

## THE IMPACT OF GST

When Goods and Services Tax bill was proposed, we commented that it was designed to benefit the big bourgeoisie and foreign companies by creating an uniform all India market; It would eliminate small producers and businessmen out of the economic activity.

The Goods and Services Tax is to be implemented from July 1st this year. At present manufacturers have to separately pay excise duty and VAT on the goods sold by them. The two taxes will be combined into one GST levy. This will make life easier for businesses. They will have to fill in only one return. Interstate trade will become easier. The requirements of obtaining forms for entry of goods into various states will be eliminated.

The impact of GST on the people depends upon the classification of goods. Though the Government claimed that it has taken pro-poor approach in the classification, one has to wait the actual realizations in this regard, because it was the usual practice with the government to increase the taxes later. Same is the case with services.

The other impact of GST depends on the overall tax collections. Presently different goods are being taxed at different rates in the states. The GST rate on the same item may, therefore, increase in one state and decrease in another. It is not possible to make an overall assessment of the total impact of GST on tax collection for this reason. GST has been implemented by about 160 countries in the world. The experience is varied. Malaysia, for example, implemented GST in 2015. A study conducted by National University of Malaysia on the impact of GST concluded that 64.1 percent people had reduced their consumption with the increase in the price of goods and services. This means that there was a net increase in the tax burden on most households. Another study from Australia showed that the bottom 20% of households paid an additional 4.4% of their income; while the top 20% of households only paid an additional 1.4% of their income. This means that the increase in GST on the items consumed by the poor was more than on the items consumed by the rich. (Bharat Jhunjhunwala)

The way GST will play out in India is not known as of now. The total collection of GST may be more than the combined collection of excise duty and sales tax at present; or it may be less. The impact of GST on the economy will be negative if total tax collections increase because that will increase the tax burden on the people, reduce their purchasing power and their standard of living. On the other hand the impact will be positive if total tax collections reduce because that will increase the tax burden on the people, increase their purchasing power and their standard of living.

The two outcomes of GST, as claimed by the government, are not going to be materialized. The expectation that GST will lead to less black economy is totally wrong as was the case with demonitisation. On the contrary, it becomes easier to undertake business without paying taxes. Under the present system a businessman has to enter into an arrangement with two sets of officials from the excise and sales tax departments. Under the new dispensation he will have to make an arrangement with only one set of GST officials. Consequently it will be easier to do the tax evading business now than previously. The reported benefit of bringing all transactions under one platform will not be attained because this arrangement was already in place under VAT system and excise duty.

The second expected outcome of benefit to the common man from increased economic activity is also wrong. It is true that inter-state movement of goods will become easy. But this benefit will accrue mostly to large industries that have the capacity to sell their goods across multiple states. Small businesses mostly sell their goods within their own state.

Overall, as we had earlier commented, the implementation of GST will only benefit the big bourgeoisie and foreign companies, eliminates the small producers and businessmen and burdens the with heavy taxation.

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