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Management

MAKING INDIA IS A TRUE SINGLE MARKET (GST): A GAME CHANGER FOR THE ANDHRA PRADESH

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KEYWORDS :

INTRODUCTION

After almost a decade-long wait, India's Upper House approved in August the introduction of a unified goods and services tax, the GST. This landmark reform will ultimately make India a true single market, by replacing the multiple central and local taxes levied in each of India's 29 states. It also marks a key achievement for the government, which managed to build sufficient political consensus with the states and opposition parties to reach the necessary approval by two-thirds of both houses. The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level[1]. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods[2]. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

Experts have enlisted the benefits of GST as under:

- It would introduce two-tiered One-Country-One-Tax regime.
- It would subsume all indirect taxes at the center and the state level.
- It would not only widen the tax regime by covering goods and services but also make it transparent.
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.
- It would bring down the prices of goods and services and thus by, increase consumption.
- It would create business-friendly environment, thus by increase tax-GDP ratio.

Review of Literature

Palil, Zaini and Mamat (2013)[3] examined consumers' readiness, perception and acceptance of GST in Malaysia and found that the majority (73.2%) of the respondents were aware about the implementation of GST while 53.6% believed that GST would have significant impact of their livelihood.

Saira Saira, K., Zariyawati, M.A., & May et al. (2010)[4] found that 95% of the respondents were aware that GST is a major source of government revenue, although around 50% did not understand the operations of the GSTsystem. This study also revealed that non-accounting students did not understand what GST is all about. This implies that tax knowledge and education could probably have bearings on the awareness of the implementation of GST.

Scope of the Study

My study shall cover all goods and services, except alcoholic liquor for human consumption, for the levy of goods and services tax. In case of petroleum and petroleum products, it has been provided that these goods shall not be subject to the levy of Goods and Services Tax till a date notified on the recommendation of the Goods and Services Tax Council.

Objectives of the Study

- To understand the concept of goods and service tax in Andhra Pradesh
- To learn about shortcomings of current taxation system in Andhra Pradesh
- To understand how GST will work in India

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

RESULTS AND DISCUSSIONS

Making India a true single market

Currently, India has a very complex, multi-layered and highly inefficient tax structure, which stems from its federal structure the centre and states both charge multiple taxes at different stages of the supply chain.

Table-1 Wold wide Standard GST/VAT Rates

S.No	Country	GST Structure Ranges
1	Australia	10%
2	Brazil	10%
3	Canada	5%
4	China	17%
5	France	20%
6	Germany	19%
7	India	18%
8	Indonesia	10%
9	Japan	8%
10	Jersy (UK)	5%
11	Korea	10%
12	Malaysia	6%
13	Mexico	16%
14	Netherlands	21%
15	New Zealand	15%
16	Pakistan	17%
17	Russia	18%
18	Singapore	7%
19	Switzerland	8%
20	Thailand	7%
21	United Kingdom	20%

Source: OECD (2016) and CBEC

Note: The GST Structure ranges between 5%-28% with majority to commodities falling under 18% bracket

In comparison with emerging market economics (EMEs), India has highest rate of GST at 18% - with major commodities falling under this rate. EMEs like China and Brazil have their most of commodities falling under the tax rate of 17%, 10% respectively. However, some of the developed countries like s like France, Germany and United Kingdom have higher GST rates set between 19 – 20%. Latest data of

Organisation for Economic Co-operation and Development stated that average VAT/GST rate in major OECD countries is between 20-22% higher than the rate proposed for India. The Reserve Bank of India (RBI) in its research report named "GST: A Game Changer" - showcased performance of many countries after implementation of GST.

Table-2 Total (Long Run) Effects of GST on Indian Growth

	India	Port States	Non-Port States
Real GDP	4.2%	4.4%	3.9%
Internal Trade	2.9%	29%	29%
External Trade	32%	30%	43%
Agricultural Production	-0.5%	-1.6%	0.7%
Manufacturing Production	14%	14%	13%

Source: GST India (2015) Economy and Policy

There have been a number of assessments of the impact of GST on the economy, but one of the deepest dives on the matter has been conducted by two researchers at the Federal Reserve. Their work suggests that GST will ultimately result in the Indian economy being 4.2% larger than it would have been without it. Interestingly, port states (4.4%) are predicted to experience a relatively greater GDP impact than non port states. This is because non-port states will benefit proportionally less from the international trade liberalisation that will result due to GST because there will still be domestic trade barriers to face transporting goods to and from ports. However, non-port states are expected to increase their external trade by a colossal 43% thanks to international trade costs declining, more than that of port states (30%). In other words, external trade will increase more for non-port states than port states in percentages but not in volumes. Internal trade across India is predicted to increase by 29%. Together, these trade figures illustrate what a boon GST is likely to prove for the logistics sector. The surge in trade movements is expected to arise on the back of manufacturing production increasing by 14%. In contrast, the impact on India's agricultural production is expected to be far smaller, but in fact slightly negative (-0.5%). This is because most agricultural goods will remain exempt from the GST.

Table-3 India's Existing Tax Structure: Multiple Tax Rates and Exemptions

	Centre/ State	Number of Rates	Rates		Threshold Turnover (INR mn)	Number of Exemptions
			Standard	Lower		
Goods	Centre (Excise)	8	12*	6	15	300
	State (VAT)	3	12.5-14.5	4.5-5*	0.5-1.0	90
Services	Centre	11**	15	4.1	1.0	
	State	Not allowed to tax				Varies by State

Source: Govt of India, GST Committee Report, August 2017

Under the goods and services tax system, nearly all multiple taxes will be merged into a unified four-tiered tax rate system. After the inevitable initial teething problems, this will simplify tax administration and collection to a huge extent for both the central and state governments. Broadening the tax net and accelerating the transition from unorganised to organised: the GST is a destination-based indirect tax on goods and services that is levied on the value added at every stage from manufacturing to consumption. As each person in the value chain who gets an input tax credit then has an incentive to ensure that the previous person has paid taxes, the GST mechanism can lead to better tax compliance and a widening of the tax base. This could also accelerate the transition from unorganised to organised in many areas of commercial activity, especially in sectors with a high unorganised segment such as consumer discretionary, consumer staples, automotive ancillaries and textiles. The tax base should also be broadened by the narrowing of the tax exemptions that exist under the current taxation structure, which currently cost India about 2.7% of GDP.

CONCLUSION

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

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