Ancient era Micro perspective: Origin of India's Indirect taxes

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Ancient and medieval India had a tax system that was quite varied and underwent significant development over the course of time. The following is a summary of the structure of indirect taxes that were established over various time periods:

India in Olden Times

The Vedic Period, which lasted from 1500 to 500 BCE:

The vast majority of taxes were collected in the form of tangible goods, such as cereals and animals.

Despite the fact that there were no well-documented indirect taxes, it was normal practice to make offerings and present tributes to the kings.

The Mauryan Empire, which lasted from 322 to 185 BCE:

During the reign of Emperor Ashoka, a tax system that was more organized was put into place.

The book known as Arthashastra, which was written by Kautilya (Chanakya), provides a description of a number of different sorts of taxes, including indirect taxes on trade and goods.

– The customs duties that were imposed on commerce and transportation were substantial. Taxes were paid by merchants based on the value of the items that they traded.

Third, the period following the Mauryan

– Customs taxes were still in force under the Gupta Empire, which lasted from approximately 320 to 550 CE. Although land revenue was the most important source of revenue, indirect taxes on trade and production also played a considerable role.

The prevalence of an indirect taxation system in India can be traced back to ancient times. The Kautilya's Arthasastra provides a well-organized and methodical framework for imposing and gathering taxes for the state. Regarding taxation matters, his suggestions were a perfect combination of both direct and indirect taxes. The purpose of the article is to comprehend the service tax structure in Ancient India and establish a connection between the Ancient framework and the GST framework. The custom of goods and service taxation has been prevalent in India since ancient times.Taxation plays a crucial role in the central government's strategy for managing the economy, particularly in promoting economic growth and ensuring its fair distribution. Indirect taxes refer to the fees imposed on products and services. Notable indirect taxes include Value Added Tax, Central Sales Tax, Central Excise Duty, Customs Duty, stamp duties, and spending tax. The prevalence of an indirect taxation system in India can be traced back to the Vedic age. The Goods and Service Tax, one of the largest taxing reforms in India, is poised to unify State economies and enhance overall economic growth. The term "kara," which denotes taxation, is mentioned in the Srimad Bhagvatam. The source cited is Mitra (2011).

Study context

The products and Services Tax (GST) is a comprehensive tax imposed on the production, sale, and consumption of products and services throughout a country. The implementation of the Goods and Services Tax (GST) establish a consolidated and integrated market in India, thereby enhancing the strength of the economy. The implementation of GST results in the elimination of various taxes including octroi, Central Sales Tax, State-level sales tax, entry tax, stamp duty, telecom licence fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, and others. This helps in avoiding the complex system of multiple layers of taxation that was exist in India. The Goods and Service Tax, one of the largest taxing reforms in India, is poised to merge State economies and enhance overall economic growth. India is a nation with a rich cultural heritage and a history filled with achievements and greatness. India was expected to be the prominent leader of the entire world during the pre and post Vedic age. During that time, India's technological and socio-economic progress was so advanced that it was commonly referred to as a "Golden Bird," symbolizing great affluence. The Indian culture had an extensive reach, encompassing a significant portion of the world until a few millennia ago. The Gupta era was characterized by a state of tranquillity and economic well-being, which was fostered under the wise leadership of Chanakya.

An examination and analysis of
existing literature

Tax, sometimes referred to as
Sukla (tax), is the portion of the buyer and seller's payment that the king receives. Taxes on goods have been imposed on a variety of goods since the Vedic time. The Vedic period refers to the specific era in Indian history when the Vedas, the ancient texts of Hinduism, were written. The duration of the period is indeterminate, although it is believed to extend from 1700 BCE to approximately 500 BCE (Molloy, 2012).
The criteria for fair taxation are outlined in verses 7.127 to 7.137 of the Manusmriti.An indirect tax refers to a tax that is collected by a middleman, such as a retail business, from the individual who ultimately pays the economic cost of the tax, such as the client. An indirect tax is a type of tax that can be transferred by the taxpayer to another individual or entity. An indirect tax can result in a higher price for a good, causing consumers to effectively bear the burden of the tax by paying more for the products. The website mospi.nic.in

is the official website of the Ministry of Statistics and Programme Implementation. K. B. Sarkar, in his book Public Finance in Vedic India, praises the taxing system in Vedic India, stating that the majority of levies in this period were remarkably efficient in generating revenue. The inclusion of both direct and indirect taxes ensured flexibility in the tax system, while direct taxes were given greater importance. The tax structure was comprehensive and encompassed a wide range of individuals. The taxes exhibited a diverse range, which accurately mirrored the complex composition of the population. The source cited is Mitra (2011).

Manu's "Smrti" contains references to various tax measures. Manu asserted that the king had the authority to impose taxes on his subjects, as long as they were in accordance with the Sastras, which denotes their validity. He recommended that taxes should not, under any circumstances, impose difficulty on the individual for whom they were intended and from whom they were collected. The website for the Income Tax Department of India is called "incometaxindia".

The Kautilya's Arthasastra provides a well-organized and methodical methodology to impose and gather taxes for the state treasury. Regarding tax-related matters, his suggestions were an optimal combination of both direct and indirect taxes. During this period, the collection of land revenue served as a significant source of income for the State treasury. In addition, throughout this period, there was a prevalence of various forms of taxation like as water taxes, octroi duties, toll taxes, and customs duties. Taxes were levied on forest produce as well as on mining activities involving metals, among other things. The term "taxguru" refers to an individual who possesses advanced knowledge and expertise in the field of taxation.

Chanakya's aphorism in the Arthasastra, "Koshamoolo danda," emphasizes the crucial role of the treasury and its inflows as the foundation of a government's power. Undoubtedly, the Sanskrit term "danda," which signifies the sceptre, is the tangible embodiment of a government's essence, awareness, and moral principles. As to the Arthasastra of Kautilya, the crown had sovereignty over the lands and imposed different types of taxes on them. "The produce obtained from the portion of land owned by the government, known as crown lands (Sita), is subject to payment to the government (bhaga). Additionally, there are religious taxes (bali) and taxes that are paid in currency (Kara)." Amarjothi, 2013

The king possessed the ultimate power to impose and gather taxes from the individuals under his rule, in various forms. The objective of this was to obtain a portion of the agricultural yield generated from the area over which the king held supreme authority. The chief received voluntary offerings from the people, which are known as Bali. The items included under rashtra are produce from crown-lands, tithe, tributes on share of offerings (Bali), merchants, superintendent of rieveries, ferries, boats and ships, towns, pasture fields, road-cess, and ropes to bound thieves. Dr. Prasanna Kumar Acharya was born in 1939.

The term “kara” has a specific meaning as employed by Kautilya. According to Shaft, it refers to the annual tax paid during specific months such as Bhadrapada and Vasanta. However, the Arthasastra text by Kslrasvamin defines it as a fee on all movable and immovable items. Therefore, it can be inferred that kara was a regularly imposed general property tax. The source cited is Monahan (1925).

The royal treasury received income from various sources such as forts (durga), rural areas (rashtra), mining (khani), structures and gardens (setu), woodlands (vana), herds of cattle (vraja), and road tolls (yanikpatha).The following taxes are included under the head: Tolls, fines, weights and measures, town-clerk, superintendent of coinage, of seals and pass-ports, liquor, slaughter of animals, manufacture of threads, oils, ghee, sugar, state goldsmith, ware-house of merchandise, the prostitute, gambling, building sites, lease, the corporation of artisans, and handi-crafts-men, superintendents of gods, gate-tax (custom or entertainments), and foreigners (bahirikas). (RAO, 2014)

Statistical analysis and comprehension of data

1) Taxes imposed by the state government.

• Sita: Consisting of several types of crops brought by the agriculture Supervisor.

• Bhaga: Bhaga referred to the tax imposed on agricultural crops, amounting to one-sixth of the whole yield.

• Bali: The Aryanas were the initial group of individuals who developed a taxing system under their king known as the Rajan. The Rigveda states that the Rajan would receive his earnings in the shape of Bali. The main source of income during the Vedic period was Bali. Taxation, referred to as ‘bali’ in the pre-Vedic period and later as ‘rajkar’, was considered a significant means of generating revenue for the state. Kara:

• Vivita: a tax imposed on agricultural land used for grazing livestock. This phrase refers to the payment of fees collected by the Vivitadhyaksa for the utilization of pastures by the royal authorities. The tithe, or a portion of agricultural yield, serves as a royal tax that is referenced in all Dharmasastras. This practice is deemed legitimate based on the premise that the king holds true ownership of the land.

• Rajju: Rajju refers to the cess or fee that is required to be paid for the purpose of settlement.

• Chora rajju: A form of taxation imposed by local authorities or the police for maintaining law and order.

• Vyaaji – a form of sales tax.

• Atyaya refers to the penalty imposed for the infringement of a governmental monopoly.

2) Tax levied on entertainment activities.

• Kautilya implemented a substantial tariff on imported luxury goods.

According to the Dharmasūtras and Dharmaśāstras, it is the specific responsibility of the king to levy three types of taxes: Emergency tax (Praṇaya), Celebration tax (Utsanga), and War tax (Senābhakta). Utsanga did not have a definitive and unchanging rate.

There are taxes imposed on lottery, betting, and gambling activities.

The state imposed a gambling tax on the winnings of those who participated in gambling at state-maintained gambling establishments. The tax amounted to 5% of the stakes won and was required to be paid by the winner.

Service Tax

According to Manusmriti 7/128, the king should determine taxes in his kingdom in a manner that ensures both himself and the workers (such as traders and farmers) attain satisfactory outcomes. According to Manu, the Vedic scholar and legislator, traders and artisans were required to contribute 20% of their profits in silver and gold. On the other hand, agriculturists were expected to pay 16%, 12.5%, or 10% of their produce, depending on their individual circumstances. The source cited is Mitra (2011).

There was an indirect tax imposed on the utilization of water from the reservoir Setu. According to Sankalia, the usage of rivers and similar water sources should either be exempt from taxation or people who rely on them for their livelihood should contribute to the King. The situation mentioned pertains to the rules of Yaj and Narada.

According to Vedic tradition, a merchant who entered a kingdom with his products was required to give a fitting present to the king as a customs charge. Over time, this practice evolved and became known as Customs Duty. This is levied on imports and occasionally on exports as well. The abbreviation “rccmindore” does not provide enough context to determine its meaning. A 5% profit margin will be applied to domestic items, while a 10% profit margin will be applied to imported goods. Severe penalties are imposed for surpassing these restrictions. R.P. Kangle, 2000

Arthasastra outlines many additional charges, surcharges, and levies to generate more cash.

The Arthasastra outlines many additional taxes, fees, and surcharges to generate extra money. In addition, regular fees and service charges are imposed. However, the tax rate for most economic activities is set at 16%. Given the current policy discussions on reforming indirect taxation, specifically the tax on production and sales, it would be logical to adopt Kautilya’s recommended rate of 16% as the Goods and Services Tax (GST) rate. The source of this information is the publication “ET” from the year 2010.

The significant increase in the rate of cow tax from 2% in Manusmriti to 12% in Sukraniti (800 AD) is a topic worthy of discussion. Shukracharya was the offspring of Maharishi Brighu, who was one of the saptrishis.

In conclusion,

In India, the practice of levying taxes on products and services has been in effect in various forms since ancient Vedic times. The GST is facilitated to be highly effective within the context of the Vedic indirect taxation regime. In the Raghuvansha, Kalidasa describes King Dileepa as someone who collected taxes from his subjects solely for the benefit of the people, similar to how the Sun absorbs rain from the Earth and returns it in abundance. Therefore, the implementation of GST serves as a transformative tactic. In the current economic landscape, the Goods and Services Tax (GST) plays a crucial role in consolidating the fiscal resources of a nation. In recent years, the Goods and Services Tax (GST) has gained significant importance in the economic and fiscal landscape of our nation. It currently plays a vital role in generating tax income for India. Therefore, the implementation of GST is expected to bring about a significant positive change for India. The implementation of GST is anticipated to be a pivotal change in stimulating economic growth.

1.
India in the Middle Ages

During the Mughal era, the primary source of income was derived from levying taxes on agricultural yields, with peasants being responsible for paying these taxes to their respective headmen or local chieftains. Todar Mal, the revenue minister of Akbar, conducted a comprehensive survey of crop yields, prices, and cultivated lands over a period of ten years. Based on that, he established tax rates for each crop. The province was partitioned into revenue circles. Each circle has distinct revenue rates for every crop. The revenue system was referred to as zabt. The Mughals enforced the payment of jizya, mostly targeting non-Muslim communities. However, Emperor Akbar later abolished this practice. Unfortunately, the last Mughal Emperor, Aurangzeb, reintroduced the imposition of jizya on Hindus in 1679. The individuals were also remitting tax in the form of agricultural yield to the monarch.

1. During the Early Middle Ages:

It is well known that the Chola Dynasty, which lasted from approximately 850 to 1279 CE, had a well developed tax system.

Tolls on trade routes and market taxes were examples of indirect taxes that fell under this category.

Additionally, gifts and offerings were a kind of taxes in ancient times.

The Delhi Sultanate, which existed from 1206 until 1526 CE:

The Sultans imposed a number of different types of indirect taxes, including as customs duties on commercial transactions and toll levies on products that were transported for transportation.

There was also the practice of zakat, which is a levy that requires people to provide alms.

The Mughal Empire, which lasted from 1526 until 1857 CE:

– Akbar instituted a collection of customs taxes and a tax known as jizya, which was levied on people who were not Muslims.

The Mansabdari system contained a variety of trade taxes in addition to land revenue assessments.

Over the course of its existence, the Mughal Empire implemented a convoluted system of indirect taxation on trade, which included both excise fees and market taxes.

To summarize, the primary focus of indirect taxes in ancient and medieval India was on activities related to trade and the market. These activities included customs charges, tolls, and market taxes. It was common practice to provide specifics about these systems in administrative writings, and they developed in tandem with shifting political and economic realities.

3. Indirect taxation in British India

In the beginning

The economic and administrative structures of India were profoundly altered as a result of the British colonial authority that was administered there. The tax system was one of the most important factors in this regard. In particular, the indirect tax system was an essential component of the total revenue strategy that the British government implemented. Direct taxes are charged on income or wealth, whereas indirect taxes are levied on products and services. Indirect taxes compare to direct taxes. The construction, implementation, and impacts of the indirect tax system in British India are investigated in this essay, with a focus on the most important facts and the historical circumstance surrounding the system.

In the context of history

The tax system was initially formed by the British East India Company, which was the ruling power in India prior to the British Crown taking control of the country in 1858. A key purpose was to create income in order to provide financial support to the administration and the economy of the United Kingdom. Within this context, indirect taxes emerged as a significant instrument. These taxes included customs duties, excise duties, and sales taxes, all of which were levied on a variety of different goods and commodities.

Organizational Framework of the Indirect Tax System

1. Duties on Customs: Customs duties were one of the earliest forms of indirect taxation that were implemented by the British. These were taxes that were

levied on items that were brought into India or exported out of the country. In addition to generating cash, the major objective was to safeguard British businesses by increasing the cost of goods imported from other countries. When it comes to textiles, for example, the British textile sector benefited from the imposition of hefty tariffs on Indian textiles.

2. Excise duty: Certain items that were manufactured and sold within India were subject to the imposition of excise duty. Salt, opium, and wine were among the most important items that were subject to excise levies. The Salt Tax, in particular, became notorious due to the influence it had on the day-to-day lives of Indians and the role it played in Mahatma Gandhi's Salt March in 1930, which was a significant event in the campaign for Indian independence.

3. Sales Taxes: Although they were not as prevalent as customs and excise levies, sales taxes were imposed on a variety of products that were sold within the country. Frequently, these taxes were passed on to the consumers, which resulted in an increase in the cost of commonplace items.

Administrative and Implementation of the Plan

The administration of the British government established a large bureaucracy in order to carry out and collect these kinds of taxes. It was the Indian Civil Service (ICS) that was responsible for ensuring that the collection of taxes was carried out effectively. Nevertheless, the system frequently engaged in exploitative and discriminatory practices, and it greatly favored the economic interests of the British.

An example that is particularly noteworthy of the exploitative nature of the tax system is the salt tax. The price of salt, which is a product that is required by every household, was extremely high. Native Americans were not permitted to create their own salt and were instead required to purchase it from government warehouses at exorbitant fees. The disparities that exist within the British tax system were brought to light by the fact that this tax disproportionately affected the poor.

The influence on the economy and society of India

1. Economic Impact: One of the most significant effects that the indirect tax system had on the Indian economy was economically significant. India's manufacturing sector was severely strangled by the British government through the imposition of hefty tariffs on Indian commodities, particularly textiles. The result was deindustrialization, which resulted in the loss of livelihoods for a great number of artisans and weavers. Because of the emphasis placed on

the generation of money rather than the development of the economy, there was a small amount of investment in industrial and infrastructure developments.

2. Impact on Society: The tax system was also responsible for a number of significant societal repercussions. A significant number of Indians saw their day-to-day lives negatively impacted as a result of the hefty tariff of necessary items such as salt and the ban on local manufacture. A significant factor that contributed to the expansion of the nationalist movement was the punitive nature of these taxes, which stoked anger. The Salt March led by Gandhi is a demonstration of how tax policies became a focal point for protest against the authority of the British.

3. The impact on administration: Despite the fact that the British developed a solid administrative system to manage tax collection, it was frequently plagued by corruption and inefficiency. A substantial amount of influence was held by tax collectors, who frequently exploited the local inhabitants. The colonial administration found itself the target of hostility and mistrust as a result of this.

Alterations and Revolutions

Over the course of time, the British government implemented a number of changes to the tax system. The Montagu-Chelmsford Reforms of 1919, which ultimately resulted in the Government of India Act of 1919, were created with the intention of increasing the amount of Indian representation in various aspects of governance, notably the administration of taxes. The exploitative nature of the tax system was not considerably altered by these revisions, which were restricted in scope and only partially implemented.

At the same time that it examined other administrative systems, the Simon Commission of 1927 also examined the tax system. As a result of its recommendations, the Government of India Act of 1935 was passed, which established the concept of provincial autonomy. This gave the provinces the ability to exercise a larger degree of responsibility over their financial matters, including taxation. In spite of these modifications, the essential nature of the indirect tax system continued to be directed toward giving advantages to the economic interests of the United Kingdom.

Final Thoughts

The structure of the indirect tax system in British India was intricate and multi-faceted, with the primary purpose of catering to the requirements of the British government in terms of providing income. The Indian economy, society, and governmental institutions were all profoundly influenced as a result of this significant event. Even though it helped the British maintain their power by providing them with the finances they needed, it also contributed to the stagnation of the economy and the instability that occurred in society. One of the most important factors in the Indian independence movement was the hefty taxation of necessary items, particularly salt. This taxation became a symbol of colonial exploitation and played a significant role in the campaign. The economic history of colonial India and the origins of India’s fight for independence can be better understood by gaining an understanding of this system, which gives significant insights.

4. Progress paced Through Tax Reform Committees

Background Data

In affluent nations, the tax income to GDP ratio hovers around 30%, but in India, it has lingered at 16%. The renowned French economist Thomas Piketty and others have stated that India has a very low tax to GDP ratio.[2] Several tax measures have been debated periodically in India in an effort to increase tax revenue. A nation’s tax policy is a major factor in its overall development. Additionally, the Government of India (GoI) has periodically appointed a number of committees to recommend changes to the tax system. This began with the establishment of the first tax reform committee in 1953–1954, which John Matthai chaired. Domain authorities such as L. Committees led by K. Jha, Raja Chelliah, Amaresh Bagchi, Govinda Rao, and Vijay Kelkar have provided crucial input for additional indirect tax reforms.[3] The John Matthai Commission published its first report on tax reforms in the 1950s. Nonetheless, since the middle of the 1980s, tax changes have advanced dramatically.

The first comprehensive report on indirect taxes was published in 1978 by the Indirect Taxation Enquiry Committee (ITEC).[4] In addition to ITEC, other committee reports and academic research have made significant contributions to the reform effort since Independence, particularly in the past 20 years. Reports regarding the tax reforms Committees in 1953, 1991, 1992, and 1993 cleared the ground for tax system changes. Numerous tax professionals have contributed significantly in this area.

Commission on Taxation, 1953–1954

On April 1, 1953, the Taxation Enquiry Commission, chaired by John Matthai, was established as the first committee in the reform process.[5]
Its objective was to carry out an extensive investigation of taxation. The then-finance minister announced the committee's appointment in his budget speech.[6]
The committee's terms of reference (ToR) were as follows:

- To investigate the federal, state, and municipal taxes imposed on various societal classes in various states
- To assess the appropriateness of the current federal, state, and municipal government tax structure
- To investigate the impact of income tax structure and level on capital formation, as well as the upkeep and growth of productive enterprises
- To investigate the application of taxes as a tool for fiscal management under inflationary or deflationary circumstances
- To take into account additional pertinent issues
- To offer suggestions, namely with regard to (a) the need for changes to the current tax system and (b) new taxing channels

Report of Commission

The commission produced three volumes of its report after thoroughly reviewing the whole federal, state, and municipal

tax system.[7]
The report covered every facet of the system, including structure, development financing, tax rates, and other details.

All taxes, including federal, state, and municipal taxes, are shown in Volume I. Direct and indirect central taxes are covered in Volume II, with a focus on income tax, excise, customs, and inheritance duties. The status of state taxes on land and agriculture, sales tax, and other taxes is provided in Volume III.

Recommendation of Commission

The commission recommended the appropriate actions that could be taken right now. It presented a list of suggestions for improving the tax system's drawbacks. According to the commission, there was potential to expand the taxing base. The commission suggested limiting the use of indirect taxes as a tool for progressive taxation. A special source of income for the states was sales tax. The states ought to keep imposing it and overseeing it. In the event of certain intrastate transactions as well as interstate sales, the federal government may step in. There should be a cap of one percent on the interstate sales tax. The states ought to keep an eye on and preserve the same. The Constitution (Sixth Amendment) Act, 1956 gave the Union the authority to impose taxes on the sale and purchase of products during interstate trade and commerce.[8]

1965's Fourth Finance Commission

On May 5, 1964, the GoI established the Fourth Finance Commission. P. The members were Bhabatosh Datta, D. G. Karve (part-time), Mohan Lal Gautam, and V. Rajmannar as chairman. P. C. Mathew served as the commission's member secretary. It was the government's second move in the direction of tax reform. The commission looked at ways to improve coordination between union excise duties and state sales taxes. The commission was asked to make recommendations regarding the impact of the combined incidence of state sales tax and central excise duty (CED) levied on the production, consumption, or export of commodities/products.[9]

Recommendation of Fourth Commission

The commission's recommendations were in effect for five years, starting on April 1, 1964. The commission suggested a mean for the distribution of increased excise duties, union excise, and estate duty. The commission suggested the following actions to enhance the tax system as well:

- The states' revenue resources for the five years ending in 1970–1971 based on the anticipated tax levels at the end of 1965–1966
- establishment of a fund for the repayment of the state's debt to the center from state duty proceeds beyond a certain threshold
- Possibility of efficiency and economy in state administrative spending

Review Committee for Central Excise (SRP), 1971

B Venkatappiah
is the chairman of the Central Excise (Self Removal Procedure) Review Committee, which was established by the government on October 11, 1971, to investigate the central excise's administrative and organizational structure.[10]The committee turned in two volumes of findings. Procedures were covered in Volume I, and organization in Volume II. The group suggested the following actions:

- Three control patterns—accounts-based control (ABC), production-based control (PBC), and clearance-based control (CBC)—were suggested for the central excise administration.
- It should be mandatory to approve the classification lists within a designated timeframe. Generally speaking, the allotted time should only be a few days, and in no instance should it exceed three months. The list should be considered accepted if it is not approved within the allotted time.
- The tariff structure has been continuously altered in order to accomplish specific goals. A review of the exemptions is required, in order to eliminate any that are not being used, such as notifications based on end use.
- Rather of focusing on the activity's scope, the fundamental goal of a license is to govern it. All manufacturers should receive an excise license and have it renewed every three years.
- The committee carefully examined the current organizational structure and recommended a new one that would take administrative requirements into account.

Committee for Indirect Taxation Enquiry, 1976–1978[11]

In order to overhaul the indirect tax system, the government made the next significant move in the 1970s. The previous RBI governor L.K. Jha led the formation of the ITEC in July 1976, who had a strong reputation in the financial and business worlds. The committee was tasked with reviewing India's current indirect tax structure and making recommendations for legislative changes. But the majority of the committee's time and focus was spent examining indirect tax policies, particularly union excise taxes.

L.K. Jha was arguably the most successful econocrat among the ICS officials in his generation. His report of 1978 laid the foundation of the MODVAT reforms implemented in V. P. Singh's time.'[12] The committee submitted its report in two volumes. The first volume[13] to was submitted in 1977 and the second volume[14] in 1978.

The following were the ToRs:

- to thoroughly examine the current indirect tax system used by federal, state, and municipal governments
- To examine how indirect taxes can be used to promote the efficient use of limited resources
- To investigate the composition and levels of excise taxes, their influence on costs and prices, their cumulative impact, their incidence on different categories of expenditure, the potential for broadening the tax base, and the system's elasticity
- To determine if implementing a value added tax (VAT) in the area of indirect taxes is feasible
- To investigate the composition and severity of import taxes
- To provide guidance to the government regarding the necessary actions to execute the suggested measures
- To recommend any necessary amendments to the Constitution and the relevant tax laws

- To assess the tax structure's appropriate ratio of direct to indirect taxes
- To offer any further suggestions relevant to the investigation

Recommendation of Committee

ITEC was in favor of changes that would guarantee the government had access to enough resources while also creating a fair, effective, and result-oriented tax system. The committee suggested both immediate and long-term reform strategies. The committee's main recommendations, as stated in the budget speech for 1978–1979,[15]were to restructure the pattern of central excise and custom duties, introduce a value–added tax (VAT) to eliminate the cascading effect of taxes, support small-scale industry (SSI), and reorient the tariff to make it income elastic. The group also offered recommendations on indirect taxes that municipal and state governments impose.

Let's talk about a couple of the committee's suggestions under the respective headings.

Excise Taxes

The group suggested eliminating input taxes and rationalizing excise duties from the beginning to the finish of the production process. It also suggested that the process for determining and collecting excise duty be made simpler.

Sales Taxes

In the final phase, the committee suggested that state governments switch to a single point tax. The group also recommended that federal legislation be implemented in order to standardize sales tax structures across all states. The four percent interstate sales tax must be lowered to one percent.

Value-Added Tax

The committee suggested that in order to reduce the issue of excise and sales tax cascading and overlapping, a coordinated effort should be initiated at the central level. The committee suggested implementing VAT at the manufacturing stage (MANVAT) in this regard. The group suggested a long-term transition from the indirect system to the VAT system at the federal and state levels in tandem. The committee's significant suggestion resulted in the 1986 adoption of the Modified Value Added Tax, or MODVAT.

Import Charges

The committee proposed that the import tariff rates on those commodities be gradually reduced in order to lower the cost of necessities, encourage exports, and enhance the balance of payments.

Committee on Tax Reform, 1991

In 1991, the government unveiled a new economic policy and began implementing economic changes. In order to investigate the nation's direct and indirect tax system, the government established the Tax Reform Committee (TRC) in 1991. The committee's chairman is Raja Jesudoss Chelliah, a seasoned economist. [16]

"India is fortunate to have had the opportunity to consult with one of the world's most seasoned fiscal experts, Raja Chelliah, for advice."[17]
The committee's terms of reference included suggestions and an examination of the following:

- Techniques for raising the share of direct taxes in relation to total tax revenues and GDP, as well as the elasticity of tax revenues, both direct and indirect
- implementing the required rate adjustments to make the tax system more equitable and wide, especially with regard to personal and commodities taxes
- rationalization of the current direct tax system with the goals of eliminating inconsistencies, enhancing equity, and maintaining financial incentives
- simplification and optimization of customs tariffs in order to remove exemptions that are already required and to lessen the variety and dispersion of rates
- Finding new taxation domains
- Strategies for enhancing direct tax compliance and bolstering their implementation
- lowering tariff levels while keeping in mind the necessity to raise funds to support fiscal adjustment and the goal of fostering global competitiveness
- Expanding the MODVAT scheme's reach
- reduction and simplification of the excise duty system for improved tax administration and compliance
- To offer suggestions regarding any other issue pertaining to the aforementioned ToR

Recommendation of Committee

The committee produced three reports: the Final Report I in August 1992, the Interim Report in December 1991, and the Final Report II in December 1992. In its report, the committee proposed a number of measures.

Part 1 of the final report covered both direct and indirect tax revisions, whereas the interim report covered reform principles. The suggested reorganization of the tariff structure was covered in Part II of the final report. In its final report, the committee proposed that financial autonomy be granted to the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC, which is currently known as the Central Board of Indirect Taxes and Customs [CBIC]). The committee recommended steps to improve auditing in order to prevent tax evasion and to ensure efficient tax collection.

Many of the committee's recommendations were put into practice by the government. In 1999–2000, it combined the MODVAT tax rates into three rates: 8%, 16%, and 24%; extra rates applied to specific commodities. Furthermore, in 2000–2001, three rates were combined into one rate under the new name Central Value Added Tax (CENVAT), with special excise tax (SED) applied to certain items.[18]

Chelliah's ideas laid the groundwork for direct taxes to overtake customs and excise duties as the primary source of tax collection, therefore decreasing the regressive nature of the tax system. He succeeded in changing the tax code to incentivize paying taxes rather than evading them by arguing for a reduction in the tax rates and the number of tax slabs applicable to both personal and corporate incomes. Value Added Tax (VAT) was not only conceptualized and made tangible by him; he also engaged in negotiations with state governments to get it implemented. [19]

1992
Committee on Indirect Taxation

In 1992, GoI established a high-level group to develop a single indirect tax code with the goal of streamlining and simplifying the processes for both customs and excise duties.

The chairman of the committee was K. L. Rekhi,[20] former chairman of CBEC. The committee submitted its report in 1993 and the recommendations of the committee were almost on the lines of TRC. The focus of the committee's report was on the procedures for tax management. The major recommendations were as follows[21]:

- Based on a unified system of nomenclature, the committee suggested that both customs and excise levies be subject to a common integrated tariff.
- The committee suggested maintaining the globally agreed-upon harmonized system of nomenclature, particularly in light of international trade practices and economic globalization.
- The committee found that there was a need to lower the amount of exemption notices, particularly following the annual budget, as most categorization conflicts stem from an excessive number of these announcements.
- All inputs, whether directly or indirectly used and whether or not they are physically included in the finished product, should be eligible for the input duty exemption.
- The group aimed to fortify the appellate system in order to provide assessors with prompt and efficient justice.
- The group suggested creating a single, powerful tribunal under the ministry of law, modeled after the central administrative tribunal, consisting of 20 two-member benches, one president, eight vice presidents, and thirty-two members.
- The committee suggested establishing a high-ranking, impartial advance ruling body to make decisions regarding commodity classification.
- It had suggested making a decision on the pricing list and classification list with a deadline, but they ought to be considered approved once a month has passed since the date of submission.

India's 1994 Domestic Trade Tax Reform

'Reform of Domestic Trade Taxes in India' was the title of a research on indirect tax reforms, specifically sales tax, conducted by a team under the direction of Amaresh Bagchi, Professor Emeritus of the National Institute of Public Finance and Policy (NIPFP).[22] The study's goal was to create a potential value-added tax (VAT) system for India that the union and the states could both agree upon broadly.

The study represented a significant advancement in indirect tax reform. 'Became a significant report directing the reform of state sales taxes and exploring the VAT choices available under India's Constitution', the report's summary states. [23]The group agreed that the country's trade tax system needed immediate modification because the one in place at the time was antiquated and illogical. It was the world's most intricate.

Reform Actions

The team believed that in order to address the problems with the current system, the government needed to act to address the underlying causes of the issues rather than just treating their symptoms. Fairness, impartiality, and simplicity must be the governing concepts. The introduction of the Value Added Tax (VAT) system may provide economic stability and release the economy from the shackles of an antiquated and intricate tax system. The following [24]were suggested by the report:

1. By switching to a multistage sales tax with rebate system for tax on all purchases with very few exclusions, convert sales taxes into VAT.

2. Expand the tax base to cover all products that are sold or leased, with very few restrictions, as well as any services that were necessary for the sale of products. Services that could be conveniently taxed by the states and were primarily of a consumption character should also be included in the base.

3. to permit the input tax credit (ITC) for all consumables, production machinery and equipment, raw materials and parts, and commodities intended for resale.

4. To establish two or three rates within designated bands to replace the current tax rate structure, which will be implemented in all states and union territories.

5. Eliminate all exemptions save for a minimal threshold for certain products like unprocessed food, and remove other leniencies like tax holidays, etc.

6. exports at zero rate from the nation, as well as interstate sales, consignment transfers, and sales to authorized dealers with appropriate anti-fraud measures.

7. Interstate transactions to unregistered individuals are subject to local sales tax.

8. Simplify forms and procedures, computerize information system operations, and modernize tax administration.

Indirect
Tax Task Force, 2002

The Task Force on Indirect Taxes was a significant committee for the indirect tax reforms. The proposal to establish two task groups with the mandate of recommending measures to simplify and streamline direct and indirect taxes was made in July 2002 by Jaswant Singh, the Finance Minister at the time. Subsequently, on 3 September 2002, a 12-member task force was formed under the chairmanship of the then Advisor to Ministry of Finance and Company Affairs Vijay Kelkar. The task force had wide representation of industry that included[25] S. K. Munjal from CII, K. S. Suresh from FICCI, N. Kothari (ASSOCHAM), H. S. Bhatia (PHDCCIS), Y. P. Suri (FASSI), K. S. Ravishankar (NASSCOM) and D. Puri from ESEPC. The objective of task force was to bring indirect tax structure and procedure at international level with the help of information technology (IT) to reduce transaction cost.

Recommendation of Task Force

The task force on direct and indirect taxes is known as the Kelkar Committee Report. On November 25, 2002, the task force turned in its report to the government. The committee had offered a number of recommendations for streamlining and simplifying tax administration. The proposals made by the task force can be divided into two categories: central excise and tax administration. The following are the main suggestions[26]:

Administration of taxes

- Trust should be the foundation for customer clearance, which should apply to all importers and exporters equally. The importer should implement a new system for bill of entry self-assessment.
- A high-level interministerial body should resolve the interagency disputes.
- A deadline ought to be established for processing import and export documents.

- It is appropriate to base the central excise levy on value addition.
- Soon, a set of guidelines for calculating production costs should be released.
- The MRP-based levy ought to be extended.
- The CENVAT Credit Rules should be modified and the distinction between inputs and capital products should be eliminated.
- The rates for central excise and customs ought to be totally automated.

Central excise

- All levies ought to be replaced by CENVAT.
- Four rates—0, 6 percent, 14 percent, and 20 percent—should be in place.
- The percentages should be 0 percent for life-saving medications and equipment, 6 percent for processed food items and matches, 14 percent for any other things not specifically listed against other rates, and 20 percent for automobiles, air conditioners, and aerated waters.
- A distinct rate ought to apply to tobacco items.
- Only small units with a turnover of ₹50 lakh should be eligible for the small-scale sector exemption duty.
- State VAT procedures, laws, and documentation ought to be identical.
- A distinct service tax statute that will be incorporated into the main excise code.

- All services, with the exception of those on the negative list, should see a rise in the service tax.

Task
Force on the FRBMA Act's Implementation, 2002

Despite being approved by Parliament, the Fiscal Responsibility and Budget Management Act (FRBMA), 2002 was not announced. A task force on the execution of FRBMA 2003 was established by Finance Minister Jaswant Singh, who had taken over for Yashwant Sinha in June 2002. The task force's objective was to develop laws for fiscal policy in order to meet the aims of FRBMA. Economist Vijay Kelkar served as the task force leader. Working on a task force report were Kelkar, Ajay Shah, advisor in the Ministry of Finance, and Arbind Modi, an IRS officer on special assignment at the ministry. On July 16, 2004, the task force headed by Kelkar turned in its report. The report was divided into seven chapters and appendices. In the initial study on the design of the Goods and Services Tax (GST), a single rate of 5% for the federal government and 7% for the states was proposed.

A task force recommendation for a budgetary modification was made. To offset the contractionary impacts of the fiscal correction, revenue-led reforms on revenue expenditure and increased capital expenditure were implemented. The task force's analysis of the economic survey for 2004–2005[27] predicted that, following reforms, the union tax to GDP ratio would increase from 9.2% in 2003–2004 (RE) to 13.2% in 2008–2009. By 2008–2009, the union's overall spending would have decreased from 15.4% of GDP in 2003–2004 (RE) to 14.3% of GDP. They predicted that the budget deficit would decrease to 2.8% of GDP in 2008–2009 from 4.8% in 2003–2004 and that there would be a revenue surplus of 0.2% of GDP in 2008–2009.

The Kelkar-led task team recommended that the current system of goods and services taxation was plagued by numerous issues.

The task group stated that since 1986, the nation's indirect tax policy has been gradually moving toward value-added taxation (VAT). The task team recommended a few fiscal policy approaches. Let's examine them. [28]

Strategy for Tax Reforms

According to the task force's recommendations:

- expansion of the tax base through "grandfathering" and the removal of exemptions.
- enhancing the horizontal and vertical equity of the tax system.
- advancing toward a consumption tax that is not distortionary.
- improving the consumption's neutrality both now and in the future.
- creating a system of compliance that is both successful and efficient.

Proposals for Tax Measures

According to the task force's recommendations:

- Heading in the direction of GST.
- raising the ₹100,000 income tax exemption threshold.

- a two-level individual rate system. 20% of the total is taxed on income between ₹100,000 and ₹400,000, while 30% of the total is taxed on income over ₹400,000.
- removing the standard deduction that the salaried class may take advantage of.
- lowering the corporate income tax rate for domestic businesses to 30% and the deprecation rate from 25% to 15%.
- three-tiered custom duty rates: 5%, 8%, and 10% in order to bring tariffs down to ASEAN standards.
- lowering the 1 crore to 40 lakh threshold exemption limit for small-scale companies.
- transforming the ad valorem excise taxes into fuel product-specific charges.

Report of the Thirteenth Finance Commission (2010-2015)

On November 13, 2007, the President of India established the Thirteenth Finance Commission in accordance with Article 280 of the Indian Constitution. Vijay Kelkar served as the commission's chairman, while the other members were B, Atul Sharma, Indira Rajaraman, and Sanjiv Mishra. K. Chaturvedi (part-time employee). On December 15, 2009, the commission delivered its report to the Parliament. The panel conducted a thorough analysis of the Indian tax system because the government intended to enact the GST on April 1, 2010. The commission established a task force chaired by Arbind Modi, the joint secretary of the Department of Revenue at the time, and included a thorough analysis of GST in Volume I of the report. The task team consisted of V. Bhaskar, Shri B. S. Bhullar, Ritvik Pandey, Rathin Roy, the economic consultant, and both joint secretaries. The task group was established to support the Finance Commission with matters concerning the projected launch of the Goods and Services Tax (GST) on April 1, 2010.[29]

Term of Reference

A research on "the impact of the proposed implementation of Goods and Services Tax with effect from 1 April 2010 including its impact on the country's foreign trade" was requested of the task force by the Finance Commission.[30] Three additional issues included in the ToR were as follows[31]:

- To calculate the federal and state governments' resources
- not only to balance the income account's payments and expenses, but also to create surpluses in the capital account
- to raise the federal government's and the states' tax to GDP ratios

Recommendations

The task force investigated every facet of GST. The task force report on GST by the Thirteenth Finance Commission is a very visionary document that offers detailed recommendations for the rollout of GST in India.

Similar to Kelkar's former report, Report on Implementation of the Fiscal Responsibility and Budget Management Act (FRBMA), this report follows the same general framework. The 'flawless' GST was suggested for implementation by the task force. They also proposed a GST scheme. The task force's recommendations are as follows: [32]

- GST need to be assessed based on consumption and calculated using the invoice credit technique.

- All significant indirect taxes, with the exception of customs and all cesses and surcharges, will be included in the planned GST. These include stamp duty, car taxes, taxes on goods and passengers, and taxes and levies on electricity.

- Transmission fuels, motor spirit, high-speed diesel, and aviation turbine fuel ought to be subject to two levies: one for GST and another for additional fees without input tax credit. But natural gas and all other petroleum products ought to fall under the purview of the Goods and Services Tax.

- Alcohol and tobacco are sumptuary items that should be subject to both an additional levy and GST taxation, with no input tax credit available for the additional levy.

- The transportation sector and the taxes on commodities, passengers, and vehicles should be included in the GST.

- The tax base and electricity should encompass the power sector.

- obligation absorbed. Stamp duty collected by state governments should be absorbed by the GST and the real estate sector should be included in the tax base.

- It is appropriate to include the financial services industry in the GST tax base.

- Like other goods and services, capital goods should be handled with care.

- International best practices for goods and services should serve as the foundation for the "place of supply" regulations.

- Adopting a threshold of ₹10 lakh with a composition limit of 40 lakh would require the application of GST over that amount.

- When deemed essential, the area-based exemptions should be removed and the taxes paid should be repaid.

- A system that enables sellers in one state to charge SGST to buyers in another state should be used to handle interstate transactions.

- States should standardize on registration, filing of returns, assessment, and audit.

- 11 percent would be the Revenue Neutral Rate (RNR) (five percent for CGST and six percent for SGST).

Report of the fourteenth Finance Commission (2015-2020)

The Fourteenth Finance Commission (FC-XIV) was constituted by the President underArticle 280 of the Constitution on 2 January 2013 to make recommendations for the period 2015-20. Dr. Y. V. Reddy was appointed the Chairman of the Commission. Ms. Sushama Nath, Dr. M.Govinda Rao and Dr. Sudipto Mundle were appointed full time Members. Prof. Abhijit Sen was

appointed as a part-time Member. Shri Ajay Narayan Jha was appointed as Secretary to the Commission.[33]

Term of Reference

The Commission shall make recommendations regarding the sharing of Union

taxes, principles governing Grants-in-aid to States and transfer of resources to local bodies.

Terms of Reference and the matters that shall be taken into consideration by the

Fourteenth Finance Commission in making the recommendations are as under :

1. (i) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;

(ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and

(iii) the measures needed to augment the Consolidated Fund of a State to supplement

the resources of the Panchayats and Municipalities in the State on the basis of the

recommendations made by the Finance Commission of the State.

2. The Commission shall review the state of the finances, deficit and debt levels of the Union and the States, keeping in view, in particular, the fiscal consolidation roadmap recommended by the Thirteenth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth including suggestions to amend the Fiscal Responsibility Budget Management Acts currently in force and while doing so, the Commission may consider the effect of the receipts and expenditure in the form of grants for creation of capital assets on the

deficits; and the Commission shall also consider and recommend incentives and disincentives for States for observing the obligations laid down in the Fiscal Responsibility Budget Management Acts.

3. In making its recommendations, the Commission shall have regard, among other considerations, to –

(i) the resources of the Central Government, for five years commencing on 1st April 2015, on the basis of levels of taxation and non-tax revenues likely to be reached during 2014-15;

(ii) the demands on the resources of the Central Government, in particular, on account of the expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;

(iii) the resources of the State Governments and the demands on such resources under different heads, including the impact of debt levels on resource availability in debt stressed states, for the five years commencing on 1st April 2015, on the basis of levels of taxation and non-tax revenues likely to be reached during 2014-15;

(iv) the objective of not only balancing the receipts and expenditure on revenue

account of all the States and the Union, but also generating surpluses for capital

investment;

(v) the taxation efforts of the Central Government and each State Government and the potential for additional resource mobilisation to improve the tax-Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the States;

(vi) the level of subsidies that are required, having regard to the need for sustainable and inclusive growth, and equitable sharing of subsidies between the Central Government and State Governments;

(vii) the expenditure on the non-salary component of maintenance and upkeep of

capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2015 and the norms on the basis of which specific

amounts are recommended for the maintenance of the capital assets and the

manner of monitoring such expenditure;

(viii) the need for insulating the pricing of public utility services like drinking water, irrigation, power and public transport from policy fluctuations through statutory provisions;

(ix) the need for making the public sector enterprises competitive and market oriented; listing and disinvestment; and relinquishing of non-priority enterprises;

(x) the need to balance management of ecology, environment and climate change

consistent with sustainable economic development; and

(xi) the impact of the proposed Goods and Services Tax on the finances of Centre and States and the mechanism for compensation in case of any revenue loss.

4. In making its recommendations on various matters, the Commission shall

generally take the base of population figures as of 1971 in all cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid; however, the Commission may also take into account the demographic changes that have taken place

subsequent to 1971.

5. The Commission may review the present Public Expenditure Management

systems in place including the budgeting and accounting standards and practices; the existing system of classification of receipts and expenditure; linking outlays to outputs and outcomes; best practices within the country and internationally, and make appropriate recommendations thereon.

6. The Commission may review the present arrangements as regards financing of

Disaster Management with reference to the funds constituted under the Disaster

Management Act, 2005(53 of 2005), and make appropriate recommendations thereon.

7. The Commission shall indicate the basis on which it has arrived at its findings and make available the State-wise estimates of receipts and expenditure.

8. The Commission shall make its report available by the 31st October, 2014,

covering a period of five years commencing on the 1st April, 2015.

Recommendations

i. There are several challenges and many unresolved issues. In the absence of clarity on the design of GST and the final rate structure, we are unable to estimate revenue implications and quantify the amount of compensation in case of revenue loss to the States due to the introduction of GST.

ii. The Union may have to initially bear an additional fiscal burden arising due to the GST compensation. This fiscal burden should be treated as an investment which is certain to yield substantial gains to the nation in the medium and long run. We also believe that GST compensation can be accommodated in the overall fiscal space available with the Union Government.

iii. In the case of VAT, compensation was provided to the States for three years, at 100 per cent in the first year, 75 per cent in the second year and 50 per cent in the third year. In our view, it will be appropriate to keep this precedent as the basis for compensation for GST also. However, given the scale of reform and the

apprehensions of revenue uncertainty raised by the States, the revenue compensation, in our view, should be for five years. It is suggested that 100 per cent compensation be paid to the States in the first, second and third years, 75 per cent compensation in the fourth year and 50 per cent compensation in the fifth and final year.

iv. We recommend creation of an autonomous and independent GST Compensation Fund through legislative actions in a manner that it gives reasonable comfort to States, while limiting the period of operation appropriately.

v. We, therefore, recommend that the Constitutional legislative and design aspects of the GST enable transition towards universal application of GST over the medium to long term, while making necessary provisions for smooth transition through temporary arrangements.

All around the world, it is standard procedure to promptly implement committee or commission reports, whether or not they include modifications. However, in India, even when the recommendations of several committees and commissions are accepted, they are rarely, if ever, put into practice, which results in needless resource waste and disregards the diligent labor of numerous notable individuals. At times, the loss to the country cannot be measured. The manner in which Kelkar's GST report was handled is a prime illustration of this methodology.

5. ModVAT upto Y2k

The consensus among economists is that the contemporary tax changes in India were mostly instigated by V. P. Singh during his two-year time as finance minister in the Rajiv Gandhi government in the 1980s. The implementation of MODVAT has been seen as a significant measure in the reformation of the indirect tax system. The term 'modified' was used to describe the restriction of the process to only the manufacturing stage. The restructuring of the system of indirect taxes was a significant priority in the agenda of the union budget for the fiscal year 1986-1987.[34]
The government initiated the process by implementing a new tariff for customs and taxes, based on the harmonized system of classification.
In the second phase, the tariff structure was modified with the appropriate

adjustments to duties, replacing the previous customized system. Within the realm of excise, the vexing issue of taxing inputs and its subsequent amplification on the end product posed a significant challenge. The introduction of MODVAT aimed to eliminate this issue.

V. P. Singh implemented the MODVAT system in the union excise charges on 28 February 1986 during his second budget statement for the fiscal year 1986-1987. This budget marked the initial steps towards a significant overhaul of indirect taxes, resulting in the implementation of CENVAT and eventually leading to the introduction of GST. The scheme was implemented on 1 March 1986 as part of the budget for the fiscal year 1986-1987.[35]

The responsibility for the payment of excise duty on produced products was accessible within the updated system. The implementation of MODVAT resulted in three distinct effects:[36]

1. Enhanced visibility of the tax burden within the UEDs
2. Mitigation of the compounding impact of input taxation
3. The development of a self-regulating system to detect and prevent tax evasion

The purpose of implementing MODVAT was to mitigate the impact of several taxes on the ultimate cost of goods by allowing for quick credit of excise duty paid on inputs and reducing interest expenses. MODVAT enabled manufacturers to promptly recover the excise duty spent on raw materials and components. It was implemented with the expectation of decreasing the overall cost of the end product. It introduced rationality into the tax structure. It guaranteed consistent revenue while also preserving, if not reducing, the price of the goods.

The government introduced the MODVAT system gradually. Initially, it was deployed exclusively for specific commodities and then expanded to encompass a greater variety of commodities. Initially, MODVAT was implemented for all items included in 37 specific chapters of the Central Excise Tariff Act, 1985. The scheme encompassed a wide range of industries including paints and packaging materials, rubber products, chemical and allied industries, base metals/articles of base metals, motor vehicles, plastics, glass and glassware, machinery and mechanical appliances, as well as electrical equipment and certain miscellaneous manufactured products At the conclusion of the year, MODVAT encompassed 38 chapters of the Excise Tariff.[37]

The exemptions were substantial, encompassing petroleum items, textiles, and tobacco products.[38]

In his essay in Business Standard, T. N. C. Rajagopalan stated that the MODVAT system was gradually expanded to encompass all commodities. The scope of the central excise regulations was expanded to include numerous additional chapters

at a later stage. With the exception of a few, these rules were appropriately adjusted. The service tax was expanded.[39]
Therefore, it can be stated that complete implementation of MODVAT was accomplished by 1996-1997 when it was expanded to encompass all goods.

Rajiv Gandhi, serving as the finance minister, delivered the budget for the fiscal year 1987-1988. He was the third Prime Minister of India to have presented a union budget, following Indira Gandhi and Jawaharlal Nehru. He pioneered the notion of zero-based budgeting. He expanded the scope of MODVAT to include all remaining provisions, excluding those pertaining to the tobacco, textile, and petroleum sectors. The tax was expanded to encompass leather and travel goods, food products, paper and paperboard, asbestos cement products, footwear, wood and cork products, precious metals, and mineral products.[40]

In his budget
address for 1988-1989, the Finance Minister Narayan Dutt Tiwari proposed amendments to the MODVAT system. He justified the rates of excise duty on certain commodities. The procedural challenges of MODVAT that the government encountered in the early phases have been resolved.

The industry expressed their appreciation for the MODVAT scheme and requested its extension to additional areas. In the 1991-1992 budget statement, Manmohan Singh reinstated the MODVAT scheme for aerated water and expanded its use to include filament yarns and manufactured fibers for their inputs.

According to the provision, buyers of goods from small-scale manufacturers were receiving a notional credit under MODVAT that was five percentage points higher than the real Central Excise Duty (CED) paid by the manufacturers. The Public Accounts Committee (PAC) discovered anomalies in the functioning of this institution. The TRC was likewise opposed to this proposal. Consequently, the government revoked the enhanced hypothetical plan that buyers were receiving for the acquisition of items from small-scale businesses measurements. During his budget statement for the fiscal year 1993-1994, the finance minister eliminated this program and declared that purchasers would only be eligible for MODVAT credit based on the amount of excise tax they had actually paid.

The later expansion of MODVAT mitigated the cascading
impact of input taxes. However, the extent of the coverage was restricted. Excluded from the system were matches, capital goods, petroleum products, tobacco products, and textiles. The industry was requesting an expansion of its coverage. Therefore, the government expanded the scope of MODVAT to include two significant industries, including capital goods and petroleum products.[41]

This was a request that had been made by all sectors of the Indian business for a significant period of time.

The MODVAT scheme encompassed all types of yarn, including those derived from fibers. The aim was to expand the tax base, transition to ad valorem rates as quickly as feasible, streamline the tax system, lower the high duty rate to curb evasion, and expand the scope of MODVAT. The changes were clearly apparent in the increase of excise revenue during the fiscal year 1994-1995.

The manufacturers of plastic woven bags were requesting the expansion of MODVAT to include the users of these bags. The government granted full credit for the excise duty paid by users of plastic bags and jute bags. Trade and industry requested additional liberalization and simplification of the MODVAT program. Consequently, the government eased the subsequent MODVAT regulations:

- Credit is permitted for the purchase of pollution control, testing, research and development equipment, as well as specified quality control equipment
- Credit is granted for the use of low Sulphur and a furnace for power generation in a firm that produces goods subject to excise taxes.
- MODVAT credit can be utilized to pay duty on items that are specified under the MODVAT program.

Significant modifications were implemented in the budget for the fiscal year 1995-1996. The government expanded the scope of the MODVAT scheme to include tyre yarn and old tyres, by implementing a 20% excise duty on intermediate tyre cord materials. The tariffs on tires were increased by 8 percent compensate for the decrease in revenue. There was no increase in the tariff on tires for motorcycles and tricycles

The government expanded the MODVAT scheme to include industrial fabrics. In the case of woolen fabrics, the MODVAT was fully expanded. This was because these fabrics already had basic excise duty and had limited MODVAT facilities.[42] Although there were alterations in 1995-1996, there was a decrease in the rate of revenue growth from union excise charges.

The eleventh Lok Sabha held general elections in 1996.
A hung Parliament was the outcome of the election. None of the national parties obtained a sufficient majority to establish the government. The BJP was extended an invitation to establish the government, however, it was unable to substantiate its majority in Parliament. Subsequently, H. D. Deve Gowda, representing the Janata Dal-led United Front, established the government with

the external backing of the Indian National Congress. The United Front formulated a Common Minimum Programme to rule the country. In his budget statement for 1996-1997, Finance Minister P. Chidambaram stated that the government was required by the Common Minimum Programme to persist with tax changes.[43]
He informed Parliament that the administration has implemented various measures to restructure indirect taxes, such as transitioning to ad valorem rates, lowering the number of rates, and eliminating exemptions. The union excise duty underwent a restructuring and was aligned more closely with the value-added tax (VAT) system. MODVAT was implemented to apply to capital items. The provision of input credit was expanded to encompass all essential items for the manufacturing process. The modifications yielded an increase in industrial production, thereby leading to a growth in revenue. The amount of indirect tax collected experienced a 19 percent increase.

According to him, certain state governments are transitioning to the VAT system.[44]
The federal government also sought to implement a centralized Value Added Tax (VAT), but encountered legal impediments. The union excise structure consisted of 11 ad valorem rates, ranging from 0 percent to 50 percent. Finance minister said,
'Ideally there should have been only 3-4 rates of excise duties a zero, a lower rate of excise
duty on goods of mass consumption, a single normal rate on all other goods and a higher rate on luxury items",[45]

Yashwant Sinha returned to
North Block in 1998 to serve as the federal finance minister. In his first budget for the fiscal year 1998-1999, he suggested making changes regarding the inclusion of MODVAT credit in the valuation of inventory and capital assets, as well as the block assessment system, as a means of further streamlining and improving efficiency. The government limited the credit availability to 5% of the excise duty paid for inputs used in the production of excisable goods. This prohibition did not apply to capital goods. In Parliament, Yashwant Sinha also declared that the government's medium-term goal was to enhance the tax to GDP ratio. The individual stated,
"In recent years, the regime was marked by a variety of rates and frequent ad hoc exclusions. Consequently, the tax system was unclear and difficult to understand. The aim of the current ideas is to enhance transparency in the system by streamlining rates. The primary goal of this procedure is to transition towards a Central Value-Added Tax (VAT) system, which can subsequently be integrated with a comprehensive VAT.[46]"
Under the MODVAT scheme, producers were seeking a greater reimbursement of the excise duty they had paid on inputs by asserting that they had utilized a specific type of inputs. The authorities encountered challenges in verifying this assertion, resulting in conflicts. Given the heavy reliance of both the

Centre and the States on indirect taxes, it became necessary to reorganize tax rates, decrease the cost of compliance, and streamline and simplify procedures.

The budget for 1999-2000 implemented significant modifications, mostly aimed at streamlining the rate structure. The objective was to decrease the complexity of multiple rates and align them with a single rate, which included a merit rate and a demerit rate. Yashwant Sinha advocated for the restructuring of excise taxes in the budget. He stated that, in the foreseeable future, we would transition to a unified rate and a comprehensive VAT system. The government decreased the 11-ad valorem rates to three rates[47]—an overall rate of 16%, a rate for good work of 8%, and a rate for bad work of 24%. The following method was used to get all three rates:

• The rates that were already in place—5%, 10%, and 12%—were combined with 8%
• The old rates of 13%, 15%, and 18% were combined into a new rate of 16%.
• The 25% rate that was there before was converted to a 24% rate.

The government said it would remove the limit on MODVAT claims and raise it to 100%.
The government set a limit of 75% for the same thing last year. Yashwant Sinha told Parliament, "It is also a happy coincidence that this rate is almost the same as the rate of one-sixth (Shadbhaga) suggested by Kautilya, the great sage of Pataliputra, which is also where I was born." [48]

As part of his budget speech for 2000–2001, Finance Minister Yashwant Sinha said that the system had trouble in its early years because of disagreements between the department and assessors over how to understand MODVAT rules and procedures.[49]
As of April 1, 2000, the old rules were changed with ones that were easier to understand. The new rule cut down on disagreements. It was possible to spread out the MODVAT credit on capital goods over two years. For the first time, he added cigarettes to the MODVAT plan. His action raised the excise charge rates on all types of cigarettes by 5%. [50]

From 1991–1992 to 1999–2000, when the budgets were being made, a lot of work went into changing the tax duty so that it helped the industry and made it more competitive. By putting in place MODVAT, the problems caused by secondary taxes were taken care of. In the beginning, there were a lot of different rates for MODVAT. Starting in the 1990s, MODVAT's rate bands were lowered and made more sense. A number of different rates were changed to ad valorem rates. Rates for MODVAT had 10 groups of rates: 0, 5, 10, 15, 20, 25, 30, 35, 40, and 50. Over the years, the number of rates had gone down.

At both higher and
lower rates, there were some cases. More than 225% of the tax was charged on expensive goods, while only 1% to 8% of the tax was charged on some necessities. These rates were still high compared to other countries. Tax evasion, wrong classification, and time-consuming lawsuits were all problems caused by the large number of rates. It also supported the wasteful use of resources. There were a lot of problems in India because there were so many rates, but more than 100 countries around the world were able to gain from VAT because there were only a few rates.

6. **CENVAT from Y2k till 2017**

The second important step toward changing the way indirect taxes work in the country was the creation of CENVAT. In the budget speech for 2000–2001, Yashwant Sinha was the one who brought in a single rate CENVAT at the center. He changed the MODVAT scheme into the CENVAT scheme.[51]
It began on April 1, 2000, when new rules 57AA–57AK were put in place. The new system was put in place to give long-term security, take away business people's worries about the future, and end disagreements about how to classify taxes.

In their study, Robin Burgess, Stephen Howes, and Nicholas Stern made it clear that the new tax would be good.[52]
There was less trouble with the single rate tax than when different states had different VAT rates.[53]
In contrast, Jayashree Parthasarathy and P. C. Anand wrote in their piece that the CENVAT rules were quickly taken away and replaced with a new set of rules that are better and make the credit process easier.[54]

GST came after CENVAT, which was very similar to the idea of MANVAT that L. K. Jha put forward. The new plan lets the company that makes the final product claim excise duty on any inputs that come into the plant. It also lets the company that provides taxable services claim service tax on any input services that the company that makes the final product receives.
Yashwant Sinha made big changes to the central excise laws. In 2000, he put in place new value rules, and in 2001, he made changes to the central excise rules

as well. He also got rid of the MODVAT scheme and the capital goods credit scheme and replaced them with the CENVAT scheme. A single rate of 16% CENVAT was made from three ad valorem rates of MODVAT: 8%, 16%, and 24%. There were some goods that had to pay extra tax. So, the 8% excise rate was taken away, and most of the things that were taxed at that rate were changed to the 16% rate. On the other hand, some things—mainly Medicare supplies and everyday items—were not subject to the excise fee. Besides 16%, there were three other special tax rates of 8%, 16%, and 24%. Users could not get MODVAT credit for these three special excise taxes because they were not MODVAT-able. One more thing is that the duty on a few other items, which was 24%, was lowered. In a piece for Business Standard, Shankar Acharya praised Yashwant Sinha for making a big step forward in reforming excise rates. He said that Sinha was responsible for lowering 11 excise rates to 3 in 1999-2000 and then to a single rate of 16% in 2000-2001.[55]

MODVAT was made
more useful and its reach was increased. All the inputs and capital goods that were qualified for MODVAT were on the list. Diesel and gasoline for high speeds were the only ones that weren't allowed. Beginning on April 1, 2000, capital goods could be financed with MODVAT credits for a time of two years.
During his budget speech for 2001–2002, Yashwant Sinha told Parliament that he wanted to merge the three SED rates into a single 16% rate. His statement was that the single rate of CENVAT made up about 68% of all excise income from ad valorem duties.[56]

A 8% SED was taken away from mattresses and other bedding, glazed tiles, scooters and motorcycles, taxis, carpets and floor covers, studio back cloth, painted canvas, linoleum, and textile wall covering that Mr. Sinha made permanent.

This plan will work like this:

At Mr Anshul's plant, they make product X, and each one is worth the following:[57]

Value that can be measured for goods X = 100
Tax on ₹100 at 12.36%, or 12.36
Mr.Anshul gets product X from his supplier Mr. Nirwan, but he needs product Y as a raw material to make product X.
It can be said that product Y is worth ₹50.
Tax paid by Mr. Nirwan on ₹50 at 12.36%, which is ₹6.18
In order to pay Mr Nirwan for product Y, Mr. Anshul must now give him ₹50 for the product and ₹6.18 to cover the excise tax that Mr. Nirwan paid.

Product Y is used to make Product X, so the assessable value of 100 units of Product X (50 units of Product Y) is included, for which Mr Nirwan has already paid the excise tax to the government. Because of this, if we tax ₹100 again, the excise will be taxed twice. It’s possible to call it the cascade effect of duty. The MODVAT/CENVAT plan was made to stop this from happening.

Here is the final tax that will be due when product X is taken away under the MODVAT/CENVAT scheme:
12.36 is the excise tax on product X.
The value of the tax paid on the raw material is Y = ₹6.18 less.
Net tax that Mr. Anshul has to pay on product X is $6.18
With the MODVAT/CENVAT scheme in place, duty is no longer taxed twice.

In his budget speech for 2002–2003, Yashwant Sinha got rid of a number of things that were taxed at 16% SED.[58]

Abolition cut down on disagreements and lawsuits and figures out the cost of compliance. Motor cars, polyester filament yarn, new tires, air conditioners, aerated soft drinks and soft drink concentrates, multi-utility vehicles, pan masala, and chewing tobacco and other tobacco preparations were the only things that were left on SED. In 2002, the concessional rate went from 8% to 16% for everyone. The CENVAT Credit Rule 2002 took the place of a different rule that was put in place on July 1, 2001.

When Jaswant Singh became finance minister in 2003, he cut excise duty on polyester filament yarn from 32% to 24% in his first budget speech for 2003–2004. He also cut excise duty on all spun and other filament yarns from 16% to 12%, on all knitted cotton fabrics and garments from 12% to 8%, on all woven fabrics and other knitted fabrics from 12% to 10%, and on paraxylene from 10% to 5%. The government kept the excise duty on pure cotton yarn at 8% and took away the exemption for all knitted and unprocessed woven fabrics. Some things that were exempt were also brought into the tax net.

But Yashwant Sinha was very upset about this because he wanted to limit the rates to three and eventually bring them all down to one rate of sixteen percent.

Many people asked the government to exempt from taxes everyday things that most people use. Things like ledgers and registers, kerosene pressure lanterns, walking sticks, unbranded surgical bandages, tubular knitted gas mantle fabrics, bicycles and parts, umbrellas, items made of mica, fake zari, mosaic tiles, kitchen tools and accessories, glasses for corrective lenses, knives, toys, spoons, and other similar kitchen and tableware were subject to a 4% excise duty. The last few things that were subject to 4% excise duty without CENVAT were taxed at 8% when CENVAT was added. The ones that weren't sold matches did not have to pay any excise tax. Half-merchandised matches and the automated sector, on the other hand, were charged 8% ad valorem duty without CENVAT.

As Yashwant Sinha saw it, most things that were excluded should be brought under CENVAT. He wanted to do it slowly, though. So, he came up with an escalator system that brought the things that weren't taxed into the tax system by charging them a low rate of 4% at first, without giving them a return. Next year, it was going to go up to 8% again, but this time there would be no return. The escalator was meant to reach 16%, which would have given everyone a full refund. His replacements didn't do anything about this, so it stayed on paper.

Congress won the 2004 election and P. Chidambaram was made finance minister. It was in his budget speech for 2004-2005 that he said playing cards and contact lenses would have to pay import duty. He raised the tax duty on some things from 8% to 16%. These items include fake jewelry, prefabricated buildings, laboratory glassware, vacuum flasks, populated PCBs, candles and clock parts, scented supari, black and white TVs, and watches. Another thing he did was raise excise tax on merchandized and semi-merchandized matches from 8% to 16% with CENVAT credit.

The central government took a big step in 2004 to bring together the credit rules for things under the CENVAT Credit Rules 2002 and services under the service tax credit rules 2002. The CENVAT Credit Rules 2002 took the place of the rules that were put in place on July 1, 2001. Also, on September 10, 2004, the CENVAT Credit Rules 2004 took the place of the CENVAT Credit Rules 2002.

Putting in place CENVAT Credit Rules 2004 was a big year for writing down the credit system into a single rule that both manufacturers and service providers could use to get and use tax credits for goods and services. Over the years, the government has made several changes to the CENVAT Credit Rules. These changes were made after hearing from the industry and to stop people from abusing the system. During 2011, important changes took place and 2012 to the categories of capital goods, inputs, and input services. Mostly, the changes were made to expand the list of things that aren't eligible for credits. For example, the credit won't be given for renting a car, outdoor catering, life insurance, health insurance, etc., if the services are mainly used for an employee's own personal use, for goods used in a guest house or residential colony, or for setting up a factory on the property of a service provider.

In his budget
speech for 2005–2006, P. Chidambaram told Parliament that "the country has

VAT at central level with the name CENVAT for goods only." He said, "The whole chain of production and distribution should be covered by a national VAT, or even better, a goods and services tax that includes both the center and the states."[59]
He planned to bring as many things as possible to the 16% CENVAT rate. At that time, there were five things that had a duty of 24%. Three of those five were chosen, and the duty on them was lowered to 16%. These three were polyester filament yarn, tires, and ACs. The other two things, cars and drinks with air bubbles, had to wait a little longer. SSI also got a tax break. Because of this, the cap for SSI exemption, which was based on turnover, was raised from 3 crore to 4 crore per year.

P. Chidambaram said again that he wanted all rates to be the same, which is 16% for CENVAT. Aerated drinks and cars were the only two things that had a higher rate of 24% at that time. The tax on alcoholic drinks and cars (but only small cars) was lowered to 16%.

In this case, a "small car" meant a car that was no longer than 4,000 mm long and had an engine that was no bigger than 1,500 cc for diesel cars or 1,200 cc for gasoline cars. The government was sure that business will take advantage of the chance to make India a center for making small, fuel-efficient cars.[60]

Software that was sold in packages over the counter had to pay an 8% excise fee. Except for customized software and software packages downloaded from the Internet, DVD drives, flash drives, and combo drives did not have to pay excise tax.

A lot of food, even prepared food, did not have to pay tax. Excise tax was not charged on condensed milk, ice cream, or the preparation of meat, fish, or poultry. It was also not charged on pectin, pasta, or yeast. Excise tax on packaged foods that are ready to eat and instant food mixes like dosa and idli mixes was cut from 16% to 8%.

"There seems to be a lot of agreement," P. Chidambaram said, "that the country should move toward a national level Goods and Services Tax (GST) that should be shared between the center and the states." He chose April 1, 2010, as the day that GST would start. He said, "Goods and services are taxed at the same rate everywhere in the world." That's what a GST is based on. A GST is something that people need to get used to. So, we need to bring the service tax rate and the CENVAT rate closer together over time. The rate of service tax went up from 10% to 12%. In his budget speech for 2007-2008, the finance minister cut the ad valorem part of the tax duty on gasoline and diesel from 8% to 6%. Excise duty was not charged on water cleaning devices that use certain technologies or on home water filters that don't use electricity. An extra 5% was added to the excise fee on cigarettes and bidis.

P. Chidambaram cut the CENVAT rate on all goods from 16% to 14% in his budget speech for 2008-2009. He lowered the excise duty on all pharmaceutical goods from 16% to 8%, on buses and their chassis from 16% to 12%, on small cars from 16% to 12%, and on hybrid cars from 24% to the new rate of 14%. He also lowered the excise duty on two-wheelers and three-wheelers from 16% to 12%.

Also,On paper, paperboard, and items made from non-traditional materials by units that don't have a connected bamboo or wood pulp making plant, the excise duty was lowered from 12% to 8%. The duty was also lowered on clearances up to 3,500 MT, from 8% to 0%. Additionally, excise tax on some types of writing, printing, and packing paper was lowered from 12% to 8%. It was also lowered from 16% to 0% on a number of other items, such as composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice. Atazanavir, an anti-AIDS drug, and bulk drugs used to make it were not subject to any excise fee. Refrigeration equipment (compressors, condenser units, evaporators, etc.) that weighs more than 2 tonnes and uses 50 kW of power or more was free from excise duty based on how it was used. Also, Chidambaram changed the Yashwant Sinha formula of three rates and added more rates, which brought back the old formula of multiple rates.

When Pranab Mukherjee spoke about the budget for 2011–12, he changed some parts of the national excise rate to make way for GST. He exempted about 100 items from both central excise and state VAT. He also lowered the standard rate of excise duty for goods that aren't petroleum from 14% to 8% and raised the standard rate from 10% to 12%. He also raised the merit rate from 5% to 6% and the demerit rate from 1% to 2%. The lower merit rate for coal, fertilizers, cell phones, and jewelry made of valuable metals, on the other hand, stayed at 1%. [61]

The National Democratic Alliance (NDA) II, which was led by the BJP, came to power in 2014, and Arun Jaitley was made finance minister. In his first budget speech for 2014–2015, he got rid of the special excise duty on smart cards and put a standard 12% excise duty on them instead.[62]
Excise duty on certain machines used to make and package food was lowered from 10% to 6%. Shoes that cost more than ₹500 per pair but less than ₹1,000 per pair now have a 6% duty instead of a 12% duty. In his budget speech for 2015–2016, Arun Jaitley shortened the time you had to take CENVAT credit on inputs and input services from six months to one year. This was done to make doing business easier.

CENVAT was a very important part of India's reforms to its secondary taxes. A lot of the cascading load was taken away by making input credit available for more things, including capital goods. In later years, it let services use input credit. It cut down on arguments. GST replaced the CENVAT.

7. Service Tax Concerns

There was a lot of discussion about whether or not to tax services. A number of countries have and still do tax services. India, on the other hand, only taxed things and not services, even though the service sector was growing quickly. A little over 60% of the GDP came from it. The government did everything it could to make taxes better and raise the tax base. In this situation, the government set up a number of TRCs. Raja Chelliah led a TRC that said services should be taxed to make indirect taxes more useful. The committee considered putting a service tax on some services. This would make the indirect tax net bigger. That was the first committee that said businesses should be included in the tax net.

It was agreed by the government in 1994 to tax services. So, in his budget for 1994–1995, Manmohan Singh, who was Union Finance Minister at the time, put taxes on services. The only one that was added by the finance act was the service tax. In the tax introduction, he talked about three services. In the past, all taxes were put in place by a special law or act. The goal of adding the service tax was to lower the tax load on core business, trade, and industry without affecting the government's income. The service sector grew quickly after liberalization, and the government saw a huge opportunity to make more money in this area.

The rules for the service tax went into effect on July 1, 1994, thanks to Chapter V of the Finance Act, 1994. For all of India except Jammu and Kashmir, it was made law. The Indian Constitution, Entry 97, Schedule VII, says that GoI is allowed by the constitution to charge service tax. As part of the government, the department of taxation was in charge of charging and collecting service tax. The Central Board of Excise and Customs (CBEC) was in charge of managing the service tax, which was a secondary tax. The CBEC is now called the CBIC.

After the service tax was put in place in 1994, every finance minister that came after it increased the amount of money that was taxed. In his budget speech for 1997–98, P. Chidambaram, who took over as prime minister after Manmohan Singh, put a service tax on a number of well-known businesses.[63]
Some of the services they provided were transporting things by road, customs, air travel, hiring people to work as engineers, consulting, tours, renting cars, clearing and forwarding, keeping the mandap, catering outside, and building pandals. Putting a tax on services brought in ₹100 crore that year. Taxes on the movement of goods were used to give the National Highway Traffic Safety Administration more money.

In 1997 and 1998, P. Chidambaram put a service tax on a number of goods and services. This led to more pushback and protests. In his budget speech for 1998–1991, Finance Minister Yashwant Sinha told Parliament that the government had chosen to get rid of the service tax that was being paid by pandal contractors and people who transport goods by road. A tax on some new services was also on his list.[64]
There were chartered accountants, cost accountants, company secretaries, management consultants, interior decorators, private security services, market research firms, credit rating firms, underwriting firms, architects, real estate agents and real estate consultants, and slaughterhouses that used machines to do these jobs, the word for big animals.

The tax experts thought that all services should be subject to service tax at the same time. Others wanted to make basic changes to the way the service tax was set up. Money Minister Yashwant Sinha said in the budget speech for 2000-2001 that "service tax is emerging as an area of promise as well as problems."[65].
He came up with a group of experts to look into it, review it, and give him advice. Service tax used to be charged on certain services provided by banks and non-banking businesses. It was expanded by Sinha to include business groups that offered similar services.

Since the service sector grew faster than other sectors, the economy was going through structural changes. Because of this, the government chose to make the service tax net bigger. In his 2001-2002 budget speech, Yashwant Sinha added new services to the list of services that are taxed. These services included port services, telex services, facsimile services, broadcasting services, telegraph services, convention services, sound recording services, photographic services, insurance-related services, certain banking and financial services, scientific and technical consulting services, video tape production services, authorized service stations for fixing cars and two-wheelers, online information and database retrieval services, and service for people who own lease circuit lines.[66]

At first, service tax only applied to a small number of businesses. However, it was spreading. Finance Minister Yashwant Sinha raised the service tax for a number of different types of businesses in his budget speech for 2002–2003. These included inland cargo handling, fashion designers, dry cleaners, event planners, beauty salons, rail travel agents, health clubs and fitness centers, cable operators, storage and warehousing services (except for cold storages for agricultural goods), and life insurance (including insurance auxiliary services).

In his budget speech for 2003–2004, Finance Minister Jaswant Singh called for a change to the law that would affect the service tax. The goal of the change was to make service tax a possible way to raise money in a particular way. He told the Parliament that to change the constitution and pass the following laws would allow the union "to levy the tax and both the central and state governments sufficient powers to collect the proceeds."[67]

In 2004, P. Chidambaram was asked to be the finance minister again. He told the Parliament that he was going to get rid of the dedicated to making the service tax net bigger because 51% of GDP came from the service sector. He gave credit for service tax on all works. He also raised the service tax rate from 8% to 10% to make up for the loss of income. He also put a 2% surcharge on service tax.

The government chose to cast a wide net because the service sector was becoming more important every year and made up 52% of GDP in 2005. In his budget speech for 2005-2006, P. Chidambaram added some more services to the service tax net. Some of the new services that were taxed were preparing sites, surveying and making maps, transporting goods through pipelines, collecting membership fees from clubs and associations, packaging and mailing services, dredging services for rivers and harbors, building planned residential complexes with more than 12 units and developed by builders, and cleaning services for commercial buildings and other similar places.[68]

It rose to 54% of GDP in 2006, making the service sector even more important. The government hoped that this area would bring in more money for them. In his budget speech for 2006–2007, P. Chidambaram raised the rate of service tax to 12%. The government made the service tax net bigger by adding more services to it. As of now, there are ship management services, cruise ship travel services, ATM operations, auctioneering, share transfer agents, registrars and bankers (to an issue), recovery agents, company sponsorship of events (other than sports events), maintenance and management, international air travel (except for economy class passengers), business support services, public relations management services, and container services on rail (excluding the railway freight charges).[69]

For 2007–2008, the government chose not to change the rate of the service tax. It also raised the small service exemption ca providers for ₹400,000 to ₹800,000. About 200,000 of the 400,000 people who were taxed did not pay any taxes. To make up for the money lost because of this move, the government raised the service tax on a number of different types of services: design services, renting out real estate for business purposes, providing and creating content for use in advertising and telecommunications, and outsourcing services for mining of minerals, oil, and gas.[70]
The finance minister, P. Chidambaram, also added services that are needed to carry out work contracts to a voluntary composition scheme. This scheme charged 2% of the total value of the work contracts as service tax. The government didn't tax the services that resident welfare groups gave to their members who contributed less than or equal to ₹3,000 a month

In 2008, 55% of GDP came from the service sector, up from 54% in 2007. In his budget speech for 2008-2009, P. Chidambaram added the following services to the service tax net[71] in order to get the service industry to pay more into the government coffers:

1. A stock exchange, a trade exchange, and clearing houses
2. A service for managing assets under ULIP
3. The right to use things (if VAT is not due)
4. Software made just for you

Around this point, some doubts were made about some services. The finance minister cleared up those questions and made it clear that tour operators using contract carriage vehicles, money changers, and people running games of chance were all subject to service tax.

The job of finance minister was given to Pranab Mukherjee in 2009. Advice, consulting, and technical help services in the field of law were added to the service tax net by the president in his budget speech 2009–2010.[72]
In his budget speech for 2010–2011, he also said that the service sector made up almost 60% of GDP, but their share of service tax in GDP was only about 1%.[73]
The service industry could bring in more money for the government. But the government was in the process of putting GST into place. The finance minister said that he could have raised the service tax rate to 12% like it was before, but he chose to keep it at 10% so that GST could be put in place.

The government wasn't happy with how much service tax they were collecting because it wasn't showing how much money this sector could make. The 10% tax rate stayed in place because the government was going toward GST. To make up for the loss, the government added hotel lodging service and service from AC restaurants to the service tax net.[74]The ministry of finance raised the service tax on air travel by ₹50 for trips within India and by ₹250 for trips outside of India. He also made it so that deposits made by life insurance companies in ULIPs are taxed. It was thought that adding these new services to the tax net would bring in a net gain of ₹4,000 crore in 2011–2012

In the history of service tax, 2012 was a very important year. In June of that year, service tax turned 18 years old and became an adult. It has been argued for a long time that the service tax should be based on a short list of things that are not present. For the service tax, the government chose to go through the bad list. In Parliament, Pranab Mukherjee said that all services would be taxed except those that were on the "negative list" in the budget speech for 2012–2013. At 59% of GDP, the service industry made things possible. But the service tax's share of all taxes was a very small one compared to what it could have been. So, the government chose to speed things up and change gears. To get an extra ₹18,660 crore in tax money, the government raised the service tax rate from 10% to 12%. The minister of finance also said that he would be putting together "a study team to look into the possibility of a common tax code for service tax," [75]

Pranab Mukherjee became the thirteenth President of India in July 2012, and P. Chidambaram moved back to the North Block. And in his budget speech for 2013–2014, Chidambaram said that he would not change the service tax rate. It would stay at 12%. He stuck to the list of services that were not provided that his predecessor had made. On the list of things that were not acceptable, he only put two services: agricultural products and vocational classes related to agriculture. Copyright and filming are not subject to service tax at all, according to the government.

The BJP-led NDA won the 2014 elections and took back power. Narendra Modi became prime minister, and Arun Jaitley became his finance minister. In his first budget speech for 2014–2015, he said that the service tax had grown at the fastest rate. He said that since the government was going toward GST, there shouldn't be many changes to the service tax. He changed some parts of the Finance Act of 1994 that had to do with service tax.

The NDA II government cared most about making it easy for businesses to run. So, they agreed that the service tax filing would take two business days. It was revealed in the budget speech for 2015-2016 that the service tax rate and the education cess would go up from 12.36% to a consolidated rate of 14%. To get more people to pay taxes, the government looked over the bad list and took away some exemptions.

In his 2016-2017 budget speech, the finance minister told Parliament that the government was changing Section 73 of the Finance Act, 1994 so that people would have 30 months instead of 18 months to get their service tax return. There were a lot of changes made to the way the service tax works by the government. You can read about them in the budget speech for 2016-2017. In his budget speech for 2017-2018, the finance minister said that he would not change the present system of service tax because GST would be taking its place.

Income, Taxed Services, and Assessees

Since it began, the service tax has brought in a huge amount of money. Service tax has brought in an average of ₹58,070 crores every year from 1994 to 2019. During that time, the average growth rate was 27.03%. It only took in 407 crore in taxes in 1994-1995. In 2004-2005, it went up to 14,200 crores. In 2014-2015, it went up to 167,969 crores, and in 2016-2017, it was 255,499 crores. Year after year, the number of services that are taxed has also grown. There were only three in 1994, but there were 119 in 2012-2013. The idea of a negative list system has been used to charge service tax since July 1, 2012. The number of people being assessed had also gone up. In 1994, it was only 3,943. In 2013, it was 1,712,617. The planned income for the fiscal year 2016–2017 is ₹231,000 crores, which is about 14% of the total tax revenue goal set by GoI. From 1994 on, below Table shows the amount of money made, the number of services taxed, and the number of people who were taxed.

Three types of
services were hit with a service tax: phone services, non-life insurance services, and stockbrokers' services. While that was going on, the list of services that had to pay service tax kept growing. It went from 3 services to 119 services over time. On July 1, 2012, the idea of a "negative list" of services was launched instead of a "positive list" of services.

Previously, only certain services were taxed. Now, all services are taxed except those on the “negative list of services” or those that were exempted by a notice. In the negative list system that Pranab Mukherjee set up, all services were taxed except for 17 services that were not taxed at all. Two new services were added to the bad list by P. Chidambaram. The unfavourable list was looked over by Arun Jaitley. The service tax has now been merged into GST.

Table : Service Tax Revenue

Source: Sinha and Shrivastav,’ Indirect Tax Reform in India’

[1] Chatgpt:result of indirect taxation in ancient india

[2] Chakravarty and Dehejia, ‘India is an outlier’

[3] Rajgopalan, ‘It Took Three Decades’

[4] Sinha and Shrivastav,’ Indirect Tax Reform in India’

[5] The other members were V. L. Mehta, ex-member of Finance Commission; V. K. R. V. Rao of Delhi School of Economics; K. R. K. Menon, secretary, Ministry of Finance; B. Venkatappiah, a former finance secretary of the Bombay Government, and B. K. Madan, economic adviser to the RBI.

[6] GoI, Budget for the Year 1953-1954, 14.

[7] Taxation Enquiry Commission Report 1953-54, Vol. I, 216

[8] Goods and Services Tax (GST), CBIC, 4.

[9] GoI, Fourth Finance Commission Report (1965), 1.

[10] Kumar, Indian Committees and Commissions, 38.

[11] Sinha and Shrivastav,' Indirect Tax Reform in India'

[12] India's Tax Reforms', Acharya

[13] GoI, Indirect Taxation Enquiry Committee Report, Part I (October 1977).

[14] GoI, Indirect Taxation Enquiry Committee Report, Part II (January 1978).

[15] GoI, Finance Minister (1978–79) Budget Address, 18.

[16] The chairman of National Institute of Public Finance and Policy (NIPFP).

[17] Bird, 'Tax Reforms in India', 2721,

[18] Sinha and Shrivastav,' Indirect Tax Reform in India'

[19] Rao "Father of Tax Reform"

[20] Murty, Structure-Transformation, 105

[21] Lekhi, Public Finance, 233

[22] NIPFP: Trade Tax Reform for Domestic Goods.

[23] Acharya, "The Tax Reformers of India."

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[26] GoI, 2002-2003 Economic Survey

[27] GoI, 2004–2005 Economic Survey, 40.

[28] Strategy for Tax reforms and Proposal for Tax measures is extracted from GoI, Economic Survey 2004-2005.

[29] GoI, Thirteenth Finance Commission, 19

[30] Ibid., 63

[31] Ibid., Chapter 5.

[32] Ibid., 66–67

[33] Finance Commission Report

[34] Sinha and Shrivastav,' Indirect Tax Reform in India'

[35] The MODVAT scheme was introduced through notification 176/86 on 1 March 1986 as Section AA.

[36] Aggarwal's 'Modified Value Added Tax (MODVAT).'

[37] GoI, Budget Speech, 1987-88, Para 103

[38] Purohit, Problems of Introducing Value Added Tax in India.

[39] Rajagoplan, 'It Took Three Decades'

[40] GoI, Budget Speech, 1987-88.

[41] GoI, Budget Speech, 1994-95

[42] GoI, Budget Speech, 1994-95

[43] GoI, Budget Speech, 1996-97

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[47] GoI, Budget Speech, 1999-2000,

[48] GoI, Union Budget of 1999-2000,

[49] Sinha and Shrivastav,'
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[50] GoI, Budget Speech, 2000-01

[51] GoI, Union Budget, 2000-01, Para 87.

[52] Burgess, Howes, and Stern, 'Value-Added Tax Options for India'

[53] Ibid.

[54] Parthasarathy and Anand, 'The New Set of CENVAT Rules'.

[55] Acharya, 'India's Tax Reformers'

[56] GoI, Budget Speech, 2001-02

[57] Sinha and Shrivastav,'
Indirect Tax Reform in India'

[58] The three rates of SED were reduced to a single rate of 16 per cent.

[59] GoI, Budget Speech, 2005-06

[60] GoI, Budget Speech, 2006-07

[61] GoI, Budget Speech, 2012-13.

[62] 2 per cent without CENVAT benefit and 6 per cent with CENVAT benefit.

[63] GoI, Budget Speech, 1997–98

[64] GoI, Budget Speech, 1998–1991

[65] GoI, Budget Speech, 2000–01

[66] GoI, Budget Speech, 2001–2002

[67] GoI, Budget Speech, 2003–04

[68] GoI, Budget Speech, 2005-06

[69] GoI, Budget Speech, 2006-07

[70] GoI, Budget Speech, 2007–08

[71] GoI, Budget Speech, 2008–09

[72] GoI, Budget Speech, 2009-10

[73] GoI, Budget Speech, 2010-11

[74] GoI, Budget Speech, 2011-12

[75] GoI, Budget Speech, 2013-14