



## Goods and services tax heralds a new economic era for India

Streamlined system replaces the previous convoluted structure and it is hoped that it will enable India to align with other countries



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July 1, 2017

Updated: July 1, 2017 08:45 PM



Indian Prime Minister Narendra Modi, center, Indian President Pranab Mukherjee, center right, and Indian Vice President Hamid Ansari, right, walk in a procession for a midnight session of parliament on Friday to launch the Goods and Services Tax (GST) in New Delhi, India. Manish Swarup / AP Photo

The roll-out of India's new goods and services tax (GST) is the latest bold economic change in a period of upheaval for the country's business landscape.

"The current government, since the time of its coming into power, has been actively engaged in bringing about social and economic reforms," says Nishant Shah, a partner at Economic Laws Practice, a law firm based in Mumbai.

GST replaces India's many taxes found across its different states with standardised rates across the country, with the aim of uniting India's US\$2 trillion economy into a single market. The new regime could add up to 2 per cent to India's economic growth, the finance minister, Arun Jaitley, projects.

It is expected to have a wide-reaching impact on India by helping to shore up government finances and attract more foreign investment, as it improves transparency and increases tax compliance, according to analysts. Launching a new tax system is far from easy and the move has faced political opposition, while small businesses in particular have complained that they are ill-prepared for the roll-out.

But GST "will increase the tax revenue of the government", which can in turn help to facilitate government spending in various areas, from infrastructure to education, says Adil Zaidi, a partner for government and transaction advisory services at Ernst & Young. The streamlined system will also help to "reduce tax evasion and corruption", he adds.

The tax reform follows the prime minister Narendra Modi's surprise demonetisation move in November, when he scrapped the two highest value banknotes, in a dramatic effort to reduce illegal cash flows. The move caused chaos across a nation dependent on hard cash, but also had the effect of prompting more Indians to open bank accounts and move towards digital transactions.

This year, India's union budget was presented a month earlier than usual, in a break away from what was a colonial tradition.

In another bold step, the union cabinet on Wednesday approved plans to privatise India's debt-laden state-owned carrier, Air India.

"GST is a part of a large number of steps being undertaken by the government of India to transform and improve soft infrastructure," says Ashishkumar Chauhan, the managing director and chief executive of the Bombay Stock Exchange, or BSE.

In a sign that more changes could be on their way, reports by the Indian press citing government sources say that New Delhi is looking at beginning the financial year in January next year, instead of April.

"One may expect further reforms such as change in the financial year," Mr Shah adds. "This is also towards aligning the Indian system with a global structure. Certain other initiatives in line with India's commitment under various international bilateral and multilateral agreements may be expected."

Mr Modi said, when he met American business leaders during a visit to Washington last Sunday, that GST demonstrates that "India can take big decisions and implement them swiftly". The Google chief executive Sundar Pichai and the Apple chief Tim Cook were among those at the meeting. India's prime minister described the implementation of GST as "a complex task" and said it was likely to become the subject of future case studies.

"Whenever such a big reform happens in any country, whether it is India or anywhere else, there is always a concern in terms of what is going to be the impact at ground level once it is rolled out," says Gaurang Shah, an investment strategist at Geojit Financial Services.

"Overall, my sense is that over a longer period of time it will be of huge benefit, in terms of one India, one tax. The collection in terms of indirect taxes for the government is going to be at a much larger scale, and thereby the fiscal deficit, which was a big problem for India, is going to be streamlined. This is the benefit to the government."

In terms of the impact on the wider economy, he says the launch of GST could add anywhere between 1.5 and 2 per cent to India's GDP.

There are precedents. Malaysia introduced GST in 2015 to replace its old tax regime and its government reported greater revenue collections following its implementation, although the move met some resistance. This has helped the country, as income from its oil and gas exports was hit amid lower energy prices.

But overhauling a tax system throws up many challenges.

The World Bank says India's GST "is expected to yield substantial growth dividends from higher efficiencies" in the long term, but it warns that "frictions from the initial implementation of GST" could cause "headwinds to growth" in the near term.

Srividya Kannan, the founder and director of Avaali Solutions, a consultancy based in Bangalore, says there are expectations that, as was the case with demonetisation, GST could cause "initial chaos" and require "significant work to manage the change" on the part of businesses.

"We've recently experienced a big change with demonetisation, but it eventually settled after the initial ruffles," she adds.

After the Modi government completed three years in power in May, the Associated Chambers of Commerce and Industry of India said "its biggest achievement on the economic front would be the goods and services tax".

GST "would cap other major initiatives of the government," says Sandeep Jajodia, the president of the chamber. "The focus on improving ease of doing business through measures like GST

and other taxation reforms has also been noted as one of the major achievements of the government."

India's previous tax regime had hampered foreign investment to some extent, according to analysts and business leaders.

Krish Iyer, the chief executive of Walmart, the American retail multinational, says his company could benefit from GST, as it aims to open more cash-and-carry stores in India, according to the Press Trust of India news agency.

"For instance, in the medium- to long-term, when it becomes one national unified market, you don't need a warehouse in every single state," Mr Iyer says. "Eventually, if we are able to run the business at lower cost, we will pass it onto the consumers and the prices of the central commodities can come down, so it's a win-win for everyone, for the consumer, for the state, as well as for the business."

Experts say that, despite the expected teething problems, the new tax regime will ultimately help to align India with other major economies.

GST brings to an end to a convoluted system that "led to a distorted market, increased cost of compliance and has had a detrimental impact on India's competitiveness in the global market", says Mr Shah.

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