UPSC
NCERT Summary
Stock Markets in India- 3

TAX COLLECTIONS 2011-12

As can be seen from the table above, Government of India's tax receipts were about Rs.932440 crores of which direct taxes make up 56.3%. It helps government spend more on social projects.
The reasons for the tax collections being so healthy are:

- economy is growing at a robust pace-expected to grow at about 8.5% in the current fiscal
- incomes of individuals have gone up
- lower tax rates help compliance
- procedures are simple and citizen-friendly base has been widened a drive has been mounted to bring more people to pay income tax with proper investigation.

Direct Tax

As a proportion of gross tax revenue, direct taxes have been accounting for over a half of the total since 2007-08. Given the composition earlier in the decade, which had a large share of indirect taxes, this indicated robust levels of growth in direct taxes, particularly corporation tax. However, growth in corporation tax was moderate in 2008-09 and 2009-10 owing to demand slowdown on account of the impact of global crisis. At 22.4 per cent, growth in corporation tax rebounded in 2010-11. Growth in personal income tax fell appreciably in 2008-09 to 3.3 per cent and rebounded in 2009-10 to reach 15.4 per cent. With growth in 2010-11 marginally lower at 13.7 per cent, overall growth in direct taxes in 2010-11 was at 19.5 per cent. It was budgeted at about the same level in BE 2011-12 with a growth of 20.2 per cent envisaged in corporation tax and 18.2 per cent in personal income tax. The Budget for 2011-12 underscored the governance initiatives taken through information technology including online preparation and e-filing of income-tax returns, Electronic Clearing Services (ECS) facility for crediting of refunds directly in taxpayers' bank accounts; and electronic filing of tax deduction at source (TDS) documents. Also a category of taxpayers was notified who need not file a return of income as their income tax liability has been discharged at source.

Indirect Taxes

Reduction in excise duties was a key component of the fiscal stimulus package announced in the wake of the global financial and economic crisis and its impact on the economy. With the economy rebounding in 2009-10 and 2010-11 and healthy growth in indirect taxes in 2010-11 the budget for 201112 had the option of rollback of the excise duty cuts. But this was eschewed for two reasons: to see improved business margins, incentivize higher investment rates and to facilitate introduction of the goods and services tax (GST). While holding the peak non-agricultural custom duty rates at 10 per cent, the Budge for 2011-12 sought to rationalize three rates of 2 per cent, 2.5 per cent, and 3 per cent a the middle level of 2.5 per cent.

Cost of Direct Tax Collection

Buoyant economic growth along with higher tax compliance have led to a desirable decline in the cost of direct tax collections as a proportion of total direct tax collections: alltime low of 0.54 per cent in 2007-08.That is, the income-tax department spends 54 paise for every Rs 100 direct tax collected by it, which is among the lowest in the world. The income tax department has a tax base of 3.5 crore assesses.

Income-tax slabs and rates

10 per cent rate on a slab extending up to Rs 5 lakh. Likewise, the 20 per cent rate will now apply on income slabs beyond Rs 5 lakh and up to Rs. 10 lakh. The maximum marginal rate of 30 per cent on an income slab of above Rs 10 lakh.

Service Tax

Service tax was first imposed in 1994. Today the rate is 12% and a 3% education cess is additionally imposed. More than 100 services are being taxed. Tax analysts said that widening the service tax net is the first step before rolling' out a comprehensive GST. India's service tax collection for the Financial Year 2010-11 was estimated at Rs 69,400 crore and for 201 1-12, it is expected to increase to Rs 82,000 crore as per the Union Budget projections.

Major services that are currently taxed include telephone, insurance, brokerage, banking and financial services, courier, port services, etc. Some of the minor activities on which service tax has been recently imposed include beauty parlours, pandals or tent house services, dry cleaning, cable operators, etc. Telephone services yield the maximum amount.

The service sector has emerged as an important area of economic activity. Reasons for taxing services

- Its share in the country's Gross Domestic Product (GDP) has increased from about 28% in 1951, to 55% (2011).
- Taxing services is important to raise resources and increasing the tax-GDP ratio
- service providers should share the tax burden with others-industry
- as the share of industry in GDP decreases while that of services expands, the tax base shrinks unless services are taxed.
- failure to tax services distorts consumer choices, encouraging spending on services at the expense of goods and savings.
- as most of the services that are likely to become taxable are positively correlated with expenditure of highincome households, subjecting them to taxation will improve equity.

Service Tax and Indian Constitution

In the Seventh Schedule to the Constitution, under Article 246, the item relating to "taxes on services" was not specifically mentioned in any entry either in the Union List or in the State List. However, Entry 97 of the Union List empowers Parliament to make laws in respect of any other matter not enumerated in List II (State List) or List III (Concurrent List), including any tax not mentioned in either of those lists. Since "taxes on services" is not there in any of the lists, service tax was levied by the Central Government in exercise of the powers under Entry 97 of the Union List. The 88th amendment to the Constitution (2004) amended Article 270 (made it divisible) and inserted in the Union List (List I) entry No. 92C — 'taxes on services'. The amendment to the Constitution places services tax formally under the Union List, This will pave the way for the Centre to levy and collect the tax. The amendment becomes redundant with the introduction of GST in 2011 where the services will be jointly taxed by Centre and States.

GST? Evaluate its pros & cons?

Goods and Services Tax is a multi-point sales tax with set off for tax paid on purchases of inputs. There is no cascading (tax on tax) effect as there is deduction or credit mechanism for taxes paid for the inputs. The tax is levied on the value added and on consumption only. Total burden of the tax is exclusively borne by the domestic consumer. Exports are not subject to GST.
In the Union Budget for the year 20062007, Finance Minister proposed that India should move towards national level Goods and Services Tax that should be shared between the Centre and the States. World over, goods and services are integrated

and taxed as a comprehensive domestic indirect taxation system based on value addition. They attract the same rate of tax. That is the foundation of a GST. The basis of GST is value addition. The goods and service tax (GST) is proposed to be a comprehensive indirect tax levy on manufacture and sale of goods as well as services at a national level. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end the long standing distortions of differential treatments of manufacturing and service sector. The introduction of goods and services tax will lead to the abolition of taxes such as octroi, Central sales tax, State level sales tax, entry tax, etc and eliminate the cascading effects tax on tax.

It is aimed at forging a common domestic market, removing multiplicity of taxes, eliminating the cascading effect of tax on tax, making the prices of the Indian products competitive and, above all, benefiting the end consumers. The central and state governments moved closer to ushering in a nationwide goods and services tax on April 1, 2011, a reform intended to cut business costs and boost government revenue. The reform would eliminate multiple indirect taxes levied by states and the central government, leading to a reduction in the average tax burden on companies and a rise in the country's tax-to-GDP ratio.

The GST is an indirect tax that would replace existing levies such as excise duty, service tax, and value-added tax (VAT).Both the states and the central government would impose the tax on almost all goods and services produced in India or imported. Exports would not be subject to GST. For the first two years of operation, the proposal is for two rates both at the federal and state levels, converging to a single rate in the third year. Producers would receive credits for tax paid earlier, which would eliminate multiple taxation on the same product or service. Direct taxes, such as income tax, corporate tax and capital gains tax would not be affected. Eliminating a multiplicity of existing indirect taxes would simplify the tax structure, broaden the tax base, and create a common market across states and centrally administered districts. Increased compliance and fewer exemptions to GST would lift India's federal tax-to GDP ratio from the 11.8 percent it currently estimates for the financial year 2012/13. At the same time GST would lower the average tax burden for companies that now pay cascading taxes on top of taxes through the production process.

By lowering business costs it would boost economic growth and increase exports, proponents argue, and bring India in line -with practices in many developed economies. Reducing production costs would make exporters more competitive. The GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the central government and the state governments for reasons cited above. For the first year: 10 percent of CGST of Centre and 10% of SGST of states for goods and 6 percent each for essential items 8% each for services. Thus, it is dual rate. Also, goods and services are taxed separately initially. The higher rate would come down to 9 percent in the second

year, and the two rates would converge at 8 percent in the third year. Yes. Goods deemed necessary or of basic importance would be taxed at a lower rate. The, government will review the various lists of exempted goods to align them at the federal and state levels.
Alcohol, petroleum and electricity would not come under GST. GOI will compensate states for potential lost revenue and central government has assured states that if needed, it would increase a 50,000 crore -rupee ($10.6 billion) fund that the 13th Finance Commission recommended as an incentive for the states to buy into GST. The legislation to make constitutional amendments needs to be finalised and the mechanism for administering the tax needs to be created. The government also needs to set up the technology infrastructure to manage the tax- TAGUP.
The GST is initially intended to be revenue-neutral but is eventually expected to increase the lax collections due to more efficient collection, expanded base, transparency and increased compliance. Implementation of a comprehensive GST would lift India's economy of over $1 trillion by between 0.9 percent and 1.7 percent, according to a report by the New Delhi-based economic think tank the National Council of Applied Economic Research. Exports would rise by between 3.2 percent and 6.3 percent, while imports would increase 2.4 percent to 4.7 percent, the study found.

<u>Constitutional Amendment for GST</u>

Constitution (One Hundred and Fifteenth Amendment), Bill, 2011 (GST Bill)

Constitution (One Hundred and Fifteenth Amendment), Bill, 2011 (OST Bill) was introduced in the Parliament in the budget session in March 2011, deals with GST. The Bill seeks to introduce Goods and Services Tax (GST) and the GST Council. As per the existing structure of indirect taxation, the Parliament has the power to make laws on the manufacture of goods and the provision of services (Union List) while the State Legislatures have the power to make laws on the sale and purchase of goods within their respective states (State List). The Parliament has retained the exclusivity to make laws pertaining to sale of goods in the course of inter-state trade or commerce.

Definition of Goods and Services Article 366

The above Article which defines 'Goods and Services Tax' to mean, any tax on supply of goods or services of both except taxes on the supply of:

- Petroleum Crude;
- High Speed Diesel
- Petrol

- Natural Gas
- Aviation - Turbine Fuel; — and
- Alcoholic Liquor for human consumption.

Seventh Schedule

The Union Government has the exclusive power to levy excise duty on the manufacture or production of the following

- Petroleum Crude
- High Speed diesel
- Petrol
- Natural Gas
- Aviation Turbine Fuel
- Tobacco and Tobacco Products

The State Governments shall have the power to levy tax on the sale (other than in the course of inter-state trade or commerce) of petroleum crude, high speed diesel, petrol, natural gas, aviation turbine fuel and alcoholic liquor for human consumption. In Article 249 The Parliament has been vested with the power to make laws pertaining to GST on behalf of the state Legislature in circumstances of national interest. The power to make such laws would be pursuant to a resolution passed by the Council of States supported by not less than a two-thirds majority of the members present and voting. Power of Parliament to make laws on subjects in State List in the case of Emergency — Article 250. The Parliament has been vested with the power to makes laws pertaining to GST on behalf of the State Legislature when there is a proclamation of Emergency.

GST Council—Article 279A

The President shall constitute a GST Council within sixty days from the Commencement of the GST Act.

Membership of the GST Council

The Union Finance Minster would be the Chairperson, the Union Minister of State for Revenue shall be one of the members, the Finance Minister or any other minister nominated by each State Government shall be the members of the GST Council. The Members of the GST Council shall decide on the Vice-Chairperson of the GST Council for such period as decided by the members.

Functions of the GST Council

The GST Council while being guided by the need for a harmonized structure goods and services tax and for the development of a harmonised national market for goods and , services shall make recommendations to the Union and the States on:

- Taxes, cesses and surcharges levied by the Union and the States and local bodies which may be subsumed within the GST
- Exemptions from GST for such goods and services
- Threshold limit of turnover below which GST may be exempted
- The GST rates
- Any other matter relating to GST

Every decision of the GST Council taken at a meeting shall be with the consensus of all the members present at the meeting.

GST Dispute Settlement Authority—Article 279B

The Parliament, by law, will provide for the creation of a Goods and Services Tax Dispute Settlement Authority (DSA) which shall adjudicate any dispute or complaint referred to the DSA by the State Government or the Union Government arising out of deviation from any recommendation of the GST Council which results in the loss of revenue to the State Government of the Union Government or affects the harmonized structure of the GST. The DSA shall consist of three members namely, the Chairperson, who has been a Supreme Court Judge or the Chief Justice of a High Court, appointed by the President, recommended by the Chief Justice of India; the remaining members shall be persons who shall have expertise in the field of law, economics or public affairs appointed by the President recommended by the GST Council. The DSA shall pass suitable orders including interim orders. Only the Supreme Court shall exercise jurisdiction over such adjudication or dispute or complaint.

Fiscal Autonomy Issues

Constitutional amendments are required to enable the Centre and the states to impose tax on the same base of goods and services. Currently, the states cannot impose tax on services. They also can not impose tax on manufacturing of goods. Centre cannot levy tax sales tax.
States feel that their fiscal autonomy is being eroded for the following reasons:

- they are surrendering the power to sales tax
- they can not change rates according to their fiscal needs
- all states can not have the same rates
- centre may not compensate the states fully

- The position of states is rejected on the other points for the following reasons
- centre is all surrendering and sharing its powers regarding service tax
- and union excise duties
- states are free to tax sin goods like liquor and also the petroleum products

It is said that like VAT, GST would also increase the revenue of the states as they will have powers to impose tax on services, which are growing at a rapid pace. However, in case of Contentious federal issues on GST. GST rates, the division of taxing powers between the Centre and the states, compensation amount; exemptions and on certain design elements of the GST.

Goods and Services Tax (GST): Challenges for implementation.
The GST is a necessary condition for a common market to exists, this permits free and unimpeded movement of goods and services across a federation, thus encouraging efficient regional specialization. Such harmonization will significantly reduce the vertical imbalance between the Centre and the states by enhancing the tax base of the states. It is going to be the biggest ever tax reform in India.
Challenges to address:

- Integration of a large number of Central & State Taxes
- multiplicity of taxes and tax rates to be unified
- federal distribution of powers to levy and collect taxes
- necessary constitutional amendments.
- Rationalisation of thresholds and exemption limits.
- Standardisation of systems and procedures.
- broad based computerizations across the Nation.
- Dispute settlement procedure and machinery.
- Training of tax administrators and assessee.
- Protecting and balancing the present and future revenues of the Centre and the States.
- Safeguarding the interests of less developed States with lower revenue potential.
- Taxing of Alcohol, tobacco, petroleum products which are out of the GST regime.

GST and Fiscal Federalism

Being the largest indirect tax reform requiring the centre and the states to adjust their constitutional taxing powers, GST has opened up fiscal federal challenges like never before. There is mutual surrender of powers to a uniform national taxation system where both gain. But there are apprehensions of loss of fiscal autonomy by

states and central dominance as mentioned above.
The Constitutional changes proposed and being debated by the Empowered Committee of State Finance Ministers are likely to bring the federal units together for a new and innovative system of fiscal federal sharing and cooperation

Technology Advisory Group for Unique Projects (TAGUP)

An effective tax administration and financial governance system calls for creation of IT projects which are reliable, secure and efficient. IT projects like Tax Information Network, New Pension Scheme, National Treasury Management Agency, Expenditure Information Network, Goods and Service Tax, are in different stages of roll out. To look into various technological and systemic issues, Finance Minister announced in the Union Budget 2010-1l to set up a Technology Advisory Group for Unique Projects under the Chairmanship of Shri Nandan Nilekani. It has been set up in mid-2010.