The very first attraction towards implementation of GST was, that it will replace 15 Indirect taxes. And to one’s amazement and wonder 15 taxes did seem a lot of chaos and confusion. How does such a tax system functioned and where was it actually lacking?

And how these lacunas will be met by GST?
The above flow chart states all the indirect taxes that were earlier levied both at central and state level. India had a dual system of taxation of goods and services, which was quite different from dual GST.

Central Government levied taxes on the following:

- **Income Tax**: Tax collected on the income of an individual
- **Customs duties**: Duties collected on the exports and imports of goods
- **Service tax**: Taxes gathered on various services
- **Central excise**: Taxes on Manufacturing of dutiable goods

State Governments levied the following taxes:

- **Value Added Tax (VAT)**: Sales of goods involve the particular tax. The sales of the goods in intra-state are covered by the VAT Law of that state, whereas those among the inter-state is levied by the Central Sales Tax Act. Even the revenue gathered as per the Central Sales Tax Act is done by the State Governments and the Central Government has no role in it.
- **Stamp duties and Land Revenue**: Since land is a matter on which only State Governments can govern, thus the Stamp duties on transfer of immovable properties are levied by State Governments.
- **State Excise** on Liquor and certain agricultural goods.

In India, indirect taxes are in vast numbers as there were several of taxes to be incurred on manufacture, import, and sale and even purchase in certain cases. Further the law was governed less by the Acts and more by day to day notifications, circulars and orders by the Governing bodies.

Further there are some local indirect taxes levied like Local Body Taxes (LBT) or Octroi.

**SHORTCOMINGS IN THE PRESENT STRUCTURE AND NEED OF GST**

1. **Tax Dropping**: The most significant contributing factor to tax cascading is the partial coverage by Central and State taxes. Sectors that are exempted are not allowed to claim credit for the Cenvat or the Service Tax paid on the inputs.

2. **Levy of Excise Duty on manufacturing point**: The CENVAT is levied on goods manufactured or produced in India. Restricting the tax to the point of manufacturing is a severe obstruction to an effective and unbiased application of tax. For example, valuation as per excise valuation rules of
a product, whose consumer price is Rs. 100/-, is, say, Rs. 70/-. In such a case, excise duty as per the present provisions is payable only on Rs. 70/-, and not on Rs. 100/-.

3. **Complexity in determining the nature of transaction** – Sale vs. Service

4. **States are unable to levy taxes on services**: they have no powers to collect tax on incomes or the fastest growing constituents of consumer expenditures, the States have to rely almost exclusively on compliance improvements or rate increases for any flexibility in their own-source revenues.

5. **Lack of Uniformity in Provisions and Rates**

6. **Fixation of situs** – Local Sale vs. Central Sale

7. **Interpretational Issues**: whether an activity is sale or works contract; sale or service, is not free from doubt in many cases.

*Now in a huge comparison to the above stated tax regime, GST implementation will be somewhat like the below flow chart.*
Under the new tax regime, there will be 3 kinds of Goods and Services Taxes:

**CGST:** where the revenue will be collected by the central government

**SGST:** where the revenue will be collected by the state governments for intra-state sales

**IGST:** where the revenue will be collected by the central government for inter-state sales

As per the proposed Tax system, the input of Central GST can be used only for payment of CGST & the input of State GST can be used only for payment of SGST. Cross-Utilization of input of CGST in payment of SGST and vice-a-versa, is not allowed.

The notion of having one merged indirect tax in place of several previously existing indirect taxes is to benefit the Indian economy in a number of ways:

- It will help the country’s businesses gain a level playing field
- It will put us on par with foreign nations who have a more structured tax system
- It will also translate into gains for the end consumer who not have to pay cascading taxes any more
- There will now be a single tax on goods and services