

GST - Is it a win-win situation for all?

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Various types of indirect taxes levied both by the Centre and the State Governments are proposed to be replaced by a single tax - Goods and Services Tax (GST). The said proposal though mooted way back in 2006 by the then Finance Minister hardly saw any progress significant enough to generate a buzz in the trade and industry. For the last couple of years the only question that loomed in the national arena was: Will GST be introduced at all? Amendment to the Constitution is a prerequisite for introduction of GST in the proposed form where both Centre and States require power to tax both goods as well as services concurrently. The required Bill for amendment of the Constitution was introduced in the Parliament in 2011. Even such introduction of the Bill at that time did not generate any enthusiasm in the country as there was a general belief that there cannot be a consensus between the Central Government and various State Governments to effect the desired amendment to the Constitution. The said bill lapsed also. However the recent re-introduction of the required Bill with certain changes has evoked much positive response from industry and media. The efforts made by the Central Government for resolving the differences with States have led to a belief in the country that GST is bound to be introduced.

Therefore it is logical for everyone (businesses and consumers) to be curious to know the impact of introduction of GST on them. The picture so far projected by the Government and the reports in media covering views from various industries is very rosy. It appears that GST shall benefit all concerned. The Government has been stressing that introduction of GST would result into increased revenue both for Centre and State Governments. The Central Government has assured adequate compensation to all State Governments. At the same time it has maintained that prices for consumers would fall (source: Report of Standing Committee on Finance, presented in Parliament in August 2013). Concurrently major industries also feel that GST will benefit them significantly. Quoted below are a few statements as have appeared in media in last few days, reflecting the positive expectations:

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- With a GST, the base will increase, the revenue will increase, transaction costs will come down by four to six per cent : *Ajay Shriram, CII President in interview to Business Standard – 15-12-2014.*
- On a global basis, the implementation of GST would reduce tax costs in the overall supply chain and provide tax advantage to the players in e-commerce space. - *Financial Express: 16-12-2014*
- There is no doubt that the country will benefit from this. Industry will benefit. Consumers will benefit and so will the logistic companies. – *Interview by Shashi Kiran Shetty of AllCargo, Economic Times – 18-12-2014.*
- As far as the benefit of GST is concerned, surely we will see a great benefit in terms of CST, in terms of entry tax, in terms of octroi, in terms of many other local state taxes which will definitely benefit – *Adesh Gupta, CEO of Liberty Shoes – Money Control – 18-12-2014.*
- “It will give a great push to the economy and will be extremely beneficial to FMCG companies like ours.”– *Adi Godrej – Money Control – 18-12-2014.*
- “It will bring in more efficiency and reduce prices for customers,” said *Rakesh Biyani*, joint managing director, Future Retail.
- “There will be major savings in transport costs for companies, which will directly improve profitability.” said *DR Dogra*, MD & CEO of CARE Rating.
- The entertainment and telecom sectors would be big beneficiaries– *Business Standard – 19-12-2014.*
- GST will halve inventory costs, reduce warehouses - *GATI. – Money Control – 19-12-2014.*
- The key beneficiaries of GST will be sectors such as batteries, footwear, plywood, electrical appliance, ceramics, adhesives and paints, where the unorganised sector accounts for 35% to 70% of total market size. – *Economic Times – 19-12-2014.*

Somehow this assertion that GST benefits all does not gel with normal logic. Any increase in any particular segment of a pie has inverse effect on other segments. Indirect taxes are consumption based taxes. If Government receives more taxes it is evident that consumers bear incidence of more taxes. In such a situation if prices are not to be increased then its incidence has to be absorbed by the businesses. This is possible in two situations: either there is a dip in the profit of the business or the cost of business reduces. The enthusiasm and buoyancy reflected in response from the industry as quoted above certainly does not indicate any dip in the profits. Then the only scenario left is reduction in costs. When we say reduction in costs it is certainly not on account of reduction in the cost of indirect taxes because on the

whole Government expects increase in its revenue. Therefore it can only be through reduction in other expenses in business. Any expense for one business is in fact the revenue of another business. Therefore if GST leads to reduction of costs for certain businesses then certain other businesses are bound to lose their revenues.

Ultimately the fact is that GST will not result into a win-win situation for all. There are bound to be certain losers too. The unorganized sector is certainly one of them. Though actual impact will be known only after the actual legislation is released in the public domain still it is high time that industries subject themselves to introspection so that genuine pain points are identified and suitably represented to the Government.