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GST: Impact on Indian Economy

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Abstract: GST is a comprehensive tax which will be levied on both goods and services. It is a value added tax where tax is imposed only on the value added at each stage in the supply chain. Presently the Indian tax structure is very complex. There are a large number of taxes on goods imposed by the central and the state government. The main objective of this paper is to study the impact of GST on Indian economy by analyzing both side of the coin. In the above paragraphs we got to know the benefits of the implementation of GST, and how it will benefit every participants involved in the day to day market operations. The following paragraphs will be on the counter side of the new tax structure, which will be highlighting the other side of it. There are some sectors which will have adverse effect after the implementation of GST bill. There are certain expected disadvantages of the new tax reform, and how it's going to impact the Indian economy.

I. INTRODUCTION

India was on verge of implementing a GST for nearly a decade, which was delayed due to lack of consensus among the political parties. The Goods and service tax (GST) bill which is passed by the upper house of parliament with full consensus of political parties on 3rd of August 2016, is now expected to be implemented from April 2017. This is generally regarded as the historic and game changing tax reform for Indian economy. Assuming GST to be an important element that can make the indirect tax system very efficient and will benefit all the participants including manufacturers, sellers, the ultimate consumers and the tax collecting government.

Being a large and complex federal system, this new tax reform will encompass both goods and services, which will be implemented by the center, 29 states and 2 union territories. It will affect potentially 2-2.5 million tax entities combining with the latest technology to use and improve tax implementation capabilities, which is perhaps unprecedented in the modern global tax history. According to the World Bank (2015), more than 160 countries have so far implemented some kind of VAT, which is termed as GST.

GST is a comprehensive tax which will be levied on both goods and services. It is a value added tax where tax is imposed only on the value added at each stage in the supply chain. Presently the Indian tax structure is very complex. There are a large number of taxes on goods imposed by the central and the state government. There are central taxes like central excise duty, additional excise duty, additional custom duty, central sales tax, central surcharges and cesses. Then there are state taxes like VAT/sales tax, purchases tax, luxury tax, tax on lottery, betting and gambling, state cesses surcharges and entertainment tax. Apart from these taxes on goods, there is the central tax on services. When GST will be implemented, all these taxes will subsume to one.

The significant feature of the GST is that there is an input tax credit available at each stage of the value chain. There is a value added at each stage right from the manufacture to each additional stage of sale. The tax which is needed to paid only on the value added to the product instead of the whole amount. For example, if there is a tax paid on Rs.1 lakhs at 15 percent at the first stag, then the amount of the tax will be Rs.15000. At the next stage when the same good is sold at Rs.1.5 lakhs, then the tax would be Rs.17250. But in GST there is a set off of Rs.15000 available, the actual tax at that stage will be only Rs.2250. This tax credit will eradicate the 'tax on tax' system and thus avoids the cascading effect of multiple taxation.

After the implementation of uniform GST, the current tax barrier will be removed across the country with seamless credit, making India a common market leading to efficiency in supply chain and economy of scale in production. It will also have a favorable impact on organized logistics and modernized warehousing, with expansion in trade and commerce.

GST will also support the 'Make in India' vision by totally removing the cascading effect of taxes imposed on cost of production of goods and services. It will provide seamless operation cycle and smooth credit through value chain. This will reduce the cost of indigenous products. The sectors having a long value chain from raw materials to the final product stage like, FMCG, automobiles, engineering goods, pharmaceuticals, consumer durable etc., with operating in more than one state, will have the major benefit of it.

The introduction of GST is expected to represent a step forward in creating a much cleaner dual VAT system would minimize the disadvantage of fully centralized and fully independent system. With a common base and common tax rates including all goods and services and very similar rates across states and between center and states will ease the administration process and improve compliance. In keeping with the federal sprit of the Indian constitution, GST will be levied by the Centre as CGST and the States as SGST. Inter- states supplies will attract an integrated GST as IGST which will be levied and collected by Centre. Temporally, IGST will come with an additional 1 percent to compensate the manufacturing states. This will be for a short period, to be decided by the GST council. The tax will be imposed on the destination basis: exports will be zero rated and imports will be charged the same tax rate imposed on the domestic goods and services.

Talking about the international scenario, countries like Russia, Argentina and Brazil follows independent VATs at Centre and states. Canada and India are currently having dual VAT system, and other countries follow a single VAT system, levied and administrated at Centre. India is proposing a clean dual VAT termed as GST, will have common base and common or similar rates which will facilitate administration and compliance, while continuing to provide fiscal autonomy to state.

On one side GST will simplify the prevalent tax structure; on the other it will increase the burden of procedural and documentary compliance. With the increase in number of returns, the amount of information will also increase. An entity providing services from different states will have to take registrations and file in return in all the states; currently a single centralized registration is required in such cases. The business organization which maintains high inventories of goods in different states will be adversely affected by the implementation of GST, as they will have to pay full rate on stock transfer among the states, which is now payable on sales as CST/VAT and not on transfer of stocks.

In the current Indian tax system different commodities are charged at different rates according to its necessity and usefulness. VAT is only applicable to products, services are being charged at a fixed rate of 15% as of now. After the implementation of the GST all the services will be charged at a rate of 18% according to the revenue neutral rate (RNR) report. As of now the rates are not decided, it can also go up to 20%.Now consumers have to pay around 3-5% extra taxes on services they are using. There will be high inflationary impact on the telecom, banking, and financial services, air and road transport, construction and development of real state.

On the other hand if we talk about the products categories, currently tax are being charged on the basis of usefulness and priority basis. The items which are the base requirement of life such as food products are being charged at 4-5% and hefty taxed are imposed on luxury goods. Now after the implementation of GST, the packaged food products are going to be charged at 18-20%. And on the same side luxury goods which are taxed higher, will be made similar.

It is also important to note that all the indirect taxed will not be subsumed in GST. VAT on alcoholic beverages, petroleum products like crude, natural gas, petrol and diesel, will not be subsumed in GST on its introduction. Claiming that it will provide the states some fiscal autonomy to change the tax rates as per need. Which is for sure not going to reduce? Then there will be a tax in the name of additional tax of 1% for the inter-state movement of goods, which is against the GST spirit. Manufacturing state would lose big revenue on their side.

II. OBJECTIVES

- To know the conditions of economic crisis in India.
- To identify the petroleum and sin products who are not under the purview of GST.
- To verify the rise in investment and growth under GST in India.
- To provide suggestions.

III. ECONOMIC CRISIS

The internet industry body has rooted for the passage of the crucial goods and services tax which may bring about a huge relied for ecommerce companies in the country. The internet and mobile association of India (IAMAI) said that as the taxes varies according to the state in the account of seller, there are also micro, small and medium business scattered across India, who continuously faces difficulty due to the variation of taxes. All are seeking common rates and some clarity on tax in order to boom. They predict that if GST is not implemented soon there will be a crisis. If it's not, then there will be only few major companies ruling the market and there won't be any free play market dynamics.

Taking a look at the FMCG sectors, it is given that these companies pay nearly 24-25% taxes including excise duty, VAT and entry tax. GST at 17-19% could yield significant reduction in taxes and this will result to the decrease in the price of the commodity. My question is will there be actually a price reduction of the commodities?

Let's take an example, say, there is a reputed food products company which has a large market share, and products are in a huge demand. Suppose I buy a product, which costs to company is Rs. 100, and after 25% of tax it costs to me of Rs.125. Now after the implementation of GST, the tax is supposed to be at 17-19%, so I will be paying Rs.17 as tax on Rs.100, the total will be Rs.117. Now here comes the question, that if, the company is making desired amount of profit out of selling the product @ Rs.125 with a tremendous demand of its products., will it be willing to reduce the price of the commodity to Rs.117? We should not forget that the motive of the business is to make profits, as much as they can. They can simply raise the cost to company to Rs.107 and with 17% tax its final price will be same as before to Rs.125. Because here is still not an increase in the price of the commodity, the demand and supply of the product will remain the same, resulting in extra amount of profits for the companies after GST. This was the scenario for one company, if all the other follows the same, then there will not be any benefit of the GST for the common man.

Currently the food companies enjoy the concessional rates of taxes. On some of the products 4-5% taxes are charged. After GST all the products will be charges at same rate i.e. 17-19%, resulting in price rise of the commodities. These commodities are the basic necessity of life for every one whether a rich or poor. The rich will not be affected by this but the middle and the lower income families have to bear it. And due to inflation the demand of the commodities can decline, which in terms can result to an economic crisis, because the services are surely going to increase about 4-5% from current rate and if these commodities also rises, there will be a negative impact on the economy because the income of the households will remain the same after the GST.

IV. PETROLEUM AND SIN PRODUCT

There are some products which are exempted from the purview of the GST as of now. Petroleum products such as diesel, petrol and other products are exempted from the one nation one tax regime. Sin tax is a state sponsored tax that is levied by the state government on the products and services that are seen as vice, such as liquor, tobacco and gambling. These taxes are basically levied by the government to discourage the use of these harmful products. And these taxes produce huge revenue to the government.

As of now petroleum and sin products are exempted from GST and the taxing will be dependent on the state government at their will. The tax proposed for these products is 40%, as per the RNR report of the committee headed by chief economic advisor of India. This means that these products will be increased by 20% from the current prices. Moreover the changes can be made by the state government as per their needs, which means there can be future increase in the taxed charged to them. As there will be CGST & SGST, the state have their fixed rates of taxes after GST and if there is decline in the revenue of the state, the center will fulfill the loss. But in case if in any situation center is not able to meet the needs of the state revenue then there is only one way to fulfill the revenue deficit and i.e. to increase the taxes levied on the petroleum and sin products.

The huge amount of taxes levied on the sin products is good for the society, but taxes on petroleum products are not fixed same as GST is not satisfactory for all. As we all know that the petroleum products such as diesel, petrol and LPG are the lifeline of the people nowadays, no one travels on bullock carts, no one cooks food on woods. If the price of the petroleum products rises due to increase in tax day by day then there will be a hue and cry all over, because with the increase in prices of these products, the price of the other commodities will automatically rise.

V. Investment and Growth

Many benefits are claimed for GST and one of them is that it will increase growth of the Indian economy. It will increase investment by making it easier to take advantage of input tax credit for capital goods. With the amount gap in the present tax system and after GST, the savings which are incurred are expected to be invested in some form of income or employment generation process. This is the assumption made by the government, that in this way the investment will be increased and there will be an economic growth.

Examining the situation from another point of view, let's take an example, say a company is currently paying 50 Cr. Tax for its business, and after GST it will be reduced to 40 Cr. (Assuming) so they will get a benefit of 10 Cr. Now the question is, as of now this 10 Cr. Which is saved by the firm, goes to the government and they invest it to some employment generation scheme or any other productive work. After GST the same 10 Cr. is expected to be invested by the firm for some productivity purpose. In both the cases, the money is going to be invested one way or the other, both of them will be investing that amount. Now the question arises, from where the extra 2% GDP growth is assumed to come from? The other question is that if there is saving by the firm, is it guaranteed that they will invest the entire amount in pursuit of economic growth? And invest only in India? They can invest in abroad, they can buy properties in abroad, and they can do lots of things which are not a part of economic growth. and if is so, then there can be a risk of decline in GDP, at present the government is utilizing the money in growth and development and if that money is not utilized in proper way, them there can be a negative effect on the economy.

VI. Suggestions

- The reforms should be made by taking consideration of all classes of people whether they are low income or high income families, the equality should be maintained.
- For the implementation of GST network, a highly sophisticated IT infrastructure will be required, without any scope for flaw.
- There should be measures to take control over the tax being charged on the petroleum products after the implementation of GST.
- As there will be benefits for the businesses, the same benefits should be transferred to the employees and workers by the businesses.
- Strong measures have to be taken by the government in terms to curb the black money generation. Only the implementation of GST is not enough for its eradication.

- The input tax benefits that are going to benefit the business should be regulated in terms to make expenditure in the employment generation and economic growth purposes only.
- The GST tax rate should not be more than 18%. If it goes beyond this, then there will be a chance of huge inflation.
- As India is a federal structure, the rights and power of federalism should be maintained.

VII. Conclusion

The new tax system SGT is surely going to reform whole Indian economy and will also have a positive impact on a long term basis. There will be inflation on short term basis which is to be borne by the common man of the country. Most of the countries are following the GST regime, is there anything unique in Indian GST? India should not be seen as one country with 29 states, rather it should be seen as 29 countries with more than 1.25 billion people out of 7 billion, whose GDP growth rate is more than 7% and one of the fastest growing economies in the world. Which gives her a unique identity, and every reform should be made according to the economic welfare of people, instead of following the crowd. Change is necessary, there should be modification, taking into consideration the interest of people.

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