ECONSPEAK: A Journal of Advances in Management IT & Social Sciences,
Vol. 7, Issue 5, May 2017Impact Factor 5.132 ISSN: (2231-4571)
www.skirec.org Email Id: skirec.org@gmail.com

Goods and Services Tax (GST): Economic Impact in India and Challenges Ahead

Dr. Madan Lal Singla
Associate Professor in Commerce
Maharaja Agrasen College, Jagadhri(Haryana)

Introduction

Two types of taxes in various sectors are paid by the people in India i.e. Direct and Indirect. Moreover, there are a number of indirect taxes which people have to pay and it also creates confusion for them. Direct Tax is paid directly to the government by the taxpayer such as Income Tax, Wealth Tax, and Corporation Tax whereas Indirect Tax such as Sales Tax, Service Tax, VAT, Excise Duty, Octroi, Custom Duty, Countervailing Additional Duty, Special Additional Duty, Securities Transaction Tax, Stamp Duty, Entertainment Tax, Luxury Tax, Anti-Dumping Duty, Local Body Taxes, Property Tax, Entry Tax, Tax and Duties on electricity, Tax on Goods and Passengers, and so on is a tax levied on goods and services rather than on income or profits. It is not directly paid to government by the person /consumers who bear the ultimate economic burden of the tax but it is collected through intermediaries from them. The intermediary later files a tax return and forwards the tax proceeds to government. In other words presently, businesses pay lot of indirect taxes. Once GST is implemented, all these taxes would cease to exist. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State Sales Tax, VAT etc. Ultimately GST is expected to replace all the indirect taxes in India and there would be only one tax that too at the national level, monitored by the central government. Since all Indirect Taxes levied by the states and the centre will be merged into one GST then we would exactly know how much tax we pay which at present is difficult to understand. No distinction would be made between imported and Indian goods and they would be taxed at the same rate. Direct taxes, such as income tax, corporate tax and capital gains tax will not be affected by the GST.

In centre, we follow central VAT. In state, we follow state level VAT. Same will be the case with GST. We will not follow an ideal GST which all indirect taxes will be subsumed in to one. We are going to follow an Indian version of Goods and services tax called as all India goods and services tax. Central sales tax which the central imposed on the sale of goods from one state to another will continue in the different form called Integrated GST. In other words, transactions made within a single state will be levied with Central GST (CGST) by the Central Government and State GST (SGST) by the government of that state. For inter-state transactions and imported goods or services, an Integrated GST (IGST) will be levied by the Central Government. GST is a consumption based tax, therefore, taxes will be paid to the state which the goods or services are consumed not the state in which they were produced. IGST simplifies tax collection for State Governments by enabling them to collect the tax owed to them directly from the Central Government. Under the previous system, a state would have to deal with multiple state governments in order to collect tax revenue. **The reasons for charging two elements of GST instead of one GST in India is mainly due to federal structure of India** where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be followed keeping in view the Constitutional requirement of Indian fiscal federalism.

Typically GST is a unified Tax System in most of the Countries. Canada and Brazil only have dual GST. Standard rate of most of the Countries ranges between 16-20%. GST was firstly introduced in France in 1954, with introduction of GST France became the first country ever to introduce GST. Its introduction was felt necessary because very high sales taxes and tariffs encourage cheating and smuggling. After France it was adopted by 165 nations. Now, India is also going to adopt it. After its implementation in India, India will become 166th nation to adopt it. The reform process in indirect tax regime of India was started in 1986 by Shri Vishwanath Pratap Singh Government by introduction of Modified Value Added Tax. Shri Atal Bihari Vajpai Government wanted to implement GST in 2000 but no one paid attention on it and due to some reasons it was not passed. Further, on 28th February 2006, the finance minister Shri P. Chidambaram, had announced the target date for implementation of GST i.e. 1st April, 2010. The Constitution (122nd Amendment) Bill was introduced in the Lok Sabha by Finance Minister Shri Arun Jaitely on 19th December 2014 but after a long gap, the amendment bill was passed by the Rajya Sabha on 3rd August, 2016 and it was passed by Lok Sabha on 8th August, 2016. The bill, after ratification by the States, received assent from President Pranab Mukherjee on 8th September 2016. After that, finally four key supportive legislations on GST were passed by the Lok Sabha on 29th March, 2017 and by the Rajya Sabha on 6th April, 2017. These four key legislations on GST received final assent from President Pranab Mukherjee on 13th April, 2017 and now it is expected that GST will be implemented from 1st July, 2017 in the country.

Review of Literature

Jaiprakash (2014) in his study mentioned that GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax setoff and service tax setoff, clubbing of several taxes in GST and phasing out of CST. The responses of industry and also of trade have been indeed encouraging. Thus, GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation. Nishitha Guptha (2014) in her study (Does Goods and Services Tax Leads to Indian Economic Development?) stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Governments. Saravanan Venkadasalam (2014) has analysed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to GDP as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation's development. Meanwhile, Singapore shows a significant positive relationship. Nevertheless, the extent of the impact varies depending on the governance, compliance cost and economic distortion.

Objectives of the Study

The main aim of this paper is to study the concept of Goods and Services Tax (GST) and its economic impact in India as well to understand how GST will work in India and also highlight the challenges in implication of GST in Indian context.

Research Methodology

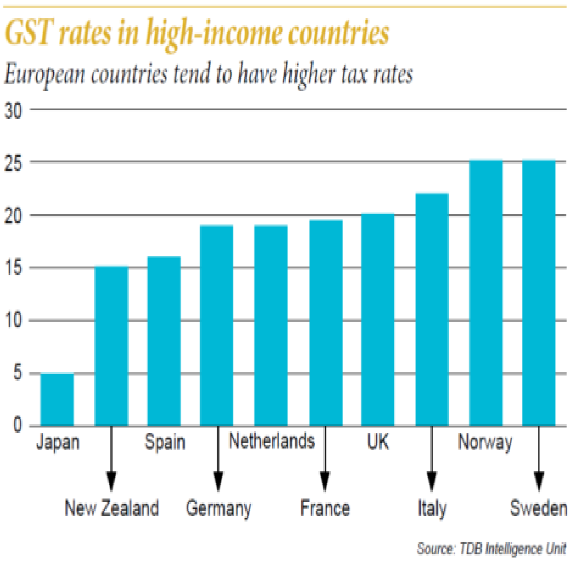
The study focuses on extensive study of Secondary data collected from publications from various websites, books, National & international Journals, government reports, which focused on various aspects of GST in India.

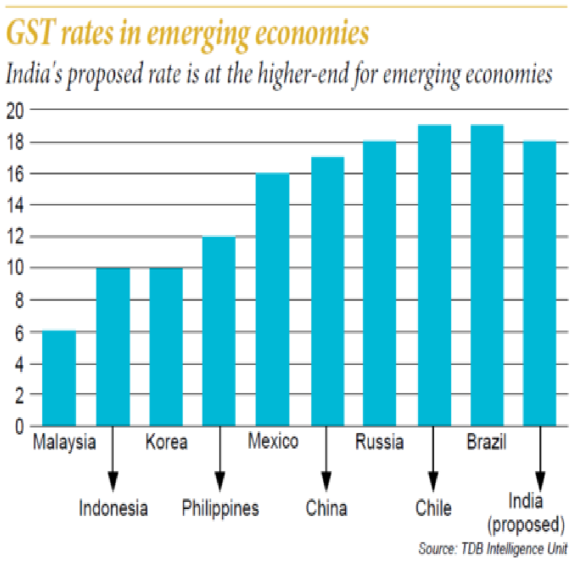
Impact of GST Globally

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. 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.

Canada and Brazil both have a federal administrative structure similar to that of India and have opted for the dual GST route. For instance in Canada, the dual GST route obviously cleared up the conflict between states and the Union government in terms of revenue generation and tax collection, and allowed for a consensus to be formed. But then, Canada owing to the dual nature of its GST has not been able to unify the nation as a common market, with different taxes in different provinces still in effect. The GST rate presently applicable in high income European countries as well as in emerging economies has been shown in the diagrams given below. The first diagram shows that among the high income countries, GST rate is highest in Norway and Sweden i.e. 25% but it is just 5% in Japan whereas in emerging economies, it is just 6% in Malaysia and highest in China and Brazil i.e. 19% as shown by the second diagram.

Similarily, 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. Thus, 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 from July 1, 2017.





Economic Impact of GST in India

GST bill is brought for the reason that the different taxes paid by us on different rates would be brought under one roof so that all the taxes may get cancelled and only one tax is paid which is GST. Goods and Services Tax (GST) will include one tax one nation; this statement was given by the honorable Prime Minister Shri Narendra Modi. In today's scenario we pay 30% to 35% tax on different things but with GST it will be only 18%, which shows it will be beneficial and one main thing that GST will remain similar in the whole country. The GST is expected to change the whole scenario of current Indirect Tax. GST will merge all Indirect Taxes under an umbrella and will help in creation of smooth market. Experts say that GST will help in economic growth of the country. It is estimated that GST will help in creation of single, uniform market that will benefit both corporate sector and the Indian Economy. It will make India's tax structure elaborate and create a similar market across states. Moreover, integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down over the period as uniform tax rate will apply. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult.

GST will replace different Indirect Tax levies and thus, compliance cost will fall which will lead in getting life easier for businesses in India. This process will help to increase India's tax-to-gross domestic product ratio. According to experts, GST will add around 1 to 2% in GDP of the country as GST will not only help to curtail indirect tax evasion but also helps to reduce direct tax evasion. However, the results can only be analysed after the implementation of GST. The central government has assured states to compensate any revenue losses incurred by them from the date of introduction of GST for a period of five years. 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. However, removing the net of multiple taxes at multiple level of production will help in harmonize the production activity in the economy and ultimately will increase efficiency in the system due to removal of tax consideration in business decisions. Thus, the success of GST would ultimately rest upon efficiency, equity and simplicity.

The exclusion of petroleum products along with alcohol, electricity and real estate reduce the scope of GST but after the implementation of GST, collection of higher tax revenues and more efficiency will motivate the state governments to bring all exclusions under GST at the earliest possible. Further, there is a widespread fear that GST will hurt the Indian unorganized sector by bring them under the ambit of Tax and make the substantially most of this sector unviable. However with improved efficiency, overall economic activity is likely to get a boost and certainly will help to increase employment in the country.

The tax rate of 18% 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. It is expected that 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, 2016. 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 sector. Nobody has thought of the implications as government moots a higher GST rate i.e. 24% in some cases. 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 to say 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. Firstly it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. It is estimated that India could get revenue of $15 billion per annum by implementing GST it would result in increased employment, promotion of exports and consequently a significant boost to overall economic growth. Instead of maintaining big records, returns and reporting under various different statutes, all assessees will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assessees are, nevertheless, required to keep record of CGST, SGST and IGST separately.

Uniform tax rate under GST would facilitate seamless transportation of goods across borders with a significantly lower transit time, thereby stepping up demand for logistics services. The GST Bill will also lead to higher vehicle capacity utilisation resulting in increased efficiencies at every node of the logistics ecosystem. Overall, this is a positive move that will generate growth opportunities for organised players within the logistics industry," says Abhishek Chakraborty, Executive Director, DTDC Express Limited. Apart from simplifying the tax structure, GST will bring in huge relief to several players at the operational level as they can now do away with fixed costs of maintaining warehousing across various locations in India. "The fixed warehousing overheads of companies across industries will decrease by 30 to 32% and that will make them more competitive in the international market. Portable and virtual warehousing will become a viable option for many companies. It will also enhance their operational efficiency," says Agarwal of Agarwal Movers Group. Although various logistics players and experts are expecting a short-term inflationary impact on exports, consensus is that GST will, in the long run, increase competitiveness of Indian exporters.

Shaktikanta Das, Economic Affairs Secretary, Ministry of Finance, Government of India is on record saying that trucks on an average spend 48 hours stranded at different check-posts every trip. The GST in 'one fell swoop' will remove these barriers, thus making India a preferred destination for business. "GST will revolutionise logistics with unified and simplified structure versus multiple taxes at various levels. It will lower the inventories and working capital, reduces documentation, improve asset utilisation, ensure higher turnaround time and efficiencies. We expect the industry to move away from pure vanilla warehousing needs to contract logistics," Prakash Tulsiani, Executive Director, All cargo Logistics, tells The Dollar Business. Apart from this, there is several other positive impact of introducing the GST in India such as:

- Inter-state procurement will become easier as well as the new regime will allow consolidation and optimisation of warehouses because of removal of inter-state tax. Further, removal of Excise Duty on manufacturing can result in improvement in cash flows and reduction in inventory costs as GST would now be paid at the time of sale/supply rather than at the time of removal of goods from the factory.
- Reduction in the overall tax burden on goods, which is currently estimated at 25%-30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent. Further, various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well. A single taxation system could eliminate this roadblock for them.
- A single taxation on producers would also translate into a lower final selling price for the consumer. Also, there will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base. GST would add to government revenues by widening the tax base as evasion of tax will become more difficult.
- GST provides credits for the taxes paid by producers earlier in the goods/services chain. This would encourage these producers to buy raw material from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation.
- The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/multiple tax laws are one of the reasons, the foreign Companies are wary of coming to India in addition to widespread corruption.

- GST also removes the custom duties applicable on exports. Further, our competitiveness in foreign markets would increase on account of lower cost of transaction.
- Uniformity in tax laws will lead to single point taxation for supply of goods or services all over India. This increases the tax compliance and more assessees will come into tax net. Simplified tax laws reduce litigation and waste of time of the judiciary and the assessee due to frivolous proceedings at various levels of adjudication and appellate authorities.
- Generally manufacturers locate manufacturing facilities as well as warehouses in states or locations that offer better tax structures regardless of their suitability in terms of other resources. This leads to lack of international competitiveness of the sectors in regard export of the country which would have been relatively efficient under distortion free indirect tax regime. Efficient allocation of productive resources and providing full tax offsets, as envisaged under the GST, is therefore expected to result in gains for exporters. According to a paper on GST by the National Council of Applied Economic Research (NCAER) submitted to the 13th Finance Commission, gains in exports are expected to vary between 3.2% and 6.3% while imports are expected to rise somewhere between 2.4% and 4.7%. Sectors which are expected to see a substantial increase in exports include electrical and electronic machinery, industrial machinery for food and textiles, textiles and readymade garments, beverages, transport equipment other than railway equipment, and chemical products.

Major Challenges of GST in India

However, it is expected that GST will prove a very positive and effective for the growth of Indian economy but for the successful implementation of the same, there are few challenges which have to face to implement GST in India. Following are some of the factors that must be kept in mind about GST:

- A major change involving GST implementation is its compliance, which will necessitate **robust** systems and tracking of information. Since the entire process of tax has been **revamped**, the process of accounting and auditing will also undergo a change. Much of this change will occur on the systems that organisations use for compliance. Staff will have to be trained on GST aspects.
- The successful implementation of GST will depend on its smooth passage in the states, and the formation of a GST council that drives consensus on rates, exclusion lists, applicability limits, principles of supply, special provisions to certain states, and a host of other rules and regulations. Even the time chosen for implementation will matter a lot when it comes to confusion and litigations.
- A positive impact of GST depends on a neutral and rational design of the GST such a way it is simple, transparent and significantly enhances in voluntary compliance. It must be actual, not presumptive, prices and compliance control would be exercised through an auditing system.
- The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with.

Conclusion

It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and Goods and Services Tax (GST) will certainly lead to Indian Economic Development. In nutshell, it is concluded that:

- The introduction of Goods and Services Tax would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would alleviate double taxation or cascading it in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods and services. Introduction of GST would also make Indian products competitive in the domestic and international markets. Last but not the least, this tax, because of its transparent character, would be easier to administer. However, once implemented, the system holds great promise in terms of sustaining growth for the Indian economy.

- One factor where the industry has clearly been in consensus is that GST being a destination based tax (where the tax is not applied at the point of production but at the point of supply or consumption) will make life easier for businesses in India. Companies will not have to file tax returns with multiple departments, but there will be just one web-based form to file tax returns. The country will finally become one common market, with uniform pricing across states, and optimal allocation of resources, making our goods more competitive. “Undoubtedly the most significant reform since the liberalisation in 1991, GST will transform India’s economic landscape. Unifying the $2 trillion economy and its 1.3 billion people under a uniform tax code, makes our country one of the most attractive destinations for business.
- Whatever be the implementation hassles and timeframe, the fact remains GST is a big step towards making India a unified market. The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) will not only reduce the cost of locally manufactured goods and services, but will also increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. That by our count is more good than bad.

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