The Impact of GST on Indian Economy: A study

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Abstract

Goods and Service Tax (GST) is a target base indirect tax collected by central as well as state government to meet up the public expenditure as a part of chief mechanism of fiscal system of a nation. Unlike other prevailing indirect taxes Goods and Services Tax and is anticipated to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services with a input tax credit facility on output tax liability at the national and state level in an standardized modus. In this study an attempt has been made to draw the road map in association with levy and collection of GST and its impact on economy. Hence, GST is expected to unite the country efficiently as it will subsume various forms of taxes that are currently levied at different points subsuming the multiple types of taxes charged at different rate at present.

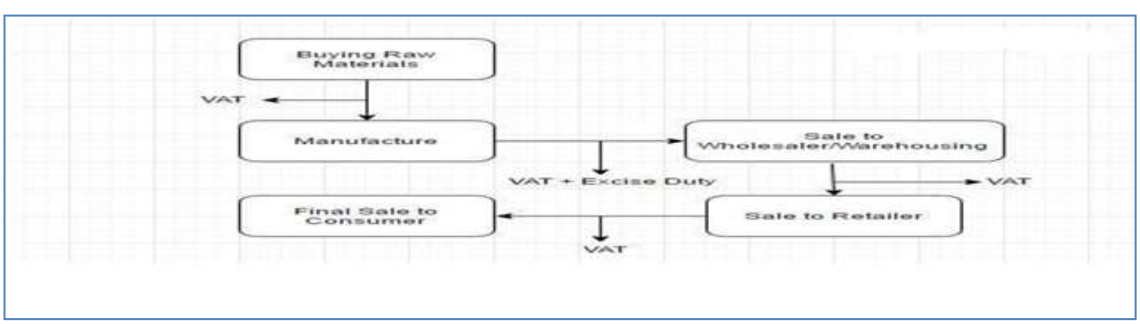
Keywords: GST, IGST, SGST, CGST, Indirect Tax Structure.

INTRODUCTION

Given the passage of the Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha on 6th May, 2015, the Government of India seems committed to replace all the different kind of indirect taxes levied on goods and services by the Centre and States which is proposed to be implement by 1st April, 2016 (Budget Speech 2015 by Mr. Arun Jaitley, Former Finance Minister, Government of India). Goods and Service Tax is a destination-based tax collected in a multi-point of production, sales and rendering of services at uniform manner with a facility of claiming an input tax credit on output tax. In simple terms, GST may be defined as a tax on goods and services, which is livable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. It is basically a tax on final consumption. In a GST regime it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services (Kumar, 2014). It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system. India is going to implement the duel GST model for levy and collection of taxes. Where both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted. The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases. The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. As per expert opinion and previous study like (Kumar, 2014; Garg, 2014; Bhiwandikar, 2013; Government of India, 2009), implementation of GST in India will absorb the numerous indirect taxes in central as well as state level.

GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition.

In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India. GST is one indirect tax for the entire country. So, before Goods and Service Tax, the pattern of tax levy was as follows:



Source: www.cleartax.in/gst

Under the GST regime, the tax is levied at every point of sale. In the case of intra-state sales, Central GST and State GST are charged. Inter-state sales are chargeable to Integrated GST.

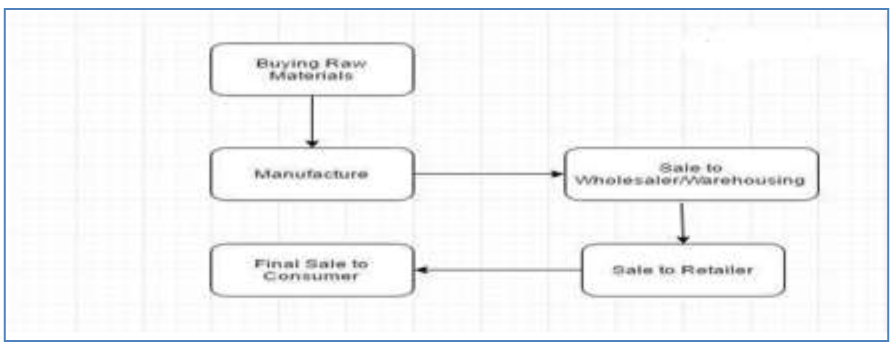
Now let us try to understand the definition of Goods and Service Tax – "GST is a comprehensive, multi-stage, destination-based tax that is levied on every value addition."

Multi-stage

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to the consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale to wholesaler
- Sale of the product to the retailer
- Sale to the end consumer



Source: www.cleartax.in/gst

Goods and Services Tax is levied on each of these stages which makes it a multi-stage tax

Value Addition

Source: www.cleartax.in/gst

The manufacturer who makes biscuits buys flour, sugar and other material. The value of the inputs increases when the sugar and flour are mixed and baked into biscuits. The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. That is another addition of value after which the warehouse sells it to the retailer.

The retailer packages the biscuits in smaller quantities and invests in the marketing of the biscuits thus increasing its value.

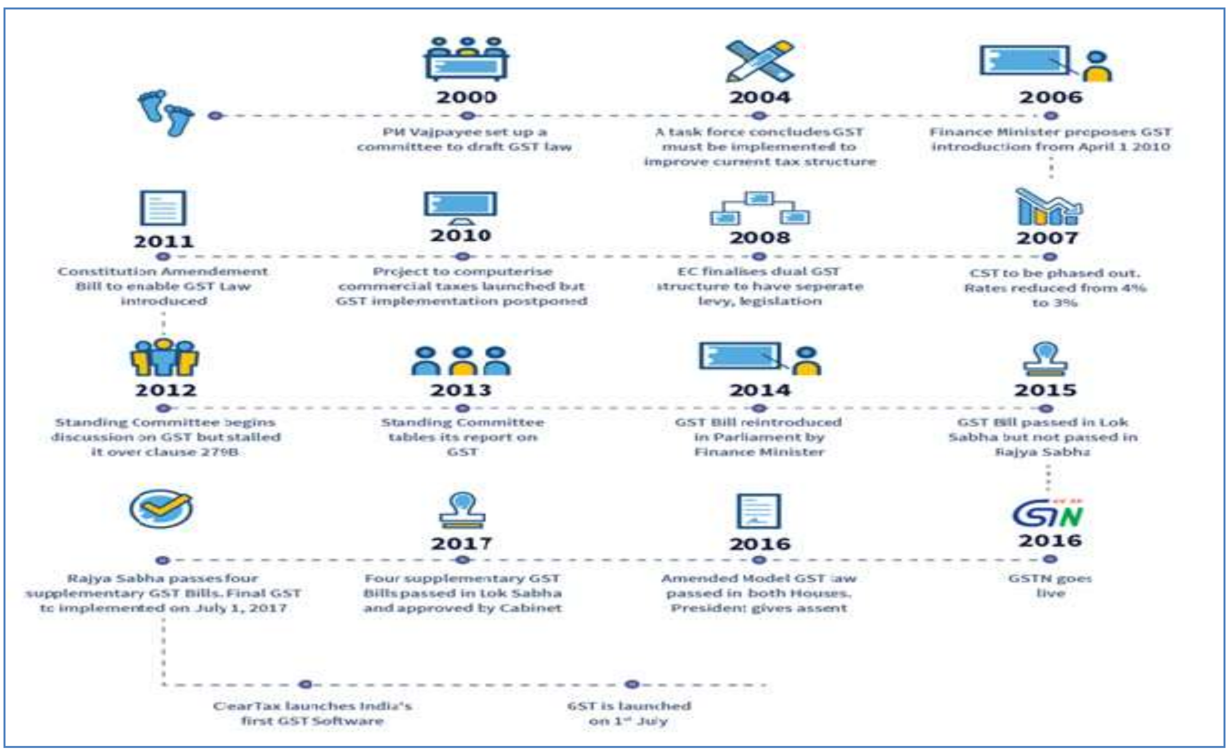
GST is levied on these value additions i.e. the monetary value added at each stage to achieve the final sale to the end customer.

Destination-Based

Consider goods manufactured in Maharashtra and are sold to the final consumer in Karnataka. Since Goods & Service Tax is levied at the point of consumption. So, the entire tax revenue will go to Karnataka and not Maharashtra.

Journey of GST in India

The GST journey began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2017 the GST Bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017 the GST Law came into force.



Source: www.cleartax.in/gst

Review of literature

The first journey of GST (in some countries it is known as Value Added Tax) was started in France in the year 1950 AD (Lin, 2008; Palil& Ibrahim, 2012). Presently near about 160 countries are having the GST as a part of their indirect tax collection. Across the glove a wide range of Value Added Taxes are applicable with a highest rate of 40% in Gambia; 21% in Argentina and Belgium; 20% in Bulgaria, Austria, United Kingdom and Albania; 19.25% in Cameroon; Angola and Australia at 10%; Singapore 7%; and lowest rate of 5% is pertinent in Canada, Japan, Niue and Nigeria (Sanusi et al.,2015; Onji, 2009; Ezeoha&Ogamba, 2010). Although, initially the Government of India proposes three rates namely 20% for goods, 16% for services 10% for essential items but it is yet to come out with a fixed and specific rate of GST to be levy and collected (Bhiwandikar, 2013). (Garg, 2014) Studied "Basic Concepts and Features of Good and Service Tax in India", and found that GST is the most logical steps towards the comprehensive indirect tax reform in India since independence. GST will create a single, unified Indian market to make the economy stronger. Experts said that GST is likely to improve tax collections and Boost India’s economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Implementation of GST will increase the tax compliance among the tax payers as each person in the value chain who gets input tax credit has an incentive to ensure that the previous persons has paid the tax. As a whole tax administration will be easier for the government (Sanusi et al., 2015). Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. It has been proposed that there would be a "Dual GST "model in India, taxes will be levied by both centre (Central GST) and state (State GST) on Goods and Services. Hence, a dual GST would be according to the Constitutional requirement of fiscal federalism (Kumar, 2014). (Vasanthagopal, 2011) Studied "GST in India: A Big Leap in the Indirect Taxation System", and found that the positive impacts are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full politicalcommitment for a fundamental tax reform with a constitutional amendment. GST would be a big rise in the indirect taxation system and also give a new impetus to India's economic change. It is also noted that, buoyed by the success of GST, more than 160 countries have introduced GST in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region. Many study like (Kumar, 2014; Bhiwandikar, 2013; Garg, 2014) has been done which are basically stranded on understanding of concept of GST, and criticizing the existing taxation system in India. But none of the study fund which are in the ground of the explanation and understanding of mechanism of levy and collection of GST between centre and state. Hence this study has been undertaken by the researcher to explore the answer of the following research question. What would be the mechanism of levy and collection of GST between centre and state? What is the rationality of implementing the GST in India? What is the opportunities and challenges of GST?

Objectives of the study

1. To study the pre-post implementation of GST calculation.
2. To study the impact of GST on the Indian economy.

Advantages of GST

GST has mainly removed the Cascading effect on the sale of goods and services. Removal of cascading effect has impacted the cost of goods. Since the GST regime eliminates the tax on tax, the cost of goods decreases. GST is also mainly technologically driven. All activities like registration return filing, application for refund and response to notice needs to be done online on the GST Portal; this accelerates the processes.

- Removing cascading tax effect
- Higher threshold for registration
- Composition scheme for small business
- Online simpler procedure under GST
- Lesser compliances
- Defined treatment for e-commerce
- Increased efficiency in logistics
- Regulating the unorganized sector

The components of GST

There are 3 taxes applicable under this system: CGST, SGST & IGST.

CGST: Collected by the Central Government on an intra-state sale (Eg: transaction happening within Maharashtra)

SGST: Collected by the State Government on an intra-state sale (Eg: transaction happening within Maharashtra)

IGST: Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)
In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Centre will then share the IGST revenue based on the destination of goods.

Source: www.cleartax.in/gst

Tax Laws before GST

In the earlier indirect tax regime, there were many indirect taxes levied by both state and centre. States mainly collected taxes in the form of Value Added Tax (VAT). Every state had a different set of rules and regulations. Interstate sale of goods was taxed by the Centre. CST (Central State Tax) was applicable in case of interstate sale of goods. Other than above there were many indirect taxes like entertainment tax, octroi and local tax that was levied by state and centre. This led to a lot of overlapping of taxes levied by both state and centre. For example, when goods were manufactured and sold, excise duty was charged by the centre. Over and above Excise Duty, VAT was also charged by the State. This lead to a tax on tax also known as the cascading effect of taxes. The following is the list of indirect taxes in the pre-GST regime:

- Central Excise Duty
- Duties of Excise
- Additional Duties of Excise
- Additional Duties of Customs
- Special Additional Duty of Customs
- Cess
- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entertainment Tax
- Entry Tax
- Taxes on advertisements
- Taxes on lotteries, betting, and gambling

CGST, SGST, and IGST has replaced all the above taxes. However, the chargeability of CST for Inter-state purchase at a concessional rate of 2%, by issue and utilization of c-Form is still prevalent for certain Non-GST goods such as:

(i) Petroleum crude;
(ii) High-speed diesel;
(iii) Motor spirit (commonly known as petrol);
(iv) Natural gas;
(v) Aviation turbine fuel; and
(vi) Alcoholic liquor for human consumption. in respect of following transactions only:
- Resale
- Use in manufacturing or processing
- Use in the telecommunication network or in mining or in the generation or distribution of electricity or any other power

GST has Changes brought in

In the pre-GST regime, every purchaser including the final consumer paid tax on tax. This tax on tax is called Cascading Effect of Taxes.

This indirect tax system under GST has improved the collection of taxes as well as boosted the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

Illustration:

Based on the above example of biscuit manufacturer along with some numbers, let's see what happens to the cost of goods and the taxes in the earlier and GST regimes. **Tax calculations in earlier regime:**

Action	**Cost**	**10% Tax**	**Total**
Manufacturer	1,000	100	1,100
Warehouse adds a label and repacks @ 300	1,400	140	1,540
Retailer advertises @ 500	2,040	204	2,244
Total	1,800	444	2,244

Source: www.cleartax.in/gst

Along the way, the tax liability was passed on at every stage of the transaction and the final liability comes to rest with the customer. This is called the **Cascading Effect of Taxes** where a tax is paid on tax and the value of the item keeps increasing every time this happens. **Tax calculations in current regime:**

Action	**Cost**	**10% Tax**	**Actual Liability**	**Total**
Manufacturer	1,000	100	100	1,100
Warehouse adds label and repacks @ 300	1,300	130	30	1,430
Retailer advertises @ 500	1,800	180	50	1,980
Total	1,800		180	1,980

Source: www.cleartax.in/gst

In the case of Goods and Services Tax, there is a way to claim credit for tax paid in acquiring input. What happens in this case is, the individual who has paid a tax already can claim credit for this tax when he submits his taxes. In the end, every time an individual is able to claim the input tax credit, the sale price is reduced and the cost price for the buyer is reduced because of lower tax liability. The final value of the biscuits is therefore reduced from Rs. 2,244 to Rs. 1,980, thus reducing the tax burden on the final customer. GST regime also brought a centralised system of waybills by the introduction of “E-way bills”. This system was launched on 1st April 2018 for Inter-state movement of goods and on 15th April 2018 for intra-state movement of goods in a staggered manner. Under the e-way bill system, manufacturers, traders & transporters are now able to generate e-way bills for the goods transported from the place of its origin to its destination on a common portal with ease. Tax authorities are also benefitted as this system has reduced time at check -posts and help reduce tax evasion.

Impact of GST on the Indian Economy

GST the biggest tax reform in India founded on the notion of “one nation, one market, one tax” is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens. Fundamentally, the $2.4-trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST.

The rollout has renewed the hope of India's fiscal reform program regaining momentum and widening the economy. Then again, there are fears of disruption, embedded in what's perceived as a rushed transition which may not assist the interests of the country.

Will the hopes triumph over uncertainty would be determined by how our government works towards making GST a "good and simple tax". The idea behind implementing GST across the country in 29 states and 7 Union Territories is that it would offer a win-win situation for everyone. Manufacturers and traders would benefit from fewer tax filings, transparent rules, and easy bookkeeping; consumers would be paying less for the goods and services, and the government would generate more revenues as revenue leaks would be plugged. Ground realities, as we all know, vary. So, how has GST really impacted India? Let's take a look.

GST: The Short-Term Impact

From the viewpoint of the consumer, they would now have pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.

What the Future Looks Like

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached.

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

Conclusion

Implementation of GST has major change in the Indian economy and the levying tax eliminated the cascading effect which reduced the burden on the end user of the product or service. On priority, it is up to the government to address the capacity building amongst the lesser-endowed participants, such as the small-scale manufacturers and traders. GST will become good and simple, only when the entire country works as a whole towards making it successful.

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