GST IN INDIA: ITS REALITIES AND IMPACT

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ABSTRACT

The Goods and Services Tax (GST) is one of the biggest indirect tax reforms for India since 1947. As per the Chairman of Godrej Group, “GST will add 1.5-2% to GDP growth within 1-2 quarters of its implementation”. It aims to provide a new push to the economy in achieving inclusive growth.

The paper throws light on different concepts of GST like the objectives and advantages of GST in India, different issues of GST in Indian context, etc. The paper also examines the impact of GST on various sectors of the Indian economy. The present paper is descriptive in nature based on secondary data collected from relevant sources.

Keywords: Goods and services tax, economic development, Indian economy, GDP.

INTRODUCTION

The proposed GST is likely to change the entire scenario of India’s current indirect tax system. The Government has planned to make it effective from April 1, 2017 if there is consensus among State Governments. GST was first introduced by France in 1954. More than 160 countries have accepted the GST system of Indirect taxes across the world, the latest being Malaysia which has implemented it with effect from 1st April 2015. Most of the countries followed unified GST while some countries such as Canada, Brazil follow a dual GST system where the tax is imposed by central and state both. In India also dual model/ system of GST is proposed including CGST and SGST. According to a report by the National Council of Applied Economic Research, “GST is anticipated to increase economic growth by between 0.9 % and 1.7%”. GST is necessary for the development of the any country. It will help the country to improve the GDP. As per the Chairman of Godrej Group, “GST will add 1.5-2% to GDP growth within 1-2 quarters of its implementation”. It aims to provide a new push to the economy in achieving inclusive growth. It is a wide tax system that will subsume all indirect taxes of states and central governments and integrated economy into a seamless national market.

Dual GST Model

GST will be levied on the place of consumption of goods and services. The proposed model will be in the form of a ‘Dual GST model’ comprising the following:

a. Central GST – levied by the Central Government.

b. State GST - levied by the States Government.

c. Interstate and import transactions proposed to be covered under IGST to be levied by Central Government (likely tax rate to be the sum of CGST and SGST).
Features of GST

a. GST will subsume central indirect taxes like excise duty, services tax etc and also state levies like VAT, entry tax, Octroi, luxury tax etc.

b. It will have two components, Central GST levied by Central and State GST levied by the States.

c. Only Central may levy and collect GST on supplies in case of interstate trade and collection of tax will be divided between central and state.

d. A two-rate structure will be adopted, i.e. standard rate for goods in general and the lower rate for necessary items & goods of basic importance. There will also be a special rate for precious metals i.e. diamonds, jewellery and a list of exempted items.

e. Overlapping of tax, tax on tax will be eliminated with GST.

f. Both Goods and Services are taxed in the same manner in chain of supply till they are reached to consumers. They are not distinguished under the GST.

Objectives of GST

GST is proposed to fulfil the following objectives:

a. 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 the economic condition of the country.

b. GST would eliminate the multiplicity of indirect taxation and streamline all the indirect taxes, which would be beneficial for manufacture and ultimate consumer.

c. GST would be able to cover all the shortcomings of the existing VAT system and hopefully serve the economy health.

d. Incidence of tax falls on domestic consumption.

e. The efficiency and equity of the system is optimized.

f. There should be no export of taxes across taxing jurisdiction.

g. The Indian market should be integrated into single.

GST Rate in India

Currently, there is no clarity on the rate of CGST, SGST and IGST. For the purpose of the preparation of the report, the rate of taxes is proposed to be assumed as below:

a. SGST – 10% (uniform across all states)

b. CGST – 10%

c. IGST – 20%

The Chief Economic Advisor has recommended GST rates as under:

a. RNR (Revenue Neutral Rate) has been computed at 15-15.5%.

b. Standard rate: 17% - 18% - Rate dependent upon various factors, including status of exemptions, tax rate on precious metals.

c. Lower rate: 12% - Applicable on essential goods. No specific recommendation for essential services.

d. Demerit rate: 40% - applicable on luxury cars, tobacco products.
GST Rate in Other Countries

GST rates of some countries are given below:

Table 1: GST Rate in Other Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>GST Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>15%</td>
</tr>
<tr>
<td>Australia</td>
<td>10%</td>
</tr>
<tr>
<td>France</td>
<td>19.6%</td>
</tr>
<tr>
<td>Canada</td>
<td>5%</td>
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<tr>
<td>Germany</td>
<td>19%</td>
</tr>
<tr>
<td>Japan</td>
<td>5%</td>
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<tr>
<td>Singapore</td>
<td>7%</td>
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<tr>
<td>Sweden</td>
<td>25%</td>
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<tr>
<td>Pakistan</td>
<td>18%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6%</td>
</tr>
<tr>
<td>Denmark</td>
<td>25%</td>
</tr>
</tbody>
</table>

Application of GST

GST is applied on goods and services at the place where final consumption occurs. It is based on the “Destination principle.” The manufacturer or wholesaler or retailer will pay the applicable GST rate, but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.

Chart: 1: Applicability and mechanism of GST

RESEARCH METHODOLOGY

In order to obtain the research objectives, descriptive research design has been adopted. The research is based mainly on secondary sources. The secondary data has been taken from, National & international Journals, government reports, research report, publications from various websites which focused on various aspects of Goods and Service tax.

With the help of the data the benefits & different issues of GST and its impact on various sectors of the Indian economy have been reported in the paper.

OBJECTIVES OF THE STUDY

The study has been undertaken with the following objectives:

1. To study the different concept and objectives of GST.
2. To evaluate the advantages and issues of GST in Indian context.
3. To examine the impact of GST on various sectors of the Indian economy.
REVIEW OF LITERATURE

1. Ehtisham Ahmed and Satya Poddar (2009) in his study identified that Good and Service Tax introduction will provide transparent and simpler tax system with increase in output and productivity of Indian economy. But the advantages of GST are critically dependent on rational design of GST.

2. Vasanthagopal (2011) in the article GST in India: A Big Leap in the Indirect Taxation System discussed the impact of GST on various sectors of the economy. The article further stated that GST is a big leap and a new impetus to India’s economic change.

3. Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India analyzed the impact and GST on Indian Tax scenario and concluded that it will strengthen out free market economy.

4. Kumar (2014) studied in the article Goods and Services Tax in India: A Way Forward background, silent features and concluded with the positive impact of GST on present complex tax structure and development of common national market.

5. Agogo Mawuli (2014) in his paper titled “Goods and Service Tax-An Appraisal” analyzed 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 GST rate should be less than 10 percent for development.

6. Nishitha Guptha (2014) revealed that implementation of GST in the Indian framework will lead to commercial advantages which were untouched by the VAT system and would essentially lead to economic development. Therefore, GST may usher in the possibility of a collective gain for agriculture, industry, trade and common consumers as well as for the Central Government and the State Government.

7. Shah (2014) highlighted the objectives of proposed GST and discussed the possible challenges, threats and opportunities that GST bring before is to strengthen our force marked economy.

Objectives:

a. Identify Proposed GST framework and current taxation scenario.

b. Differentiate proposed GST framework and Current taxation.

c. Analyze the impact of GST on employment, Manufacturing and Textile Industry.

8. Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Service Tax (GST) which stated in brief details of the GST and its positive impact on economy and various stakeholders.

9. Shaik Shakir, Sameera S.A., and Firoz Sk.C. (2015) stated that the Tax policies play a significant role on the economy through their impact on both equity and efficiency. The ongoing tax reforms on moving to a GST would impact the national economy, International trade, firms and the consumers, there has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime. It is also expected 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.

10. Kiyawat Bharati and Kiyawat Shruti (2015) investigated that after implementation of GST in India, there will be uniformity of taxation throughout the Country. This will result in reduction in prices of goods and services and hence this will increase the GDP as demand will also increase due to reduction in prices.

11. Parkhi did an exploratory research in an article Goods and Service Tax in India: the changing face of economy and stated that implementation of GST is a changing face of India and the government is well equipped for that which is a symptom of fast paced economy.
Impact of GST on Different Sectors of India

GST has a positive impact on the economy and on various sectors which are as follows:

**FMCG Sector**

With the implementation of GST, Fast moving consumer goods sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company’s decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes affect the cost to the company.

**Food Industry**

Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and food distribution is largely unorganized in India. Therefore, the advantages of zero or lower tax rates should also be extended to all food items in India regardless to degree of processing.

**Information Technology Industry**

The proposed GST rate under the IT industry is not yet decided. While the discussed combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property) and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby reduced price.

**Infrastructure Sector**

The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

**Auto Sector**

GST will reduce cost and of production by eliminating cascading effect especially for Automotive distributors, which attracts high rate of CENVAT duties as well VAT at state level, In addition to other levies such as National Calamity Contingent Duty, Auto Cess, Entry taxes, Octroi, registration charges and Road taxes, Automobile Exports are also likely to benefit as embedded taxes in India’s Export prices will be eliminated.

**Impact on Textiles**

The Textile industry has been divided into broad categories for Taxation purpose. It include cotton, woollen, silk, synthetic fiber, artificial silk, khadi and handloom, jute, hemp and mesta textiles, carpate weaving, readymade garments and miscellaneous textile products. The current taxes very based on these categories. Textile sector is dominated by unorganized players who are given tax exemption on size basis of their operation. On the basis of these factors, key concern for textile industry include Dispute over fabric vs. garments classification.

Zero duty for cotton fibre as compared to high Excise duty structure on manmade fibre segment.

With the implementation of GST, there will be a uniform role of tax which will result in block input taxes will be eliminated as GST is a consumption tax.
Impact on Small Enterprises

In the small scale enterprises there are three categories:

a. Those below threshold need not to register for the GST.

b. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.

c. Those above threshold limit will need to be within framework of GST.

In respect of the central GST the situation is slightly complex. GST is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

Impact on Real Estate Sector

Implementation of the GST law will have a positive impact on the real estate sector with expected reduction in its tax burden, according to property developers and consultants.

"The enactment of this law will single-handedly solve several issues faced by the real estate sector and help in pulling the sluggish sector out of its long slumber.

Other Impact

a. Impact on Employment: Analysis say that the fear of job losses in GST regime persist as it hits the unorganized players, who have to now come under tax compliance while benefitting the mid large sized companies which are already under the organized sector.

b. Impact of GST on organized Sector: Another major regime is that it will shift trade from unorganized to organized sector and improve efficiency in the system. India has significant presence of unorganized sector. Implementation of GST is expected to narrow the large indirect tax difference between organized and unorganized segments. This would be achieved by ensuring better compliance and enforcement by reducing the threshold limit for exemption from indirect taxes, tracking the flow of GST in entire chain.

c. Economic impact of recommended GST: If GST is implemented as per the Chief Economic Adviser (CEA), Arvind Subramanian panel’s report, it will benefit the economy in several ways. Firstly, by removing the net of multiple taxes at multiple phases of production, GST will help harmonize the production activity in the economy. The removal of tax considerations in making business decisions – setting up of warehouses, etc – will increase efficiency in the system. Secondly, the standard GST rate of 18% is unlikely to be inflationary, as higher prices of services (currently taxed at 15%) will most likely be offset by lower taxes on goods (currently taxed at 25%).

Advantages of GST

Some of the advantages of Good and Service Tax are enlisted as follows:

1. Abolition of Multiple Layer of Taxes: Implementation of GST in India will integrate the existing line of taxes like Central Excise, Service Tax, Sales Tax, Value Added Tax etc. into one tax i.e. GST. This will help avoiding multiple taxes currently being levied on products and services.

2. Mitigation of Cascading Taxation: Under the GST regime the final Tax would be paid by the Consumer of the goods/ services but there would be an input tax credit system in place to ensure that there is no cascading of taxes.

3. Development of Common National Market: GST would introduce a uniform taxation law across states and different sectors in respect to indirect taxes which would make it easier to
supply goods and services hassle free across the country. This will help in removing economic distortions, promote exports and bring about development of a common national market.

4. **Increase in Voluntary Compliance**: Under GST regime, the process will be simple. As all the information will flow through the common GST network it would make tax payments and compliances a regular norm with lesser scope for mistakes. It will only be upon the payment of tax, the consumer will get credit for the taxes they pay on inputs. This will generate an automatic audit trail of value addition and income across the production chain, creating a unified base of tax potential that can be tapped.

5. **Reduced Litigation Taxation**: Under GST would reduce litigation on account of clarity regarding the jurisdiction of taxation. In GST Regime, with a single tax law in place, there would be smooth assessments as compared to the present multiple assessments in different tax laws.

6. **Efficient Administration by Government**: Under proposed GST regime, with unified tax rate, simple input tax credit mechanism and integrated GST Network, information would be readily available and administration of resources would be easy and efficient for the Government. There would be a single tax, reduced errors and litigations thus resulting in reduced administration costs too.

7. **Will act as a Tax Booster for Government**: With a wider tax base, minimum floor rates, facility of seamless credit the Goods & Services Tax would prove to be an efficient tax booster for the Government. With ease of compliance and integrated network data tax collection would be much easier for the government.

8. **Export will be Zero Rate**: No GST will be levied on exports because of which input credit of exporter will not be affected and he/ she can use these input credit in future. With zero rated exports, domestic goods will be more competitive in international market.

**Major Issues of GST In Indian Context**

**High Revenue Neutral Rate (RNR)**

As per 13 finance commission the RNR should be 12% whereas state empowered committee demanding 26.68%. Union government is reckoning the rate band should be 15%-20% which is very high as compare to other countries. Hungary implemented GST from 1/4/2014 with 7% rate. Due to high RNR:

   a. Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking.

   b. Tax evasion and smuggling will increase.

   c. Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index.

**Compensation to States**

After GST reform this will subsumed along with surcharge and cess into GST. Due to which state governments will occur revenue loss for sure and they will be more dependent on finance commission for tax devolution (currently 42%). To neutralize their revenue losses states are demanding compensation from union government. As per 14 finance commission union has to compensate states for maximum of five years with tapering effects. For first three years 100% compensation reduced to 75% and 50% in fourth and fifth year respectively.
Registration Threshold Limit

At present there are different threshold limits for VAT (5 lakh), service tax (10 lakh) and excise duty (1.5 crore). But for implementation of GST common threshold limit for all indirect taxes is required. It will turn into a conflict between state and central. States want to fix the limit as 10 lakh opposing 25 lakh limit suggested by union. The lower threshold limit will broaden the tax base and increase the revenue of government but it will also require a dandy IT infrastructure, to address the database of increased assess, which is presently missing out in Indian states.

Other Issues

a. Union government need to coordinate with 30 states for “input credit” due to transfer of credit in SGST.

b. State tax officials training and development before implementation of GST.

c. Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge.

d. Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. (A study commissioned by Curtin university of technology)

CONCLUSION

To conclude, it may be mentioned that Overall GST is helpful for the development of the Indian economy as well it will be very much helpful in improving the GDP of the country more than 2%. 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 the long term, it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It execution will also result in lower cost of doing business that will make the domestic products more competitive in local and international market. There are several issues in way of GST implementation as discussed above in the paper, however, implementation of the GST law will have a positive impact on the overall sector of the economy and GST implementation will not only curtail indirect tax evasion but also a direct tax evasion.

At the end, we can say no doubt it is the biggest ever change in the tax structure of India. There will be a fall in the prices of some commodities, but on the other hand price of some other goods and services will rise. But overall it will be a great change.

REFERENCES


