International Journal of Advanced Research in Management and Social Sciences
ISSN: 2278-6236
Impact Factor: 7.065

'GST' A Tool for Enhancing Economic Growth by Simplifying the Tax Structure

Dr Monika Singh, (Principal)
Ch. Charan Singh Govt. Degree College
Chha Prauli (Baghpat)

Introduction

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. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption. The Goods and Services Tax (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 or GST 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. 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%.

Experts have enlisted the benefits of GST as under:

- It will introduce two-tiered One-Country-One-Tax regime.
- It will subsume all indirect taxes at the center and the state level.
- It will not only widen the tax regime by covering goods and services but also make it transparent.
- It will free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.
- It will bring down the prices of goods and services and thus by, increase consumption.
- It will create business-friendly environment, thus by increase tax-GDP ratio.
- It will enhance the ease of doing business in India.

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.

Impact analysis on various sectors

State Incentives & Area based incentives

Companies have set up their manufacturing units with significant investment outlays based on incentives offered by states under their respective investment promotion policies. However, under the GST regime, such flexibility given to the states is likely to be curtailed to achieve the intended effect of uniformity.

GST will only be credited to the state where the supplies are consumed, as opposed to the present situation where the producer state is credited with central sales tax on interstate sales. This would lead to a loss of revenue for the producer states and therefore such states may not be in a financial position to continue offering such incentives.

Manufacturing units enjoy exemption of taxes based on their location in specified backward areas, capital investment etc. There is no clarity under the GST on the treatment of such area based exemptions resulting in loss of unutilized portion of such incentives.

Increased working capital

Working capital may be significant for the manufacturing sector. Currently, stock transfers are not subject to tax. However, under the GST regime, stock transfers are deemed to be supplies and are subject to GST. Though GST paid at this stage would be available as credit, realization of this GST would only occur when the final supply is concluded. This would likely result in cash flow blockages and therefore companies would have to rethink their supply chain management strategies to minimize this impact on their cash flows.

Free supplies & Discounts

The present indirect tax regime, free supply of goods is not subject to VAT. GST law stipulates that specific transactions without consideration would also be treated as supplies. Accordingly, free samples may be subject to GST, leading to increase in overall costs.

Thus, companies may also need to analyze existing post supply discounts/incentive schemes where the quantum of discount is not known at the supply stage.

Supply chain restructuring

Currently, the supply and distribution models are structured to optimize indirect tax impact arising at various levels of value addition. Transition to GST will result in such decisions being taken to optimize business efficiency (as opposed to indirect tax efficiency). Currently, firms spend a high 5-8% as product distribution and warehousing cost. GST would lead to lower transportation and distribution costs.

It is hoped that such warehousing and logistics decision would be based on economic efficiency such as costs and locational advantages vis-a-vis key customers.

Overall reduction of cascading effect of taxes, especially on the post-manufacture stage of the supply chain, manufacturing sector stands to benefit significantly and have a positive effect on the cost of manufactured products in the hands of consumers. However, concerns remain on specific issues such as the additional 1% origin tax, increased cash flow issues on account of GST payable on stock transfers and increased costs owing to exclusion of petroleum fuels from the ambit of GST.

The lower taxes, simplified tax structure, seamless tax credit facility and technology driven easy tax compliance system offered by GST provide an ideal platform to increase manufacturing's share of GDP from the current 17.5% to 25.3% by 2024.

Compliance costs

The new regime, every electronic commerce operator would need to collect tax at source and deposit applicable GST when payments are to be made to the supplier.

E-commerce players are treated only as service providers and are therefore required to comply with only one central service tax legislation. Under GST, with the burden of TCS @ 1%, such electronic commerce operators will also be required to undertake additional compliances in states where the supplier is located.

It has been kept at 1%, which is the lowest. Thus, e-commerce consumers are likely to remain unaffected once GST sets even as players like Flipkart and Amazon prepare to deduct 1% of the payment it makes to sellers under the new tax regime. This will not significantly increase the onus and compliance burden on electronic commerce operators.

Stock transfers to be taxed

Specified transactions without consideration would also be treated as supplies. Intra-state and inter-state stock transfers, between branches or warehouses of a single e-commerce entity, would be deemed to be supplies, subject to GST. Though the tax paid would be available as credit to the entity, this may result in cash flow blockages.

On the Mat with VAT

Implementing tax reform is not without hiccups. Puerto Rico government's goal was to aid economic recovery of the island territory with introduction of VAT in April 2016; but its businesses shut down shutters and turned to social media to protest; encouraging consumers to abstain from shopping!

The Cross Country Experience

It has been introduced over several decades, with France being the earliest entrant (Table III.3). Today, 160 countries have some form of VAT/GST, with the United States being a prominent absentee from this list. There are different models of VAT/GST currently in place. Singapore taxes virtually everything at a single rate, while many countries (France, Italy, UK) have multiple rates. In some countries (e.g., UK), a reduced rate on necessary items is applied with basic goods being exempted to minimize the regressive impact of the tax.

Diverse motives have been cited for the introduction of the VAT/GST, although the common element seems to be that of reforming the existing tax system and simplifying the tax structure. In this regard, a robust federal structure of government is particularly helpful for ensuring success of such reforms – Brazil, India and Canada being prominent examples. Discussion on tax reform to simplify federal and state indirect taxes is underway in Brazil with a proposal to introduce a single integrated national VAT on both goods and services. India's plan to have central GST (CGST) and state GST (SGST) has some resemblance to the structure of the system existing in the Canadian province of Quebec where independent federal (GST) and provincial (QST) VATs are operative simultaneously.

Notwithstanding the merits of GST implementation, international experience points out some likely risk relating to tax evasion and avoidance. These are (i) small businesses may not register; (ii) a trader may under-report actual sales; (iii) traders may reduce their liability by exaggerating the proportion in the lower tax slabs; (iv) tax authorities need to guard against traders who collected tax but were not remitted to the government; and (v) traders may make false claims for refunds.

From a fiscal perspective, international evidence suggests that implementation of VAT/ GST have resulted in a higher government revenue-GDP ratio over time. An earlier study concluded that the tax-GDP ratio increased significantly after VAT implementation in twelve European countries. Moreover, OECD data on member countries from Europe suggest an increase of 37 per cent in the VAT revenues-GDP ratio between 1975 and 2006. While an increasing VAT revenue-GDP ratio is not necessarily correlated with a rising government spending GDP ratio, critics have argued that an indirect (less visible) VAT may support higher levels of government spending compared to the use of direct taxes (eg. income tax) which are more visible.

The Indian Context – Overview and Status

The concept of the GST was first introduced by the report on "Reform of Domestic Trade Taxes in India: Issues and Options" In fact, the VAT was adopted as a stop-gap arrangement for implementation of the GST in future. In 2000, the Government initiated discussions on the GST by constituting an Empowered Committee with a mandate to design the GST model and oversee the IT back-end preparedness for its rollout. The Task Force on "Implementation of the Fiscal Responsibility and Budget Management Act, 2003" noted that although the indirect tax policy has been steadily progressing in the direction of VAT since 1986, the existing system of taxation of goods and services in India still suffers from many problems and suggested the introduction of a comprehensive GST based on the VAT principle.

In compliance with Article 279A of the Constitution, the Union Cabinet constituted the GST Council and announced the formation of the GST Council Secretariat in its meeting of September 12, 2016. The GST Council is a joint forum comprising a) the Union Finance Minister as Chairperson; b) the Union Minister of State in-charge of Revenue as Member; c) the Minister in-charge of finance or taxation or any other Minister nominated by each state government as Members. In the Council, state government representatives enjoy two-third voting share while the remaining one-third is with the Central Government; decisions are to be taken with a three-fourth majority. The Council's mandate include recommendations on (i) the goods and services that are subjected or exempted from GST; (ii) model GST Laws; (iii) principles that govern place of supply; (iv) threshold limits for exemptions; (iv) GST rates including the floor rates with bands; (v) special rates for raising additional resources during natural calamities/disasters; and (vi) special provisions for certain states. The GST Council held 13 meetings till March 31, 2017.

CONCLUSION

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy

viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST... One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

References

- Eaton, J. and S. Kortum (2002): "Technology, Geography, and Trade," Econometrica, 70, 1741– 1779.
- Alder, S. (2017): "Chinese Roads in India: The Effect of Transport Infrastructure on Economic Development".
- Asturias, J., M. Garc´ıa-Santana, and R. Roberto (2016): "Competition and the Welfare Gains from Transportation Infrastructure: Evidence from the Golden Quadrilateral of India," Working paper.
- Fieler, A. C. (2011): "Non-homotheticity and Bilateral Trade: Evidence and a Quantitative Explanation," Econometrica, 79, 1069–1101.
- The Economic Times (2009) Featured Articles from The Economic Times.
- Gst India (2015) Economy and Policy.
- Mehra P (2015) Modi govt.'s model for GST may not result in significant growth push. The Hindu.