Will the impact of GST benefit to our economy?

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ABSTRACT

Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at national level. GST is a consumption based tax. It is collected on value added at each stage of purchase or sale in supply chain. GST was first introduced during 2007-08 budget session.GST Bill was passed in Loksabha on 6th May2015. Introduction of GST would also make India's products more competitive in domestic and international markets. This would lead to economic growth and prosperity. Our export sector will be smoothen and more competitive. The most prominent hurdle in introducing this new tax structure has been the struggle between the states and the Centre on the loss of revenue. This paper is a conceptual approach which aims to trace the features of GST and its impact of on Indian economy.

Key words: *Goods and Services Tax, Value Added Tax, CGST, SGST, Indirect Tax*

Introduction

GST bill is one of the remarkable changes in India's indirect tax changes since the beginning of the economy. The concept of GST in India has been evolved for over a decade now. GST was first introduced during 2007-08 budget session. On 17th December 2014 the current Union Cabinet Ministry approved the proposal for introduction of GST Constitutional Amendment Bill. On 19th December 2014; the bill was presented on GST in Loksabha. And GST Bill was passed in Loksabha on 6th May2015. With GST Bill passing in Loksabha, it is now stated to be presented in Rajyasabha.

GST is a consumption based tax. GST is collected on value added at each stage of purchase or sale in supply chain. It is paid on the procurement of goods and services. GST is VAT , levied at all points in the supply chain with credit allowed for any tax paid on the inputs acquired for use in making the supply. There for it is the end consumer who pays this tax as the last person or entity in the supply chain.

The introduction of GST in India is expected to result in major simplification of indirect tax structure at both centre and state levels- replacing the multiple layers of complex taxation currently existing in India. GST is consolidating large number of centre and state taxes into a single tax. It will reduce cascading or double taxation and create the way for a common national market. The advantage of levying GST to consumers is reduction in the overall tax burden.

Introduction of GST would also make India's products more competitive in domestic and international markets. This would lead to economic growth and prosperity. Our export sector will be smoothen and more competitive. There may also be revenue gain for the Centre and the States due to widening of tax base, increase in trade volumes and improved tax compliance.

Features of GST

(i) The GST would be applicable on the supply of goods or services but not on the manufacture and sale of goods or provision of services. It would be a destination based consumption tax.

(ii) It is a dual GST because it would be levied by the Centre and States simultaneously on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services is called Central GST (CGST) and that to be levied by the States is called State GST (SGST).

(iii) The GST would be applied to all goods, except for alcoholic liquor for human consumption and five petroleum products, viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel.

(iv) Tobacco and tobacco products would be subject to GST. In addition, the Centre could levy Central Excise duty on these products.

(v) The GST would replace the following taxes currently levied and collected by the Centre:

a. Central Excise duty
b. Duties of Excise (Medicinal and Toilet Preparations)
c. Additional Duties of Excise (Goods of Special Importance)
d. Additional Duties of Excise (Textiles and Textile Products)
e. Additional Duties of Customs (commonly known as CVD)
f. Special Additional Duty of Customs (SAD)
g. Service Tax

(vi) State taxes that would be subsumed under the GST are:

a. State VAT
b. Central Sales Tax
c. Luxury Tax
d. Entry Tax in lieu of octroi
e. Entertainment Tax (not levied by the local bodies)
f. Taxes on advertisements
g. Purchase Tax
h. Taxes on lotteries, betting and gambling
i. State cesses and surcharges insofar as they relate to supply of goods and services

(vii) An Integrated GST (IGST) would be levied and collected by the Centre on inter-State supply of goods and services. Accounts would be settled periodically between the Centre and the States to ensure that the SGST portion of IGST is transferred to the Destination State where the goods or services are eventually consumed.

(viii) Tax payers shall be allowed to take credit of taxes paid on inputs (input tax credit) and utilize the same for payment of output tax. However, no input tax credit on account of CGST shall be utilized towards payment of SGST and vice versa. The credit of IGST would be permitted to be utilized for payment of IGST, CGST and SGST in that order

(ix) Exports shall be treated as zero-rated supply. Exporters would not pay taxes on export goods but credit of the input tax related to the supply shall be admissible to exporters.

(x) Import of goods and services would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.

(xi) The laws, regulations and procedures for levy and collection of CGST and SGST would be harmonized to the extent possible.

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Advantages of GST

- While implementing GST, manufacturers or traders do not have to include taxes as a part of their cost of production, so the prices of product can be reduced.
- When the GST would be implemented, goods are taxed at the same rate and multiple taxation is avoided.
- The input tax credit of capital goods under GST scheme at 12-14% will reduce the cost of capital goods.
- The prices of the commodities would come down in the long run, as dealers pass on the reduced tax benefits to consumers by slashing the prices of goods.
- Introduction of GST would also make Indian products more competitive in the domestic and international markets. This would lead to increase in economic growth.
- Implementation of GST will simplify the tax structure, broaden the tax base, and create a common market for across states.
- It helps in seamless flow of credit in the country.
- Input tax credit will encourage suppliers to pay taxes and tax evasion may get reduced.
- Under the GST scheme the number of taxes exempt will decline and the government revenue will go up. This would lead to economic growth.
- Less developed states will get improved as SGST portion of IGST is transferred to the Destination State where the goods or services are eventually consumed.
- GST would lead to efficient allocation of factors of production. It is expected that the real returns to the factors of production would increase.

Disadvantages of GST

- Taxes on services would go from 14-20% after the implementation of GST.
- The tax on retails will get doubled.
- Taxes on imported goods will be around 6%.
- There will be control on every system by the central and state governments.
- It is argued that the GST regime leads to substantial erosion of the state power to manage its taxing power and resource generation.
- There is also no clarity on the basic threshold exemption and the GST can easily be derailed by multiple rates and numerous exemptions/ concessions.

Impact of GST on Indian economy

GST is one of the most significant fiscal reforms in India. GST is expected to result in major rationalization and simplification of the consumption tax structure at both Centre and state. It will replace all indirect taxes, thus avoiding multiple layers of taxation existing in India. GST clubs almost all indirect taxes together that are levied by central and state governments.

Implementation of goods and services tax will help government to raise tax revenues and reduce fiscal deficit. Fiscal deficit is the difference between government's expenditure and revenue. Fiscal deficit has been around 4.5% in the last three years. GDP of the country increase when fiscal deficit is reduced. Implementing GST will lift the government's tax revenues, lower the cost doing business, boost growth by eliminating the cascading effect of multiple centre and state tax. GST would reduce the cost of doing business and increase profitability, which could attract investments. It will lead to economic growth.

Depending on the final GST base and rate, there will be a significant redistribution of tax across different goods and services. Goods currently subject to both Centre and State taxes should experience a net reduction in tax, with positive impact on consumer demand. At present FMCG companies pay 24-25% tax including excise duty, VAT, entry tax. If the GST will be implemented the tax rate will be 17-19%. It will lead to a significant reduction in total tax rate.

At present, primary food articles like rice and wheat are liable to tax by many states either by way of purchase tax or sales tax at a lower rate. But under the GST, all food items covered under the public distribution system including rice and wheat are proposed to be exempted. As a result primary food articles like rice and wheat would be exempted from GST. Since expenditure on food constitutes a large proportion of the total consumption expenditure of the poor, the GST is designed as a poverty reduction initiative. Like food, basic health and education services are also intended to be fully exempted.

If the GST will get introduced, exporters would be able to take full credit of non-offset components of the net indirect taxes (NIT) paid by them. Thus there will be a tax reduction in exports, which in turn will enhance exports. While the Central indirect taxes including customs and excise duties get nearly fully reimbursed, the state-level taxes such as central sales tax (CST), electricity duty, sales tax on petroleum products, entry taxes, octroi and municipal taxes do not get full offsets. Since all taxes, central as well as state, would be subsumed in GST exports are expected to become tax-free thus enhancing competitiveness of Indian exporters.

The major import gaining sectors include leather and leather products, furniture and fixtures, agricultural sectors, coal and lignite, agricultural machinery, industrial machinery, iron and steel, railway transport equipment, printing and publishing, and tobacco products. The moderate gainers include metal products, non-ferrous metals, and transport equipment other than railways. Imports are expected to decline in textiles and readymade garments; minerals other than coal, crude petroleum, gas and iron ore; and beverages.

GST will help to create a single unified market across India and allow free movement and supply of goods in every part of the country. It will also eliminate the cascading effect of taxes on customers which will bring efficiency in product costs. The tax collection at source guidelines in GST regime will increase administration, documentation workload for ecommerce firms and push up cost.

We must be aware about the disadvantages of GST even if it has so many benefits with its implementation. Insurance policies, life, health, motor will cost more than the earlier. The telecommunication sector will be negatively affected due to increase in call charges and data rates, under GST regime which will exceed 15%. Demand for commercial vehicle may be hit in the medium term. And implementation of GST will subsume local taxes; reduce time at check post, which will increase logistics hurdles. Airlines companies may charge more travelling cost than earlier because service charges will be replaced by Goods and Service Taxes.

Conclusion

Goods and Services Tax (GST) is one of the biggest indirect tax reforms in the country since independence. GST is a simple, transparent, and efficient system of indirect taxation. It will help in eliminating tax induced economic distortions and gives boost to the economy. The GST with its uniform taxation structure can be one of the most important steps towards achieving the task of inflation management and GDP growth. Even though there are some negative impacts in few sectors of economy, the implementation of Goods and Service tax will replace most of the existing indirect taxes.

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