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SWOT Analysis of GST on Indian Economy

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Abstract

GST is a huge reform for indirect taxation in India, the likes of which the country has not seen post Independence. GST will simplify indirect taxation, reduce complexities, and remove the cascading effect. Experts believe that it will have a huge impact on businesses both big and small, and change the way the economy functions. The Direct Taxes Code (DTC) is an attempt by the Government of India (GOI) to simplify the direct tax laws in India. DTC will revise, consolidate and simplify the structure of direct tax laws in India into a single legislation. The single GST replaced several former taxes and levies which included: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services.

GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its synergetic impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario.

Keywords: GST, DTC, Octroi, Inflation, Fiscal Health.

Introduction

Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. GST was initially proposed to replace a slew of indirect taxes with a unified tax and was therefore set to dramatically reshape the country's 2 trillion dollar economy. The rate of GST in India is between double to four times that levied in other countries like Singapore.

The single GST replaced several former taxes and levies which included: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime. GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the government of that state. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue.

Background of GST

The present structure of Indirect Taxes in India is based on three lists in Seventh Schedule to Constitution of India, which came into effect on 26-1-1950. These lists are mostly based on Government of India Act, 1935. The provisions were based on situation prevailing in 1935. That structure has become outdated due to changes in situations, technology etc. World has moved towards common Goods and Services Tax (GST) long ago. However, so far as India is concerned, GST is the tax for twenty first century [It is rightly said that India is like elephant. It takes time to start, but once started, it is very difficult to stop it].

Major defects in present structure of indirect taxes

1. Central Sales Tax (CST) is payable for every movement of goods from one State to other. If the sale is direct, CST is payable, Even in case of stock transfers or branch transfers, there is incidence of tax as input service credit (set off) of input taxes is not fully available.
2. Central Sales Tax is an orphan. Hence, if there is any difficulty, there is no authority to sort it out and find solutions. This creates numerous problems in CST.
3. Cascading effect of taxes cannot be avoided due to CST and Entry Tax.
4. Movement of goods in European Union (EU) is free across all countries without any incidence of tax. However, in India, movement of goods from one State to other is not tax free.
5. India does not have a national market due to invisible barriers of central sales tax, Entry Tax and State Vat and visible barriers of check posts.
6. Millions of man-hours and truck hours are lost at check posts. Besides, huge corruption is involved.
7. Central Government cannot impose tax on goods beyond manufacturing level [CST though levied by Central Government is collected and retained by State Government only].
8. State Government cannot impose service tax.
9. Over the years, distinction between goods and services has become hazy, due to which there is overlapping of State Vat and Central Service Tax on transactions like works contract, food rated services (restaurants, outdoor catering, mandap services), Software, IPR Related services, lottery, SIM cards, renting of movable property etc.
10. Same transaction is taxed both by Central and State Government which creates confusion, litigation and double taxation in many cases.

Review of Literature

Rathod M (2017) in his paper “An Overview of Goods and Service Tax (Gst) in India” concludes that GST will be a step towards a developed India benefiting to many parties and entire nation.

Nishitha Guptha (2014) in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favourable and economy is enjoying steady growth with only mild inflation.

Garg concluded in his article “Basic Concepts and Features of Good and Services Tax in India” that GST will make Indian economy stronger and will lead towards economic development.

Dr. R. Vasanthagopal highlighted that GST will definitely will be a step towards a growing economy in his paper “GST in India: A Big Leap in the Indirect Taxation System” in the year 2011.

Dr. G Sunitha and P.Satischandra had highlighted the concept of GST, its effect on Indian economy and the benefits in their paper “Goods and Service Tax (GST): As a new path in Tax Reforms in Indian Economy”.

Launch of GST

With a tagline by our finance minister Arun Jaitley: 'One Tax, One Market, One Nation,’ The Goods and Services Tax were launched at midnight on 30 June 2017 by the Prime Minister of India, Narendra Modi. The launch was marked by a historic midnight (30 June – 1 July) session of both the houses of parliament convened at the Central Hall of the Parliament. Though the session was attended by high-profile guests from the business and the entertainment industry including Ratan Tata and both houses of parliament.

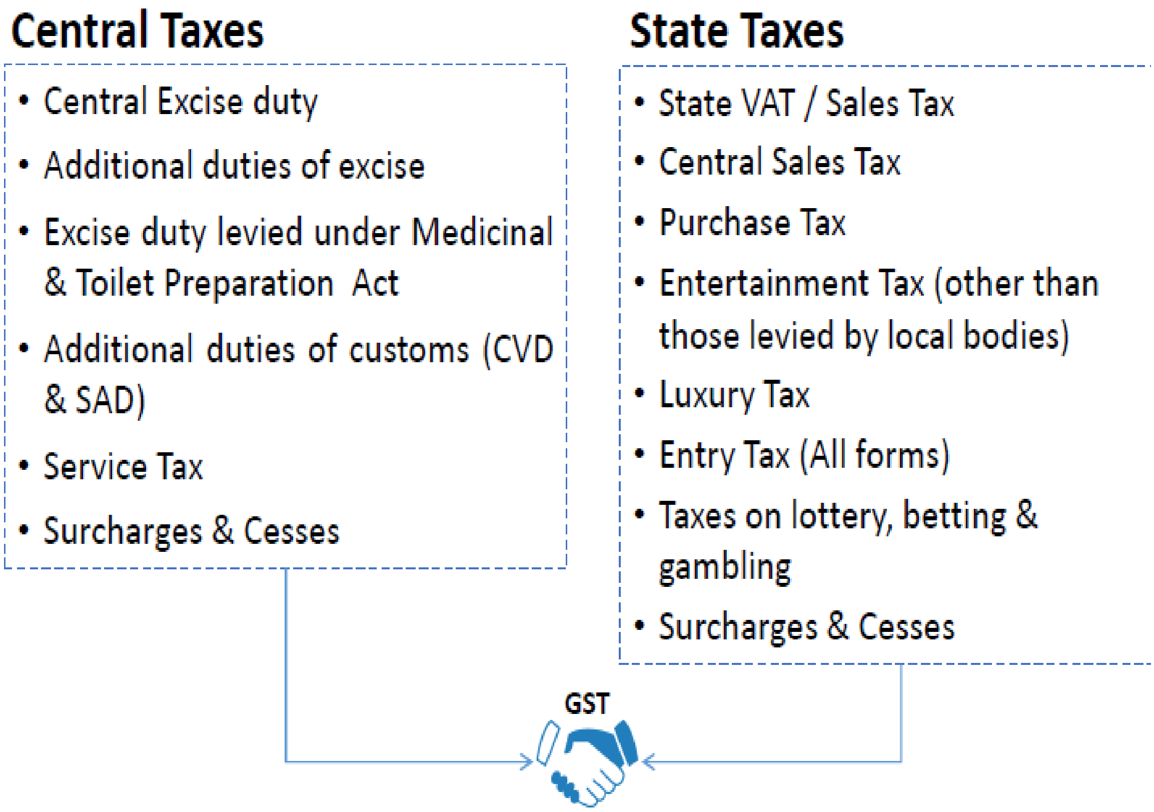
Need for GST / Objective

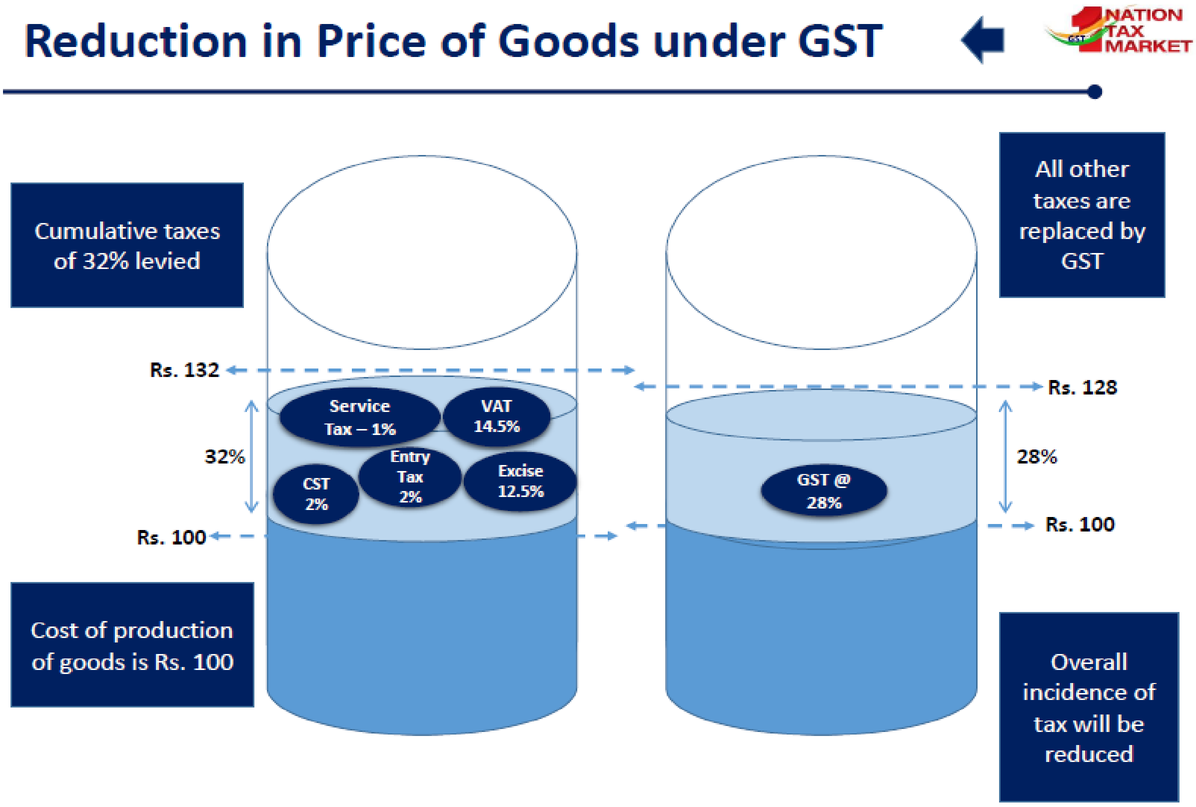
1. Avoid Double Taxation
2. Avoid Cascading Effect
3. Level Playing
4. Simplified & Unified Tax System
5. Ease of Doing Business
6. Reduce Interface with different departments: Central, State & Local bodies
7. Simple Collection System
8. Reduction in Collection of Revenue Cost

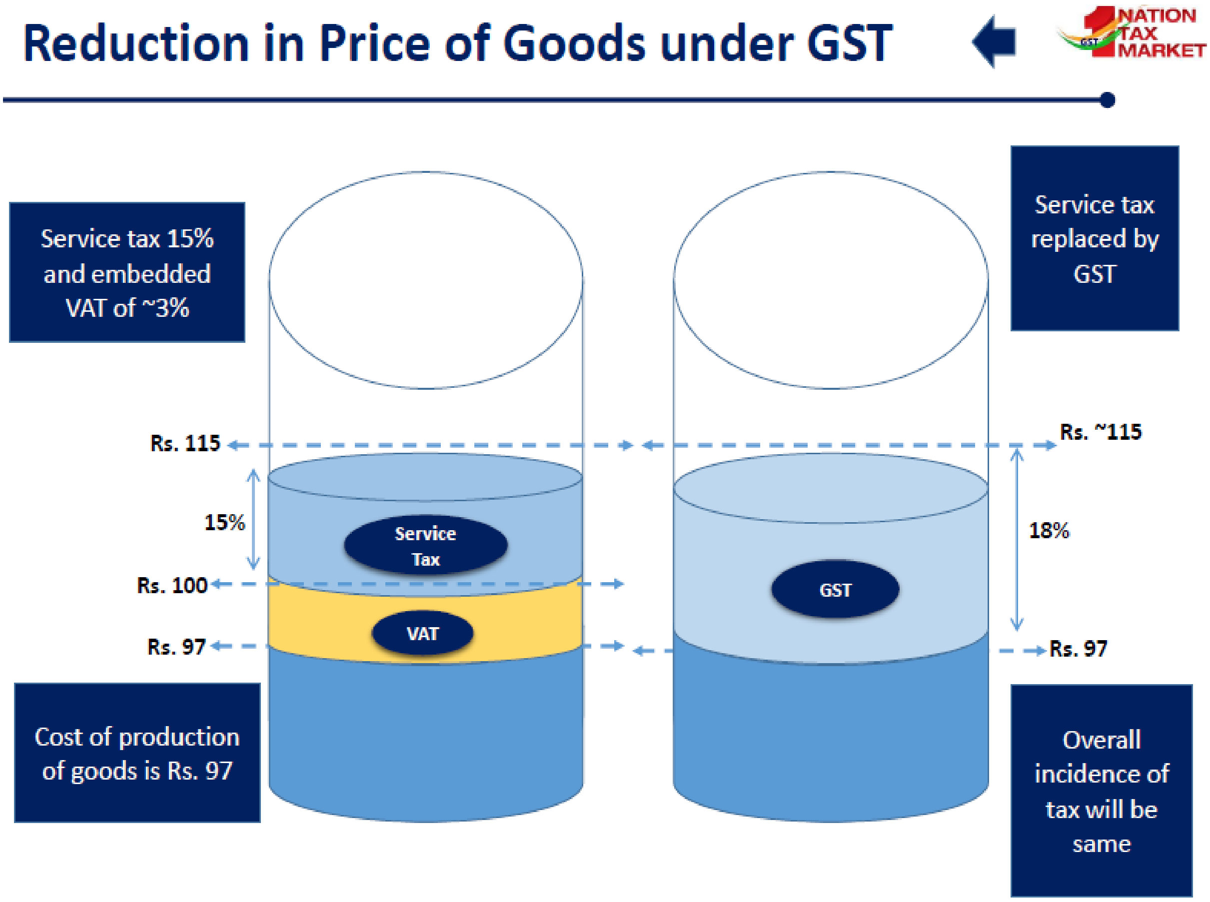
Strategies in GST

The Effort and Work Done

1. 10 Years… In Making
2. 30 + Sub-Groups & Committees
3. 18000 + Man Hours of discussion by GST Council
4. 14 EC Meetings in 10 years and 13 GSTC Meetings in 6 months
5. 175 + Officers Meetings
6. Constitution Amendment and 5 Laws approved by collaborative effort


Central Taxes
• Central Excise duty
• Additional duties of excise
• Excise duty levied under Medicinal & Toilet Preparation Act
• Additional duties of customs (CVD & SAD)
• Service Tax
• Surcharges & Cesses
State Taxes
• State VAT / Sales Tax
• Central Sales Tax
• Purchase Tax
• Entertainment Tax (other than those levied by local bodies)
• Luxury Tax
• Entry Tax (All forms)
• Taxes on lottery, betting & gambling
• Surcharges & Cesses
GST


Reduction in Price of Goods under GST
NATION TAX MARKET
Cumulative taxes of 32% levied
All other taxes are replaced by GST
Rs. 132
Rs. 128
Service Tax – 1%
VAT 14.5%
CST 2%
Entry Tax 2%
Excise 12.5%
32%
28%
GST @ 28%
Rs. 100
Rs. 100
Cost of production of goods is Rs. 100
Overall incidence of tax will be reduced



So, why is GST a Big Deal?

GST is a comprehensive, multi-stage, destination-based consumption tax on levied at every stage of value addition in the lifecycle of a product. To understand this better, let us look at each of the terms in detail:

Comprehensive

GST will subsume all of the current indirect taxes. Plus, by bringing in a unified taxation system, across the country, it will ensure that there is no more arbitrariness in tax rates.

Multi-stage

GST is levied each stage in the supply chain, where a transaction takes place. Value-addition: This is the process of addition to the value of a product/service at each stage of its production, exclusive of initial costs. Under GST, the tax is levied only on the value added. This is done through.

Destination-Based Consumption

Unlike the current indirect taxes, GST will be collected at the point of consumption. The taxing authority with appropriate jurisdiction in the place where the goods/ services are finally consumed will collect the tax.

For example

Let's say that cotton garments are being shipped from Karnataka to Maharashtra. Karnataka is the producer state and Maharashtra is the consumer state. Tax revenue under GST this can be calculated likewise:

Suppose goods worth INR 10,000 are sold by manufacturer A in Maharashtra to Dealer B in Maharashtra. B resells them to trader C in Rajasthan for INR 17,500. Trader C finally sells to End User D in Rajasthan for INR 30,000.

Suppose **CGST= 9%, SGST=9%. Then, IGST= 9+9=18%**

Since A is selling this to B in Maharashtra itself, it is an intra-state sale and **both CGST and SGST will apply, at the rate of 9% each.**

B (Maharashtra) is selling to C (Rajasthan). Since it is an interstate sale, IGST at the **rate of 18% will apply.**

C (Rajasthan) is selling to D also in Rajasthan. Once again it is an intra-state sale and both **CGST and SGST will apply, at the rate of 9% each.**

*** **Any IGST credit will first be applied to set off IGST then CGST. Balance will be applied to set off SGST**.

Since, GST is a consumption based tax, i.e., the state where the goods were consumed will collect GST. By that logic, Maharashtra (where goods were sold) should not get any taxes.

Rajasthan and Central both should have got **(30,000 * 9%) =2,700 each instead of only 2,250.**

Maharashtra (exporting state) will transfer to the Centre the credit of **SGST of INR 900 used in payment of IGST. The Centre will transfer to Rajasthan (importing state) INR 450 as IGST credit used.**

(**Do note, that custom duties are not part of this tax structure.)

Important points to be noted

1. Every person who is registered under an earlier law will take registration under GST too.
2. Where a business which is registered has been transferred to someone, the transferee shall take registration with effect from the date of transfer.
3. Registration is mandatory for anyone who makes inter-state supply of goods and/or services.

Registration is mandatory for:

1. Casual Taxable Person
2. Non-Resident Taxable Person
3. Agents of a supplier
4. Taxpayers paying tax under reverse charge mechanism
5. Input Service Distributors
6. E-commerce operator or aggregator and their suppliers
7. Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person.

GST – How it works in India?

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

Components

GST will be divided into two components, namely, Central Goods and Service Tax and State Goods and Service

Applicability

GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

Payment

GST will be charged and paid separately in case of Central and State level. Input Tax

Credit

The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

Impact of GST on Indian Economy

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country's tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GS Tax rate is expected to be around 17-18% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganised sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. This will bring sanctity to the taxation system without hurting any of the sectors adversely. To The Individuals and Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies.

Advantages of GST

Apart from full allowance of credit, there are several other advantages of introducing a GST in India:

Reduction in prices

Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be lost.

Increase in Government Revenues

This might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral

Rate, in which case the revenues might not see a significant increase in the short run.

Less Compliance and Procedural Cost

Instead of maintaining big records, returns and reporting under various different statutes, all assessees will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assessees are, nevertheless, required to keep record of CGST, SGST and IGST separately.

Move towards a Unified GST

Internationally, the GST is always preferred in a unified form (that is, one single GST for the whole nation, instead of the dual GST format). Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes. The following are the some more salient features of the proposed pan-India Goods and Services Tax regime that was approved by the Lok Sabha by way of an amendment to the Constitution

Conclusion

1. GST, or Goods and Services Tax, will subsume central indirect taxes like excise duty, countervailing duty and service tax, as also state levies like value added tax, octroi and entry tax, luxury tax.
2. The final consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.
3. As a measure of support for the states, petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST.
4. It will have two components - Central GST levied by the Centre and State GST levied by the states.
5. However, only the Centre may levy and collect GST on supplies in the course of inter-state trade or commerce. The tax collected would be divided between the Centre and the states in a manner to be provided by parliament, on the recommendations of the GST Council.
6. The GST Council is to consist of the union finance minister as chairman, the union minister of state of finance and the finance minister of each state.
7. The bill proposes an additional tax not exceeding 1% on inter-state trade in goods, to be levied and collected by the Centre to compensate the states for two years, or as recommended by the GST Council, for losses resulting from implementing the GST.

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