Role Of Gst In Economic Development In India

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ABSTRACT

Goods and service tax (GST) introduced as a 'good and simple tax' on 1 July 2017 by the Modi government is the boldest measure of tax reform so far in India. GST reforms will improve specialization in productions of goods and services among the major economic sectors of India by removing distortions in the production and distribution of goods and services and by bringing transparency in the tax system. It will help to maintain above percent continuous growth rate in output, investment and physical capital. It also promotes expansion in human capital and the financial system. Anti-corruption measures including recent demonetization of large denomination notes and digitization of economic transactions along with GST reforms will add to infrastructure including construction and expansion of communication networks, massive electrification, development of rail, road, air and shipping networks. By creating better opportunities for education and training for the younger generation, health service for all, continuous reforms in direct and indirect taxes will bring speedier growth of income and employment along with more balanced distribution of income.

Introduction:

India is growing very fast in the last two decades, Millions of people have been out of poverty in this period, rate of poverty declined from about 21 percent to below 7 percent during this period. While there are many bright spots of the speedy growth and development, there are still major challenges in bringing growth to the many people particularly those in rural areas and in the families of poor income groups in many urban areas. A prudent fiscal policy can create opportunities and create more equal distribution of income. Tax reform agenda brought by the Modi government aims to achieve efficiency in allocation of resources for higher rates of growth of output and employment across various sectors of the economy and to redistribute income so that every individual in the society has access to at least to a minimal satisfactory standard of living (1)

The GST was implemented on 1 July 2017. GST Bill was passed by both houses of the parliament with an amendment of the constitution in August 2016. Government of India (2), Roy (3) and Adhiya (4) explained how it could be implemented, You Tube channel workshops demonstrated practical steps. Earlier discussion on GST in India started in 2006 (5) and Jha (6) explained how it can fit in the context of fiscal federalism in India. Cnosses (7), Dubey and Shukla (8) and Lourdunathan and Xavier (9) explained possibility of its implementation. Despite these no

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systematic studies have taken place in order to assess the economy wide impacts of GST on growth, efficiency of allocation of resources and the redistribution of income.

Background of the Indian Economy:

Growth rate of India has remained very impressive in the last two decades on average it has been above 6.5 percent since 1990. Liberalization of the economy and right set of policies have been key factors for such sustained growth (Ahluwalia)(10), Malick (11), Panda and Ganesh Kumar (12). Income per capita also has increased from less than 200 US dollars in 1980s to around 2500 dollars in 2020. In terms of PPP India's per capita income will be around 11,000 PPP Dollars by then. As a result, the share of India in the global economy is gradually rising; now India counts around 85 percent of the global GDP in PPP terms. Given that India is home of about 20 percent of the global population, there is no reason why this global share could not rise to 20 percent in the next few decades. Speedy growth supported by policy reforms such as the GST can achieve this objective.

Growth of the economy and per capita income as above were possible because of the steady growth in the ratios of saving and investment to GDP over time. Development of financial institutions and liberalization of banking system helped to mobilize saving in a massive scale. It raised interest to savers and lowered the cost of capital to the investors. Macroeconomic stability created atmosphere for investment and capital formation. Human capital was also created through expansion of high quality educational institutions and research in science, technology and engineering. Expansion in health services also has been the source of growth in labour force, particularly the large scale skilled young generation as required by the economy. Inflation was the major challenge in 1980s to 2000 but has gradually became more stable due to balanced budget approach and privatization and liberalization measures adopted by the government. Growth rate of money supply has declined drastically since 2011. License Raj was dismantled and exchange rates were allowed to be driven freely by the market. This helped to solve the BOP problem. Such reforms were appropriate for the long-term investment and India opened the door for FDI and technical innovations.

It is natural for a developing economy like India to have a rapidly expanding public sector. While it is difficult to raise more revenue from a narrow and still underdeveloped tax base, demand for public funds from infrastructure, health and education and other social services abound. This creates wide gap between revenue and spending, it reached even 10 percent of GDP in mid 1990s. Such unsustainable public finance resulted in accumulation of debt. In recent years more focus has been on reducing the budget deficit to around 3-4 percent of GDP and to trim down the debt GDP ratio. Comprehensive GST reforms can mitigate such imbalances. Another major macroeconomic problem is increasing inequality with the prospects of economic growth across various states and among different categories of households. Despite impressive growth rates, inequality in the distribution of income is becoming much higher in India than in its neighboring countries.

Huge gaps exist in per capita income among states of India as seen. While states like Goa and Delhi had 132 and 119 thousand rupees of per capital income it was just 14 thousands in Bihar and 18.5 thousands in the UP. Barriers to trade between provinces created by cascading of so many taxes are to be removed after the implementation of unified CGST, SGST and LGST.

Impacts of GST on Demand and Supply Sides of the Economy:

GST was implemented in India on 1 July 2017 and it was the most important policy reform in India since Independence. It is a comprehensive reform of the indirect tax system in India where the central government, 29 state governments and nine union territories have reached a unique agreement and an amendment in the constitution was required so that producers of goods and services became liable to pay sales taxes to the central and state governments simultaneously. It has removed all structural rigidities and extra burdens on consumers because of cascading of taxes. GST replaces all types of indirect taxes at the central and state levels in spirit of one nation, one tax, on market. GST unifies al indirect taxes making one rate of indirect tax applicable on any commodity through-out the whole country, Central GST(CGST), State (SGST) and integrated GST (IGST), Union territory GST (UTGST) are parts of the same GST system. Its built-in mechanism of tax credit system is expected to minimize the tax evasion and tax avoidance problems.

While GST started in France in 1954, its implementation was gradual across countries. Around 160 countries in the world now implement GST. Like Candada and Brazil, India is adopting a dual GST system at the central and state levels. While the central GST will replace existing multitude of indirect taxes such as central excise taxes, additional excise duty, service tax, countervailing duty, special additional duty, the state GST will replace state level VAT, entertainment taxes, luxury tax, taxes in lottery, betting and gambling and taxes on advertisement and entry taxes. According to the central Board of Excise and Customs of India, a few indirect taxes such as basic custom duty, taxes on land and buildings and mineral rights and excise on alcoholic liquors and stamp duty are to remain even after the implementation of GST.

GST council has determined GST rates of 0%, 5%, 12%, 18% and 28% on goods and services; a detailed schedule exists for rates applicable specific to goods and services. It also outlines procedure on how CGST, SGST, IGST, or UTGST are paid on sales of goods and services. GST will have wide ranging demand and supply side effects. In general GST will be beneficial to households, business firms and the central governments simultaneously.

According to the government of India (2017) households benefit (i) simpler tax system (ii) Reduction in prices of goods and services due to elimination of cascading (iii) Uniform prices throughout the country (iv) Transparency in taxation system (v) Simpler tax regime-fewer rates and exemptions; and the central and state governments benefit from the GST from (i) A unified common national market to boost Foreign Investment and "Make in India" campaign (ii) Boost to export/manufacturing activity, generation of more employment, leading to reduced poverty and increased GDP growth (iii) Improving the overall investment climate in the country which will benefit the development of states (iv) Uniform SGST and IGST rates to reduce the incentive for tax evasion (v) Reduction in compliance costs as no requirement of multiple record keeping.

Table 1 :

Tax structure in India

Direct taxes			**Indirect taxes**			
Income tax				**GST 2017**	**Main taxes before GST**	
Taxable income (Rs)	Tax rate	plus		5%	**Central:**	
250,000	0	-	**CGST**		Custom duties	0 to 35%
250,000 to 500,000	10%	-			Central taxes	0 to 35%
500,000 to 1,000,000	20%	25,000		12%	Service taxes	0 to 15%
above 1,000,000	30%	125,000				-
			SGST		**State**	-
				18%	VAT	5 TO 15%
Corporation tax rate	30%		**IGST**		Stamp duties	2%
Dividend tax	17.00%				**(land revnenue)**	-
			UTGST		**State excise**	**0 to 35%**
of the total revenue	56.30%			28%	43.70%	-

http:/www.cbec.gov.in/htdocs-cbec/custom/cs-tariff2015-16/cst2015-16-idx

In a nutshell, the overall tax rates of India now are as shown in Table 1. Direct tax on income varies by categories of income. There is no income tax up to Rs. 2,50,000 of income. Then a 10% tax applies to income between Rs. 2,50,000-5,00,000; 20 percent tax to Rs 5,00,000-1,000,000 and 30% income tax rate for income above Rs 1,000,000. Thus the direct tax system is progressive. The GST can also be progressive tax with five different rates 0%, 5%, 12%, 18% and 28% applicable according to social optimality level for commodities being sold in the market. While items such as Jute, fresh meat, fish, chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, breas have zero rate GST, a 28 percent rate GST is applicable in items such as Bidis, chewing gim, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate, pan masala, acrated water, paint deodorants, shaving creams, after shave, hair shampoo, dye sunscreen, wallpaper, ceramic tiles, water heater, dishwasher cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use. For our counter factual scenarios we take 12 percent GST on average to be applicable to all goods and services along with 5 percent of income tax across all households. When the existing taxes are replaced in this way they have very positive impacts in the economy. Indirect taxes impact on efficiency, growth and redistribution by influencing both demand and supply sides of the economy. Neither the traditional econometric models nor the dynamic stochastic general equilibrium (DSGE) models are appropriated tools for analyzing growth, efficiency and redistribution impacts of taxes in an economy.

Conclusion:

The Goods and service tax implemented on 1 July 2017 will enhance growth rates and promote investment and capital accumulation in India. It will improve income, consumption and utility of households no matter whether they belong to poor, middle or rich income groups, It will lower the relative process of commodities but raise the investment, capital stock and employment among 33 production sectors of the model economy. Government will be able to follow more balanced budget following its strategy of minimal governement and maximum governance as revenue increases to finance a reasonable growth in the public spending. This GST reform is of fundamental importance as it will unite all 29 states and 9 union territories by integrating more than seven indirect taxes at the central level, seven another taxes at the state level and eliminating more than 500 special cases of indirect taxes making one tax, one nation and one market idea possible for India.

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