

CONFUSION IN THE INDIAN TAXATION REGIME

Central taxes that The GST will replace

- Central Excise Duty
- Duties of Excise (medicinal and toilet preparations)
- Additional Duties of Excise (goods of special importance)
- Additional Duties of Excise (textiles and textile products)
- Additional Duties of Customs (commonly known as CVD)
- Special Additional Duty of Customs (SAD)
- Service Tax
- Cesses and surcharges in so far as they relate to supply of goods or services

State taxes that The GST will Subsume

- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entry Tax (all forms)
- Entertainment Tax (not levied by local bodies)
- Taxes on advertisements
- Taxes on lotteries, betting and gambling
- State cesses and surcharges

The Indian taxation system works on the objective of revenue collection rather than compensation against government services. Levying of tax should be a result of services provided by the government against various services offered by it and supply of goods to its citizens which can be sanitation, good roads, food, medicines, safety and security etc.

However, in the Indian taxation system two most critical issues are tax evasion and double taxation. Tax evasion happens 60% due to complex nature of taxes and fear of double taxation. Hence, legally certain tax evasion issue may be a pro case of non payment of taxes due to fear of double taxation. Again, India's two types of taxes i.e direct and indirect taxes have no points of intersection even in the case of the new concept of GST.

Only 11% of Indian population is sincerely paying @ 35% of their income towards taxes however, the service they receive against payment of this tax is not reflected in any of the Government actions. This 11% population is again subjected to about 65 another set of taxes leading to double taxation and receive discreet service against this taxation which many times results into only 30% value addition. Thus, an average tax payer loses 70% of his income in taxes gaining no returns at all. This 70% income of 11% population does not provide any accountability, hence can be fairly termed as black money in the hands of the government.

Government's fiscal expenditure is supported by tax revenue, trade and returns on investments in viable projects. However, in the present scenario trade is albeit hardly contributes to national income or GDP with major proportion being that of tax from 11% population and small proportion of returns on investment. If this is the case the resultant services from government side such clean water, sanitation, good roads , 24 hour electricity remain a distant dream.

The GST proposes to take into its ambit 70% of the taxes however, there are about 73 known number of taxes and at the same time there are number of many other taxes which may be still unknown to higher administrative concerns and are levied on taxee. Another issue with these lesser known taxes is their quantification when transgressed into the GST system of taxation. Quantification of lesser known taxes is forecasted to play a havoc in the future against the worth of tax paid and the supply of service. These taxes which were of miniscule nature amounting to amount 2-6% will strikingly rise to GST level with the taxee having to pay more. He might achieve respite in future setbacks but this will eat up his present working capital.

Looking at the time variation cost of capital will rise and imply no cost benefit to him. This is the very reason why the GST policy formation does not ensure 100% benefit in case of GST implementation and there is only an arbitrary statement about benefit. As reiterated in further discussions a complete reform with new infrastructure is a must without which the Government will not achieve any prospective good results.

Today, the need of the hour demands convergence of taxes under one realm so as to avoid double taxation. Taxation needs to be subject to services provided so that there is transparency in service delivery and clarity of purpose subject to deduction of tax for those services. For eg. a GST paid towards services delivered for maintenance of a patch of toll road needs to declare its yearly maintenance budget and zero tolerance to road mishaps due to presence of pot holes and rough road patch.

The best form of GST applied world over is being drafted in the country with two members from 30 members of the GST draft committee are being invited by other countries to draft GST in their countries. However, with the present existence of so many small taxes proposed on the basis of need has complicated the system to such an extent that it will be difficult to sort the application of GST in real terms. Imposition of GST needs simplification of systems along with the strengthening of the MIS in the whole process of GST application. Data capture and integration in systems should be strong and there should be paperless application of GST.

Let's take for example an importer manufacturer exporter cycle. The importer pays central excise duty as the same is not merged with GST and sells the import to manufacture at GST, a point should be noted that the importer is buying at central excise duty which is lower than GST and selling at GST to manufacturer which is higher thus the importer gets relief at a higher margin than the manufacturer. The manufacturer while selling domestically or to the exporter gets a relief on equal par.

Thus, there is a hole in the system as the manufacturer is selling a value added service and taking a higher setback than the importer. This has avoided double taxation but the parity is still existing. Here we have taken a simple eg. but in reality there is presence of more than one importer manufacturer, export party in a value chain which would naturally create larger parity issues. In presence of data capture and integration on an online portal upon registration of parties in this value chain an appropriate award of setback is possible. This avoids confusion, informed and stream lining of taxes in the entire cycle.

SGST and CGST both would be applicable on locally manufactured goods as this will be a dual taxation system. CST was not refundable but following GST, CGST would be refundable. Amount collected under SGST would remain in the state. This would decrease the parity between central and state tax collection regime. GST is also supposed to bring parity in transaction with two states.

Direct taxes implied on individuals don't find relief in most of the circumstances. The major issue in case of direct taxes is the TDS which is implied on savings which are already net of taxes. Introduction of ceiling for TDS deduction for a interest ceiling of Rs10000 has become obsolete with the inflation zooming to 8% sometime back and weak savings rate of 8% which led to erosion of already taxed savings deposit thus resulting into an higher effective taxation rate of 30% leading to loss on savings. The ceiling on TDS deduction against total FD interest needs to be urgently raised making the slab at least upto 30000 making further deposits possible and allowing banks more liquidity in long run. Bank deposits are being discouraged so as to park funds in other investment measures such as mutual funds, NPS etc , however, the nearly zero risk criteria offered by bank FDS for parking savings is not available with the other investment avenues.

Again, investment avenues should be matter of choice after filtering the risk capacities of individual investors or parties balancing their funds. Forcing of choice on individuals or parties by Government by manipulating long term forecasted interest rates on savings creates havoc in management of savings for retirement purposes as in the case for manipulation of PF and PPF interest rates which have been steady at 8% pre tax returns , a forced diversion of funds towards the newly introduced NPS was wrong strategy as each investment avenue needs to acquire its market price in terms of incentives provided by it and not by forcibly inducing attraction by subduing another tax lucrative avenue like PF and PPF. Moreover, direct taxes paid on account of salary received produce ideally zero benefit to the tax payer. There is no significant incentive in terms of medicines and education at all upon payment of taxes as the one available in some western countries . The slab of 2 lakhs for tax exemption hardly provides for relief in case of medicines or educational expenditure which has risen to about 40% of the earnings for a family of four.

Tax evasion is a result of tax confusion. Increasing number types and levels of taxes leads to two issues one is error in payment of the tax due and the other being fear of erosion of profit leading to evasion of tax. Normally, in the Indian scenario as mentioned earlier payment of taxes does not ensure satisfaction of services which becomes a precursor to tax evasion. Moreover, the weakened economy demands goods at lower prices with this parity fuelled by

cheap Chinese imports. Complex web of charges increases value of goods at the consumer level and fine example of this is the popularity of the ecommerce portals which portray cheaper prices for goods than their retail value which is nothing but filtering of the levels of retailers in the value chain who have to pay taxes at each level thus leading to double taxation.

Thus tax confusion can be eliminated by installing a newly built tax infrastructure replete with data information, capture and integration with sturdy MIS. A system like GST if implemented on an already existing architecture as happening in case of only partial coverage of taxes under the GST ambit will lead to further confusions.

There are 73 known and even more taxes levied on need based strategy. Complete abolition of the earlier taxation system is the only solution to have a healthy beginning to newer India. The Initiatives like MAKE in INDIA have failed to take a grip due to India's protectionist and conservative and rigid Tax infrastructure. In the past tax revenue was very weak and even today it is not strong enough to be an asset. Complexities in taxes have led to decrease in tax revenue collection which have led to litigations and disputes which have not been beneficial to any of the parties. This practice needs to be eased out better value addition to goods and services needs to be the objective against the payment of taxes. If this practice is built into the system the projected tax revenue collection will wipe out most of the Indian fiscal deficit.