REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X

VOLUME - 8 | ISSUE - 2 | NOVEMBER - 2018

IMPACT OF GOODS AND SERVICES TAX ON GDP GROWTH OF INDIA – A STUDY OF RETROSPECT AND PROSPECTS

Sudipta Chakraborty
Lecturer, Post-Graduation Department of Commerce,
The Bhawanipur Education Society College.

ABSTRACT

The biggest tax reform i.e. Goods and Services Tax (GST) is now a part of Indian economy. It came into effect from 1st July, 2017 in India. It is a comprehensive indirect tax on manufactures, sales and consumption of goods and services; thereby subsuming almost all other indirect taxes that were in existence throughout India and also eliminating the cascading effect thereby. It was rolled out with high expectation that it would be helpful in increasing total production of the country and also the purchasing power of the buyers which would increase the GDP. In a research done by NCAER, it was suggested that GST would cause a revolution in Indian economy as it could increase the GDP by 0.9% to 1.7%. However, many states had reported a dip in revenue collection after a growth in first few months. The results of the later quarters though show a fair increase in GDP with some expectations for 7.3% and 7.5% in the F.Y 2018-19 and F.Y 2019-20 respectively. This paper is an attempt to study the impact of GST on GDP growth of India so far and also to comment on whether it can be a boon for Indian economy in future.

KEYWORDS: *GST, GDP, Impact, Indian economy, Growth.*

1. INTRODUCTION

Goods and Service Tax (GST) is the recent and one of the most important reforms in the field of indirect tax in India. Itis a comprehensive indirect tax on all manufactures, sales and consumption of goods and services that subsumedvarieties of indirect taxes such as sales tax, VAT, excise duty etc. that were in existence throughout India. There is a unique dual model concept in GST, comprising of CGST (Central Goods and Service Tax) and SGST (State Goods and Service Tax) collected by Central and State governments respectively, that has been rolled out with an objective to remove the challenges faced by the previous indirect tax structureof India and it aims at reducing tax evasion and cascading effect to make the taxation system more simplified and business friendly. The present GST structure of India also has two additional components, namely IGST (Integrated Goods and Service Tax) and UTGST (Union Territory Goods and Service Tax), where tax revenue so collected is shared between central and state governments equally. GST has affected all the aspects of the business operations in the economy, such as pricing of products and services, optimization of supply chain, information and communication technology, accounting, tax systems, etc. and also different sectors like telecommunication, pharmaceuticals, media, banking as well as domestic and international trade. Thus, the role of GST in overall economic development of India is immense and cannot be ignored. The ambit of GST in relation to the replacement of previous indirect tax structure can be best understood with the help of the following table-

INDIRECT TAXES SUBSUMED INTO GST	
CENTRAL INDIRECT TAXES	STATE INDIRECT TAXES
Central Excise Duty	Value Added Tax (VAT) / Sales Tax

Additional Excise Duty	Entertainment Tax (Other than by local bodies)
Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955	Octroi and Entry Tax
Service Tax	Purchase Tax
Additional Customs Duty (i.e., Countervailing Duty)	Luxury Tax
Special AdditionalDuty of Customs	Taxes on lottery, betting and gambling
Central cesses and surcharges relating to supply of goods and services	State cesses and surcharges relating to supply of goods and services
TAXES NOT SUBSUMED INTO GST	
Petroleum, Tobacco, Alcohol, Vehicles, Road and Tolls, Stamp Duty and Registration, Land Revenue and other direct taxes	

Source: Concept note on GST, Department of Revenue, Government of India

2. A brief history of need forGST

The issue of cascading effect of taxation was partly addressed through the VAT regime. However, certain problems still remained in the system. For example, several Central and state taxes were excluded from VAT. Sectors such as realestate, oil and gas production, etc. were exempt from VAT. Furthermore, goods and services are taxeddifferently, thereby making the taxation of products complex. Some of these challenges are sought to beovercome with the introduction of GST. The GST regime was intended to subsume most indirect taxes under a single taxation regime. GST is a valueaddedtax levied across both goods and services. Thus, it is expected to help broaden the tax base, increase taxcompliance and reduce economic distortions caused by inter-state variations in taxes.In 2011 the Constitution (115th Amendment) Bill, 2011 was introduced in Parliament to enable the levy of GST. However, the Bill got lapsed with the dissolution of the 15th Lok Sabha. Subsequently, in December 2014 the Constitution (122nd Amendment) Bill, 2014 was introduced in the LokSabha, which was passed in May 2015 and referred to a Select Committee of the Rajya Sabha for examination in the same month. Ultimately after lots of hassles and missing several deadlines, GST was rolled out in India from 1st July, 2017 onwards.

3. REVIEW OF LITERATURES

Leemput E. V. and Wiencek E. A. (2017) analyzed “The Effect of the GST on Indian Growth” and concluded that GST is expected to raise overall Indian welfare and is projected to be aninclusive policy in that it would be welfare improving for all Indian states. Furthermore,GST would lead to real GDP gains of 4.2 percent under the baseline assumptions,driven by a surge in manufacturing output. They also found that the distribution of goods across taxrate tiers matters for the growth outlook. As more goods move to the upper tiers, the real GDP andmanufacturing output gains would be dampened.

Chaurasia et al. (2016) Studied, “Role of Goods and Services Tax in the growth of Indian economy” and concluded that in overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.

Mukherjea S., Mukherjee R. M. and Shekhar S. (2015) highlighted that GST, at the revenue neutral rate (RNR) of 18%, willbenefit most goods, as currently most goods pay tax at ~24%. However,an 18% GST is unlikely to boost GDP growth. In contrast, a GST rate of25% will adversely impact consumption (of Goods & Services) but willboost Government revenues, which will in turn aid economic growth.

Pinki, KammaS. and Verma R. (July 2014) stated that the new NDA government in India is showing positive action towards implementing GST and it is beneficial not only for the central government and state governments but also for consumers in long run if its implementation is backed by strong IT infrastructure.

Kothari N. (2011) in his study focused on the comparative analysis among the VAT rates of 29 states and mentioned the necessity for introducing GST in India. He also specified the other forms of taxes in India as regards to Octroi, Value Added tax (VAT), Central Sales Tax (CST) in the present tax structure and the distortions in this present structure that will led to introduce a unified rate without having multiple rates foe the socio-economic development of India.

Dr. VasanthagopalR. (2011) in his study concluded that it will be positive step for sustainable development of Indian economy to switch from current complicated indirect tax system to a seamless GST in India. The success of GST has led to its acceptance by more than 130 countries in world and a new mostly accepted form of indirect tax system in Asia also.

Ahmed E. and Poddar S. (2009) in their study analyzed that the introduction of GST will provide a simpler and transparent tax regime with increase in output and productivity of economy in India. But the benefits of GST are mostly dependent on the rational designing of GST.

4. RESEARCH GAP

Many research works have been conducted by eminent authors and research scholars on conceptual framework of GST, its history and feasibility of its implementation in India. Many studies also sought to find out its impact on different sectors of our economy. However, a thorough study is required to be conducted on how successfully it has been implemented and how far it has been successful to accelerate the economic growth of India. Thus, this study is an endeavor to analyze the impact of introduction of GST on GDP of India so far and also its future prospects towards the same.

5. OBJECTIVES OF THE STUDY

The study has been conducted keeping in mind the following objectives-

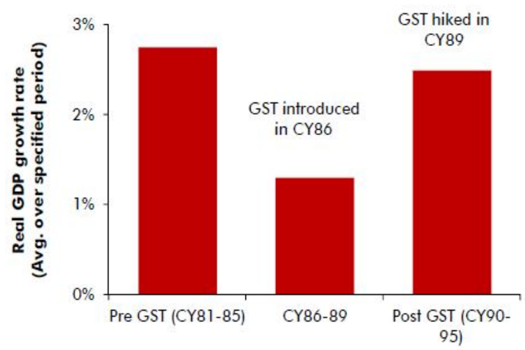
- To get an overview of Indian GST system, need for implementation and its basic structure
- To look into the impact of GST on GDP growth of different countries internationally
- To critically evaluate how far GST has contributed to GDP growth of India and whether it can come out as panacea for struggling Indian economy in future.

6. RESEARCH METHODOLOGY

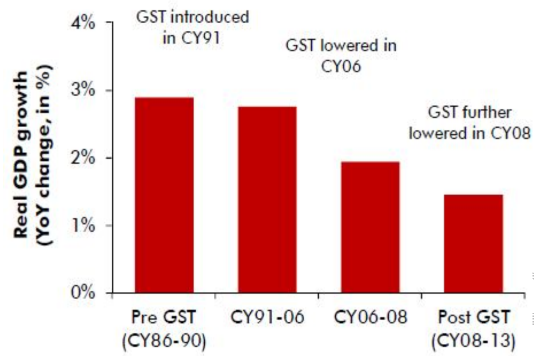
This study is a result of descriptive and exploratory research where data have been collected from different secondary sources including web resources, reports, articles of reputed authors published in various magazines and journals etc.

7. INTERNATIONAL SCENARIO

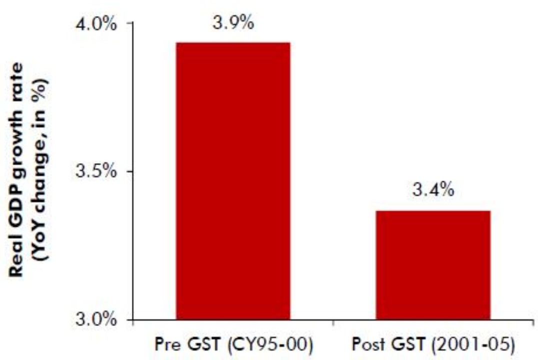
While it is difficult to assess the impact of GST on economic growth as GDP growth is affected by a range of variables; cross-country evidences suggest that the introduction of GST has no correlationwith GDP growth of the country. Although the introduction of a single indirect tax, such as GST limits inefficiencies created by a multiple taxation system, there is little evidence that it helpsboost economic activity. However, the introduction of GST helps in reducinginflation by removing the problem of cascading effect of taxation and thereby reducing thecost of doing business. It also helps in boosting the tax to GDP ratio, provided theGST is introduced at a high enough rate i.e., higher than the revenue neutralrate (RNR), which in India is 18%.Various countries such as New Zealand, Canada, Thailand and Australia have introduced a single GST system. However, given the magnitude ofchange entailed by a GST regime, the GST has typically been implemented in aphased manner in most of the countries, whereby an ideal GST structure is created over time.Whilst GDP growth in New Zealand was higher post GST implementation, in the caseof Canada, Australia as well as Thailand, GDP growth was lower post GST implementation.



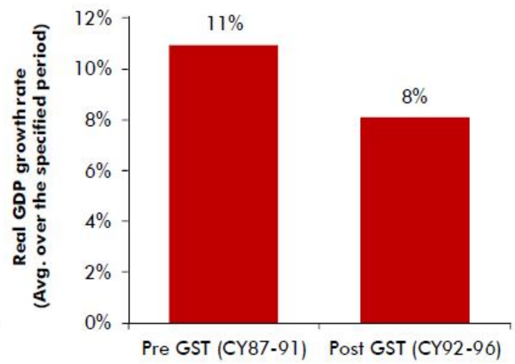
New Zealand



Canada



Australia

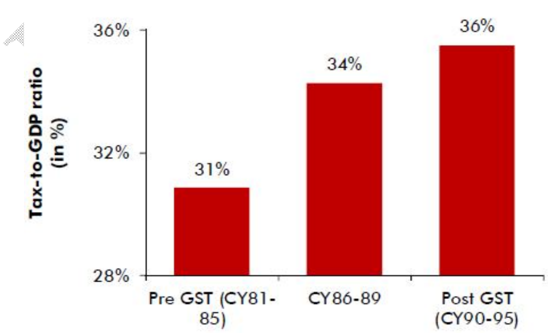


Thailand

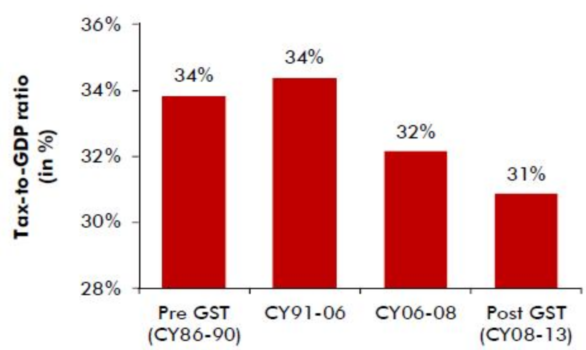
Source: IMF, Ambit Capital research

A survey of available research works also suggest that the impact of indirect tax reforms on GDP growth is ambiguous. In the paper titled "The tax system in India: Could reform spur growth?" (April, 2006) published in "IMF working paper" suggested that consumption taxes should not in theory affect savings and investment decisions since future andcurrent consumption are treated equally, and they remain neutral with respect to various sourcesof income. Empirical evidence is mixed; however, some studies suggest that such taxes indeedhave no impact on employment and growth, but others find that – like income taxes, although toa lesser extent – they have a negative impact on growth by distorting the choice between labourand leisure and also could depress savings.

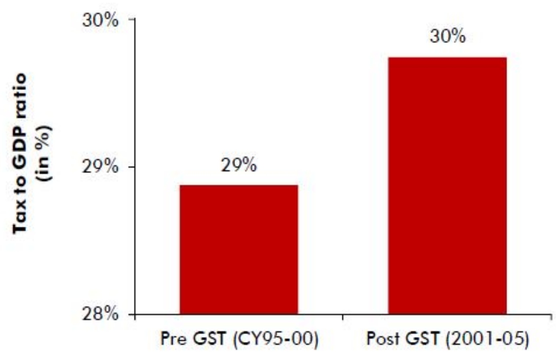
Evidencesof these above-mentioned countries however suggested that the introduction of GST boosts the tax-to-GDPratio by 1-2% points. In Canada, the tax-to-GDP ratio increased marginally after GSTwas introduced but decreased as GST rates were lowered from 7% in 1991 to 5% in2008.



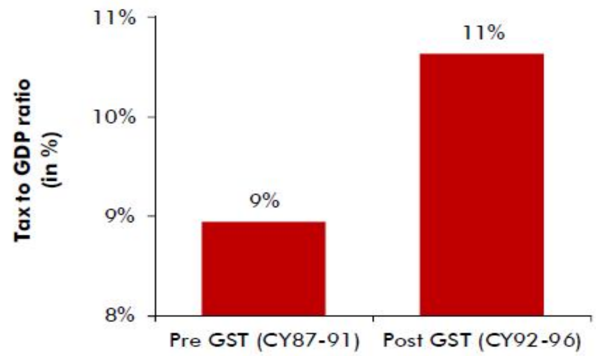
New Zealand



Canada



Australia

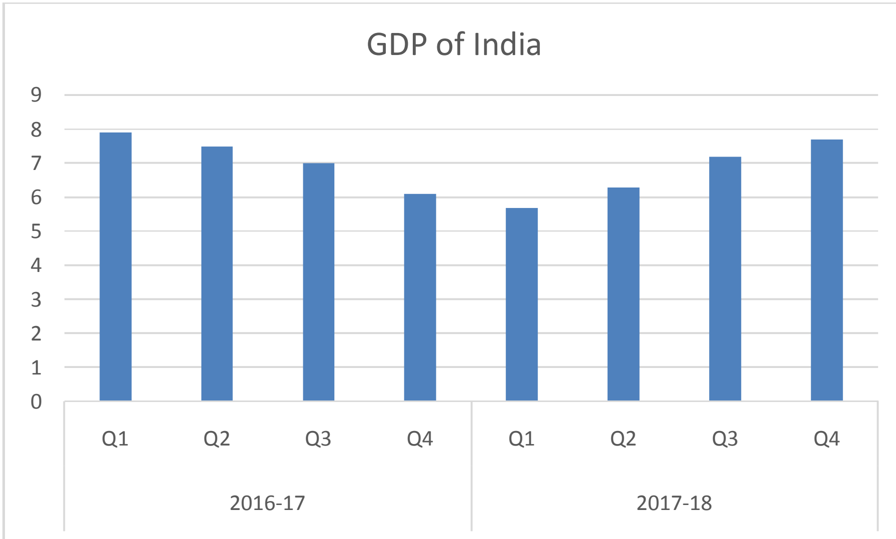


Thailand

Source: OECD, CEIC, Ambit Capital research

8. INDIAN PERSPECTIVE

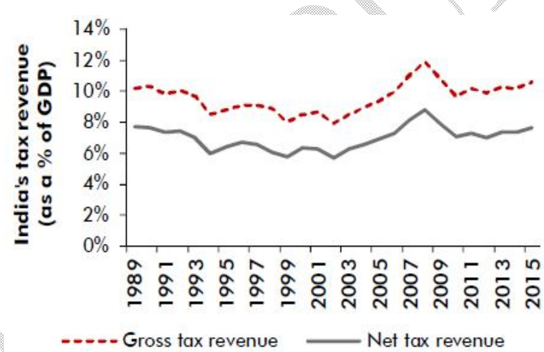
The research published in the paper titled "Moving to Goods and Services Tax in India: Impact on India's Growth and International Trade" (December, 2009) in NCAER concluded that implementation of a comprehensive GST across goods and services is expected, ceteris paribus, to provide gains to India's GDP somewhere within a range of 0.9-1.7%. However, the study assumes a flawless GST with no exemptions and no extra inter-state taxes. But in Indian GST structure there is existence of certain imperfections, namely exclusion ofalcohol and petroleum products from the purview of GST, additional 1% interstatetax to compensate the producing states etc. These are likely to mean that GDP growth of India will be unaffected in the short run.In fact, there is a risk that GDP growth may be affected adversely in the short run. In the medium term, i.e., beyond F.Y 2017-18, the impact of GST on GDP growth will depend upon the structure of the tax rate. GST charged at RNR of 18% will give no incremental gain in tax revenues for the Government. Also, it will be positive for goods, as previously the effective tax rate on most goods wasapproximately 24%. However, it may negatively hurt services consumption, asthe service tax rate was 14% under previous tax regime. Therefore, at the revenue neutral rate of18%, the GST is unlikely to have a material impact on GDP growth, as there willbe no incremental gain in tax revenues, which could spur capital expenditure bythe Government and hence boost the GDP growth rate. However,in case of goods, since under GST, total tax burden is reduced, production may increase which would lead to increase in tax revenue collection. GST rate of 28% may give a boost to India's tax-to-GDP ratio 1%-2%.Assuming that the incremental taxrevenue is spentby the government on capital expenditures, this will have a positive impact on GDP growth.The incremental Government expenditure will be magnified through the fiscalmultiplier for capital expenditure which in India's case is roughly 2.45 (source:NIPFP), implying that every additional rupee spent by the Government will have a2.45x multiplier effect on spurring further spending. However, demand for services will suffer even more under this scenario, given that the previous service tax rate of 14% is much lower.

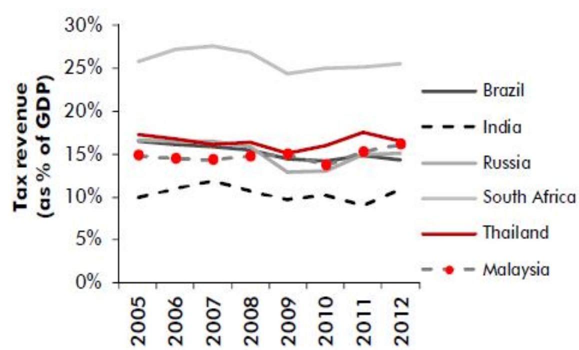


Source: World Bank

Data show that GDP figures of India was showing a continuously decreasing trend from the first quarter of F.Y 2016-17. It was lowest (i.e.; 5.7%) in Q1 of F.Y 2017-18, just before the rollout of GST all over India. Possible reasons behind this may be lingering effect of demonetization and unpreparedness for accepting GST under the given structure. However, after GST was introduced, India has witnessed a persistent increase in its GDP. Hence, we may conclude that introduction of GST in Indian economy may appear as a boon towards overall economic growth and may cause further improvements in GDP figures in near future.

India's tax-to-GDP ratio has been rangebound between 8% and 12% over the past two decades. Furthermore, a comparison with peers as well aswith developed countries like the UK points to the vast tax-revenue-generatingpotential in India.





India's tax-to-GDP ratio over the years

India's tax-to-GDP ratio as compared to most of its emerging market peers

Source: CEIC, Ambit Capital research
Note: Data is presented on financial year basis

Source: World Bank, Ambit Capital research
Note: Data is presented oncalendar year basis

The Central tax-to-GDP ratio looks likely to rise by 1%-2% points because of the following reasons-

- GST will boost the Government's revenue by increasing the tax base, as the Indian unorganized sector has come under the purview of the GST. Given that 59% of the total output in India is produced in the unorganized sector, this can boost the Government's revenue to a considerable extent if GST is able to bring even a part of the unorganized sector under its ambit.

- GST implementation is likely to result in lifting direct tax collections, as: (1) GST payments by tax-payers will be linked to their respective Permanent Account Number (PAN); and (2) the National Securities Depository Limited (NSDL) which maintains the Tax Information System (TIN) will also look after the GST database. This integration of the indirect tax system with the direct tax system will enable authorities to triangulate information, thereby automatically leading to improved tax buoyancy.
- India's manufactured exports could receive a boost under GST, as the introduction of GST has remove inefficiencies (e.g. double taxation and complex structure) in the system by replacing a range of taxes by one single tax. This has increased India's export competitiveness and hence is expected to help to reduce Current Account Deficit (CAD).The increase in exports could have a positive impact on GDP growth, as exports ofGoods and Services constitute around 25% of total GDP of India. The introduction of GST has made Indian exports more competitive and hence will help in boosting exports.

9. FINDINGS

The study has revealed the following-

- The introduction of a single GST is unlikely to boost GDP growth in the short run. Its ability to add to GDP growth in the long to medium term will depend on nuances like the structure of rates and exemptions.
- Easy compliance, less complicacy and elimination of cascading effect leads to more production and increase in Government's tax revenue which would lead to increase in public expenditure and in turn GDP.
- The introduction of a single GST could lower inflation in India given that goods account for more than 70% of the CPI basket.
- The introduction of a single GST is highly likely to boost India's indirect tax to GDP ratio, as GST will bring the unorganized sector (which accounts for 59% of India's economy) under the purview of taxation.
- The introduction of a single GST is likely to compress India's CAD by boostingexport growth.
- GST implementation is also likely to increase direct tax collections by integration of the indirect tax system with the direct tax system will enable authorities to triangulate information, thereby automatically leading to improved tax buoyancy.
- Multiplicity of GST rates, specially the highest rate of 28% may hamper production and demand for goods and services which may have an adverse effect on GDP growth.
- Although introduction of GST has removed many imperfections that existed under the previous indirect tax regime, however, even present GST structure is not free from all loopholes. Such imperfections in the present structure may take a toll on GST growth of India.

10. LIMITATIONS OF THE STUDY AND CONCLUSION

GST is at a very initial stage. Thus, we are at a very early stage to comment on the effects of GST in Indian economy. Moreover, GDP is not only dependent on GST, but also on various other factors which are to be taken into account before analyzing the causes of fluctuation in GDP rates. As every coin has two faces in the same way GST has both perspectives i.e. positive and negative. Despite having some factors which are expected to affect the economy adversely, there are so many other things which are expected with a positive impact on GDP.

REFERENCES

Books and articles:

[1] Ahamad, E. &Poddar, S. (2009). Goods and Service Tax Reforms and Intergovernmental Consideration in India. Asia Research Center. LSE,2009.

[2] BMR Advisors. (July 2016). Interplay of GST on import of goods: Impact on Customs duty and Foreign Trade Policy. BMR Point of View. Vo. 12, Issue 6.5.

[3] Garg, G. (2014). Basic Concepts and Features of Good and Service Tax in India.

[4] Kamna, S., Pinki, Verma, R. (July 2014). Good and Service Tax – Panacea for Indirect Tax System In India. Tactful Management Research Journal. Vol. 2, Issue 10.

[5] Kumar, N. (May 2014). Goods and Service Tax in India-A Way Forward. Global Journal of Multidisciplinary Studies. Vol. 3, Issue 6.

[6] Mawuli, A.(2014): "Goods and Service Tax- An Appraisal"Paper presented at the the PNG Taxation Research and Review Symposium, Holiday Inn, Port Moresby, 29-30.

[7] National Council of Applied Economic Research Final Report. Moving to Goods and Services Tax in India: Impact on India's Growth and International Trade, prepared for Thirteenth Finance Commission Government of India.

[8] Vasanthagopal, R. (April 2011). GST in India: A Big Leap in the Indirect Taxation System. International Journal of Trade, Economics and Finance, Vol. 2, No. 2.

Websites:

[1] http://www.onlinegst.in/impact-of-gst-on-import-and-export/

[2] http://www.gstindia.com/gst-to-help-reorient-states-towards-export-promotionpar-panel/

[3] http://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)

[4] http://taxguru.in/goods-and-service-tax/impact-gst-imports.html

[5] http://economictimes.indiatimes.com/topic/GST

[6] http://www.moneycontrol.com/newstopic/gst/

Sudipta Chakraborty

Lecturer, Post-Graduation Department of Commerce, The Bhawanipur Education Society College.