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Impact of GST on Jammu and Kashmir Economy

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Abstract:

GST, Goods and Services Tax is considered as a biggest tax reform generally in India and particularly in Jammu and Kashmir. GST has been introduced to replace multiple indirect taxes levied by State and Central Governments in order to simplify the indirect tax system. More than 150 countries have levied GST. Due to its various advantages over VAT and after various constraints, India have passed GST from 1st April 2017 with constituent amendment 101th. Jammu and Kashmir having a special status in Indian constitution and only state in Indian constitution having its own constitution. Under 246A(1), the legislature of the state of Jammu and Kashmir shall have power to make laws with respect to goods and services tax levied by state. However, the order said, parliament shall have power to make laws with respect to goods and services tax levied by union. Therefore, GOI does not have right to implement the GST without the consultant of J&K state government. However by applying GST, the J&K state government can increase tax revenue 5151.17crore from 3571.12 crores.

Key words:

Goods and services Tax, VAT, Indian Economy, Jammu and Kashmir

Introduction:

For the proper functioning and also for existence, the Government of any country/state needs money for its functioning and taxes are a major source of revenue for a Government. The taxes forms an important part of government budget. In economics taxes are of two types; Direct Tax and Indirect Tax. Direct Tax is imposed on the Income of an individual while as Indirect tax is it is imposed on goods and services which in turn increase the cost MRP) of Goods and Services. Unlike direct tax, indirect tax should be borne by the end customer, rich and poor alike. There are many indirect taxes. Some of these are levied by the Central Government whereas some are levied by the State Government making the indirect tax system an extremely complicated system.

GST has been introduced to replace multiple indirect taxes levied by State and Central Governments in order to simplify the indirect tax system. The concept behind GST was invented by a French tax official in the 1950s. *France is the first country in the world, which has implemented GST in 1954* . Today, more than 160 nations, including the European Union and Asian countries such as Sri Lanka, Singapore and China practice this form of taxation.

Currently, three types of GST are in use around the world. Each differs primarily in its method of handling the tax on investment (capital) expenditures. The most common method, the consumption type, permits businesses to deduct immediately the full value of the tax paid on capital purchases. A second approach, the national income type, allows only a gradual deduction of the GST paid on capital purchases over a number of years, much like depreciation. If no allowance is given for the tax paid on capital purchases, the tax is called the gross national product type, because its base is approximately equal to private GNP. Because of its equal tax on profits from labor and capital and the resulting promotion of capital formation, the consumption method is the type most often discussed. Theoretically, a GST with one uniform rate is completely neutral with respect to all forms of productive inputs. However, political, economic, and social considerations have demanded modified systems with multiple rates and exemptions. (See Rizal Palil……)

Review of Literature:

Akanksha Khurana, Aastha Sharma (2016) in their paper has shown that GST is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country. GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes.

Monika Sehrawat and Upasana Dhanda (2015) in their paper on GST in India – A key tax reform concluded that GST favours the relatively rich over the poor, urban residents over rural residents, and urban settlement dwellers.

Sakharam Mujalde and Avi Vani (2017), in their paper has shown that by implementing the GST, India will Gain $15 billion a year. This is because, it will promote more exports, create more employment opportunities and boost growth

Shefali Dani reported in his paper**,** In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

Dr. Vikas Kumar, GST is expected to bring down the manufacturing cost and even a 2 per cent reduction in production or distribution cost is believed to add over 20 per cent to profits. If the rate of GST is below the current total tax rate, it will eventually help consumers by making healthcare and medicines more affordable which already is a big goal for the Indian Government.

Hitesh k.Prajapati (2016) in his paper on Challenges and Implementation of GST in India talked about the challenges in implementation of GST like IT sector is not boomed, threshold limit of turnover for dealers under GST is another bone of contention between the government and the Empowered Committee etc.

Need of the study:

This study will assist us to examine the impact of GST after its implementation in Jammu and Kashmir. It will help us to analysis the gap between various indirect taxes and only one GST. The study will examine the benefits and challenges which state has to face after implementing GST.

Research Problem:

The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world, but Jammu and Kashmir being politically conflicted area has shown less interest while implanting GST. The role of research paper intends to focus on understanding concept of goods and services tax and its impact on JK economy.

Objectives of the Study:

1).To study the concept of Goods and Services Tax (GST) and its impact on JK Economy.

2).To understand effect of GST on fiscal relationship between Centre Government and JK state

3).To know the advantages and challenges of GST in JK state.

Research Methodology:

The study will mainly relay on secondary source data collected from various books, National & international Journals, published government reports, publications from various websites which focused on various aspects of Goods and Service tax.. According to the requirements of the objectives of the study the design is descriptive type. The accessible secondary data is used only for study.

GST in India:

Mr. P. Chidambaram, the then Finance Minister made first reference of GST in the Indian Budget in 2006-07 as a single Centralized Indirect tax and accordingly the Bill was introduced on December 19, 2014 in the Lok Sabha and passed on May 6, 2015 .The Bill was then passed in Rajya Sabha on 3rd August 2016. The Government wants to implement GST Bill From 1st April 2017. Clause 366(12A) of the Constitution Bill defines GST as "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. So GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level.[1] Indian economy has made a paradigm shift in the system of indirect taxation by introduction of GST. Implementation of comprehensive GST in India is expected to lead to efficient allocation of factors of production thus, leading to economic gains, increased exports, enhanced economic welfare and returns. Considering the significant economic gains, finally Government of India introduced GST during midnight hours of 1st July 2017. GST landmark Indirect Taxation reform will subsume many Indirect taxes.

The GST was established to incorporate various indirect taxes imposed at different levels , with the motive of reducing red-tape, persevering leakages and paying the way foer economic and efficient indirect system of country. The main motive behind this type of tax system is to minimize cascading effect of various indirect taxes as well as interstate tax heterogeneity by fixing the final tax rate. The GST is applicable on the "supply" of services or goods as opposed to the earlier concept goods manufacture, sale of goods, or services provision. In contrast origin based structure that existed previously, the GST is destination based tax structure. The tax system is adopted by India is dual system in nature,[2] That is, the GST will be split into central GST and the state

[1] Jadhav , "IMPACT OF GST ON INDIAN ECONOMY"

[2] The Discussion Paper released by the Empowered Committee in 2009 had proposed a dual structure GST. A 'Dual rate structure' consisting of CGST [Central Goods and Services Tax] and SGST [State Goods and Services Tax] would be applicable on all transactions involving supply of goods and/or services for a 'consideration'. Both taxes would simultaneously apply on a transaction and principally on the same base. The Inter-State transaction of Goods and Services will be taxed vide Integrated GST (IGST) model. Bringing about an integration of all taxes levied on goods and services in a federal polity with sharp distribution of legislative powers, like India, would be a mammoth task. A harmonized,

GST. CGST, IGST, and SGST/UTGST are levied at rates that would be mutually agreed upon by states and Centre. As reported by Tendon et. al, GST is expected to be a game changing reform for the Indian economy and aims at reducing the cascading effect of tax.

GST in Jammu and Kashmir:

Jammu and Kashmir State is different as compared to other states of India. The accession of Jammu and Kashmir with India is based on conditions that matters of Defense, External Affairs and Communication only would be the preserve of the Government of India. Subsequently the President of India exercised Constitutional powers vested in him under Article 370 to extend 94 out of 97 entries of Union List to the State, by presidential orders with the concurrence of the Jammu and Kashmir Government, after being adopted by the State Constituent Assembly of the time.[3] The Article 370 of the Constitution grants special autonomous status to the state of Jammu and Kashmir. However, the Parliament of India retains the power to make laws on defense, external affairs and communication-related matters of the state only. The state levies its own taxes for services provided.

Being pressurized from Centre government and fear of revenue loss, Perzaada Ashiq, reported in his article that state Assembly passed the Bill to adopt the presidential order that "offers safeguards to its special status". The order called for incorporation of fresh clause under Article 246 of the constitution. Under 246A(1), the Legislature of the state of Jammu and Kashmir shall have powers to make laws with respect to goods and services tax levied by the state. However, the order said, parliament shall have power to make laws with respect to goods and services tax levied by union The implementation of GST will lead to the abolition of existing taxes such as excise duty, service tax, central sales tax, state-level sales tax, octroi, turnover tax etc. thus avoiding multiple layers of taxation that were existing in state.

Impact of GST in JK:

The government of India has established the indirect taxes committee of The Institute of Chartered Accountants of India (ICAI) to prepare a report on "Impact of GST on Jammu & Kashmir Taxation System"[4]. The Study Report contains a comparative analysis of the Present tax regime versus GST regime in Jammu &

integrated and fully fledged GST would also call for constitutional amendment, IT infrastructure, sharing of resources between Centre & State, determination of Revenue Neutral Rate etc.

[3] Source: greater Kashmir, December 7,2017

[4] The main function of the committee is to examine the indirect taxes laws, rules, regulations, circulars, notifications etc., which may be enacted or issued by the Government from time to time and to send suitable memoranda containing suggestions for improvements in the respective legislation. The Indirect Taxes Committee actively facilitates the process of formulation of budget by offering pre-budget and post-budget suggestions/comments to simplify tax laws and their administration for the purpose of making it more responsive to tax payers.

Kashmir for the consideration of the J&K Government. The report has shown that there will be a total loss of tax revenue of -461.54 crore from Traders (Local + Inter-state). However the state will enjoy a tax gain of 694.22 crore and 2,042.37 crore from Industry (Local + Inter-state) and Services[5] respectively. While applying GST state will have to forget the revenues from Entry Tax, Toll Tax and Entertainment Tax. But by applying GST the government can increase total tax revenue 5151.17croe from 3571.12 crores. After implementing GST there will be new additions & deductions from the revenue viz:-

Addition: New Sources of Revenue

- Inter-State purchase of goods or Services under B2B and consumed within the state
- Incremental Revenue on Procurement of Local Services apart from 26 Services presently
- Tax on Goods presently exempted and taxable in future
- Additional tax on Inter State Sale/Branch Transfer
- Impact of remission in Present VAT- SRO9

Reductions: Loss of Revenue

- Taxes subsumed in GST & their value/collection i.e. Toll Tax / Entry Tax / Entertainment Tax / Luxury Tax etc.
- Inter-State sale of services presently covered under J&K General Sales Tax Act, if any.
- Basic threshold impact 5 Lac to 10 Lac for services
- Loss on Account of Revenue to the Inter State Sale or on account of Burnout taxes, if any

Jammu and Kashmir State with its varied and diversified geographic, agro-climatic and topographic features poses peculiar problems of development. J&K economy depends mainly on farming and animal husbandry. Though the manufacturing and services sector is small, but it is growing rapidly. Several consumer goods companies have opened manufacturing units in the region.[6] The growth as per advance estimates for the state during 2017-18 at current prices is projected at 14.9 percent. Similarly, the state economy is expected to grow

[5] Also, 14th Finance Commission Report states that as service tax is not levied in the State of Jammu & Kashmir, proceeds cannot be assigned to this State i.e. as J&K does not have revenues from Service Tax, it cannot have a sharing in Union Tax Revenues of Service Tax. The report further states that if the service tax starts to be levied in Jammu & Kashmir during the award period of this Commission, the share of the State will be 1.854%. As per the 14th Finance Commission Report, the % share of tax devolution for increasing the flow of unconditional transfers to the States has been fixed at 42% i.e. states are allocated 42% of Union Tax Revenues.

[6] ECONOMIC SURVEY, J&K 2013-14

at 7.8% during 2017-18 as compared to achievement of 7.6 percent in 2016-17.[7] Understanding the budget also provides a clue in better understanding of the impact of GST in Jammu and Kashmir.

Upon implementation of GST, cost to local as well as inter-state buyers would generally reduce as compared to the present scenario. Though the local transactions would remain unaffected, the transactions involving inter-state exchange of goods and services may get affected to large extent. GST is expected to address the cascading effect of the existing tax structure and result in uniting the state with rest of the country economically ·it will also minimize tax avoidance and distortions. Tax cascading, which happens when different state governments are permitted to impose sales taxes will be minimized largely · competitiveness will be seen against imported products and domestic state products.

Negative impact of GST on JK:

Syed shakeel Qalander, the Chief Election Commissioner of Federation Chambers of Industries Kashmir (FCIK), said "State enjoys the powers to tax any commodity or service. By introduction of GST, the central government is only going to further gain physical autonomy over us. He said that the article 370 of the constitution grants special autonomous status to the state of Jammu and Kashmir. However, the parliament of India retains the power to make laws on defense, external affairs and communication related matters of the state. This is one of the reason why the services Tax levied all over the country since 1994 is still not applicable in J&K. This state levies its own taxes for services provided".

Kashmir popularly known as the paradise on earth has been very famous in handicrafts sector since ages. Most parts of India's handicrafts industry, under previous tax regimes, was largely tax-exempt, with there being no central tax and a number of states giving the sector tax-exempt status. Post GST, various raw and finished components are being taxed anywhere between 5% (broomsticks, kites, kaolin clay, glass beads) to 18% (animal dye, cotton & jute bags, sewing & knitting needles).

J&K broadly being consumer state, is expected to enhance its tax resources by about 1000-1500 crores. However, if GST is implemented, the state will lose about 700 crores bound to be generated from Octroi and Entry Tax.

Conclusion:

After going through various literature and available data, it may be concluded that implementation of GST in Jammu and Kashmir would not only benefit the state economy but will also bear positive fruits for the local traders as well as industries and may also provide a gain of 1580 crores in totality to the state government.

[7] J and k budget,2017-2018

Overall costs may reduce under GST and state may gain with GST on services, if it is presented in the form suggested by various groups, thus creating a win-win scenario for all. Another reason to go the GST way is to facilitate seamless credit across the entire supply chain and across all the states under a common tax base which is not present in the previous scenario. This will benefit all our traders whose business generally deal with other states. It will also rationalize tax content in product price, enhance the ability of companies to compete globally and possibly trickle down to benefit the ultimate consumer. In cases where the traders dealers face some loss, state government may propose to provide them special status for a specified period and may compensate them from the additional earning under proposed GST regime vs. present regime. There are various challenges for the state while implementing GST like State tax officials training and development before implementation of GST, Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge.

Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Tax payer education or public awareness campaign need to be provisioned by State Government. Public Workshops, training and various seminars on GST must be conducted by the state Government. Government should construct a proper monitoring system for monitoring the dummy registrations and refunds problems. The proposed GST structure is likely to succeed only if the country has a strong IT network. It is a well-known fact that JK is still in the growing state as far as internet connectivity is concerned. It would enhance the ease of doing business in JK. It would not only widen the tax regime by covering goods and services but also make it transparent. It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services. It would bring down the prices of goods and services and thus by, increase consumption. It would create business-friendly environment, thus by increase tax-GDP ratio.

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