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GST: Ushering a Common Indian Market

The passing of the 122nd Constitution Amendment Bill, 2014 by the parliament has resulted in the introduction of the Goods and Services Tax (GST) in the country which is considered as the biggest economic reforms since 1991. The same has been introduced not only to get rid of the current patchwork of indirect taxes that are partial and suffer from infirmities in the form of exemptions and multiple rates, but also to improve tax compliances.

GST is an indirect tax bringing together multiple taxes imposed on all goods and services (except a few) under a single banner. This is meant to bring together the state economies and create a single taxation system for the entire country for all goods and services. It is based on a tax-on-value-add concept which avoids duplication of taxes. Currently, there are various taxes being managed differently by the Central and State Governments in India including the Central excise duty, the octroi, the turn-over tax, the service tax and customs duties at the Central level and VAT (value-added tax), entertainment tax, luxury tax or lottery taxes at state level. Everything now gets replaced by one single point of taxation, i.e., GST.

This is in contrast to the present system, where taxes are levied separately on goods and services. The GST, however, is a comprehensive form of tax based on a uniform rate of tax for both goods and services. However, the GST is payable only at the final point of consumption. In simple terms, the GST reduces the number of instances where taxes need to be paid thereby reducing the possibility of manipulation on the part of tax authorities and is therefore assumed to be a more transparent way of administering taxes. It will alleviate the burden of cascading taxes for individuals. It is also expected to boost revenue collection in certain states and to reduce the prices of goods.

The GST is likely to facilitate more seamless movement of goods and services across the nation. It reduces the overall transactional cost of running the business and thereby also reduces the need for following multiple tax rules and obligations. It would also reduce corruption and bring more efficiency in running businesses. By integrating the state economies, GST has created a single, unified Indian market to boost overall growth and make the economy stronger.

However, the end consumer bears this tax as he is the last person in the supply chain. 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 is to be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimising exemptions. It is expected to help build a transparent and corruption-free tax administration.

GST is to be levied only at the destination point, and not at various points from manufacturing to retail outlets. Presently, a manufacturer needs to pay tax when a finished product moves out from a factory, and it is again taxed at the retail outlet when sold. This anomaly of double taxation goes with GST. It is estimated that India will gain $15 billion a year by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. It will divide the tax burden equitably between manufacturing and services.

In the GST system, both Central and State taxes will be collected at the point of sale. Both components (the Central and State GST) are to be charged on the manufacturing cost. This will benefit individuals as prices are likely to come down. Lower prices will boost more consumption, thereby spurring demands and subsequent economic growth. India has opted for a dual GST system. Under dual GST, a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) are to be levied on the taxable value of a transaction. All goods and services, barring a few exceptions, would be brought into the GST base.

The GST, to give the Centre and states concurrent powers to tax goods and services, is a right step. However, the experts have criticised the 1% extra levy proposed to be charged when goods move from one state to another. If Rajasthan imports goods from Maharashtra, it will pay 1% tax to Maharashtra, but the levy will not be charged if the goods are imported from outside India. Also, the 1% tax would apply multiple times, every time goods move from one state to another, and could cumulate to as much as 5% in a typical supply chain. This will add to the cascade of taxes that products bear and raise the cost of raw materials, capital and finished goods.

As there will be no set-offs on the extra levy – it is to be in force for two years or such other period as the GST Council may recommend. However, producing states want the levy on the grounds that they will lose out when the central sales tax is scrapped. There is no logic as the Centre has already guaranteed compensation to states while transiting to GST. The extra levy scuttles the 'Make in India' plan. It goes against the grain of GST and renders our exports uncompetitive. Hence, the extra levy needs to be scrapped.

Many feel that keeping real estate out of GST is a bad idea as credit will not be available for taxes paid on inputs used in construction such as cement and steel. Construction capital expenditure is 40% of total capital investment in a year, and that's not small change. Bringing real estate under GST will raise investment and push growth.

A unified GST is an economically efficient solution even for the multinationals, which have to compete with the companies in the unorganised sector, as it simplifies the indirect tax structure to one general rate that can be paid by all companies. Under the GST structure, every company gets a deduction on the taxes already paid by its suppliers. That results in every buyer ensuring that his supplier has paid his part to claim his deductions.

The bill has kept certain goods out of the purview of GST for the moment, which have been a bone of contention between state governments and the Centre. These inter alia include crude petroleum, high speed diesel, natural gas, aviation turbine fuel and alcohol for human consumption. States shall have the power to levy taxes on these items, except in the case of imports and inter-state trade.

Critics have termed GST to be a regressive tax, which has a more pronounced effect on lower income earners, as GST consumes a higher proportion of their income, compared to those earning large incomes. A study has found that the introduction of the GST negatively impacts the real estate market as it adds up to 8 percent to the cost of new homes and reduces demand by about 12 percent.

The spread of GST across the globe has been one of the most significant developments in taxation over the last six decades. More than 150 countries have adopted the GST because of its capacity to raise revenue in the most transparent manner. It is estimated that India will gain $15 billion a year by implementing the GST as it would promote exports, raise employment and boost growth. One is sure that introduction of GST will further unleash the pent-up growth potential in the Indian economy and boost the economic growth as expected.

Salient Points

- The passing of 122nd Constitution Amendment Bill, 2014 by parliament has resulted in the introduction of Goods and Services Tax (GST).
- GST is an indirect tax bringing together multiple taxes imposed on all goods and services (except a few) under a single banner.
- This is meant to bring together state economies and create a single taxation system for entire country for all goods and services.
- GST is to be levied only at the destination point, and not at various points from manufacturing to retail outlets.
- It will alleviate the burden of cascading taxes for individuals.
- It reduces overall transactional cost of running the business.
- GST would reduce corruption and bring more efficiency in running businesses.
- 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.
- It is estimated that India will gain $15 billion a year by implementing GST as it would promote exports, raise employment and boost growth.
- The experts have criticised 1% extra levy proposed to be charged when goods move from one state to another.
- Critics have termed GST to be a regressive tax as it negatively affects lower income earners more, compared to those earning large incomes

Glossary

Patchwork: something composed of different elements
Infirmity: weakness
Value Added Tax: a tax on the amount by which the value of an article has been increased at each stage of production or distribution
Cascading: pour downward in large quantity
Octroi: a duty levied on various goods entering a town
Transaction: an instance of buying or selling something
Cumulate: combine