

Effects and Impact of Goods and Service Tax on Indian Economy

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ABSTRACT : GST is a single national uniform tax levied across India on all goods and services. In GST, all Indirect taxes such as excise duty, central sales tax (CST) and value-added tax (VAT) etc subsumed under a single regime. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lok Sabha on 6th May 2015. The bill was passed to implement GST from July 1, 2017 by the Prime Minister of India and his Finance Minister Arun Jaitley. Amidst economic crisis across the globe, India has posed as a beacon of hope with ambitious growth targets, supported by slew of strategic missions like 'Make in India', 'Digital India', etc. There are many challenges that tax administrations are facing today in terms of complexities of GST rules and regulations and getting access to information for effective tax administration. Given the revenue importance of GST in overall public finance management in India. This paper assess the impact of GST in Indian economy and to provide how the revenue performance of the state

Key Words: GST, GST Compliance, Revenue Assessment of GST, GST Evasion, cascading effect of taxes, taxation reforms

I. INTRODUCTION

Historically, India has relied too much on indirect taxation because of political compulsions, an agrarian economy, low income levels and lack of infrastructure to track personal income. In order to simplify and rationalize indirect tax structures, government of India attempted various tax policy reforms at different points of time. While VAT was a welcome change during 2005, over the years, people have identified shortcomings in the structure while levying VAT both at Central level and State level. Also, CENVAT has the limitation of non-inclusion of several taxes such as VAT, ACD, surcharge etc. To address such issues cited above, a comprehensive tax reform (GST is a part) having an extensive base to kick-start the applicability of an efficient and harmonized consumption tax system has been proposed. GST is a value added tax which will be levied on both goods and services (except for a list of exempted goods and services) at both the centre and state level (Central GST and State GST respectively). This is going to be one single tax which will be levied on the product or service which is being sold. In effect, multiple taxes like CENVAT, central sales tax, state sales tax, octroi etc. will be replaced by GST. This comprehensive tax will cover all stages during production to sale and will be levied only on the value added at each stage of the process. What will GST achieve as a policy reform measure?

II. Benefits of GST to the Indian Economy

- Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- Less tax compliance and a simplified tax policy compared to current tax structure.
- Removal of cascading effect of taxes i.e. removes tax on tax.
- Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
- Lower the burden on the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
- Increased demand and consumption of goods.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- Boost to the Indian economy in the long run.

III. GST impact in Indian Economy

- Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.
- Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.

- There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- GST will add to the government revenues by extending the tax base.
- GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.
- GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.

These are possible only if the actual benefit of GST is passed on to the final consumer. There are other factors, such as the seller's profit margin, that determines the final price of goods. GST alone does not determine the final price of goods. Going by international experience, GST has taken between two to five years to stabilise. In this context, in terms of revenue yield, the Indian GST has done remarkably well. In the first 21 months, it yielded an average monthly revenue of Rs 91,334 crore the average stood at Rs 82,295 crore in the first nine months of its implementation which went up to Rs 98,114 crore in the next 12 months, a growth rate of 19.22 per cent. This achievement pales a little only when we consider the high benchmarking that we had set for it.

The government had set an ambitious target of achieving an annual year-on-year growth rate of 14 per cent on the base year revenue from subsumed taxes in FY 2015-16. This was done to guarantee an assured year-on-year growth of 14 per cent to the states over their respective base year revenues to bring them on board for implementing a uniform and harmonised dual-GST. The average monthly base year revenue from subsumed taxes was around Rs 70,000 crore. The figures of GST revenue yield so far outline the success of the GST implemented in India. To appreciate this point one needs to analyse GST yields in the backdrop of the average monthly revenue from subsumed taxes in the base year 2015-16 which was of the order of around Rs 70,000 crore and it is this benchmark against which the revenue performance of GST is being judged. Accordingly, the benchmarked average monthly revenue for 2017-18 and 2018-19 works out at Rs 90,972 crore and Rs 1,03,708 crore respectively, worked out on the basis of a CAGR of 14 per cent on 2015-16 monthly averages. The average monthly yields for 2017-18 and 2018-19 fell short by 12.3 per cent and 5.4 per cent respectively. These are not actual shortfalls; they merely represent the shortfall from the figures projected at a CAGR of 14 per cent on the base year revenues.

The performance of GST revenues of various states has been as diverse as the country itself. While the average shortfall from protected revenue of all states has gone down from around 16 per cent in 2017-18 to 13 per cent in 2018-19, there are wide variations. During 2017-18, states like Maharashtra, Tamil Nadu, Andhra Pradesh stood at one end of the spectrum with shortfalls from protected revenue ranging from 3 per cent to 7 per cent while states like Bihar, Punjab and Uttarakhand had deficits in the region of 38 per cent. In between lay states like Madhya Pradesh, Karnataka, Rajasthan, Haryana, Kerala, Gujarat, West Bengal and UP with deficits ranging from 12 to 26 per cent. But the real success story was that of the North-eastern states, barring Assam, which were on the verge of "breaking even" in the very first year and most of whom had become "surplus" states by 30 to 80 per cent by the beginning of 2019-20.

IV. Quarterly Assessment of GST Collection in India

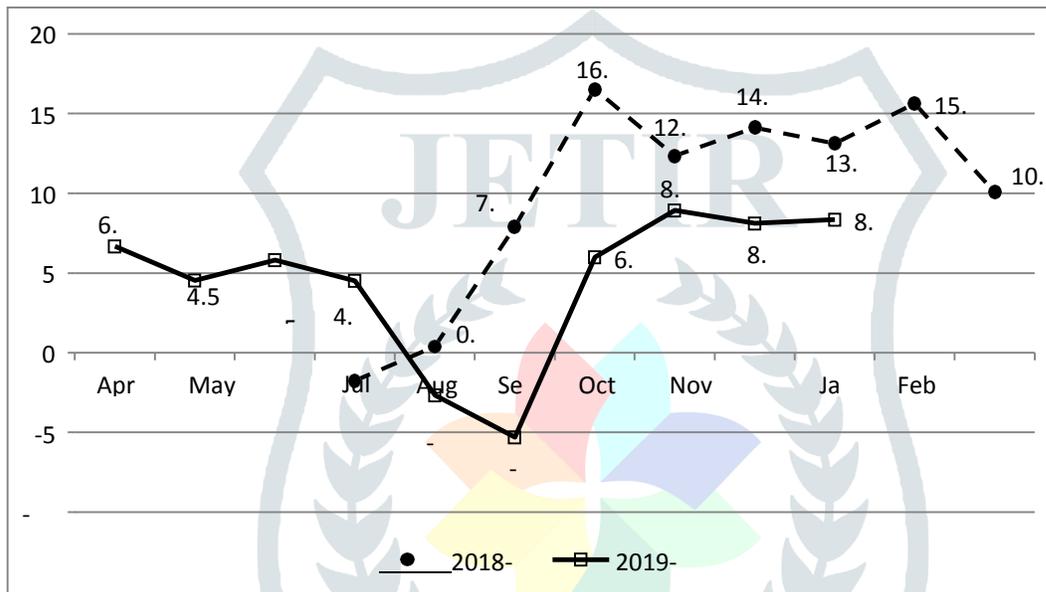
Quarter	Total Goods and Services Tax (GST) Collection		Gross Value Added (GVA) at Basic Prices (Current Prices, 2011-12 Series)		Tax Buoyancy*	GST/GVA*100
	Collection (Rs. Crore)	Growth Rate (%)*	GVA in Rs. Crore	Growth Rate (%)*		
Q2:2017-18	283,030		3,785,096			7.48
Q3:2017-18	257,919	-8.87	3,984,050	5.26	-1.69	6.47
Q4:2017-18	281,588	9.18	4,020,407	0.91	10.06	7.00
Q1:2018-19	286,109	1.61	4,156,723	3.39	0.47	6.88
Q2:2018-19	289,112	1.05	4,203,786	1.13	0.93	6.88
Q3:2018-19	294,866	1.99	4,368,772	3.92	0.51	6.75
Q4:2018-19	317,689	7.74	4,402,243	0.77	10.10	7.22

Q1:2019-20	302,311	-4.84	4,514,290	2.55	-1.90	6.70
Q2:2019-20	285,498	-5.56	4,483,279	-0.69	8.10	6.37
Q3:2019-20	317,504	11.21	4,710,725	5.07	2.21	6.74
Q4:2019-20	381,540#	20.17	4,785,392#	1.59	12.72	7.97
2019-20 (2AE)	1,286,853#		18,493,686			6.96

Notes: *-Quarter-to-Quarter Growth Rate, **- Tax Buoyancy=Growth Rate in GST Collection / Growth Rate in GVA, #estimated

Data Source: Compiled from monthly Press Releases of PIB and EPWRF Time Series Database.

Growth Rate in Monthly GST Collection (Year-On-Year, %)



V. Impact of GST on Manufacturers, Distributor, and Retailers

GST is a boost competitiveness and performance in India’s manufacturing sector. Declining exports and high infrastructure spending are just some of the concerns of this sector. Multiple indirect taxes had also increased the administrative costs for manufacturers and distributors and with GST in place, the compliance burden has eased and this sector will grow more strongly.

But due to GST business which was not under the tax bracket previously will now have to register. This will lead to lesser tax evasion.

Impact of GST on Service Providers

As of March 2014, there were 12, 76,861 service tax assesseees in the country out of which only the top 50 paid more than 50% of the tax collected nationwide. Most of the tax burden is borne by domains such as IT services, telecommunication services, the Insurance industry, business support services, Banking and Financial services, etc. These pan-India businesses already work in a unified market and will see compliance burden becoming lesser. But they will have to separately register every place of business in each state.

Sector-wise Impact Analysis

Logistics

In a vast country like India, the logistics sector forms the backbone of the economy. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the “Make In India” initiative of the Government of India to its desired position.

E-commerce

The e-commerce sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the GST law specifically proposes a Tax Collection at Source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1%.

Pharma

On the whole, GST is benefiting the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern whatsoever, then it relates to the pricing structure (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

Telecommunications

In the telecom sector, prices will come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST has negated the need to set up state-specific entities, and transfer stocks. They will also save up on logistics costs.

Textile

The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it previously attracted zero central excise duty (under optional route).

Real Estate

The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, the sector will see substantial benefits from GST implementation, as it has brought to the industry much-required transparency and accountability.

Agriculture

The agricultural sector is the largest contributing sector to the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector is the transportation of agri-products across state lines all over India. GST will resolve the issue of transportation.

FMCG

The FMCG sector is experiencing significant savings in logistics and distribution costs as the GST has eliminated the need for multiple sales depots.

Freelancers

Freelancing in India is still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They are taxed as service providers, and the new tax structure has brought about coherence and accountability in this sector.

Automobiles

The automobile industry in India is a vast business producing a large number of cars annually, fueled mostly by the huge population of the country. Under the previous tax system, there were several taxes applicable to this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST.

Startups

With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Previously, many Indian states had different VAT laws which were confusing for companies that have a pan-India presence, especially the e-com sector. All of this has changed under GST.



VI. GST: Hits, misses

The goods and services tax (GST) has completed two years of operation. Hailed as the single-biggest tax reform, GST is currently levied on every product except petroleum, alcohol, tobacco and stamp duty on real estate in four slabs of 5, 12, 18 and 28 per cent. Most of the daily use articles have zero GST as per the latest revision of the tax rates last year.

In December last year, former Union Finance Minister said 97.5 per cent articles covered by 18 per cent or lower GST slab. Under the previous, value-added tax (VAT) regime, standard taxation rate was much higher. Standard VAT rate was 14.5 per cent and excise duty was 12.5 per cent. This was to be topped up by sales tax and cess. In many cases the overall tax rate crossed 31 per cent.

Finance minister said only luxury and sin goods are now taxed at highest 28 per cent GST rate. Reduction in tax incidence has been the biggest accomplishment of the GST for the people. For traders, the system of input credit has been a significant provision as it helped them to pass on lower tax to the customers and also reduce overall costing.

Hits

In the pre-GST period, traders had to comply with the rules and regulations of various tax departments and laws. Now, tax compliance has been easier for traders. This has augured well for the government as the revenue base has expanded exponentially.

The assessee base under GST has increased by about 85 per cent in the past two years. On the eve of the GST rollout, the assessee number stood at around 65 lakh, which has gone up to 1.20 crore now. The government's revenue collection has also gone up. The average revenue collection per month in the eight months of 2017-18 was Rs 89,700 crore per month. This propelled the annual revenue collection by about 12 per cent.

The monthly average revenue collection increased further in 2018-19 by about 10 per cent to Rs 97,100 crore. But despite this accomplishment, the revenue collection missed the target that the government had set for the GST for both the years since its rollout.

Misses

In 2018-19 Budget, the GST collection was estimated at Rs 7.4 lakh crore which was revised later in 2019-20 interim budget to Rs 6.4 lakh crore. But the finance ministry's figures show that the actual GST collection for 2018-19 was around Rs 5.8 lakh crore, a significant shortfall of over 20 per cent compared to budget projection.

Interim budget projected GST collection for 2019-20 at Rs 7.6 lakh crore. But there is a dampener to this estimate as well. The average GST collection for April and May this year was over 10 per cent lower than the corresponding figures for 2018.

Another major drawback of the GST has been multitude of tax rates, which negate the basic idea of having less cumbersome taxation. The International Monetary Fund (IMF) had last year advised the government to simplify GST to smoothen the processes of business and finance.

Multiple GST rates and complaints about troubles with the GST Network in filing returns had prompted Congress president Rahul Gandhi to dub the new tax regime as Gabbar Singh Tax after the villain of blockbuster Hindi film Sholay.

VII. Suggestions and Recommendations

- To provide literacy and awareness about the GST.
- Effective spending on efficient Tax administration staff.
- Well maintenance and frequent follow ups of GSTN (Goods and Service Tax Network) portal for better relationship with various stakeholders.
- In order to avoid the unnecessary loss of revenue to the state government, the central government may think about the considerable percentage of GST which will be helpful for all stakeholders of GST.

- Consent from all states and suggestions from every state for betterment of GST and the source of Tax revenue.
- The government should take care about the RNR which should not affect the tax revenue to any government either central or state.
- The loss of Tax revenue should be managed and compensated properly through proper diversification of funds without burden to anyone.
- The Central and the State government should be in proper understanding and cooperative with each other for the successful implementation of GST.

VIII. CONCLUSION

However, the government is confident that GST's future is bright. In his joint address to Parliament, President Ram Nath Kovind said the government will simplify the GST in this fiscal year. "Exemption to persons earning up to Rs 5 lakh from payment of income tax is an important step in this direction," he said. Reducing the number of tax slabs is being talked about. There are suggestions that GST tax slabs including zero rate can be re-categorised into three. However, Finance Minister has said a sudden reduction in categories will lead to massive loss of revenue for the government. He suggested a gradual reform in this direction. GST is still a work in progress. It is evident from the 35 meetings of the GST Council that has made 90 amendments in the GST rules. The council is now rolling out a new GST return filing system that will enable traders to file returns in a single format once a month instead of multiple formats. It will be launched from October 1 this year. The new tax regime is being received well as 20 states are independently showing more than a 14 per cent increase in their revenues. Compensation fund in their case is not necessary. Apprehension of loss of revenue for states due to GST was the major stumbling block in the rollout of the GST, which took birth on July 1, 2017 after 17 years of complicated gestation.

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