

GST (Goods and Services Tax) - A Game Changer for India

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Abstract

This paper explores the impact of GST on the country's GDP. Also, the impact on various segments of the population. It also explores the journey of this reform and comparison with the countries which have done this reform earlier. The identification strategy makes use of various reports published by the media and government agencies. The paper also discusses the impact of GST on the logistics industry of India. The paper also looks into the proposed slabs of GST and also its effect on tax revenue for various States of India. The study also considered the items which have considered out of GST net and also how it might impact the Foreign Direct Investments (FDI).

Keywords: goods and services tax (GST), GDP, foreign direct investment (FDI), growth rate

1. Introduction

The GST is a Value added Tax (VAT) and 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. It is aimed at being comprehensive for most goods and services. The GST is considered as the game changer for India as it will make the tax system more transparent and create a common Indian market. It would have a far reaching impact on most of the aspects of the business operations. It will actually a one great step for one India for all businesses. There will be no duplication of taxes so in the long run it will reduce the prices of the goods, hence increases the demand. The GST would replace most of the indirect taxes currently levied.

Table 1

Central Taxes	State Taxes
<ul style="list-style-type: none"> • Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] • Service tax • Additional Customs Duty (CVD) • Special Additional Duty of Customs (SAD) • Central Sales Tax (levied by the Centre and collected by the States) • Central surcharges and cesses (relating to supply of goods and services) 	<ul style="list-style-type: none"> • Value-added tax • Octroi and Entry tax • Purchase tax • Luxury tax • Taxes on lottery, betting and gambling • State cesses and surcharges • Entertainment tax (other than the tax levied by the local bodies) • Central Sales tax (levied by the Centre and collected by the states)

In present scenario the above mentioned taxes constitute 25 to 40 percent of the price of the products with certain exceptions. With the implementation of GST these taxes will come down to 18-20 percent for most of the products and will help to boost the 'Make in India' initiative started two years back to make India a manufacturing Hub. This reform will not only provide further thrust to the Indian manufacturers with hassle-free supply of goods across the country and reduction in the tax cascading effect, which actually results in lower production costs, hence lower prices of goods and more demand. Although there will be little negative impact on the service sector as it will increase their tax burden.

2. History of GST

France is the first country to implement GST. Presently, more than 130 countries have implemented the GST. In India it started in 2000, during the tenure of Vajpayee Government, The committee was formed under Asim Dasgupta, (Finance Minister, and Government of West Bengal). It was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout. It was considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country.

India is a country with vast diversity and is having a different tax regime in different places. It is in this perspective the Kelkar Task Force was formed by the central government on the implementation of the FRBM Act, 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems and had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.

A proposal to introduce a national level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of the GST was assigned to the Empowered Committee of State Finance Ministers (EC).

In April, 2008, the EC a report to the titled “A Model and Roadmap for Goods and Services Tax (GST) in India” containing broad recommendations about the structure and design of GST. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST. Based on inputs from the Government of India and States, The EC released its First Discussion Paper on Goods and Services Tax in India on the 10th of November, 2009 with the objective of generating a debate and obtaining input from all stakeholders.

<http://www.gstseva.com/gst/history/>

A dual GST module for the country has been proposed by the EC. This dual GST model has been accepted by the Centre. Under this model GST have two components viz. the Central GST to be levied and collected by the Centre and the State GST to be levied and collected by the respective States. Central Excise duty, additional excise duty, Service Tax, and additional duty of customs (equivalent to excise), State VAT, entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST.

In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted. This was further trifurcated into three Sub-Working Groups to work separately on draft legislations required for GST, process/forms to be followed in GST regime and IT infrastructure development needed for the smooth functioning of proposed GST. In addition, an Empowered Group for development of IT Systems required for Goods and Services Tax regime has been set up under the chairmanship of Dr. Nandan Nilekani.

A draft of the Constitutional Amendment Bill has been prepared and has been sent to the EC for obtaining the views of the States.

The Goods and Service Tax Bill or GST Bill, officially known as would be a Value added Tax (VAT) also passed from Rajya Sabha on 3 August 2016 with amendments. After moving to Lok Sabha it approved on 08 August, 2016. The One Hundred and First Amendment of the Constitution of India, officially known as The Constitution (One Hundred and First Amendment) Act, 2016, introduced a national Goods and Services Tax in India from 1 April 2017(Proposed Date)

Table 2. Rate of GST (Some Countries)

Australia	10%
France	19.6%
Canada	5%
Germany	19%
Denmark	25%
Japan	5%
Sweden	25%
New Zealand	15%
Israel	17%
Singapore	7%

<http://www.ey.com/gl/en/services/tax/worldwide-vat--gst-and-sales-tax-guide---rates>

3. Review of Literature on the GST

- Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India, which analyzed the structure and loopholes if any in GST
- Kelkar, Vijay (2009) GST reduces manufacturing cost and Increases employment.
- Vasanthagopal (2011) in the article GST in India: A Big Leap in the Indirect Taxation System discussed the impact of GST on various sectors of the economy. The article further stated that GST is a big leap and a new impetus to India's economic change.
- Seventy Third Report of Standing Committee on Finance (2012-2013). The Constitution (One Hundred Fifteenth Amendment) Bill, 2011.
- Bird (2012) summarizes in the article The GST/HST: Creating an integrated Sales Tax in a Federal Country the impact of GST will be on Canada.
- Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India analyzed the impact and GST on Indian Tax scenario and concluded that it will strengthen out free market economy.
- Kumar (2014) studied in the article Goods and Services Tax in India: A Way Forward background, silent features and concluded with the positive impact of GST on present complex tax structure and development of the common national market.

- Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Services Tax (GST) which stated in brief details of the GST and its positive impact on the economy and various stakeholders
- The Institute of Companies Secretaries of India (ICSI) (2015) published a Referencer on Goods and Service Tax to provide the information on the concept of GST in details.
- Parkhi did an exploratory research in an article Goods and Service Tax in India: the changing face of the economy and stated that implementation of GST is a changing face of India and the government is well equipped for that which is a symptom of a fast paced economy.
- Kotnal(2016) has done an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario.

4. Impact of GST on Economy and Businesses

4.1 Impact on GDP

A study done by The National Council of Applied Economic Research has projected the impact on growth due to reduction in direct cost and cost reduction on capital inputs pegged the improvement in growth rates between 2 and 2.5 per cent. Others have estimated the Indian economic growth between 1.5 and 2 per cent faster on implementation of the GST. The GST will help widening the coverage tax base and tax compliance. This may lead to higher revenue and further growth of the economy.

4.2 Impact on Supply Chain Networks

In the present scenario with the current tax regime, supply chains are invariably designed to minimize the burden of the Central state Tax, with distribution centres located in individual states where the consumers are located. But with implementation of the GST will provide the organizations to redesign their supply chain to have optimal output and thus it will help to improve the logistics of the country. The implementation of Goods and Service Tax (GST) bill is expected to trim the logistic costs up to 20% from the current levels, however, the persisting high logistic costs could only be resolved by development of logistics infrastructure.

4.3 Impact on Foreign Direct Investment (FDI)

The GST will reduce the tax complexity in India and bring transparency and ease of doing business. According to a survey of corporate India by Feedback Business Consulting Services, which covered 67 companies from various sectors, GST rollout will be positive for the economy.

Around 72 per cent respondents felt investments will rise across sectors and a significant portion of this will come in the form of FDI especially in heavy engineering and automotive sectors.

5. Removing the Roadblocks

The central government has taken various to implement the GST by 1st April 2017

There was provision of Rs 55000 crore compensation fund which would be generated by levying cess on demerit or sin goods and luxury items, but states having non BJP (Bhartiya Janta Party) government are asking for Rs 90000 crore as their revenue has declined up to 40 percent post demonetization.

The Department of Revenue has promised to refund 90 percent of tax claims of exporters within seven days under the new GST regime, thus addressing a major concern of the sector. The delay beyond two weeks will be paid interest.

The GST structure would follow the destination principle. Thus, imports would be subjected to GST, while exports would be zero rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin

<http://www.careratings.com/upload/NewsFiles/SplAnalysis/Impact%20of%20proposed%20GST%20on%20Indian%20logistic%20industry.pdf>

<http://indianexpress.com/article/business/economy/implementation-of-gst-will-attract-more-fdi-survey-3029062/>

<http://timesofindia.indiatimes.com/india/another-roadblock-to-gst-states-demand-tax-on-high-sea-sales-higher-compensation/articleshow/56316933.cms>

<http://www.news18.com/news/business/tax-refund-to-exporters-within-7-days-under-gst-nir-mala-sitharama>

The Central government is working on building a robust IT network connecting all the state governments, trade, industry, financial institutions, etc.

A four-tier GST tax structure of 5%, 12%, 18% and 28%, with lower rates for essential items and the highest for luxury and de-merits goods that would also attract an additional cess, was decided by the all-powerful GST Council. The service tax has been fixed at 18%.

Products like kerosene, naphtha and LPG will be under the ambit of GST, while five items in the petroleum basket — crude oil, natural gas, aviation fuel, diesel and petrol — have been excluded during the initial years.

6. Conclusions

It can be concluded from the above discussion that the GST can be a great step towards tax reforms in India, It can be really a game changer for Indian Economy and will boost the Indian economy to new heights. Its implementation will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Although implementation of GST requires concentrated efforts of all stake holders, namely, Central and State Government, trade and industry. Thus, necessary steps should be taken as soon as possible. In the long run it can act as catalyst for growth of manufacturing industry in India.

<http://timesofindia.indiatimes.com/business/india-business/Final-GST-rates-out-slabs-fixed-at-5-12-18-28/articleshow/55225847.cms>

http://www.business-standard.com/article/specials/barring-five-all-petroleum-items-under-gst-regime-116080400030_1.html

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