

PREFACE

1. Tax is an integral part of any society and its development. Taxation has been in place from time immemorial in different forms and shapes. There is a direct relationship between the tax rates and the health or development of an economy. It was earlier believed that higher tax would contribute higher revenue to the government and hence a higher development would be achieved. The experiences of majority of the countries do not prove this belief.

2. Under the provisions of the Constitution, the Union and State Governments levy and collect taxes to meet the responsibilities cast upon them. The taxation system in the country, especially the indirect taxes, has been plagued with many deficiencies resulting in low tax base and higher avoidance of taxes. The cascading effect of taxes has stifled the growth of economy, which made the product or services expensive to the consumer and made Indian goods/services least competitive in the international market. The globalization and opening of the economy to the international trade forced the Government to initiate the reform process in the taxation system so as to allow Indian trade and industry to compete with the other countries in the world. This has been done by way of rationalization of tariff, rates; simplification of procedures, introduction of VAT, etc. However, more reforms is required especially for integration of goods and services under the VAT scheme at the both Union and the state level. The service sector contributes more than 50% of the GDP in the country and absence of integration of this sector in the overall tax system is not only discriminative but also disadvantages.

3. The Union Finance Minister during his Budget Speech 2007-2008 announced that at his request, the Empowered Committee of State Finance Ministers have agreed to work with the Central Government to prepare a roadmap for the introduction of the Goods

and Service Tax (GST) with effect from 1st April 2010. The Empowered Committee of the State Finance Ministers constituted a Joint Working Group comprising of officials from State and Central government. It was directed that the working group should study various models of GST existing globally and other relevant material available on the subject. It would also identify the possible alternative models for introduction of GST in India and examine various characteristics and assess their suitability in India's fiscal federal context.

4. The Empowered Committee had since given its report to the Union Finance Ministry, which is under the deliberation. The recommendations of the Committee will have far-reaching consequences upon the Centre-State financial relationship as it seeks to redefine the taxation power of Centre and States. These may require amendment of the Constitution of India. The implementation of the recommendations in toto would result in increased potential of States at the expense of Centre. The likely impact of the recommendations is under scrutiny and any action on the recommendation would be dependent upon the outcome of the general election of 2009 and also the political will to implement the same. GST has been found to be very attractive due to its simplicity, transparency and neutrality; and there appeared to be every reason for this country to go for it. Yet, its implementation need to be taken up after a detailed analysis in the Indian context, as any lapse may seriously affect the revenue availability of the Union Government, which may impinge upon the country as a whole.
