New tax regime to give manufacturing a boost

After seventeen years, the journey for the economic unification of India that started with the government led by Atal Behari Vajpayee setting up an empowered committee headed by Shri Asim Dasgupta, the then Finance Minister of West Bengal, finally concluded with the roll out of the Goods and Services Tax — the 'One nation, one tax" on July 1, 2017.

A lot has been said about benefits accruing to India from a shift to GST. However, this was perhaps best summed up by Prime Minister Modi in his address to the joint session when he stated: "GST will free the common man from tax terrorism and inspector raj. Besides being a transparent and fair system that will end generation of black money and corruption, GST will promote [a] new governance culture that will end harassment at the hand of tax officials."

By replacing the old regime of 17-odd indirect levies fragmented at state lines by a single tax; the Indian economy stands to benefit tremendously with a simplified, transparent tax structure that will help reduce discretion, lower litigation and improve ease of doing business thus helping attract foreign direct investment and improving industry competitiveness. It is estimated that GST may contribute an 80 basis point rise in GDP growth over 3-5 years.

NCAER pegs this at 0.9-1.7%. The manufacturing sector will also get a boost as GST is expected to address long-standing issues like inter-state taxes, high compliance costs, cascading impact of taxes, high logistics costs and to also ensure a level-playing field with respect to imports as GST provides for appropriate countervailing duty.

This, along with the fact that many capital goods are likely to witness a 12-14% drop in cost owing to availability of full input tax credit, will spur investments and generate jobs.

For automobiles, the shift to GST has largely been to the benefit of the industry and the consumer except for certain issues. The higher GST rate for hybrid vehicles will make them unviable for consumers and will result in petrol and diesel variants being sold instead.

This is not be desirable as hybrids are much more fuel-efficient and environment-friendly vehicles. Also, levy of tax on used cars at the same rate as for new cars is likely to push this business in the informal sector.

This would negate the Centre's aim of bringing the unregulated part of this business under the regulated mainstream and also lead to the state losing tax revenue in the process. As we are still in the early phase of the regime, it is hoped that these and other important issues will be addressed soon.

Checks in place

Another important change in the indirect tax system is the shift in the taxable event from the sale, manufacture, provision of service or import in the past, to the supply of goods and/or services under GST.

Further, as the GSTN system matches the details of tax paid by a supplier to the details of credit claimed by the recipient, excess credit claim by the recipient will be disallowed automatically till the time the return is rectified. Thus, the new system motivates recipients to keep a check on suppliers.

Also, the GST-compliance rating system for suppliers has shifted part of the burden of ensuring compliance to the recipient. This, along with technology enablement, will surely improve compliance significantly.

The GST structure has been criticised owing to multiple slabs and high effective peak rate of GST. It has been argued by many that the true spirit of GST has been lost and that a high GST rate will fuel inflation. However, the Government has done well to be pragmatic, remain in touch with ground realities and not get carried away by ambitious expectations. In the present socio-economic context, it is unrealistic to expect a single or a two-tax slab structure.

Moreover, since the Government has taken care to ensure tax rates post GST are as close to the pre-GST rates for most products, fears of GST fuelling inflation seem misplaced. With better compliance that is expected, the Government may actually gain enough space in future to consider reducing the number of slabs or lowering the compensation cess.

The beginning has been better than expected with hardly any major hitches. Governments, at the centre and the states, along with the bureaucratic machinery, deserves to be congratulated for making a distant dream of the past into reality.

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This is the second instalment of a six-part series on GST implementation across industries. The series has been facilitated by the Confederation of Indian Industry

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