

GST implications on Indian Economy: Issues and Opportunities - An overview

S.Sreekanth, Dr Y.Jahangir

Research Scholar Department of Business Management Osmania University, Hyderabad

Email id: ssreekanth1976@gmail.com Mobile: +919392496140

Assistant Professor Department of Business Management Osmania University, Hyderabad

Email id: jahangir.yjms3@gmail.com Mobile: +919440743470

Abstract: *Much awaited one nation and one tax regime came into force from 1st July, 2017. India is having varied culture, climate and political system. These aspects played a vital role in the GST implementation. Indian economy transformed from mixed economy to LPG (Liberalization, Privatization, Globalization) model economy in the year 1991. LPG model changed the economic scenario of India internally as well as externally. Indian economy is continuously on growth track whereas some developed countries struggling to reach targeted growth rate. Most of the countries across the world implemented GST but India being diversified in cultural and political aspects took long time to implement it. Goods and Services Tax poses both issues and Opportunities to the Indian economy. GST will help Government to make tax evasion difficult and also to track business transactions taking place in the country. So Government tax revenue is expected to increase which in turn can be utilized for the developmental activities. As far business firms are concerned they require skilled human resources along with infrastructure facilities like telecommunications and internet. Rural areas of the country still require telecommunications and other infrastructure facilities. Government to act in these areas to have successful implementation of GST across the country.*

Key words: *GST, Economic Development, Indian Economy, Infrastructure, Revenue.*

I. Introduction

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST..

The Rajyasabha unanimously passed the constitution (22nd amendment) bill 2014, on 3rd August 2016 with 203 votes in this bill's favour. All parties, except the AIADMK, backed the bill. GST is an indirect tax on the consumption and production of sales of goods and services throughout India, to replace taxes levied by central Govt. and state Govt. GST is levied and collected at each stage of sale or purchase of goods and services. It has a system of Input Tax Credit which will allow sellers to claim the prepaid tax so that the final liability on the end consumer is reduced. It is the biggest tax reform in 70 years after independence of India, the Goods and Services Tax (GST) was finally launched on the midnight of 30 June 2017, though the process of forming the legislation took 17 years (since 2000 when it was first proposed). It was launched at midnight 30 June – 1 July 2017 session in both the houses of parliament convoked at the Hall of the Parliament, but which was immediately boycotted by the opposition by staging a walk out to show their disapproval of the same.

Before 1st July 2017, some taxes were levied by the state Govt. and some were levied by central Govt. Govt. levied only one unified tax rate instead of all different types of taxes, GST is applied on goods and services at the place where actual consumption happens. It is based on the Destination Principle. GST levied and collected at each stage of sale or purchase of goods and services. Goods and services are not distinguished and are taxed at single rate in supply chain till the goods and services reach consumer. It is the consumer of goods and services who bears the tax. The manufacture/wholesaler/retailer pays the applicable GST rate but can claim back through tax credit mechanism.

The current taxes like excise duties, service tax, custom duty etc. have been merged under GST. The taxes like sales tax, entertainment tax, VAT, and other state taxes will be included in GST.

GST is levied on the place of consumption of goods and services. It can be levied on following states:

- Intra-state supply and consumption of goods and services.
- Inter-state movement of goods.
- Import of goods and services.

1.1 Impact of GST on Prices of Goods and Services

Tax experts claimed that the previous practice of tax on tax – for example, VAT was being charged on not just cost of production but also on the excise duty that was added at the factory gate leading to production cost building up but now all had been gone when GST is rolled out. The prices of consumer durables, electronic products and ready-made garments will be available at low price after rolled out GST. In other aspects, for goods which were taxed at low rate, the impact of GST brings price increment. Services bearing essential ones like ambulance, cultural activities, pilgrimages etc. were exempted from levy are same. India has seen the strongest tax reform that aims to do away with various – tax system on goods and services and bring them under one rate. We can draw the following impact of GST on prices:

The government rolled out the much talked about Goods and Services Tax (GST) on the midnight of June 30. The GST Council has fixed the tax rates, keeping a view on all goods and services; they are classified under tax slabs 0 % (exempted ones), 5%, 12%, 18% & 28%.

Here is a list of some items which are completely exempt from the GST regime:

- The unprocessed cereals, rice & wheat etc.
- The unprocessed milk, vegetables (fresh), fish, meat, etc.
- Unbranded Atta, Besan or Maida.
- Kid's colouring book/drawing books.
- Sindoor/Bindis, bangles, etc
- Below is a list of the sectors which are negatively or positively affected by GST.

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax . As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

Objectives Of The Study

To explore the possibilities of effective implementation of GST in rural and urban areas.

To enhance the skills and facilities required for smooth functioning of GST regime.

II. Research Methodolgy

This paper is an explanatory research and is based on secondary data of journals, articles, newspapers and magazines.

Importance of GST to the economy:

GST is designed to remove the burden by ending many Indirect Taxes. GST will be important for economy in following ways like GST will reduce tax evasions, it will help to provide more money to backward states like Bihar, Jharkhand etc. which will improve the economy of the country it will also help in removal of local tax BIAS which means a person can set his factory in any state without worrying about different tax systems. In conclusion we can say that GST is one tax that can be a major breakthrough in India taxation system.

21 GST will positively impact the common man in many ways:

GST is a unified tax system removing bundle of Indirect Tax like VAT, CST, Service Tax, CAD, SAD, and Excise Duty which will have a positive impact on common man. There will be less tax compliance and a simplified tax policy as compared to earlier tax structure, GST will reduce the cascading effect of taxes i.e. tax on tax system, It will help in removing the manufacturing cost which will bring price of consumer goods down, the lower price will further lead to an increase in demand/consumption of goods, increased demand will lead to increase supply hence this will ultimately lead to rise in production of goods. The increased production will lead

to more job opportunities. GST will curb circulation of black money. Thus GST will have a positive impact on common man in many ways.

2.2 Problems after adapting GST:

Disputes are likely to arise between Centre and State over tax. Proper IT infrastructure is required, issue of taxing e-commerce is to be appropriately addressed and integrated and some political imbalance. Some challenges for the implementation of GST are information technology integration has to happen and adequate IT infrastructure is needed. The state governments have to be compensated for the loss of revenues (if any). GST being consumption - based tax. States with higher consumptions of goods and services will have better revenues so co-operations from state governments would be one of the key factors for successful implementation of GST.

2.3 Treatment of Small Scale Industries (SSI):

The Small Scale Industries generally deal with various types of taxes therefore in order to reduce the burden from these industries one tax system is made i.e. GST in which CGST and SGST would talk and take an important decision about the taxing system of Small Scale Industries.

Fast moving consumer goods sector:- With the implementation of Goods and Service Tax, FMCG 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 distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

Information Technology enabled services:- 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.

Impact on small enterprises:- In the small scale enterprises there are three categories:- Those below threshold need not to register for the GST.Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. 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.

2.4 Purpose of Tax Reform

Certainly, taxation should not be a hindrance to business, but the objective of tax reform cannot be confined to the demands of business alone. Tax reform is an important aspect of public finance management, as taxation is used as an instrument of attaining certain social objectives, namely, redistribution of wealth and thereby reduction of inequalities.

Taxation in a modern government is thus needed not merely to raise the revenue required to meet its ever-growing expenditure on administration and social services but also to reduce the inequalities of income and wealth. Therefore, partial tax reform to satisfy big business houses is not going to serve any purpose for the 30 crore poor people of this country living below the poverty line.

Fiscal prudence demands a matching reform in direct taxes also along with the introduction of GST to achieve a fair, equitable, elastic and progressive tax regime. A comprehensive tax reform keeping in mind the

revenue requirement of the governments to meet their social and welfare objectives as well fair distribution of income, and wealth can be the only meaningful tax reform in the public interest.

Fragmentary tax reforms carried out only with business interests, ignoring the genuine concerns of state governments are likely to create major hiccups in the public finance management of the governments in the long run.

2.5 Problems of Manufacturing States

For states with manufacturing industries, sharing the unified indirect tax base with the union government via the destination-based GST, will mean an outflow of tax revenue along with goods and services produced there, to states that consume the goods and services. In this sense, GST provides no incentive for manufacturing states.

The search for a revenue neutral rate (RNR) of GST may be relevant for central GST, as shifting the levy from one state to another is not going to disturb the cumulative collection of tax for the central government. But states cannot have a uniform RNR that will match their present own tax revenue trend, as manufacturing and consumption levels vary from state to state. At the same time the combined GST rate (central GST + state GST) should be fair, reasonable and not regressive. Therefore, the proposed RNR, that is, the standard rate of state GST is not going to neutralise the effects of GST on the revenue collection of all manufacturing states.

The worries of the manufacturing states have not been addressed properly by the union government. The revenue loss compensation assured by the union government for a specific period is a rocket booster, but it is doubtful that the proposed GST vehicle would launch the manufacturing states in the revenue trajectory they are travelling in now, especially after the booster runs out. If there is a failure in this mission, with no independent powers of taxation, such states may be left in the lurch.

The next major concern is that the GST distorts the basic structure of fiscal federalism provided in the Constitution. The proposed GST Council would become another institution for politicking rather than a rational think tank on indirect taxation.

2.6 GST Implications

Trading without license is no longer possible. Every sale and purchase is to be shown on the paper. Education, Textile, Drugs and medicines and also service sectors are brought under the tax net for the first time. Now on wards stock transfer from the manufacturing company in one state to another state is not going to be there. Only depot transfer is allowed. For this there is no tax. Records of the company making sales are to be matched with the purchase records of the traders, if not matched there is a chance to impose input tax on such kind of transactions. In the first year traders should have bills related to goods along with way bills as sales tax officers will check through mobile check posts as there are no permanent check posts. Purchases worth more than Rs 50,000 are to be uploaded to the concerned site through online to obtain way bill irrespective of the distance. Under GST policy every month bills are to be sent through online in five types. This will require the services of chartered accountant or service provider of the software.

III. Conclusion

GST implementation will help to change the direction of Indian economy. Employment opportunities for tax consultants and other allied services increase. Rural areas will get opportunity to get developed. Success of GST implementation depends on the benefits it is going to provide to the majority sections of the society otherwise it leads to failure of the system as well as derailing economic growth and prosper. GST should deliver value addition to the customers as well as traders. Tailor made software is the need of the hour. This will through an opportunity to the software industry to meet this challenge.

References

- [1]. Agogo Mawuli (May 2014) "Goods and Service Tax-An Appraisal"
- [2]. Dr. R.Vasanthagopal (2011) "GST in India: A Big Leap in the Indirect Taxation System"
- [3]. Ehtisham Ahmed and Satya Poddar (2009), "Goods and Service Tax Reforms and Intergovernmental Consideration in India"
- [4]. Nitin Kumar (2014) , "Goods and Service Tax- A Way Forward"
- [5]. Pinki, Supriya Kamma and Richa Verma (July 2014) , "Goods and Service Tax- Panacea For Indirect Tax System in India"
- [6]. Monika Sehrawat, Upasana Dhanda, "GST IN INDIA: A KEY TAX REFORM"
- [7]. Lourdunathan F and Xavier P, "A study on implementation of goods and services tax (GST) in India: Prospectus and challenges"
- [8]. Garg Girish. Basic Concepts and Features of Good and Services Tax in India.