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Evaluation and implementation of GST in Indian growth: A study

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Abstract
Goods and Services Tax is one of the most crucial tax reforms in India which has been long pending. Goods and Services Tax to be implemented from 1st April 2017 by Govt. of India.. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. The paper highlights the background, Prospectus and challenges in Implementation of Goods and services Tax (GST) in India. It also focused the impact of GST in India and a comparative study of GST with other countries.

Keywords: tax reform, indirect tax, national market

Introduction

Goods and Services Tax (GST) Bill or GST Bill, officially known as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, proposes to be implemented in from 1 April 2017. GST is a part of the proposed tax reforms that evolving an efficient and harmonized tax system in the country. The goods and service tax (GST) is proposed to be a comprehensive indirect tax levied on manufacture, sale and consumption of goods as well as services at a national level. Introduction of an integrated Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment.

The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of the world. It will also improve the international cost competitiveness of native goods and services. The GST at the Central and at the State level will in this way give more alleviation to industry, trade, and agri business also. The Finance Minister of India, Mr. Arun Jaitley assured that India could become a global market as implementation of GST will give 2% boost to Asia's third largest economy. As per a report by the National Council of Applied Economic Research, GST is relied upon to increment financial development by 0.9% to 1.7%. The inference to the above report also showed that the exports are expected to rise from 3.2% to 6.3%, while imports will probably rise from 2.4% to 4.7%. Every citizen would be designated a PAN connected citizen recognizable proof number of 13 to 15 digits. This would align the GST PAN-linked framework in line with the common PAN based framework for Income Tax, encouraging information trade and taxpayer compliance. Federation of Indian Chambers of Commerce & Industry (FICCI) has recommended that the GST ought to be reached out to all segments of the economy without exception and proposed to cover petroleum and normal gas, land, liquor and power generation under GST in order to widen the tax base. FICCI has proposed to have same edge limit on products and services so as to evacuate confusions and deceptive practices and threshold limit ought to be kept high as it will ease tax administration since tax will be collected from those taxpayers who will have significant turnover and small traders do not encounter any issue in regards to record keeping and compliance as required under the framework of GST.

Research Methodology

The Researchers used an exploratory research technique based on past literature from respective journals, annual reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

Objectives of the Study

1. To study about the Challenges of Introduction of Goods and Service Tax (GST in India).
2. To Study on Impact of Implementation of Goods and services Tax (GST) in India
3. To compare the Goods and services tax with other countries and future prospect.

Concept of the GST

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax

Challenges towards Implementation of GST

1. High Revenue Neutral Rate (RNR)

RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means, the rate of GST which will give at least the same level of revenue that is currently earned by state and central governments from indirect taxes is known as RNR. As per 13 finance commission the RNR should be 12% whereas state empowered committee demanding 26.68%. Union government is reckoning the rate band should be 15%-20% which is very high as compare to other counties. Hungary implemented GST from 1/4/2014 with 7% rate.

a) Due to high RNR Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking.
b) Tax evasion and smuggling will increase.
c) Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index.

So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

2. Compensation to States

Currently, VAT is highest contributor in tax revenue of state governments. But after GST, this will subsumed along with surcharge and cess into GST. Due to which state governments will occur revenue loss for sure and they will be more dependent on finance commission for tax devolution (currently 42%). To neutralize their revenue losses states are demanding compensation from union government. As per 14 finance commission union has to compensate states for maximum of five years with tapering effects. For first three years 100% compensation reduced to 75%and 50% in fourth and fifth year respectively. This compensation by union will lead to fiscal burden and may not fulfill the fiscal deficit target of 3% by March 2017 announced by finance minister in 2015 budget. This fiscal target must be achieved for faster economy growth and full capital account convertibility in future.

Industrialized states will be at loss in GST regime due to its destination based feature. It will demotivate the manufacturing industry and incite states to import more in order to increase their tax revenue. It is not good for manufacturing industry as well as for India because boosted manufacturing sector is the main driver of our economic growth in future. For temporary relief to industrialized states additional 1% tax for two years on interstate sale and supply of goods is proposed in GST. But with 1% additional tax, the main objective of GST to minimize cascading effect of taxes is fading out. So, to minimize cascading effect this additional tax at least should not be levied on supply of interstate goods.

3. Registration Threshold Limit

At present there are different threshold limits for VAT (5 lacs), service tax (10 lacs) and excise duty (1.5 crore). But for implementation of GST common threshold limit for all indirect taxes is required. It will turn into a conflict between state and center. States want to fix the limit as 10 lacs opposing 25 lacs limit suggested by union. The lower threshold limit will broaden the tax base and increase the revenue of government but it will also require a IT infrastructure to address the database of increased assess, which is presently missing out in Indian states. IT infrastructure will play a vital role in implementing IGST as union will electronically distribute IGST to states. To grapple the data base a strong network is required which is managed by GSTN (Goods and Service Tax Network) proposed in GST. GSTN has major responsibility to tackle biggest challenge of IT infrastructure in a time bound manner

4. Other Issues

a) Union government need to coordinate with 30 states for “input credit” due to transfer of credit in SGST.
b) State tax officials training and development before implementation of GST.
c) Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge.
d) Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. (A study commissioned by Curtin University of technology)

Impact of GST in India

GST has a positive impact on the economy and on various sectors which are as follows:

1. Fast moving consumer goods sector

With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company’s decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes affect the cost to the company.

2. Food Industry

Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

3. Information Technology Enabled Services

The proposed GST rate under the IT industry is not yet decided. While the combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property) and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby reduced price.

4. Infrastructure Sector

The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

5. Impact on Small Enterprises

In the small scale enterprises there are three categories:-

1. Those below threshold need not to register for the GST.
2. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.
3. Those above threshold limit will need to be within framework of GST.

In respect of the central GST the situation is slightly complex. GST is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

Comparative Study of GST in Other Countries

Table 1

Countries	GST (%)	Goods and Services on which GST levied
France	19.6%	All services except medical supplies, postal services, education, certain financial transactions and insurance services
Russia	18%	All services except lease of premises to foreign companies accredited in Russia, medical services and certain medical products, educational services, public transportation, sale of securities, banking and insurance services, rent of apartments, sale of apartments and residential prop
United Kingdom	15%-17.5%	Supplies of goods and services except financial and insurance services, education services supplied by eligible bodies, certain cultural services, betting, gaming, lotteries, subscriptions, health and welfare
New Zealand	15%	All goods and services except rents collected on residential rental properties, donations, precious metals and financial services
Bangladesh	15%	All goods and services except: · Certain food items (such as meat, fish, potatoes, vegetable and fruits); · Jute and jute goods; · Social welfare & cultural training; · Rehabilitation services; and · Agricultural development.
Mauritius	15%	Supplies of goods and services with the exception of: · Rice and wheat, · bread and butter, · milk and cream, · medical, hospital and dental services, · educational and training services provided by registered institutions · postal services, · cargo handling, · certain residential buildings
Australia	10%	Most transactions except services such as financial services, residential rent, residential services etc.
Singapore	7%	All goods and services except sales and lease of residential properties and most financial services
Japan	5%	All supplies of goods and services except social welfare services, letting off commercial buildings, postal services, non-commercial activities of no-profit making organizations etc.
Canada	5%	Supplies of goods and services purchased within the country except certain politically sensitive essentials such as groceries, residential rent, medical services and financial services

***Source*:** Internationally- Goods and Service Tax by C.A. Rajat Mohan B.Com (H), A.C.A., D.I.S.A.

GST is touted to be one of the triggers that could help boost the country's economic fortune. Economists are of the view that it will unite the country economically as it will remove various forms of taxes that are currently levied at different points. GST will help in widening the coverage of tax base, improve tax compliance, remove existing unhealthy competition among states and re-distribute the burden of taxation equitably among manufacturing and services. Overall it will result in increasing revenue at the Centre.

Conclusion

Due to dissilient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administrative complexities and compliance cost is also accelerating. Thus, a simplified, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It can also be used as an effective tool for fiscal policy management It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.

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