

GST: Its Relevance to the Masses

The Indian Government is very keen to come out with GST bill as approved by the Committee consisting of two views one Government is proposing 28% as maximum tax in lieu of 18%. The Indian economy stands apart from the world economies on the basis of its power of domestic consumption. It has withstood the ravages of depression thanks to the wide consumer base which absorbs much of the goods produced domestically. However, it is very important to note that the Indian population or the Indian consumer has a very weak wage income as compared to the International scenario. High inflation has already eroded his paying capacity and is very much evident from the low CPI recorded in the year 2014. The taxation in Asian countries is at an average of 8 ½ % whereas in the EU and other countries tax average is 16%.

The Indian consumer has been more positive towards buying Chinese made goods due to the low cost of the same as compared to the Indian goods though qualitatively better off. To square off this attitude of the Indian consumer and to promote buying of the Indian made goods an attempt was made to lower manufacturing costs which had higher costs primarily due to repetitive taxation at various junctures of the value chain. Thus the cost of taxation is passed over to the consumer making it more costly than the Chinese goods though are imported.

It should be noted that if the Indian consumer was to consume only Indian made goods if the same available at a rate lower than the Chinese ones then a scenario would have been created wherein there would be a shortage in supply of goods for the export of the same. Such strong is the Indian consumer base.

If the Indian Government proposes to implement a GST of 28% it needs to primarily keep in mind that the same should not offset the very objective for which it has been proposed i.e. strengthening the sale of Indian made goods and services.

However the taxation in Asian countries is at an average of 8 ½ % whereas in the EU and other countries tax average is 16%.

The Indian Government needs to bear in mind the capacity of an average Indian to absorb an indirect tax rate in addition to the personal tax being paid by him. The returns acquired by an average tax payer as far as government facilities of healthcare, insurance, pension or public infrastructure are concerned are poorer than the ones available to the comparables.

This would rather give rise to inflation as certain commodities which do not have competition would be very costly and beyond the reach of the consumer.

Such a situation would backfire on the industry which would develop a large inventory of goods subject to non-performance in sale of the same.

The proposed indirect tax regime should consider the capacities of the consumer to absorb such a high tax rate rather than try to insulate itself in recovering the revenue income which it did during the past years and speculated to lose, in the name of promoting the Make in India Theme.

Tax reforms these could make or break the Indian image in the international scenario and need to be tested well enough before making them mandatory.

The Indian consumer landscape shows that the per Capita income of average Indian has been on the rise thanks to stellar performance of India's Economy. We are seeing people move from villages to towns and from towns to cities. In a short span of little over a decade, Urban pie has grown by nearly 10 percent. Juxtconsult, India based research organization recently released a survey – Indian Consumer Landscape 2010 – which gives some interesting insights on Consumers in India. Here are some of the findings...

Indian Consumer Landscape

India is currently 30 percent urbanised, while 70 percent of consumers are still in rural India.

As far as consumption goes, 404 Million are either consuming or are aspiring consumers. 742 Million though are still under privileged.

80% urban India is low/lower middle class in income terms – **below Rs. 12,500 p.m**

Only 15% is middle class, 5% upper class (64 million)

Avg. monthly family income of urban Indians is **Rs. 8,910 p.m**

2/3rd urban Indians live in the tier 3 small towns (**only 20% urban Indians live in the metros**)

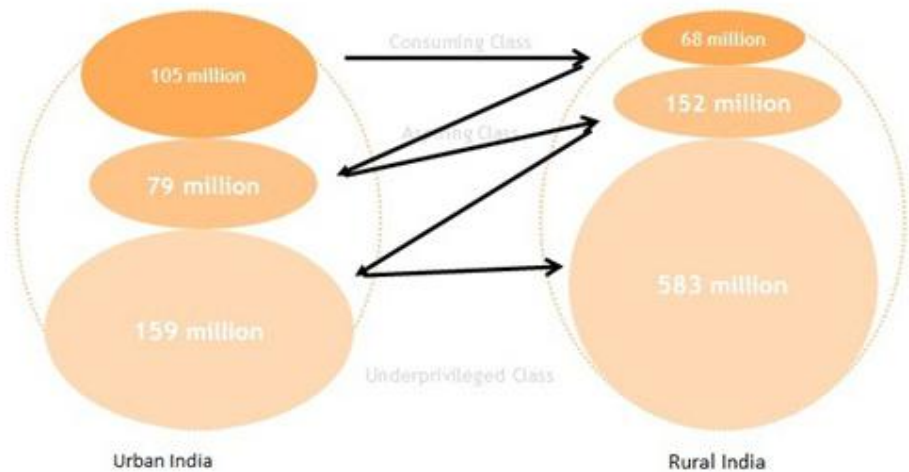
Metros account for only 25% of the uppermost socio-economic class

Only urban affluents (**5%**) **lead the popularly perceived modern lifestyle**

Household Asset Ownership

Indian Consumer Education & Skillsets

Only 20% urban Indians have gone to college, only 3% have had their education completely in English



Only 1 in 3 'employed' in Metros works in the corporate world, an equally sizeable chunk are shop owners/traders/skilled workers

Less than 3% urban Indians prefer to read in English

Indian Consumers Employment

'Gen Now' (roughly 30 to 45 yrs of age) is the biggest generation group in India (308 million individuals).

'Gen Next' (roughly 15 to 30 yrs of age) is a close second at 300 million individuals

Only 16% 'Gen Next' are gainfully employed (2/3rd are students)

'Gen Yest' (roughly 45 to 60 yrs) are the most employed (60%) and have the best individual incomes (avg. of Rs. 4,985 or USD 110).

Household Asset	% All Families Owning (Urban)	% All Families Owning (All India)
Mobile Phones	88%	61%
Color TV	69%	56%
VCD/DVD Player	42%	29%
Fridge	30%	17%
2-Wheeler (Bikes/Scooter)	30%	20%
Computer	14%	5%
Cars	13%	5%
Portable MP3 Player, Walkman	10%	6%
Washing Machine	8%	3%
Digital Camera	4%	2%
Microwave	4%	1.4%
Air Conditioner	3%	1.3%

'Gen Yest' also have the highest penetration of credit cards, life insurance, and takes leisure holidays somewhat more frequently.

There are only 40 million working women in India (9% of all women). 260 million are housewives.

2 out of 3 working women are also working moms.

Although, India is growing it is quite clear that we have a long way to go before we can even remotely become a developed nation. Close to 70 percent of our population is still underprivileged. Considering the extrapolations of the sample surveyed it is very clear that India has a large consumer base. Now any type of taxation whether indirect or direct the consumers have always taken its burden as it is off loaded by exactly those who were expected to bear it. Any taxation thus proposed by the Government even in case of GST there is absolutely no doubt that the same would be of loaded to the consumer. The 90% of the Indian consumer is already burdened with inflation and is paying through his nose for it in addition to the marginal increases in tax rate that happened this year rising from 12.36% to 14%. There is a further rise expected @ 18% as declared by the finance minister in his budget speech from April 2016. However , the proposal to enhance the same to 28% considering the RNR eventually means that the consumer is going to be hit after adding direct income tax to it. The average Indian salaries have not been enhanced with the employers giving reason's for poor economic conditions and the consumer has shown fortitude and forbearance in dealing with the situation and coping for the erosion in his income which has been sharply indicated in the degradation of savings of an individual Indian. It is very clear that an Indian consumer having an average income below 100\$ pm will be heavily subjected to be paying an high rate of taxation @28% for consumer products. A 28% of GST will also give rise to essential medicines making healthcare very difficult.

It is very clear that the government is trying to achieve 2 things 1. To simplify the taxation process and boost the manufacturing sector removing breaks at the various junctures and boosting competitiveness of the products and 2. It is trying to ensure itself against any kickbacks after launching the GST in terms of revenue addition to the national treasury. This indicates that the homework made by the government entities while drafting the plan for implementation is not full proof in delivering the proposed objective of simplification perfectly, without affecting the Government treasury . The draft speculates a probable drop in revenue after implementation of the GST which will only be confirmed after a year of its implementation and thus we observe that the risk is being transferred to the consumer. The government needs to bear in mind that the consumer is also the voter and a mal effect of Government policies will directly implicate on the voting pattern. In such a case like this when the already stressed consumer will be subjected further stresses giving rise to inflation.

Thus it is suggested that,

Ceiling should not be above 18% and to start with it should be 15 or 16%. If we initiate the 28% tax ceiling, India will be known as one of the highest Taxation country which will result in unfair practices in view of the high rates, as a consequence of which there can also be revenue loss to exchequer. High taxation will also be one of the deterrents for FDIs into the country.

Developing countries GST is not applicable on educational material for schools and colleges and on garments for children below 10 years, This should also be considered by the Government .

We feel the Government should comprehensively review these issues before putting in force the 28% GST system.