

## PREFACE

The latter half of the twentieth century has been witness to the transformation of the turnover and sales taxes to value added taxes (VAT). India's tryst with VAT is no different story. The shift to VAT from sales tax has so far done well, both for the States and industry on the counts of rising collections and smoothening of interface respectively. The positive feedback from this successful transition has not only aggravated the strength of the factors fueling the reform drive but also accentuated the movement towards redefining of the indirect tax landscape on a broader scale in its quest for simplification and harmonization.

The carvings for a comprehensive tax on goods and service are, however, not new. The taxes on sale of goods being beyond their coverage and in the absence of a mechanism for availability of credit across different State taxes, the citizens not only end up paying tax on tax but also have to bear its inflationary ramifications.

Given this backdrop, India aspires 'to merge' the major indirect taxes (State level VAT, excise duty and service tax) into a generic 'Goods and Service Tax' (GST). Thus the paper has attempted to critically evaluate the Indian indirect tax paradigm which, in turn, has necessitated the transition and to provide a basic framework to the understanding of the issues required to be sorted thereto.

In the days of the city-states of Athens and Rome, although there were taxes in the form of rents from state-owned land (including taxes on natural resources extracted from these lands), the rulers supplemented revenue from land with indirect taxes.<sup>8</sup> Customs duties were imposed at the ports and taxes

were extracted at the markets for goods that arrived by land. In the late Middle Ages, in Italy and elsewhere, goods produced by artisans were taxed by taxing the guilds. The guilds raised the needed funds by taxing their members.

“The design of the CENVAT and state VATs are dictated by the constraints imposed by the Constitution, which allows neither the Centre nor the States to levy taxes on a comprehensive base of all goods and services and at all points in their supply chain. This division of tax powers makes both the CENVAT and the state VATs partial in nature and contributes to their inefficiency and complexity”.

The present study is an attempt to critically examine the proposed Goods and service Tax as part of major tax reform initiative in India. The study critically examines the weaknesses of present system of indirect taxation, their potential application, expectations from tax reform under proposed GST and eventual delivery .The study further evaluates some significant but intractable issues which have been taken on board while proposing to bringing about this far reaching tax reform.

The study, despite its limitations, is expected to be of some guidance for further fine tuning and improving the new taxation scheme in the country keeping in mind unique socio-economic and political realities of India.



(Capt Sanjay Gahlot)