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GST and Economic Transformation: A Rural & Urban Perspective

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Abstract

Goods and Service Tax (GST) is a taxation applied in India on the provision of goods and services. GST removed the cascading effect on the goods and services. Removal of cascading effect reduces cost of goods because GST regime eliminates tax on tax. GST reduce the tax burden and helps in higher production. GST is beneficial for long term. The main objective of this study to know the impact of GST on Indian economy and to analyze the customer perception and their views regarding importance of GST. In this analysis, both primary and secondary data are used to collect the data.

Key Words: GST, Economy, Cascading Effect of Taxes, GST Council, Cess, Taxation Reforms.

Introduction

The Government of India launched the GST for the achievement of the objective of ‗one nation, one tax, one market ‘. It is aptly regarded as the greatest tax reform since Independence. GST is a major step forward towards enhancing ease of doing business in India, as it has subsumed a glut of taxes at the Central and State levels —Value Added Tax, Entry Tax, Octroi, Luxury Tax, Purchase Tax, Entertainment Tax, Service tax, Central Excise Duties, Counter-vailing Duty, and Additional Duties of Customs, etc. into its fold. Launched as a four-slab structure—5%, 12%, 18%, and 28%, the GST structure also added cess for certain categories like luxury cars, aerated drinks and tobacco over their slab rate of 28%. A number of essential items were either put in lower tax brackets or exempted completely.

Objectives

- To understand the concept of goods and service tax
- To find out short effect of GST on Economy.
- To find out the Impact of GST in future.

The paper is based on secondary sources of data, which have been obtained

from various GST implementation discussion papers, published article in journals, web articles (internet sources), past studies and newspaper etc. With the help of these secondary sources, attempt has been made to find the impact of GST on Indian Economy and looking for future opportunities of it in India. The Goods and Services Tax (GST) has been rightly hailed as the most comprehensive and path-breaking financial reform since Independence. It has been now over a year since GST was implemented. The short-run impact on growth has been disruptive as expected. The compliance hurdles, ambiguity, confusion, and inventory effects that have followed have made a dent on overall growth and confidence among Indian businesses, especially micro and small companies. There have been some achievements so far since its implementation.

A Transformational Shift

India‘s previous taxation regime was criticised for being complicated, multifarious distortionary, and for fragmenting the Indian market. Different tax rates across states led to economic distortions. States‘ levy of entry tax/octroi resulted in bottlenecks at borders, raising inventory costs. Business decisions were to an extent directed by tax considerations rather than by economic rationale. These cascading effects had led to a distorted structure of production and consumption and in certain cases, favored imports against domestic production. The complexity of tax also led to many disputes regarding the classification of products. Input tax credit was limited and most often delayed. With the mantra of _one nation, one tax ‘, GST aimed to create a common market, to simplify the tax structure, improve tax compliance, improve governance, bring in efficiency in the supply chain, boost investment and growth, and importantly, encourage formalization of the economy. GST was a transformational shift from a complex, multi-layered system to a uniform, destination-based indirect taxation system.

Facilitate Inter-State Movement of Goods

For India to become a common market, it required inter-state barriers to be removed. Unrestricted interstate flow of goods was expected to significantly reduce transit time and costs, benefitting the logistics sector. With the removal of inter-state check posts, the travel time of long-haul trucks and cargo vehicles has been reduced. A study commissioned by the Ministry of Road Transport and Highways found that a truck typically used to spend one-fifth of its total travel time between two states at border check posts before GST was implemented. Post GST, trucks have started

covering greater distances. They are now travelling 300-325 km per day, an increase of around 44%, from the average of 225 km per day they used to earlier. Further, introduction of e-way bills is expected to further ease movement of goods, interstate and intrastate.

Strengthened the Fiscal Federalism of India

Introduction of GST has strengthened India‘s fiscal federalism. The Constitution was amended so as to simultaneously empower the Centre and the states to levy and collect the tax unlike the previous regime wherein the power to levy indirect taxes was distributed between the central, state, and local governments. The GST Council, which constitutes representatives from the Centre and states, is one of the most powerful constitutional bodies in India as it represents all the political powers in the states besides those at the Centre. Every decision of the Council is taken with [the consent of] a three-fourth majority.

Improve Fiscal Performance By Increasing Tax Compliance And Widening Tax Base

India has been largely considered as a tax noncompliant society. Numerous taxes and exemptions in the previous taxation encouraged tax evasion with leakages amounting to 2.7% of GDP. The GST mechanism that compels businesses to avail input tax credit across the value chain was expected to oblige every value addition to be recorded in the IT framework. Measures such as the dual monitoring structure—one by the states and one by the Centre— and the increasing linkage between direct and indirect tax return filings are also expected to check evasion. Under GST, the total number of registered tax payers stood at 11.6 million as on July 31, 2018, out of which around 5 million new entities have registered under the GSTN.

Improving Public Finance

Increasing compliance and encouraging formalization have helped in improving the public finance. The average monthly revenue collection of GST in FY‘19 is over `970 billion, a 9% increase in comparison to the last fiscal year‘s average monthly collection of more than `890 billion. The tax-to-GDP ratio had touched 11.35% in FY18, the highest since FY09. Barring the period of FY08, this level is the highest since FY‘76 (considered till data available). The ratio is expected to rise further during FY19 owing to improved collections.

Logistics

One sector that was expected to overwhelmingly benefit from GST was the logistics and transportation sector. It is believed that there has been a 20% reduction in

turnaround time and less hassles at state borders and mundane check points. Introduction of the e-way bill is further helping the cause immensely. After the GST rollout, India successfully jumped 19 positions (35th from 54th) in the Logistics Performance Index (LPI). Logistics is primarily an unorganized sector activity in India. Introduction of GST is a considerable nudge to logistics companies to move into the formal sector. According to the Economic Survey 2018, India's logistics industry, which is presently worth US$ 160 billion, is likely to touch US$ 215 billion by 2020, with the implementation of GST. Conservatively, this will mean a 10% CAGR. The major cascading effect will be in job creation. A well-organized and well-managed logistics sector will energize a multitude of sectors, including manufacturing and FMCG.

Manufacturing

The manufacturing sector has benefited from reduced logistics and distribution costs and simplified compliance procedures to a large extent. GST has allowed the it to restructure its supply chain in a clean and uniformly interpretable manner. Previously, supply chains were designed to escape tax regimes. GST being a single-tax regime has forced businesses to re-deploy supply chain structures that increase business and service efficiency. Supply chains will now put customer service on top priority. GST has also enabled manufacturers to claim input tax rebate on goods. This facilitates continuous cash flow that indirectly drives growth. There are concerns regarding stress on working capital but that will address itself when compliance and efficiency improve to a higher level.

Challenges and Way Forward

Going forward, some of the major changes expected in the GST include simplification of the rate structure by reduction in the number of tax slabs, expanding the scope to include sectors like fuel and real estate, and further simplification of procedures to facilitate small businesses in particular. With timely redressal of stakeholder concerns and stabilization of the regime, the impact of short term disruptions will gradually get mitigated. Within one year, the total number of registrations under GST reached 1.13 crore compared to 63-64 lakh taxpayers registered under the previous regime.13 The expected widening of the tax base in the coming years will enable the Government of India to lower tax rates, thereby benefitting companies as well as the end consumer. While the GST remains a work in progress, it is expected to provide a major boost to growth in the long run.

Conclusion

In just over 19 months, GST has achieved phenomenal success and its recovery rate is indicative of this. Importantly, it has expanded the scope and brought in many businesses within its ambit, reducing tax evasion and finally benefiting the larger economy.

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