

Impact on Nation Building and The Goods and Services Tax (GST)

Dr. Kannan.J

Associate Professor of Management Studies
Bharath Institute of Science and Technology,
Selaiyur, Chennai, Tamil Nadu 600 073

ABSTRACT

Goods and services tax (GST) a new tax reform in India which has integrated the Central and State taxes and the outcome is “One Nation One Tax”. After much deliberation India has implemented this tax reform which intends to bring in simplified tax laws and provide better business opportunities to all. According to the World Bank (2015), globally there one hundred and ninety-three countries who are the member nations of UN out of which one hundred and sixty countries which inclusive of seven ASEAN nations, nineteen Asian nations, fifty-three European nations, seven Oceania nations, forty-four African nations eleven South American nations and nineteen Caribbean, Central & North American nations have imposed GST successfully. India’s tryst with GST has ushered in a new era in her stride towards becoming a developed nation. The Britannica Encyclopedia says taxation is imposition of compulsory levies on individuals or entities by governments. Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well. The levy of GST in India’s taxation regime timeline is a historic one albeit it saw its ups and downs before it saw the light of day. The aim of the GST is to give the consumer a relief from the overall tax burden. The GST is an amalgamation of five Central taxes and Ten State level taxes into a single tax. The GST seeks to end the double taxation system, and in one swipe has made India as one single unified market, thereby beating the European Union. This paper aims to study the role of GST as a tool in nation building.

Keywords: Indirect Tax, Goods, Services, single market, development.

INTRODUCTION

Nation Building is synonymous with the term “development”. It is 70 years since India attained Independence from colonial rule. There were many stark abnormal realities India had to face on the eve of Independence they being starvation, Poverty, illiteracy, malnourishment, lack of quality sanitation, unemployment, lack of infrastructure. Over these seventy years some of these abnormalities are slowly being tackled, but the core issue of poverty needs to be urgently addressed.

Population of India 1.3 billion making it the second-most populous country in the world behind China. India had the largest number of poor people in any country in 2012, its poverty rate was lowest among countries having large number of poor population, the World Bank said in a report. At present, 28.5% of the Indian population lives below the poverty line. This below poverty population is a staggering number and is more than the population of some developed nations. There are two India’s; Bharat and India, Bharat is the impoverished India and India is the above middle class India. This Paper is addressed at Nation Building Bharat.

The Vice-President of India Shri.Venkaiah Naidu whilst as Union Minister had appealed to all the national parties to unite in getting the GST enacted as Law citing the core reason as Nation Building. Nation Building for a prosperous and stable India. Nation Building is also often used with the term inclusive growth. Nation Building and inclusive growth inevitably lead to economic growth and the fact that experts had opined that India's GDP would grow by 1.5% to 2% on implementing GST was stressed by the Vice President.

All forms of organized societies have some form of governance or government as learnt from history. The Liberal form of modern governance has imbibed the goals of governance is to safeguard individual freedoms and to endeavor for the welfare of the civilian society as a whole.

The expense for the governance or for the endeavor of governance has to be met by the Government. The Government needs wealth to meet out these expenses. One of the primary forms of wealth creation is to generate income for the Government. This income for the government is termed as "Revenue". The Revenue is created by imposition of taxes on individuals, corporate, business houses, property and services. Almost all governments of developed and developing countries around the world rely mainly on income taxes for their revenue. The provinces or states of such countries imposed and depended both on income taxes as well as sales tax for their revenue. The local bodies to govern the towns and cities imposed property taxes for their revenues.

THE ROAD TO GST

The Indian Economy is founded on the concept of mixed economy i.e socialism, from the dawn of its independence till 1991. There were behemoth Government owned Enterprises and the Government was involved in almost all industries aping the erstwhile Communist Soviet Union. The green revolution of the Nehruvian Era saw India gaining self-sufficiency in its food and agricultural branches. In 1991 India faced a grave economic crisis being the balance of payment crisis. In 1997-98 India again faced the threat of the Asian Economic Crisis. The two crisis saw the country facing a host of threats such as; external economic crisis such as Increase in external debt, declining concessional credit, increase in current account deficit & exchange rate overvaluation, Volatile NRI deposits, Contagion due to Asian crisis; internal economic crisis such as Agricultural subsidies to rich farmers, Industry's demand for internal deregulation but external protection, rising fiscal deficit, declining foreign exchange reserves, Rising inflation; External political threats such as IMF consultations limited – seeking assistance risky; past agreements widely opposed Gulf crisis – oil dependency increases; workers' remittances decline; need to airlift and rehabilitate Indians Demise of the USSR Nuclear sanctions: Internal Political threats such as Parliamentary constraint over minority government, Bureaucracy versus lateral entrants, Organized labour in public sector, Limited RBI autonomy & automatic monetization of deficits, Political instability in both periods. To tackle these threats, the Indian Governments of that periods through astute and shrewd leadership stemmed the Country by getting into a crisis by announcing a slew of reforms or shall we say bold steps such as; Devaluation, IMF programme, A new exchange rate regime and changes in the RBI's role, Carefully managed opening up to foreign investment, Financial sector reform.

After the crisis the Indian Government slowly started basing the economy on the free enterprise system. Investors and Consumers were free to decide in which manner they wished to invest or spend their time and money. The aim of the manufacturer or producer was to make profits by

satiating the customer's demand. To ensure ground level pricing, competition was made open amongst all producers this encouraged deliverance of best quality goods and services.

India was forced to move from its socialistic approach towards a free market enterprise system and this system does not give all the services needed by the society or community. Certainly certain services only the Government can provide as they are more efficient and well administered. The well-known example of Government administered services are providing security be it national, defense, or police protection at state and local level. Every Indian citizen benefits from this service of protection, defense and security and the practical and best way to pay for them is through taxes instead of fees for service rendered. Another example is management of the nation's natural resources, viz water supply, maintenance of public owned land, construction of roads construction of hospitals. Our taxes ensure that the costs of these expenses are met and before that they used to plan these services and finance construction or maintenance. Nowadays we see that fees are collected at entrances of national parks or at toll booths at new national or state highways and bridges, this fee collection too is one form of revenue collection or taxation.

The nation and its citizen's gain from a safe and healthy environment. In the present system of taxation employed by India post liberalization that is after 1991, there is little scope for corporate to bear the additional cost for best environmental management. The India Government imposes taxes in the form of cess to these heavy environments damaging corporate involved in auto manufacturing, mining, industrial waste dumping into rivers and streams industries, noise polluting industries, obviously this cess would reflect in additional cost of the products.

The imposition of GST has seen many stages from 1986 onwards, the V.P.Singh Government's indirect tax reform, followed by the P V Narasimha Rao-Manmohan Singh initiated more tax reforms after the Raja Chelliah Committee reforms. In 2000 the Vajpayee Government ensured uniform sales tax floor rates, following the Asim Dasgupta Committee report and Kelkar recommendations ensuring the implementation of VAT in 2005. The spade work for the GST had started in 2010 under P.Chidambaram, Union Finance Minister. The initiative to bring the GST as law by Pranab Mukherjee as Finance Minister did not succeed and finally under the Modi Government the GST saw the light of day in 2017.

ADVENT OF GST

The Goods and services Tax (GST) which was rolled out in July 1, is a very significant step in the field of Indirect tax reforms in India. It is an amalgamation of a large number of Central and State Taxes, taking them into a single tax. The new tax regime also seeks to end the double taxation system and helps to set up a common national market. The aim is to give the consumer a relief from the overall tax burden.

The advent of GST will also make Indian goods and products competitive in the domestic and international markets. The GST imposed and levied by the Centre would be called Central

GST(CGST) and the GST imposed levied by the State including the Union territories with legislature would be called the State GST(SGST). In respect of The Union Territories without legislature would levy Union Territory GST (UTGST). An Integrated GST (IGST) would be levied on inter-state supply (including stock transfer) of goods and services. The collection would be done by the Centre to ensure credit chain is not disrupted. The CGST and SGST would be levied \

simultaneously on every transaction of supply of goods and services except the exempted goods and services, goods that are outside the purview of GST and the transactions which are below the prescribed threshold limits. The GST subsumed a range of taxes from central exercise and service tax to state VAT, central sales tax and luxury and entertainment tax.

ECONOMICS OF TAXES

Tax is the transfer or rendering by payment of a portion of the national products or revenue from the hands of individuals to those of the government, for the purpose of meeting public consumption or expenditure. Tax is a non-contractual transference and coercive transfer of definite physical assets nowadays mostly, but not exclusively money, and the value in material form in them, from a person or group of persons who initially held these assets and who could have obtained an income from further holding them, to another, who now possesses them and now derives an income from so doing.

Taxation is primary method by which a régime gains revenue into its budget. That revenue goes into a vast number of overheads and items, from paying debt, defining the possibility for implementing certain policies to disbursing for public services and welfare doles and the military, etc. There are numerous methods by which tax revenue can be increased. One such tax is the GST.

THE GOODS AND SERVICES TAX

GST (Goods & Services Tax), which is also known as VAT or the value added tax in many countries is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stages of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next in the supply chain. GST is a broad based consumption tax covering all sectors of the economy i.e all goods and services.

The adoption and imposition of Goods and Services Tax (GST) system of Indirect taxes by countries across the globe is presenting an increasing movement with more than 160 nations, including 33 of the 34 member nations of Organization for Economic Co-operation and Development (OECD), adopting and imposing GST or VAT (Value Added Tax) as the favored form of consumption tax¹. This increasing trend towards implementing a GST tax regime can be attributed to key factors such as

1. GST preserves neutrality by taxing the value added by each factor equally;
2. Consumption tax is large and more stable source of revenue; and
3. Potentially self-enforcing in nature.

In the book “The VAT in Developing and Transitional Countries role of International Monetary Fund (‘IMF’) in spreading VAT to developing countries”. Economists, Richard M. Bird & Pierre-Pascal Gendron supported and advocated this form of taxation and facilitating its adoption by countries with less developed economic and administrative structures as well. OECD has also launched a project to develop International VAT/GST Guidelines to apply VAT to cross border trade, with an aim to reduce uncertainty and risks of double taxation and unintended non-taxation that result from inconsistencies.

The following Developed Countries too are advocating GST.

EUROPEAN UNION (EU)

European Economic Community adopted VAT throughout Europe, replacing cascading multi-stage turnover tax, owing to the ease with which it handled cross-border transactions and facilitated development of a common market.

CANADA

In Canada, GST is applicable on supply of most goods and services including real property and intangible personal property and is governed by Excise Tax Act. Canada has a federal government (like in India) and a federal GST was introduced in 1991 replacing the existing federal sales tax imposed on manufacturers and certain licensed wholesalers at a general rate of 13.5%. However, all provinces continued with the provincial retail sales tax (‘PST’) thereby having two levels of levy.

NEW ZEALAND

The New Zealand GST, enacted in 1988, was designed as a comprehensive tax base including many difficult-to-tax goods and services. The New Zealand GST become an international benchmark for indirect tax design, for instance, the Institute of Fiscal Studies of United Kingdom, considered the New Zealand GST model as the benchmark for evaluation of the European VAT Directives

AUSTRALIA

Implementation of New Tax System package in Australia including New Tax System (Goods and Services Tax) Act, 1999 is considered as a landmark change to the Australian tax system. The new GST replaced the federal wholesale sales tax and some state and territory taxes with a single tax rate of 10% tax on supply of most goods and services with some exceptions.

NATION BUILDING AND TAXES

The United States of America in order to establish peace world over got herself involved in restoring democracy to many conflict riddled nations world over. In almost all these conflicts the US was the victor militarily, but the real issue which was unmanageable was the civilian unrest after these conflicts. To manage these issues, the US set up separate departments to manage civilian aspects of such conflicts. Now applying the same yardsticks to the Indian freedom struggle and its aftermath, the Nation as an entity has succeeded but a comprehensive Civilian aspects of the freedom struggle has not been managed well, nor has there been an attempt by any of the Governments excluding the Present Modi Led Governments to address the real and pertinent issue of Poverty and Under development. The nations which can be closest in comparison to India is China. Both India and China are slated to be amongst the three biggest economies in the world.

Though both India and China follow different Political Systems, China has developed more rapidly than India. A study by Goldman Sachs suggests that India will be the third largest economy by 2032 behind the U.S. and China. However, the real measure of economic well-being is per capita GDP. Deliberate this – while Chinese per capita GDP exceeds that of India by \$550 presently – that difference is expected to increase to a substantial \$13,991 by 2050! The truth is India has not managed or has mismanaged its Poverty eradication initiatives.

Each nation to be rebuilt may be unique, but the nation-builder has only a limited range of instruments on which to rely. These are largely the same from one operation to the next. The instruments of Nation Building is organized around the main components from which nearly all nation-building missions are formed, including soldiers, police officers, civil administrators, and experts in political reform and economic development. Matching aspirations to resources is essential to success. The key to building resources for the Government is the GST.

SUGGESTIONS AND RECOMMENDATIONS

The government has managed to mop up Rs. 92,283 crores from goods and services tax during the first month of the new regime, from a little fewer than 65% of the registered tax payers. The collections are marginally higher than the internal estimate of Rs. 91,000 crore and officials are expecting the kitty to swell since several taxpayers are still filing returns. Even though the régime had left levies largely unchanged to ensure that prices do not rise significantly, it was expecting higher collections as the base has gone. There is evidence of a wide base as over 15 crore new tax payers have registered. Finance Minister, ArunJaitely, who released the numbers, disclose that 38.38 lakh taxpayers that is 59.57 lakh had registered in July 2017. The figures of the First month GST collection show a positive trend now it lies with the Government of the day to utilize these revenue resources in a positive manner.

It is suggested that the rates of GST for essential items be reduced or exempted in order to enable the below poverty line population to access these commodities.

It is suggested that these below poverty line aspirants be trained and skilled to take advantage by generating new production lines and target import substitution to take advantage of the market bereft of Chinese supplies which had flooded the market prior to the imposition of GST.

It is suggested that that this generation newer production lines coupled with the make in India initiative be given impetus for creation of more jobs for the BPL populace, thereby enabling sustained development.

It is also suggested the Government reform the laws of Infrastructure creation and go for large size, scale and speed implementation of these projects to enable creation of more jobs for the largely unskilled and semi-skilled populace belonging to the BPL populace.

CONCLUSION

The implementation of the GST is an eventful and revolutionary benchmark in the History of our Nation as reflected by the collections in the very first month of its implementation. There is

oppositions from some quarters of the society to show that GST has brought in inflationary trends, that needs to be addressed. The advantage of the GST in India outweighs the disadvantages.

The need of the hour is to ensure proper utilization of these windfall GST collection revenues to address the woes of the below poverty line populace and ensure all their needs are satisfied by proper implementation of Government Schemes in the Context of Health, Education, Employment and livelihood.

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