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Goods and Services Tax (GST) and its Impact on Kerala Economy

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Abstract

GST has become a reality in India. GST is a comprehensive tax regime which heralds not only the dawn of a new era in the tax realm of the country, but also it ushers in a 'behavioural change' in the transactions that happen in the economy. Many countries have embraced GST as an efficient and profitable indirect tax system. GST bestows many benefits on economies in the form increasing indirect tax proceeds and enhancing the efficiency in economic activities. This paper discusses the pros and cons of implementing GST in India with special emphasis on Kerala Economy.

Keywords

GST Council, SGST, CGST, IGST, Anti-Profiteering Authority, Input Tax Credit (ITC), GST Net Work (GSTN), GST Compliance Rating, GST Suvidha Providers, Place of Supply, Location of Supply, E-Way Bills, SGDP, Services, Dichotomized Tax System, Fiscal Federalism, Finance Commissions

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Introduction

As the catchword of GST ads in India reveals GST is materializing what could be rightly called "One Market, One Nation and One Tax". GST is an internationally proven revenue productive and growth accelerating indirect tax system that prevails in 160 countries. GST, simply put, is a comprehensive tax regime replacing the existing indirect tax system. GST heralds not only the dawn of a new era in the tax realm of the country, but also it ushers in a 'behavioural change' in the transactions that happen in the economy. Different from the current indirect tax

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system, GST is collected at the time of consumption of goods and services, and hence it is recognised as a destination based tax. GST does not attempt to make a division between goods and services and, in this sense, it attempts to dismantle a dichotomized tax system where goods and services are differently treated. GST replaces the following types of indirect taxes (Table No.1).

Table 1 Central and State Taxes in the Pre-GST Period

Central Taxes	State Taxes
Excise Tax	Entry Tax
Service Tax	VAT/CST Tax
Customs Tax	Tax on Lottery
	Luxury Tax
	Advertisement Tax

Some of the features of GST are:

- **Comprehensive**: GST is a comprehensive or umbrella tax as it subsumes most of the indirect taxes levied in the country by both the Centre and the States.
- **Unified Tax System**: GST rates are same across the country, and as such it brings a uniformity in the indirect tax rate across the country. This is why it is normally called "One Nation One Tax".
- **Multi Stage:** GST is imposed at every stage in the supply but only on the value added.
- **Destination Based:** GST will be collected at the time of consumption only. GST authorities decide the destination of consumption.
- **Dual GST Model:** India proposes to introduce a dual GST Model under which the Centre will impose CGST and the States will impose SGST.

India being a federal country both the Centre and States must be financially empowered to discharge different economic functions. Hence, we need to allow both the Centre and the States to levy and collect indirect taxes. Taking this into account, three types of GSTs have been devised. These three types of GSTs have been designed based on the 'Place of Supply' of goods and services ("Place of Supply" in GST decides whether the transaction needs to be reckoned as intra-state or inter-state). For intra-state movement of goods and services, there are two types of taxes: Central GST (CGST); and State GST (SGST), and for inter-state movement, we have one tax, called Integrated GST (IGST). In other words, the GST levied by the Centre on the intra-State supply of goods is called CGST and the GST levied by the Centre on the intra-State movement of good is called SGST. Taxes levied by the Centre on the inter-state movement of goods and services and imports is called IGST. IGST goes to the hands of the Central Government. Let us look at some of the general pros and cons of implementing GST in India.

GST and the Economy: Certain positives and negatives

On the *positive side*, GST will bring forth more revenue for the State as well as Central governments. This happens because of two reasons: first, increase in *tax compliance*, and second, the *widening tax base* as more commodities and services which are hitherto untaxed will come under the ambit of taxation. For the economy as a whole, GST benefit occurs in the form of *enhancing market efficiency*. As one tax begins to rule the entire transactions in the country, this will usher in vibrancy and dynamism in market, thereby increasing competitive spirit, leading to slash in prices which ultimately benefits the consumers at large. It is expected that GST will make tax filing easier, ensuring transparency and speed in tax filing. This would be a fillip to the *ease of doing business* in India, leading to an increase in investment and investor confidence. Economists believe that in the long run GST would push down the prices of most of the commodities and services as multiple indirect taxes which now exist will be replaced by GST. But the success regarding this aspect depends on the fixation of prices by the manufacturers.

Critics argue that prices are unlikely to come down as the markets of most of the products have become *oligopolistic* in nature where *cartels* are formed with vested corporate interest to keep the prices up. In today's market economy, contrary to what theories postulate, demand and supply conditions hardly determine prices. Prices are nothing but mark-ups where costs are added up with profits (normally corporates fix profits abnormally high) to calculate prices, and prices are fixed irrespective of demand and supply forces. It is widely expected that the setting up of *Anti-Profiteering Authority* will act as a check over the tendency of producers to fix prices at higher levels despite substantial reduction in indirect taxes under GST, and the likely reluctance that the sellers show in passing the benefit of slashed indirect taxes to the consumers can also be prevented. The irony is that the Anti-Profiteering Authority may go against the argument that GST will do away with the 'inspector raj'. It calls for taking caution by the

Government to see that Anti-Profiteering Authority does not become a tool to bring back bureaucratic control through the back door.

Another significant advantage of GST lies in its perceived capability to tame inflationary pressures in the economy which emanates from retrogressive method of current indirect taxation procedures. Normally, under the pre-GST regime, when one buys a product or service, a tax is levied on the already imposed tax, leading to cascading effect of taxation on the prices of commodities and services. This kind of *tax-induced inflation* can hardly be solved by the anti-inflation measures being adopted by the monetary authorities of a country. GST strives to solve this problem of cascading effect of multiple level indirect taxation on the prices of commodities by introducing a system of *Input Tax Credit (ITC).* On account of this provision of ITC, it is generally believed that GST is likely to scale down the rate of inflation by pulling down the prices of most of the essential goods and services which are liable to be taxed under GST. Nevertheless, the success of GST in this regard depends on the willingness of retailers and wholesalers in reducing the prices of commodities. The immediate experience in the post-GST period does not substantially show any significant step from the part of retailers and wholesalers in bringing down the prices of goods. Only time will tell how far inflation will be tamed effectively by the implementation of GST.

GST will have positive repercussions on the foreign trade of our county. Logically speaking, under GST, exports are unlikely to be taxed as the consumption of exportable goods and services takes place outside the tax jurisdiction of a county. This will make our exportable industries more competitive in the international market by way of a reduction in the prices of exported goods. One problem with this is that this is likely to reduce the revenue of Central government as there would not be any export tariff. But income, output, and employment effect of increased exports owing to increase in competitive capability of our exportable may likely to more than offset the fall in revenue income to the government. From the point of view economists, increase in the revenue of government via the income, output and employment effect is more sustainable and financially sound rather than the speedy way of accumulating revenue by merely imposing higher taxes, putting more burden on the economy and thereby creating distortive effect in the economy.

Our next concern is with regard to imported goods. We know that if the imported goods are taxed less, thereby reducing the prices of imported goods in the domestic market, our home grown industries will be adversely affected. But under GST such fears will have no place as imported goods would be treated on par with the domestically produced goods. In this way, domestic industries will be protected from unfair international competition which comes via dumping. This does mean that in future the existing anti-dumping duties or countervailing taxes which are normally imposed to protect the domestic industries especially when they are at an infancy stage (the famous/infamous infant industry argument) are unlikely to place any relevance under the regime of GST.

GST comes with an in-built mechanism to combat corruption and tax evasion. GST gives little scope for traders and business community for political lobbying to get their commodities exempted from taxation and to get taxes on their commodities reduced. Normally, in the post-GST period, Budget speeches of Finance Ministers will not have room for fixing the tax rates of commodities and services as they are pre-determined by the GST Councils. The Pre-GST tax system is beset with many more distortions as the traders underreport and sometimes never report the volume of sales in the fear of getting taxed by the authorities. But under GST, there is an inbuilt system which promotes tax compliance by the traders. This is ensured by two things: *Goods and Services Tax Net Work (GSTN)* where the traders register themselves to be included under the GST and the *GST Compliance Rating* which tells how compliant a registered taxable trader with respect to GST provisions. GST Compliance Rating will have a decisive role in determining how eligible a business men to get tax credit from the GST. This will definitely force traders to be compliant with GST and tax evasion would be rooted out to a greater extend. Moreover, potential consumers will be in search of only those traders with high GST Compliance Ratings to genuinely effect their transactions. All these will bring more transparency and honesty in the realm of indirect taxation and in course of time GST will create a positive 'behavioural change' in economic agents and economy in general.

Turning to the *negative aspect* of GST, those who oppose GST have a number of arguments. First of all, the GST now being introduced in India is not a GST *per se*. Ideally, under GST, we should have only one tax rate or at most two tax rates. In Singapore, Canada and Malaysia, where GST or GST like indirect tax systems have been introduced, only one or two tax slabs are being put in place. In Singapore, there is a single GST rate of 7 percent, that means whichever things, good or service, you buy, only 7 percent GST will be levied. But, in India, GST comes with multiple tax slabs, and therefore this GST can hardly be considered as a true GST. In India, the current GST has six rates or slabs. They are: (1) exempted category (2) 3 percent tax slab (3) 5 percent tax slab (4) 12 percent tax slab (5) 18 percent tax slab, and (6) 28 percent tax slab. As most of the commodities and services, that is almost 60 to 70 percent, are taxed at 18 percent, the 18 percent GST is considered as the standard GST rate. In future, we may move towards this 18 percent single GST system. Moreover, many commodities and services which fall under the same category attract different GST tax rates. For instance, for movie tickets worth less than Rs.100, the applicable GST rate is 18 percent while for tickets above Rs.100, the GST will shoot up to 28 percent. In the case of lotteries too, this GST tax discrimination may exist when state-run lotteries are levied GST at 12 percent and lotteries run by private entities but authorised by State governments are levied at 28 percent. This is undoubtedly daunting as far as the GST implementation in India is concerned.

While theoretically GST is reckoned as a simplified indirect tax structure, the existing GST rules that have been rolled out by the GST Councils do not seem to be offering any simplified solutions to the traders in complying with the taxation procedures. Multiple taxation (in most cases taxes are to be separately shown in bills as SGST and CGST), and the stipulation that returns and files need to be digitally uploaded will make things cumbersome for the traders in general. Multiple filing of return is another serious issue which the traders are worried about. Under GST, a registered trader needs to file three returns every month: GSTR-1, GSTR-2 and GSTR-3. Failure to file these three returns will not only deny tax credit to the trader but also invite penalties from the GST authorities. Further, a trader has to file GST returns in every State where he does business. For instance, a registered trader in one State (called Location of Supplier) sells goods in ten other States (Place of Supply), then he has to file return in all States where he sells his products. This means that cost of compliance with GST will be enormously high and this may reduce the motivation for the traders to engage in business. The overall operative expenses of trading may escalate, reducing the profits of business community. If things go like this, it is imminent that the expected efficiency outcomes of GST would not be materialized on the expected lines.

GST is a digitally driven tax procedure where traders will have to depend on information technology to upload invoices and tax files. Of course, it needs to be admitted that we live in digital era, but it is indigestible to believe that all traders who are obliged to file invoices online should be well versed with digital system to trade and comply with the directions of the GST officials. Roughly, 60 percent of traders as of now are yet to be equipped with the requisite technology to fall in line with the dictates of GST regulators. This failure to identify the lack of technological preparedness on the part of traders may put blocks to the successful running of GST, and the kitty of the Government may be dried up if the proceeds from GST do not come up on a desired rate. Experts air the doubts that taxation of services would be difficulty under the GST mainly because for many services it is impossible to find out the locality where the trade in service takes place. This is because revenue of services may come from different locations.

E-way bills pose another challenge. Under GST rules, for inter-state transactions the value of which crosses Rs.50, 000, the buyer or the transporter has to upload E-way bill and carry a copy of the same while transporting goods to other states. Trucks with E-way bills will have no restrictions at check posts to enter into the State of destination (In future, check posts are likely to be dismantled). But, as of now, there is no clarity as to how the system of E-way bills be implemented. On account of lack of clarity in this regard, the GST Council decided to defer the implementation of E-way Bills for at least three months, but the States who have already entered into E-way billing would continue to issue E-way bills, while other States need to wait for the final decision with regard to E-way bills to come from the GST authorities. This clearly burdens the companies engaged in inter-state transport of goods as they would have to comply with two systems for the same activity.

To sort out bill uploading issues, and to assist traders in this regard, entities like "GST Suvidha Providers" have been allowed to function. But the eleventh hour clarifications from the authorities have made things difficult for "GST Suvidha Providers" as well, as they take time to effect changes in the software in accordance with the changing rules dictated by the GST authorities.

Another problem with GST is the increasing administrative expenses on the part of traders. Uploading of bills relating to GST and other procedures make the service of an accountant imminent for each trader, escalating the accounting cost of companies and traders. At the same time the tax administrative expenses of the Government both the Sate and the Centre would be drastically cut down as existing tax officials for varying taxes like sales tax and excise duty would be merged into only one Tax authority.

India being a federal system, the future of federal finance in the light of the implementation of GST is an issue to be reckoned with. There has been apprehension as to whether GST will eat into the fiscal autonomy of the States. Of course, post-GST, the manufacturing states will be in peril financially while the consumer States will rejoice as if GST is a reward for them for not being producer states. The Centre's promise of a compensation package for five years to States which loose out in the implementation of GST does not appear to be a permanent solution. In the formation of GST Council, the body which takes all decisions pertaining to

GST, States have had differences opinions. The vertical and horizontal imbalances in Indian federal finance is likely to be aggravated unless the forthcoming Finance Commissions tackle this issue carefully. Only time will tell how GST will shape the future of fiscal federalism in India.

Impact of GST on Kerala Economy

Now, let us think of the impacts that GST may spawn on Kerala Economy. Brushing aside all ideological differences, the Finance Minister of Kerala, Dr.Thomas Isaac has always been supportive to the GST only because of the reason that this would be financially advantageous for a consumer state like Kerala. As under GST, tax is imposed at the time of consumption rather than at the time of production, Kerala being a consumer state, GST would fetch more tax revenue for the State. Only 2.75 percent of India's population lives in Kerala but they account for 15 percent of market for durable commodities in the country. It needs to be reiterated here that the producer states like Tamil Nadu and Maharashtra would experience a shortfall in their tax receipts for which definitely compensation will have to be given by the Central government. It may sarcastically be pointed out that GST benefit that Kerala accrues in future would be a reward for not being a producer centric State. Not only being a consumer state does become a boon for Kerala as far as GST is concerned, but the structure of the State as reflected in the sector wise contribution to SGDP also mirrors how GST would benefit the State enormously. Today, the share of Service sector in State's SGDP has increased to level as large as more than 70 percent whereas the goods sectors like the agriculture and the industrial sectors roughly shares the rest 30 percent. Banking, finance, tourism, IT, hotels, communication, health care and education etc. have become the major contributors of State's SGDP. As these service sectors would be taxed under GST on par with the goods (remember that GST does not make any discrimination between goods and services), Kerala is likely to get more tax receipts in its kitty, which will cushion the budget position of the State government. Currently, on a rough estimate, State's total expenditure grows at a rate of 15 percent per annum while the total revenue lags behind with nearly 11 percent per annum. With GST adding more revenue in the form of IGST from the Centre, besides SGST collected by the State government, surely the total revenue receipts of the State at least will catch up with the total expenditure, narrowing the deficit figures to a comfortable position. Moreover, this would help Kerala to fulfil the FRBM provisions on the expected lines.

Being a consumer state, price levels are important for Kerala as any untoward upward revisions in general price level would unbalance the household budget in the State. As claimed by the supporters of GST, GST will have prices brought down to the extent to which multiple taxes have been replaced by a single tax called GST. A decline in the prices of essentials would help households fetch more balances and enhance the household financial savings. But, the immediate post-GST developments in the State unfortunately do not share a hope of getting prices slashed in the case of many commodities. The reports of inflating hotel bills and the increase in the prices of boiler chickens stand testimony to this fact. Reports show that in the name of GST even the prices of goods for which GST does not apply have been artificially revised up by small traders to fish in the troubled water. This has already started casting shadows over the price front outcomes of the implementation of GST in the State.

IGST is a big boon for Kerala. As we know Kerala has been witnessing a construction boom in recent times. The increasing demand for housing especially flats in urban and sub urban areas, the growing presence of shopping malls even in small towns, the demand for health care, educational institutions and space for IT companies have all sustained the demand for construction activities in Kerala. High value construction materials including marbles and tiles are purchased from other states. Now, with GST, Kerala is eligible to get the IGST on all these materials transported to Kerala wherever they are bought from. This will enormously add to the revenue receipts of the State government. E-way bills that the transporters carry play an important role in this respect.

Concluding Observations

It is obvious that GST is a dream come true for the national economy. Undoubtedly, GST is a path breaking event in the economic history of post-independent India. Many countries have embraced GST as an efficient and profitable indirect tax system. GST bestows many benefits on the nation in the form increasing indirect tax proceeds and enhancing the efficiency in economic activities. The starting troubles with the implementation of GST are expected to be addressed in near future. Given the geographic size, population size and diversity of India, what we have attained by now in the form of the implementation of GST is an achievement indeed. We hope that in the days to come, GST will turn out to be a blessing for the Indian economy and Kerala in particular.

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