"Impact of GST on Service Sector"

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Abstract:-

The Research paper focuses on positive and negative impact of GST on service sector in India. As we know that more than 150 countries have implemented such kind of tax system. In India GST bill was passed by the parliament on 29th March 2017 and act came into effect from 1stjuly 2017. The GST is the one of largest tax reform since independence, according to NITI aayog GST will help India achieve 9% growth rate. In India service sector constitutes for more than 50% of nation's GDP. In India service sector provide large scale of employment and it also contributes toward foreign exchange collection. Services also contribute a major part of the whole GDP (Gross Domestic Product) and contribute significantly in export as well as also provide large scale employment.

Key Words: -GST, Good's and Service Tax, Service Sector

Introduction:-

The introduction of GST was significant step in the field of indirect taxes, by merging a large number of central taxes into a single tax (GST). GST is expected to ease double taxation and make overall easy for industries .Under GST the tax rate are 0%, 5%, 12% and 28% for many goods and services. After a lot of deliberation, GST council has finalized the above rate for all goods and services, and the GST is expected to fill the loopholes in the current system and boost the Indian economy. This is unifying the indirect taxes for all states throughout India. There are special rates like 3% on gold and 0.25% for rough precious stones and 22% extra cess on certain products such as tobacco, luxury cars and carbonated drinks. After implementing the GST the prices of maximum commodities would remain same, but services would become more expensive since the previous service tax rate was only 15% which is now increased up to 18% in GST. Most goods become more expensive because the GST rate of 18% 0r 24% is more than the previous Vat rate which was around 12-15%. GST Rates of some countries are as follows:-

Countries	GST Rates
Japan	5%
New Zealand	15%
Singapore	7%
Austraila	0% (Essentail items) & 10% (others)
Bangladesh	15%
Belgium	6% (essential and selected goods) & 21-12% (Restaurants and others)
Brazil	17% to 25%
Canada	5% (federal GST) 0%-15% (provincial taxes)

France	19.6%

Almost150 countries having GST or VAT, Which means there is no distinction is made between Goods and Services for implementation of Tax. GST is a tax where ultimately burden of tax fall on the customer/consumer of Goods and Services. It is called as value added tax because at every stage , tax is being paid on the value addition.

OBJECTIVES OF THE STUDY

1) To study about the benefits of the GST in India.
2) To know the impact of GST on Service sectors.
3) To know about the working methodology of GST.
4) To know about the previous tax system and GST.

LITERATURE REVIEW:-

Justice K.N.Wanchoo Committee (1970) on 2nd march 1970, the government of India constituted the direct taxes inquiry committee, which suggested various measures against tax avoidance. Some measures are as follows:- reduction in tax rates, minimization of controls and licenses, regulation of donations to political parties, creation of confidence among small tax payer.

L.K Jha Committee (1976) on 19th July 1976, the gov. of India constitutes committee under the chairmanship of sri. L.K.Jha to review the existing structure of indirect tax system. The committee recommended four types of taxes i.e Value Added Tax (VAT) at the very initial stage of goods.

Kelkar committee (2002) in the month of july 2002 the direct and indirect tax reforms committee was set up by the Gov. of India. The major task for this committee was to simplify and rationalization of direct and indirect taxes. Easy access to tax payer services both qualitatively and quantitatively.

Empowered committee on Goods and Services Tax (2007) Shri. P.Chidambaram, the Union Finance Minister, announced during central budget 2007-08 to the effect that GST would be introduce from 1st April 2010 and an empowered committee of state finance ministers was constituted.

Standing Committee on direct tax code bill (2010) the first draft of the Direct Taxes Code came up for public discussion in August 2009. It proposed some significant changes, like removal of most of the tax exemptions, putting mst of retirement products like PPF, PF and NPS (New Pension System) . On the basis on responses and suggestions to the first draft of DTC the Gov. Came with second draft in 2010, with several modifications.

Dr. R. Vasantha gopal (2011) studied, “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to flawless 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 140 countries in world and a new preferred form of indirect tax system in Asia pacific region in tax.
Jaiprakash (2014) in his research study mentioned that the GST at the central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and services tax setoff, subsuming of several taxes in the GST and phasing out of CST.
Akansha Khurana and Aastha Sharma(2016) studied,“Goods and services tax in India- A Positive reform for indirect test system” conclude from GST will provide relief to producer and consumer by providing wide and comprehensive coverage of input tax credit set –off, service tax set-off and subsuming the several taxes.

RESEARCH METHODOLOGY:-

The research paper is based on secondary data of different research papers, newspapers, magazine, journals, national and international papers, publications from various aspects of Goods and Services . Here we use descriptive type of research.

PREVIOUS TAXATION SYSTEM IN INDIA Central Taxes

- Central Excise duty
- Additional duties of excise
- Excise duty levied under Medicinal & Toiletries Preparation Act
- Additional duties of customs (CVD & SAD)
- Service Tax • Surcharges & Cesses

State Taxes

- State VAT / Sales Tax
- Central Sales Tax
- Purchase Tax
- Entertainment Tax (other than those levied by local bodies)
- Luxury Tax
- Entry Tax (All forms)
- Taxes on lottery, betting & gambling
- Surcharges & Cesses

POSITIVE EFFECTS OF GST ON SERVICE SECTOR

- In previous system of taxation the taxation system was very complex and very time consuming as well. In new taxation, Goods is a part of the service contract this mean in every invoice the value of goods and services are involved.
- Over-lapping of tax i.e tax on tax will be eliminated with GST.
- Taxation for both Goods and services are same manner, until they reached to consumer they are not distinguished under GST.
- Uniformity of tax rates across the state.
- Prices of Goods are expected to reduce.
- By Giving the relief to the service provider the credit of VAT and CST that were paid to the input were billed to the service provider, implementation of GST capital goods are taken care of under the GST system
- In the previous taxation system is different in every state like as J&K, but in new taxation system GST covers services sectors under the same taxation laws.
- The impact of GST on Macro- economic indicator is extremely positive. Inflation is reduced as cascading of taxes will be eliminated

NEGATIVE IMPACTS OF GST ON SERVICE SECTOR

Other than the goods, there are also down sides to this system of taxation. These negatives include:

- Since the rate of taxation is higher than the previous taxation syatem, this system increase the extra expenditure, it increases the rate of services.

- As we know the big business houses have some kind of social responsibility to educate the surroundings , failure of which may lead to unpredicted events.
- Imported goods will become costly and will be taxed around 6% .
- Many manufacturing state will lose a huge share of their revenue and monopoly on taxes of central government will increase.
- The sharing of revenues between state and centre is still a matter of contradiction , pre GST services tax of 15% which would increase to 18-20% in post GST

Impact of GST on Different service sectors:-

1. **Impact on Manufacturing Industries :-**
The implementation of GST, significantly increase the competitiveness and performance of manufacturing sector. For most industrial products, GST rates have been slated at 18% today a manufacturing pays about 28-30% as taxes, so this mean an average increasing around 10%t means GST affect the manufacturing sector.
2. **Automobiles Industry:-**

The impact of GST is positive for car segment of automobile sector. GST reduce the effective duty on passenger vehicles price of small cars remains the same. Car will taxed at the top rate of 28% plus a cess in the range of 1% to 15% medium size cars in the range of 1% to 15% medium size cars will attract 3% cess and luxury cars 15% cass on top of the peak rate. Overall all segment of industry have benefitted by way of reduced overall tax burden in varying degree. The whole issue about the impact of GST on the auto industry hovers around the compliance of the new taxation system by the sector as a whole. The outlined benefits of GST on auto industry are primarily simplifying logistics and constraining the operational and manufacturing costs, the compliance is something industry is vary about.

In order to reap the benefits of GST you need to take a close look to ensure the compliance of GST by both the parties you are directly linked to. Whether you are a business owner or a buyer of a car, scooter or moped, you need to be equipped to take on the GST ferry. You can use the support of ASP and GST suvidha providers authorised by the government to understand the details of compliance and related concerns.What started as a Single Nation Single Taxation drive has largely unified 17 different taxes including various excise duties, octroi, service tax, VAT, and many more. However a nation of more than a billion people has ideologue ready to delineate GST as another 17th tax. The myth is widespread like a cacophony before the elephant starts to walk.To brace with the impact of GST Indian Automobile Industry offered pre GST discounts on cars, scooters and bikes. The discounts poured in throughout the June as the Auto majors like Maruti Suzuki, Toyota, Hyundai, Honda and mostly all players announced big rate cuts in a race to trim their inventory ahead of GST.

Amidst all the turmoil and apprehensions, July'17 went loudly ahead than the previous sluggish months and ended with a bang for the entire industry with Maruti Suzuki, Honda Cars and Ford India grabbing the podium. While The Maruti Suzuki recorded a staggering domestic growth of 22.4% in July '17 as against July'16 Honda Cars too came out with flying colors with an astounding rise of 21.74%, as compared to July 2016.The initial GST ambiguities seem to be settling down and the festivity ahead will only add ice on the cake. To understand the impact of GST on the industry as a whole, you need to understand its effect on various business operations including production, procurement, pricing and sales strategy.

3. **Agriculture :-**
The Govt. of India currently taxes neither production/ Sale of farm product nor agriculture income. Under GST the taxation systems remain same.GST is essential to improve the transparency, reliability, timeline of supply chain mechanism. A better supply chain mechanism would ensure a reduction in wastage and cost for the farmers/retailers. GST would also help in reducing the cost of heavy machinery required for producing agricultural commodities. Under the model GST law, dairy

farming, poultry farming, and stock breeding are kept out of the definition of agriculture. Therefore these will be taxable under the GST.

Fertilisers an important element of agriculture was previously taxed at 6% (1% Excise + 5% VAT). In the GST regime, the tax on fertilisers has been increased to 12%. The same impact is on Tractors. Wavier on the manufacture of Tractors is removed and GST of 12% has been imposed. This is beneficial as now the manufacturers will be able to claim Input Tax Credit

India's milk production in 2015-16 was 160.35 million ton, increased from 146.31mt in 2014-15.Currently, only 2% VAT is charged on milk and certain milk products but under GST the rate of fresh milk is NIL and skimmed milk is kept under 5% bracket and condensed milk is going to be taxed at the rate of 18%. Tea is probably one of the most crucial items in an Indian household. The price of tea might also increase due to the tax rate of 5% under GST rate from the current average VAT rate of 4-5% with Assam and West Bengal with the exception of 0.5 and 1%.

4. Telecom Sector:-

Telecom industry faces several shortcoming such as cascading effect of taxes issues with the classification of services etc. that hamper the growth of this sector . All service related sectors are expected to be negatively affected as the service tax rate was 15%, now GST rate on telecom has been fixed at 18%. Even a moderate rise in tax could hit demand and profit. The current standard rate of GST on the supply telecom services and products is 18 per cent. As a part of the Budget exercise, DOT (Department of Telecom) had recommended to the Department of Revenue to reduce the standard GST rate for Telecom to 12%. In view of the increasing debt burden on telecom operators, Telecom Regulatory Authority of India (TRAI) suggested steps like relaxation in spectrum payout terms (16 installments instead of the current 10), reduction in spectrum usage charges (SUC) among others. A favorable condition would enable Telecom operators to provide quality and affordable services to consumers. The revenue model for GST TAX and the one followed by Telecom Operators are poles apart. This creates friction in filing GST returns and also hampers other important things. Some of them are..

- GST increases the debt burden on the operators. The pre-GST tax rate was 15%. Although the increase was only 3%, the entry of Reliance Jio with free data and free calling offers made survival difficult for other players.

- Telecom operators provide services area or circle wise. Generating a state-wise revenue will demand a lot of changes both physical and technical to the existing framework and infrastructure.

- GST increase compliances effort, audits telecom sector of the country is the second largest diesel consuming sector after railways. If petroleum products remain outside the GST bill then it will be very difficult for tower companies to set of their input liabilities.

- With petrol and diesel out of GST radar, Telecom operators cannot set their input liabilities. After railways, telecom sector takes the second spot in terms of diesel consumption in the entire country.

The above problems still remain even after more than six months of the new GST Tax regime. Expecting the Budget to address these issues was not practical on part of the telecom operators. The GST Council must be addressing these issues and surely will come up with a more acceptable solution for the Industry that is gasping on its knees.

CONCLUSION:-

By subsuming all these to provide the country with a single taxation level, we can say it is a great move that will propel the economy even further. In as much as there will be some challenges, it is a great thing to have a single taxation system for the service providers.For service industry, GST system has definitely increased the compliance burden. GST implementation is bound to face hiccups during initial days but things will be much smoother once the issues are addressed.

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