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GST AND IT'S IMPACT ON TRADE & INVESTMENT

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Abstract :

For any country, policies of tax perform a substantial role on the economy through their influence on both competence and impartiality. An effective tax system should keep in view issues of income circulation and also attempt to produce tax incomes to sustain government spending. Cascading tax revenues have differential impacts on firms in the economy with comparatively high burden on those not getting full offsets.

A developing economy like must practice taxation policies that maximize its economic competence and reduce biases and obstacles to efficient allocation of resources, specialization, capital formation and international trade.

GST - instituted on the belief of "One Nation, One Market, One Tax" is the single biggest indirect tax reform. It has been enforced, dismantling all the inter-state barriers with respect to trade. The GST rollout attempts to convert India into a unified market of 1.3 billion citizens. Fundamentally, the economy is attempting to do away with internal tax barriers and subsuming central, state and local taxes into a merged GST.

The rollout has renewed the hope of India's financial reform program regaining momentum and widening the economy. Then again, there are fears of disruption, embedded in what's perceived as a rushed transition. While GST is supposed to improve business in theory, ground realities, as we all know, vary. This paper tries to analyse how the GST has really impacted India.

Keywords: *Goods and Services Tax, Value Added Tax , Central State Tax, Central Goods & Services Tax, State Goods & Services Tax, Interstate Goods & Services Tax, revenue neutral rate.*

Introduction :

Before GST, there were many indirect taxes imposed by both state and centre. States mainly collected taxes in the form of Value Added Tax (VAT), wherein every state had a different set of rules and regulations. Interstate sale of goods was taxed by the Centre. CST (Central State Tax) was applicable in case of interstate sale of goods.

Apart from VAT & CST, there were many indirect taxes like Central Excise Duty, Duties of Excise, Additional Duties of Excise, Additional Duties of Customs, Special Additional Duty of Customs, Cess, State VAT, Central Sales Tax, Purchase Tax, Luxury Tax, Entertainment Tax, Entry Tax, Taxes on advertisements, Taxes on lotteries, betting, and gambling, octroi, local tax that was imposed by state and centre. This led to tax on a tax, which is called the cascading effect of taxes.

GST has replaced most Indirect Taxes in India. The GST Act was passed on 29th March 2017 and came into effect on 1st July 2017. The GST Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition.

GST mainly technologically driven. All activities like registration, returns filing, application for refund and response to notice needs to be done online on the GST Portal; this accelerates the processes. GST has mainly removed the Cascading effect on the sale of goods and services. Removal of cascading effect has impacted the cost of goods. Since the GST regime eliminates the tax on tax, the cost of goods decreases.

However, the chargeability of GST for Inter-state purchase at a concessional rate of 2%, by issue and utilisation of c-Form is still prevalent for certain Non-GST goods such as Petroleum crude; High-speed diesel; Motor spirit (commonly known as petrol); Natural gas; Aviation turbine fuel; and Alcoholic liquor for human consumption, In the past, countries (like Malaysia and New Zealand) which have opted for GST have faced high inflation and slowdown in consumption initially. Whether history will be repeated in India depends on a host of factors, the most important being the standard rate of GST finally agreed upon. (Refer Table 1)

From the viewpoint of the consumer, they would now have pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have protested against the same. They may end up pricing their goods at higher rates.

1. What the Future Looks Like -

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities.

Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached.

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

➤ **Briefed below Impact of GST on few areas related to foreign trade**

❖ **Business made easy –**

The country has become one common market. There will be a very strong positive impact on the logistics sector. The serpentine queues of goods vehicles standing at inter-state check posts for inspection and payment of taxes will reduce. GST will revolutionise logistics, lower inventories and working capital, reduce documentation, improve asset utilisation, ensure higher turnaround time and efficiencies.

❖ **Exports to climb –**

With uniform taxation and cost efficiencies owing to reduced time and costs in transportation, one obvious effect would be that 'Made in India' products would now be more cost competitive in the global markets. In the previous tax regime, indigenous manufacturers failed to capitalise owing to cascading taxes.

❖ **Fate of Foreign Trade Policy Schemes –**

A bigger cause of worry is that exporters, who are allowed to claim refunds on certain taxes may face problems in encashing the export incentives.

The pre-GST regime provides for low or no Customs Duty on imports used in producing export-orienteed goods. Under GST, imports would be subject to IGST (CGST plus SGST) and any exemptions or additional levy will not exist. This would provide level-playing field to domestic manufacturers against importers.

In case of special economic zones (SEZs), the various exemptions provided under different schemes would be limited in their applicability to export duty only. Exports or deemed exports would be zero rated, but sale to domestic tariff area (DTA) would be taxable. Exports from these special zones though will becomer more cost competitive, owing to reduced logistics costs.

- Ways have to be found for lowering the overall compliance cost, and necessary changes may have to be made for the good of the masses. GST will become good and simple, only when the entire country works as a whole towards making it successful.
- GST would be positive for certain sectors while negative for others.

However, only time will tell whether the forecast made in the paper will actually become reality or not.

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