

Impact of GST on Indian economy

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Abstract

GST stands for “Goods and Services Tax”, and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Its main objective is to consolidate all indirect tax levies into a single tax, except customs replacing multiple tax levies, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration. Therefore, GST is a broad based and a single comprehensive tax levied on goods and services consumed in an economy. However, there is a huge opposition against its implementation. The entire nation is apprehensive about GST and its implications.

Keywords: goods and service tax, Indian economy and value added tax

Introduction

Simply put, goods and services tax is a tax levied on goods and services imposed at each point of sale or rendering of service. Such GST could be on entire goods and services or there could be some exempted class of goods or services or a negative list of goods and services on which GST is not levied. GST is an indirect tax in lieu of tax on goods (excise) and tax on service (service tax). The GST is just like State level VAT which is levied as tax on sale of goods. GST will be a national level value added tax applicable on goods and services.

A major change in administering GST will be that the tax incidence is at the point of sale as against the present system of point of origin. According to the Task Force under the 13th Finance Commission, GST, as a well-designed value added tax on all goods and services, is the most elegant method to eliminate distortions and to tax consumption.

One of the reasons to go the GST way is to facilitate seamless credit across the entire supply chain and across all States under a common tax base. It is a tax on goods and services, which will be levied at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service. This is because they include GST in the price of the goods and services they sell and can claim credits for the most GST included in the price of goods and services they buy. The cost of GST is borne by the final consumer, who can't claim GST credits, i.e. input credit of the tax paid.

Main Body

Now, let us have a look on the benefits of GST to the government, businesses and individuals.

Benefits

To the government

1. It generates a stable and predictable tax income in both good and weak economic environment.
2. It is an efficient tax due to the comparatively lower cost of administration and collection.

3. It allows the Government to lower corporate and personal income taxes, which in turn encourages more foreign direct investment. This leads to overall economic growth.

To businesses and individuals

1. Most large, established businesses are GST registered – getting your business GST registered is often a signal to customers that your business is an established business and has certain size.
2. GST is a fairer tax system. It taxes the self-employed and wage earners only when they spend their money.
3. GST taxes apply only on consumption. Savings and investment are not taxed. This will encourage people to save and invest in productive activities.
4. Cost of doing business is reduced, thereby contributing to lower prices. Businesses do not suffer a tax cost due to the multi-stage credit mechanism since the real taxpayer is the end-user.

Other benefits of GST

1. Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities.
2. The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.
3. GST will remove cascading effect of taxes imbedded in cost of production of goods and services and will provide

- seamless credit throughout value chain. This will significantly reduce cost of indigenous goods and will promote 'Make in India'. The sectors which have long value chain from basic goods to final consumption stage with operation spread in multiple states such as FMCG, pharma, consumer durables, automobiles and engineering goods will be the major beneficiaries of GST.
4. GST will facilitate ease of doing business in India. Integration of existing multiple taxes into single GST will significantly reduce cost of tax compliance and transaction cost.
 5. Stable, transparent and predictable tax regime will encourage local and foreign investment in India creating significant job opportunities.
 6. Electronic processing of tax returns, refunds and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion. Built-in check on business transactions through seamless credit and return processing will reduce scope for black money generation leading to productive use of capital.
 7. Significant reduction in product and area-based exemptions under GST will widen the tax base with a consequent reduction in revenue neutral rate. This will enable the government to keep GST rates lower which may have favourable impact on prices of goods in the medium term. The tax rate for services however may go up by 2 to 3% from the present level of 15%. The adverse impact of rate increase on services will be partially neutralised by availability of seamless input tax credit.
 8. GST will eliminate the scope of double taxation in certain sectors due to tax dispute on whether a particular transaction is for supply of goods or provision of service such as licensing of intellectual properties like patents and copyrights, software, e-commerce and leasing.

Problems with GST

1. While the GST will simplify tax structure, it will increase the burden of procedural and documentary compliance. Number of returns will increase significantly so also the extent of information. For instance, a real estate developer or contractor will have to file 61 returns in a year compared to 24 returns at present. Similarly a taxable person providing services from several states will have to take registration and file return in all such states. Currently a single centralised registration is required in such cases.
2. GST will also have impact on cash flow and working capital. Cash flow and working capital of business organisations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.
3. It is also pertinent to note that all indirect taxes will not be subsumed in GST. Electricity duty, stamp duty, excise duty and VAT on alcoholic beverages, petroleum products like crude, natural gas, ETF, petrol and diesel will not be subsumed in GST on its introduction. These taxes will form part of the cost of these goods when used as inputs in downstream products. Hence those sectors where these goods form significant input cost such as plastics and polymers, fertilisers, metals, telecom, air transport, real estate will not get full benefit of GST.

4. Major beneficiary of GST would be sectors like FMCG, Pharma, Consumer Durables and Automobiles and warehousing and logistic industry.
5. High inflationary impact would be on telecom, banking and financial services, air and road transport, construction and development of real estate,
6. While GST is eagerly awaited by the industry, the legal process to implement GST in India is quite long and complex. After the Constitution Amendment Bill is passed by the Parliament with two-thirds majority, it will have to be passed by at least 15 states. There after GST council has to be constituted which will recommend model GST law and GST rates. On such recommendation, GST Act and Rules have to be enacted by the Parliament and each state assembly. Then implementation date has to be notified. It is therefore quite important that the Constitution Amendment Bill is passed in the current Monsson Session if GST is to be implemented during the tenure of present Parliament which ends during 2019.

Conclusion

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

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