GST: IMPLICATIONS FOR THE INDIAN ECONOMY

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Abstract: *The Goods and Service Tax (GST) is a Value added Tax (VAT) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and state governments. The introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets. Last but not least, the GST, because of its transparent character, will be easier to administer. Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy. The proposed GST is expected to streamline the indirect tax regime. It contains all indirect taxes levied on goods, including central and state-level taxes. Billed as an improvement on the VAT system, a uniform GST is expected to create a seamless national market. Through a tax credit mechanism, this tax is collected on value-added goods and services at each stage of sale or purchase in the supply chain. Not only it will replace Central Indirect taxes but will replace state levied indirect taxes too. Experts say 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.*

Key Words: *GST, GST Rates, Implications, Economic Growth.*

1. INTRODUCTION:

Goods and Service Tax (GST) in replacement of value added tax levied on most goods and services sold for domestic consumption. There is no cascading effect as there is deduction or credit mechanism for taxes paid for the inputs. The tax is levied on the value added and on consumption only. Total burden of the tax is exclusively borne by the domestic consumer. Exports are not subject of GST. GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

Value added taxation in India was introduced as an indirect value added tax into the Indian taxation system from 1st April 2005. Before that union excise duties were introduced into Indian taxation system. Union excise duty is a type of indirect tax on goods manufactured in India. Later on union excise duties were named as CENVAT. GST or Goods and Services Tax is a destination based on indirect tax that will remove the cascading effect of taxes. GST that will replace a number of indirect taxes like Service tax, excise duty, Value Added Tax (VAT), Counter Veiling Duty (CAD), Special Additional Duty of Customs (SAD), Central Sales Tax (CST) etc. GST shall ease the way for doing business by removing a plethora of indirect taxes. GST shall potentially have its impact on both the manufacturing as well as the services sector. Though the common man may hesitate initially but the after effects of GST shall sound really beneficial. Businesses may it be small or big shall be engaged in the transition from the earlier taxation system to the new GST system. However, it may take some time to adjust, but slowly and gradually as they get used to this new taxation system, and things will get simplified. If the actual benefit of GST gets passed on to the consumers, we can see a reduction in the cost of different goods. This will further enhance demand of products and boost their sales thereby benefiting the overall economy.

The Indian products shall become more competitive at the domestic as well as the international levels. The new GST or Goods and Services Tax shall pave the way for a common national market wherein a common tax known as GST shall be apply. Although, there are 4 GST slabs i.e.5%, 12%, 18% and 28% that have been finalised for different category of goods and services. GST shall add to the Government revenue by widening the tax horizon and bringing even takes place may lose revenue which the centre shall compensate.

But, as time passes by the improved tax compliance under the GST system shall add to the revenue of Government. Small business must now be prepared to take up a significant compliance burden as there is no scope of escapism of any kind. The proposed GST rate on services i.e.18% from the present service tax rate of 15% shall also lead to increased revenue. Certain exemptions leading to revenue foregone are likely to be removed to further widen the tax base under GST. Some experts believe that there can be a rise in inflation after the implementation of GST. However, this impact of inflation is expected to subside slowly and gradually.

2. IMPLICATIONS OF GST:

- **Uniformity:** There is uniformity in computing taxes for goods and service and elimination of multiple excises, CST, VAT, service tax calculations.
- **Fixed rate of tax**: there is a fixed rate of tax regime for both goods and services. The exact percentage is yet to be decided.
- **Allocation of funds:** In GST there is appropriate allocation to Central and State funds. GST will add to the government revenues by extending the tax base.
- **Price reduction**:
  Unification of different indirect taxes under GST will give boost to the existing tax-credit system, which will drive tax efficiency for manufacturers, wholesalers and also for consumers of goods. This will decrease the overall cost incurred by manufacturing sector which will reflect in various inflation indices in long-term's could have a negative impact on service sector, which contributes over 50% of Indian GDP. The existing Service Tax of 15% would surge to Goods and Service Tax rate which is anticipated at 18-20%. But at the same time, in current tax framework service sector is unable to enjoy tax-credit on VAT and Sales Tax, which is likely to change in favour of service providers after GST implementation. However, this might be lost if the GST rate is higher than anticipated.
- **Simplification:** Accounting will be simplified and consideration for input tax from raw materials will also become easy.
- **Tax evasion:** Since the mechanism is still complicated, it cannot completely eliminate black money and tax evasion. Another perk of being destination based system, Goods and Service Tax Framework would ideally reduce tax evasion by large extent and promote use of bills and invoices.
- **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.
- **Eliminate the roadblock**: 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.
- **More transparency**: 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.
- **Provide credit facilities**
  - **Credit to producers** : 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.
  - **Credit to Manufactures:** Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, therefore, incentivizing firms to source inputs from other registered dealers. This could bring in additional revenues to the government as the unorganized sector, which is not part of the value chain, would be drawn into the tax net.
  - **Credit to Dealers:** To claim input tax credit (ITC), each dealer has an incentive to request documentation from the dealer behind him in the value-added/tax chain. Thus, the new tax regime is seen as more self-policing, less intrusive and hence more effective way of reducing corruption
- **Removal Of The Custom Duties:** 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.
- **Exports:** Exports will become competitive as the GST regime will eliminate the cascading effect of taxes. A National Council of Applied Economic Research study suggested that GST could boost India's GDP growth by 0.9-1.7 percept. GST is a key 'Brahmastra' for India's gross domestic product in times of challenging global environment.

3. GST IMPACT ON GROSS DOMESTIC PRODUCT:

In terms of growth impact of GST implementation, the near-term could be a mess, with adjustment costs for the private sector grappling with inter-sector implications, and the central government (CG) trying to compensate states for revenue loss. If the GST rate is set at around the 17-18%, service producers would face an increased tax burden while manufacturers would see a fall. That could cause manufacturers not to pass through benefits and service providers to pass on costs, moves that would lower consumption and overall growth. At present, the effective indirect tax rates on services and goods are 15 per cent and 22.5 per cent, respectively.

4. GST IMPACT ON INFLATION:

Initially, the implementation of the GST in the near-term could bring some upturn in inflation; however, the effect should be transitory. The service tax rate could shoot up from the current level of 15 per cent (including Krishi Kalyan Cess). Under the GST tax regime, this tax rate may go up to 18%. This has led to fears that inflation could rise in the short term. A revenue-neutral rate (RNR) of 15 per cent with a low rate of 12 per cent and a standard rate of 18% would have a negligible inflation impact. But a higher RNR with a lower rate of 12 per cent and a standard rate of 22 per cent meanwhile would have a 0.3-0.7 percentage point impact on aggregate inflation, it continued. (CPI) Consumer price (CPI) inflation could rise by 0.2 percentage points if the GST rate is kept at 18 per cent. If the rate is set at 22 per cent, CPI could increase by 0.7 percentage points.

5. GST IMPACT ON FOREIGN EXCHANGE:

The GST will be welcome news for the Indian rupee (INR). So far, the currency has yet to see a GST boost. It is believed that GST will lead to wider foreign direct inflows of investment and a narrow current account deficit-factors that should help the INR eventually outperform other Asian and emerging market currencies.

6. GST IMPACT ON MAKE–IN–INDIA:

The 'Make in India' campaign is proposing to 1make India a world-class manufacturing hub. The tax reforms through GST will play a crucial role to attract large-scale investment. The impending Goods and Service Tax promises a progressive tax system which avoids tax cascading and helps to establish India as a true common market. GST will reduce the cost of production and allows the hassle free supply of goods. This can increase the ease of doing business India.

Unification of Market: GST will lead to the unification of the market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses. A UBS Securities study found that truck drivers in India spend nearly 60 per cent of their time off roads negotiating check posts and toll plazas. The foreign brokerage said that 11 categories of taxes are levied on the sector of road transport. The GST will help bring down logistical costs.

Clean–up Indian taxation system: The clean-up of the Indian taxation system will reduce the number of excise duty exemptions. According to the government's estimates, excise tax exemptions results in foregone revenues of Rs. 1.8 lakh crore. The comparable figure for the states is about Rs. 1.5 lakh crore. Together, India loses about 2.7 per cent of GDP because of exemptions.

Less Compliance and Procedural Cost: The cost of collecting various taxes, maintaining big records and their respective reports by the government bodies would see a definite decrease as these taxes would come under one big umbrella of GST.

Pricing and Profitability: The resultant tax expenditure after GST bill being passed would have a direct impact on pricing and profitability of different goods and services which will vary across different sectors. Given that Margin and Price Bands would also be re-examined, decline in prices is probable, which will have direct impact on consumer demand.

Cash Flow: Goods and Service Tax is set to boost cash flows through the removal of concept of excise duty. Being a consumption-based tax, GST would now be collected at the time of sale/supply over current predicament of tax being collected at the production/removal of goods.

Redress Location Bias: This would enable uniformity through states and would not let investors discriminate states on basis of tax advantage. The only thing that would drive investor's capital will be profitability, cash flows, and performances promoting smaller businesses and entrepreneurship without location bias.

Uniform Per Capita Taxation: As mentioned above, Goods and Service Tax being destination-based consumption tax would allow poverty stricken states like Bihar to increase its tax revenue. As GST would be paid to states where the consumption of goods takes place, the states' tax revenue would be driven by population (more the population, more the consumption) rather than number of businesses/industries. This would ultimately even out the tax per capita of each state.

CONCLUSION:

Goods and Service Tax (GST) is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say 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. 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. GST seeks to move away from a system in which tax is added on to the post-tax value of goods from the previous stage in the value chain, which has led to a compounding effect of tax-on-tax on commodities and services. The reform seeks to remove this anomaly by giving full credit for taxes paid at the previous stage. At present, states try to maximize their revenue by denying full tax credit in case of inter-state commerce. Under GST, interstate supplies will be taxed across the country at a uniform rate specified for the item with full credit settlement. GST could also reduce avoidable litigation.

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