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AN ANALYSIS OF THE IMPACTS OF THE GST FRAMEWORK ON PRESENT PUBLIC FINANCE MANAGEMENT PRACTICES

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Abstract

The mobilization of tax revenue and the distribution of public funds are dealt with through a system of laws and procedures known as public financial management. In other words, it has to do with managing the public purse. The administration of public finances has emerged as the most crucial aspect in deciding how effectively resources are utilized since societal demands are always growing. In line with this, the goal of this study is to analyses the public financial management practices of the Indian Central Government. The study's primary focus is on the analysis of expenditures and tax receipts, but it also aims to shed light on the public finance system in India, the effectiveness of the current system's money management, the creation of a consistent policy framework, and the long-term correlations between various indicators. By emphasizing that the existing literature gives insufficient attention to the administration of tax collections and significant expenditure initiatives, both of which have historically suffered from deficiencies, the current inquiry fills a gap in the previously published research.

Keywords:*Gst Framework, On Present Public Finance Management.*

INTRODUCTION

The consequence of uniform taxes and the accompanying open internal commerce or possession of the "jewel in the crown" is arguable; yet, the words of the father of modern economics on the benefits of a consistent system of taxation cannot be disregarded as minor because of their significance. Before the implementation of the Goods and Services Tax (GST), India's taxation system was a mishmash of many types of levies, including federal, state, and municipal taxes. The foundation has been created for a single indirect tax system in India, taking the country one step closer to achieving complete economic unity. The Goods and Services Tax (GST) now incorporates over a dozen distinct tax kinds.

A tax that is applied to purchases and is an example of an indirect tax is the sales tax. Profits are exempt from the need that indirect taxes be paid. The book Artha shastra, which Kausalya was responsible for writing, has evidence that indirect taxes had been in place in India before his time. Historically, residents were required to pay taxes, which were then collected from them in the form of a variety of agricultural goods. It was pointed out, for instance, that India is the world's second-largest user of natural rubber, despite the fact that it is just the world's fourth-largest producer of natural rubber. Because agriculture is such an important part of the Indian economy, an examination of non-performing assets in the context of Indian agricultural loans was carried out. According to Manu Smriti, it was the responsibility of the king to organise the process of tax collecting in a way that did not place an undue amount of monetary pressure on any one taxpayer. Farmers were obliged to hand up one-sixth, one-eighth, or one-tenth of their crop, depending on the specifics of their situation, while merchants and artisans were required to hand over one-fifth of their cash and gold revenues.

In the Artha shastra, Kautilya makes the observation on the topic of "Koshamoolodanda" that the power of a nation is dependent on its treasury as well as the money that is brought into it. After some time had passed, in 1922 the British government made adjustments to the procedure that was used to collect indirect taxes in India. (A Historical, Contemporary, and Prospective Analysis of the Value-Added Tax in India, n.d.). It's possible that the beginning of contemporary indirect taxes may be traced back to the introduction of excise taxes. The Central Excise Act was first drafted in 1944, and between that year and 1969, it underwent many rounds of revisions. In the year 1986, governments all over the world started implementing a value-added tax, sometimes known as a VAT. The provision of a method through which manufacturers may claim a refund for the excise duty they had already paid was the primary objective of this project. Initially, only raw materials and components were required to pay MODVAT; however, in 1994, this limitation was lifted, and now capital products are required to pay it as well. In 2005, twenty-one states passed legislation to implement a value-added tax (VAT), which resulted in the repeal of all previous state-level taxes. When it comes to the value-added tax, or VAT, each of India's various states is responsible for enforcing its own set of distinct laws and procedures. Understanding the primary purpose of this research is impossible without first having a solid grounding in the fundamentals of GST. The Goods and Services Tax, sometimes known as the GST, is a value-added tax that is collected at each stage of the distribution chain, from the point of manufacturing to the point of final use. The Goods and Services Tax (GST) must be paid at each stage of the distribution chain, beginning with the wholesaler and continuing on through the retailer and finally the end user. The seller has the potential to file a claim for a credit against his future Goods and Services Tax (GST) obligation for the same supply in exchange for any Goods and Services Tax (GST) that was paid when purchasing those goods or services.

OBJECTIVES

1. To study of an analysis of the impacts of the gst framework.
2. To study of the present public finance management practices.

FINANCE MANAGEMENT

Finance management merges management and accounting, using the financial management cycle to create strategic plans for clients. Learn about this growing field, the education requirements, and different career paths. Finance management is the strategic planning and managing of an individual or organization’s finances to better align their financial status to their goals and objectives. Depending on the size of a company, finance management seeks to optimize shareholder value, generate profit, mitigate risk, and safeguard the company's financial health in the short and long term. When working with individuals, finance management may entail planning for retirement, college savings, and other personal investments.

Purpose of financial management

The purpose of financial management is to guide businesses or individuals on financial decisions that affect financial stability both now and in the future. To provide good guidance, financial management professionals will analyze finances and investments along with many other forms of financial data to help clients make decisions that align with goals. Financial management can also offer clients increased financial stability and profitability when there's a strategic plan for where, why, and how finances are allocated and used. How financial management professionals help clients reach goals will depend on whether the client is a company or an individual.

GST

The abbreviation for "Goods and Services Tax" (in its complete form) is "GST." It was initially given in the Budget Speech that was delivered on the 28th of February in 2006. It established the groundwork for a comprehensive overhaul of India's system of indirect taxation. Since its beginnings, the indirect taxation system has been subjected to a series of revisions, the most recent of which was finally enacted on July 1, 2017, under the name Goods and Services Tax Act. Because of this tax reform, a number of other indirect taxes that had been levied on a variety of goods and services have been replaced by the GST. This tax is governed by a regulatory organization known as the Central Board of Indirect Taxes and Customs (CBIC), which is responsible for all modifications and amendments.

The definition of GST may be easily broken down. It is a tax that is dependent on the destination, has multiple stages, is comprehensive, and is levied at each level of value addition. The 'One Nation One Tax' initiative of the Indian government has been effectively advanced thanks to this reform, which has resulted in the replacement of a number of different indirect taxes across the country. A tax is charged on goods and services that are sold within India's internal boundary for the purpose of being consumed. The tax has been successfully implemented by the majority of nations throughout the world, each with their own distinct adaptations, and it has been successful in simplifying India's structure of indirect taxation. The ultimate market price of products and services manufactured internally is subject to the products and Services Tax (GST), which is a reflection of the maximum retail price. When consumers make a purchase of products or services, they are obligated to pay this tax, which is factored into the total price of their transaction. Following its collection by the vendor, the tax must subsequently be paid to the government, which exemplifies the concept of indirect incidence.

IGST

In the framework of the Goods and Services Tax (GST), an Integrated Goods and Services Tax (IGST) will be imposed on inter-State sales of goods and services and collected by the Central government. According to Article 269A of the Constitution of India, the GST shall be levied and collected by the Government of India, and such tax shall be apportioned between the Union and the States in the manner that may be provided by law on the recommendations of the Goods and Services Tax Council. Additionally, the GST shall be levied and collected on supplies made in the course of interstate trade or commerce.

The Indian Taxation System - Scenario Before GST

Tax policies play an essential part in the development of any nation, and they have an immediate bearing on the economy of any nation in terms of both its efficiency and its fairness. A good taxation policy is one that not only takes care of the overall distribution of income but also generates tax revenues in such a way for both the Central Government and the State Governments that can lead to an overall benefit in the nation's infrastructure, defense, public amenities, people's security, and a country's exports. If a policy can accomplish both of these goals, then it is a good taxation policy. The articles of India's Constitution provide the overall foundation for imposing indirect taxes on the country's citizens. The ability to impose taxes and collect indirect taxes on the basis of transactions involving goods and services is granted to both the Central Government and the State Governments under Article 246, Seventh Schedule. The method of taxes differs from one manufacturer to the next depending on the volume of imports or exports, as well as the point of sale. According to Article 246 of the Indian Constitution System, a tabular representation of the Indian indirect taxation system illustrates indirect taxation-based collection systems that are based on origin and are meant to impose tax and collect the same at the event of occurring of any taxable activity. These systems are also designed to impose tax and collect the same at the event of happening of any taxable activity. The table that follows provides a depiction in tabular form of the various taxes that are levied and collected by the Central Government and the several State Governments of India.

Problems associated with Estimation of Revenue under Protection from GST

Because of a number of factors, it is impossible to compare the revenue collection under the GST to that under the previous form of taxes. First of all, given the disaggregated data available either in the Budget Documents or Finance Accounts of State Governments, it is not possible to separate revenue on account of sales tax or VAT, CST and entry tax into two baskets for the pre-GST regime. These two baskets are a) items which are under GST and b) items which are out-of-GST and include primarily gasoline, diesel, aviation turbine fuel, crude petroleum oil, natural gas, and alcoholic beverages for human consumption. Due to the difficulty of separating revenue collection into two separate baskets, as well as the fact that revenue collection from the majority of items that are not subject to GST is dependent on the ebb and flow of international crude oil prices and the foreign exchange rate, it is challenging to estimate the size of revenue that must be protected under GST for the states. Second, the Goods and Services Tax (GST) incorporates a number of different taxes and cesses that were previously collected by local governments and authorities (such as the local body tax and the octroi), as well as by other institutions (such as the water cess collected by state pollution control boards), but these no longer need to be reflected in the state budget documents. According to the Goods and Services (Compensation to States) Act of 2017, revenues resulting from these taxes and cesses are regarded as being safeguarded, and the Goods and Services Tax (GST) compensation that is owed to the states will be distributed. It will be difficult to provide an accurate assessment of the money that is protected for states since there is a lack of information on the collection of revenue from these taxes and cesses on a state-by-state basis.

CAUSES OF GST REVENUE SHORTFALL

A decrease in revenue as a result of the GST is not beneficial to maintaining budgetary sustainability. A deficit in GST income may occur as a result of difficulties relating to a) the design and structural concerns connected with GST, b) the policies and practices of GST administration, and c) tax compliance. If we assume that tax buoyancy is one, reaching a nominal growth rate of 14 percent in GST revenue under the 'inflation targeting framework' that has been in place since February 2015 and endorsed by the Reserve Bank of India (RBI), needs a minimum real growth rate of 10-11 percent in GDP. Despite this, the current growth rate in GDP is less than 10 percent.

GST Revenue Shortfalls: Design and Structural Issues

The creation of a destination-based value-added tax system that included dual control was difficult for a country as federalized as India. When compared to the Central Sales Tax (CST) system, the Integrated Goods and Services Tax (IGST) is applicable to interstate commerce (including branch and consignment transfers). Because the IGST rate, which includes both CGST and SGST, is greater than the prior CST rate (2%), inter-state customers are required under the GST system to set aside a sizeable portion of their cash flow as an IGST payment (or Credit). The amount of time that a sector will be blocked from receiving cash flow due to IGST will differ from one another depending on the gestation period in the value chain. Only when an IGST or CGST-cum-SGST debt was incurred further down the value chain was it possible to recover the blocked IGST credit. In addition, under the GST system, branch and consignment transfers are subject to IGST as well. As a result of the fact that there was no CST obligation on consignment or branch transfers under the CST system, this constrains the available working capital of enterprises that operate in different countries.

GST and Economic Growth

According to the Year-to-Year growth rate of Gross Value Added (GVA) at basic prices (2011-12 series, at constant prices), the growth rate has been decreasing since the fourth quarter of 2015-16, and it was 5.6 percent at the beginning of 2017-18 (Figure 1). The growth rate of GVA accelerated to 8% in the first quarter of 2018-19, up from 5.6% in the first quarter of 2017-18. On the other hand, the average growth rate that was reached in 2015–2016 (8.1%) and 2016–2017 (7.1%) was lower than the rate that was achieved in 2017–2018 (6.4%). When making inferences regarding the effect that the Goods and Services Tax (GST) would have on GVA based on these data, it is important to keep in mind that the economy was hit with a shock seven months previous to the implementation of the GST in the form of the removal of large denomination notes. It is believed that this shock slowed the pace of development of the economy at least in the two quarters before to the date of the implementation of the GST, which resulted in a lower base and perhaps a higher rate of growth.

POLICIES AND PRACTICES OF GST ADMINISTRATION

One of the many aspects of the Goods and Services Tax (GST) that has not yet been put into effect is the reverse charge mechanism (RCM). In the RCM system, firms that buy inputs from unregistered entities and/or composition dealers are required to make deposits for the taxes that are owed on the inputs that they acquire, as well as the corresponding input tax credit (ITC) that they are eligible to claim if and when they incur tax obligations under GST (either IGST or CGST-cum-SGST). The mechanism that is being suggested is intended to make it mandatory for unregistered enterprises to get GST registration and become incorporated into bigger value chains. The implementation of RCM has been delayed till the 30th of September, 2019. There is a possibility that the ruling assisted in enhancing tax compliance; yet, the revenue consequences of the decision cannot be overlooked. It is necessary to do a benefit-cost analysis before delaying the implementation of any provision of the GST.

CONCLUSION

The evaluation of the performance of governance is being carried out concurrently with the study of public finances in order to facilitate the formulation of any required changes in order to solve existing problems within the system. The problem statement for the research admits that the central government of India is subject to a convoluted taxation structure with variable expenditure patterns. This is one of the problems that the study will investigate. Taxpayers in India are ultimately exposed to a biassed tax incidence as a direct result of the variables that have been listed above. A comprehensive investigation of the administrative, bureaucratic, and structural components of governance was carried out by the researcher in the form of a critical examination of the central government's public finance system. The first phase of the investigation consisted of a detailed analysis of the procedures that were used to disperse the funds provided by the federal government.

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