



Impact of GST on Economy and Businesses

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1. Introduction

Implementation of Goods and Service Tax, GST has made India attractive across the world and has created a common market for more than 125 core people. GST was implemented in July 2017, with main tax slabs of 0%, 0.25%, 3%, 5%, 12%, 18% and 28%. Many indirect taxes were merged into a single tax on goods and services, right from manufacturer to consumer. Implementation of GST was a historic move and it complemented India's move towards the fastest growing economy in the world. Implementation of GST resulted in increase in the government revenue vis-a-vis better tax compliance and reduced tax evasion, enabling greater control and facilitating efficient monitoring than the traditional taxation system. From the consumer point of view, the biggest advantages are in the terms of reduction in the overall tax burden on goods, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent.

At the time of implementation of GST, significant percentage of goods and services were put under highest tax slab of 28%. However, following the recommendations of GST Council, over the time span of around three year, many goods have been shifted under 18%, 12% and 5% tax slab from the highest tax slab.

India is federal Country, having many states, Union Territories, hence adopted dual system of taxation. In case of Inter-state transaction, IGST is levied otherwise CGST and SGST. There is a concept of distinct person, means supply from one branch to another branch of a person, having separate registration number under GST, is also subject to tax. Centre levies and collect IGST the same is shared between center and state. Inter-state taxpayer pays IGST after adjusting available, input tax credit of IGST, CGST and SGST on inward supplies. The GST was implemented to provide many benefits to the taxpayer in the form of uninterrupted ITC chain on inter-state transactions, absence of payment of tax or substantial blockage of funds for the interstate seller or buyer, reduction in inter-state transaction costs, competitive pricing, overall ease and efficiency in the system, among others.

2. Survey of Traders and Manufacturers to Analyze the Impact of GST

After introduction of GST on 1st July 2017, GST council, the owner of GST, has conducted various meetings and significant changes have been brought about in GST framework, specially shifting of many goods from high tax slab to lower ones. At this backdrop, PHD Chamber of Commerce and Industry has conducted a quick survey of around 750 industry stakeholders from various fields such as textile, cement, automobiles, chemicals, food processing, pharmaceuticals, machinery, among others to analyze the impact of GST on economy with special reference to interstate transaction cost. A quick survey has been conducted in the month of July 2020. It was observed that the traders and manufacturers have benefitted from the implementation of GST.

Key Results of the Survey:

- Impact on transaction costs: There has been a significant reduction in the transaction cost. Earlier, interstate transactions costs was more than 3% (GST+other transaction costs) of value of goods moving in interstate zones, which has now come down to less than 1%. According to the respondents, GST has been a major breakthrough in the interstate movement of goods and it is a good and simple tax. After the introduction of e-way bills, the hassles of earlier regime has almost been removed. This has enhanced the ease of doing business in the regime of indirect taxation
- Impact on costs of raw material: GST has removed the cascading effect of taxes. This has sufficiently reduced raw material costs and the production costs.
- Impact on sales: One Nation one tax, has given traders and manufacturers freedom to choose the vendors, suppliers, among others with the best prices irrespective of the location as the GST rate is same everywhere in the country and requires very minimal paperwork. This has resulted in the increase in efficiency and supply.
- Impact on labour efficiency: More than 50% of logistics effort and time is saved as GST has ensured removal of multiple checkpoints and permits at state border checkpoints. This has resulted into more road hours and faster delivery; thus increasing labour efficiency.
- Impact on price cost margins: GST have resulted into competitive pricing and economies of large scale due to easier procedures and low costing. This has made the manufacturers and traders more competitive and increased their profitability.

3. Analysis of the Impact of Changes in Composition of GST

Goods under GST are categorized according to the GST tax slabs. At the time of implementation of GST, i.e. July 2017, maximum goods (453) were put under the slab of 18%. The scenario remained the same, as now also the maximum numbers of goods (614) lie under the slab of 18%.

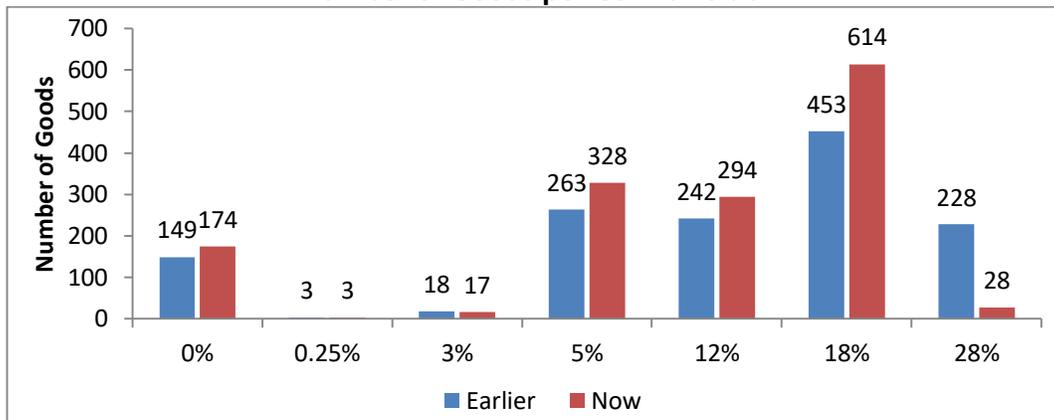
However, the drastic change can be seen in the category of highest tax slab of 28%. The number of goods in this tax slab decreased from 228 at the time of implementation to only 28 now, giving a big relief to the consumers. The other tax slabs recorded an increase in the number of goods over the time span of more than a year. Under the tax slab of 0%, 0.25%, 3%, 5% and 12%, the number of goods increased from 149, 3, 18, 263 and 242 in July 2017 to 174, 3, 17, and 294 respectively by June 2020.



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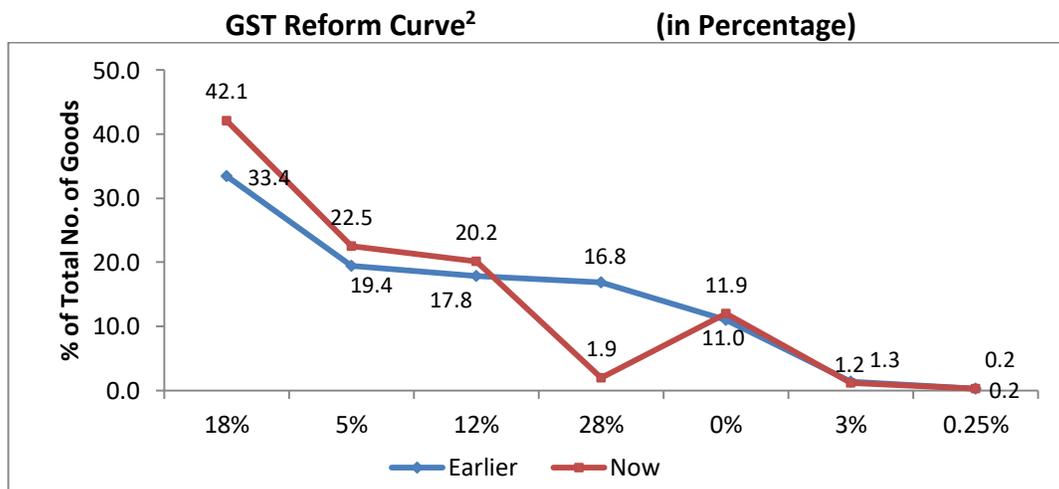
Impact of GST on Economy and Businesses

Number of Goods per GST Tax Slab¹



Source: PHD Research Bureau compiled from various sources (Note: Approximate number of goods, 'earlier' data pertains to July 2017 and 'now' data refers to the June 2020)

GST tax slab of 18% accounts for around 42% of goods under its ambit as of now as compared to around 33% at the time of implementation of GST. The second highest share of goods falls under the category of 5% tax slab, whose share has increased from around 19% in July 2017 to 23% in June 2020. Category of 0%, 0.25%, 3% and 12% recorded a slight change in the range of 0-2.4% in their share of goods over the same period. The maximum change has been made in the tax slab of 28%. The share of goods under this slab has come down to only 2% as on June 2020 from 17% at the time of implementation. The following graph of 'GST reform curve' reflects the change in the GST tax structure over the time span of more than one year.



Source: PHD Research Bureau compiled from various sources (Note: 'earlier' data pertains to July 2017 and 'now' data refers to the June 2020)

¹ This is not a complete or exhaustive list of items under exemptions or attracting concessional rates under GST.

² IBID

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Incidence of GST³ has reduced from around 14% at the time of implementation (July 2017) to 11.7% as on June 2020. The incidence of GST has decreased due to shifting of goods in lower tax slabs following the recommendations of GST Council meetings.

Incidence of Goods and Service Tax⁴

X (Tax Rates)	W1 (Earlier No. of goods)	W2 (Now No. of goods)	X.W1	X.W2
0%	149	174	0	0
0.25%	3	3	0.01	0.01
3%	18	17	0.5	0.5
5%	263	328	13.2	16.4
12%	242	294	29.0	35.3
18%	453	614	81.5	110.5
28%	228	28	63.8	7.8
	1335	1438	188.1	170.6
Weighted Average			13.9%	11.7%

Source: PHD Research Bureau (Note: Approximate number of goods, 'earlier' data pertains to July 2017 and 'now' data refers to the June 2020)

4. Conclusions and Recommendations

Conclusions:

GST has been the game changing biggest indirect tax reform for India as it has removed the cascading effect of tax on the cost of goods and services and supported India to position among the fastest growing economy of the world. Since the implementation of GST in July 2017, significant changes have been made in the composition of GST framework on the basis of various recommendations of GST Council. This has resulted in the decrease in the incidence of GST to 11.8% as on June 2020 from 14% in July 2017. Further, continuous effort are being made by the government to make sure 99% of items attract 18% or lower GST and leaving only sin or luxury items in the highest tax bracket of 28%.

Implementation of GST has also resulted in the significant reduction in the inter-state transaction costs. Traders and manufacturers in India are hugely benefitted from IGST model with respect to reduced transaction cost, reduced cost of raw material, improvement in sales, increase in labour efficiency and overall increase in profitability.

³ Concept of weighted average has been used to reach at the incidence of GST. In this process, each quantity (tax slab) averaged is assigned a weight (number of goods) that determined the relative importance or dominance of each quantity (tax slab).

⁴ This is not a complete or exhaustive list of items under exemptions or attracting concessional rates under GST.

Recommendations:

1. The petroleum products should be brought under the ambit of GST to remove the cascading impact of taxes such as excise duty, central sales tax including value added tax. It is also suggested to bring the Aviation Turbine Fuel (ATF) & Piped Natural Gas (PNG) under the GST to enable these companies avail the benefit of Input Tax Credit.
2. There should be improvement in logistics and infrastructure scenario to further reduce the transaction costs. Amid COVID-19 scenario, it is suggested to reduce the GST rates by 20% across slabs for a period of six months to boost demand and revive the animal spirit of economy. It is emphasized that between the GST rates of 12% and 18%, the industry will prefer a tax rate of 12% to boost demand in the economy.
3. Speeding the recovery process for VAT credit lying in the books of assesses is suggested. There should be facility for correction of errors on the GST portal. Further, in order to address the issue of liquidity crunch faced by the industry, some mechanism whereby the industry may pay its GST including the arrears by December 2020 should be focused.
4. GST rates should be rationalisation to increase consumption, reduce compliance, reduce evasion, reduce confusion in classification and help to make it a good and simple tax. It is suggested that the unutilized Input Tax Credit at the end of any tax period should be refunded.
5. The Ministry of Corporate Affairs vide a Circular (No.10/2020) dated 23.03.2020, has clarified that funds spent on measures to tackle the Covid-19 outbreak will be counted towards the corporate social responsibility (CSR) activity of companies, the Government is urged to issue a clarification that all expenditure incurred by a dealer towards CSR activities enumerated under the above Circular will qualify for input tax credit, and expenditure incurred by the employers/companies/institutions to carry out sanitation in their premises and to provide personal protective gears and hygiene products to their employees will also qualify for input tax credit.
6. The focus should be put upon protecting the VAT/CST Incentives under the GST regime. A clear policy should be framed to protect full benefits committed under old Tax Regime. Effective action needs to be taken with regard to numerous technical issues faced by the trade & industry members such as delinking the date of GST payment from filing of returns; allowing revision of GST returns; Relaxation on time limit for raising tax invoice by service providers'; Extension of time limit for issuance of Credit Note for FY: 2019 – 20 among others.
7. There is a need to setup GST Tribunal as soon as possible so that the litigation process and disputes redressal process are carried out efficiently and there are faster clearances of pending cases,

Going ahead, government's efforts towards further liberalization of the GST norms, ease in procedures, shift of goods into the lower tax slabs, among others are expected to result in promotion of ease of doing business, boost in the production of manufacturing, increase in price-cost margins of producers and creation of employment opportunities for the growing young population in the country.



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The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading newspapers. The Research Bureau has undertaken various policy studies for Government of India and State Governments.

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Impact of GST on Economy and Businesses

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Impact of GST on Economy and Businesses

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Impact of GST on Economy and Businesses

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