IMPACT OF GST ON FOREIGN DIRECT INVESTMENT : AN APPRAISAL

Dr. Vivekshukla [*], Prof.Someshkumarshukla [**]

[*] Asst. Professor, LPCPS Lucknow.

[**] Professor and Dean of Commerce Department, University of Lucknow

ABSTRACT

After the financial reforms of 1991, Goods and Service Tax (GST) is being considered as the second largest financial reform in Indian history.On one side GST is being said to protect the interests of consumers and on the other side it is being described as business friendly.Many financial and policy making institutions, economists and politicians from all over the country and even abroad made numerous predictions regarding the effect of GST and its structure inthe Indian perspective in which Foreign Direct Investment (FDI) was on the top. FDI becomes even more important for a developing country like India, because in a country like India, where about 22% of Population is below the poverty line and 7.2% population is still unemployed, FDI is the only way that India can provide industrial, economic, infrastructural and employment related solidarity.The extent to which GST is successful or unsuccessful in fulfilling this need of India is a matter of great interest and research for Indian planners and economists.

Key words: Goods and Service Tax, Value Added Tax, Foreign Direct Investment, Developing Country, One Nation One Tax.

Access this Article Online	Quick Response Code:
Website: http://heb-nic.in/cass-studies	
Received on: 28/04/2018	
Accepted on: 01/05/2018 © HEB All rights reserved	

Introduction:

The Goods and Services Tax Act was a referendum in Indian history that truly converted India into a unified India.Prior to Goods and Service Tax, India was divided into 29 states and 7 Union territories according to indirect taxes, which has changed into one nation and 130 crore Indians since the arrival of Goods and Service Tax.Several benefits of the implementation of Goods and Service Tax have been countered from time to time by the government and other institutions, in which the opening of the doors for Foreign Direct Investment for India is the key.

The International rating agency Moody's said in a report that"Combined with reforms such as the introduction of a goods and services tax, which lowers the cost and complexity of doing business, and a simplified and clarified bankruptcy code, FDI is likely to rise further"[1]. Moody's also maintained India's sovereign rating at 'Baa3 positive' because of positive economic impact of India's measures to attract more FDI which will create healthy and more competitive global environment.

The Indian government's Goods and Services Tax Act was pronounced in the name of *'One Nation One Tax'* and it has been promoted like a major achievement of the government till now, on the other side opposition raises many kinds of questions on the structure of GST and claims that GST and nothing else is like an old wine in a 'new bottle'. Of the many claims made to GST, the claims made about foreign direct investment were a major claim, in which the Government was of the opinion that due to the implementation of GST in India, the inequality and complexity of Indirect Tax will be eliminated which will have direct impact on foreign direct investment.Foreign Direct Investment is a focal point for policy makers of any country, because Foreign Direct Investment is the only way that can enhance the pace of industrial, economic, employment and social development in the country, this is one of the main reasons that all the world's countries are engaged in attracting foreign direct investment by flexible legal compliance, by giving tax concessions and other kinds of temptations.

1st July 2017 will be remembered as a red letter day in the indirect tax regime of our country. That was the day on which GST, i.e., Goods and Services Tax was introduced. It was the second biggest reform in Indian indirect taxes history. Prior to this, on 1st April 2005, VAT (Value Added Tax) was launched with much fanfare which is remembered to be one of the earliest milestones in the indirect tax history of India. We all are very well aware of the fact that GST is a combination of many central, states and local taxes which were levied on goods and services before the introduction of GST. The following central and state indirect taxes were in existence before the GST regime:

[1]Retrieved from https://economictimes.indiatimes.com/news/economy/indicators/fdi-likely-to-rise-further-after-gst-moodys/articleshow/60739193.cms?from=mdr.

a. State sales tax/ VAT (Value Added Tax)
b. Service Tax
c. CST (Central Sales Tax)
d. Central Excise Duty
e. Duties of Excise
f. Additional Duties of Excise
g. Additional Duties of Customs
h. Special Additional Duties Customs
i. Purchase Tax
j. Luxury Tax
k. Entertainment Tax
l. Entry Tax
m. Taxes on Advertisement
n. Taxes on Lottery
o. Cess

GST is an indirect tax which is charged on goods and services and it can be rightly said to be a value added tax that is levied on the price of the products and services.

The businesses add GST on the price of the products and services and collect it from the consumers and this collected amount is then paid to the government. Ultimately the burden of GST is borne by the consumers. Therefore it is a consumption based tax.

In 1954, GST was for the very first time introduced by France and today, more than 160 countries[2] of the world have adopted it in some way or the other by tailoring it according to their domestic requirements.

GST Structure in India

Generally speaking, the structure of GST can be divided into unified and dual systems of collection. Unified structure can be applied feasibly in countries where collection authority vests with the centre, wherein the taxes collected by the centre are distributed to the states. Whereas dual system is generally followed in those nations where the authority of tax collection lies with both, the central and provincial authorities. India is regarded as a federal state with powers of tax collection vesting in both, the central and state governments. This power has been given by article 246 and the seventh schedule comprising of the Union List,

[2] Retrieved from https://wx ww.investopedia.com/terms/g/gst.asp

State List and Concurrent List of the Indian constitution. Therefore, India follows a dual structure of GST, which has been loosely influenced by the structures of Canada and Brazil. Canada being a purely Federal State, imposes indirect taxes in the following forms:

a. GST (Goods and Services Tax), which is levied and collected by the Centre.
b. PST (Provincial State Tax), which is levied and collected by the states.
c. HST (Harmonised Sales Tax), which is a combination of GST and PST.

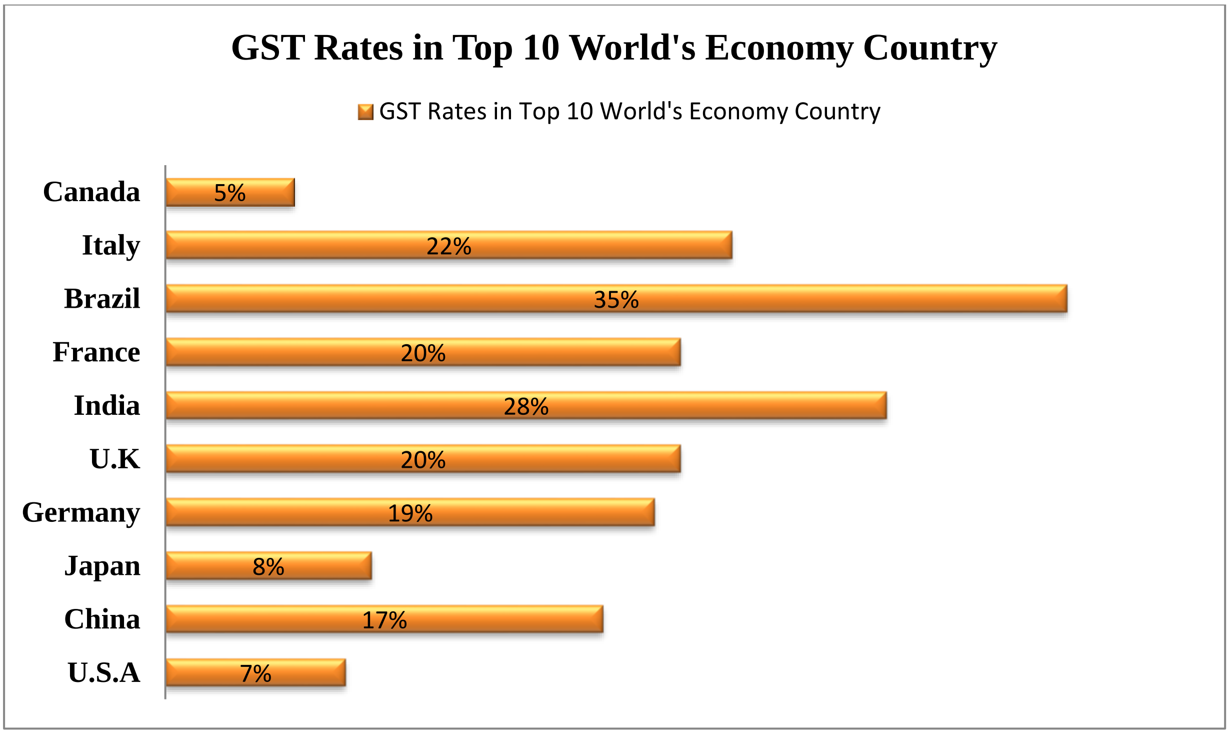
India has applied the GST regime in the following forms: :

a. CGST (CentralGoods and Services Tax), which is levied by the Central Government.
b. SGST/UTGST (State/Union TerritoriesGoods and Services Tax), which is levied and collected by the State Governments.
c. IGST (IntegratedGoods and Services Tax), which is imposed by the Central Government and thereafter input tax credit is transferred to state Government.

GST rates in world's top economy

According to a report by the International Monetary Fund (IMF) World Economic Outlook Database April 2018, India is ranked 6th with the world's top 10 largest economies, having $ 2.61 trillion Gross Domestic Products(GDP). In this list USA secured 1st rank with GDP of $ 19.39 trillion and China is ranked 2nd with $ 12.01 trillion GDP whereas Brazil was ranked at 8th with $ 2.05 trillion GDP. If we take a look at the rate of GST in the 10 biggest economies of the world, then we will find that the Maximum Indirect Tax Rate is 7% to 35% in these economies.In the USA, which is the world's largest economy, indirect tax rate is only 7%, in China it is up to 17%, whereas in Japan 8%, 19% in Germany and Indirect tax rate in the UK is up to 20%.The rate of GST is less than 20% of the world's 5 largest economies, while the average rate of GST in these economies is around 10%.If we talk about Indian GST Structure, a World Bank report says that, in a survey of 115 countries, Indian GST is the most complex and world's second highest GST rate country.[3]If we study the world's GST / VAT structure, we will find that there are about 49 countries where GST is charged in a single slab, almost 28 countries are where 2 slabs of GST are in use, and only 5 countries are such that GST charges in 4 or more than 4 slabs of GST. The countries with 4 or more than 4 GST slab are Ghana, Pakistan, India, Luxemburg and Italy but India is the only nation using maximum GST slab.[4]

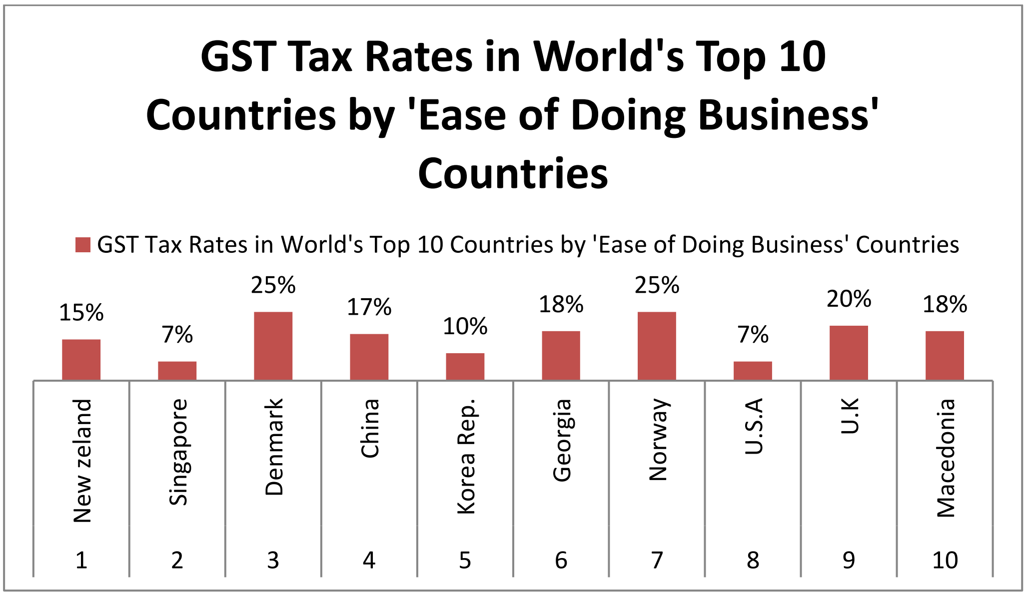
[3]Retrieved from https://www.livemint.com/Politics/99hZqzvxfdwmZKgkbWORrO/GST-one-of-the-most-complex-and-second-highest-tax-rate-in.html
[4]Retrieved from https://www.livemint.com



Graph 1

According to the World Bank's ease of Doing Business Ranking 2018, India is ranked at 77th place with upgrading of 30 places in 190 countries, while India was at 100th place in 2017 whereas China is placed at 46th and the New Zealand is on the top. If we take a look at the report, the top ten nations are following simple GST/VAT structure with minimum slabs and tax rates.

Rank and tax rates wise top 10 countries by 'Ease of Doing Business'



Graph 2

Foreign Direct Investment (FDI) in India **[value in Rs. (Crore)]**

Financial Year (April-March)	FOREIGN DIRECT INVESTMENT (FDI) IN INDIA					
	Equity		Re-Invested Earnings +	Other Capital +	FDI FLOWS	
	FIPB Route/ RBI'S Automatic	Equity capital of unincorpor			Total FDI Flows	% growth over
2000-01	10,193	266	5,883	1,216	17,558	-
2001-02	17,915	876	7,549	1,790	28,130	60%
2002-03	12,248	904	8,722	2,084	23,958	-15%
2003-04	10,105	147	6,715	2,912	19,879	-17%
2004-05	14,794	2,403	8,667	1,680	27,544	39%
2005-06	24,584	1,930	12,248	1,003	39,765	44%
2006-07	70,352	4,045	26,308	2,334	1,03,039	159%
2007-08	98,634	9,196	30,823	1,204	1,39,857	36%
2008-09	1,42,683	3,194	41,080	3,535	1,90,491	36%
2009-10	1,22,033	7,339	41,310	9,203	1,79,885	-6%
2010-11	97,288	3,978	54,338	2,995	1,58,598	-12%
2011-12	1,63,792	4,806	38,586	11,732	2,18,916	38%
2012-13	1,18,656	5,757	53,715	8,340	1,86,468	-15%
2013-14	1,47,518	5,919	54,505	10,891	2,18,833	17%
2014-15	1,88,989	5,975	61,023	19,850	2,75,837	26%
2015-16	2,62,322	7,286	68,287	26,455	3,64,350	32%
2016-17 (P)	2,91,696	8,205	82,810	21,308	4,04,019	11%
2017-18 (P)	2,88,889	4,276	80,773	18,747	3,92,686	-3%
2018-19 (P) (up to	2,83,911	4,409	86,634	20,957	3,95,911	1%

Table 1

Source: Quarterly factsheet on foreign direct investment (FDI) from April 2000 to December 2018.[5]

In the above table FDI through different sources from F.Y 2000-01 to 2018-19 is given. After analysis of the table one can better understand the pre GST and post GST position of FDI inflow in India. None of the world's countries were insulated from the American recession in financial year 2008-09, which had collapsed the US economy and its huge impact was also seen on FDI in India. The financial year 2009-10 saw a 6% fall in foreign investment, which continued in 2010-11, foreign investment in 2010-11 was Rs. 1,58,598 crore which was 12% lower than the previous financial year.In 2011-12, foreign investment in India improved with improvement in the US economy, and with 38% growth in 2011-12, it reached the historical level of Rs.2,18,916crore.Global investors' outlook was on India, in 2012-13, a report by the IMF 'Europe poses global recession threat',[6] again foreign investors stopped their investment

[5]Retrieved from https://dipp.gov.in/sites/default/files/FDI_Factsheet_19February2019.pdf
[6]Retrieved from https://www.reuters.com/article/us-imf/europe-poses-global-recession-threat-imf-idUSTRE80N1CP20120124

precautionary in India, resulting in 2012-13 foreign investments dropped by 15% to Rs.1,86,468 crore.Regardless of all the global recessions, India was inviting investors in the world even today and for global investors, India was now a highly potential market with comparison to any other countries, because India was the only market in India, on which the impact of economic slowdown was minimal.If we take a look at the average FDI growth rate prior to GST era in India, it was around 27%, which has decreased to 24% after GST, whereas in the years after the GST was launched, the average growth rate of FDI inflow is -3%. In 2017-18 the average growth rate of FDI in India was only -3% and the average growth rate for the year 2018-19 till February is 1%.

Foreign Direct Investment (FDI) by India

FOREIGN DIRECT INVESTMENT (FDI) BY INDIA			
S. No.	**Financial Year (April-March)**	**Total FDI Outflow (In Rs.**	**% growth over previous year**
1	2003-04	8,367	-
2	2004-05	8,804	5%
3	2005-06	10,091	15%
4	2006-07	26,484	162%
5	2007-08	60,393	128%
6	2008-09	85,686	42%
7	2009-10	92,290	8%
8	2010-11	68,925	-25%
9	2011-12	80,854	17%
10	2012-13	60,331	-25%
11	2013-14	43,310	-28%
12	2014-15	1,88,910	336%
13	2015-16	1,43,224	-24%
14	2016-17	1,66,807	16%
15	2017-18	1,20,142	-28%
16	2018-19	1,42,492	19%

Table 2

Source:rbi.org.in[7]

The effect of Goods and Service Tax can not only be felt on the FDI inflows but also its impact on the FDI outflow. Before implementing GST in India the average FDI outflow growth rate was 48%, which later fell to 41%, whereas, in the years after the execution of GST, the average FDI outflow rate is only -5%. In the year 2014-15 FDI outflow from India was on its peak Rs. 1,88,910 crore which was Rs. 1,66,807 crore in 2016-17 before the

[7] Retrieved fromhttps://rbi.org.in/Scripts/Data_Overseas_Investment.aspx

implementation of GST but in 2017-18 it was reduced to Rs. 1,20,142 crore with a fall of 28%.

Conclusion and Suggestions:

From all that has been discussed in the foregoing headings, it can be concluded that implementation of GST has made a negative impact on FDI in India. There may be a possibility of reverse results in the long run though, i.e., GST may prove to be beneficial for FDI, but as of now if we analyse the results, the impact of GST on FDI has not been quite impressive. Another important reason for this could be the higher slab rates of GST in India. Compared to most of the other nations, India follows a structure wherein more than five kinds of rates are in existence which makes the structure of our country all the more complicated and difficult to understand for a common man.Moreover, the rates are also higher as compared to many other countries where the impact of GST on FDI is positive. India charges the second highest rates of GST which has contributed to the decline in the interest of foreign investors in the Indian economy.

The following points are suggested so as to turn the impact of GST in a positive manner on Indian FDI :

1. GST should be charged only in 2 or 3 slabs, i.e., Minimum rate, Average Rate and Highest Rate. Minimum rate should be charged for necessary goods, highest rate should be charged for luxurious goods and an average rate for all other goods. This will minimise the complexity in calculations and levy.
2. The overall rates of GST should be reduced, with the maximum rate to be charged at 20 percent.
3. The structure of GST should be business friendly so that foreign investors have an incentive to invest in the Indian economy.
4. There should be only one form of GST. From the point of view of ease of doing business, a businessman need not charge GST in different forms like CGST, SGST and IGST separately. There should be *'One Nation One Tax at One Place'* in place of 'One Nation One Tax', only central government should have power to charge GST and after charging it the central government should keep 50% and remit the remaining 50% should be allocated between the states in two parts, i.e.,½ in the proportion of population and balance ½ in the proportion of production so that both the states can be benefitted.

REFERENCES:

1. https://www.gst.gov.in/
2. http://www.gstcouncil.gov.in/
3. https://www.greengst.com/difference-between-current-tax-structure-and-gst/
4. https://www.gstindia.com/2705-2/
5. https://www.quora.com/Why-is-GST-being-made-a-destination-based-tax-instead-of-a-origin-based-tax
6. https://cleartax.in/s/gst-india-and-other-countries-comparison
7. https://cleartax.in/s/gst-india-and-other-countries-comparison
8. https://cleartax.in/s/impact-of-gst-on-indian-economy
9. https://home.kpmg/xx/en/home/insights/2018/10/brazil-indirect-tax-guide.html
10. http://taxify.co/2015/08/19/origin-vs-destination-based-sales-tax/
11. http://go.taxify.co/Taxify-2015-newsletter-Subscription_newsletter-Subscription.html
12. https://www.cs.mcgill.ca/~rwest/wikispeedia/wpcd/wp/l/List_of_countries_by_system_of_government.htm
13. https://www.investopedia.com/terms/g/gst.asp
14. https://www.avalara.com/vatlive/en/vat-rates/international-vat-and-gst-rates.html
15. https://blog.taxjar.com/charging-sales-tax-rates/
16. https://economictimes.indiatimes.com/news/economy/indicators/fdi-likely-to-rise-further-after-gst-moodys/articleshow/60739193.cms?from=mdr
17. https://economictimes.indiatimes.com/news/economy/finance/implementation-of-gst-to-attract-more-fdi/articleshow/54310069.cms
18. https://www.investindia.gov.in/team-india-blogs/gst-overall-impact-transformation
19. https://currentaffairs.gktoday.in/india-ranked-77th-world-banks-ease-business-index-11201862266.html
20. https://www.investopedia.com/insights/worlds-top-economies/
21. https://www2.deloitte.com/global/en/pages/tax/solutions/global-indirect-tax-rates.html#
22. https://www.livemint.com/Politics/99hZqzvxfdwmZKgkbWORrO/GST-one-of-the-most-complex-and-second-highest-tax-rate-in.html