IMPACT OF GOODS & SERVICE TAX IN DIFFERENT SECTORS

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ABSTRACT:
An indirect tax which levy on manufacturing, sale and consumption of goods and services at a national level is called as Goods and Service Tax. The simplicity of this tax would lead to easy administration and enforcement of the tax. The biggest advantage of the GST is estimated to be in terms of the reduction in the overall tax paid by the consumer currently, free movements of the goods from one state to another, and minimization in the paperwork up to a large extent. It is biggest tax reform in a country which combines value added tax (vat), central exercise tax, exercise duty, entertainment tax, luxury tax and other tax on supply of goods. GST is expected to remove the cascading effects of various multi-level indirect taxes on goods and services and will subsume most of the taxes, thus making the country's economy to grow. It is welcomed but simplification of tax regime definitely impact manufacturers, retailers, service provider, start ups and so on. This paper will throw light on impact of the discharged GST.

KEY WORDS:
GST, SGST, CGST, IGST, VAT

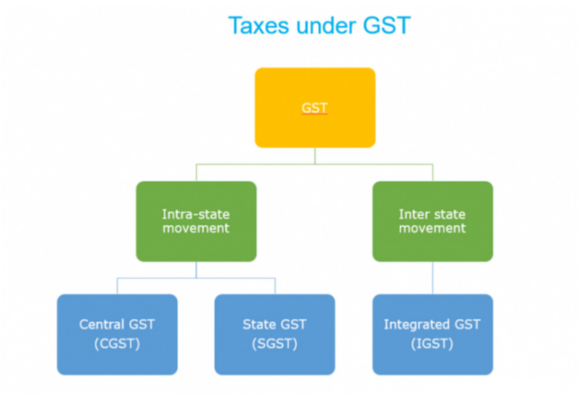
INTRODUCTION

A concept that simplifies the giant tax structure by supporting and strengthen the economic growth of a country. It is an indirect tax at all the stages of production to bring about uniformity in the system. GST is a value added tax where tax is imposed only on the value added at each stage in the supply chain. It is levied at all points in the supply chain. Credit is paid for acquiring inputs used in making the supply.

The varying taxation structure brings diversified impact on various sectors. Some companies will gain more as the GST rate will be lower than the current tax rates they pay; others will lose as the rate will be higher than the present effective rate.

A council has been separately established to monitor function of goods and service tax that is levied and also it approved different rates of taxes on goods and services for the betterment in tax compliance. The rates of individual commodities were taken up for consideration in the four approved slab rates i.e. 5%, 12%, 18% and 28% with additional cess for demerit and luxury goods.

THREE KEY MODEL OF GST:



It is necessary to determine whether Central Goods & Services Tax (CGST), State Goods & Services Tax (SGST) or Integrated Goods & Services Tax (IGST) which will be applicable in a taxable transaction, so it is important to first know if the transaction is an Intra State or an Inter-State supply.

then it is said to be Intra-State supply of goods or services. In Intra-State transactions, a seller has to collect **both CGST and SGST** from the buyer. The CGST gets deposited with Central Government and SGST gets deposited with State Government.

When the location of the supplier and the place of supply are in different states then it is said to be Inter-State supply of goods or services. Also, in cases of export or import of goods or services or when the supply of goods or services is made to or by a SEZ unit, the transaction is assumed to be Inter-State. And the seller has to collect **IGST** from the buyer.

VALUE ADDED TAX:

As a taxation concept, VAT replaced Sales Tax. For a single integrated market in India VAT was introduced to make effect and easy trade transaction. It was implemented in all states and union territories of India, except Andaman and Nicobar Islands and Lakshadweep Islands. Its disadvantages raised a way for GST they are different VAT rates and laws in different states; It was not possible to claim Input Tax Credit (ITC) on service under VAT, Cascading effect of taxes.

EXAMPLE:

The consultant charged 15% service tax on services of Rs 80,000. So, his output tax was Rs 80,000 * 15% = Rs 12,000. Then, if he purchased office supplies for Rs. 20,000 paying 5% as VAT: Rs 20,000 *5% = Rs 1,000. His total tax outflow is Rs 13,000. Because of cascading effect he has to pay Rs.12, 000 (service tax) + Rs.1000 (tax already paid on purchase) more as a tax.

GST CALCULATION AN EXAMPLE:

GST on service of Rs 80,000 @18% = Rs 14,400
Subtract GST on office supplies (Rs 20,000*5%) = Rs 1,000
Net GST to pay = Rs 13,400

CASCADING EFFECT:

Cascading effect is a "tax on tax levied" on a product at every step of the sale. The amount of tax is levied on a value which includes tax paid by the previous buyer, thus, making the end consumer pay.

BENEFITS OF GST:

- Single tax is paid instead of paying many indirect taxes
- Uniformity of tax across the state
- It provide wider coverage on input tax credit setoff
- same type of tax credit can be used for Goods and services
- Ensure better compliance
- Reduced aggregate tax rate
- The benefits of less tax burden would be passed on to the consumer.
- Prices of goods are reduce
- The reduced tax burden makes Indian products to establish its trade in international Market is expected to increase the development of the nation.

COLLISION OF GOODS AND SERVICE TAX:

1. **MANUFACTURERS:**

The manufacturing is a referred to as backbone of the country's economy. Leveraging its resources for maximum economic boost, this then makes way for competitive trade and business to take place – locally, nationally as well as globally. The Make in India project helmed by the Government of India under the leadership of Prime Minister Narendra Modi, is all set to maximize the country's demographic and geographic advantages to build India into a manufacturing and technological hub.

Reduced Cost of Production Under the former tax regime, manufacturers had to pay an excess of 25-26% as production costs, quite clearly due to the effect of cascading taxes such as excise duty (at 12.5%) and VAT (at 14.5%), on the lines of taxing two different taxable events. Now under GST though, tax would be levied on single taxable event. This consequently means goods are expected to get cheaper, thus, driving more sales and lending the concerned stakeholders a strong hold in an increasingly competitive market.

Simplification of taxes levied through removal of differential valuations will now be streamlined and easier to calculate tax.

Subsumed taxes mean less costs and better quality of goods and services a key factor in driving down production costs is that most of the taxes on inter-state supplies that were earlier not creditable but now be available for set-offs, thus, reducing the burden on the manufacturing sector and setting up a steady flow of credit.

now be able to focus more on the quality aspect of the production process rather than merely the commercials, thereby filling the quality gaps in a country severely in need of an up gradation in goods produced.

Most of the supply chain management earlier depended on taxes operating in different states so restructured and streamlined supply chain leading to improved business efficiency.

For example, various warehouses in different states would no longer be needed, and with the extra layers of the supply chain done away with, manufacturing businesses can now slowly focus on strategizing their supply chain with respect to economic, demographic and geographic targets. This result help in improving inventory management, when combined with input tax credit benefits will lead to decreased storage costs, reduce time in wasting at various checkpoints, and ultimately it emergence of a strong manufacturing sector, the immediate effect of which shall undoubtedly be felt in the logistics sector.

With factors like cheap labour, an increased demographic profile and economic expansion, the country is all set to take on rival neighbor China that continues to spell an aggressive boom in the manufacturing space. If GST indeed delivers these results then India will soon become an unstoppable force in this arena.

2. WHOLESELLER:

An interconnected system in which manufacturers, wholesalers, distributors, and retailers will need to work in GST regime to avoid penalties and enjoy the tax benefits it has to offer. So, therefore wholesalers who will come under a tax bracket will have to pay their taxes, or they won't get business at all. Otherwise the other entities like distributors, retailers, etc. in the chain will compliant to claim input tax credits.

In the past taxation system, wholesalers usually buy in bulk and pay in cash. They sell the goods at extremely low profits. The wholesalers are happy with their business in India because most of them don't deal with formal paperwork and use cash for transactions for the most part. But in new regime there is a high taxation for wholesaler but it can be claimed through input tax credit.

Wholesalers who have paid excise duty can receive 100% tax credit but only if they can furnish appropriate invoices. If that's not the case, they will only get 40% of the excise in the form of tax credits.

Increased Business Costs, To complaint GST and avail its benefits, wholesalers will need to maintain and record their transactions, furnish returns, and do a lot more works for claiming ITC. Moreover the majority of them will also need to pay higher taxes. So, doing business has become an expensive affair.

The manufacturers can't sell their every product on their own; they are likely to try helping the wholesalers through better pricing and higher commissions, etc. Distributors, on the other hand, would have already adapted to the GST regime to protect themselves, at a smaller cost.

For the most part, the life of an average wholesaler is tough under the GST regime. According to industry, they will need at least a few months to adapt to the changes and get back on track. However, they will still benefit with an organized system, in the long run, that's for sure.

3. RETAILER:

A key pillar of the Indian economy is retail business. . The Indian retail market is estimated to seen as business friendly and a step towards making it easier global retailer to do business in India. The industry is in need of strategic decisions that will be impacted on implementation of GST.

In the past tax structure, most retail products are subject to excise duty, VAT, CST, service tax on warehousing, consulting and rent, Octroi and entry tax. The impact of GST on retailers will be a significant reduction of the tax burden on retailers. GST will streamline everything into one single tax so that it will be easier for the retailer to understand the taxation and to pay it in one shot.

With most taxes getting subsumed under the GST structure**,** retailers and distributors will now be able to avail credit on the taxes levied, and such accessibility of input tax credit at various stages of the commercial process would effectively lead to reduced prices, which can safely be considered a win-win scenario for both the manufacturing and other related sectors and the end consumer.

The transportation industry will be able to carry more goods from one state to another. The time will also reduce in transporting goods as inter-state boundaries will become free-flowing. GST will help the retail sector become more efficient in their operations.

In the new GST model, everything will have to be accounted any supply without consideration will attract tax. Retailers give gifts and promotional items with products as a part of their overall marketing strategy. However, they have to pay taxed on gifts and promotional items therefore; they have to re-think their promotional strategies.

It will make retailers to evaluate their network as it provides opportunities for retailers to expand their business. It will give them the freedom to draft better business strategies and implement it for further growth of the retail sector.

confusion of taxation in different markets. Once business of retailer is registered can easily expand their business beyond boundaries and then can carry operations across all states. This will lead to growth of the retail market and boost the economy of the country.

Retailers will be able to carry out their businesses with more easily as taxation and its complication has reduced thereby saving them time and energy to focus better on their operations.

4. **FMCG (FAST MOVING CONSUMER GOODS):**

The Fast Moving Consumer Goods sector is the fourth largest sector in the Indian economy. They are popularly named as consumer packaged goods. Items in this category include all consumable products (other than groceries/pulses) where people buy at regular intervals. It is also one of the fastest growing sectors.

FMCG has to pay various taxes like VAT, Service Tax, Excise Duty, and Central Sales Tax. Once the GST has implemented it has become one single point of tax. The past tax rate for the FMCG industries were about 22-24%. But GST rate of 18-20 % which may vary for the different industry. No input credit was available for certain taxes like CST, CVD, and SAD under the past tax regime. Whereas under GST, there would be input credit available for all the GST payments made in the course of business.

FMCG sector has also benefited from GST in the form of saving a considerable amount of expenses on logistics. Due to the smoother supply chain management, payment of tax, claiming input credit, removal of CST under the GST regime there will be a cost reduction in terms of transportation and storage of goods. It is expected that the reduction in cost and taxes would make the consumer goods cheaper.

5. **AGRICULTURE**:

The GST has predicted positivity on agriculture sector. It improves the transparency, reliability, timeline of supply chain mechanism. Because an improved supply chain mechanism reduce the time taken for inter-state transportation and reduce for the farmers.

Interstate trade led to achieve the objectives of National Agricultural Market, Because of increasing of tax credit. Exporters need not pay GST on their exports, but Both CGST and SGST will be levied on import of goods and services into the country.

NAM is an agriculture market created by central government. In this farmers and traders were involving in regulating the market. Agri products are mainly sold through this market only.

Agriculture products are perishable in nature, so GST has creating a crucial path for implementing NAM. Submission of tax has created free supply chain mechanism which makes free movement of agri commodities across India.

An increase in the cost of few agricultural products is anticipated due to the rise in inflation index for a brief period. The GST is benefiting the distributors, farmers in the long run as there will be a single unified national agriculture market by helping them to sell their produce for the best available prices.

6. **PHARMA INDUSTRY**:

The biggest tax reform which all industries are witnessing today is GST. There is a great deal of uncertainty surrounding in pharmaceutical industry in its supply chain. As per the GST norms pharmaceutical companies have to pay more in manufacturing cost as raw material cost has goes up and hence the MRP of the product is increased as that of impact.

Drug price has been started to control by the government and also capping MRPs of certain compounds, resulting in a loss born by pharmaceutical manufacturers and marketing companies. Paying higher GST on finished product, the total net impact resulting to burden for the end consumer.

This industry gets benefit from GST by creating a level of field for drug makers. It also plans for medical tourism which will encourage more reform in medical field. The simplified tax structure hope pharma sector an affordable health care.

The pharmaceutical industry was hoping the GST rate on life-saving drugs would be zero. The rates in the GST regime are slightly higher than previous tax regime. Ayurvedic medicines could get costlier as they would be taxed at the rate of 12%. The sector is hopeful of making refund process fast and simple, this coupled with savings in warehousing and logistics cost may anticipate a positive impact.

The bigger issue lies in holding the inventory on which new GST norms will apply goods were previously purchased on respective VAT rates. Here distributors and retailers will feel difficult to handle total inventory.

7. **TELECOMMUNICATION:**

The telecom sector is more vibrant, price-sensitive and has a high growth potential market. The major concern for the telecom service provider is cenvat credit but GST regime avoids such taxes.

development, it is necessary that the cost of the telecom service provider decreases, which will result in lower tariff rates and broader consumer base. Considering an overall objective, the proposed GST framework seems to have addressed the concerns of the telecom sector.

An additional of 3% tax with the shift to GST satisfies the telecom companies. A service tax of 15% applied to telecom services earlier. Post-paid subscribers will see a roughly 2.6% additional to their gross bill. But official in Bharti Airtel Ltd and Idea Cellular Ltd are likely to absorb the additional cost for many of their pre-paid tariff packs. On the other hand, the availability of input tax credit is expected to reduce operating costs and capital expenditure. Thus, the impact on profit margins could be small.

8. AUTOMOBILE INDUSTRY:

The automobile industry is the biggest industry providing a large number of cars and bikes annually, fueled mostly by the huge population of the country. GST provides in-depth analysis for cost of product in automobile industry as it is with submissed tax system.

The importers can claim GST on importing goods which is not available in VAT system. Improved supply chain mechanism will help the manufacturers in procuring auto parts at cheaper rates.

The rates of automobiles were 28%. GST will be beneficial for small families and those who comes under the tax calculation. There are lots of free service availed by car manufacturer to be competitive in its environment but when it comes under GST even the service providing also should be taxed. Hence this will reduce the purchasing cost and competitiveness in the automobile industry.

9. ELECTRONICS:

Electronic manufacturer are attracted to additional tax rates. It leads to an impact on gross domestic product. These electronic products are consumer durables which are daily used by consumer’s mostly lower income families, so it automatically becomes a luxury product.

The electronic item comes under the highest slab rate of 28%. Tax compliance can go hand in hand and make electronic and technology to suit the industry in future. This sector has lowered the discounts and margins to keep the price in check and maintained decency in the market.

The electronic industries of India welcome the new structure of GST tax regime as it brings new era for its landscape of modern India. GST deeper penetrate digital service into consumerism of India. The ultimate cost of warehouse and logistics are now reduced for the benefit of the consumer.

Here the GST rates prove detrimental to the industry furthering impact on sales. The exchange of the product and discount received will not be considered anymore for tax deduction. The GST tax system has changed production based taxation to a consumption based one. This has provide an opportunity to service provider to benefit the tax efficiency and additional profit on supply.

10. START UPS:

To start a business an entrepreneur has to get just one license for their company inspite how many states they do business. Expansion of business becomes seamless now. Many entrepreneurs will not do business with other state because of issues with taxation and clearance but GST has brought down the logistic costs for many business.

There is a lower exemption limit for manufacturing unit were its turnover is less than 1.5 crore need not pay any duty. Because of this there will be more SMEs and start ups thereby impacting their bottom-line. If the business has a turnover less than 75 lakhs, they need not to collect tax from its customer and they will be allowed for input tax credit. Any business with turnover less than 20 lakhs and even doing e-commerce business also should be registered even though it has inconvenience in doing so.

For compliance of there is required of more manpower because regular updating and on annual basis of 37 returns has to be filled it depends upon the manufacturing business that carried out. When once the industry has recovered from understanding and implementing of GST

GST is a completely new tax regime already taking India by storm. Especially startups will face challenges in understanding and implementing GST, it will lead to more transparency and accountability which will be good for doing business.

CONCLUSION

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. The GST will have a radical impact on Indian businesses with regard to all taxation. The tax structure of products and services will change, taxes on products and services will be streamlined, the effort involved in compliance will reduce substantially and tax payment will be made more efficient.

The common market will lead an efficiency in scale of production and with the removal of cascading effect of taxes will fix cost of production of goods and services and also significantly reduce cost of such cost etc. It is also encouraging foreign direct investment and creating job opportunities.

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