IMPACT OF GST ON SELECTED CORPORATES IN INDIAN ECONOMY

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ABSTRACT

GST is a taxation procedure for goods and services transported from one destination to other it was discussed for years by the government of India to get implemented. Taxation and its associated governing laws, in the current scenario, is playing a significant role in the life of business. Individual also for the government for the betterment of policies for social goods. This paper is designed to provide an overview of the impact of GST when implemented. The paper is made using exploratory research methodology using secondary data. The study lends information that, GST is beneficial for most of the industrial sector. This is due to the fact that, as of now Indian government is not charging any tax on agricultural goods for domestic consumption wherein, when GST is implemented, tax will be imposed on agricultural products also. This may lead to rising in the price of the agricultural products, which is considered to be basic entity for the survival. There on implementing GST paves a path for India's industrial and implementation tax policies on certain commodities will create a beneficial impact on industry., individual and economy of India. This study is focusing an impact of GST on selected sectors of Indian Economy.

Keywords: Zero rated supply, Industrial sector, Tax Regime etc

INTRODUCTION

Goods and service tax (GST) is a proposed system of indirect taxation in India merging most f the existing taxes into single system of taxation. It was introduced as the constitution (one hundred and first amendment) Act 2016. The GST is administered governed by GST council and its chairman is union finance minister of India Arun Jaitley. GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments.

This method allows GST- registered businesses to claim tax credit to the value of GST they paid on purchase of goods on services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods on services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services. Exports would be considered a zero rated supply & imports would be levied the same taxes as domestic goods & services adhering to the destination principle in addition to the customs duty which will not be subsumed in the GST.

The introduction of goods and service tax would be a significant step in the reform of indirect taxation in India. Amalgamating several central & state taxes into a single tax would mitigate cascading or double taxation. Facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement from the consumer point of view. The biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%, 30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paper work to a large extent.

LITERATURE REVIEW

1. **Shefali Dani (2016)**

The paper explored the way of doing "Impact of Goods & service Tax (GST) on Indian economy" The study focused on GST will simplify existing indirect tax system & will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues f threshold limit, revenue rate & inclusion of petroleum products, electricity, liquor and real estate.

2. **Girish Garg (2014)**

Conducted research on the topic "basic concepts and features of goods and service tax in India" and fund that GST in the most logical steps towards the comprehensive indirect tax reforms in our country since independence.

3. **Dr. R. Vasanthagoval (2011)**

Studied "GST in India, a big leap in the direct taxation system" and found that positive impacts on dependent on a neutral and rational design of the GST.

OBJECTIVES OF THE STUDY

1. To study the Historical background of GST
2. To study the impact of GST on selected sectors in India.
3. To give suggestions based on findings.

RESEARCH METHODOLOGY

This study purely based on secondary data and it has been collected from various news papers, reports, published articles, internet have been used for collecting of secondary sources information.

SCOPE OF THE STUDY

This study covers the history of GST, advantages, disadvantages of present tax structure and impact on selected sectors namely bank, consumer staples, consumer discretionary, media, telecom, auto, metals, cement, pharma and real estate.

LIMITATIONS OF THE STUDY

1. Time s the main constraints.
2. This study based on secondary data only.
3. It concentrate only few sectors.

HISTORY OF GST

The reform process in indirect tax regime of India was started n 1986 by Vishwanath Pratap Singh by introduction of modified value added tax (MODVAT).

Goods & service tax (GST) will subsume various indirect taxes including central excise duty, services tax, additional customs duty. Surcharges and state level value added tax. Other levies which are currently applicable on interstate transportation of goods are also likely to be done away with in GST regime.

WHAT IS GST?

The main objectives of the GST is to unify the taxes levied by the center and the states into one uniform rate. GST is a uniform indirect tax levied on gods and services across a country. Many developed nations tax the manufacture, sale and consumption of goods using a single, comprehensive tax.

India inc responded positively on the news of GST passing in Rajya Sabha stating it will add to the efforts of ease of doing business in India in coming years.

IMPACT OF GST ON INDIAN ECONOMY

The introduction of Goods and Service tax (GST) in India is now on the horizon. The constitution Amendment bill to replace existing multiple indirect taxes by uniform GST across India is likely to be taken up for voting in Rajya Sabha during this week Lok sabha has already passed this bill.

The current indirect tax structure is major impediment in India's economic growth and competitiveness. Tax barriers in the form of CST, entry tax and restricted input tax credit have fragmented the Indian market. Cascading effects of taxes on cost make indigenous manufacture less attractive. Complex multiple taxes increase cost of compliance. In this scenario, the introduction of GST is considered crucial for economic growth. GST will have quite a favourable impact on Indian economy. Some sectors will have more favourable impact compared to others under the proposed GST.

Removal of tax barriers on introduction of uniform GST across the country with seamless credit, will make India a common market leading to economy of scale in production and efficiency in supply chain. It will expand trade and commerce. GST will have favourable impact on organised logistic industry and modernised warehousing.

GST will remove cascading effect of taxes imbedded in cost of production of goods and services and will provide seamless credit throughout value chain. This will significantly reduce cost of indigenous goods and will promote 'Make in India'. The sectors which have long value chain from basic goods to final consumption stage with operation spread in multiple states such as FMCG, pharma, consumer durables, automobiles and engineering goods will be the major beneficiaries of GST.

GST will facilitate ease of doing business in India. Integration of existing multiple taxes into single GST will significantly reduce cost of tax compliance and transaction cost.

Stable, transparent and predictable tax regime will encourage local and foreign investment in India creating significant job opportunities.

Electronic processing of tax returns, refunds and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion. Built-in check on business transactions through seamless credit and return processing will reduce scope for black money generation leading to productive use of capital.

Significant reduction in product and area-based exemptions under GST will widen the tax base with a consequent reduction in revenue neutral rate. This will enable the government to keep GST rates lower which may have favourable impact on prices of goods in the medium term. The tax rate for services however may go up by 2 to 3% from the present level of 15%. The adverse impact of rate increase on services will be partially neutralised by availability of seamless input tax credit.

GST will eliminate the scope of double taxation in certain sectors due to tax dispute on whether a particular transaction is for supply of goods or provision of service such as licensing of intellectual properties like patents and copyrights, software, e-commerce and leasing.
While the GST will simplify tax structure, it will increase the burden of procedural and documentary compliance. Number of returns will increase significantly so also the extent of information. For instance, a real estate developer or contractor will have to file 61 returns in a year compared to 24 returns at present. Similarly a taxable person providing services from several states will have to take registration and file return in all such states. Currently a single centralised registration is required in such cases.

GST will also have impact on cash flow and working capital. Cash flow and working capital of business organisations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.

It is also pertinent to note that all indirect taxes will not be subsumed in GST. Electricity duty, stamp duty, excise duty and VAT on alcoholic beverages, petroleum products like crude, natural gas, ETF, petrol and diesel will not be subsumed in GST on its introduction. These taxes will form part of the cost of these goods when used as inputs in downstream products. Hence those sectors where these goods form significant input cost such as plastics and polymers, fertilisers, metals, telecom, air transport, real estate will not get full benefit of GST.

Major beneficiary of GST would be sectors like FMCG, Pharma, Consumer Durables and Automobiles and warehousing and logistic industry.

High inflationary impact would be on telecom, banking and financial services, air and road transport, construction and development of real estate,

While GST is eagerly awaited by the industry, the legal process to implement GST in India is quite long and complex. After the Constitution Amendment Bill is passed by the Parliament with two-thirds majority, it will have to be passed by at least 15 states. There after GST council has to be constituted which will recommend model GST law and GST rates. On such recommendation, GST Act and Rules have to be enacted by the Parliament and each state assembly. Then implementation date has to be notified. It is therefore quite important that the Constitution Amendment Bill is passed in the current Monsson Session if GST is to be implemented during the tenure of present Parliament which ends during 2019.

IMPACT OF GST ON VARIOUS SECTORS

1. Bank

Current

Customer pays service tax on fees (including cessess) is at 15%.

GST impact

Tax will change to GST rate 18%

Overall impact on banks will low

2. Consumer Staples

Current

Excise rate: 0-12%; VAT: 12.5 – 14.5% for most products and 25-16% for cigarettes; entry tax: 1% (state)

GST Impact

Tax will change to GST rate: 18%

Key stocks (positive): Asian paints, Dabur, HUL, Emami;

Negative): ITC, United Beveries

3. Consumer Discretionary

Current

Current tax rate of 1-2% on precious metals.

Services tax at 15% on quick service restaurant.

GST Impact

CEA recommend raising GST rate on precious metals to 2-5% moderate increase in service tax outgo from GST rate near 18%.

Key stocks (Negative): Jubilant Foodwork, Coffee day enterprises, Titan (depending on rate on previous metals)

4. Media

Current

Service tax on DTH companies – 15%, entertainment tax charged by states – 7% (wghtd. Avg. for Dish TV)

GST Impact

Should benefit from a rate below the total tax incidence (currently 22%)

Key stock (Positive): Dish TV, Videocon DTH, Big TV.

5. Telecom

Current

Service tax on telecom services 15%

GST Impact

Moderate rise in tax incidence could lead to marginal dip in consumption / Teleco revenue.

Key Stocks (Negative) – Airtel, Idea, and Rcom

6. Auto

Current

Excise rates of 2.30%, VAT at 14.5%, central sales tax at 1% on inter-state trade.

GS Impact

Should benefit from a rate below the total tax incidence (currently > 27%)

Key stocks (Positive): Maruti, Exide. M & M Hero, Bajaj Auto, Eicher Motor, Ashok Leyland.

7. Metals

Current

Steel and aluminum, Excise duty of 12.5%, VAT of 4%, central sales tad at 1-2% on interstate trade.

GST Impact

For aluminum and steel the current tax is similar to expected GST rate (18-20%)

8. Cement

Current

Excise rates of 12.5%, VAT at 14%, central sales tax at 1-2% on inter state trade.

GST Impact

Should benefit from as total taxes are 27% although with lower than expected GST rate produces may pass some benefits to consumers.

Key stock (Positive): Ultratech, shree cement, Ambuja cement.

9. Pharma

Current

Excise duty of 4-8% CST of 2%, VAT of 5% (different across states) additional customs duty of 4% (cenvat, credit available.)

GST Impact

GST implementation should bring about supply chain effectiveness over time but if rate is more than 15% could be negative.

Many companies enjoy excise holidays in states such as Himachal Pradesh & Uttarkhand need clarity whether this would be grandfathered.

10. Real estate

Current

Same duty not part of GST companies pay 15-16% taxes on inputs (inpt credit available)

GST Impact

May not be part of GST.

CONCLUSION

GST will improve tax compliance, widen the tax base, remove existing unhealthy competition among states and restructure the burden in relation to taxation equitably amongst the manufacturing and services; implementing GST will make sure uniformity of taxes across the states in India, regardless of place of manufacture or distribution in India. Which is better option when compared to VAT and in terms of administration: GST would integrate the tax base and capable of allowing seamless flow of input tax credit along the value chain of goods & service which will reduced cost of overall goods and services existing. Which may have a positive impact on direct tax. Collection also. It will tone down cascading and double taxation and rabble compliance through the lowering of the over all tax burden on goods and services. India is a rich country, whose people are poor, overall, if GST properly implemented with tax exemption for certain goods. It will result in increasing revenue at the centre as the tax collection system becomes more transpired. Making tax evasion problem vanish and leading to economic growth.

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