

A STUDY TO DISSECT IMPACT OF GST ON RURAL INDIA

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ABSTRACT

Goods and service tax is a sound and significant indirect tax reform since 1947. It is a heroic step by government to unify state economies and elevate Indian economy to new heights. It is expected to create pro poor environment as both price levels and inflation rate will fall down due to applicability of even tax rates all over India. An attempt is made in this paper to understand the basics and to analyse the impact of GST on rural economy as around 60 percent of the people in India resides in villages. The study also addresses the various rewards that will accrue to rural India and future challenges yet to be faced after implementation of GST.

KEYWORDS: GST, CGST, SGST, IGST, Input Credit, Rural India, Indian Economy.

Introduction

It is a unique, transparent and comprehensive tax that wraps various central and state indirect taxes into a single envelope. An indirect form of tax, levied on consumer expenditure rather than income earned by consumer. High direct taxes mainly income tax, depress individual's willingness to work and save. Also high indirect taxes like VAT, excise duty etc. ruin investment decisions and limit entrepreneurship. GST has a unique feature as it is levied neither on savings nor on investments. The place where actual consumption takes place is the destination place of GST. The consumer is the original bearer of tax burden as all the members of supply chain like producer, retailer, wholesalers etc. only act as agent and collect GST at different stages and demand back, through tax credit system. The coincidence of doubling of tax will drop down because in place of several tax collecting authorities, a single authority will be made responsible to levy and collect it. Goods and service tax network (GSTN) is established by government as a one solution for all indirect tax requirements of all stakeholders.

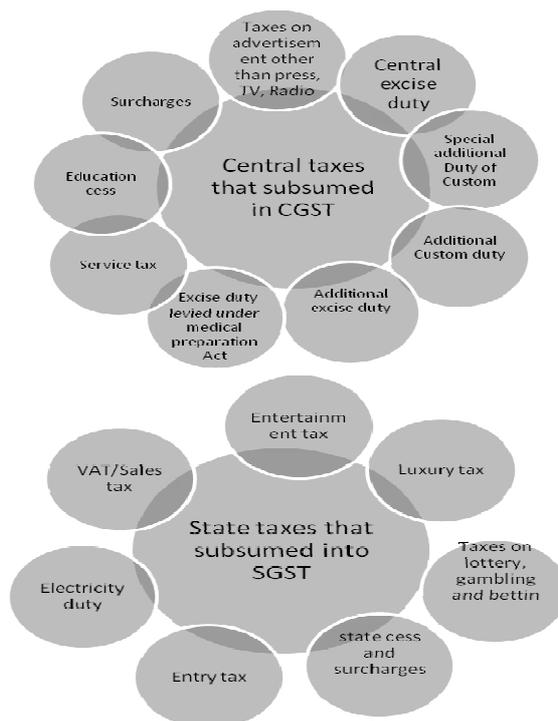
Objective of GST

- The cascading effect of multiple taxes will be abolished as tax structure will become simple and transparent.
- It will give birth to business friendly environment as ease of doing business rank will also improve.
- Tax revenue of government will improve as tax evasion is barely possible.
- Due to uniformity in tax rate, the rate of inflation will go down with the time.
- It will clean the heap of indirect taxes and unify them to help all the stakeholders.
- Smooth flow of ITC (Input tax credit) will help to reduce cost of goods and services and thereby prices will fall that will increase purchasing power of consumers.
- Tax system across states will become more uniform and simple.
- The drawbacks of inconsistent treatment of manufacturing and service sector will come to an end.

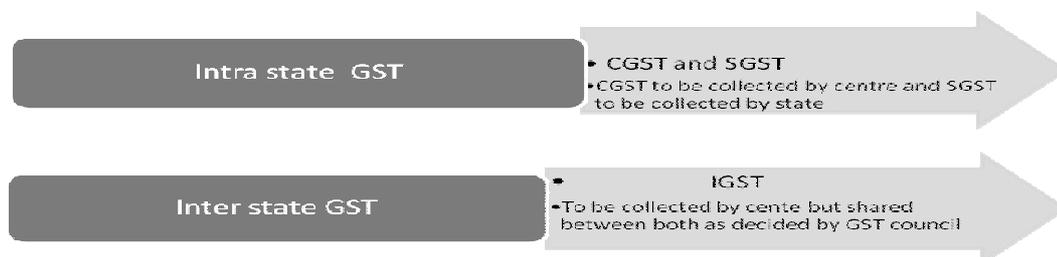
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Structure of GST in India

By virtue of federal structure of India, government of India adopted dual GST that is CGST (central goods and service tax) and SGST (state goods and service tax). Around 17 indirect taxes like excise duty, central sales tax, service tax, additional excise duty, luxury tax, entry tax, entertainment tax etc. are put under one umbrella. Four tax rates of 5, 12, 18 and 28 percent are finalized by GST council. Around 7% items that are basic necessities of life are totally exempted from tax, 14% items fall in 5% slab, 43% items are put under 18% segment however around 19% items find their place in top tax bracket of 28%. Petroleum, liquor and tobacco are kept outside the purview of GST.



- **Intrastate (Sale within State)**- Revenue will be shared between both state and centre as both CGST and SGST will be applicable. Buyer is liable to pay both CGST and SGST to the seller. SGST replaced VAT and CGST replaced CENVAT and service tax.
- **Interstate (Sale to Another State)**- In case of interstate transactions of goods and services Integrated Goods and Service Tax (IGST) will be levied on the importing state. Revenue will be shared between both, but it is levied and collected only by centre.



Objectives of the Study

- To analyze concept of GST and its impact on rural India.
- To understand rewards and future challenges in context of Indian rural economy.

Literature Review

- G. C. Ruggeri & K. Bluck (1990) have examined that the Canada Federal Government implemented GST that is more regressive as a replacement of the Manufacturers' Sales Tax (MST) in 1989. The focus of study was to compare both and to investigate the distributional effect of replacing MST with GST. Investigated that Vat and GST are more regressive than MST. This weakness of GST can be reduced if Tax rate will be in progressive form, which indicates lower income credit financed by a high-income class pay surtax or higher GST rate.
- Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India that evaluated the structure and drawbacks if any in proposed GST.
- Poddar and Ahmad (2009) presented a working paper on GST reforms and intergovernmental considerations in India: Concluded that GST is a next logical step towards detailed indirect tax reforms in the country and suggested that a lot of challenges lie ahead in such a design. Countries that already experienced it, proved that it is a win-win tax structure for all stakeholders.
- Vasanthagopal (2011) in the article GST in India: A Big Leap in the Indirect Taxation System assessed the positive impact of GST on different sectors of the economy. He concluded his study by saying that only a rational and neutral design of GST will be able to show positive effect.
- Seventy Third Report of Standing Committee on Finance (2012-2013) The Constitution (One Hundred Fifteenth Amendment) Bill, 2011.
- Amol Agarwal (2011) in his article named India's GST – A primer: studied probable impact of GST on Indian economy and stated experience of GST by other countries.
- Bird (2012) assessed in the article The GST/HST: Creating an integrated Sales Tax in a Federal Country the role and influence of an unified tax in a federal country.
- Girish Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India highlighted the objectives, challenges, threat and opportunities of proposed GST and the impact of GST on Indian Tax scenario and summarized that it will provide strength to free market economy.
- Kumar (2014) presented in the article Goods and Services Tax in India: A Way Forward background, silent attributes and summarized with the favorable impact of GST on present complex tax structure of India.
- Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Service Tax (GST) which stated in brief features, expectations, challenges, international perspective in GST and GST model with illustrations.
- The Institute of Companies Secretaries of India (ICSI) (2015) published a Referencer on Goods and Service Tax to make available the information about GST in detail to academicians.
- Parkhi did an exploratory research in an article Goods and Service Tax in India: the changing face of economy and stated that implementation of GST is a welcome move of Indian government and a symptom of a fast growing economy

Impact of GST on Rural Economy

- **GST and Agriculture:** Around 60% of India's population resides in villages and depend on agriculture as their major source of income. Small and marginal farmers are forced to sell their produce at unreasonable prices as they face storage problem because of perishable nature of agricultural commodities. The perishable nature of agricultural commodities requires speedy supply chain mechanism. Transportation cost is a major hurdle faced by agriculture sector. GST will definitely reduce transportation cost as free movement of agricultural commodities across states will take place without any delay. No octroi and entry tax will be charged separately under GST. Reduction in wastages during transportation will reduce the cost to farmers and suppliers. Fertilizer is a farm nutrient as every year around 550 lakh tons of fertilizers are used by farmers in India. Earlier tax on fertilizers was 0-8% according to the nature of raw materials used and under GST 5% tax rate is fixed. Their profit margins will increase as fertilizers are a major part of farming cost. This positive outlook of government towards agriculture will definitely improve both quantity and quality of agricultural output. Indian farmers will be able to fight competition in international

markets and this will lead to increase in export revenue of the government. Tractors are the important medium of transportation in Indian agriculture as farmers largely depend on tractors for good harvest. Earlier 12.5% CENVAT and 5% state VAT were charged on tractor parts. Under GST, 18% tax on tractor components will ensure that there will be no increase in tractor cost from pre GST days. Farmers will be able to purchase tractors and pumps in the new GST regime also. NAM (National Agricultural Market) was formed by government to provide unique e-commerce platform for trade of agricultural commodities. GST will create the way for the successful working of NAM.

- **GST and Dairy Farming:** In India, dairy farming is the most intensive employer of marginal and landless labour. About half of the income of rural households come from dairy sector as it ensures not only food security but also nutritional security. It is a source of daily income and nutrition for the family. Being a highly perishable product it needs to be processed to make ghee, butter, curd etc. that requires huge investment to package and process, to make it a long life product. Earlier 2% VAT was charged on milk and milk products but under GST fresh milk and pasteurized milk, curd, lassi, butter milk, paneer are exempted. Government's softer move on implementing GST on dairy sector, will definitely increase nutritional security and food security of poor section and will boost investment in this sector.

Ghee is the main ingredient of the farmer's diet as it is a rich source of fats, that provide energy to their body for heavy physical work. But under GST, the prices of ghee will increase as tax rate has increased from 5% to 12%. Both consumers and producers of ghee will be highly discouraged as due to high tax it will be costlier. Government should consider ghee as necessities and should relax tax rate to 5% as this is the only provider of fats to farmers.

- **GST and Small and Marginal farmers:** Farmers will become the direct beneficiary as the simple and transparent structure of GST will enable farmers to remove middleman that grab a major share of their profit margin. Reduction in the cost of transportation and farm nutrients like fertilizers, tractor components etc. will enable small and marginal farmers to have more profit margin. Government's move to put various items like wheat, rice, vegetables, milk, curd, ghee, etc. under zero percent tax will prove to be a boon to small and marginal farmers as these items share a major part of their consumption basket.
- **GST and Rural Consumers:** Exemption of GST on wheat and rice will prove to be a big advantage as a large proportion of total consumption expenditure of vulnerable section living in rural areas constitute wheat and rice. Also Cheap kitchen items like masala, tea, sugar, ghee, pickles etc. will increase purchasing power of rural consumers. Paste, soaps, detergent powder, Sewing machines, bikes, Coal, kerosene, cement, LPG stove, tubes and tyres of tractors etc. are the major components of rural consumers expenses and under GST tax on these items has been reduced. It will prove to be a boon for consumers as now they will be able to increase their living standard by consuming more of these goods or by purchasing those goods which were earlier out of their approach.
- **GST and Rural Non-farm Labour:** "Even a two percent reduction in production cost will increase profits by over 20 per cent, giving headroom for reducing prices and benefitting end users" (Kelkar, Vijay, 2009). It is estimated that the implementation of GST would reduce the overall prices of all manufacturing sectors between 1.22 and 2.53 percent (Thirteenth Finance Commission, 2009). In rural areas various categories of labour like skilled, semi skilled and unskilled resides which is a major source of factors of production required for non farm activities like manufacturing, construction, retail, hotels etc. Improvement in factors of production like land, labour, capital will take place as GST would result in proper and efficient utilization of factors of production.
- **GST and Cottage and Small scale Industries:** Small scale industries play vital role in the advancement of rural areas as these industries are a major source of generating employment opportunities. Due to centralized registration process under GST, it will be easy for SMEs to start business. Transparent and simple regulatory mechanism will attract more domestic and foreign investment. Zero taxes on primary farm products (food grains and raw food items) will enhance food processing industries as cost of raw material will be low. They will be able to compete with their western counterparts as cost of production will reduce to almost 50%. Increase in profit margins will encourage them to spend money on research, that will make them more competitive

in coming future. The interest of small scale industries and cottage industries are protected under GST as the threshold limit is increased as compared to earlier tax system. The very small units having annual turnover of twenty lakh are exempted to pay GST. Shift of industries from informal sector to formal sector will also gain momentum under the new GST regime.

Rewards of GST to Rural Economy

- **Improvement in Infrastructure Facilities:** Low chances of tax evasion under GST will lead to high government revenue. More funds will be available to government to improve infrastructure facilities like god owns, roads, power, housing, schools, hospitals etc. in rural areas that are mainly deprived of these facilities.
- **Rise in Income Level:** Transparent and flawless GST will result into increased income to various sectors like agriculture, dairy, MSME etc. that mainly persist in rural India.
- **Boost to Employment Opportunities:** Increased demand for industrial goods in product market will act as catalyst to boost demand for the skilled, semi skilled and unskilled labour in factor market.
- **Expedite Shift from Unorganized to Organized Sector:** Due to widening of tax base under new GST regime, unorganized sector will shift to organized sector.
- **Rise in Prices of Agricultural Produce:** According to Thirteen finance commission report, GST will prove to be a blessing for farmers as the prices of agricultural produce will increase between 0.61 and 1.18 percent. This increase in prices will help small and marginal farmers to come out of the vicious circle of poverty.
- **Rise in Government Expenditure on Rural Areas:** In India a large number of people living in rural areas require rural development programmes to bring them in the mainstream. Fiscal health of the government will improve as GST will cause broadening of tax base. Government can initiate more rural development programmes to uplift rural economy.
- **Reduction in Poverty:** In India wheat is a major staple food for everyone and government decision to exempt wheat from tax is a big move. Also keeping primary food articles like rice, milk, sugar, gud etc. outside tax is a good initiative by government to help people to come out of the grab of poverty.
- **Fall in Migration:** Uniformity of taxes under GST will promote small and medium scale industries to flourish even in backward states. People migrate from rural areas due to lack of employment opportunities there. Increase in employment opportunities due to GST will cause migration rate to fall.

Challenges

- **Lack of Strong and Powerful IT Network in Rural Areas:** Robust IT network for GST registration, return filing etc. is required in each and every state for the successful implementation of GST in India. Under GST every invoice from buyer and seller must be entered correctly to avail the benefit down the chain.
- **Lack of Trained Staff:** Tax administration staff need to be trained enough so that first they can understand its concept, legislation and procedure. Until and unless staff is not aware, instead of boon it will become a bane.
- **Lack of Awareness Among Rural People:** Due to lack of awareness, people living in rural areas find it difficult to understand even basic structure of GST. They fear that GST will ruin their income sources as they will have to record each and every transaction and have to pay tax otherwise they will have to face penalty.
- **Lack of Infrastructure for Collection Process in Villages:** Villages lack infrastructure to collect and monitor revenue, to identify defaulters, and to track movement of goods and services across states.
- **Low Literacy Rate:** Due to low literacy rate in rural India, it is difficult and confusing for common man especially those living in rural areas to understand it's complicacies. Also in the name of one tax, four taxes have been implemented. In other countries GST means one nation one tax but in India four tax slabs are created.

Suggestions

It is crucial to have sound IT network and infrastructure in rural areas also to make it a grand success. Software, technology, and right tools are the basic and crucial needs for successful

implementation of GST. People living in rural areas do not have access to these technology because of lack of money, knowledge, education etc. To make rural people aware about GST, special workshops and awareness programs must be conducted by government at local level. Higher secondary students must be provided practical knowledge about the procedure to file monthly return.

Conclusion

The growth of the nation depends on overall inclusiveness of India's rural side in overall growth of the country as out of around 1.3 billion people, 60% lives in rural areas. GST is a big reform that will unite 1.3 billion people into a single market. It is a welcome step by government to provide impetus to rural economy as GST will bring directly and indirectly a lot of benefits to various sectors of rural India. Farmers, the major contributors to GDP of India, will be able to sell agricultural products at optimum prices as their profit margins will increase. Although there will be rise in cost of some agricultural products for a short period of time but after gaining momentum it will fall. Under new GST regime both tractors and fertilizers, the major farm nutrients, that help farmers to get good harvest will be cheaper. Demand for agricultural products will be increased by manufacturers and consumers due to broadening of tax base. The new GST tax regime will bring a lot of indirect benefits like increase in the rural demand, greater revenue collection from taxation from the rural economy, overall boost in activities in the rural areas and an overall inclusiveness of India's rural side in the overall growth of the country. Rural people need not to migrate from their roots as unification of taxes under GST will induce rural entrepreneurs to set up their business in rural areas. Backward states will be able to have more employment opportunities which will help rural economy to recover fast. More job opportunities will also arise due to decrease in cost of production, prices will fall that will increase consumption of goods and thus demand will increase, leading to demand for more labour. Also government will be able to provide more funds for rural development programmes as tax to GDP ratio will increase because GST will cover informal sector also under the tax regime.

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