Goods and Service Tax (GST) on Indian Economy

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Abstract

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 year 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. 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

GST is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India.

GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods.

In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. The current system taxes production, whereas the GST will aim to tax consumption. Experts have enlisted the benefits of GST as under:

• It would introduce two-tiered One-Country-One-Tax regime.
• It would subsume all indirect taxes at the center and the state level.

• It would not only widen the tax regime by covering goods and services but also make it transparent.
• It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.
• It would bring down the prices of goods and services and thus by, increase consumption.
• It would create business-friendly environment, thus by increase tax-GDP ratio.
• It would enhance the ease of doing business in India.

Why no to GST?

However, the question is: Is the picture as rosy as it is portrayed?
Wall Street firm Goldman Sachs, in a note 'India: Q and A on GST
— Growth Impact Could Be Muted', has put out estimates that show that the Modi Government's model for the Goods and Services Tax (GST) will not raise growth, will push up consumer prices inflation and may not result in increased tax revenue collections.

There appears to be certain loopholes in the proposed GST tax regime which may be detrimental in delivering the desired results.

They are:
India has adopted dual GST instead of national GST. It has made the entire structure of GST fairly complicated in India. The centre will have to coordinate with 29 states and 7 union territories to implement such tax regime. Such regime is likely to create economic as well as political issues. The states are likely to lose the say in determining rates once GST is implemented. The sharing of revenues between the states and the centre is still a matter of contention with no consensus arrived regarding revenue neutral rate.

Chief Economic Advisor Arvind Subramanian on 4 December 2015 suggested GST rates of 12% for concessional goods, 17-18% for standard goods and 40% for luxury goods which is much higher than the present maximum service tax rate of 14%. Such initiative is likely to push inflation.

The proposed GST structure is likely to succeed only if the country has a strong IT network. It is a well-known fact that India is still in the budding state as far as internet connectivity is concerned. Moreover, the proposed regime seems to ignore the emerging sector of e-commerce. E-commerce does not leave signs of the transaction outside the internet and has anonymity associated with it. As a result, it becomes almost impossible to track the business transaction taking place through internet which can be business to business, business to customer or customer to customer.

Again, there appears to be no clarity as to whether a product should be considered a service or a product under the concept of E-commerce. New techniques can be developed to track such transactions but until such technologies become readily accessible, generation of tax revenue from this sector would continue to be uncertain and much below the expectation. Again E-commerce has been insulated against taxation under custom duty moratorium on electronic transmissions by the WTO Bali Ministerial Conference held in 2014.

Communication is considered to be necessity and one cannot do without communication. In modern times, communication has assumed the dimension of telecommunication.

The proposed GST regime appears to be unfavorable for telecommunication sector as well

"One of the major drawbacks of the GST regime could be the direct spike in the service tax rate from 14% to 20-22%" (GST: Impact on the Telecommunications Sector in India).

The proposed GST appears to be silent on whether telecommunication can be considered under the category of goods or services. The entire issue of telecommunication sector assumes a serious proportion when India's rural tele density is not even 50%.

The proposed GST regime intends to keep petroleum products, electricity, real estate and liquor for human consumption out of the purview of GST.

It is a well-known fact that petroleum products have been a major contributor to inflation in India. Inflation in India depends on how the government intends to include petroleum products under GST in future.

Electricity is essential for the growth and development of India. If electricity is included under standard or luxury goods in future then it would badly affect the development of India. It is said that GST would impact negatively on the real estate market. It would add up to 8% to the cost of new homes and reduce demand by about 12%.

The proposed GST regime "would be capable of being levied on sale of newspapers and advertisements therein"

This would give the governments the access to substantial incremental revenues since this industry has historically been tax free in its entirety". It sounds ridiculous but the provision of GST is likely to make the supervision of operations by its Board/senior managers across the company's offices in different parts of the country a taxable service by allowing each state to raise a GST demand on the company.

Again there appears to be lack of consensus over fixing the revenue rate as well as threshold limit. One thing is for sure, services in India are going to be steeply costly if GST is fixed above the present service tax rate of 14% which in turn will spiral up inflation in India. "Asian countries which implemented GST all had witnessed retail inflation in the year of implementation.

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 GST. 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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