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ORIGINAL CONTRIBUTION

The Implication of GST on Indian Economy- A General Introspection on Selected Area of Importance

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ABSTRACT

The Goods and Services Tax (GST) which was proposed to be effective since 1st appril.2017 under the 122th constitutional amendment bill, 2014, but it is restrained for further contentious among different states and centre. The GST under its so called features is expecting some sea changes in Indian Economy. It is expected to improve GDP to some extent by making positive note on manufacture industry, transport industry, Distribution Channels. Not only that it is very optimistic about its' bright impact of investment as well as foreign direct investment in India through implementing GST fruitfully. It is also expected that the revenue earning of state as well centre by indirect tax will be equitable by such implementation. This paper is aimed for such observations along with its failure, if any. Though it is under discussion process hence lot many changes in rates may be happened, still in this paper it is attempted to highlight the basic features and its impact on such key industries in our country.

KEYWORDS— GST, Impact, Indian Economy, Sea Change, Centre, State, GDP

1. INTRODUCTION

The Goods and Service tax (GST) would be a phenomenal change in the indirect taxation in India. It had aimed for single tax structure amalgamating various centre and state sales tax or value added taxes which are affected by double tax and cascading effect. From the point of view of a consumer it is expected that the tax burden will be lesser and thus consumable will available at lower price leads to expand of commodity market with influx of selling and purchase in higher scale. At the same it is apprehended from the state perspective that they may lose their exchequer in terms state sales tax, value added tax, excise duties etc. which could be levied by them in the need of their own interest and requirement. In the Act it has been proposed to compensate the state, any loss arisen due to implementation GST. But as India being the republic of federal structure, GST had to ratify more than half of the states. Twenty three states have been ratified the GST. After getting ratification from most of the states, the President of India gave his assent on 8th September, 2016. Thus GST act was passed in accordance with the provision of article 368 of the Constitution of India.

The Main Features in GST as mentioned in the Bill

1. The GST have two components: one collected by the Center (hereinafter referred to as Central GST), and the other collected by the States (hereinafter referred to as State GST). Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State).
2. On the other way, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of

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classification etc. would be uniform across these statutes as far as practicable.

3. The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services

4. The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST (with identification of the State to whom the tax is to be credited).

5. As the Central GST and State GST are to be treated separately, taxes paid against the State GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.

6. Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services under the IGST model.

7. Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc. where, again refund/adjustment should be completed in a time bound manner.

8. As far as possible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.

9. The administration of the Central GST to the Centre and for State GST to the States would be given. This would imply that the Center and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.

10. The present threshold prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. A uniform State GST threshold across States is desirable and, therefore, it is considered that a threshold of gross annual turnover of Rs.10 lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime. Keeping in view the interest of small traders and small scale industries and to avoid dual control, the States also considered that the threshold for Central GST for goods may be kept at Rs.1.5 crore and the threshold for Central GST for services may also be appropriately high. It may be mentioned that even now there is a separate threshold of services (Rs. 10 lakh) and goods (Rs. 1.5 crore) in the Service Tax and CENVAT.

11. The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. In particular, there would be a compounding cut-off at Rs. 50 lakh of gross annual turnover and a floor rate of 0.5% across the States. The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off.

12. The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.

13. Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

14. Keeping in mind the need of tax payer's convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

15. All assesses/dealers who are already registered under existing central excise/service tax/ vat laws need to obtain fresh registration. The existing registration will be converted into GST Registration.

16. A Special Purpose Vehicle called the GSTN has been set up to cater to the needs of GST. The GSTN shall provide a shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders for implementation of GST.

Overall Impact on GDP

The Customs and Central Excise, Govt. of India conducted project Study "The Goods and Service Tax: Impact on Indian Economy and Investment Decision" this year. The study concludes that 'implementation of a comprehensive GST in India will lead to efficient allocation of factors of production thus leading to gain in GDP and exports. This would translate into enhanced economic welfare and returns to the factors of production, i.e. land, labour and capital. The gains in real re-turns to land range between 0.42 and 0.82 per cent. Wage rate gains vary between 0.68 and 1.33 per cent. The real returns to capital would gain in the range of 0.37 and 0.74 percent. Further, the study also shows that 'implementation of GST across goods and services is expected, ceteris paribus, to provide gains to India's GDP somewhere within a range of 0.9 to 1.7 per cent. The corresponding change in absolute values of GDP over 2008-09 is expected to be between Rs.42,789 crore and Rs. 83,899 crore ,respectively

Proposed Tax Rate

The lowest rate proposed is 6 per cent, with two standard rates of 12 and 18 per cent. The peak rate, which will mostly apply to FMCG and consumer durables, will be 26 per cent. Besides, a cess is also likely to be levied on demerit or sin goods and polluting items.

Impact on Consumables

Items seems to be Costlier

*Spices- Turmeric, jeera, black pepper, oil seeds

*Refined oil, mustard oil and groundnut oil

*Gas stove

*Mosquito repellent, insecticide

Items seem to beget cheaper:

*Electronic items- TVs, air conditioners, washing machines, inverters, refrigerators, electric fans

Impact on Manufacturing Industry

- Cost Cutting through avoidance of Cascading effect
- Cost cutting through inventory management
- Releasing additional capital blocked
- Compliance cost cutting

Impact on Motor Industry

- Barometer of economic well being
- Cost cutting by setting up plants at more profitable location
- Interstate VAT and VAT within State are decisive factors
- Two models of vehicle sell through Dealers
- Stock transfer and its problems
- By Product-Vehicle passing is a big issue

Impact on Distribution Channel

- Better planning for distribution chain
- Location of warehouse
- Inventory management by 'just in time'
- Rationalization of business decisions
- Releasing the capital blocked in inventory management and additional cost involved in excess warehouses

Impact on Investment

- Boost to international investment
- Encouragement to domestic investment

- Bringing down regional disparity
- Rational logistic decisions
- End to pitfalls of tax holidays
- Less investment on inventory more on expansion

Impact on Textile Sector

- The textile prices would go up.
- Khadi and Handloom, Cotton Textiles and Carpets would be adversely affected.
- GST is likely to have a fibre-neutral rate
- Textile outputs will be taxed if domestically consumed
- Exports will be zero-rated
- Entry tax will be eliminated (Common Market Effect);
- Taxes on capital and machinery will be fully rebated (Investment Promoting

Effect); and

- For the industry, compliance costs will be lower (Compliance Promoting

Effect).

Impact on Telecom Sector

- End of cascading effect.
- State wise registration may be required
- Accordingly, compliances (such as documentation, audits, invoicing systems) may be required for each state under which registration has been obtained.
- To accommodate a state level, GST-driven mechanism and processes.
- A new GST clause considering the proposed GST may have to be creat ed with various suppliers, customers, etc.
- Ccompanies may consider re -evaluating alternative business structures for undertaking operations

Lesson from Abroad in Similar Issues (Singapore& South Korea)

- Invoice capturing System
- Single Authority for Income Tax and GST
- Single Rate (curb on progressivity of taxes)
- Structural simplicity; SoP(Solve on Production)
- Data upkeep is excellent; dealt by special wings; multiple sources to pick data
- Dispute resolution is done by executive body; assessment based instead issue based
- Open Office System instead Close ChamberSystem
- Procedural Simplicity for example GST refund at Airport.
- Near to the Paperless Office
- MIS is more Centralize; more time for productive work
- Offices work as Customer Care Centres
- Catch hold of economic transactions

2. THE MAJOR CONCERN

With heterogeneous State laws on VAT, the debate on the necessity for a GST has been reignited. The best GST systems across the world use a single GST, while India has opted for a dual-GST model. Critics claim that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST, and hence GST brings nothing new to the table. The concept of value-added has never been utilized in the levy of service, as the Delhi High Court is attempting to prove in the case of Home Solution Retail, while under Central Excise the focus is on defining and refining the definition of manufacture, instead of focusing on value additions. The Revenue can be very stubborn when it comes to refunds, as the Maharashtra Government proves, and software entities that applied for refunds on excess service tax paid on inputs discovered.

The all-new Cenvat Credit Rules, 2014 do little to clarify eligibility for input credits, by using general terms such as "any goods which have no relationship whatsoever with the manufacture of a final product" and "services used primarily for personal use or consumption of any employee"

- There will be even more centralisation in fiscal matters. The Centre will fix the percentage of revenue to be shared with the states. Thus the autonomy of states will be compromised.
- Some of the states may even suffer a loss on the account of tax sharing and the center itself may decide on the one-time compensation. The government may increase the state taxes by 1-2% to compensate them. However this is the stumbling block in the way of this bill as settlement will be a pain in the ass.
- The states like Jharkhand which are more goods-driven and lesser services-driven will thus be sharing their sales revenue with the Center but don't have enough services to compensate like Karnataka. This is going to hurt some states.
- The money that was not taken from the producer under the system of tax credit in GST will be recovered from the consumers, which definitely is a negative for the "consumer community".
- VAT and service tax on some products may become higher than the current levels.
- Most developed economies use a single GST instead of a dual GST. Hence, it will still be a very complicated billing and reconciliation IT machinery.
- Since the mechanism is still complicated, it cannot completely eliminate black money and tax evasion.

The SWOT analysis

Strngth

Federal Structure; multiple tax rates; multiple tax laws

 Seamless flow of credit

 Parallel Economy

 Pockets of Tax exemption (Area based exemption)

Threshold related exemption Key Design issues under Discussion

Weakness
 Extent of Dual Control
 Rate structure (based on RNR)
 Exempted Goods or Services
 Exemption threshold
 Composition threshold

Opportunity
 Exclusion Vs. Zero rating of certain goods in GST regime
 Role of Centre / States in inter-State Trade
 Place of Supply Rules for Goods and Services

Threat
 Mechanics of IGST model
 Account settlement between the Centre and the States under IGST model

3. CONCLUSION

This article has been representing on the basis of various published articles and reviews and study. The impact study has also made on such observations. Thus it would be better to conclude the article to pointing out a study based on opinion poll made by WEBNAIR- DELOITTE INDIA LTD.

1) Webinar: GST implications on Manufacturing and Consumer Business
Poll results from the webinar:
1. How do you see GST impacting your business?
a. Increases Litigation – 1.56%
b. Increases compliance – 10.91%
c. Impacts cost structure – 8.46%
d. Impacts business processes (IT Systems, Supply Chain & the like) – 18.93%
e. All of the above -60.13%

2. Do you think the Government has provided adequate time for trade & industry to be GST ready by April 2017
a. Yes – 39.79%
b. No – 60.20%

2) Webinar: GST implications on Tech, Media, Telecom and Financial Services

Poll results from the webinar:

1. Which is the biggest matter of concern today faced by the IT industry in terms of litigations?

a. Taxability of software as goods or service – 12.22%

b. Multiple levies of service tax, VAT and other local taxes – 12.22%

c. Export of services and refunds – 8.33%

d. All of the above – 67.22%

2. What would be the impact of GST on banking and insurance sector?

a. Positive – 34.1%

b. Neutral – 11.88%

c. Negative – 28.74%

d. Don't know – 25.29%

3. What is your IT organisation's preparedness with respect to GST implementation

a. Advanced stage of designing system change required – 7.82%

b. Impact assessment completed – 15.08%

c. Impact assessment completed – 7.26%

d. Not started – 69.83%

Webinar: GST implications on Services and Infrastructure

Poll results from the webinar:

1. How do you see GST impacting your business?

a. Increases Litigation – 1.6%

b. Increases compliance – 17.6%

c. Impacts cost structure – 11.2%

d. All of the above -69.6%

2. Do you think the Government has provided adequate time for Service and Infrastructure Industry to be GST ready by April 2017?

a. Yes – 36.91%

b. No – 63.09%

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