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Tax and GST Reforms in India - Past, Present and Future

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Abstract
Taxation is the backbone of a nation's economy, as it provides the government with revenue to fund development, welfare, and administration. In India, the system of taxation has undergone significant changes over the decades, aiming to make it more transparent, efficient, and growth-oriented. Tax reforms in India can broadly be studied in three phases – the past, the present, and the future. Taxation is the foundation of every nation's economy, as it provides the government with revenue to fund development, infrastructure, and welfare schemes. Over the years, direct taxes like income tax have been simplified, while indirect taxes saw a revolutionary change with the introduction of the Goods and Services Tax (GST) in 2017.GST replaced a complex system of excise, VAT, service tax, and other levies with a unified structure, promoting the idea of "One Nation, One Tax, One Market." Together, tax and GST reforms aim to reduce corruption, improve compliance, widen the tax base, and create a fair system that balances government revenue with ease of doing business. These reforms past, present, and future reflect India's journey towards building a modern and transparent tax framework that supports both economic growth and social justice. GST has been a landmark tax reform in India. In the short term, it caused disruption, compliance burden, and inflationary effects. In the long run, GST is making the Indian economy more transparent, competitive, and investment-friendly. With reforms like reducing the number of tax slabs and simplifying compliance, GST can unlock its full potential as a driver of growth. GST has become a milestone in fiscal federalism in India. By creating the GST Council, ensuring shared tax powers, and promoting uniformity in taxation, it has strengthened cooperative federalism. To sustain this, Centre and States must continue to work in harmony, ensuring trust, revenue security, and flexibility in decision-making.

Key words: GST, VAT, Tax, Investment, Revenue, Government, Markets. Economic Growth,

Tax – Definition

A tax is a compulsory financial charge imposed by the government on individuals, businesses, or goods and services to raise revenue for public purposes such as development, defence, infrastructure, and welfare. It is not a voluntary payment but a legal obligation.

Types of Tax

1.Direct Taxes – Paid directly to the government (e.g., Income Tax, Corporate Tax).
2.Indirect Taxes – Collected through goods and services (e.g., GST, customs duty).

GST – Definition

The Goods and Services Tax (GST) is a comprehensive indirect tax introduced in India on 1st July 2017, replacing multiple taxes like VAT, excise duty, and service tax. It is a single tax system levied on the supply of goods and services, collected at every stage of the supply chain, with credit available for taxes paid earlier (Input Tax Credit).

Key Idea – "One Nation, One Tax, One Market".

Objectives of this paper

•To study the historical evolution of tax reforms in India
•To understand how the system has transformed over time.
•To analyze the introduction and impact of GST as a landmark tax reform in India.
•To explore future directions of tax and GST reforms for simplification, digitalization, and global alignment.

Tax Reforms in the Past

1.Pre-Independence Era

The British introduced income tax in 1860 as a temporary measure but it became a permanent feature later. Taxes were largely used to fund colonial administration and wars, not development.

2.Post-Independence Era (1947–1990s)

The system was complex, with high tax rates, multiple slabs, and heavy reliance on indirect taxes. Tax evasion was widespread due to cumbersome laws. The Wanchoo Committee (1971) recommended simplification and measures against evasion. The Raja Chelliah Committee (1991) laid the foundation for modern tax reforms reduction in rates, broadening of base, and rationalization of indirect taxes.

Tax Reforms in the Present scenario

1.Direct Tax Reforms

Reduction in Tax Rates, Corporate tax and personal income tax rates have been rationalized. Faceless Assessments: Introduced to increase transparency and reduce

corruption. Demonetization and Digital Push (2016 onwards): Promoted tax compliance through digital payments.

2.Indirect Tax Reforms

Goods and Services Tax (GST) – 2017 A landmark reform replacing multiple indirect taxes excise, service tax, VAT, etc. with a unified system. Helped in creating a "One Nation, One Tax" structure. Increased transparency through e-filing, e-way bills, and input tax credit.

3.Technology Integration

Online filing of returns, Aadhaar–PAN linking, and data analytics to detect evasion. Initiatives like GSTN (Goods and Services Tax Network) improved efficiency. cost remains high.

Tax Reforms in the Future

1.Simplification of Tax Laws

Further reduction of exemptions and incentives to make the system more straightforward.

Introduction of a Direct Tax Code (DTC) to replace the old Income Tax Act, 1961.

2.Expanding the Tax Base

Widening coverage of direct taxpayers (currently less than 10% of population).

Bringing more small businesses and digital economy transactions under the net.

3.Use of Artificial Intelligence and Big Data

Advanced technology will help detect fraud, improve compliance, and reduce human intervention.

4.Green and Carbon Taxes

Future reforms may focus on environmental sustainability by introducing carbon taxes, pollution levies, and incentives for green businesses.

5.Global Alignment

India is expected to adapt to international tax reforms like OECD's Global Minimum Tax to prevent profit shifting by multinational corporations.

India's tax reforms have evolved from a complex and evasive system to a more transparent and digital-friendly structure. While GST and faceless assessments represent the present achievements, the future promises even more efficiency, fairness, and integration with

global standards. A strong and reformed tax system will not only improve revenue collection but also foster economic growth, equity, and trust among citizens.

GST Reforms in India: Past, Present and Future

The Goods and Services Tax (GST), introduced in India on 1st July 2017, is one of the most significant tax reforms since Independence. It replaced a complex web of indirect taxes with a unified system, promoting the idea of "One Nation, One Tax, One Market". Since its introduction, GST has undergone multiple reforms to improve efficiency and compliance, and future reforms aim to make it even simpler and more growth-oriented.

Past Reforms (2017–2020)

1. Launch of GST (2017)

Merged taxes like VAT, Service Tax, Excise, CST, Octroi, etc.
Established GST Council to recommend rates and reforms.
Introduced multiple tax slabs (0%, 5%, 12%, 18%, 28%).

2.Early Reforms

Introduction of E-way bills (2018) to track goods movement.
GST Compensation Cess for states to make up revenue losses.
Rate reductions on essential goods to ease burden on consumers.

3.Compliance Simplification

Quarterly filing option for small businesses.
Composition scheme for small traders and manufacturers.

Present Reforms (2020–2025)

1.Technology-Driven Compliance

E-invoicing for large businesses (later extended to smaller ones).
Linking of GSTN system with Income Tax and Customs databases.

2.Faceless and Transparent Mechanisms

Online refund systems to reduce delays.
AI-based monitoring to curb fake invoicing and tax evasion.

3.Rate Rationalization Efforts

Gradual reduction of items in the 28% "luxury and sin goods" slab.
Efforts to bring uniformity in rates across states.

4.Support During COVID-19

GST exemptions and reductions for medical supplies and vaccines.
Flexible deadlines for return filing.

Future Reforms

1.Rate Rationalization

Move towards 3-slab structure (merging 12% & 18% into a single rate).
Simplify structure to avoid confusion.

2.Widening the GST Base

Bringing petroleum, electricity, and real estate under GST to ensure a truly unified system.
Better integration of small businesses into the GST network.
3.Use of Advanced Technology
Artificial Intelligence and Big Data for detecting evasion.
End-to-end automation of compliance and audits.
4.Global Alignment
Adopting best practices from other GST/VAT countries.
Strengthening India's tax system to suit global trade norms.
5.Boosting Cooperative Federalism
Ensuring smooth revenue-sharing between Centre and States.
Addressing state concerns on compensation and autonomy.
Recent Reforms (2025)
a)Rate Rationalization (GST 2.0)
Simplified tax slabs: two main slabs – 5% & 18%, plus 40% for luxury/sin goods.
Many essential and household items shifted to lower tax rates.
Relief for middle-class consumers (items like shampoos, footwear, ACs, refrigerators now taxed at lower rates).
b)Sector-specific Reforms
Hotel tariffs → GST now based on actual charges (not declared tariff).
Used vehicles → standardized GST at 18% on margin scheme.
Food items like roti, paratha, flour, basic medicines → exempt or 5%.
c)Compliance & Procedural Changes
Mandatory multi-factor authentication for GST portal login.
Updated e-invoicing and e-way bill requirements.
New exemptions e.g., gene therapy added in 2025.
Recommendations for the Future
1.Uniform Tax Structure: Move closer to 2–3 main slabs, maintain luxury/cess for sin goods.
2.Ease Compliance: Simplify filing, reduce forms, enable auto population from invoices.
3.ITC Reforms: Streamline input tax credit rules to avoid blockage and disputes.
4.Strengthen Federalism: Ensure Centre-State cooperation and timely compensation.
5.Digital Transformation: Full e-invoicing, AI-based fraud detection, real-time monitoring.

6.Public Awareness: Educate taxpayers, especially MSMEs, about GST benefits and compliance.

Future Impact

•Consumers: Stable and transparent pricing.

•Businesses: Lower compliance burden, easier classification, better cash flow management.

•Economy: Higher tax collection, formalization of economy, improved ease of doing business.

•Federalism: Strengthened cooperative system between Centre and States.

Conclusion

GST has transformed India's taxation system by bringing uniformity and transparency. While the past reforms focused on establishing the system and easing compliance, the present reforms highlight technology integration and rationalization. The future of GST lies in further simplification, inclusion of more sectors, and making it a truly efficient tax that supports both revenue growth and ease of doing business.

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