Evaluation of Role of Goods and Services Tax in Indian Economy

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ABSTRACT

GST is a taxation procedure for goods and services transported from one destination to other; it was discussed for years by the Government of India to get implemented and still now a pending case. Taxation and its associated governing laws, in the current scenario, is playing a significant role in the life of business, individual also for the government for the betterment of policies for social good. This paper is designed to provide an overview of the impact of GST and it's associated benefits. The paper is made using exploratory research methodology using secondary data. The study lends information that, GST is beneficial for most of the sectors reducing overall cost of commodity to great extent.

Keywords: GST, VAT, Inflation, Foreign Exchange.

Introduction

Goods and Services Tax is defined as any tax on the supply of goods or services that will subsume CENVAT, service tax, central excise duty, additional excise duties, excise duties levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, service tax, additional customs duty (countervailing duty or CVD), special additional duty of customs (SAD), central surcharges and cesses, State VAT, State sales tax, entertainment tax not levied by local bodies, luxury tax, taxes on lottery, betting, and gambling, tax on advertisements, State cesses and surcharges related to supply of goods and services and entry tax not levied by local bodies. The primary reason for the bill is to pave the way for the Centre to tax sale of goods and the states to tax provision of services. The bill further proposes that the central government will have the exclusive power to levy GST on imports and inter-state trade.

The bill has also established GST council. The union finance minister, the union minister of state in charge of revenue or finance, and the minister in charge of finance or taxation or any other minister nominated by each state government would constitute the council to ensure that both the Centre and the states are on an equal footing.

Dispute Settlement Authority has also been established that would look into disputes between the states and the Centre. Appeals from the authority would directly lie with the Supreme Court.

For the time being, the bill has kept certain goods out of the purview of GST, which have been a point of contention between state governments and the Centre.

These include:
* Petroleum crude
* High speed diesel
* Petrol
* Natural gas
* Aviation turbine fuel
* Alcohol for human consumption.

States shall have the power to levy taxes on these items, except in the case of imports and inter-state trade. Another important feature of the bill is a proposal to levy additional tax on supply of goods on inter-state trade. The additional tax will not exceed 1% and will be collected by the central government for a period of two years. Finally, the amount so collected will be assigned to the states from where the supply originates.

OBJECTIVE OF STUDY

The study has following objectives:
1) To cognize the concept of GST
2) To study the features of GST
3) To evaluate the advantages and challenges of GST
4) To furnish information for further research work on GST.

RESEARCH METHODOLGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

LITERATURE REVIEW

Agogo Mawuli (May 2014)1 studied, “Goods and Service Tax-An Appraisal” and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.
Dr. R. Vasanthagopal (2011)2studied,“GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.
Ehtisham Ahmed and Satya Poddar (2009)3 studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simplier and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.
Nitin Kumar (2014)6 studied, “Goods and Service Tax- A Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.
Pinki, Supriya Kamma and Richa Verma (July 2014)7 studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government , state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

THE FRAMEWORK

In India, the unified tax is in the form of a “dual” GST, to be levied concurrently by both the Centre and states. The unified tax comprise of a Central GST and a State GST, which have been legislated, levied and administered by the respective levels of government. The proposed tax system subsume a variety of central and state levies such as Central Excise Duty, Service Tax and VAT, thereby simplifying the complicated tax structure and reducing compliance costs.
The GST council's fitment committee has - 12 per cent and 16 per cent - for services, while continuing with five slabs for goods. Restaurants will continue to get an abatement of 60 per cent on service taxes. .Goods will be taxed at 5 slabs - 5 per cent, 12 per cent, 18 per cent, 28 per cent and 28 per cent plus cess.
A cess or surcharge has been imposed on certain goods for five years to compensate states for their loss in revenue because of abolition of VAT and octroi .The surcharge will be imposed on items such as luxury cars, soft drinks and tobacco products and will be capped at 15 per cent.A special rate for gems and jewellery will be fixed at 2- 4 per cent.

Around 73 items have till now been identified for total exemption from taxes. These include agricultural implements, aides and instruments used by the handicapped, charcoal, handloom and handicraft, condoms and contraceptives and foodgrains. Fish net, fish seed, fresh and pastuerised milk, fresh vegetables, kirpan, *kumkum*, *bindi*, *alta*, religious pictures, salt, sugar and vaccines of all kinds are also on this list.
The number of items exempt have been reduced from 99. The aim is to bring in more and more goods and services but exemptions for goods by the cottage industry or for truly mass goods such as salt will continue.
The median rate of 12 per cent will include most products such as white goods, plastic products, diapers, bakery products, cement, shoes, instant coffee, most machinery and office equipment and paints.

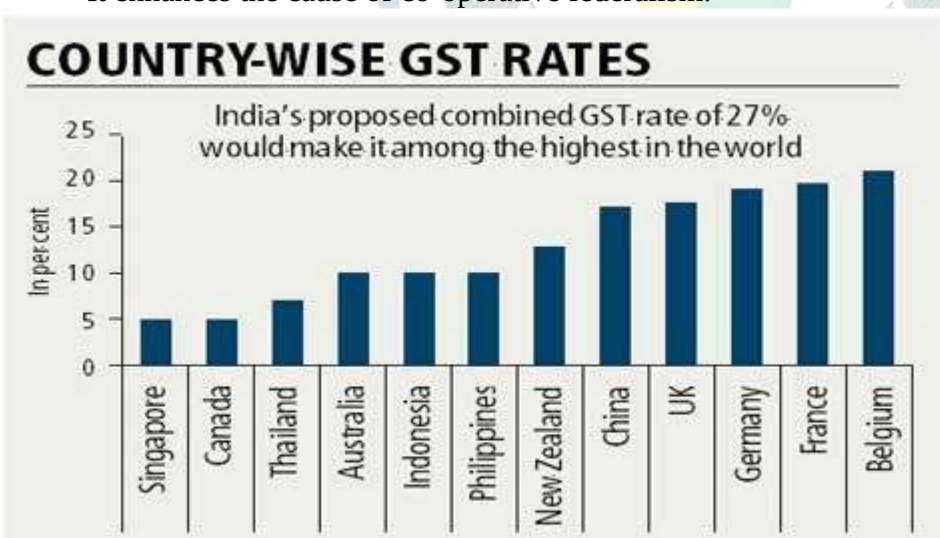
WHY DOES INDIA NEED THE GST?

The GST is being introduced not only to get rid of the current patchwork of indirect taxes that are partial and suffer from infirmities, mainly exemptions and multiple rates, but also to improve tax compliances. The spread of GST in different countries has been one of the most important developments in taxation over the last six decades. Owing to its capacity to raise revenue in the most transparent and neutral manner, more than 150 countries have adopted the GST.
With the increase of international trade in services, the GST has become a preferred global standard. All OECD countries, except the US, follow this taxation structure.

Objectives of Goods and service tax:-

GST is proposed to fulfill the following objectives:

- GST would help to eliminate the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country.
- GST would eliminate the multiplicity of indirect taxation and streamline all the indirect taxes which would be beneficial for manufacture and ultimate consumer.
- GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy health.
- Incidence of tax falls on domestic consumption
- The efficiency and equity of system is optimized
- There should be no export of taxes across taxing jurisdiction
- The Indian market should be integrated into single common market
- It enhances the cause of co-operative federalism.



IMPACT OF GST ON INDIAN ECONOMY

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country's tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GST tax rate is expected to be around 17-18% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganised sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. This will bring sanctity to the taxation system without hurting any of the sectors adversely. To The Individuals and Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies

Reshapes Indirect Tax Structure: The GST will reshape the indirect tax structure by a subsuming majority of indirect taxes like excise, sales and services levies. This will do away with the complex indirect tax structure of the country, thus improving the ease of doing business in the country.

Exports: Exports will become competitive as the GST regime will eliminate the cascading impact of taxes. A National Council of Applied Economic Research study suggested that GST could boost India's GPP growth by 0.9-1.7 per cent.

Gross Domestic Product:

In terms of growth impact on GST implementation, the near-term could be messy, with adjustment costs for the private sector grappling with inter-sector implications, and the central government trying to compensate states for revenue loss. Service producers would face an increased tax burden while manufacturers would see a fall. That could cause manufacturers to not pass through benefits and service providers to pass on costs, moves that would lower consumption and overall growth.

Inflation:

Initially, the implementation of the GST in the near-term could bring some upturn in inflation; however, the impact should be transitory. A revenue-neutral rate (RNR) of 15 percent with a low rate of 12 percent and a standard rate of 18 percent would have a negligible inflation impact. But a higher RNR with a lower rate of 12 percent and a standard rate of 22 percent meanwhile, would have a 0.3-0.7 percentage point impact on aggregate inflation, it continued. Consumer price inflation (CPI) could rise by 0.2 percentage points if the GST rate is kept at 18 percent. If the rate is set at 22 percent, CPI could increase by 0.7 percentage points.

Foreign Exchange

The passing of the GST will be welcome news for the Indian rupee (INR).So far, the currency has yet to see a GST boost. It is believed that GST will lead to higher foreign direct investment inflows and a narrow current account deficit-factors that should help the INR eventually outperform other Asian and emerging market currencies.

Make–in–India:

The 'Make in India' campaign is proposing to make India a world-class manufacturing hub. The tax reforms through GST will play a crucial role to attract large-scale investment. The Goods and Service Tax (GST) promises a progressive tax system which avoids tax cascades and helps establish India as a true common market. GST will reduce the cost of production and allows the hassle free supply of goods. This can increase the ease of doing business India.

Unification of Market: GST will lead to the creation of a unified market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses. A UBS Securities study found that truck drivers in India spend 60 percent of their time off roads negotiating check posts and toll plazas. The foreign brokerage said that 11 categories of taxes are levied on the road transport sector. The GST will help bring down logistical costs.

Credit to Manufactures: Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, thus incentivizing firms to source inputs from other registered dealers. This could bring in additional revenues to the government as the unorganized sector, which is not part of the value chain, would be drawn into the tax net.

Credit to Dealers: To claim input tax credit, each dealer has an incentive to request documentation from the dealer behind him in the value-added/tax chain. Thus, the new tax regime is seen as less intrusive, more self-policing, and hence more effective way of reducing corruption.

Clean–up India: The clean-up of the Indian taxation system will reduce the number of excise duty exemptions. According to the government's estimates, excise tax exemptions result in foregone revenues of Rs. 1.8 lakh crore. The comparable figure for the states is about Rs. 1.5 lakh crore. Together, India loses about 2.7 percent of GDP because of exemptions.

Services that may get cheaper in most states

With entertainment taxes getting subsumed in GST, prices of movie tickets and theatrical performances may become cheaper in most states.

Dining in restaurants may also become more pocket friendly in most states.

Essential goods, certain vehicle categories likely to be cheaper

In terms of goods, where an exemption/ lower rate is prescribed for essential goods, GST is expected to marginally better the house economics as a whole. Further, two-wheelers, entry-level sedan (except small cars), SUVs and luxury or premium cars may become cheaper under the GST regime, depending on the current supply chain arrangement and state of operation.

Marginal impact on white goods

Again depending on the current supply chain structure and related indirect taxes, a commoner could expect a 2% to 3% plus or minus impact on white goods like televisions, washing machines, stoves, etc.

Aerated drinks , sin goods prices likely to jump

The Government aligned with its negative outlook to deleterious goods, proposes a higher tax on 'sin goods' which essentially includes aerated drinks, cigarettes and tobacco products. Where a higher rate of around 40% is proposed on aerated drinks, the same may witness an increase in their prices.

Positive impact on cost of most supplies in long term expected

While the above anticipations are mostly basis the information released/ statements of government officials available in the public domain, we would need to await the final fitment structure released by the Government on categorization and related rates for various goods or services. Nonetheless, with enabling of anti-profiteering and other corrective measures, GST should result in a decreased cost for most supplies to the end consumer in the long run.

GST seeks to move away from a system in which tax is added on to the post-tax value of goods from the previous stage in the value chain, which has led to a compounding effect of tax-on-tax on commodities and services. The reform seeks to remove this anomaly by giving full credit for taxes paid at the previous stage. At present, states try to maximize their revenue by denying full tax credit in case of inter-state commerce. Under GST, interstate supplies will be taxed across the country at a uniform rate specified for the item with full credit settlement.

GST could also reduce avoidable litigation. A large part of tax litigation in India is around tax exemptions, which the new system seeks to minimize.

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

We had Value Added Tax (VAT), which was levied on sale of goods and administered at state level. Under the VAT laws, there were 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 were certain local taxes and duties (such as entry tax) which were 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 all kind 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.

Excise impact

Excise collections may take a hit as dealers are refraining from purchasing goods from manufacturers as they are not sure about the tax credits and rates under GST. In view of this uncertainty and the transitory mechanism for getting credit on tax paid before the GST kickoff, dealers are choosing to wait and watch rather than buy and hold on to inventories.

Automation under GST will check tax fraud. Consultants say it will replace paper invoices with electronic invoices that can be tallied by the tax department.

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.

1. Impact of GST on the cost of living

(RM)

	Before GST	After GST
Sale by manufacturer	10	10
Tax	(10% sales tax) 1	(6% gst) 0.60
Price paid by hotel	11	10.60
Input tax credit	nil	−0.60
Cost to hotel	11	10
Mark up (25%)	2.75	2.5
selling price before tax	13.75	12.5
tax	(6% service tax) 0.83	(6% gst) 0.75
Price paid by consumer	14.58	13.25
Tax	1.83	0.75

Source: Tax Review Panel (English translation of original Bahasa Malaysia text)

Logistics industry Logistics should ideally make commercial activities efficient, but it is caught in the web of complex rules and regulations. There is a lot of paper work involved that impedes the flow of goods. Transporters are required to have in their possession hard copies of invoice as well as various forms. All this leads to enormous delays. The GST, however, will eliminate queues at state border checkpoints. Documentation will be simplified. All this should cut down the high average waiting time and stoppages on highways.

With a single GST in place, monitoring and collection of sales tax at interstate barriers would be obviated. A survey estimates that if the waiting time of trucks at various interstate checkpoints is reduced by half, it will lead to an additional 8 percent trucks on highways. The GST would translate into increased uptime for trucks, decrease in idle hours, better turnaround times and optimized warehousing structure.

The current scenario is however far from ideal. Currently, central and State governments levy different taxes separately. A Ministry of Road Transport and Highways report says that a typical truck spends 16 percent time at check-posts. On an average, a truck in India runs an annual distance of 85,000 km compared to 150,000 to 200,000 km in Western countries. The industry is fragmented due to the state-level tax structures, which forces enterprises to put up warehouses in every state. This makes the supply chain longer than necessary and to a certain extent inefficient. Additionally, due to the complex tax structure, the transport industry spends 50-60 percent of resources on tax compliance and deposit of interstate sales tax.

“The GST eliminates double taxation and enables a shared national market. This leads to better collections. Most importantly, the GST prevents or at least de-incentivizes tax evasion,” says Somesh Misra, VP, Product, Deskera.

GST would bring startups and SMEs at par with big corporate houses

Currently, big corporate houses “stock transfer” goods to other states and avoid paying tax on interstate movement. However, that is not the case with small players. Due to lack of infrastructure, SMEs and startups can’t do that and have to procure goods through interstate sales (in the place of stock transfers) and have to pay Central sales tax on them. In this regard, the GST brings startups and SMEs at par with the big corporate houses as stock transfers would be taxed as well.

Logistics includes transportation, warehousing, distribution and optimization. The GST will lead to concentrated logistic supply chains which are efficient, eventually leading to centralization to make the process of claiming credits easier. Tax compliance hitches would also get resolved. Regional warehouse hubs would emerge since a manufacturer won’t need warehouses in every state. This would lead to centralization of resources and consolidation of the industry.

I expect key business hubs to emerge. Manufacturers can, therefore, have a hub, for instance, in Delhi which can cater to the entire north region, doing away with the need to have a separate warehouse for every state separately. The logistics chain, consequently, becomes leaner and smarter.

CONCLUSION

Due to dissilient environment of Indian economy, it was 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 administration complexities and compliance cost is also accelerating. Thus, a simplify, 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 if implemented successfully due to nation-wide same tax rate. Its 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.

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