

Impact of Five Years of GST on Indian Economy

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Introduction

- An economy is basically a careful management of available resources
- In a mixed economy like India it also connotes a careful use of money by the government for ensuring adequate 'purchasing power' of the poor and middle class people as well

Taxation and Economy

Part I

- Taxation is the best practical means of raising revenue for the government to deliver essential public services like health care, education, etc.
- A big chunk of the nation's economy is based on government spending

Part II

- Most of the revenue for government spending comes from the collection of taxes – indirect and direct
- Thus, any change in the taxation system or policy would have an impact on the economy – positive or negative

Where Did We Stand before the Introduction of GST

- Fragmented indirect taxes like Central Excise, Service Tax, State VAT, State Excise on Alcohol, Octroi, etc.
- In case of Customs, there were continuous reforms as per the International Best Practices, regularly circulated by WCO (World Customs Organization)
- However, reforms were very much necessary for other indirect taxes as mentioned above

Steps Taken for Finding the Way Out

- Discussions started in 2000
- The Union Finance Minister announced in 2006 that GST would be introduced by subsuming a few indirect taxes of the Centre and the States in 2010
- The Union Finance Minister presented the **115th Constitution Amendment Bill** for bringing in GST
- Later, in 2016, the **101st Constitution Act** came into force, followed by its introduction on 1st July, 2017, by the new government

Expectations from GST

Part I

- First, the new tax would be easy to understand and easy to comply with for the taxpayers
- Secondly, for the taxmen, GST should be easy to administer with the help of foolproof modern technology

Part II

- Thirdly, there should be the spirit of 'Cooperative Federalism' in the Centre and the States, since it would be jointly administered between them
- Fourthly and finally, meeting the revenue targets was very important
- It may not be met in the first year of GST; but buoyancy in revenue should be felt from the second year

Reality Check after Introduction of GST and its Impact on the Economy

Part I

- In the initial days of GST implementation, technology was found inadequate for administering tax
- Reason – GST was introduced in a hurry without making all the modules of GST Net (GSTN) fully operational and even without the usual trial runs for all the modules
- Switch over to manual mode for certain important business processes, because of some technology glitches

Part II

- Consequent frauds in wrongful availing of credit, including 'Transitional Credit'
- In the first stage of implementation, smooth implementation of GST was the main concern and enforcement measures took the back seat
- Substantial shortfall from the targeted revenue collection

Reality Check after Introduction of GST and its Impact on the Economy

Part III

- GST impacts GDP or growth
- GDP or growth too impacts GST
- By the beginning of 2018, country's economy was doing better and the technology and policy glitches were also fixed
- But by the end of 2018, GDP growth started going south and so did GST revenues

Part IV

- From 2020, COVID added to the ongoing slowdown of economy
- On GST front, Enforcement and Audits were strengthened and lots of detections kept the GST collections stable
- Expectation of a simple GST – first two years, GST was neither simple nor easy to comply with
- Situation improved from the third year

Worries of Small Business

- Very low threshold
- Reverse charge of GST
- Absence of GST Suvidha Provider (GSP) for small business

GST Rates

- Highly complicated
- Too many slabs of duty rates
- Too many items in 28 % and 18 % slabs
- Need to have four rates: Nil, 5 %, 14 or 15 %, and 28 % slabs

Pain-points of Taxpayers

- Denial of GST Credits
- Denial of use of Unutilized Credit in certain cases
- Breaking of the ITC Chain through Cross-charge
- Denial of Transitional Credit of 2017, the year of introduction of GST

Some Suggestions to Reduce Pain-Points

– Part I

- Import IGST and Reverse Charges may be allowed to be paid from unutilized and accumulated GST Credits
- GST Credits may be allowed to be utilized for tax payment pursuant to audit objections, in cases where there was no fraud
- GST threshold may be increased to Rs. 60 Lakhs as suggested by Dr. Arvind Subramanyam then CEA

Some Suggestions to Reduce Pain-Points

– Part II

- Denial of Threshold benefit in certain cases of Small Business like interstate supplies and Reverse Charges may be removed
- Urgent need for GST Appellate Tribunal to start functioning
- Need for a National Advance Ruling Authority, somewhat in line with GST Appellate Tribunal at National level

Some Suggestions to Reduce Pain-Points – Part III

- Need for National Anti-Profiteering Authority
- Need for Reforms in Refund Processing by the Taxmen
- Need for reforms in Audit Procedures, keeping in mind the strengthening of the Audit Systems while not increasing the pain-points of taxpayers in Audit Procedure
- Need for including Petroleum, Alcohol, Electricity, and Fully Completed Real Estates in GST Credit Chain

Other Suggestions on Centre – State Relations

- Need for Independent Dispute Resolution Authority for settling the disputes between Centre and the States and between different States
- Need for highest level of Cooperative Federalism between Centre and States

Commendable Steps – Rays of Hope for Further Facilitation by Technology-led Digitization

- Facilitation in simplification of filing of various Returns like GSTR – 1, GSTR – 2B, GSTR – 3B, GSTR – 9 and GSTR – 9C
- E-Invoice Facilities
- Technology-led Digitization through GSTN, ACES-GST, ADVAIT, DG-ARM, GST e-way bill, GAIN, BIFA, etc.

Concluding Remarks

- These are summarized in the last few pages of my Conference Paper
- For the next few years, the '*Mantra*' for everyone associated with GST should be:
 - Facilitate the honest taxpayers and take stringent action against tax-evaders and fraudsters – mostly with the help of Technology

Thank You