Expert Speak On GST

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Economy Update

# GST Implementation LikelyTo Boost GDP Growth In Long Run

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**We organised a conference call with Mr. Sagar Shah, head of indirect taxes at BDO India (LLP) to have his insight on the recent clearance of the Goods and Services Tax (GST) Bill by the Union Cabinet. According to Mr. Shah, even as the costs/prices of products/services may increase in the short run (post GST implementation), gross domestic product or GDP growth is likely to increase by 0.9% to 1.7% in the long run. However, resolution of pending issues may take longer, but the earliest possible date for GST implementation is likely to be April 2016.**

**GST implementation round the corner:** Even as there is no clarity yet on what rate will be applicable and what all taxes will be subsumed under GST, it is likely to be implemented in April 2016. GST will reduce and eventually remove the cascading impact of taxes, as it is designed to provide input tax credit at each stage of production and eliminate the problem of a good/service being taxed twice. Besides, it will also bring in simplicity in the tax framework and better compliance.

**Clarity on GST:** The Union Budget for 2015-16 (likely in February 2015) is expected to give more clarity on GST, with the larger challenge being the administrative aspect as to how State and Central governments manage the operations, IT infrastructure rollout and also how to do the registration and transactions. While all this could take a year from now, the corporate sector can meanwhile do a study or an impact analysis (for their products, segments, presence in various regions, logistics etc). The roadblocks are likely to have been cleared as15 major States are expected to implement GST, and with the Empowered Committee of State Finance Ministers already a part of the process, the negotiation hurdles seem negligible as most of them have arrived at a consensus on the changes that are required to the Bill.

**Positive impact on GDP growth:** According to Mr. Shah, while the prices in the short run can rise (but ease in the long run), widening of the tax base, improved compliance, levy of uniform tax rate and non-existence of cascading of taxes are all expected to increase India's GDP growth by ~0.9% to 1.7% annually.

**Improve decision-making for business houses:** As is widely known, unlike the current indirect tax regime which is origin-based, GST will be a destination-based tax. This will in turn make business decisions purely business-related by not considering the tax rates of various States. To cite an example, business houses will send goods in smaller lots rather than store them at one place (for warehousing purposes so as to take the benefit of tax advantage across State borders). Therefore, the taxing at the end-point or end-product pricing will ease matters and render enhanced business conditions for economic operations. The major impact is likely to be felt on retail trading and FMCG (fast moving consumer goods) sectors, by basically improving the fungibility of goods across sectors.

**Dual GST framework:** Currently, there are two types of taxes on the services sector – valued added tax or VAT and service tax. Under the new regime, there will be a dual GST framework wherein Centre and States will levy a uniform rate of tax - CGST and SGST - and in order to address the problem of tax cascading in inter-state transactions (stemming from CST), an integrated GST (IGST) has been proposed which will equal aggregate GST rate (CGST+SGST). The main benefit is that IGST liability will be eligible for set-off against all three taxes, which means basically a dealer can use input credit received on GST and pay off his tax liability. To cite an example, a restaurant bill currently has both VAT and service tax. Going forward, a tax set-off with GST will be positive.

**Can States give subsidy?:** State governments giving out subsidy/benefits/incentives/refunds to producers to produce in their States are likely to bear the costs of the same as long as they intend to continue indulging in it. The Centre is unlikely to compensate them for such sops. To cite an instance, a state like Gujarat does not give subsidy unlike Maharashtra. The Narendra Modi-led government at the Centre believes in being subsidy-neutral with an improved regulatory environment. Also, if for instance, post GST implementation, Maharashtra is cash-positive from its revenue earnings and can afford to roll out such benefits/incentives, the prospect of whether the Centre can disallow it from doing so will be known only when the time comes, but the broad idea is to cut out subsidy.

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