



Opportunities and challenges in GST education from a policy perspective

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Abstract

India is one of the largest democracy in the world, which operates a federal tax system for the levy and collection of various taxes. Different types of indirect taxes are imposed at various points along the supply chain, with both the Centre and the States empowered to levy taxes as per the Constitution. The introduction of the Value Added Tax (VAT) was seen as a significant improvement over the previous Central excise duty and state-level sales tax systems. Now, the Goods and Services Tax (GST) represents a further major advancement and a logical step toward comprehensive indirect tax reform in the country. The change from the Central excise duty to the Central Value Added Tax (CENVAT) and the change or replacement of state sales taxes by VAT marked a key milestone in the system of reform of India's indirect tax system. These changes aimed to eliminate the cascading effect of taxes by allowing set-offs for taxes paid on inputs and prior purchases, leading to a simplified rate structure and an expanded tax base. However, both CENVAT and State VAT have their shortcomings. Despite various initiatives at the Centre, the current taxation regime remains cumbersome, complex, and user-unfriendly. In this context, the Central government tasked Dr. Vijay Kelkar, Chairman of the 13th Finance Commission, with recommending a rational, scientific, and modern unified taxation system akin to those in developed nations. This paper aims to explore and understand GST in India, focusing primarily on its opportunities and challenges within the Indian context.

Keywords: GST (Goods and Services Tax), Electronic-based tax system, Indian context, Democracy, Tax reform, Unified taxation system, Opportunities, Challenges. Tax laws, Compliance factors

Introduction

India's economy has grown up as the quickest in the world. Many factors have contributed to this expansion, including market reforms and a significant influx of foreign direct investment, growing reserves of foreign currency, booming information technology, and actual real estate industry and a thriving capital market. India's tax system has always been mostly dependent on indirect levies. Reforms were implemented throughout the 1990s. The main defence offered for a significant reliance on indirect taxes was the fact that most people in India were impoverished, expanding the base of There were inherent restrictions with direct taxation. However, the cascading and distorting taxes on the production of goods and services that characterize the Indian indirect tax system hinder productivity and slow down economic growth. The Goods and Services Tax (GST) is a straightforward tax that is necessary to eliminate the current tax system's innumerable levies, some of which are imposed by the state and others by the federal government. Multinational enterprises (MNEs) have become more prevalent in India in recent years, which has led to an increase in cross-border commerce. India has also been perceived as a vibrant and appealing investment destination. This has given the government numerous chances to enhance the nation's tax structure. This is an overview of the Goods and Services Tax concept, benefits, model, effect and drawbacks on the Indian economy.

India, one of the largest democratic nations in the world, levies and collects various taxes using the federal tax system. Various indirect tax kinds are imposed and collected at various stages in the supply chain. The Indian Constitution gives the federal government and the states the authority to impose their own taxes. The India's next natural step is indirect tax reform is the Goods and Services Tax

(GST), which will be another major breakthrough. One significant milestone in India's reform of indirect taxes was the substitution of the Central Excise Duty (CENVAT) by the Central Value Added Tax (VAT) and the State governments' sales tax system by the VAT. By providing set-off for tax paid on inputs as well as tax paid on prior purchases, it addressed the cascading effect under the old system and led to a significant simplification of the rate structure and expansion of the tax base. However, there are certain gaps in both the State VAT and the CENVAT. Despite several efforts by the various Centre machinery, the current tax system is seen as onerous, convoluted, and unwelcoming.

Review of literature

The author attempted to review the relevant literature before starting the research project.

Numerous scholarly articles and research papers offer a thorough understanding of GST.

These are the results from the literature

Poirson (2006) examined the Indian tax structure from the standpoint of how well it promotes economic expansion. After contrasting the Indian tax system with that of other nations, the author came to the conclusion that the Indian economy is heavily dependent on indirect taxes, that productivity and effective tax rates are lower, and that marginal tax rates are greater. The analysis came to the conclusion that marginal effective tax rates are high, effective tax rates are lower, and indirect taxes make up a significant portion of overall taxes, which may be regressive.

According to a 2009 study by Ehtisham Ahmed and Satya Poddar titled "Goods and Service Tax Reforms and

Intergovernmental Consideration in India," the implementation of the GST will result in a clear, straightforward tax structure that will boost the country's economic production and productivity"². However, the sensible design of the GST is essential to its benefits. The Road Map for Implementation of Goods and Service Tax was studied in 2012 by Jana V. M., Sarma, and V. Bhaskar. He discovered that the actions needed to put the comprehensive tax system—GST—into effect. The writers have shed light on the necessary constitutional modification for the introduction of Goods and Services Tax (GST) in India. After researching "Goods and Service Tax- A Way Forward," Nitin Kumar (2014) came to the conclusion that the introduction of the GST in India will assist eliminate the economic distortion caused by the country's current indirect tax system and would likely promote an impartial tax system that is location-neutral.

The Indian constitution gives the federal and state governments the authority to impose the appropriate taxes, as noted by Srinivas K. R. (2016) in his article "Issues and Challenges of GST in India." This will probably alter the entire structure of the country's current indirect taxation system. In place of the numerous indirect taxes imposed by the two governments, the products and Services Tax (GST) will be a compressive indirect tax framework on the production, sale, and consumption of goods and services all over the country.

Nayyar and Singh (2017) in their study cited that introduction of GST is a major breakthrough in the Indian economy. It helps in redefining the Tax Structure of India by being more transparent.

Yadav and Shankar (2018) in their research paper analyzed the history and evolution of GST in the country and how it has replaced various indirect taxes.

Objectives of the Study on GST

- Analyze Significant Tax Reforms:** To examine the major tax reforms in India, with a focus on the Goods and Services Tax (GST) and its restructuring model.
- Assess Economic Implications:** To evaluate the implications of GST for the Indian economy, including its advantages and disadvantages.
- Eliminate Cascading Effects:** To investigate how GST aims to eliminate the cascading effect of taxes on production and delivery costs for goods and services.
- Enhance Competitiveness:** To analyze the potential of GST to enhance the competitiveness of goods and services, contributing positively to GDP growth.
- Simplify the Indirect Tax System:** To assess the effectiveness of GST in simplifying India's indirect tax system through the integration of various indirect taxes.
- Identify Exclusions:** To understand the rationale behind excluding certain goods, such as petroleum, alcohol, and tobacco, from the GST framework.
- Evaluate Implementation Challenges:** To identify and analyze the challenges associated with the full implementation of GST and the integration of all indirect taxes.

Methodology

The study conducts a comprehensive analysis using secondary data from government websites, national and international journals, publications, conference papers, reports, newspapers, and magazines, all related to tax structure and GST. As a theoretical review, its primary aim is to explore and understand GST in India, specifically focusing on the opportunities and challenges it presents in the Indian context.

Understanding Taxation System in India

India operates as a federal country where both the Centre and States have distinct rights to collect taxes, as outlined in the Constitution. The Centre is responsible for direct taxes (such as income and corporate tax) and indirect taxes like Service Tax, Excise Duty, and Customs Duty. States, on the other hand, collect indirect taxes such as VAT, CST, and local taxes, retaining the revenue for their own use.

Previously, States relied on sales taxes, which have now been replaced by VAT, allowing each state to implement its own structure. The Finance Commission oversees the allocation of a portion of Centre-collected taxes to States, defining the rules for this transfer.

Historically, taxpayers faced multiple levels of taxation without the ability to claim rebates on previous taxes paid, leading to a cascading effect. Ideally, taxes should be based on value addition, but the lack of such a system resulted in higher tax burdens that hindered business activities. This scenario often compelled businesses to focus on tax avoidance strategies, contributing to a parallel economy and prompting many enterprises to operate outside the tax system. High taxes also fueled lobbying efforts for tax reductions in specific sectors, resulting in varying tax rates across products and increasing inefficiencies in the overall tax system.

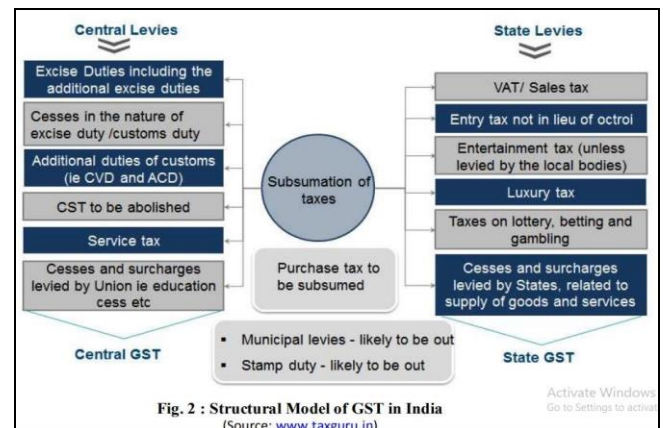


Fig. 2 : Structural Model of GST in India (Source: www.taxguru.in)

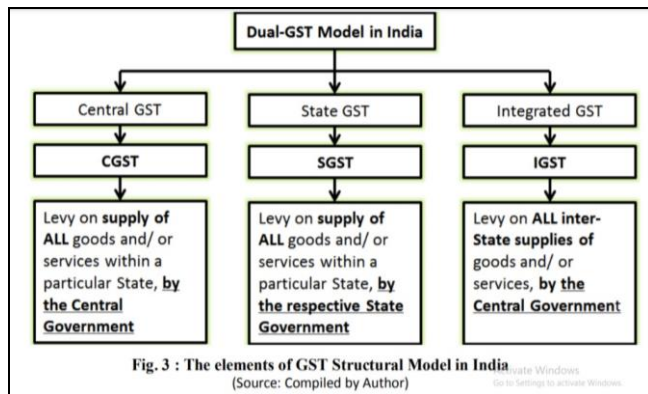
Concept of GST

Globally, there is a tax on goods and services known as GST or VAT, which is implemented in about 150 nations. The GST model does not distinguish between products and services in order to charge taxes on tax. Put another way, the tax rate is the same for both commodities and services. A multi-tiered tax, the GST. The final tax payer is the person who purchases the goods or services. Value added tax is the term for it because tax on the value addition is paid at every level. As per the GST scheme, one individual who, whether through the sale of commodities or the provision of services, was required to pay tax on his output is qualified to get an input tax credit (ITC) for the input taxes paid.

Why GST When We Have VAT?

While GST and VAT both utilize a value-added approach, GST addresses several limitations found in the current VAT systems:

- 1. Limitations in Centre VAT:** Although CENVAT exists, it excludes various taxes like surcharges and additional customs duties. Additionally, input tax credits are not uniformly available, complicating the tax filing process.
- 2. Limitations in State VAT:** States have their own VAT systems, but many taxes (e.g., luxury and entertainment taxes) are not included, and certain CENVAT payments do not allow for input tax credits.
- 3. Interstate Sales Tax (CST):** CST, while a key revenue source for states, burdens businesses by requiring them to pay taxes in multiple states for goods produced in one location, which complicates distribution.
- 4. Inclusion of Services:** Currently, services are selectively taxed only at the Centre, whereas they should be integrated into the State VAT system to reflect the dual role of goods and services in production.
- 5. International Standard:** GST is becoming the global norm. To remain competitive, especially for international businesses evaluating where to invest, India needs to adopt GST. The absence of GST may drive companies to establish operations in countries with more efficient tax systems.



Opportunities

- 1. Sequential Indirect Tax Levies:** Different indirect taxes at both the state and central levels are imposed successively along the supply chain until the final utilization.
- 2. Revenue Growth for States and the Union:** The introduction of GST is anticipated to broaden the tax base, reduce tax rates, and eliminate multiple taxation points, resulting in increased revenue for states & central government.
- 3. Reduction of Transaction Costs and Wastage:** If the government operates efficiently, it may allow for a single registration and compliance for both SGST and CGST, provided there is effective IT infrastructure and integration between state and central systems.

- 4. Elimination of Tax Multiplicity:** One of the key benefits of GST is the removal of multiple taxation layers. This simplification will help address the complexities caused by existing indirect tax laws.
- 5. One Point Single Tax:** GST should feature a 'one point taxation' system, providing reassurance to businesses that they can focus on operations rather than worrying about future tax liabilities. This clarity will enable better supply chain decisions and pricing strategies, ultimately benefiting consumers by making prices more competitive based on business innovation rather than tax components.
- 6. Reduction of Average Tax Burden:** Under the GST framework, consumers will face a more predictable tax cost, leading to a reduction in their overall tax burden.
- 7. Mitigation of Corruption:** Corruption is a significant challenge in India, and substantial progress requires strong political will to eradicate it. Implementing GST will be a step towards a more transparent and efficient Indian Revenue Service.

Challenges

- 1. Tax Threshold Limit:** The threshold for turnover above which GST applies needs careful consideration. Setting it too low could burden small traders and service providers, leading to disproportionate government resource allocation for minimal revenue. Conversely, a higher threshold might reduce government revenue and impact smaller or less developed states that currently have low VAT thresholds.
- 2. Nature of Taxes:** While GST is expected to include various taxes such as excise duty, service tax, and state-level VAT, numerous other taxes at both state and central levels will remain outside its purview.
- 3. Legislative Framework:** GST will involve two types of laws: Central GST (CGST) at the national level and State GST (SGST) at the state level. The existence of different tax rates for goods and services at both levels, along with variations based on state-specific needs and resources, adds complexity.
- 4. Tax Rates:** Tax rates should align with each state's financial requirements. States should have the authority to adjust rates to raise necessary revenue, particularly when funding increased expenditures.
- 5. Tax Management and Infrastructure:** The success of GST relies heavily on effective management and infrastructure development by both states and the central government. Simplifying the system is crucial for ensuring compliance and achieving the intended benefits of the reform.

Conclusion

GST represents a significant step toward comprehensive indirect tax reform in India since independence. It applies to all goods and services, impacting various sectors of the economy, including industries, government departments,

and the service sector. The implementation of GST will directly affect all economic participants—large, medium, and small businesses, intermediaries, importers, exporters, traders, professionals, and consumers.

As one of India's major tax reforms, GST aims to integrate state economies and enhance overall growth. By creating a unified Indian market, it is expected to strengthen the economy. Experts anticipate that GST will improve tax collections and promote economic development by removing tax barriers between states and establishing a uniform tax rate. Additionally, GST will equitably distribute the tax burden between manufacturing and services, achieve a lower overall tax rate, broaden the tax base, and reduce exemptions.

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