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Impact of Goods and Service Tax (GST) on Indian Economy

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Abstract

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support .and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.

Keywords: - Goods and service tax; Indian economy.

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 allowed with imbrications of taxes imposed by union and states separately. GST will unify all 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 cased including CGST and SGST.

CONCEPT

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 like central excise duty, central sales tax, and special additional duty on customs. Counter veiling duties whereas indirect taxes of state government 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 art 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.

ADVANAGES OF GST

Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration. It is expected to remove the cascading effects of taxes and help in establishing of common national market. A part from this some more advantages of GST are listed below:

IGST- EFFECTIVE LOGISTICS

irrent indirect tax system central sale tax (CST) is paid on interstate commerce of goods. 2% standard rate of CST is levied and distributed to exporter state as it is origin based tax. The input credit of CST can he offset with CST liabilities only. CST is paid only on interstate commerce of goods and not on supply (transportation) of goods. So, to avoid this tax large corporate build own godowns in different states and transport their goods among states without paying CST which finally leads to decrease in cost of their product. Because of this tax dodging through warehousing by big corporates growth of small and medium enterprises hampered and they cannot survive in the market.

But in proposed GST tax regime IGST is levied on interstate commerce and supply (both) of goods and services. Due to this an effective logistics system will come up _which will prevent the tax dodging through warehousing by big corporates. This will protect small and medium enterprises from unhealthy competition of big corporates.

CILLARIZA TION

In present indirect tax regime all big corporates want to produce each and everything in-house reduce CST and cascading effect of tax. But in proposed GST system there is no CST and cascading effect which will lead to outsourcing, subcontracting and division of labour, Because of this specialization will increase in future which will help in reducing the cost of produuction. With the reduced prices domestic goods will be more competitive in international market which will result in increased export and help country to reduce current account deficit.

SINGLE BASE COMPUTATION

With the introduction of GST cascading effects of taxes will not exists and there will be a single for computation of tax for both central government and state government. Initially statements will lose tax revenue due to less taxable value of goods. But in later years due to availability of cheap goods the number of taxpayers will increase and overall tax collection of states will also boost. This increase in tax revenue will lead to fiscal consolidation which is demanded by current state of Indian economy. As per CRISIL recent report GST is best reckon for fiscal consolidation as there is not much scope to cut government expenditure in India.

EXPORT WILL BE ZERO RATE

No GST will be levied on exports because of which input credit of exporter will not be affected and he/she can use these input credit in future. With zero rated exports, domestic goods will be

More competitive in international market and will help in increasing exports which in turn the fulfillment of objective of 3.5% share of India in world exports by 2020.

SIMPLE TAX STRUCTURE

As multiple indirect taxes of state and central governments on goods and services will be replaced by a single tax, the tax structure will be hoped much simpler and easier to interpretate.

Reduction in the accounting complexities for business will make the manufacturing sector more competitive and boost the economy by I%-2%

CHALLENGES OF GST

HIGH REVENUE NEUTRAL RATE (RIVR)

RNR. is the rate which neutralize revenue effect of state and central government due to change in tax system, means ,the rate of GST which will give at least the same 11/4:\ el of revenue that is currently earned by state and central governments from indirect taxes is known as RNR. As per 13 finance commission the RNR should be 12% whereas state empowered committee demanding 26.68% Union Government is reckoning the rate band should be 15%-20•,) ·which is very high as Compare to other counties. Hungary implemented GST from 1/4/2014 with 7% rate. Due to high RNR

- Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking.
- Tax evasion and smuggling will increase.
- Regressive nature of indirect taxes will badly affect the purchasing power of poor people

Which will have negative impact on human development index.

So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol , liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

OTHER ISSUES

Union government need to coordinate with 30 states for "input credit" due to transfer of credit in SGST.

State tax officials training and development before implementation of GST.

Effective credit mechanism is essential for GST. Owing to CEN VAT it is not a problem but for states again it is a major challenge.

Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to g%. (A study commissioned by Curtin university of technology)

Conclusion

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of CST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

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