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Original Research Paper

Management

REVOLUTIONARY IMPACT OF GST ON INDIAN INDUSTRIAL SECTORS

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ABSTRACT In this paper I illustrated the economic structure in India is the basis of such an amazing withstand that is to say, the introduction of Goods and Services Tax (GST) as a multipoint tax system is an another milestone in the economic growth by enveloping all indirect taxes and avoiding cascading effect in taxation to create India as a single unified common market all over the world. The implementation of GST will reduce tax burden on manufacturers and thus encourages for the higher production. This process will increase the export of India and it will increase the total GNP. Avoidance of cascading effect empowers the manufacturers to produce to their optimum capacity and retards growth.

KEYWORDS : GST, CGST, Cascading effect, GNP

1. INTRODUCTION

GST Even in the worldwide economic crisis, India showed remarkable survival in its economic system with an introduction of the Goods and Services Tax (GST) with an aim to make the scattered indirect tax system uniform and avoid the cascading effect in taxation. The implementation of GST will reduce tax burden on manufacturers and thus encourages for the higher production. This process will increase the export of India and it will increase the total GNP. Avoidance of cascading effect empowers the manufacturers to produce to their optimum capacity and retards growth. GST is considered to be a major transformation in the entire tax system in India and its effect will go beyond Indian borders. The main objective of this proposed paper is to highlight the concept, benefits and sectoral analysis of the economy and to examine the positive impact of GST implementation in Indian economic system along with recommendations for its successful implementation in the near future.

2. Literature Review

Ahmed and Poddar (2009) analyse that GST will provide a simpler and transparent indirect tax system resulting with increase in output and productivity of Indian economy, while the benefits are critically dependent on rational design of GST. Vasanthagopal (2011) found that GST would be a big leap and a new impetus to India's economic change and indirect taxation system. Garg (2014) analysed that under GST, the taxation burden will be divided equitably between manufacturing and services through a lower tax rate by increasing the tax base and minimizing exemptions to create a single, unified Indian market to make the economy stronger. Nitin Kumar (2014) studied that implementation of GST in India will helps in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations. Sehrawat and Dhanda (2015) in their study concluded that due to dissilent environment of India economy, it is demand of time to implement GST.

3. Framework

Goods means every kind of moveable property other than money and securities but includes actionable claim, growing crops, grass and other things attached to or forming part of the land which are agreed to be served before supply or under a contract of supply and Services means anything other than goods.

It refers to a single comprehensive tax levied on goods and services consumed in an economy which is leviable 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. It is basically a tax on final consumption.

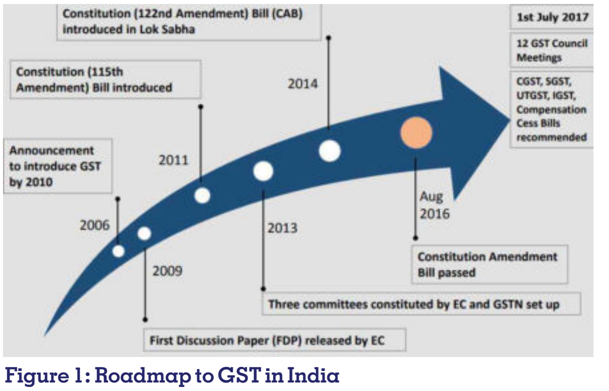

Figure 1: Roadmap to GST in India

4. Components of GST

There are three taxes applicable under Goods and Services Tax (GST) which are shown below -

I) **Central Goods and Service tax (CGST)** - It is collected by the Central Government on intra-state sales of goods and services.

ii) **State/Union Territory Goods and Service tax (SGST/ UTGST)** - It is collected by the State/Union Territory Government on intra-state sales of goods and services.

iii) **Integrated Goods and Service Tax (IGST)** - It is collected by the Central Government for inter-state sales of goods and services.

Table 1: Tax structure under the new regime

Transactions	New Regime	Old Regime	Outcomes
I. Sale within the State	CGST+ SGST	VAT + Central Excise/Service Tax	Revenue will be shared equally between the Centre and the State
II. Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (Central) in case of inter-state sales. The Centre will then share the IGST revenue based on the destination of goods.
Source: Compiled by author(s) from various sources.			

Table 2: Taxes subsumed under GST

Particulars	Central	States
Taxes subsumed under GST that finds a mention in the Constitutional Amendment Bill	• Central Excise Duty (CENVAT) • Additional Excise duties • Additional	• Sales Tax (VAT) • Central Sales Tax *(levied by centre)* • Entertainment tax *(unless it is levied*

	Custom Duty in the nature of countervailing duty • Special Additional Duty of Customs • Service Tax • Surcharges and cesses that relate to supply of goods and services	• *by the local bodies)* • Purchase and Luxury Tax • Tax on lottery, betting and gambling • Octroi and Entry tax • State surcharges and cesses that relate to supply of goods and services
Taxes to be subsumed under GST in due course by GST Council	• Petrol and Petroleum products	• Petrol and Petroleum products
Taxes that would be kept out of purview of GST	• Basic Customs Duty, Anti-dumping Duty • Export Duty	• Alcoholic liquor for human consumption
Taxes that are unlikely to be subsumed in GST	• Excise Duty on tobacco products • Specific Cess • Specific Central Cess like education and oil cess	• Property Tax • Tax on consumption of electricity • Stamp Duty
Source: www.gstindia.com		

Table 3 given below reveals that the percentage of tax rate before and after implementation of GST (4-5% and 18% respectively) which shows that all types of goods would turn costly which will affect common man. Therefore, it can be said that after the implementation of GST in Indian scenario, the common man will suffer because he would not be able to satisfy his wants completely but there would be no impact on rich people.

Table 3: Tax rate before and after the implementation of GST

Goods	Before	After
Package Products	4 - 5%	18%
Readymade Garments	4 - 5%	18%
Jewellery	3%	18%
Mobile and Credits Cards	15%	18%
Cars	30 - 44%	18%
Home Appliances	12.5% and 14.5% (Excise and VAT)	18%
Source: www.gstindia.com		

5. How GST will perform?

Generally, the GST registered dealers *(manufacturers, wholesalers and retailers and service providers)* charge GST on the price of goods and services from their customers and claim credits for the GST included in the price of their own purchases of goods and services used by them because GST is an indirect tax and ultimate burden of the GST has to be taken by the final consumer.

Table 4: Illustration explaining the working of GST

Stages of supply chain	Purchase value of input	Value addition	Value at time of transferring the Goods and Services at next stage	Rate of GST	GST on output of Goods and Services	Input Tax credit	Net GST Payable = (GST on output tax – GST on Input tax credit)
Manufacturer	100	30	130	10%	13	10	13-10 = 3
Wholesaler	130	20	150	10%	15	13	15-13 = 2
Retailer	150	10	160	10%	16	15	16-15 = 1

6. Exempt Goods and Services

Some goods and services are exempt from GST in order to keep some goods and services cheaper for lower-income group.

There are two types of GST exclusions-

i) Tax-Exempt: It consists of goods and services that are charged with GST at the production and distribution stages but not at the final retail stage. Manufacturers, wholesalers, and retailers can't claim an input tax credit. E.g. - residential rents, health and dental care, educational services etc.

ii) Tax-Free: It covers goods and services that are not with GST throughout the life of the product. Final consumers are not charged GST while purchasing these products from distributors. E.g. - basic groceries, prescription drugs and medical devices.

Table 5: Various GST Returns

Return	Purpose	Frequency	Due Date
GSTR1	Outward sales by business	Monthly	10th of next month
GSTR2	Purchases made by business	Monthly	15th of next month
GSTR3	GST monthly return along with payment of amount of tax	Monthly	20th of next month
GSTR4	Quarterly return of tax	Quarterly	18th of next quarter
GSTR5	Periodic return by Non-Resident foreign taxpayer	Monthly	20th of next month
GSTR6	Return for Input Service Distributor	Monthly	15th of next month
GSTR7	GST return for TDS	Monthly	10th of next month
GSTR8	GST return for economic suppliers	Monthly	10th of next month
GSTR9	GST annual return	Annually	31st of next financial year
Source: www.legalraasta.com/gst-return (The above mentioned GSTR shall be filed by the businessmen on monthly basis except GSTR5 and GSTR9 that would be filed on quarterly and annually basis respectively).			

7. Impact on different sector industries

GST can be considered as an opportunity for companies to revisit their supply chain approach and pursue in methodical restructure of their operating model. Following are key sectors that may be strongly affected by GST with respect to the nature of their supply chain models.

Table 8: Impacts and Implications of GST on various Industries

Industry	Impacts
Pharma ceutical Industry	**Pre-GST:** Many Pharmaceuticals companies have forwarding agent model of their supply chain which is applied to mitigate the CST cost applicable on interstate sale of goods, the input tax credit of which is not available at present. **Pain Point:** This structure creates procedural hassles in terms of non-availability of statutory forms on time and the restriction on free movement of goods across different states.
	Under GST: With availability of input tax credit of IGST on interstate transactions, it helps to rationalize the distribution centers in the supply chain. A GST shall be applicable to branch transfers, the hassles

	of obtaining and issuing statutory forms could be done away with thereby reducing litigations. Further, companies may have to relook at their pricing policy from key perspectives and the current practice of MRP basis to levy tax.
FMCG	**Pre-GST:** The model is similar to Pharmaceuticals companies with depots across states to mitigate CST. **Pain Point:** Procurement of inputs is generally an interstate transactions leading to the CST levy which in turn increases the cost of procurement, since diverse products that are manufactured in the sector. **Under GST:** With availability of IGST credit on interstate procurements under GST, the industry can expect the procurement cost to come down and companies can rationalize their pricing policy.
Telecom	**Pre-GST:** The supply chain network comprises of branch warehouses, normally spread in each state circle of the telecom operator. The Industry incurs significant cost in acquiring infrastructure facilities like towers and telecommunication equipment. The VAT applicable on such equipment was not available as input tax credit against the service tax payable on services provided by telecom operators. **Pain Point:** Dual taxation in certain states is a dampener for this fiercely competitive sector. **Under GST:** With full input tax credit being proposed, operators can expect reduced cost of procurements. The current service tax payable on output services is expected to increase. With telecom services being an important utility for the end customer, operators may need to look into their pricing, so as to avoid passing on the increased tax cost to the end customer. Clarity on differential tax rates for goods and services under GST is critical to this sector to avoid litigation.
Automobiles	**Pre-GST:** Several inputs used in manufacture of automobiles are subject to a lower VAT rate of 4-5% as compared to the VAT rate on the final product. Manufacturers prefer their ancillaries to be located in the same state so as to not only help manage the supply chain cost but also in mitigating the extra cost of CST on which no input tax credit is available. **Pain Point**: This sector is subject to a variety of other levies such as National calamity contingent duty, automobile cess etc which increases the cost to the customer. **Under GST**: With full input credits on interstate transactions being made available under GST, automobile manufacturers can scout for alternative options for sourcing ancillaries, wherein the supply chain cost is not the key determinant. The additional levies can be subsumed under GST and should be of value to the end customer.
Real Estate	**Pre-GST:** This sector has been taxed rather aggressively with multiple taxes being levied at various levels such as service tax, VAT, stamp duty etc. **Pain Point:** Non-availability of input tax credits has led to a cascading tax impact which directly affects the end customer. **Under GST:** The GST regime is expected to resolve many of the issues inherent in this sector in terms of multiple taxes and availability of tax credits. However, as this industry uses goods as well as services for providing the end product which leads to double taxation of some portion of the consideration. The industry should demand for removal of this anomaly by treating such contracts as service. Since stamp duty is not proposed to be subsumed under GST, this could lead to increased cost.
ICTs	**Pre-GST:** This sector also suffers from the perils of double taxation with packaged software bring subject to service tax as well as VAT, as it thrives on exports. **Pain Point:** Service tax and VAT increases the cost to the customer as they are generally eligible to claim credit of either service tax or VAT, but not both. For exports, the present mechanism provided for refund of unutilized input tax credit used is fraught with anomalies and disputes leading to long pending litigations, thereby increasing the cost of working capital. **Under GST:** While the peril of dual taxation may not be relevant under GST, classification of software as goods or services would be important, which is yet to be clarified. For exports, the industry should demand a hassle free and assess friendly refund mechanism.
Banking & Finance	**Pre-GST:** This sector was one of the first services to be brought under the ambit of service tax. Presently, service tax is applicable only on the fee income and charges. With respect to physical movement, the cash and documentation supply chain business is taxed similar to other sectors. **Pain Point:** The industry faces restriction on availability of VAT credits against service tax and also proportionate credit of service tax and excise duty up to 50%. Hence, substantial inputs taxes continue to be a cost. **Under GST:** With full availability of credit of input GST, this sector can expect lower costs on procurement. Clarity is required in this sector with respect to restricted credits where the activity of lending is kept out of GST. Cash and document supply chain will be benefited by rationalization of distribution network.

Source: Compiled by author(s) from various sources.

8. Conclusion and Scope

Goods and Service Tax (GST) stands as one of the most significant tax reforms in India and is likely to serve as a crucial enabler for the 'Make in India' campaign. With a importance of state boundaries and the cascading impact of taxes diminishing in making supply chain decisions it can serve as an opportunity for a company to carve a new and an efficient operating Model to give it that distinctive servicing advantages. The impact is also to vary with each sector and organisation within it adopting its own blueprint to recast its supply chain. However one fact remains for Make in India and Ease of Doing Business the time to buckle up is now.

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