Research Guru
Online Journal of Multidisciplinary Subjects (ISSN : 2349-266X)
UGC Approved Journal No. 63726
Impact Factor:3.021 website: www.researchguru.net
Volume-11,Issue-3,December-2017

CONCEPT OF GOODS AND SERVICE TAX AND ITS IMPACT ON MANUFACTURING INDUSTRY IN INDIA – A BRIEF STUDY

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Abstract
GST is one of the most crucial tax reforms in India which had been long pending and now implemented from 1st July, 2017. It is a comprehensive tax system that has subsumed all indirect taxes of states and central governments and unified economy into a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. This paper presents an overview of GST concept, various GST Rates of selected Goods and Services and impact of GST on manufacturing industry.
Keywords: *Tax, Indirect tax, Goods and Service Tax (GST), GST Rates, Manufacturing industry.*

Introduction:

The Indian Taxation framework can be comprehensively partitioned into two noteworthy classifications Direct Taxes and Indirect Taxes. The terminology is simply in light of whether the taxation rate is borne the by the payer specifically or moved to others in the value chain. The Manufacturing sector itself is significantly administered by the Indirect Taxes regime. The Indirect Taxes were further famously named as Excise Duty, Sales Tax and Service charge. This is the present taxation system prevailing in India in the manufacturing sector.
The "Make in India" campaign has given a gigantic lift to India's position on the world guide as a manufacturing hub.

In any case, more essentially for us, it guarantees to do wonders for the manufacturing area – which has seen a stale stage over the most recent 2 decades and as of now adds to 16% of our GDP, according to IBEF. What's more, that, most likely means uplifting news for our manufacturers.

While the government has a full armoury of thoughts, advancements, and procedures on the most proficient method to "Make in India" happen – it has as of now propelled its first weapon – GST.

Literature Review

Agoga Mawuli (2014)[i] studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Ehtisham Ahmed and Satya Poddar (2009)[ii] studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simplier and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Dr. R. Vasanthagopal (2011)[iii] studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Garg (2014)[iv] focused on the impact of GST (Goods and Services tax) with a brief description of the historical scenario of Indian taxation and its tax structure and discussed the possible challenges, threats and opportunities that GST brings to strengthen our free market economy.

Objectives of the study

1. To study the theoretical concept of Goods and Service Tax
2. To study the impact of Goods and Service Tax on Manufacturing industry

Research Methodology

The present research work is based on secondary data available in various journals, articles, government websites, newspaper and magazines.

Concept of Goods and Service Tax

India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1st July 2017.

The concept of GST was visualized for the first time in 1999. On 8th August 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and enactment of the bill in early September.

The GST Council consisting of representatives from the Central as well as state Government, met on eighteen occasions in last ten months and cleared –

1. GST laws,
2. GST Rules,
3. Tax rate structure including Compensation Cess,
4. Classification of goods and services into different rate slabs,
5. Exemptions,
6. Thresholds,
7. Tax administration

In April 2017, the Central Government enacted four GST Bills:

1. Central GST (CGST)

2. Integrated GST (IGST)
3. Union Territory GST (UTGST)
4. Bill to Compensate States

In a short span of time, all the states (excluding Jammu and Kashmir) approved their State GST (SGST) laws. Union territories with legislature, i.e., Delhi & Pondicherry, have adopted SGST Act and the balance 5 Union territories without legislatures have adopted UTGST Act.

The government has also notified GST rules, tax rates on goods and services, exemption list and categories of services on which reverse charge is applicable.

The second phase of enrolment process for migrating existing taxpayers to the proposed tax regime through GST common portal has already commenced from 1st June 2017. GST Network, an IT backbone of GST, has also carried out the test run of its Portal. GSTN has released offline utility for GSTR-1.

Return filing procedure for the first two months of GST implementation is relaxed. Tax would be payable for the first two months based on a simple return Form GSTR – 3B containing a summary of outward and inward supplies. This form is required to be submitted before the 20th of the succeeding month. However, invoice details in regular GSTR-1 would also have to be filed for the month of July and August 2017, as per the timelines given below:

Return for month	**GSTR – 1**	**GSTR – 2 (auto populated from GSTR-1)**	**GSTR 3**	**GSTR 3B**
	Due date	**Due date**	**Due date**	**Due date**
July 2017	1—5 September	6—10 September	15 September	*25 August
August 2017	16—20 September	21—25 September	30 September	20 September

***** Registered persons who are entitled to avail transitional input tax credit and opting to file Form GST TRAN-1 on or before 28th August, 2017 can file Form GSTR-3B on or before 28th August, 2017

<u>Rate classification for goods</u>

Exempt	**5%**	**12%**	**18%**	**28%**	**28% + Cess**
1. Food grains **2.** Cereals **3.** Milk **4.** Jaggery **5.** Common Salt	**1.** Coal **2.** Sugar **3.** Tea & Coffee **4.** Drugs & Medicine **5.** Edible Oil	**1.**Fruit **2.**Juices **3.**Vegetable **4.**Juices **5.**Beverages containing milk **6.**Jams	**1.**Kitchenware **2.**Hair Oil **3.**Soap **4.**Toothpaste **5.**Glass fibre	**1.** Air conditioner **2.** Refrigerators	**1.** Small cars (1% / 3% cess) **2.** Luxury cars (15% cess)

Rate classification for services

Exempt	5%	12%-18%	28%
• Education • Healthcare • Residential accommodation • Hotel/ Lodges with tariff below INR 1000	• Goods transport • Rail tickets (other than sleeper class) • Economy class air tickets • Cab aggregators • Selling space for advertisements in print media	• Works contract • Business Class air travel • Telecom services • Financial services • Restaurant services • Hotel/ Lodges with tariff between INR 1000 and 7500	• Cinema tickets • Betting • Gambling • Hotel/ Lodges with tariff above INR 7500

Only rates of selected goods and services have been mentioned here

- GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins – **3%**
- GST rate on rough diamonds – **0.25%**[v]

Impact on Goods and Service Tax on Manufacturing Industry

Goods and Service Tax is just implemented nationwide on 1st July 2017 and its impact on various sectors will be clear in a short time but probable impacts on manufacturing industry due to Goods and Service tax implementations are discussed below:

1. **Diminished Cost of Production**

   Under the present circuitous expense administration, a maker can't assert assess credit on the central sales charge paid on between state acquirements. Additionally, there are other non-respectable assessments like Octroi, local body charges, entry tax and so on. This adds to the cost of production. This issue proceeds into the post producing stage, since taxes fell. Like the producer – distributors, dealers and retailers too are unable to claim tax credit on their input – at last expanding the cost of goods for the end consumer. This directly affects the competitiveness of goods made in India versus goods which are imported, and end up hitting the Indian manufacturer indirectly. One of the best shelters of GST to the nation in general is – reduction of the cascading impacts of taxes. Tax set-offs are allowed both for goods and services at the production stage – lessening the effective indirect tax and keeping up a relentless credit stream for the producer. Not only that – as a maker, one need not take the strain of choosing where to obtain from – with GST coming into the photo, a producer can claim input tax credit independent of where he sources from – local, between state or import (with the sole exemption of Basic Customs Duty, which will keep on being collected on imports).

2. **MRP valuation strategies**

   At present, made merchandise are liable to excise duty – which right now is being ascertained by means of different strategies. At times – Ad Valorem (on transaction value) is embraced; in some cases Ad Quantum (on quantity) is adopted; sometimes a mix of both. A large portion of the manufactured goods follow MRP valuation, wherein the duty is computed in a predetermined rate of most extreme retail cost. What adds to the inconvenience is that the MRP valuation rules themselves are to a great degree tumultuous. Under the GST regime, GST is payable by the producer at the transaction value, and is creditable for all subsequent resellers dependent upon the last shopper. Accordingly, the unnecessary duty load of the MRP administration will no more a chance to be pertinent. This will make life straightforward for a producer.

3. State Wise Registration versus Industrial Registration

Prior, a producer needed to take various duty enlistments for different production lines, despite the fact that they were available in a similar region or state. To put it plainly, this was a consistence bad dream for any producer who thought ambitiously. Be that as it may, in GST administration, since the thought for taxable occasion is supply, a similar producer can now go for a solitary enlistment for each of the 10 units inside a solitary state. Along these lines, not any more separate enrolment for the same taxable maker in a State.

4. Diminishing of classification disputes

Right now, because of fluctuating rates of excise duty and VAT on various items, and in addition a few exceptions given under the excise and VAT enactments, grouping debate are a standard reason for prosecution under both central excise and VAT, particularly for the manufacturing sector. With the beginning of GST which works on a rearranged rate structure and minimization of exclusions there will be a huge lessening of debate in regards to grouping of items.

5. No Dual Control

In the present administration, a maker is subjected to double control since he is ordinarily evaluated by the Center for Excise and by the State for VAT. In the GST period as well, since a producer will be subject to pay both CGST and SGST there was a honest worry that a maker will keep on being evaluated dually. This part of double control has been profoundly examined and discussed by both states and centers. Under the proposed GST administration, 90% of all evaluates with a turnover of INR 1.5 crore or less will be surveyed for investigation and review by state experts, the staying 10% by the Center. Over that cut-off, Center and states will evaluate in a 50:50 proportion. This progression will most likely go far in satisfactorily securing the enthusiasm of little brokers, and making the GST move a smooth and powerful one.

6. State Incentives

Organizations need set up units with critical financing outlays in view of incentives offered by States under their particular investment promotion strategies. These incentives are generally in the structure from claiming duty incentives (lower duty rates, refund /deferment of taxes etc.) and non-tariff incentives (economical area rent terms, lower electricity duty and so forth). During present, States have that adaptability to such incentives. However, under the GST regime, such adaptability provided to the States is likely to be curtailed with accomplish those exceptional impact about consistency. Further, those model GST law doesn't elucidate the destiny for present incentives. Organizations which need built their money related projections around these fiscal incentives might reassess their projections. That usage of GST will additionally indicate move away starting with those producer state charge framework to utilization state charge framework. Producer States will bring lower monetary incentive to offer such concessions, as GST will be a chance to be credited to the state where the supplies are consumed, concerning illustration contradicted of the exhibit circumstances the place the producer state will be credited for national sales tax around inter-state bargains.

7. **Zone built incentives.**

Manufacturing units delight in exemption of taxes in view of their area clinched alongside specified retrograde areas, capital investment and so forth. There will be no clarity under those model GST law on the medication from claiming such region built exemptions. Provided for this uncertainty, organizations ought to make a representation of the administration to suitable payment for those unutilized parcel of such incentives.

8. **Expanded working capital**

Effect for working capital might be noteworthy to those manufacturing segment. Under those present regime, stock transfers need aid not liable with expense. However, under the GST regime, stock transfers are deemed to be supplies and are subject to GST. If GST paid in this phase might be accessible as credit, acknowledgment of this GST might best happen the point when that last supply is inferred. This might liable bring about money stream blockages hence organizations might need with reconsider their supply chain management methodologies will minimize this way with respect to their money streams.

9. **Exclusion of petroleum from GST**

The central government will proceed to impose excise duty around five petroleum products (petroleum crude, high speed diesel, engine spirit, natural gas and aviation turbine fuel), while state governments will keep on going should force VAT ahead these petroleum items. Currently, credit of excise duty paid around specified petroleum items will be accessible. However, prohibition about petroleum items starting with GST will add to those cost of manufacture as excise duty ahead such results might not be creditable under the GST administration.

10. **Discounts**

Those model GST law stipulates that post supply rebates would be excluded from those transaction value, provided such rebates are known at or before the time of supply of products and are interfaced of the invoices for such supply. Organizations might necessity should investigate existing post supply discounts/incentive schemes the place the quantum of rebate is not referred to in the supply phase.[vi]

Conclusion

Those manufacturing segment stands to profit fundamentally with the introduction of GST. The generally diminishment from claiming cascading impact of taxes, particularly on the post-manufacture phase of the supply chain ought to bring a sure impact on the cost of manufactured products in the control of consumers. However, worries stay looking into particular issues for example, those extra 1% root tax and expanded money stream issues by virtue for GST payable on stock transfers, and expanded expenses owing to prohibition for petroleum fills from those ambits of GST. The government should look into these issues on additional point of interest though its sharp will push its 'Make in India' activity.

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