SWOT Analysis of GST Implementation in India and its Effect

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ABSTRACT *Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Previously, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. After implementation of GST all these taxes are ceased to exist. There is only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. Previously, separate tax rates were applied to goods and services. Under GST, there is only one tax rate for both goods and services. The goods and services Tax is indeed a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario.*

Key words: *goods n services tax, economic development, Indian economy and value added tax.*

I. Introduction

Taxes are the only means for financing the public goods because they cannot be priced appropriately in the market. They can only be provided by governments, funded by taxes .It is important the tax regime is designed in such a way that it does not become a source of distortion in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. GST stands for Goods and Services Tax. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services -in practice with some exemptions. A value added tax exempts all inputs including capital goods. Hence, it becomes a general tax on domestic consumption. It is a convenient and economically efficient way of taxing consumption. In order to ensure that the tax burden is distributed according to the consumption of different individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a good should go to the state in which the concerned consumer lives. This automatically takes place if the tax is levied at only the central level, or if the state is a unitary one with only one level of taxation. In a federation, there are special problems to be solved if GST is to be levied at the level of the states as well as the federal government.

II. Literature Review

NishithaGuptha (2014) in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government. Does Goods And Services Tax (Gst) Leads To Indian Economic Development? Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation. SaravananVenkadasalam (2014) has analysed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation's development. Meanwhile, Singapore shows a significant positive relationship. It is undeniable that those countries whom implementing GST always encounter grows. Nevertheless, the extent of the impact varies depending on the governance, compliance cost and economic distortion. A positive impact of GST depends on a neutral and rational design of the GST such a way it is simple, transparent and significantly enhances involuntary compliance. It must be actual, not presumptive, prices and compliance control would be exercised through an auditing system.

III. Research Problem

The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world, but India has been taking baby steps to meet its target of rolling out goods & services tax (GST) on 1st july, 2017. The research intends to focus on understanding concept of goods and service tax and its impact on Indian economy.

IV. Objectives Of The Study

1. To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy.
2. To understand how GST will work in India.
3. To know the advantages and challenges of GST in Indian context.
4. To understand SWOT analysis of GST

V. Research Methodology

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

VI. Concept Of Goods and Service Tax

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Previously, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes are ceased to exist. There is only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there is one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT.

VII. GST

How It Works In India? The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows: GST is divided into three components, namely, Central Goods and Service Tax and State Goods and Integrated Goods and Service Tax: GST is applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

Payment: GST is charged and paid separately in case of Central and State level. Input Tax Credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

VIII. Impact Of GST on Indian Economy

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country's tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GS Tax rate ranges from 0% to 28%. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they were previously reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. There is definitely a silver lining to the whole exercise. The unorganised sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. This will bring sanctity to the taxation system without hurting any of the sectors adversely.

To The Individuals and Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies

IX. SWOT Analysis of GST

- **Strengths of Goods and Service Tax in India**

1) It will dropping out the cascading effects of tax on production and distribution of goods and services which will competitiveness and consequently, GDP will increase.
2) It will apply all goods and services except some exempted products.
3) Tobacco is not exempted from the area of GST. It is treated as Sin goods and come under the taxation with central excise tax.
4) Natural gas, Aviation Turbine Fuel (ATF), High Speed Diesel (HSD), Crude oil, Petrol products are exempted till the GSTC (Goods and Service Tax Council) discloses date of their formation.
5) Alcohol, real estate, custom duty and electricity are exempted from GST.(Proposed article, 366 (12A).
6) GST would be dual taxation system. It would be charged intra-State by Central and State governments. It would be called CGST (Central Goods and Service Tax) and SGST (State Goods and Service Tax).

- **Weaknesses of GST System in India**

1) The doorstep goal is very ground level for traders and service providers. It will raise appropriation of government ways and means which are costlier than government's revenue.
2) GST is a subsume of various States and Central taxes like excise duty, cess, service tax, countervailing duty etc., but many more are left which should be included like electricity, alcohol etc.
3) GST for States and Central (SGST, CGST) seems to be different, further it can be diversified on the basis of location, geographical structure etc.
4) The tax rate is depends upon availability of fund in States. The States has power to increase the rate according to their need.
5) This system is very fond of technology, but India is a developing country where people are not habitual of technology.

- **Opportunities of GST in India**

1) The rates of tax are set at ground level which will help States and Unions to collect more revenue.
2) It will reduce the transaction costs and wastages of scare resources because at a one registration people can do transactions from States and Unions. So, it will connect the whole nation from a single click.
3) In indirect tax structure multiple taxes were charged from taxpayers. But GST will eliminate the taxes on chain of transactions.

4) GST is also known as "One Point Single Taxation System". This is a helping hand for businessman's, they can come to agreement on price modalities, supply chain etc., without thinking too much about taxes imposed on them at later stages.
5) GST will reduce average tax burden of consumers. They will be certain about their taxes which will reduce evasion of taxes.
6) GST can provide the opportunity of Corruption Free Indian Revenue Services. The root of corruption found in political system. It will bring transparency in Indian political system.

- **Threats of GST in India**

1) Inter-States supply of goods and services are considered as import and IGST will be applied (1%) in addition to custom duties.
2) The Central government promised for compensation to loss making States for a period of 5 years. The compensation will be as: 100% for first 3 years, 75 % for 4th year and 50% for 5th year. So, it is possible that all States does not implement it in effective manner to get compensation.
3) GST is not friendly with banking sector. Because the cost of goods become cheaper after GST and it will promote export. Previously, 14% service tax was levied on baking transactions. GST will make these transactions more costly. Over and above, in most of countries banking sector is excluded from GST.
4) GSTC (Goods and Service Tax Council) will set the benchmark for resolving the dispute on recommendations of GSTC. It means GSTC will lay down the criteria for GSTC itself. It is against the principle of natural justice.
5) GST is not a guarantee in itself that it would not be influenced by political parties and politicians will not use it as a win-loss game.

X. Conclusion

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers There has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime. It is considered to be a major improvement over the previous central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services. This will reduce litigation on classification issues. It is also expected that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government. Sooner or later, the GST will surely knock the doors of India. And when that happens, we as future torch bearers of the profession are required to be prepared and fully equipped with our knowledge regarding GST. Forewarned is forearmed. Thus, we must be ready to deal with GST and many other changes that are going to take place in India. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

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