Impact of Goods and Service Tax (GST) on economy of India

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Abstract

Objectives: To analyze the impact of GST on the existing indirect tax regime and on the economy of India.
Methods: Doctrinal method was adopted to study the objectives of the research. Researcher has made comparative study of various countries who has adopted GST to replace the existing tax regime and its impact on their economy. Researcher has also critically analyzed the first discussion paper on goods and services tax in India released by empowered committee of state finance ministers in the year 2009.
Findings: GST will play a major role in the growth of the economy of India. After the enforcement of GST in India, GDP will also grow ranging from 0.9% to 1.7%. GST will not only bring reform in indirect tax regime in India but also play a very important role in the growth of trade, commerce and other sectors in India. With the growth of trade, commerce and manufacture sectors in India will be very helpful in generating the new employments. GST will be very helpful in bringing down the inflation and beneficial to the consumer also. In place of dual GST single national tax is require to introduce in order to bring the nation in single tax regime. In case of high rate of GST, there will be changes occur in the existing indirect tax regime. High rate of GST will be equivalent to the cumulative of existing indirect taxes on the products.
Application/Improvements: GST will bring reforms in the indirect tax system and helpful in the growth and development of economy in India.
Keywords: GST, Inflation, Employment, Consumer, Economy, GDP.

1. Introduction

Direct tax is proportional in nature, e.g. income tax more income more tax is required be paid by assessed, on the other hand indirect tax is disproportional it mean that whatever may be the income of person all of them is required pay tax at a flat rate. One more nature of the indirect tax is that it is indirectly recover from the purchaser or consumer. The burden of indirect tax in an indirect manner finally falls upon the purchaser or consumer. The consumption tax system in India is complicated and multi-layered which levies both at the federal and state levels. Taxes on goods are levied by the centre at the manufacturing level through CENVAT, on services through the finance act, and on sale of goods via the central sales tax act. States levy tax on the sale of goods independently, under their own laws. Though some degree of uniformity had been arrived at after the introduction of the value added tax, differences do persist. The indirect tax system is not only very complex and manifold but at the same time it increases the prices or of final finished goods services, which were effect the growth of industry at domestic and international level. Therefore, a need for overhaul of the existing indirect tax regime, keeping in view the lacunas in the existing legislation, becomes imperative.

2. Indirect taxes system in India

The authority to levy tax rests both with the state and centre as provided by the constitution of India. The subjects on which the centre and state can legislate are provided for in schedule VII of the constitution which contains the three lists. The subjects mentioned under the first list gives centre the sole authority to legislate on those matters. Similarly, the second list contain subjects on which the states have the sole authority to legislate, whereas the third list also referred to as the concurrent list, empowers both the centre and state to legislate on the subjects mentioned under the list.

All residuary and unlisted areas falls within the domain of the Union Parliament; while in case of any conflict on matters enumerated in the third list between the centre & state, primacy is given to the law enacted by the Parliament and the same prevails over any state legislation. The scope of the taxation power resting with the centre and state is also determined & prescribed under the seventh schedule. The authority to levy tax on the entry, consumption & sale of goods in any local area or for the purpose of purchase or sale of goods rests with the State legislatures. In addition to this, the authority of the state legislatures extends to various other forms of indirect taxes. Although, the tax pertaining to sale and purchase of goods between states are liable to be taxed under CST, the proceeds of the levy is collected and used by the states. Further, in the beginning the respective Trade or Sales Tax enactments (which were subject to the central sales Tax Act, 1956) provided for the levy of tax on sale of goods; whereas the Entry Tax enactments provided for levy of tax on entry of goods. The same system of taxation under the specific legislation continued till the introduction of the VAT which was a result of an elaborative reform process [1].

The finance act of 1994 led to the introduction of service tax, which with the passage of time became a subject matter of various legal challenges. The authority to impose as well as to appropriate the service sax rests with the central Government. Custom duty is also levied on import and export of goods by the central Government. The central Government imposes a duty of excise upon manufacture of goods. As per rules the levy is upon a value which determined in accordance with the statutorily prescribed methodology, where as in certain cases it is upon the final price at which the product is sold to the consumer. Such duty paid on manufacture is available as credit to the next stage manufacture, but not to a seller or dealer in goods. Thus there is no interaction between the manufacturing stage of commodities and selling stage in as much as the availability of the credit of the duty on inputs is concerned.

3. Reforms in the indirect tax landscape

The first recommendation to bring in changes in the existing trade tax regime was proposed by the Chelliah tax reforms committee in 1991. The recommendation was to make a transition from the existing model to a value added tax structure. But the major overhaul in this direction was made by the appointment of the task force on indirect taxes in 2002. The function & objective of the same was to advice the government on the transition of the indirect tax regime as well as the means & manner of achieving the same. The task force recommended inter alia 'uniformity of all state legislations, procedures and documents relating to VAT' and this initiative for transition was furthered by the 'white paper on state-level value added tax, which delineated a model value added tax for adoption by the states. These recommendations and the proposed model were eventually accepted by the states by way of VAT enactment replacing the then existing sales tax legislation.

The alteration in the structure with the introduction of VAT did not, however, simplified the prevailing realties. The reason for the same can be attributed to the presence of two parallel VAT legislations put in place by the centre and the specific state legislations, which in essence did not provide for any linkage between the two models. This in turn made it difficult to adjust the credit duties (related to manufacture) towards duties which were payable on sale of goods. In addition, credit of tax paid on receipt of taxable services was made unavailable for dealers & sellers while the same was available in case of manufacturers. The difficulties posed manifested the failure of VAT on multiple fronts, thereby requiring further deliberations and mulling of reform in the structure. Another problem faced was with regard to the difficulty in categorization of goods & services which was prompted by the digitalization and rapid development of the information technology. For instance, the Indian system defines goods to include intangibles such as copyright, thereby making them a part of the state taxation. On the other hand, the intangibles are also made a part of service contract in some arrangements [2].

4. Impact of defects of indirect taxes on economy

Majority of Indian neighboring countries follow single indirect tax system in the form of VAT/GST in which tax credit is available at each point of sale. The consequence of the same is low cost of manufacturing of services or product in these countries in comparison of India.

Whilst in India, there is levy of multiple taxes at various stages before it reaches in the hands of the consumer. The government at both the levels has levied many indirect taxes on various taxable events in the same value chain. The effect of which is that the product or services is charged to different indirect taxes when it finally reaches in the consumer's hand. The same leads to arise in the price of the concerned goods and services as a result of levy of tax on tax.

Therefore most of the manufacturer in India instead of manufacturing goods in India import the good from low cost manufacturing country and simply by putting their logo selling their goods in India or they deter to establish manufacturing units in India. Establishment of less manufacturing unit in India may lead to unemployment and less purchasing power in the hands of people. One more factor which affects the manufacturer or service providers in India is the need of obtaining separate registration as well as filing of separate return. Rate of the tax on the same product is different in various States. The impact of such an arrangement is put on the inter-state free flow of goods.

Another short coming in the existing regime can be said to be in the vague demarcation for the identification of goods and services. The same ambiguity extends to sale of goods or services in cases of software supply. As in former, it is subject to levy of tax under VAT regime, whereas in the latter, it is subject to service tax. Similarly, in certain cases it is difficult to ascertain whether a transaction will amount to sale of goods or supply of services. In order to avoid the payment of CST, manufacturers established ware houses in different states. The consequence of such an arrangement is the impact on the operational efficiency of such facilities as the same are established as a way to avoid the payment of the specified tax. The law warrants the presence of warehouses/depots for the finished goods in each state in order to avoid CST, which in turn is exploited by the concerned parties.

5. The Goods and Service Tax (GST) in India

To take care of drawbacks in the existing indirect taxes regime and considering the advantages of GST, debates on a uniform indirect tax regime have been commenced with the Bagchi report in 1994. The GST is a destination based tax formulated with the objective of taxing all the goods and services which are consumed in India. The GST regime works as chain of continuous set-off aiming to benefit the producer, service provider as well as the retailer. It works in a way that the final consumer is charged tax at a single level, thereby benefiting from the doing away of tax at multiple levels of the production of the good or providing of the services [3].

Both the centre and the state derive power to impose taxes from the constitution of India by enactment of appropriate legislation. A dual GST will, therefore necessary in order to maintain constitutional requirement of fiscal federalism. A constitutional amendment is required to confer power on the states to impose tax on all services. Similarly, the centre requires the power to impose tax on goods up to the point of final consumption. The centre also require the power to impose service tax on betting, lotteries, luxuries, entertainment, etc. 122nd constitution amendment bill, 2014 was introduced in the Parliament eyeing issues of imposition and distribution of the proceeds of levy of tax on the goods and services by the centre and states [4]. The presence of GST at two levels although will have implications on it being a single tax regime. In place of dual GST if single national tax would be a better option that tax regime not only simple would also promote economic efficiency and unified national market. There is need to pay attention on the rates of the GST. The current regime is not expected to bring any major change in the existing indirect taxes regime in India [5].

6. Impacts of GST on economy of India

1. Economic growth

The taxation of capital goods discourages savings and investment and retards productive growth. The 'flawless' GST envisages full and immediate credit for GST on capital goods, thereby eliminating the incidence of any indirect tax on the capital goods. This enhances the productivity of capital hence reduces the incremental capital-output ratio. Henceforth introduction of GST would encourage savings and brings new investment in the economy. A detailed study by task force has shown that implementation of GST across goods and services are expected to provide gains to India's GDP somewhere within a range of 0.9% to 1.7% [6].

2. Benefits to manufacturing sectors

With the implement of GST manufacturing sectors will earn lots of benefits. GST will be helpful in the reduction of manufacturing cost of consumer durables companies, which would contribute in the growth and development of these companies in India. Another major benefit especially to FMCG and consumer durables companies would be the reduction in their inventory costs. Currently, the CENVAT is included in their inventory costs, which has to be financed by them. Under the new structure, the GST paid on inventory would be fully recoverable immediately as input tax credit, reducing the inventory financing costs.

3. Uniform tax structure

GST will simplify the indirect tax system in India. There is levy of taxes at multiple fronts on a product in India. The implementation of GST will ensure levy of a single tax on a product contrary to the existing scheme; it would very easy to compute the tax and also increase the tax collection in India. As a uniform levy across the country, GST would bring together all indirect tax assesses less than one umbrella, analogous to the direct tax paradigm. Assessee would not require to register under different Act and to file different returns throughout the year. After coming into force the assessed would require to register under GST only and to file single returns in place of multiple returns [7].

4. Non-distortion of business decision-making

With credit being available to the business irrespective of the stage of commercial cycle, business would be free to take commercial decisions without being required to consider the tax cost of their operations.

Such a scenario will give boost to force of competition, which alone will dictate the success of the enterprise rather than is ability to mitigate the tax hazards.

5. Beneficial to the consumer

The introduction of GST regime will ensure benefit to the consumer by bringing down the price of the consumer durables in India. The same will also result in the increase in purchasing capacity because of GST being a consumption based tax.

6. Controlling inflation

Reduction in commodity costs would reduce the inflationary trends of the economy and bring the product prices at realistic levels. There reduction of tax levels from the cost of the products would, thus, serve and added hand to the government in mitigating the rising costs across the industry and hitting the citizens harder.

7. Increased in employment

Implementation of GST will help in the growth and development of the manufacture sector, real estate and other sector in India. Output of sectors including textiles and readymade garments, minerals, heavy machinery industries, foods and other sectors is expected to increase considerably. On account of increase in economic activity resulting in higher growth there will be new opportunities for employment which will be beneficial to the poor and unemployed peoples in India.

8. Conclusion

GST is hailed as a game changer as it will redistribute the burden of taxation equitably between manufacturing and services. The same will reduce the tax rate as a result of the expansion in tax base and reduction in the exception categories. GST will play a very important role in the growth of trade, industry, exporters, small entrepreneurs and small vendor. It will also help in increasing the prospects of employment as well as growth in the country.

Most of the State in India is not in favour of the implementation of GST, because of the fear that it would hit the government hard in terms of revenue. But they are not paying any attention on the fact that when trade and commerce flourished in the country, the tax collection will automatically rise.

Further, a number of critical areas such as revenue apportionment between centre and state, rate of GST, scope and ambit of exemptions, implementation issues, challenge an effective transition to GST. At present GST is very important for indirect tax reform in this post-liberalization scenario with a comprehensive tax on 'Goods and Services' will boost the economy of India. GST has the potential not only to transform the tax system but also the economy of India.

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