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GST AND ITS IMPACT IN INDIA

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Abstract
*Goods and Services Tax (**GST**) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. GST is levied on the supply of goods and services manufacturing, sales and consumption of goods.. It can be termed as biggest tax reform in Indian Tax Structure. GST Law has replaced many indirect tax laws that previously existed in India. It will not be an additional tax; it will include central excise duty, service tax additional duties of customers at theoretical level, VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax, lottery tax and other surcharge on supply of goods and services. The purpose of GST is to replace all these taxes with single comprehensive tax, bringing it all under single umbrella. The purpose is to eliminate tax on tax. This article examines the impact of GST on manufacturing sector, service sector, Hotel and restaurant industry, food industry, Textile industry and Cement industry in India.*

Keywords: Goods and services Tax, manufacturing sector, service sector, Comprehensive Tax.

Introduction
The goods and services tax (**GST**) is a value-added tax levied on most goods and services sold for domestic consumption. The tax is levied to provide revenue for the federal government. The **GST** is paid by consumers, but it is levied and remitted to the government by businesses selling the goods and services. In effect, GST provides revenue for the government.In other words, GST is an indirect federal sales tax that is applied to the cost of certain goods and services. The business adds the GST to the price of the product; a customer who buys the product pays the sales price plus GST; and the GST portion is collected by the business or seller and forwarded to the government.

The **GST** is a consumption based tax levied on sale, manufacture and consumption on goods & services at a national level. State **GST** (SGST) is levied by State. Integrated **GST** (IGST) is levied by Central Government on inter-state supply of goods and services. Though there are various sectors and industries in India, in this article only the GST effect of manufacturing sectors and service sectors have been taken for study. Of these, the impact of GST on restaurant and food industry, Textile industry, Real Estate industry cement and construction industry are analyzed

GST in India
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 1 July 2017. The concept of GST was visualized for the first time in 1999. On 8 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 consists of representatives from the Central as well as state Government.The council cleared GST laws, GST rules, tax rate structure including compensation cess, classification of goods and services into different rate slabs, exemptions, thresholds and tax administration

On 12 April 2017, the Central Government enacted four GST Bills: such as Central GST (CGST) Integrated GST (IGST), Union Territory GST (UTGST) and 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 &Puducherry, 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 1 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, as per the timelines given.

GST Model in India
India follows Concurrent Dual GST‖ model. The reason for a Dual GST model is based on the following principles:

- At existing framework, both levels of Government i.e. Centre and State, as per Constitution holds concurrent powers to levy tax on domestic goods and services;

- The proposed Concurrent Dual-GST model would be a dual levy imposed concurrently by the Centre and the States, but independently;
- Both the Centre and State will operate over a common base, i.e. the base for levy and imposition of duty/tax liability would be identical.

To understand the operating procedure of Concurrent Dual GST Model‖ one who has to consider the tax/taxes which shall be levied as per place of supply of goods and services.

- CGST – Central Goods and Service Tax
- SGST – State Goods and Service Tax
- IGST – Integrated Goods and Service Tax

Additional Tax (up to 1%) is to be levied in case of inter-state supply of goods.

Merits of GST

1. **Quality of Services :** GST will help in improving the quality of services as there will be just one tax to calculate, the checking out process at hotels and restaurants will now become easier another perk that the hospitality industry can brag about.
2. **Time Saving:** Time is saved since there is only on tax levied
3. **Easy to the Customers:** It is very easy to the customer to understand how much amount of tax he has been charged.
4. **Food will be the Focus:** Food is now charged at 5% which may come as an advantage in most states.

Demerits of GST

1. **High Cost of Services:** A GST of 18% has been levied on room rent; this is much higher than the previous tax regime in most states, on most hotel star categories. Even with GST charged at 18%, there is minimal cost reduction in both cases.
2. **Lack of Equality among other Asian Countries:** As India becomes an even bigger player in the global hospitality and tourism industry; we need services to be at par with global rates. Our Asian neighbors such as Japan and Singapore have very low tax rates for their hospitality sector (8% and 7% respectively) which is an important reason for them ranking high on tourist wish lists.

GST and its Applicability in India

GST is a consumption based tax. It is based on the "Destination principle." GST is applied on goods and services at the place where final consumption happens. GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale. The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system.

Impact of GST on Manufacturing Sector

GST is one of the key policy changes that will have a direct impact on manufacturing establishments. So far, the existing complex tax structure has been a dampener, resulting in the slow growth of the sector. GST is expected to liberate the sector by unifying tax regimes across states. Overall, GST is expected to have a positive impact and boost manufacturing because of the following reasons.

- **Removal of Multiple Valuations:** Most manufactured goods' excise duty is currently considered on MRP valuation. This creates great confusion in valuation methods. GST will usher in an era of transaction-based valuation, making calculation of tax much simpler for the manufacturer.
- **Subsuming of Entry Tax:** The subsuming of the entry tax for inter-state transfers is a key reason for reducing cost of goods and services.. With entry tax being subsumed, the supplier need not pay the entry tax rate amount and consequently, not charge the customer this amount either.
- **Improvement in Cash Flows:** Under the new tax laws, manufacturers can claim input tax credit on input goods, which seems to be a positive sign for cash flow. SMEs are keenly observing the time difference between input tax credit and the credit being available.

- **Flexibility of Registration:** The old regime required manufacturers to register each manufacturing facility separately, even those in the same state. GST will simplify the plant registration process by allowing single registration for all manufacturing entities within the same state.
- **Removal of Cascading will Lead to Lower Cost-to-Consumer:** The old tax regime does not allow manufacturers to claim tax credit on inter-state transaction taxes such as octroi, central sales tax, entry tax etc. This results in cascading of taxes—an extra cost to the manufacturing company. Manufacturers end up passing on these extra costs to the consumer. The unified GST regime will eliminate multiple taxes and thus lower cost of production; this, in turn, will mean lower pricing for the consumer.
- **Restructuring of Supply Chain:** To align with the GST law, businesses will be required to realign their supply chains. However, this is a blessing in disguise. Till date, most supply chain structuring has been designed around how to manage tax regimes. With a single tax regime, this will change, and supply chain structures will focus on driving business efficiencies
- **Increase in Immediate Working Capital Requirements:** Branch transfers and department transfers will be treated as taxable under GST; IGST will be applicable on these transfers. This increases the requirement for immediate working capital. Another reason for increased working capital requirements is that the receipt of advance is taxable as per GST rules. Also, stock transfers are treated as "supply" and hence are taxable under the GST regime.
- **More Stringent and Elaborate Transaction Management:** GST aims to achieve better tax compliance. To make these possible, manufacturers must work towards streamlining existing transactions; this means additional resources and costs. Also, the provision of reverse charge means that the liability to pay tax falls on the recipient of goods/services instead of the supplier.
- **Lack of Clarity on Local Exemptions:** Despite GST being proposed as a unifying platform for indirect tax, all the components for manufacturing are not yet clear. One such area is localized area-based exemptions.

To go over the main points, , it can be said that the impact of GST on the manufacturing sector is positive. It provides a unique opportunity to streamline business operations to become more compliance and profitability-oriented, rather than tax-oriented. It puts power in the hands of business leaders to bring about positive change and steer their enterprises on a growth path, powered by GST-compliance.

Impact of GST on Service Sector

Indirect taxes have always been contributing more than direct taxes to the Government's Revenue. Services solely contribute a major part of the whole Gross Domestic Product (GDP), subsequently; it shows the major contribution of Services in taxes also. Service sector does not only dominate the GDP contribution but attracts the foreign investment towards the Indian Economy. Service Sector contributes significantly in export as well as provides a large scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

Currently Service tax provisions apply to all over India except Jammu & Kashmir because of that Central Govt. has no right to collect service tax on the services rendered in that part of India but as per the Model Goods and Services Tax Law, GST will extend to all over India including Jammu & Kashmir and also allows Central Govt. to collect the service taxes on rendered services in the state of Jammu and Kashmir which will eventually increase the Govt. Revenue.

In previous tax regime, service tax was applicable at the rate of 15% on Services rendered which includes 0.5% for Swachh Bharat Cess and 0.5% for KrishiKalyanCess but in the goods and service tax regime, it has been extended at 18% making the services and works contracts costlier.

In a birds' eye view, GST allows Central Government to collect the service taxes on rendered services in the state of Jammu and Kashmir which will eventually increase the Govt. Revenue.

Impact of GST on Textile Industry

It is expected that the tax rate under GST would be higher than the current tax rate for the textile industry. Natural fibers (cotton, wool) which are currently exempt from tax, would be taxed under GST. Despite this, the textile industry as a whole would benefit from the introduction of GST due to following changes-:

1. **Break in Input Credit Chain:** A significant portion of the textile industry in India operates under the unorganized sector or composition scheme, thus creating a gap in flow of input tax credit. Input tax credit is not allowed if the registered taxpayers procure the inputs from composition scheme taxpayers or the unorganized sector. GST would enable a smoother input credit system, which would shift the balance towards the organized sector.

2. **Reduction in Manufacturing Costs:** GST is also likely to subsume the various fringe taxes like Octroi, entry tax, luxury tax etc. which would help reduce costs for manufacturers in the textile industry.
3. **Input Credit Allowed on Capital Goods:** Currently, the import cost of procuring the latest technology for manufacturing textile goods is expensive as the excise duty paid is not allowed as input tax credit. Whereas under GST, there will be input tax credit available for the tax paid on capital goods.GST would streamline the process of claiming input tax credit thus allowing the textile industry to be more competitive in the export market. Currently, manufacturers/traders are not inclined towards exports due to the extensive procedure costs and delays made in the processing of duty drawback Under GST, the system of duty drawback will lose its significance. Input tax credit will be provided as a refund under GST instead of current duty drawback schemes. This would be a significant boost for promoting the export of textile products.

Impact of GST on Food Services & Restaurant Business

There are different tax slabs for restaurants depending on their turnover and whether they have air-conditioning or or not. Restaurants with a turnover of less than Rs. 50 lakh is levied a tax rate of 5%. Non-AC restaurants is to be charged 12% tax; Tax rate for AC restaurants and those with the liquor license are 18%;Restaurants in 5-star hotels will attract a GST rate of 28%.The Tax rate under GST regime is to be leviable as supply of services, not as supply of goods on transaction value. Restaurant services have been specified as service. Input is available on the inputs, capital goods and input services used by restaurant service supplier.

- Under GST laws, the restaurant owner in the restaurant industry is liable to pay tax on supplies from unregistered persons at full rate under reverse charge mechanism (RCM) as the restaurant owners have to make a lot of supplies from unregistered persons. Under the VAT regime, composition holders are not liable to pay purchase tax on purchases made from unregistered persons.
- Rs. 75 Lakh for composition is too low to get the real benefit. Under VAT laws, restaurants are enjoying higher limits with lower tax rates.
- Restaurant service providers and hoteliers are in for real hardship under GST regime with higher burden of taxation on outward supplies. There will also be issues with regard to compliance under GST regime where the supplier has to maintain accounts and documentation meticulously to claim Input Tax credit and also comply with the different provisions of the GST laws.

Impact of GST on Real Estate Business

As the country switches to GST from July 1, the new indirect tax regime will subsume nearly a dozen of central and state taxes, including excise duty, value-added tax (VAT) and service tax. To ensure that developers pass on the benefit to the final customer, the government has included an anti-profiteering clause in GST law. Under this law, it is mandatory to pass on the benefit of tax reduction due to input tax credit to the final customer. One of the significant changes in GST is input tax credit, where credits of input taxes paid at each stage of production or service delivery can be availed in the succeeding stages of value addition, thus helping eliminate "tax on tax".

Impact on Residential Real Estate

Analysts say that for the residential real estate sector, the implementation of GST will be a sentiment booster for property buyers though there could be short-term challenges for developers in transitioning to the new tax regime. Some experts don't see much of an impact on prices in the short term. GST may not be instrumental in bringing down the prices of residential real estate over the short term. However, it will benefit all the stakeholders of the residential real estate sector, as the perception of the sector will improve on the back of a simplified tax structure.

Benefit to Property Buyers

According to the GSTrule, all under-construction properties will be charged at 12 per cent on property value (excluding stamp duty and registration charges),.But it will not apply to completed and ready-to-move-in projects, as there are no indirect taxes applicable in the sale of such properties. In case of under-construction properties, levy of stamp duty and registration charges on the buyer will continue.A simple and transparent tax regime applied on the purchase price under GST is the biggest take away for property buyers.

Benefit to Developers

Consistent with the present tax system, a property developer is subject to central excise duty, VAT and entry taxes (levied by state) on construction material cost. On the services used (labour charges, architect fees, approval charges, legal fees, etc), developers pays service tax of 15 per cent. Real estate developers also grapple with the challenges of multiple-taxation and the cumulative burden eventually gets passed on to the buyer.

Impact of GST on Cement Industry

Real estate sector is the major consumer for cement industry. However the growth in the sector has been nearly stagnant for the past few years. Several reforms taken by the government are expected to give realty sector a boost. Strong growth in the real estate sector, increasing government projects on infrastructure development and implementation of stringent regulatory norms will help in boosting demand for naphthalene and poly carboxylate (PCE) based admixtures in India by the coming next five years. Again the major names among the naphthalene and PCE based admixtures manufacturers in the country include BASF, Fosroc and SIKA.

India is the second largest cement producer in the world and in the next 10 years, India can become the net exporter of cement and clinker. The main raw materials for cement are limestone, coal and electricity. Limestone, for quarrying, the cement companies have to pay royalty to the state governments and for coal, apart from the GST, there will be levy of clean energy cess which is not available as a credit because it is not part of the GST regime subsumes. So, therefore, as far as the cement industry is concerned, these two factors will continue to be outside the GST and therefore, it has to be absorbed as cost of the cement production.

If GST is levied on electricity, again it is going to increase the cost. So all this is available as a credit while paying GST on the cement. The service tax paid on the transportation cost, etc. if it is not made available at the dealers' level, all becomes cost of the cement production and unless and until the rates of GST on cement is kept at the level of not more than 12 percent, it is going to have adverse impact as far as the infrastructure industry is concerned.

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Conclusion

GST is expected to have a positive impact and boost manufacturing sector because of multiple valuations are removed. It results simplification of tax is possible. The subsuming of the entry tax for inter-state transfers is a key reason for reducing cost of goods and services. Manufacturers can claim input tax credit on input goods, which seems to be a positive sign for cash flow. GST will simplify the plant registration process by allowing single registration for all manufacturing entities within the same state. The unified GST rule will eliminate multiple taxes and thus lower cost of production; this, in turn, will mean lower pricing for the consumer. It has been observed that in previous tax system , service tax was applicable at the rate of 15% on Services rendered which includes 0.5% for Swachh Bharat Cess and 0.5% for KrishiKalyanCess but in the goods and service tax regime, it has been extended at 18% making the services and works contracts costlier. Input tax credit will be provided as a refund under GST instead of current duty drawback schemes. This would be a significant boost for promoting the export of textile products. Restaurant service providers and hoteliers are in for real hardship under GST regime with higher burden of taxation on outward supplies. There will also be issues with regard to compliance under GST regime where the supplier has to maintain accounts and documentation meticulously to claim Input Tax credit and also comply with the different provisions of the GST laws. It is mandatory to pass on the benefit of tax reduction due to input tax credit to the final customer.

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