Evaluation of Goods and Service Tax (GST)in India Based on Manufacturing and GDP

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Abstract

The introduction of GST in India will bring about major change in India's indirect tax reforms. In the initials time of introduction oppositions from producers and consumers are arise against this new change in the economy. Goods and service tax integrates into a single window structure to combine all taxes including central and state taxes in the country. For avoiding this multiple taxes GST provides a provision to integrate all this varied taxes into a single structure. Several newspapers and magazines made analyses on GST bills at the time of the implementation, which bring a new direction to economic reform in the country. GST has been India's largest tax system since independence. But this tax reform has emerged as a big deal in the country but isn't really a big deal achieving all the grounds of good effects on the Indian economy's growth? The study is mainly concentrated on how GST makes effects on the manufacturing sectors and GDP of the country. Although some literatures exist about GST and its effects on the growth of the Indian economy, but no studies were conducted about effects of GST on the Gross domestic product and compare the effects between post GST periods with pre GST scenario of the country.

Key words: GST, Gross Domestic Product, Manufacturing sector

Introduction

In the past few years India's tax reforms facing a substantial changes with the introduction of VAT which replaced by sales tax in 2005 and all multiple indirect taxes were combined and this will lead to the emergence of GST in the country in the year of 2017. And it came into existence 1st July 2017. The government argued that this change will enhance the position of the country both domestically as well as internationally and help to minimise the tax burden of consumers. With the new change in the tax regime the final customers only pay the GST charged by the last dealer which set off the benefits at the Indian central and state. Before GST all indirect taxes are collected by both state and central government with their unique rules and regulations. GST mainly based on three major components i.e. CGST which is collected by central government for all transactions within the state itself, SGST is another component collected by state government for all sales happen within the state and finally IGST is collected by central government for transactions between two states. Simplified and user friendly tax system which lead to the higher output, creating employment opportunities and increase GDP from 1-1.5%. Ease of doing business helps to lower the prices and make product more competitive in domestic and international market (1).

The main aim behind the introduction of GST is to remove the cascading effect of tax that means before GST every final consumers paid tax which is charged at every stage of change of ownership of goods but now consumers only pay the tax charged by the last dealer. One nation one tax system makes positive impact on the various sectors and industry. It needs a concerted effort from central state government's trade and industry. Without human intervention the electronic processing of tax returns, refunds and tax payments would reduce correction and tax evasion.(5) All tax payers services such as registration, return payments etc. would be available online to the tax payers, making enforcement simple and straight forward. GST would make the country's business tax neutral regardless of location of business (2). Above all these advantages argued by the government there are some economic changes are happened, and this creates many problems especially to the GDP growth and tax revenue of the nation. Chief economic advisor to the government Krishnamurthy V Subramanian says, in the financial year 2019 Indirect tax revenue estimate as per budget is about 16% but gross tax to GDP ratio is fall to 10.9% on shortage in indirect tax revenue. This latest updates from the economic survey reveals that India now facing a hardest financial crisis and tax collected by the country is also in a decreasing trend, it badly affects the GDP growth of the country. Countries tax to GDP ratio is the important parameter to relate the countries tax revenue to the GDP.

Tax and GDP are interrelated, if more tax a nation collects then higher the GDP of the country and vice versa. Policymakers and analyst use this ratio to compare the tax receipts. In this context the study is relevant to evaluate the effects of GST on manufacturing sector and how it makes effects on the Gross domestic Product of the country.

Statement of the problem

India's tax structure is quiet difficult and country have its own regulations for all tax reforms. GST is the vast concept developed to avoid the complex procedures and multiple taxes. By simplifying the procedures it will enhance and support the economic growth of the country. One nation- One tax strategy affects various sectors especially manufacturing trading and service sectors. The system has its own difficulties and problems as it is in its initial phase. But if this system is implemented correctly and efficiently, it can help to improve our country's financial and economic position (5). As per economic survey the nation facing a downward trend in the tax to GDP ratio because of the shortage of indirect tax revenue but through the implementation of GST the country expecting a great success in different sectors of the economy and thereby to increase the GDP of the nation but the actual effects is something which is different from this. From this context the study titled "Evaluation of Goods and Service Tax (GST) in India based on manufacturing and GDP" is important to evaluate the effects of GST on manufacturing sector and how GST makes changes to the GDP rate of the country.

Research methodology

The researcher used an exploratory technique based on the past literatures in the field of GST from respective articles, journals, newspapers and magazines. According to the objective of the study, the research design is descriptive in nature, with available secondary data.

Objectives

1. To study the effects of GST on manufacturing sector of the country
2. To evaluate the effects of GST on Gross Domestic Product of the country before and after GST

Limitation of the study

1. GST affects various sectors of the economy but this study focuses on the manufacturing sector only.

2. The study use only secondary data.
3. It doesn't evaluate the problems and challenges to the economy as a whole.
4. The study only focuses on 2015- 2019 available data for comparison other data's are excluded because of time constraints.

Results and discussions

Prime Minister Narandra Modi made the ambitious announcement to turn the country into a manufacturing hub that in September 2014 is the Make in India programme, which is part of nation building. The program focuses primarily on economic growth by attracting foreign investors and businesses to make investments, eliminating unemployment in the country by concentrating more on the manufacturing sector, making effective use of skilled workers to create zero-defect product, providing good infrastructure and reducing production costs. One of Make in India's major arguments was that by 2025 the manufacturing sector would earn 25 percent of total GDP. Through launching the Make in India initiative, boost the manufacturing sector and increase the GDP contribution in the coming years from 15% to 25%. This plan focuses primarily on our country's export and import role, this initiative aimed at increasing exports by reducing imports from other countries.

Manufacturing sector contributes about 16% to the overall GDP of the country. Manufacturing sector initially face many difficulties because of multiple tax structure. Therefore the implementation of goods and service tax is expected to provide a shift in the manufacturing sector. GST leads to a shift from a complex multi tired tax structure to a unified and constant structure. Overall GST is expected to make positive impact on manufacturing sector. Some of them are:

- **To remove multiple valuation**

  In the older version tax regime the goods are subjected to excise duty and it is different in different states. This difference in calculations creates confusions in the valuation. GST remove all this multiple implications and unify the entire tax both central and state.

- **Reduction in cost of production**

  Integration of inter-state transfer is the major reason behind the reduction of cost of goods and services. Earlier every inter- state carries a entry tax but now the suppliers not required to pay any additional taxes.

- **Remove cascading effects of tax**

  Earlier there is extra cost to the manufacturing company. The cascading effects reduce the cost of consumers. Reduction of cost leads to decrease the cost of production of goods.

➢ **Restructure supply chain**

In order to cope with the new tax regime the business will be required to restructure the supply chain. The unified tax makes complete change and the supply chain mainly focuses on the business efficiencies.

➢ **Working capital requirement**

Before GST stock transfers will not effect to the tax but after GST the situation completely changes, the stock transfer also considered as supplies and has effect on GST. So immediate requirements are arises for working capital. Receipt of advance tax is also taxable under GST. All these are made to the increased need to working capital.

➢ **Improve logistics management**

GST removes state taxes, this creates more expenses and delays to the manufactures, unpredictable waiting times create more complexities to the manufactures. After GST all this state border delays are stopped. GST affects differently to the different manufacturing industry but overall effect is positive.

Manufacturing sector of the country goes through a tremendous growth over the past few years. There is a shift from 5681.04 INR billion to 5765.60 INR billion in the third quarter of 2019. Higher reach of GDP on manufacturing is in the year first quarter 2019 with 6167.49 INR billion and record a lowest growth of 3331.04 INR billion in the third quarter of 2011. The trend in GDP on manufacturing sector depicts on the below table 1. From the table we can conclude that after the introduction of GST there is no downward change in manufacturing sectors contribution.

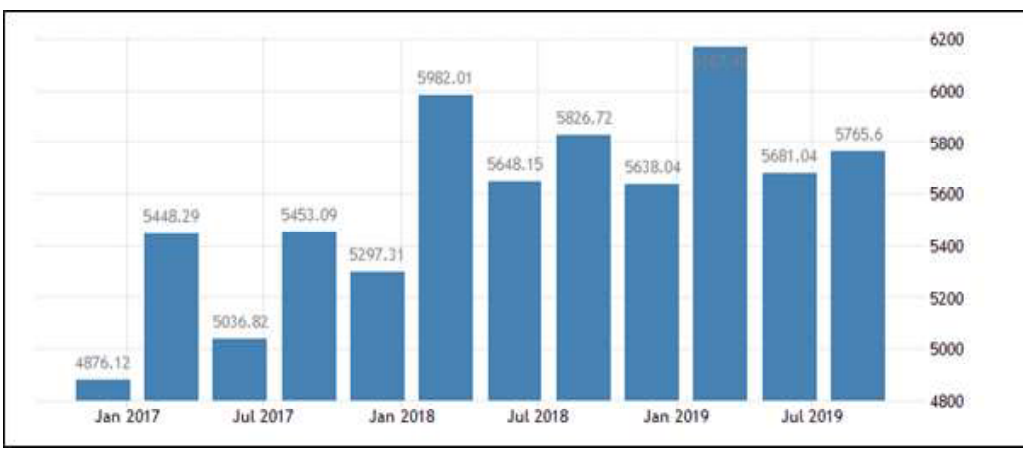

Figure 1

GDP from Manufacturing

Source: Tradingeconomics. Com/ Ministry of Statistics and Programme implementation

GDP before and after GST in India

Economics survey finding about GST is that slippage in GST collection which leads to fall in tax to GDP ratio by 0.3% that is 10.9% in the FY 19 in comparison with the previous years, the budget forecast for the year 2019 Gross tax to GDP ratio was 11.4%. During the course of year GST council is of the opinion that several changes have been carried and to make stabilized GST collections. The survey realized that increased appraisal efficiency over the past three years had resulted in a decline in the pendency of cases of direct refund.

Last fiscal tax collection showed that direct tax grows up by 13.4% against budget estimate of 14.4% but indirect tax fall short of 16% against budget estimate. Tax revenue can be increased with proper tax administration, expansion of TDS and other initiatives for anti-tax evasion this will lead to the tax buoyancy. Tax buoyancy is an indicator for measuring tax mobilization efficiency and responsiveness in relation to GDP or growth of national income. A tax is said to be buoyant if in reaction to an improvement in national income or production, tax revenues raise more than proportionately. An announcement is made by International Monetary Fund is that India's real GDP is expected to be 7.033% in March 2019 real GDP growth is reported a decline of 6.124% . In the previous year 2018 GDP rate is 6.811% i.e. 0.687% decline in GDP in the year 2019. But before GST the GDP growth shows an upward trend. In 2016 the GDP growth is 8.170% and in 2015 GDP rate is 7.996%. This shows a wide disparity in GDP growth before and after GST in India. The below figure 2 shows the trend of GDP growth in the country from 2015 to 2019.

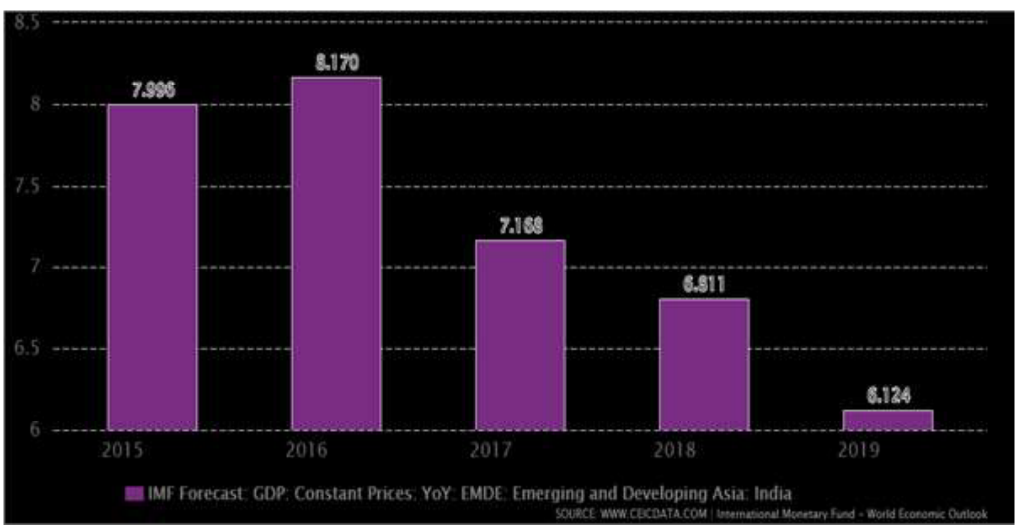

Figure 2

GDP growth of the country

Findings of the study

- While introducing the Make in India initiative, one of the main goals was to "increase the manufacturing sector's contribution to GDP from 15% to 25% by 2025." Through analyzing the data on the contribution of the manufacturing sectors, it was reported that there is a shift from 5681.04 INR billion to 5765.60 INR billion. It is also a good sign.
- After the existence of GST it does not badly affects to the growth of manufacturing sector of the country it is clearly shows on the trend of manufacturing sector on the GDP of the country.
- The subsuming of several taxes both at central and state make the entire tax structure of the country more consistent and efficient but the major aim for combining all the taxes are to acquire maximum tax revenue within the country but the gross tax to GDP ratio is shortfall to 10.9% i.e. 0.3% decrease.
- Now the country facing a greater financial crisis in the year 2019 as per the report from International Monetary Fund. The major reason found for this crisis is the decline of tax revenue collected by the country.
- The implementation of GST can be made more effective to gain maximum effectiveness to the country for acquiring tax revenue.

Suggestions

- Information provided by the government relating to GST is inadequate. It should make a comprehensive understanding of the applicability of GST. More than 150 countries already implemented GST within their countries. But our Country needs more understanding and effective techniques to make the tax structure more consistent.
- Giving proper training measures, educate the people, conducting seminars and workshop on implementation of GST is necessary from the part of government in order to create awareness to the customers and make them more confident with regard to GST.
- For create more tax revenue in future years, we have to identify the core fields and sector wise or regional wise analysis is needed to investigate the current possibilities and existing challenges in create tax revenue.
- Introduce a new model which continuously evaluates the effects of GST in various sectors of the country and also to the GDP growth rate, this helpful to the policy makers and analyst to make modifications when needed.
- Create a better tax administration, initiatives for anti-tax evasion and make more rise to the efficient tax base can create tax mobilization efficiency.

Conclusions

Goods and Services Tax (GST) is a comprehensive tax levy on goods and services productiondistribution and usage at the national level. GST is all set to integrate and boost overall economic growth. By integrating all multiple taxes will help to unify all the central and state taxes into a single point. Overall cost of production of goods and services can also be reduced in this new tax structure. After the existence of GST it does not badly affects to the growth of manufacturing sector of the country it is clearly shows on the trend of manufacturing sector on the GDP of the country. The actual aim to acquire more tax revenue within the country is somewhat missing. GST combine all the multiple taxes together to attain maximum advantage. The tax to GDP ratio of the country is on a decreasing trend. Real goal of raising more tax revenue within the country is not that much achieved. It is necessary from the part of the government to provide training, workshop and seminars with regard to the implications of GST.

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