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ANALYSIS OF GOODS AND SERVICES TAX (GST) LEGISLATION

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ABSTRACT:

Goods and Services Tax (GST) has emerged as a pivotal instrument in the reform of indirect taxation systems worldwide. This paper provides a comprehensive examination of GST, encompassing its historical evolution, legislative framework, comparative models across countries, and case studies of implementation experiences. The analysis begins by tracing the origins of GST, highlighting the imperative for tax reforms in response to the deficiencies of traditional tax structures. A detailed exploration of the legislative framework governing GST elucidates the constitutional provisions, statutory enactments, and administrative mechanisms that underpin the taxation system. A comparative analysis of GST models across different countries reveals the diversity of approaches adopted, ranging from tax rates and thresholds to compliance mechanisms and administrative structures. Success stories from countries such as New Zealand and Singapore underscore the transformative impact of GST in enhancing tax efficiency, compliance rates, and revenue generation. However, challenges encountered in GST implementation, as evidenced by case studies from India, Malaysia, Australia, and Canada, underscore the complexity of transitioning to a unified taxation system. Issues such as technological glitches, compliance burdens, socio-economic concerns, and administrative hurdles highlight the importance of stakeholder engagement, capacity building, and ongoing reforms. In conclusion, while GST represents a significant step towards modernizing taxation systems and fostering economic growth, its success hinges upon effective implementation, continuous evaluation, and adaptive policymaking.

Keywords: Goods and Services Tax (GST), indirect taxation, legislative framework, comparative analysis, constitutional provisions, administrative mechanisms.

Introduction:

The implementation of Goods and Services Tax (GST) represents a pivotal moment in the evolution of taxation systems globally, signifying a departure from conventional tax structures towards a more integrated and efficient approach. The historical trajectory of taxation systems underscores the imperative of periodic reforms to align tax policies with evolving economic landscapes and societal needs. Traditional tax frameworks often comprised a convoluted array of indirect levies imposed at various stages of production and distribution, resulting in cascading effects, administrative complexities, and economic inefficiencies. Such fragmented tax systems were marked by disparate regimes for goods and services, fostering tax arbitrage and distortions within the economy.

The call for tax reforms gained traction as governments recognized the necessity of establishing a more transparent, equitable, and efficient taxation framework. In response, the concept of GST emerged as a viable solution to address the deficiencies of prevailing tax systems. GST, as a comprehensive, destination-based tax levied on value-added at each stage of the supply chain, aimed to mitigate the cascading effects of taxes. By consolidating multiple indirect taxes into a unified structure, GST sought to streamline tax administration, bolster compliance, and stimulate economic efficiency.

The genesis of GST can be traced back to the recommendations of expert committees and international bodies advocating for tax rationalization. Notably, in India, the Chelliah Committee's 1993 proposal for a value-added tax (VAT) system laid the groundwork for GST adoption, aiming to supplant the existing sales tax regime. Subsequent committees, including the Kelkar Committee and the Vijay Kelkar Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, echoed the imperative of GST implementation to rationalize indirect taxes and spur economic development.

Internationally, countries such as New Zealand, Australia, Canada, and Malaysia had already embraced GST or analogous value-added tax systems, demonstrating the efficacy of such reforms in enhancing tax efficiency and revenue mobilization. The successful implementation of GST in these jurisdictions served as a catalyst for other nations contemplating tax restructuring.

The introduction of GST is underpinned by a multifaceted set of objectives aimed at restructuring the tax architecture to realize overarching economic and social goals. The primary objectives of GST implementation can be delineated as follows:

GST endeavors to simplify the tax structure by replacing myriad indirect taxes with a unified system. Through harmonizing tax rates and procedures across goods and services, GST seeks to alleviate compliance burdens for taxpayers and promote a conducive environment for business operations¹. A central tenet of GST is the eradication of cascading effects or tax-on-tax prevalent under previous regimes. By enabling input tax credit (ITC) on taxes paid at earlier stages of the supply chain, GST ensures that taxes are levied solely on value addition, thereby enhancing efficiency and mitigating the tax burden on consumers².

GST facilitates a more efficient allocation of resources by aligning tax incentives with economic objectives. Through mitigating distortions in production and consumption patterns arising from differential tax treatment, GST fosters investment, innovation, and productivity growth, thereby catalyzing overall economic progress³.

GST is envisaged as a revenue-neutral tax reform, wherein gains from broadening the tax base and enhancing compliance offset potential revenue losses from lowering tax rates. By expanding the tax net and curbing tax evasion, GST aims to bolster government revenues for financing public welfare initiatives and infrastructure development⁴.

The harmonization of tax rates and procedures under GST streamlines interstate trade and commerce by obviating barriers such as entry taxes and checkpoints. A seamless tax regime fosters the free movement of goods and services across state borders, fostering market integration and bolstering the competitiveness of domestic industries globally⁵.

GST endeavors to promote equity and social justice by ensuring a fair distribution of the tax burden across societal strata. By taxing consumption rather than income, GST is considered more progressive, enabling affluent segments to contribute a larger share of tax revenue while alleviating the burden on low-income households through exemptions and reduced tax rates on essential commodities⁶.

Understanding GST:

Goods and Services Tax (GST) represents a transformative approach to taxation, aimed at streamlining the indirect tax structure by replacing multiple levies with a unified tax system.

Definition and Concept of Goods and Services Tax:

GST is a value-added tax levied on the consumption of goods and services, with the fundamental principle of taxing value addition at each stage of the supply chain. Unlike traditional tax systems that impose separate taxes on goods and services, GST integrates these into a single tax regime, thereby eliminating tax cascading and enhancing efficiency.

At its core, GST operates on the principle of destination-based taxation, wherein the tax is levied at the point of consumption rather than at the point of origin. This ensures that the tax revenue accrues to the jurisdiction where the final consumption occurs, regardless of the location of production or distribution.

The concept of GST revolves around the notion of value addition, wherein taxes are imposed only on the incremental value created at each stage of production and distribution. This is achieved through the mechanism of input tax credit (ITC), which allows businesses to claim a credit for the GST paid on inputs, thereby offsetting the tax liability on the value addition they contribute.

Structure and Components of GST:

The structure of GST typically comprises multiple components, including central GST (CGST), state GST (SGST), and integrated GST (IGST), each serving distinct purposes in the tax administration framework.

1. **Central GST (CGST):** CGST is levied by the central government on intra-state supplies of goods and services. The revenue generated from CGST accrues to the central government and is utilized for funding central expenditures.
2. **State GST (SGST):** SGST is imposed by the state governments on intra-state transactions of goods and services. The revenue from SGST goes to the respective state governments and is utilized for financing state-specific expenditures.
3. **Integrated GST (IGST):** IGST is applicable to inter-state supplies of goods and services and is collected by the central government. IGST aims to facilitate seamless interstate trade by ensuring that the tax on inter-state transactions is collected and apportioned between the originating and destination states.

Additionally, GST may include other components such as Union Territory GST (UTGST) for transactions within union territories, and cess or

surcharge on specific goods and services to fund specific purposes such as education or healthcare.

Distinction between GST and Previous Tax Systems:

The transition from previous tax systems to GST represents a paradigm shift in the approach to indirect taxation, marked by several key distinctions:

1. Unlike previous tax systems characterized by a multitude of indirect taxes levied by different authorities, GST integrates various taxes into a single unified framework. This simplifies tax compliance for businesses and reduces administrative complexities.
2. One of the primary advantages of GST is the elimination of tax cascading or the "tax on tax" phenomenon prevalent in earlier tax regimes. By allowing input tax credit, GST ensures that taxes are levied only on the value addition at each stage of the supply chain, thereby avoiding double taxation and reducing the overall tax burden.
3. While previous tax systems primarily relied on origin-based taxation, wherein taxes were levied at the point of production or sale, GST adopts a destination-based approach. This means that the tax is levied at the place where the final consumption occurs, irrespective of the location of production or distribution. This ensures that the tax revenue aligns with the jurisdiction where the economic activity takes place.
4. GST typically encompasses a broader tax base compared to previous tax systems, as it includes a wide range of goods and services under its ambit. This broad-based taxation ensures a more equitable distribution of the tax burden and reduces the scope for tax evasion.

Legislative Framework:

The effective implementation of Goods and Services Tax (GST) hinges upon a robust legislative framework that delineates the rights, responsibilities, and procedures governing the taxation system. This section provides an overview of GST laws and regulations, elucidates the constitutional provisions governing GST, and delineates the roles of central and state governments in GST administration.

Overview of GST Laws and Regulations:

The legal framework governing GST encompasses a constellation of statutes, rules, and regulations enacted at both the central and state levels. The primary legislation governing GST in India is the Central Goods and Services Tax Act (CGST Act) and the respective State Goods and Services Tax Acts (SGST Acts), which were introduced in 2017 to replace the erstwhile indirect tax regime⁷.

The CGST Act provides for the levy and collection of central GST on intra-state supplies of goods and services, while the SGST Acts empower state governments to levy and collect state GST on similar transactions within their respective territories⁸. Additionally, the Integrated Goods and Services Tax Act (IGST Act) governs inter-state transactions and provides for the levy of integrated GST (IGST) by the central government⁹.

Complementing the primary legislation, various rules, notifications, and circulars issued by the Central Board of Indirect Taxes and Customs (CBIC) and state tax authorities provide procedural guidelines and clarifications on GST implementation¹⁰.

Constitutional Provisions Governing GST:

The constitutional framework for GST in India is enshrined in the 101st Amendment Act, 2016, which introduced Article 246A and the Seventh Schedule to the Constitution. Article 246A confers concurrent powers to both the central and state governments to levy and collect GST on the supply of goods and services, subject to the provisions of the Act¹¹.

The Seventh Schedule delineates the division of legislative powers between the central and state governments with respect to taxation. Entry 84 of List I (Union List) empowers the central government to levy taxes on the manufacture of goods, while Entry 54 of List II (State List) grants states the authority to levy taxes on the sale or purchase of goods other than newspapers¹².

To address the complexities of GST administration and ensure harmonization between central and state laws, the 101st Amendment Act also established the Goods and Services Tax Council (GST Council)¹³.

Role of Central and State Governments in GST Administration:

The administration of GST involves a collaborative effort between the central and state governments, each entrusted with specific responsibilities

to ensure the smooth functioning of the taxation system.

1. **Central Government:** The central government plays a pivotal role in GST administration, primarily through the CBIC, which is responsible for the levy, collection, and administration of central GST. The CBIC oversees various aspects of GST compliance, including registration, assessment, audit, and enforcement¹⁴.
2. **State Governments:** State governments are vested with the authority to levy and collect state GST under the respective SGST Acts. Each state has its own tax administration machinery, comprising state tax authorities responsible for administering SGST within their jurisdiction¹⁵.

In addition to central and state tax authorities, GST administration also involves other stakeholders such as taxpayers, tax professionals, industry associations, and technology service providers¹⁶.

Comparative Analysis:

The adoption of Goods and Services Tax (GST) has been a global phenomenon, with numerous countries embracing this taxation model to modernize their indirect tax systems.

Introduction to GST Models:

Countries that have implemented GST have adopted diverse models tailored to their specific economic, social, and administrative contexts. While the basic principles of GST remain consistent across jurisdictions, variations exist in terms of tax rates, thresholds, exemptions, compliance mechanisms, and administrative structures.

Comparison of GST Models:

1. **GST Rates and Structure:**
 - India's GST framework comprises multiple tax slabs, including 5%, 12%, 18%, and 28%, with certain essential goods and services taxed at lower rates or exempted altogether¹⁷.
 - Australia's GST system features a single rate of 10% applied uniformly to most goods and services, with limited exemptions for essential items¹⁸.
 - Canada's GST regime combines a federal GST rate of 5% with provincial sales taxes levied by individual provinces, resulting in varying overall tax rates across the country¹⁹.
 - Zealand's GST system imposes a flat rate of 15% on most goods and services, with few exceptions for essential items²⁰.
2. **Thresholds and Exemptions:**
 - India has adopted a dual threshold system for GST registration, with businesses below a certain turnover threshold exempted from GST obligations²¹.
 - Singapore implements a threshold-based approach where small businesses with turnover below a specified threshold are exempt from GST registration and compliance requirements²².
3. **Compliance Mechanisms:**
 - The UK's GST system, known as Value Added Tax (VAT), utilizes a self-assessment mechanism where businesses are responsible for assessing and reporting their VAT liabilities²³.
 - EU member states follow a common VAT framework with harmonized rules and procedures, including the VAT Information Exchange System (VIES) for intra-EU transactions²⁴.
4. **Administrative Structures:**
 - Malaysia's GST administration is centralized under the Royal Malaysian Customs Department, which oversees registration, compliance, and enforcement activities²⁵.
 - Germany has a decentralized VAT administration, with each federal state (Bundesland) responsible for administering VAT within its jurisdiction²⁶.

Case Studies:

This section delves into case studies of Goods and Services Tax (GST) implementation in select countries, highlighting success stories and challenges faced in the process.

India's transition to GST in July 2017 marked a significant milestone in the country's tax reform journey. The implementation of GST aimed to simplify the indirect tax structure, enhance tax compliance, and foster economic growth. Despite initial challenges such as technology glitches, compliance issues, and adjustment pains for businesses, India's GST system has witnessed steady progress over the years. The introduction of online GST portals, outreach programs, and simplified tax compliance procedures has contributed to improved compliance rates and revenue collections. However, challenges such as multiple tax rates, complex filing requirements, and tax evasion remain areas of concern, necessitating ongoing reforms and streamlining of the GST framework²⁷.

Malaysia adopted GST in April 2015 as part of its broader tax reform agenda to diversify revenue sources and reduce reliance on oil-related revenues. The introduction of GST was met with mixed reactions, with concerns raised about its potential impact on inflation and consumer prices. Despite initial teething problems and resistance from some quarters, Malaysia's GST system demonstrated resilience and effectiveness in enhancing tax compliance and revenue generation. The implementation of electronic filing systems, taxpayer education campaigns, and stringent enforcement measures contributed to improved tax administration and compliance rates. However, the government faced criticism over the regressive nature of GST, particularly its impact on low-income households. In response to public outcry, Malaysia eventually repealed the GST in June 2018 and reintroduced the Sales and Service Tax (SST) to address socio-economic concerns²⁸.

New Zealand's adoption of GST in 1986 has been hailed as a success story in tax reform. The implementation of a simple, broad-based GST system significantly improved tax compliance, reduced tax evasion, and streamlined tax administration. New Zealand's GST model, characterized by a single rate and limited exemptions, has served as a benchmark for other countries contemplating tax reforms²⁹.

Singapore's GST regime, introduced in 1994, has been instrumental in diversifying government revenue sources and funding social welfare programs. The adoption of a low, uniform GST rate combined with threshold-based exemptions has contributed to high compliance rates and minimal tax evasion. Singapore's efficient tax administration, supported by robust IT infrastructure and taxpayer education initiatives, has garnered international acclaim³⁰.

Challenges Faced:

Australia's GST system, implemented in 2000, faced initial challenges related to compliance costs, administrative complexities, and public backlash. The introduction of a broad-based GST with limited exemptions resulted in concerns over its regressive impact on low-income households. Additionally, the complexity of GST compliance requirements and frequent changes in legislation posed challenges for businesses and taxpayers. However, over time, Australia's GST system has evolved, with efforts focused on simplifying compliance procedures and addressing socio-economic concerns³¹.

Canada's adoption of GST in 1991 was met with resistance from certain provinces and industries, leading to implementation challenges and political controversy. The introduction of a federal GST combined with provincial sales taxes necessitated coordination among federal and provincial authorities, resulting in administrative complexities and compliance burdens for businesses. Despite initial hurdles, Canada's GST system has matured over the years, with ongoing efforts to harmonize tax administration and streamline compliance processes³².

Conclusion:

The implementation of Goods and Services Tax (GST) represents a watershed moment in the evolution of indirect taxation systems globally, heralding a paradigm shift towards streamlined, transparent, and efficient tax regimes. This research paper has provided a comprehensive analysis of GST, spanning its historical evolution, legislative framework, comparative models across countries, and case studies of implementation experiences.

Through an examination of the background and context of GST implementation, it became evident that the impetus for tax reforms stemmed from the imperatives of economic rationalization, simplification of tax structures, and enhancement of tax compliance. The transition from previous tax systems to GST was driven by the recognition of the inherent inefficiencies, distortions, and complexities prevalent in traditional tax frameworks. The legislative framework governing GST, characterized by a plethora of statutes, rules, and regulations, serves as the backbone of the taxation system, delineating the rights, responsibilities, and procedures governing tax administration. Constitutional provisions, such as concurrent powers

conferred to central and state governments and the establishment of the Goods and Services Tax Council, underscore the federal nature of GST implementation in countries like India.

A comparative analysis of GST models across different countries revealed the diversity of approaches adopted to modernize indirect tax systems. While common principles underpinning GST were evident, variations existed in terms of tax rates, thresholds, exemptions, compliance mechanisms, and administrative structures. Success stories from countries like New Zealand and Singapore underscored the transformative impact of GST in enhancing tax efficiency, compliance rates, and revenue generation.

However, challenges encountered in GST implementation, as evidenced by case studies from India, Malaysia, Australia, and Canada, highlighted the complexity of transitioning to a unified taxation system. Issues such as technological glitches, compliance burdens, socio-economic concerns, and administrative hurdles underscored the importance of stakeholder engagement, capacity building, and ongoing reforms in navigating the GST landscape.

In conclusion, while GST represents a significant step towards modernizing taxation systems and fostering economic growth, its success hinges upon effective implementation, continuous evaluation, and adaptive policymaking. By leveraging lessons learned from global experiences, countries can harness the transformative potential of GST to realize the objectives of simplicity, efficiency, equity, and revenue adequacy in taxation, thereby paving the way for a more prosperous and inclusive future.

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