

A STUDY ON IMPACT OF GST – AN INDUSTRIAL OVERVIEW

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Abstract

Goods and Services Tax (GST) is a broad based and a single comprehensive tax proposed to be levied on goods and services consumed in the country. It is necessary for the growth of the country. It will help the country to improve the GDP. GST, in fact is the association of all indirect taxes. India is going through a lot of change right now; first demonetization attempts to curb the black money and eradicate corruption and now a few months before GST bill came into force to make sure there should be no space for the reasons of corruption which will directly boost our Indian economy. GST is considered as an indirect tax for the whole nation that would make India one unified common market. It is a tax which is imposed on the sale, manufacturing and the usage of the goods and services. It is a single tax that is imposed on the supply of the goods and services, right from the manufacturer to the customer. The federal structure of the country provides a relatively powerful government at the centre accompanied by 28 state governments. All of them require finance to govern the country and the states. After introduction of Value Added Tax (VAT) from 2005, the country has been experimented with Goods and Services Tax from April 1, 2013. This paper is attempt to study the Overview of GST from the perspective of various industries.

Keywords: GST, Indirect Taxes, VAT, GDP, Input Credit

INTRODUCTION

The major source of revenue for any nation is the tax, so for economic development of the nation, it is compulsory to have good taxation system. Goods & Services Tax Law in India is in simple words, Goods and Service Tax is an indirect a complete, multistage, destination-based tax that is tax levied on the supply of goods and services. The tax came into consequence from July 1st, 2017 during the implementation of 101st Amendment of the Constitution of India by the Prime Minister Narendra Modi. GST would be a major move towards Indian economy as since independence India has faced some of the issues because of complex indirect tax system, this complexity is assumed to be resolved by present GST structure replacing all state and central indirect taxes in to one simple unique tax. One of the biggest taxation reforms in India is the (GST) all set to integrate state economies and boost overall growth. The main idea behind it is to eliminate the tax levied of state and central government. It involves three stages:

- 1) State GST (SGST) levied by state
- 2) Central GST (CGST) levied by centre
- 3) Integrated GST (IGST) levied by central government on inter-state supply of goods and service.

DEFINITION OF GOODS AND SERVICE TAX

New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) as any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

LITERATURE REVIEW

(Kumar & Kumar, April-2017) has analysed the “GST & its probable impact on the FMCG Industry in India” this research mainly focuses on “Goods & Service Tax Identification Number” (GSTIN) a PAN based number, Central and state Indirect Taxes & Levies. The researcher has used Secondary data. The main objective is proposed impact of GST on the FMCG Industry in India. Researchers conclude this paper analyses the impact of the FMCG industry. The fast-moving consumer goods (FMCG) sector of India comprises more than 50% of the food and beverage industry and another 30% from personal and household care. Presently the peak tax cost for industry players amount to approximately 27% i.e. (excise duty of 12.5% and VAT ranging from 12-15%) under the GST regime, it’s proposed that the revenue neutral rate would be in the range of 16-19%.

(Chakraborty, Nov-2018) has made an attempt to study Impact of Goods and Services Tax on Indian Textile Industry, CENTRAL and STATE INDIRECT TAXES, Branded Goods, Treatment of Job Worker are the main variables in this Industry. The researcher has used Secondary data. Thus, Excise duty on synthetic textile inputs such as polyester and viscose also increased to 12%, Abatement applicable to branded ready-made garments increased from 55% to 70% of the Retail Sale Price.

(Saxena & Payal, jun-2018) Impact of GST on Tourism Industry: This paper analyses the opportunities and challenges of GST on the Tourism Industry. To study the overview of GST for the Tourism Industry. Researcher has used Secondary Appropriate data. GST is there in creating an environment that is business friendly not to exploit anyone.

(Desai, 2020) said that as far the A STUDY OF IMPACT OF GST ON THE BUSINESS OF HOTEL INDUSTRY IN MAHARASHTRA through a Central Excise duty, Customs Duty, VAT and Service Tax. The main objectives are Implementation of GST in comparison of VAT- Service Tax and Impact of GST on their Business. They find that GST is implemented effectively in India. It can be concluded that GST will have positive impact in the long run on the business of Hotel Industry.

(Sangolkar & Wadalkar, Aug-2020) tried to study IMPACT OF GST ON CONSTRUCTION INDUSTRY. The above research mainly focuses on the possible impact of GST on the Construction Industry and the current scenario of real estate sector in India. Research being explanatory research analysis on the factors which affect the construction industry through GST is identified. And the analysis of identified factors has been done. Researchers conclude

Credit of CGST paid on inputs may be used only for paying CGST on output and credit of SGST/UTGST paid on inputs may be used for paying SGST/UTGST.

(Ashok & S, Nov-2018) examines impact of GST on Miscellaneous Industry, Gold. The main objective of the study is to mainly identify the survival of GST in selected jewellery industries. The study is conducted on 30 gold industries and the findings states that 20 have moderate impact, 5 have high impact and 5 have no impact on gold price after implementation of GST. This overall concludes that there is no significant impact of GST on Gold Prices. The data for the study was collected from both primary and secondary sources. The primary data was collected using structured questionnaire.

(Kumar P. V., 2019) stated that A STUDY ON IMPACT OF GST ON JEWELLERY INDUSTRY. This paper analyses the impact of GST on Gold Price pre and post its implementation and also to analyse share price returns of selected companies pre and post GST. So, as the gold is vast and difficult to understanding the impact of GST on gold among consumers, import market, performing world gold council, the accounting treatment of gold and towards its impact before and after implementation of GST on gold. The factors of gold that are responsible for volatility and effect of GST on gold price.

(Franco & T.Chellammal, jun-2018) examines GST-POSITIVE AND NEGATIVE IMPACTS ON SMALL SCALE INDUSTRIES. The papers main objectives are positive and negative impacts of GST on Small Scale Industries. The results say that Registration will be mandatory for e-commerce suppliers and operators. This paper would suggest SMEs borrow money from NBFC or money lenders at rates which lies in the range of 20 percent to 100 percent. The study has used secondary data. To avoid this situation the government can try to reduce the present rate of GST composed on MSMEs and thereby promote the growth of such enterprises and make them compete globally.

(Kumar & Choudhury, Dec-2019) examines GST and Its impact on Pharmaceutical Industry. The study considered to the positive and negative effects of GST on Pharmaceutical Industries. The major findings Lack of proper knowledge, training and infrastructure need for the implementation of GST was also a hinderance in the smooth implementation of GST but it is now becoming easier and more adaptable. Although through the various points mentioned above GST has both the positive as well as negative effect on pharmaceutical businesses. The study has used and secondary data.

OBJECTIVES OF THE STUDY

1. To understand the concept of GST.
2. To analyse the Overview of GST on various Industries.
3. To study the benefits of GST.

RESEARCH METHODOLOGY

The study is based on secondary data collected from various books, blogs, articles published by experts in the national and international journals.

IMPACT OF GST ON VARIOUS INDUSTRIES

Presently the peak tax costs for industry players amount to approximately 27% (i.e., Excise duty of 12.5% and VAT ranging from 12% to 15%). Under the GST regime, it is proposed that the revenue neutral rate would be in the range of 16% to 19%, thereby resulting in significant benefit for the sector.

(i) FMCG Industry: Under pre-GST regime, maximum FMCG products were taxed at rates ranging from 22 percent to 24 percent for example, detergents were taxed at the rate of 23 percent, shampoos and beauty preparations were taxed at the rate of 24 percent to 25 percent, tax on sanitary towels and napkins was about 10 percent to 11 percent, tax on some daily use FMCG products like paneer, ghee, cheese, butter and milk was about 3 to 5 percent.

Under the GST regime, FMCG products are taxed under 0%, 5%, 12%, 18% and 28%. However, if you deeply examine the impact of GST on individual products, we can see that tax rates of some products have increased, like tax on shampoo (Now taxed at 28%), detergents (Now taxed at 28%), sanitary towels (Now taxed at 12%) which is higher than before. Under GST tax on toothpaste, hair oil, and soaps is deducted from 22 percent to 18 percent. Whereas some daily use products like milk, eggs, fresh vegetable, wheat, rice, etc. are tax free. Big companies of this industry like Hindustan uniliver, Patanjali, and ITC welcomed GST with open arms. However few firms of this sector are negatively affected by the GST tax rate, which still is changing.

(i) Textile Industry: Shift towards organized sector: A substantial segment of the Indian textile industry operates under the unorganized sector. It creates a gap in the input tax credit system. If the registered taxpayers buy inputs from the unorganized sector, they can not avail input tax credit facility. GST on textile brings a significant change in the input tax credit system and it creates an important balance between organized and unorganized sectors of the industry. In fact, GST helped the entire textile industry in shifting towards an organized sector.

✦ Improved compliances: An important effect of GST is to improve compliance. The value chain under the GST on exports is generally null rated aside from raw cotton and cotton waste; imports are leviable to CVD and special CVD.

✦ Textile industry is now more competitive: GST has restructured the input tax credit claiming process. It has made the entire textile industry more aggressive in the export market. In addition to this, input tax credit is a significant step for promoting the export of textile products. It also encourages the manufacturers to adopt cutting edge production system to develop existing products.

(iii) Tourism Industry: GST has eliminated multiplicity of taxes in the tourism sector taxes are more rationalized and reduced. Government is looking forward to increasing the inbound tourists which would result in getting a bigger chunk of foreign exchange earnings. International tourism not only generates government revenue but will also lead to generate employment opportunities in the travel and tourism industry.

(iv) Hotel Industry: GST has eliminated multiplicity of taxes in the tourism sector taxes are more rationalized and reduced. Government is looking forward to increasing the inbound tourists which would result in getting a bigger chunk of foreign exchange earnings. International tourism not only generates government revenue but will also lead to generate employment opportunities in the travel and tourism industry.

(v) Construction Industry: The Construction industry is one of the most pivotal sectors in India and has seen a phenomenal growth, not just in cities, but even small towns. GST is another development that will have a significant impact on this sector. Let's take a look at the impact of GST on the construction industry and the construction sector.

(vi) Cement Industry: The implementation of GST in the country will somehow create a menace in the cement industry. GST council has decided heavy tax rates over cement industry of 28 percent which seems to overburden the sector with already prevailing tax entities and under developing area in the urbanization. Indian cement industry is aimed to grow at a CAGR of 11.14% in volume terms during FY 2011FY 2017 and is expected to reach 407 million tons by March 2017.

(vii) Pharmaceutical Industry: The 122nd improvement Bill was passed as the Constitution's One Hundred and Twenty-Second Amendment Act, 2017. It will be affecting several industries, businesses, and companies at the same time. The pharmaceutical industry occupies a unique case owing to the medicinal and pharmaceutical requirements it provides. If taken the share of GDP, it contributes to 5% of it. The Government of India with GST Council and its Chairman, Union Finance Minister of India – Arun Jaitley have introduced it so as to enhance FDI (Foreign Direct Investment). The alteration will bring about some changes in each individual industry. Goods and Service Tax is expecting to have an encouraging impact on the Indian Pharmaceutical Industries as it will decrease the manufacturing cost since eight different taxes are levied in the pharmaceutical industries helps in easy going business. It will eradicate the cascading effect of multiple taxes applied on One Product.

Benefits if GST:

- ✦ Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- ✦ Less tax compliance and a simplified tax policy compared to current tax structure.
- ✦ Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- ✦ Lower the burden on the common man i.e., public will have to shed less money to buy the same products that were costly earlier.
- ✦ Removal of cascading effect of taxes i.e., removes tax on tax.

CONCLUSION

The Goods and Services Tax (GST) dominion is an unconcerned attempt by the government to justify the indirect tax structure of the country. The government should study in depth the GST mechanism set up by different countries around the globe and also their fallouts before implementation. Thus, lot being said and done, an appropriate implementation would lead to actually understand whether “GST is a boon or curse. All sectors in India - manufacturing, service, telecom, automobile etc. will bear the impact of GST. But for gaining those benefits, country will need to build strong mechanism. Lack of proper knowledge, training and infrastructure need for the implementation of GST was also a hinderance in the smooth implementation of GST but it is now becoming easier and more adaptable. All sectors of economy whether the industry, business including government departments and service sector shall have to bear the impact of GST.

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