

# **Conference on Impact of GST on Indian Economy**

**28-29 November 2022, NIPFP, New Delhi**

# Session I: Macroeconomic Impact of GST-I

## Positives of GST regime

Ease of doing business- Improved  
Cascading effect – Reduced

## Negatives/Issues with GST regime

### • Technological Glitches

– small businesses in dealing with **GST IT platforms**  
– Consequent frauds in wrongful claiming of ITC, including ‘Transitional Credit’.

### • Policy Glitches

– Low Threshold  
– Blocking of cash flow as IGST rates are higher than earlier CST rates.  
– **Classification issues** multiple GST rates  
– Some commodities are outside the GST system- **three petroleum products, crude petroleum, natural gas, electricity and alcohol**

### If petroleum products, electricity and alcohol are brought under GST regime

– **Positive effect** on GDP, real household expenditure, industrial output, export and import volume.  
– However there will be **marginal change** in inequality measure.

# Session I: Macroeconomic Impact of GST-I (contd.)

## GST and Local Government Finance

Local Body Finance did not improve even after several reforms

Subsummation of local body taxes into GST and Compensation payments

Structural changes in revenue of Local Governments

Some suggestions

- Fiscal rules for Local government – FRBM type of rules.
- Municipalities should be autonomous

# Session II: GST & Inflation

## Hypothesis

- **Upsurge in inflation** (measured either by CPI or WPI)  
Potential reasons- rise money supply and rise crude oil price or GST
- **Trend of inflation varies across different sectors** - clothing, footwear, food, housing, fuel and light, transport & communication, health & education.

## Results (Mix)

- Inflation targeting and GST reduced CPI inflation significantly.
- GST has **no impact** on the inflation measured through the CPI.
- GST **positively impact** headline CPI inflation and price level of **non-food items** whereas **negatively impacts price level of food items**.
- For WPI, GST **positively impact** headline WPI, manufacturing WPI and non-exempted WPI.
- **Existing market power** determines whether benefits of GST are passed on to consumers.

# Session III: Macroeconomic Impact of GST-II

## Issues with GST

Existing GST may not be revenue neutral

Issues with **tax sharing between Central and States** – (Tax harmonisation vs Fiscal Autonomy)

**Clearing house** mechanism in IGST may remain an unfinished agenda in absence of complete matching of invoices.

Dependence of some states on **GST compensations is higher than others**

**No evidence of increasing tax efforts** post GST regime across Indian States

**There are some scopes for improving** design and implementation of GST

## Challenges in GST administration

Taxation of the **services** and rein in **tax evasion is an issue**

**Demand for compliance in GST return filing and associated technical glitches**

Complexities in GST rules and regulations and associated difficulties in tax administration.

**A very large number of audit observations were pending for compliance.**

## Suggestive Measures

**Training**– Capacity Building

**Economic Intelligence** –**Data analytics**

**Knowledge Sharing** – Inter-State /Centre-state cooperation & coordination

# Session III: Macroeconomic Impact of GST-II (contd.)

## GST & Indian Corporate Sector

### Issues discussed are

- Impact of GST on supply chain efficiency/business
- Problems that exporters faced
- Analysis based on firm level database concludes that working capital cycle of firms and its components increased after 2018-19.
- Way forward- Supplement the findings from the data (rise in working capital cycle post 2018-19) using econometric techniques to control for slowdown in the manufacturing sector, impact of Covid etc.

# Session IV: GST-Tax Administrative Perspective

## Challenges of GST

- Complex compliance system, no matching of invoices, **IT glitches**, friction between centre and states, presence of **shell firms** and widespread **fraud and tax evasion**

## Shell firm ecosystem in GST

- **Issues** - bogus entities, fake tax credit, fake transactions, tax racket where shell firms act as invoice mills.
- **Solutions-** (i) **Strengthening GST ecosystem** via monitoring of credit recipient, understanding compliance issues, and consolidating administrative regime, (ii) **Confronting the violators**

## Positives of Digital Platform

### Issues with GST Taxpayer's portal

- **Registration Module-** Pin code errors, Inability to trace details of Jurisdictional offices nearest GST Suvidha Providers
- **Returns-** difficulties in filing
- **Input Tax credit-** lacking system integration between GSTN and ICEGATE.
- **E Invoice IRP** (Invoice Registration Portal)- inability to handle sudden surges in volume and traffic.

### Issues with GST specific to mining sector

- **Royalty paid** on minerals not subsumed into GST hence it is an **additional cost** leading to **cascading of taxes**.
- **Inverted duty structure** – results in blocking of capital.

# Session V: Impact of GST on Unincorporated Enterprises

- **Challenges** faced by Unincorporated enterprises
  - **Issues identified** – increase in compliance cost and associated paper works, blocking of working capital, distortions in buyer-supplier chains.
- **Burden of Compliance cost**

Compliance cost could be reason for a large section of unincorporated enterprises to stay outside the tax system.

**Estimated VAT compliance** cost is around 4.35% of average annual total operating cost and 3.87% of average annual turnover.
- **Digital transaction/payments and GST Revenues**

**Positive relationship** between digital payments & GST revenue in India. GST compliance, GDP, imports positively influence GST revenue. However, inflation and exports have a negative relationship with GST revenue.



# Session VI: GST from Business Perspectives

## Impact of GST on Indian Companies

**Hypothesis :** Does GST implementation positively impact finances of Indian companies ?

- GST overall increase the working capital requirement
- Working capital requirements increase post-GST, and it is significantly found in IT, metal & mining, O&G and reality.

## GST: Indian Journey and way Forward

- GST revenues rising in India, Corporate taxes has been growing & Compliance has also improved
- Rate structure has undergone changes since implementation.
- Characteristics of GST
- GST collection from imports has grown

## What explains the domestic collections

- Formalisation
- Inflation
- Economic recovery

## Way forward

Mindset of the consumer should be changed

Seamless flow of GST credit

# Section VII: GST Revenue, Debt Sustainability

## GST Revenue Performance

**Substantive inter-state variation** in GST revenue collection.

**Poor states (low income)** on average show a relatively **high GST growth** rate vis-à-vis rich states since poorer states have high consumption to production.

**Factors affecting GST revenue-** return filings (a measure of tax compliance), size of the informal sector, and urbanization.

## Sustainability of Debt Policies

**Fiscal Policy Response function-** Debt policy **sustainable** at **aggregate level**, but sustainable only in 6 states out of 22 states during the GST regime.

However, when GST compensation is excluded from the model, the test results do not indicate that Indian states pursued sustainable debt policies

## GST & Indian Stock Market

**All sectoral indices** (NIFTY- Auto, Bank, Financial Services, Fast Moving Consumer Goods- FMCG, IT, Media, Private bank, PSU bank etc.) **were affected** due to **GST implementation**.

### **Cumulative abnormal return**

- for **NIFTY Auto and NIFTY Media-** negative before and after implementation of GST
- for **NIFTY PSU Bank-** negative before and positive after GST implementation.
- for **NIFTY FMCG-** Positive before and negative after GST implementation.

**THANK YOU**