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Impact of GST on Economy of Bihar

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Abstract

Goods and Services Tax is a single national and uniform tax levied across on all the goods and services. The idea behind implementing GST in the country covering 29 states and 7 union territories is that it would offer a win-win situation for every citizen. In this paper, an attempt has been made to study the impact of GST on economy of Bihar with the help of its impact on different sectors of the economy. Hence, the study has been made in context of positive and negative impacts of GST on economy followed by its impact on different select sectors of the economy.

Keywords: VAT, GST, CGST, SGST, IGST

I. Introduction

Goods and Services Tax is a single national and uniform tax levied across on all the goods and services. All indirect taxes in GST such as excise duty, central sales tax and value-added tax (VAT) etc have been subsumed under a single regime. The introduction of GST is considered as a significant step towards a comprehensive indirect tax reform in India which would lead India for economic growth. It is expected to remove the cascading effect of taxes and also to provide for a common national market for goods and services in the country. The idea behind implementing GST in the country covering 29 states and 7 union territories is that it would offer a win-win situation for every citizen.[1] This step has converted India into a unified market of more than 1.3 billion citizens. It is also a positive hope for India's fiscal reform programme regaining momentum and widening the economy of the nation.

II. Goods and Services Tax (GST) in Bihar

Prior to GST, tax revenues were collected in Bihar under major heads like (a) Taxes on Sales/Trade, etc. (b) Stamp and Registration Fees, (c) Taxes on Goods/Passengers, (d) State Excise, (e) Taxes on Vehicles, (f) Land Revenue and (g) Taxes and Duties of Electricity. After implementation of GST, it has been subsumed VAT and taxes on Goods and Passengers. Bihar State has collected Rs. 18,000 crores as revenue from these two taxes from GST in the year 2016-17 and as against this, the collections from GST from August 2017 to March 2018 was Rs. 9778 crores[2] which have been shown in Table 1.

Table 1: Collections from GST in Bihar

(Rs. Crores)

	Aug 2017	Sept. 2017	Oct 2017.	Nov. 2017	Dec. 2017	Jan 2018	Feb 2018	Mar 2018	Total
SGST	376	262	308	285	363	282	271	317	2361
IGST	275	346	492	528	565	537	550	538	3831
Total	651	608	800	813	828	819	821	855	6195
SGST Grant	0	0	692	1054	0	373	552	922	3593

Source: GOB, Economic Survey (2018-19), Table 2.35, p.61

III. Impact of GST (Positive/Negative)

IIIA. Positive Impact

There are some positive impacts of GST which are beneficial to the Indian economy. The positive impacts of GST on Indian economy which are mentioned below:[3,4,5]

(i) Removal of Cascading Effect

Removal of cascading effect of taxes i.e. tax on tax or double taxation is one of the important benefits and positive impact on Indian economy. This has been a major issue for business class as they were aggrieved by paying tax twice. Under previous tax regime, the transfer of goods was under the service contract. Under GST regime, the taxes are unified under the supply of services and the taxation system has been unified.

(ii) Increase in Competitiveness

Under the previous tax system, taxes used to constitute about 25% to 30% of the retail price of goods and services. Due to implementation of GST, prices will be decreased since the burden of paying tax has been fallen on to end customer of goods and services. So, there is scope for business class to produce more at lesser effective costs, leading to increase in competition.

(iii) Simplification of Tax Structure

The tax structure and tax calculation have been made more simplified. It has been eliminated the multiple stages of taxation of old tax regime which results in saving of resources of the economy. GST has also unified the taxation laws of various state governments.

(iv) Clarity for Software Industry

The implementation of GST in the country has made clarity for software and IT giants regarding payment of taxes. Under previous tax system, there was confusion and also dispute on as to whether they need to apply for VAT or Service Charge on their products. Now, the GST has clearly differentiated between products and services and the process and the way of taxation applied to them.

(v) Increase in Exports

The implementation of GST has reduced the cost of production in domestic markets which will result in a positive influence in increasing competitiveness in the international markets leading to increase in exports.[6]

(vi) Abolition of Multiple Taxes and Saving of Time

The abolition of multiple taxes will solve the lengthy administrative process of tax calculation which will streamline the taxation process. It will result in the saving of time.

(vii) Complex but Transparent

Though, GST is complex in nature but it will improve the financial management and increase transparency in tax planning of establishments. There will be less room for tax avoidance and evasion.

It will make the economy legal and corruption free.

IIIB. Negative Impact

The newly implemented GST is not totally beneficial and perfect. IT has some negative impacts which are mentioned below:[7]

(i) Lack of Centralized Registration

Under the previous tax regime, taxpayers were allowed to register from all over the country via central authority. But under the GST regime, taxpayers have to register GST from their states and have to pay the central tax.

(ii) Taxation for Free Service

Under GST system, anyone providing any service free, he is eligible to be taxed for it. Similarly, supplies made in absence of consideration will now be taxable.

(iii) Service Costs to Consumers

The new GST will increase the rates of taxation which will shift to the end consumer. GST is a destination based tax which means that the burden of tax will fall on the end consumers.

(iv) Return Filing

The filing of return is expected to be burdensome. Every business owners has to file GST returns listing details of all business transactions periodically. The decentralized registration is the cause of filing so many returns.

(v) Wastage of Resources and Money

As the GST system has drastically changed the old system, public has to be informed properly about its working and impact which results in wastage of resources and money.

IV. Impact of GST (Industry-wise/Sector-wise)

Following are the industry-wise/sector-wise impacts of GST:

IVA. Agriculture

The agriculture sector is the largest sector contributing in GDP. According to an estimate, it covers around 16 per cent of Indian GDP.[8] The impact of GST on agriculture can be studied in terms of agricultural impact; supply chain and agriculture trade in various states of India.[9]

a) **Agricultural Inputs**

It is a matter of fact that any input tax placed on agriculture inputs such as seeds, fertilizers, pesticides, tractors etc. will increase the cost of agricultural output while agricultural output prices are controlled by market forces on which farmers have very little control. This situation will create burden for farmers.

In the light of this fact, we will examine the different position of agricultural inputs under pre-GST and Post GST regime and assess the position of farmers.

Seeds: Seeds were exempted under both the situations i.e. under earlier tax structure and new GST regime.

Tractors: In case tractors, tax burden under previous tax regime was 12% to 13% and tractor inputs were 18%. In new tax regime, the tax burden is 12%.

Fertilizers: Fertilizers are considered as one of the important elements for agriculture which were previously taxed at 6% (1% Excise + 5% VAT). Now in the GST regime, the tax on fertilizers has been reduced to 5%.

Pesticides: In previous tax regime, the tax burden on pesticide was 12.5% which has been increased to 18% which will increase the tax burden on farmers.

Hence, it may be concluded that tax burden on sees is similar in both the tax regimes while in case of tractors and fertilizers, the tax burden has been reduced. However, in case of pesticides, the tax burden on farmers has been increased.

b) **Agriculture Trade**

The taxes applicable on various agricultural commodities vary from state to state due to different tax levies in different states. For example, the tax rate applicable on all commodities (except Maize, Jowar, Ragi, Bajra, Coarse grains) is 4%. In Assam; all commodities except rice, wheat, palm, fruit & vegetable, fish, gur, atta, maida is in between 4% to 8%. The rate applicable in Delhi for fruit and vegetable is nil, oilseeds is 3%, Methi is 7%. In Gujarat, the rate for spices is 3%, Aniseed, Isabgol, Cummin, Ajwain 2% and cotton is 4%. In Uttar Pradesh, the rate for foodgrains, oilseeds & others 4% and pulses 2%. In Haryana, the rate for food and vegetables is nil while food grains is 4%. In Rajasthan, the tax rate applicable for fruit and vegetables and coarse grains is nil while tax rates for pulse and oilseeds and foodgrains are 2% and 4% respectively. In Karnataka, the rate of tax applicable on food grains is nil while rates for pulses and oilseeds are 2% and 4% respectively.

On the basis of above study, it is clear that tax rates are varying from states to states. Hence, the implementation of GST is a step towards making one national agricultural market due to subsuming all types of taxes for better marketing of agricultural products.

IVB. Manufactures

Manufacturing is the main sub-sector of industries and its share in GDP is stagnant at 16% in India while this share is about 42% in China. There are several pros and cons of GST on manufacturers.

Following are the advantages of impact of GST on manufacturers:

i) **Reduced Cost of Production:** In previous tax regime, manufacturers were paying excess of 25-26% as production cost due to excise duty and VAT. Now under GST, tax is levied on a single taxable event. It means goods are expected to be cheaper and sales are to go up. This will result in competitiveness in the market.[10]

ii) **Simplification of Taxes:** In earlier system, excise duty was calculated on the basis of different methods such as specified duty, tariff duty, value based on retail sale price and ad valorem duty. In GST system, all these have been streamlined and made easier to calculate because GST advocates for transaction – based valuations only.

iii) **Subsumed taxes mean less costs and better quality of goods and services:** One of the important facts of GST is that most of the taxes on inter-state supplies, have been subsumed which will result in reduction in burden on the manufacturing sector and will set up a steady flow of credit, Other participants in trading channel will also gain from this move. Also, with the reduction in burden of indirect taxes, the manufacturers will now be able to focus more on quality aspect of production process rather than merely production. It will fill the quality gap and up gradation in goods and services produced.

iv) **Single Registration:** Before GST regime, a manufacturer had to obtain separate registration for each of the factories if he had multiple factories in a single state under present GST regime, a single taxable manufacturer have to apply for a single registration only irrespective of the number of factories lie within the said state. It shows that paper work and bureaucratic intervention has been reduced. This will also result in better business management.

v) **No Assessment by Multiple Tax Authorities:** Before GST regime, there were separate tax assessment authorities for varied taxes like VAT, service tax, central excise, sales tax, etc. such situation had made the whole procedure chaotic and it was time consuming also which had made manufacturers vulnerable in dealing with tax queries and authorities. Hence, instead of separate authorities assigned to take care of assessment based on the type of tax, assessment is carried out in defined three-fold system i.e. state authorities take care of SGST assessments, while central authorities look into CGST and IGST assessments respectively. This would result in a more efficient tax assessment system that would not only save a lot of time but would also help manufacturers in dealing with the procedure better without having to deal with multiplicity of tax related queries as well as their implications.

However, there are few concerns surrounding this newly developed tax mechanism which are likely to affect the interest of manufacturers. Some of them are mentioned below:

i) Manufacturers will now face an increase in working capital requirements owing to receipt of advance, stock transfers as well as branch transfers now forced taxable under GST.

ii) Petroleum products have been left out from the arena of GST. Tax paid on these products would not be available as credit, thus bringing no respite in related industries. In such a context, there will be burden of balancing cost-benefit scenario.

iii) Earlier reserve changes were confined to particular services only but in new tax regime, it is applicable to goods as well. In this situation, the manufacturers will find themselves strained under such increased costs.

iv) GST while aiming for better tax compliance, it invites inevitable requirement of business which calls for more resources and money for compliance measures. From hiring skilled personnel for technical know-how to ensuring legal checks and balances at every step to become GST compliant, it will incur heavy costs for business.

Though there are some advantages and disadvantages to manufacturers but these disadvantages can be minimized by the regular effort of the government. The government is simplifying the process of GST which will result better.

IVC. Service Sector

The automobile industry in India is a fast growing industry producing a large number of cars annually. In earlier tax system, there were several taxes applicable with this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which have been subsumed in the present GST system. It cases logistic hurdles, reduced time at check posts and subsumes local taxes. However, with the standardization for GST for automobiles at 28%, it may be slightly negative for two wheelers and small cars. Hence, automobile companies like Bajaj Auto, Hero Motor Corp, Maruti, etc. may face a higher tax rate which is expected to be passed on to the consumers.

IVD. Banking Sector

Banking industry in India is the backbone of Indian economy. Public and private banking industries both are prevalent in Indian economy. After implementation of GST, increase in credit pool has been witnessed due to availability of GST credits on purchase of goods. Banks will also register a rise in operating expenses from this. As the GST has reduced the indirect taxes, it will result in increase of business. It will also increase the demand for funds and digital transactions in the banking industry. It is also important to note that 18% GST rates has been levied on various banking services like insurance policies, ATM services, credit cards, etc. while the earlier tax rate was 15%. Hence, the banking and financial services will become costly.[11]

IVE. Hotel and Tourism

Hotel and tourism industry play an important role to grow the GDP of India. GST rates or hotels are varying according to their tariffs which are mentioned below:

- Less than Rs. 1000 - 0% (GST Free)
- Rs. 1000 to Rs. 2500 - 12%
- Rs. 2500 to Rs. 7500 - 18%
- Above Rs. 7500 - 28%

It is further expected that the cost of tour packages may come down due to relief to tour operators under the new GST regime because the current rate for tour operators is 5 per cent.[12]

IVF. Common Man

GST is to be considered to be one of the biggest tax reforms in India. It has impact the businesses as well as common man.[13] An ordinary man can take a big relief because one will have many opportunities for making significant savings from GST. A common man has to pay less for oil, soap, kajal tissues. The prices are likely to come down by 6% to 10%. Taxes on hotels have reduced from 22% to 18%. He will be charged at 18% if he lives in accommodation above Rs. 5000. However, accommodation under Rs. 1000 is exempted from GST tax. Similarly economy class fare in air travelling has been reduced to 5% tax of GST. Tax rate on branded goods has also been reduced from 23-25% to 18% which means a common man can buy more.

V. Conclusion

Thus on the basis of above discussion, it can be deduced that there is different types of impact of GST on different sectors of the economy. Some impacts of GST are favourable and beneficial to selected sectors while it is not favourable and beneficial to some other sectors. It has also been observed that some impacts are for short period while some are for the long period. On the whole, it is beneficial to majority. It is very much clear that GST is the biggest tax reform in India founded on the principle of 'One nation, one market, one tax'. The single biggest indirect tax regime has come into force, dismantling all the inter-state barriers with respect to trade by subsuming central, state and local taxes into a unified GST.

It is also a matter of fact before the government that how government makes a triumph over uncertainty while making GST a good and simple tax. The idea behind implementation of GST across the country is that it would offer a win-win situation for everyone. Manufacturers and traders will be benefited from fewer tax filings, transparent rules and easy book-keeping while consumers would be paying less for the goods and services. The government would also generate more revenues. Inflation would also be reduced as the cascading effect of taxes would be eliminated. The revenue from the taxes for the government will increase and fiscal deficit is expected to remain under control. Exports are also likely to increase. Same is the situation with foreign direct investment. The industry leaders also believe that the country would climb several steps in case of doing business with the implementation of the most important tax reform. Hence, the overall impact of GST on India economy is expected to be positive thereby increasing the overall economic growth.

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