicator that helps to understand how much tax revenue is being collected by the government as compared to the overall size of the economy. However, despite many years of high growth, India's tax-GDP ratio continues to remain low, so much so that it has the lowest tax-GDP ratio among the BRICS countries. There is therefore, an urgent need to raise this ratio.

GST model have two separate components. Namely, the central GST(CGST) and state GST(SGST) will be introduced. Both central governments and state governments have to levy GST concurrently on all goods and services other than a small list of exemptions. GST will have a two-rate structure: a standard rate for most goods and a lower rate for necessities. A combined rate of 12% (8% for states and 4% for the central government) is seen to be revenue neutral.

The changeover to GST will be a game-changing tax reform which will measure significantly the buoyancy contribution of tax revenue, acceleration of growth and generation of many externalities. GST would be a landmark initiative which would kick start the next generation of reforms. All stakeholders would need to gear themselves for the regime.

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