IMPACT OF GST ON INDIAN ECONOMY

Vanshaj Sehgal
Student
Dr. Vijay Srivastav
Faculty Of Law , Uttaranchal University Law College Dehradun.

Abstract – Before the implementation of GST (Goods & Services Tax) there was chaos and confusion among the various taxpayers in the country as there were 16 indirect taxes which has to be submitted , checked , revised to pay tax but after the implementation of this Act has led to simplification of tax system in India & it will be effective for the nation's economic growth in the upcoming future.

Ever imagined an industry without a consumer? All units produced and warehoused but not sold is something which no trade and industry would ever want. It is not farfetched to say that more than machines and employees a business needs consumers. This article intends to analyze the impact of upcoming Goods and Services Tax (**GST**) on consumers. But before we proceed further let's understand where a consumer is placed in the GST chain and how it will get impacted. A consumer might not be required to do anything under GST, and is also the last person in the value chain involving supply of goods and services, but all this tax transformation is undertaken for his betterment only.
There is an interrelationship between a consumer, business and indirect taxes. One of the leading revenue generators to the government is indirect taxes, a tax that is collected and deposited by a business, but eventually passed on to the person who bears the ultimate economic burden of the tax (i.e., the consumer). The price paid by a consumer for goods and services have following three unnoticed components (other than market forces that A change in any of the above components will certainly birth a variation in price of goods and services. Aside the profit margin and quality-related decisions, from a tax perspective implementation of GST (amalgamation of existing indirect taxes and cesses) will have a critical role in price determination. India's larger consumer base is a price elastic consumer, and any change in the price leads to demand and consumption volatility. Few of the key impacts of GST on consumers could be as follows:

5.1. Impact of GST on consumers

- **Reduction in price of goods and services**
  The present scheme of indirect tax results in cascading effect of taxes, and thus in certain scenarios the taxes paid on procurements are not available for setting off the output tax liability. This leads to formation of a tax cost and rise in price of the commodities. The GST implementation is expected to curb this cascading effect, and provide a seamless credit to the supplier of goods and or services. In turn, there will only be a tax on value addition and no business costs in terms of taxes paid on procurement of inputs, input services, or raw material.
  Thus the net amount of indirect taxes implanted in the value chain will be less, thus price of goods and services will be expected to be relatively less in ordinary scenario. Due to incorporation of anti-profiteering provisions, businesses will be bound to pass the benefits (on account of GST implementation) to the consumers. The final announcement on fitment of commodities into proposed multi-tier rate structure along with tax rate for services will happen next month (May), post which one will be able to sense the real reduction or inflation in prices.
- **Uniform prices throughout the country**
  Today, we have Value Added Tax (VAT), which is levied on sale of goods and administered at state level. Under the VAT laws, there are Schedules which outlines the tax rate on commodities with their brief description. This description and fitment may vary from state to state which leads to price variation. Besides this, there are certain local taxes and duties (such as entry tax) which are levied only in identified states. With GST coming in, all these complexities will be ironed out, and there will be uniform prices across nation. Implementation of GST is most commonly echoed as 'one nation, one tax, one market'.
  - **Transparency in tax structure**

  As a matter of consumer right, he is entitled to be of information including taxes and duties relating to products and services that he consumes. The kind of efforts that government is taking to educate the masses, it will create awareness amongst the consumer regarding the proposed GST structure and its transparency measures. A major change would be elimination of MRP-based taxation, where consumer was never aware of taxes inbuilt in the price of commodities. Also there will be an end to dual taxation (levy of service tax and VAT at the same time), which is prevailing today in software and restaurant sector.
  - **Certain goods to be costlier in the name of cess, and service will be taxed at a higher rate**

  GST will have minimum exemptions. The existing benefits will be grandfathered under GST only where necessary and it is expected that few of the exemptions and tax holidays will be put in their sunset mode. Removal of such benefits, may burn a hole in the pocket of consumers as they have to bear an economic burden of tax cost (GST), which businesses will pass through to them. Further, the government has introduced a levy of cess on certain goods (tobacco products, coal, aerated water, motor cars), to be commonly be known as 'compensation cess'. This charge of additional 'cess' will make these goods costlier than the existing prices. Also the services are expected to be costlier by three percent, and the rate under GST may increase to 18 percent.
  - **Better accessibility of goods and services**

  The implementation of GST will provide numerous business opportunities to decide on warehousing and logistics. It is expected that there will be a better accessibility of goods and services under GST, as the consumer need not travel across states for making a purchase to save tax. Further, the online shopping companies will plan their operations to reduce the lead time, while managing the warehousing facilities, which today are contingent on filling complexities of present tax structure.

As a consumer, one is eagerly waiting for announcement of tax rates and proposed list of exemptions. Using which, he will apply a gross mathematics and decide on his major purchases during this transition period. Say, motor cars are expected to be expensive in GST, a consumer will look forward to buying the same before GST kicks in. Indirect taxes will follow the consumer, no matter in what name and shape, and he (consumer) will have an inevitable encounter with them as an essential element in price of goods and services. What an informed consumer can do is be aware of applicable taxes on his purchase.

GST will de-shackle India of its complex indirect tax structure and enable a single unified indirect tax structure subsuming majority of the indirect taxes in India, which will reshape the India's indirect tax structure.

Economists and tax experts see it as the biggest tax reform in independent India. But what does it mean for a common man? In this article, we strive to achieve better understanding of the impact that the GST will have on key sectors of the Indian economy and ripple effect of the same on ultimate customers.

Let me start by saying that from an indirect tax cost perspective, GST will not have a uniform impact on all sectors, given that under the current regime the indirect tax cost is very different for different sectors.

The indirect tax cost on most goods is currently on the higher side. This is for the reason that most goods (for e.g. beauty products, most consumer electronics, non-luxury automobiles) attract an excise duty of 12.5% and a VAT of 12.5% to 15% depending on the State. Further, there are numerous cascading of taxes on account of levy of CST, input tax credit retention under the VAT laws, levy of entry tax/ Octroi/ local body tax, etc till the time the product reaches the end customer.

5.2. How GST would change the way India does business

A combined effect of the same leads to an effective indirect tax rate 25% to 30% in the hands of the end customer. If the standard rate of GST is 18%, then for most goods there would be a significant reduction in the overall indirect tax cost. This reduction in indirect tax cost can lead to reduction in production cost and increase in base line profits, giving headroom for reducing prices and benefiting end-users.

However, for some other goods (for e.g. textiles, edible oil, low value footwear) the rate of excise duty is nil whereas VAT in most States is 5%. Thus, the overall tax cost for these kind of goods (after factoring the non-creditable taxes) is about 8 to 9%. If these goods are kept at the standard GST rate of 18% then there would be significant increase in cost for the end customers. Even if these goods are kept at the lower GST rate of 12% there would be an increase in cost for the end customers.

- **Tax cost on services**

The indirect tax rate on services is 15% currently. In GST this rate may go upto 18%. For a business customer, this GST would be creditable and hence would not result in increase in cost.

For an end customer, on the face of it there appears to be an increase in indirect tax cost. However, on a closer analysis, what comes out is that today (for e.g. telecom services) there is 15% tax cost on the output side plus there are whole lot of non-creditable taxes on the procurement side for e.g. VAT / CST paid on all the goods (for e.g. the telecom towers, networking equipment, etc) that this industry purchases to render the services. In GST though the output tax would increase from 15% today to a GST of 18%, but all the non-creditable taxes on the procurement side today would become creditable which should largely annul the increase tax rate on the output side.

5.3. GST: Lessons from countries that have implemented the Goods and Services Tax

While India is still to see its share of development around implementation of GST, one should be wary of lessons learnt in countries that have implemented a similar tax regime. As the proponents work towards building a better tax world, the fate of Goods & Services Tax ('GST') in India is still hanging on a political seesaw – though the fizz around its implementation has capably sustained for some years now. While India is still to see its share of development around implementation of GST, one should be wary of lessons learnt in countries that have implemented a similar tax regime.

All around the world, GST has the same concept. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax on consumption of goods and services. But perhaps the most contentious issue that still needs to be resolved among the different governance in the world is the GST rate. Some are still struggling to rationalize an adopted rate structure.

Similar to Indian context, it is only Canada that has the concept of dual GST. While there was strong rebel at the time of introduction of GST by the then political division in Canada, however, GST sustained despite the opposition. Even for the subsistence, the Government of Canada has been pragmatic and worked towards reducing the GST rate a couple of times post implementation. While some others have had to increase the rates very soon after introduction.

The most contentious issue that still needs to be resolved among the different governance in the world is the GST rate. The aforesaid is highly relevant in the India context where once revenue neutral rate was discussed at 27% and now realistically being talked about at 16-18%. It is imperative that a reasonable rate structure is adopted to ensure the success of GST.

Another aspect encountered and accepted by most of the GST countries lies in the statistic that GST will be inflationary, especially if the effective tax rate is higher than what prevailed before. For instance, Singapore saw a spike in inflation in 1994 when it introduced the GST. That makes it all the more important for administrators to keep tabs on how prices move after imposition of the tax. Malaysia, to an extent, was able to mitigate this risk as price control on account of the GST was administered by the Ministry of Domestic Trade and Consumer Affairs.

Another key refresh from Malaysia learning is that businesses need to start early with the implementation process to be GST-ready. The Malaysian Government received strong resentment even after providing 1.5 years for GST preparedness. Given the complex GST model proposed in India and the need for a businesses to undergo a transformation to adapt to the GST regime, it would be quite challenging for the

Indian government to tackle the ask of requiring businesses to implement GST in less than 9 months, with 1 April 2017 as the potential Go Live date.

One constructive learning that did come handy in the GST preparation in Malaysia was the release of sector specific guidance paper(s) on tax treatment concerning each business sector. It aided in addressing the “to be tax practice” associated with a particular business segment. Indian legislative bodies could look into similar publications to effectuate the implementation of GST in a smooth way.

As GST is a tax on transactions, which for most business organizations is voluminous, the processes and changes required for GST compliance need to be automated and encapsulated in the IT system. It is learnt that many big businesses have either failed or struggled to achieve IT transformation for having not planned or started early. It would be a mistake to assume that IT software with GST capability from other countries may be adopted wholesale in India, due to peculiarities embedded in the proposed Indian dual GST model.

Additionally, the India GST regime places the small and medium enterprises (SMEs) on the same footing as large-scale industries by keeping the exemption threshold very competitive (proposed at ` 1 million) without any tax differentiation. This poses daunting task ahead for SMEs to be ready to invest, read and change in the same way as any large-scale player, without appreciating the limited resources available with them. Some post-implementation truths from the GST in Malaysia includes wide-spread unrest and anti-GST street protests by small & medium businesses in Kuala Lumpur for few months after implementation even with a simpler systemic requirements and much higher level of exemption threshold. From the lessons learnt, there is no denying that acceptance of GST by general public, businesses and firms would not be an easy task, with advance planning and extending adequate time to industry, continued dialogues between businesses and administrators, engaging with industry on the implementation planning, a reasonable tax-rate, timely release of the legislative documents, has proven to aid in smooth GST implementation in many countries. Of course, GST is proven to be an efficient tax collection system despite teething problems in the initial implementation period.

Forecasting the likely date of roll out of GST is fast becoming a board room conversation. Businesses are concerned as they need to be prepared on time. Forecasting the likely date of roll out of GST is fast becoming a board room conversation. Businesses are concerned as they need to be prepared on time. If the likely date is 1 April 2017, some organizations with pan-India setups are already feeling that the remaining eight months may not be sufficient.

The cliff-hanger of course is the passage of the Constitution Amendment Bill (‘CAB’). It appears that the Government is in a good position to achieve this during the current session. This is necessary, as without this amendment, GST cannot be implemented. The CAB alters the taxation powers amongst the Union and the States, to permit both to simultaneously tax all goods and services collectively.

Let’s work with the assumption that the CAB is carried in the Rajya Sabha in the next couple of weeks. It would be relevant to understand the path forward, and of course the GST roll-out timeline. The next steps post passage of CAB would involve ratification of the amendments in the CAB by Lok Sabha, which completes the approval process at the Parliament. Post this, the steps are approval by State Legislative Assemblies, setting up of GST Council, finalization of the GST Law, enactment of GST Law at the State and Central Level. With the majority enjoyed by the ruling party in the Lok Sabha and the support of non-aligned parties to the Bill, passage in the Lok Sabha after approval by Rajya Sabha should not be a challenge at all.

CAB ratification by State Legislatures: Article 368 of the Constitution of India requires ratification of the CAB, approved by the Parliament, by 50 percent of the State Legislative Assemblies. This means 15 States of the 29 States in India. A significant point of difference between Parliament and State Legislatures with regard to the CAB, is that while a 2/3rd majority is required in the Parliament to carry any amendments, in the State Legislatures, only a simple 50% majority is sufficient. Further, with the BJP (ruling party) and allies having majority in 14/30 state legislatures, the ride of CAB in the States should be brisk and less turbulent.

As it is a process to be completed over 15 states, it is likely that the approvals may be in place by October/ November 2016. Post this, Presidential assent will validate the CAB into an amendment in the Constitution.

Formation of GST Council: The CAB empowers establishment of a GST Council for recommendations on rate of tax, exemptions and any other matters relating to GST. GST Council will have a dominant participation from State Finance Ministers. The Central Government’s approach of ensuring a consensus on broad issues while awaiting approval of CAB is not only a smart step but may reap significant advantage in curtailing the overall process timeline at the GST Council. Having said that two things need to happen: the Council should be put in place almost immediately once the State approvals are in place and two, the Council will have to fast track the recommendations it needs to provide on the following matters:

Model GST law to be adopted by Centre and States

Rates of tax, and the rate-bands for SGST (STATE GOODS AND SERVICE TAX) component, for finalizing the Model GST law, industry feedback would have to be on-boarded. The feedback is on wide ranging issues, given that it’s a completely new legislation, and therefore making the law more acceptable to the tax payer may not be a simple 2-3 week process. If this is started post formation of the Council, we are definitely looking at huge pressures on the 1 April 2017 timeline. I personally believe that the Empowered Committee (which anyway represents States and therefore is like a quasi-GST Council), is likely to provide a platform to trade for representations as a parallel process. This is, in my view, necessary if proper feedback is to be incorporated in the GST Law. Assuming all falls in line, GST Council may be able to finalize the Model Law by November/ December 2016.

However, as States are key members of the Empowered Committee and Council, it is hoped that he adaption of the Model Law will be seamless and immediate. Once the laws are finalized, by Centre and States, the respective GST Bills are required to be enacted in the Parliament/ Legislatures. At the Parliament, enactment should not be a challenge as GST Bill is a Money Bill and therefore passage by the Lok Sabha by way of a simple majority should suffice. At the State level also, simple majorities are required.

This is therefore likely to happen in the Budget sessions i.e. February/ March 2017. This is definitely very close to the go live dates.

GSTN rollout: The first question is whether GSTN rollout is actually critical for implementation of GST. It can be argued that GSTN is not a mandatory requirement; it's only a better quality process to establish ease of doing business and implement a self-policing mechanism. Therefore, in my view, GSTN is not really a pre requisite.
In any event, based on information currently available, the Government may be well on track for GSTN to be ready in time, at least the basic features like registration, tax payment and returns. I am also certain that GSTN will make available the APIs (or templates of reports to be filed by taxpayers) very soon. This will provide clarity to taxpayers on the IT related preparation for R2R (record to report) part.
It's a tough one for sure! It is hard to say at this stage whether it will be 1 April 2017. But, as this is an indirect tax, it need not start only on 1 April. I will not be surprised that the reset date is deferred by a quarter or so to 1 July. Yes, this may not be fully optimal, yes, we may not get it the best form of GST in round one; but the question is – whether a sub-optimal GST is better than no GST – a question which may have different answers for different sectors.

Generally speaking, in my opinion, for organizations with multi-state presence will have at least start making their GST plans, and identifying the work-streams that will get impacted. This will cut across tax, IT, process, accounting and HR. A cross functional impact event like GST, will therefore require planned and structured execution to achieve organizational goals.

5.4. Challenges before GST

Wall Street firm Goldman Sachs, in a note 'India: Q and A on GST — Growth Impact Could Be Muted', has put out estimates that show that the Modi Government's model for the Goods and Services Tax (GST) will not raise growth, will push up consumer prices inflation and may not result in increased tax revenue collections.
There appears to be certain loopholes in the proposed GST tax regime which may be detrimental in delivering the desired results. They are:
India has adopted dual GST instead of national GST. It has made the entire structure of GST fairly complicated in India. The centre will have to coordinate with 29 states and 7 union territories to implement such tax regime. Such regime is likely to create economic as well as political issues. The states are likely to lose the say in determining rates once GST is implemented. The sharing of revenues between the states and the centre is still a matter of contention with no consensus arrived regarding revenue neutral rate.
Chief Economic Advisor Arvind Subramanian on 4 December 2015 suggested GST rates of 12% for concessional goods, 17-18% for standard goods and 40% for luxury goods which is much higher than the present maximum service tax rate of 14%. Such initiative is likely to push inflation.
The proposed GST structure is likely to succeed only if the country has a strong IT network. It is a well-known fact that India is still in the budding state as far as internet connectivity is concerned. Moreover, the proposed regime seems to ignore the emerging sector of **e-commerce**. E-commerce does not leave signs of the transaction outside the internet and has anonymity associated with it. As a result, it becomes almost impossible to track the business transaction taking place through internet which can be **business** to business, business to customer or customer to customer. Again, there appears to be no clarity as to whether a product should be considered a service or a product under the concept of E-commerce. New techniques can be developed to track such transactions but until such technologies become readily accessible, generation of tax revenue from this sector would continue to be uncertain and much below the expectation. Again E-commerce has been insulated against taxation under custom duty moratorium on electronic transmissions by the WTO Bali Ministerial Conference held in 2014.
The proposed GST regime intends to keep petroleum products, electricity, real estate and liquor for human consumption out of the purview of GST**.** It is a well-known fact that petroleum products have been a major contributor to inflation in India. Inflation in India depends on how the government intends to include petroleum products under GST in future. Electricity is essential for the growth and development of India. If electricity is included under standard or luxury goods in future then it would badly affect the development of India. It is said that GST would impact negatively on the real estate market. It would add up to 8% to the cost of new homes and reduce demand by about 12%.
The proposed GST regime "would be capable of being levied on sale of newspapers and advertisements therein". This would give the governments the access to substantial incremental revenues since this industry has historically been tax free in its entirety" [6]. It sounds ridiculous but the provision of GST is likely to make the supervision of operations by its Board/senior managers across the company's offices in different parts of the country a taxable service by allowing each state to raise a GST demand on the company.
Again there appears to be lack of consensus over fixing the revenue rate as well as threshold limit. One thing is for sure, services in India are going to be steeply costly if GST is fixed above the present service tax rate of 14% which in turn will spiral up inflation in India. "Asian countries which implemented GST all had witnessed retail inflation in the year of implementation.
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.