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Implementation and its Impact of GST on Industrial Sectors: An Analytical Study

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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. GST is levied at every stage of the production-distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. In simple terms, GST may be defined as a tax on goods and services, which is to be levied at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. India, being one of the largest democratic countries in the world, has to follow the convention of welfare state. 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 an analysis of the impacts and implications of GST on industrial sectors.

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

I. INTRODUCTION

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. This argument can be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy. Value added tax was first introduced by Maurice Laure, a French economist, in 1954. The tax was designed such that the burden is borne by the final consumer. Since VAT can be applied on goods as well as services it has also been termed as goods and services tax. During the last four decades, VAT has become an important instrument of indirect taxation with 130 countries having adopted this, resulting in one-fifth of the world's tax revenue. Tax reform in many of the developing countries has focused on moving to VAT. Most of these countries have gained thus indicating that other countries would gain from its adoption. For a developing economy like India it is desirable to become more competitive and efficient in its resource usage. Apart from various other policy instruments, India must pursue taxation policies that would maximize its economic efficiency and minimize distortions and impediments to efficient allocation of resources, specialization, capital formation and international trade.

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II. LITERATURE REVIEW

Morrissey (2003) states that under GST, the taxation will be equitably divided among manufacturers and the service providers, also a low value of tax will be charged in comparison to existing tax system.

Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India which analyzed the structure and loopholes if any in GST.

Vasanthagopal (2011) discussed indirect tax evasion has led to GST value dissipation in comparison to VAT.

Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India analyzed the impact and GST on Indian Tax scenario and concluded that it will strengthen out free market economy.

Kumar (2014) noted that GST is implemented in more than 150 countries around the globe and the value of GST is directly reflecting on the economy of the countries where GST is implemented in a positive way.

Adukia (2015) studied the impact and implementation strategy of GST in India.

Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Service Tax (GST) which stated in brief details of the GST and its positive impact on economy and various stakeholders.

The Institute of Companies Secretaries of India (ICSI) (2015) published a Reference on Goods and Service Tax to provide the information on the concept of GST in details.

Objectives of the Study

- To understand the concept of Goods and Services Tax.
- To examine the features of Goods and Services Tax.
- To analyze the impact of GST on various industrial sectors.
- To know the benefit of Goods and Services Tax to different stake holders.
- To analyze the implementation strategy of GST in India.

III. RESEARCH METHODOLOGY

Data collection

The data are collected from many sources like government reports, news papers, magazines and websites. The data are secondary and collected on the basis of convenient types of research. The data collected and shorted started from the year 2000 to the year 2015.

Research design

There is a lot of variability found in-between the data collected from the year 2000 to 2015. There are direct variables and indirect variables that immediately affect the result of the study.

Direct variable

The direct variables are basically the indirect taxes like sales tax, service tax, VAT tax, and excise duty which are going to directly get affected by the GST.

Indirect Variable

In this study, the constitution of India, GDP of India and planning commission are term as indirect variables. The constitutional amendment is required for the government to pass the GST bill in India. For the constitutional amendment it is necessary for the government to at least get the two thirst support from both of the houses.

Goods and Service Tax (GST)

Goods and Services Tax is a broad based and a single comprehensive tax levied on goods and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. In simple terms, GST may

International Journal of Innovative Research in Science, Engineering and Technology

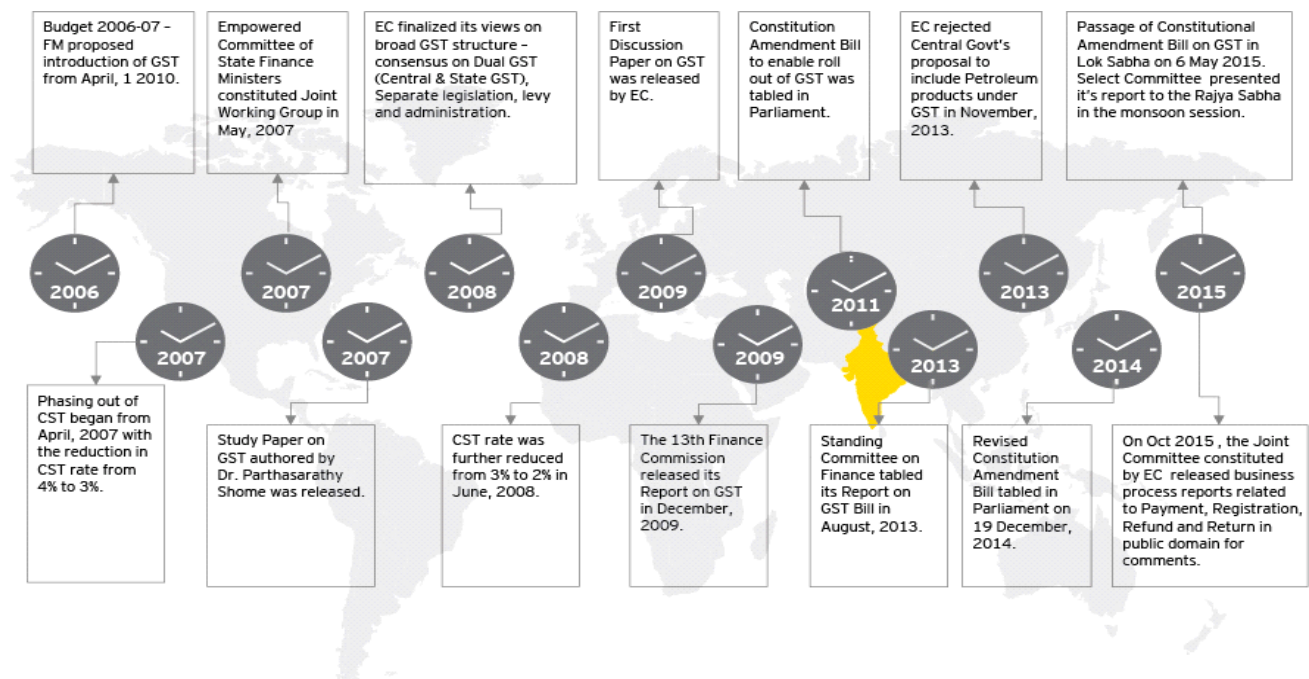
(An ISO 3297: 2007 Certified Organization)

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Vol. 6, Issue 7, July 2017

be defined as a tax on goods and services, which is to be levied at each point of sale or provision of service, in which at the time of sale of goods or providing the services, the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. Goods and Services Tax also known as the Value Added Tax or Harmonized Sales Tax (HST) was first devised by a German economist during the 18th century. He envisioned a sales tax on goods that did not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer. Thus it did not matter how many transactions the goods went through, the tax was always a fixed percentage of the final price. The tax was finally adopted by France in 1954. Maurice Lauré, Joint Director of the French Tax Authority, was the first to introduce VAT on April 10, 1954. Initially directed at large businesses, it was extended over time to include all business sectors. Personal end-consumers of products and services cannot recover VAT on purchases, but businesses can recover VAT on the materials and services that they buy to make further supplies or services directly or indirectly sold to end-users. In this way, the total tax levied at each stage in the economic chain of supply is a constant fraction of the value added by a business to its products, and most of the cost of collecting the tax is borne by business, rather than by the state. VAT was invented because very high sales taxes and tariffs encouraged cheating and smuggling. Value added taxation avoids the cascade effect of sales tax by only taxing the value added at each stage of production. Value added taxation has been gaining favor over traditional sales taxes worldwide. In principle, value added taxes apply to all commercial activities involving the production and distribution of goods and the provision of services. VAT is assessed and collected on the value added to goods in each business transaction. Under this concept the government is paid tax on the gross margin of each transaction.

GST: The Story



Source: GST Site- WordPress.com

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(An ISO 3297: 2007 Certified Organization)

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Vol. 6, Issue 7, July 2017

Goods and Services Tax in India

The GST is not entirely a new initiative for India, rectification of existing VAT in the elementary level and fine tuning its shortcoming is GST. Thereby, this is an attempt to improve the existing VAT system for beneficial of Indian economy and the individuals therein (Shadab, 2014). VAT was formulated and put into practice during April 1, 2005, in order to overcome the shortcoming of sales Tax. Every state in India from commencement has switched from multi-point sales tax to Value Added Tax. As in similar fashion that VAT was introduced to gap the shortcoming of multi-point tax, the essence of GST is to correct the shortcoming VAT. Bringing service under tax net and taxes for input and output is not possible under VAT system. Hence, GST is more comprehensive, transparent and smoother in its functioning. This can be a better than the best solution for a country such as India, to reduce corruption, increase economic welfare and increase the standard of living of the individual. Finance Minister Mr. P. Chidambaram, during his budget revelation for the year 2007-08 announced the implementation of the Goods and Service Tax (GST). In order to make progress on GST related work, a group of central officers, as well as the state government, was constituted in May 2007. The report was submitted to the committee on November 19, 2007, the report was in theme with GST module. A detailed discussion in relation to report took place during November 28, 2007, in meeting with empowered committee. An important interaction in regards to GST was also held between Shri Pranab Mukherjee, the union minister and the empowered committee during October 19, 2009, in which the major problems associated with GST, was also discussed. After a while with further discussion, Mr. Pranab Mukherjee announced the deadline for GST implementation as April 1st, 2012, unfortunately, couldn't accomplish (finmin.nic.in, 2015). Ex-Finance minister Mr. P. Chidambaram in his budget speech April 2014 made apologize for the failure to meet the deadline as announced to implement GST.

Salient features of the GST model

Salient features of the proposed model are as follows:

- The GST shall have two components: one levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
- The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
- The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
- Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.
- Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
- Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc.
- To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.
- The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

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Vol. 6, Issue 7, July 2017

Impact of Goods and Service Tax

Food Industry

GST, when implemented, will bring serious consequence to the food industry. The GST exercise taxation on agricultural goods including basic food products for human sustainability such as cereals, fish, meat, poultry and dairy products, which is exempted from taxation by the government of India currently. Thereby on the implementation of GST would lead to doubling the tax burden on food commodities and increasing the price of the agricultural products. This effect can only be reduced if and only the basic necessitate products are pinned under exception list.

Housing and Construction Industry

GST tax is included in construction and housing sector, this is because it is a significant contributor to the nation's economy.

FMCG Sector

India's FMCG sector is growing enormously earning \$25 billion during 2008 in retail sales in spite of economic recession. When GST implemented, it will pave a new way for more FDI and increase the industry size to many folds in mere years to come.

Retail Sector

There has been a serious discussion for including rail sector under GST to attain significant tax gain and keep the overall GST rate low. If rail sector comes under GST the transportation of goods has to be tracked using Information Technology to attain GST associated with it.

Financial Services Sector

GST is not mandatory for financial service also it is not levied in most of the countries following GST. In India, service tax is applicable to financial industry, thereby the probability of India bring financial service under GST umbrella is more also Indian financial service plays a dominant role consisting a large amount of customer within.

Information Technology Enabled Services Sector

The software is considered as the intellectual property and regarded as the service lends to making the operation go easier in the industry utilizing it. Thereby when the software is transferred or transmitted in media or any other form from one seller to buyer than it is subjected to GST. According to FICCI – techno park Report, Implementation of GST will provide uniform and single point taxation, thus reducing the overall cost of the software products.

Small Scale Enterprises

The GST has slab line, those companies whose earning is below the slab line prescribed, is exempted from the tax, whereas companies which meet the requirement and companies earning above the slab line are levied by GST. The major issues are; that State GST can be readily put into practice while Central GST is complex to get implemented in a country like India having the huge business population and industry orientation.

The introduction of GST along with prudent accounting policies, transparency and supported by a robust electronic controls will bring down the peak rates of taxation and enhance revenue growth. This can be understood by the following table by comparing the present rates of tax and the proposed GST.

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Vol. 6, Issue 7, July 2017

Table: 1 – Comparison between the present rates of tax and the proposed GST

Goods from producer to wholesaler	Present taxes (Rs.)	GST (Rs.)
Cost of production	80,000	80,000
Producers margin of profit	20,000	20,000
Producer's price	1,00,000	1,00,000
Central Excise duty at 14%	14,000	Nil
VAT at 12.5%	14,250	Nil
Central GST at (expected rate)12%	Nil	12,000
State GST at (expected rate) 8%	Nil	8,000
Total price	1,28,250	1,20,000
Goods from wholesaler to retailer	Present taxes (Rs.)	GST (Rs.)
Cost of goods to wholesaler	1,14,000	1,00,000
Profit margin at 5%	5,700	5,000
Total	1,19,700	1,05,000
VAT at 12.5%	712.5	Nil
Central GST (expected rate)12%	Nil	600
State GST at (expected rate) 8%	Nil	400
Total price	1,20,412.5	1,06,000
Goods from retailer to final consumer	Present taxes (Rs.)	GST (Rs.)
Cost of goods to retailer	1,20,412.5	1,06,000
Profit margin at 10%	12,041.25	10,500
Total	1,32,453.75	1,16,500
VAT at 12.5%	1,505.15	Nil
Central GST (expected rate)12%	Nil	1,050
State GST at (expected rate) 8%	Nil	840
Total price to the final consumer	1,33,958.9	1,18,390
Tax component in the price to the final Consumer	30,467.65	22,890
Final price exclusive of taxes	1,03,491.25	95,500

Source: Own Compilation

Benefit of GST to Industry, Trade and Agriculture

The present forms of CENVAT and State VAT have remained imperfect in fully removing the cascading burden of taxes already paid at earlier stages. Besides, there are several other taxes, which both the Central Government and the State Government levy on production, manufacture and distributive trade, where no specific set-off is available in the form of input tax credit. These taxes add to the cost of goods and services through "tax on tax" which the final consumer has to bear. Since, with the introduction of GST, all the cascading effects of CENVAT and service tax would be removed with a continuous chain of set-offs from the producer's point to the retailer's point, 12 other major Central and State taxes would be included in GST, and Central Sales Tax (CST) will also be phased out, the final net burden of tax on goods, under GST is expected to fall. According to some economists, since there would be a transparent and complete chain of set-offs, this will help in widening the coverage of tax base and improve tax compliance. This may lead to higher generation of revenues, which may in

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Vol. 6, Issue 7, July 2017

turn lead to the possibility of lowering of average tax burden. Hence, the GST is expected to give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST.

Benefit of GST to the Exporters

It has been argued that the inclusion of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax would help in reducing the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market (by reducing the cost of inputs). It can be expected that the uniformity in tax rates and procedures across the country via GST would also be helpful in reducing the compliance cost.

Benefit of GST to the Small Entrepreneurs and Small Traders

A general argument is that the cost of administering the tax on small entrepreneurs in any tax regime is fairly high. Hence, considerable cost could be saved if an exemption threshold can be made where potential taxpayers with turnovers less than this threshold level would be exempted from the regime. However, in case where certain small traders would be exempted from the tax net by providing a threshold, there might be a tendency for other traders to underestimate their turnover in order to exploit the benefit of not paying taxes. Therefore, it is proposed that there be another threshold, below which the dealers can opt for a compounded tax based on the turnover. The Empowered Committee of State Finance Ministers had suggested a cut-off at Rs.50 Lakh and a floor rate of 0.5 per cent across the States. This implies, dealers having annual turnover (gross) below this cut-off would have the provision of paying a compounded levy of one percent tax on his turnover, which would be much lower than the GST rate (16 percent). The present lower limit prescribed in different State VAT Acts below which VAT is not applicable varies from one State to the other. The existing threshold of goods under State VAT is Rs. 5 Lakhs for a majority of bigger States and a lower threshold is operating for North Eastern States and Special Category States. Hence for a coherent tax structure, a uniform State GST threshold across States is desirable. Therefore, the Empowered Committee has recommended that a threshold of gross annual turnover of Rs.10 Lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime. The States considered that the threshold for Central GST for goods may be kept at Rs.1.5 crore and the threshold for services should also be appropriately high. This raising of threshold will protect the interest of small traders.

Benefit of GST to the Common Consumers

It has been argued that, with the introduction of GST, all the cascading effects of CENVAT and service tax will be more comprehensively removed with a continuous chain of set-off from the producer's point to the retailer's point than what was possible under the prevailing CENVAT and VAT regime. Certain major Central and State taxes will also be incorporated in GST and Central Sales Tax or CST will be phased out. Due to this enhanced transparency and rationalization of tax structure, the burden of tax on goods would fall under GST and that would benefit the consumers by lowering the overall tax burden on goods consumed by them.

IV. IMPLEMENTATION STRATEGY

India achieved VAT system to accomplish the goal of economic development. GST, a modified version of existing VAT can make functional. The major setback existing GST for implementation is that it have to be approved by every state existing in India, else the total exertion on GST will be a disaster. A well-formulated one point and one type of taxation for goods and service are required in India, moreover, the formulated

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Vol. 6, Issue 7, July 2017

taxation has to be exercised by the Central, State and Interstate where lies the complexity. In order to bring uniformity, it is necessary to bring Dual GST system like Dual VAT system followed recently in India. The major beneficial of dual GST is that; Uniform taxation can be practiced, low charges comparable to VAT, better taxable system, better tax return and registration system. To put GST into practice, PAN (Permanent Account Number) should be allotted to every individual citizen of India. The impact of GST on economic growth can be well recognized, provided few goods and service have to be exempted from the GST like agricultural goods, health, education and financial services, this is because it would hit the poor people in India to attain basic amenities higher cost. Export is zero rated under GST, this would direct to economic success such as India as more than 25% GDP lays on export. GST is exercised on the import of goods and services also high rate is charged for the same. The dealer in the importing state has to declare every import made monthly and its return within prescribed time. This brings dealers purchasing within and from outside the state pay same tax. Therefore, this model will be more effective when implemented with pre-payment of taxes.

V. CONCLUSION

To conclude, though the positive impacts referred above are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a 'flawless' GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change. It is also noted that, buoyed by the success of GST, more than 140 countries have introduced GST in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region.

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