

## Influence of GST on Various Industries in India

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### ABSTRACT

One of the dream policy initiatives of the prime Minister is the Make in India project that would enable India to become a production hub. GST is the one the biggest tax reform in India which will play important role for Make in India. The initiative is particularly important because of the sluggish domestic manufacturing sector and the need to attract foreign investments which create employment, job opportunities for the jobless youth of the country. It has been more than a decade since the idea of GST was mooted by Kelkar Task Force in 2004. Subsequently, the union finance minister, Shri P. Chidambaram, while presenting the central Budget (2007-2008), announced that GST would be introduced from april1, 2010. Since then GST missed several deadlines. Internationally, GST was first introduced in France in 1954 and now more than 160 countries have introduced GST. India has adopted dual GST model as followed in Canada and Brazil. It has come into force on 1<sup>st</sup> July 2017 to whole of India including Jammu and Kashmir. The structure of GST will be based on the destination principle. As a result, the tax will shift from production to consumption. IGST will be charged on International import whereas international export will be zero rated which help to increase export. The implementation of GST would create common market across the country and reduced the cascading effect by implementing single taxation system. GST will be levied only on supply of goods and services and no tax on manufacturing. Manufacturing sector would benefit from economies of scale which increase production and employment also increase. This paper present an overview of GST concept; explain features of GST and role of GST for growth of an Indian economy.

**Keywords:** *Goods and Service tax (GST), Make in India.*

### Introduction

The journey of GST began in the year 2000 when a committee was set up to draft GST law. It took 17 years to come into existence. The Goods and Services Tax act was passed in the Parliament on 29<sup>th</sup> March 2017. The act came into effect on 1st July 2017. Goods and Services



Tax Law is a comprehensive, multistage, destination based tax that is levied on every value addition. In other words GST is an indirect tax levied on the supply of goods and services. GST law has replaced many indirect tax laws that previously existed in India. GST is one indirect tax for the entire country. Under the GST regime, the tax will be levied at every point of sale. In case of intra-state sales, Central GST and State GST will be charged. Interstate sales will be chargeable to integrated GST. It is subsumed 17 central, state and local taxes in line with the “one nation, one market, one tax” concept on which it is based. The new regime had tax slabs for goods and services-5%, 12%, 18%, 28%.

GST will mainly remove the cascading effect on the sale of goods and services. Removal of cascading effect will directly reduce the cost of goods. GST is also mainly technologically driven. All activities like registration return filling claim of Input tax credit, application for refund and response to notice needs to be done online on the GST portal. This will not only speed up the process but it also reduced the corruption which ultimately attract foreign direct investment. Procedure of GST is very easy and clear and it has a one indirect tax law for the entire country. It attracts FDI which increase the production as well as employment also and boost the development of Indian economy. GST will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

## **OBJECTIVE OF THE STUDY**

This study is based on the following objectives.

- 1- To know about the concept of GST.
- 2- To know about the need and importance of GST to the Indian economy.
- 3- To study about the impact of GST on various sectors in the Indian economy.

## **METHODOLOGY**

This study is based on descriptive in nature and it is based on exploratory technique. The data is collected from the secondary sources such as journals, magazines, articles published online and offline on various newspaper and websites.



## **History of GST in India**

The GST Bill was initially proposed by the committee under the then Prime Minister Atal Bihari Vajpayee during the year 2000 which headed by Asim Dasgupta, the Finance Minister of West Bengal. Later on 2004, The Kelkar Task force which was instrumental in the implementation of Fiscal Responsibility and Budget Management Act (FRBM) Act, 2003 suggested about the implementation of GST under the principle of VAT. On 2006, the then Finance Minister of Union P.Chidambaram, announced the target date for the implementation of GST in India as 1st April, 2010. During 2007, an empowered committee was formed by the finance ministers of each state to submit the roadmap for GST and they have submitted it. On 2008, that Empowered Committee submitted a report entitled “A Model and Roadmap for Goods and Services Tax (GST) in India” containing the roadmap for the implementation of GST in India. They also made some suggestions with regard to that report. Later on November 2009, the EC submitted the first paper and conducted a debate with regard to gather the opinion of all stakeholders. In 2010, the then finance minister Pranab Mukarjee assured that effective implementation of GST Bill on April 1, 2011. And on 2011 the 115 Amendment Bill was passed in Lok Sabha in order to implement the GST Bill for certain goods and services and it was sent to the standing committee. In 2013 the standing committee submitted its report. But later it was lapsed due to some political discrepancies. On 2014, Union Finance Minister Arun Jaitley has passed a 122 Amendment on December 17, 2014. Later, on the budget the Finance Minister said that the Bill will be passed on 1st April 2016, and which could not happen and as of during the budget of 2016, Arun Jaitley said that the GST bill will be implemented through the One Hundred and One Amendment Bill officially known as The Constitution (One Hundred and One) Amendment Act 2016 will be in force from 1st July, 2017.

## **Goods and Service Tax-Explanation**

The GST is the Indirect tax system which is levied on the sale and the consumption of goods and services. It will replace approximately 17 indirect tax and 23 cess such as central excise duty, service tax, additional custom duty, entertainment tax, luxury tax, sales tax and value added tax.



The main purpose of GST is to bring about the single uniform system of taxation in the manufacture, sale and the consumption of goods and services in India.

The GST is said to reduce the level of Tax evasion and the corruption and it also reduces the tax burden of the public.

### **OBJECTIVES OF GST**

1. To remove the cascading effect of taxes that is through this Single taxation system (GST) the tax on taxes will be removed easily.
2. To reduce the Tax evasion and Corruption.
3. To bring about the consumption based tax instead of manufacturing.
4. To absorb various Indirect taxes and to bring a single system of taxation.
5. To remove the prices of goods by having a uniform system of taxation over the country.
6. To increase the GDP by the exclusion of cascading effects of Taxation.

### **GST Model**

The GST model consists of three components or three different varieties of GST. They are as follows.

- Central GST.
  - State GST.
  - Integrated GST.
1. Central GST: Goods and Service Tax to be levied at the centre.
  2. State GST: GST levied at the state.
  3. Integrated GST: GST to be levied at the State and Centre concurrently.

### **Goods and Services not covered under GST**

The Goods and Service Tax does not include certain goods and services under GST law they are as follows.



- Petroleum Products.
- Alcohol.
- Sale of land and building
- Services by an employee to the employer in relation to his employment.
- Court\ Tribunal services
- Actionable claims ( other than lottery, betting and gambling)
- Duties performed by MP, MLA, Municipalities and other local authorities.
- Services of a funeral, burial, crematorium or mortuary including transportation of the deceased

### **Need and Importance for GST**

- To bring about the uniformity in the System of Indirect taxation.
- To remove the cascading effects of Tax.
- To bring about the economic integration.
- Generally, the Taxes are imposed at various rates among various states in India.

So, there is a huge loss of revenue to the central as well as state government. Through GST a uniform tax rate is followed all over the country and so that there will no such loss of revenue.

- Reduces complexities and increases more number of economic transactions.
- The GST brings about a competitive pricing. As all the products are taxed uniformly across the country, the various forms of indirect taxes will remove and which in turn will reduce the tax burden of the consumers. This will reduce the prices of the products and increases the consumption which in turn will be more beneficial for the companies.
- Generally, the main aim of GST is to bring about the single tax system which will reduce the cost of production for the manufacturers, So that it will be a big boost for those producers who made their products at lower cost and involves in international trade that is exports.



- As it is the Single Tax system, the tax burden for starting industrial units will be reduced; As a result when more industries were created it will ultimately result on more employment.
- Through GST the government receives more amount of Tax revenue which will be utilized for the services to the public.
- As there is more transparency in the system of GST and since it is a system of single taxation, the chances of corruption will be very low.
- The Country is said to have one market economy, as through GST the number of numerous markets divided by various tax will be avoided.
- To avoid the Tax burden of the common consumers and the public by making it into a single tax system.

### IMPACT OF GST ON VARIOUS SECTORS

The GST is said to have a positive impact on the economy as a whole. But when it comes to sector-wise classification, the GST have both positive as well as negative impact on each of the sectors. Here are some sectors given and its GST is given below.

**Technology (Information technology and IT):** The GST system of indirect taxation has made the duty on the manufacturing goods from 14% to 18%. As a result, the prices of the software products will be at high which will give either a neutral or slightly negative impact on the Technology Sector as a whole. But they will be benefited through the reduction of tax and benefits of other industries and can somewhat mitigate it.

**Telecommunications:** The telecommunications sector was paying the tax at the rate of 15% which is increased under the GST regime. And, it is around 18% which will be expected to be passed over to the customers and this gives a picture that GST will adversely affect this sector.

**Pharmaceuticals:** Pre GST, the Pharm companies was paying taxes around 15-20%. Since, there is no clear picture of tax treatment for Pharma if it is less than 12% it would be a positive impact on the Sector but if it is above 12% then it will cause some slight negative impact.



**Automobiles:** The Automobile industry was paying a tax rate of a range between 30-45%. Under the GST regime around 178 items were moved from 28% to 18%. The change will be effected from 15 November 2017. Several other reliefs were given to the market such as restaurant and composition tax limit. which will be a huge positive for the automobile industry and which will be profitable to both the Manufacturers/dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted. There will be a huge boom in the Automobile Industry as a result of implementation of Goods and Services Tax.

**Financial Services:** The Financial services such as banking, mutual funds, insurance and Stock Trading firms was paying 14.5% as VAT which is increased to 18% under the GST regime. And the financial services are likely to be costlier.

**Textiles:** The industry was paying the tax at the rate of nearly 12.5% plus surcharges and which varies upon the MRP of the product. In current regime, GST is imposed at the rate of 5% on cotton fibre. It would benefit 20 million cotton farmers, while the readymade garments below Rs 1,000 is taxed at 5% and other at 12% with full input tax credit. It is a positive impact for a common man.

**Media and Entertainment:** The tax rate for the Media was around 22% earlier and since the authority for the levy of taxes remains to be the right of the local bodies, it is seen that the cinema fares are expected to come down after the GST regime and the cost of DTH and cable television services are likely to become costlier. There is somewhat either neutral or slightly negative impact of GST on the Media and Entertainment Industry.

**Consumer durables:** The tax rate for this sector was around 25 to 27%, which has hiked to 28% under GST. According to Godrej Appliances business head Kamal Nandi expects prices to go by 1-2% which could impact demand in the short run, but expects it to pick up during the festive season.

**Cement:** Earlier this industry was imposed tax at the rate of 25%. But in current tax regime, tax is imposed at the rate of 28%, which disappointed the cement industry. Belying expectation, the GST rate for the cement industry continued to be pegged at 28 per cent even after the Guwahati meeting of the GST council.



**Real estate:** Real estate contributes about nearly 7.3% of India's GDP and it is the largest generator of employment immediately after IT. Real estate is said to get a positive impact under the GST regime immediately after its implementation. It is expected that since there is a single system of Taxation under GST, all other forms of indirect taxation will be removed which results on reduction of property prices and the cost of construction. Thus, we can have a positive impact of GST on the Real estate sector.

### **Problems occurred during Implementing GST**

There were certain challenges and problems in implementing the GST in India. Some of them were as follows.

1. There was no such clear picture about the GST both to the government and to the general public.
2. There was no cooperation between the Central government and the state government in implementing the GST. Even though, if implemented the levy of Tax remains on the part of the state.
3. The State government generally had refused to accept it. As the states levy taxes on the Destination principle i.e. (the state in which the product or service is sold or rendered), so in order to lose the revenue they were avoiding it.
4. The Revenue Neutral Rate (RNR) is the key factor responsible for the effective implementation of GST. But under GST, we could not say that the revenue remains same as that of the current system of taxation.
5. Loss of revenue to the state. If we used to buy any product the VAT @ 14.5% is included towards it, after the GST regime, there is no VAT then it results on the loss of revenue to the state.
6. Even though the government has said that they will pay the loss of revenue to the state government, it will be again imposed on the general people in some other forms.
7. It involves massive cost on the training of the staff of the Taxation department.





8. Lack of political support. It has faced lot of problem in the Lokshabha and Rajyasabha for its successful implementation.

9. IT is the backbone of GST which would connect the various stakeholders through the Virtual platform. So, government must show keen interest on the development of portal for GST and successfully achieves it.

10. There was a large debatable question in implementing the GST such as whether the small entrepreneurs and small firms will be helpful through the GST regime?, whether the government and the Public ready for such a change? Were some of the questions which were highly in confused dilemma?

### **SUGGESTIONS AND RECOMMENDATIONS**

- To provide literacy and awareness about the GST.
- Effective spending on efficient Tax administration staff.
- Well maintenance and frequent follow ups of GSTN (Goods and Service Tax Network) portal for better relationship with various stakeholders.
- In order to avoid the unnecessary loss of revenue to the state government, the central government may think about the considerable percentage of GST which will be helpful for all stakeholders of GST.
- Consent from all states and suggestions from every state for betterment of GST and the source of Tax revenue.
- The government should take care about the RNR which should not affect the tax revenue to any government either central or state.
- The loss of Tax revenue should be managed and compensated properly through proper diversification of funds without burden to anyone.
- The Central and the State government should be in proper understanding and cooperative with each other for the successful implementation of GST.



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## LIMITATIONS OF THE STUDY

1. The study is completely based on the secondary sources.
2. No Quantitative data were collected.
3. The Study is not based on the research.

## CONCLUSION

GST stands for Goods and Services Tax levied by the Government from 1<sup>st</sup> July 2017 to whole India in a move to replace all of the indirect taxes. The main idea behind introducing GST is to improve the economy of the nation. GST has both positive and negative impact of different sector of Indian economy. It is a single tax with complete transparency and it will attract foreign direct investment (FDI) which increases scale of production as well as job opportunities. GST will promote Make in India and Digital India by providing smooth way for doing business and removing multiple complex taxes in to single tax. It will surely reduce cost of product and transaction cost. The impact of GST is positive in few sectors as information technology and automobiles, textiles, real estate and there is some negative impact in few sectors telecommunication, financial services and cement industries. Though it looks like more positive than negative. Some economics says that GST is surely help to boost up our economy but it is a long run process which will take time. Only the time will tell us whether the GST will be beneficial for India or not. Now just to wait and watch the proper implementation of GST what will be the positive and negative effect . GST mechanism is design such a way it is expected to generate good amount of revenue for both central and state government. For corporate, businessman and service provider, it will be beneficial in long run. It will bring transparency in collection of indirect tax benefiting both government and people of India which will increase the economy of India.

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