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An Overview about the Impact of GST on Various Sectors of Indian Economy

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Abstract:
As different initiatives like Make in India and Digital India project have been taken to make India a manufacturing hub and to generate employment opportunities in various sectors and to attract foreign investment as well by improving business environment through easing process to do business in country. But the major impediments in the smooth development of different sectors are the multiplicity of taxes at different rates at different points. It also discourages to foreign countries to invest in India. Indian companies also loose competitiveness in foreign countries because of increase in prices due to higher taxation. So, GST is an economic reform which will eliminate multiplicity of taxes for goods and services by deciding a uniform rate for both. As GST bill has been passed in Lok Sabha &Rajya Sabha and also got approval from president so it will come in effect in India from 1st April, 2017. This study is aimed to know the expected positive and negative impact of GST on different sectors like Startup Business, E-Commerce, IT, Hospitality& Tourism, Automobiles and Media & Entertainment etc. It has been found that GST will positively affect various sectors except some sectors having negative effect.

Keywords: *GST, CGST, SGST, IGST, TCS, CST*

1. Introduction

1.1. Current Taxation System
Two types of taxes are levied by Indian government which is direct tax and indirect tax. Direct tax includes income tax which is levied by central government on individuals, companies, body of individuals and association of persons etc. and second one is indirect tax which is levied on manufacture of goods, provision of services and consumption. Central government levied taxes on manufacture of goods and services while state government levied taxes on consumption. So politically, India is one country but economically, it is fragmented (Shankaran, 2016).

1.2. Problems in Current Taxation System
Many type of indirect taxes like entertainment tax, value added tax, excise duties, import duties, luxury tax, central sales tax, service tax are levied in India. For ex. manufacturing of a shirt: firstly, central government levied indirect tax at factory gate known as central excise then state government will charge value added tax at the time of consumption on price which include tax already paid.
Similarly, on transfer of goods from one state to another state, central sales as well as excise tax will be charged. So an economic reform is taken by introducing GST which will be applicable from 1st April, 2017.

1.3. GST
First time GST was implemented in France in 1954 and about 140 countries have adopted GST. First time, the idea of GST in India was initiated in 2007 by BJP government but unable to implement due to rejection by many states.GST is an indirect tax which will be subsumed most of the indirect taxes levied by center & state like center taxes include center excise duty, additional excise duty, service tax, center sales tax, countervailing duty and special additional duty of customs as well as state taxes including value added tax/sales tax, entertainment tax, octroi and entry tax, purchase tax, luxury tax, taxes on lottery, betting and gambling but custom duty will not be subsumed in GST.
GST is an indirect tax levied on goods and services from manufacturer to consumers. Under GST, uniform tax will be levied on manufacture, sale and consumption of goods and services. GST will be paid only on value addition at each stage by deducting taxes already paid at each stage so cost for consumers will be reduced by input tax credit and reduction in cascading effect of taxes on taxes.
Canadian model of dual GST system will be implemented by Indian government. Two components are: Centre Goods and Service Tax(CGST), State Goods and Service Tax(SGST)

Tax	Application	Old System	Transaction
CGST and SGST	Sales within the state	VAT and Excise /ST	Transaction of sale within state will be taxed under CGST and SGST
IGST (Integrated Goods and Services Tax)	Sales outside the state	CST and Excise/ ST	Sale from one state to another will be charged by center known as IGST

Table 1

Three cases can be there in CGST, SGST, IGST input credit avails: -

1. Sale and resale in the same state.
2. Sale in one state, resale in another state.
3. Sale outside the state, resale in that sale.

1.4. Benefits of GST

- Uniform tax rate for goods and services will reduce complexity in division of transaction values in goods and services and also leads to reduction in compliance because of single reporting of records and returns.
- Reduction in prices due to input tax credit and reduction in cascading effect.
- Increase in revenue due to more business entities coverage under tax system and reduction in tax evasion.
- Competitiveness will be increased in Indian and International market due to reduction in cost of doing business.
- Simple and easy to administer.

1.5. Challenges

- Sound IT infrastructure needed for administering GST.
- State government has to compensate for loss if any occur due to GST.
- As GST is a consumption based tax so higher consumption sate will earn higher revenue. So for successful implementation of GST, cooperation of state government will be needed.

2. Objectives of the Study

1. To obtain a comprehensive overview on GST, benefits and challenges of GST.
2. To study the expected impact of GST on different sectors of Indian economy.

3. Review of Literature

Garg (2014) studied about the basic concepts and features of GST in India. He highlighted that GST would be a good indirect tax reform in our country because it would cover all goods & services and all sectors like industry, business including government sector and service sector. All big, small scale units, medium, intermediaries, importers, exporters, traders, professionals and consumers would be affected by GST. This uniform tax rate for center and state would also likely to improve economic development by increasing tax collections. Through these exemptions have been minimized and equal tax will be borne by manufacturing and service sector.

Chadha et.al. (2008) studied about GST's impact on India's growth and international trade. By using general equilibrium model, some directional changes had been predicted in different variables like India's GDP would increase within range of 0.9 percent to 1.7 percent. In 2008-09, GST would increase exports between 3.2 to 6.3 percent and import value wasexpected to gain between 2.4 to 4.7 percent. GST would also help in efficient allocation of resources because of which real return in factor of production would increase by gains in land (0.42%-0.82%), wage rate (0.68%-1.33%) and capital (0.37%-0.74%) meant overall increase.

Palil et.al (2011) studied about the impact of GST on middle income earners in Malaysia. T-test, ANOVA were used for analyzing data collected from consumers. It was found that consumers were thinking that prices of goods will be increased and negatively impact purchasing power. People did not know how GST would be implemented due to inadequate information so government should try to convince people that GST would not decrease their purchasing capacity if it would affect then government would reduce that affect by providing exemptions and reducing income tax rate.

Lee studied about the effects of GST on Hong Kong and found out its impact on government revenue and different income groups. It was concluded that GST was not broad based and costly to introduce because of instability of revenue and limited additional revenue. Secondly, it was highlighted that GST was really unnecessary as the current tax system was already broad-based and it would increase income disparity by increasing extra burden on middle class due to regressive nature.

4. Research Methodology

This study is descriptive in nature because here we have explained the probable impact of GST on different sectors. For this secondary data has been collected through different articles, research papers and reports published about GST. So this study highlights opportunities and challenges going to occur to different sectors due to GST.

4.1. Impact of GST on Various Sectors

4.1.1. Impact of GST on Startup Business

1. Every new business has to be registered in sales tax department for VAT by following different procedure with fee in different state for registration. Under GST, a simplified uniform process and centralized registration will be required for starting business in different states.
2. Under GST, new businesses have to be registered if turnover is more than 10 lakhs (5 lakhs in case of existing VAT system) and business will be taxed at lower rate for turnover between 10 and 50 lakhs.
3. Today startup business has to spend a lot of time and energy in managing various taxes according to different regulation in different states. GST will be substitute for all indirect taxes levied by state and central government.
4. Now businesses that pay both sales and service tax like restaurants will get benefit from GST due to taxation on all once.
5. For manufacturers, logistic cost and time across states will be reduced due to tax neutrality in interstate supply which will increase competitiveness in industry.
6. Now registration, returns and payments will be online due to IT system so startup can easily follow rules.
7. Due to GST, hidden cost of doing business will be reduced by minimizing cascading of taxes due to availability of input tax credit throughout value chain and across boundaries of state.
8. Cost of manufacturing goods & services will be reduced due to phasing out of CST, subsuming of center& state tax in GST and reduction in compliance cost which will make our goods and services competitive in international market.

4.1.2. Impact of GST on Automobiles Sector

1. Currently, tax revenue of Indian government from automobile sector is 30-47% but after GST, it will be in the range of 20-22 percent. Cost of vehicles will also drop by 8-19 percent for end users. The reason is that imported distributor as well as domestic resellers can save input tax credit on inputs paid under GST.
2. Organized battery and other spares would become more cost effective and gain market share. (Wadhwa, 2016)
3. Because of easily surpassing of various octroi and check points, now goods can be transferred from one state to another and transportation cost will be reduced.

Doubts:

1. Ambiguity regarding GST rates for different segments like small, mid and luxury car segment and criteria for defining these segments.
2. Clarity regarding incentives provided to different automakers by state government in the form of VAT/CST linked subsidies and/or deferment of taxes.
3. Clarity regarding treatment of used car sales under GST.

4.1.3. Impact of GST on Hospitality and Tourism Industry

GST can be proved as a game changer for the tourism industry. Now multiple taxes have been levied by center and state. So under GST:

1. Supplies of hotels and restaurants will be taxed by single rate.
2. Input tax credit will be available on services related to renovation or construction of hotels and resorts.
3. Different taxes like R&D less payable on franchise fees and technical know- how will be subsumed under GST.

Doubt:

- Existing benefits under foreign trade policy will be availed or not.

4.1.4. Impact of GST on Hospitality

1. Due to inverted duty structure, cost of domestic manufacturers is high which can be reduced by removing inverted duty structure and refund of accumulated credit under GST.
2. Indirect tax paid by Pharma companies could be increased for service oriented industries like health, insurance and diagnostic centers.
3. Various Exemptions and benefits/ incentives are availed according to location wise which will be provided up to the expiry of period.

4.1.5. Impact of GST on FMCG Sector

1. GST will be beneficial for some companies like Havells, Blue Star, HUL, Emami, Godrej consumer. Around 3000 crore FMCG industries in India is the major contributor to the state revenue approx. 40,000 crore Food & Beverage and household & personal care are major FMCG industries currently. Tax at 27% (12.5% excise and VAT at 12 to 14.5% on top of excise) was paid by FMCG industries. After subsuming all GST rates, GST rate will be in range 17-20% which will benefit this sector.
2. Now mostly companies establish warehouse in each state to avoid CST on interstate sales. Warehouses opened from tax point rather than market proximity and transport considerations. Under GST, India is emerged as a single largest common market so local and interstate supply would be neutral so companies will be in beneficial position due to savings in warehousing and distribution cost.
3. FMCG distributors and retailers can set off input tax credit from services such as transport, rent against GST tax liability which is not available currently.

Doubts:
1. Some companies are enjoying tax incentives or exemptions according to current taxation system so GST effect can be negative on them.
2. Job work performance and stock transfers currently not taxed are likely to be taxed and will affect product outlay.
3. Some FMCG companies import raw materials but it will attract IGST so it will be costly against local products.
4. Beverages and tobacco products will be negatively affected due to taxation at higher rate approximately 40% under GST.

4.1.6. Impact on E-Commerce
1. Up to now, many indirect taxes like VAT, excise duty, CST and service tax by categorizing offering into goods and services while some offerings like digital downloads including software, music, e-books cannot be categorized into goods & services so to decide VAT/CST or service tax will be charged is a challenge.By GST, single tax will be charged across the country. All goods & services will be taxed at single rate so no problem of categorizing.
2. Issues related to interstate movement of goods and services like entry taxes with the requirement of statutory form, way bills, road permits, and local registration will be resolved under GST.
3. Reduction in cost due to elimination of cascading effect of taxes on prices.
Negative Impact:
1. Now the tax will be collected at source and it is the duty of e-commerce firms to file monthly and annual returns and collect tax on supplies of goods & services made by supplier so TCS guideline in the GST will increase workload and cost for e-commerce firms.
2. As small scale business are exempted up to 10 lacs but under GST, E-Commerce firms have to collect tax on every transaction whether relates to small scale. So firstly small firms have to pay tax then they apply for refund impacting negatively the working capital of small firms.
3. Tax Collected at Source (TCS) will affect negatively for goods sold for cash on delivery and later being rejected because firms have to bear tax from their own capital then apply for refund after cancellation.
4. Under TCS, firm will pay tax on price when it purchases the goods from supplier and will have to bear extra burden.

4.1.7. Impact on It Sector
1. It is good for IT industry that GST will eliminate multiple levies and no difference between goods and services for taxation purpose. Under GST, input GST will be available on purchase of goods required for setting IT infrastructure which will reduce cost in long run.
2. No need to invest in logistics of creating warehouses in every state of country.
Negative:
1. Cost of electronics like mobile phones, laptops will rise because GST rate will be more than current duty on manufactured goods.
2. 2. Currently, IT companies are registered under single CST authorities so all accounting and billing is done from a centralized location. Due to destination based consumption tax and place of supply provisions, multiple invoicing will be required if services delivered under a single contract are delivered from various offices/ centers of the same entity so it will make billing and invoicing complex for IT industry.

4.1.8. Impact on Media & Entertainment
1. Currently many taxes like entertainment tax, service taxes etc. are charged. Under GST, a uniform tax will be charged (less than multiple taxes) so it will decrease prices of tickets.
2. Cost will also reduce due to availability of input tax credit which cannot be claimed currentlyi.e. payments to artists etc.
Major beneficiary will be Dish TV, PVR so overall positive benefit is expected.

5. Findings
Overall impact of GST will be positive on startup business, automobile sector, tourism industry, FMCG sector, media & entertainment industry while negative in case of hospitality, alcoholic products as well as e-commerce sector.

6. Suggestions
Of course, GST is proven to be an efficient tax collection system but for smooth implementation, there is need of acceptance of GST by general public, businesses & firms, advance planning through continuous dialogues between business and administrators and timely release of legislative documents. Most important is to decide a reasonable rate of tax which should help in reducing inflation, increasing competitiveness of business by reducing prices, increase employment by promoting startup and small business, reducing tax evasion and corruption. So overall the expected impact of GST on Indian economy will be positive.

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