IMPACT GST ON THE MANUFACTURING SECTOR IN UTTAR KANNADA DISTRICT

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Goods and Services Tax (GST) would make sense to play the contrarian game, ahead of the RBI's credit policy change in August. Analysts believe the short-term impact of GST could be neutral to negative and positive, though this huge tax overhaul is expected to give further direction to the economy and markets. The manufacturing sector of any country is a major economic driver for the developing economies across the globe. In India's manufacturing industry is still scrambling with the others and the performance is been lackluster. There are expectations that GST will boost India's GDP growth by 150-200 basis points in the coming years. Paper study on impact Goods and Services Tax on the manufacturing sector in Uttar Kannada District .Such impact factors discussed on this article paper is reduction of transportation and cost, Raw -material and production cost have been reduce, Input Tax Credit Mechanism, Less business units but more productive result and Larger warehouses setup and drawn on conclusions .

Keywords: **Goods and Services Tax, Manufacturing Sector**

Introduction:

GST was first introduced in France in 1954. In India, in 1974 the L K Jha committee first highlighted the need to move into Value Added Tax regime .In 1991, Chelliah committee recommended VAT or GST implementation. In 1994, Service Tax implemented in India .In the year 2000, the Central Government under the Prime Minister ship of Mr. Atal Bihari Vajpayee set up a committee headed by Mr. Asim Dasgupta to design a model taxation scheme for a universal tax in India. In 2003, Haryana become the first State to implement VAT. In 2004, CENVAT introduced to integrate Central Level taxes. In 2006, the Empowered Committee accepted Union Finance minister Mr. Chidambaram proposed roll out of GST by April 2010.In 2007, the report on GST submitted by Joint Working Group (JWG). The committee released its First Discussion Paper (FDP) on GST in November 2009.In 2011, Mr. Nandan Nilekani released Information Technology Strategy for GST. After several years of political drama, the Lok Sabha in 2015 passed the 122nd Constitutional Amendment Bill for GST.As per present proposal, GST will become effective from 2nd July 2017.

There are too many uncertainties and fears surrounding GST is coming. It will be some time before investors and analyst are able to figure out, who will be gainers and who will be losers. It was uncertainly that made investors a litter wary ahead of the advent of GST, as they invariably get spooked by uncertainties. GST will incorporate all current indirect taxes being levied by both the Central and states, except basic customs duties and a few state and local taxes. Under the GST, tax rates have been fixed in four slabs — 5 per cent, 12 per cent, 18 per cent and 28 per cent — while certain basic goods and important services have been exempted from it. GST is one of the biggest tax reforms to be rolled out; it would go on to boost the positive sentiment for the markets.

In respite of having favorable demographic and geographic position as an advantage, it has not been able to capitalize. A complex tax structure, inadequate infrastructure, and bureaucracy diminishing its capability to perform well on a global scale engulf the manufacturing sector in India. As per the sources, the manufacturing industry in India has been close to stagnant for the last two decades with only a 16% share of GDP.

General Characteristics of the Uttar Kannada District :

Uttar Kannada District is one of the biggest districts of our State with abundant natural resources. The district has varied geographical features with thick forest, perennial rivers and abundant flora and fauna and a long coastal line of about 140 KM in length.

Location & Geographical Area:

It is bordered by the state of Goa and Belgaum District to the north, Dharwad District and Haveri District to the east, Shimoga District and Udupi District to the south and the Arabian Sea to the west. The District encompasses an area of 1024679 Hectares lying between the latitudinal parallels of 14.78955 North and longitudes of 74.13277 East.

Review of Goods and Services Tax (GST):

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.

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.

As per discussions held in the 22nd GST Council Meeting held under Chairmanship of Union Finance Minister Shri Arun Jaitley on 6th October, 2017, the following changes in GST rates for certain Goods and IGST rates on Imports of specified Goods have been recommended. 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.

For India, becoming a manufacturing hub will need various strategic reformations to simplify the existing system in the country. One of the much-publicized proposed reform "make in India" scheme initiative taken by the government is aligning with the implementation of the GST.

However, the manufacturing sector might be revived under the focused efforts of government and by an implementation of GST regime that could even lead to experience a paradigm shift from an agrarian economy to manufacture and service based economy.

Discuss:

India's complex indirect tax system has affected the progression of the country's manufacturing sector. The country is on its way to becoming a major manufacturing hub for Asia and the world. However, unless the Tax system is made easier to understand and comply with, the dream will not be fulfilled. Hence, here comes Goods and Services Tax (GST) that will be a positive step towards this mission and will help the manufacturing industry to stand up and recover. Here is an attempt at listing down the impact GST will have on the manufacturing sector in Uttar Kannada District:

1. Reduction of Transportation and Cost:

With GST on board, multiple permits and checkpoints at state border will be removed. This will further save the logistics time and effort and ensure faster delivery of goods. Since the transportation cost will be reduced, the manufacturers would compete with each other, which will cause reduction in the prices of goods with same or better quality.

Table No. 1
Rate of GST on Reduction of Transportation and Cost

SL.No.	Description	GST Rate
1	Paints and varnishes and Other paints and varnishes (including enamels, lacquers and distempers	28%
2	Chewing gum / bubble gum and white chocolate, Cocoa butter, fat and oil, Chocolates and other food preparations containing cocoa, Marble and travertine, other than blocks, Hair oil, oral or dental hygiene, including and powders; yarn used to clean between the teeth (dental floss), in individual retail packages, cutting-oil preparations, bolt or nut, Blocks, tiles and other ceramic goods of siliceous fossil meals, Doors, windows and their frames and thresholds for doors, Brushes and Tailors' dummies and other lay figures; automata and other animated displays, used for shop window dressing	28%-18%
3	Stone as a grinder and Tanks and other Armoured fighting vehicles, Motorised	28%-12%

(**Source:** Field Survey)

2. Reduction in Raw Material and Production Cost:

The objective of GST is to remove the cascading effect of taxes and follow a unified tax regime in India. This will affect the manufacturing sector in a way that the cost of raw material and production will be reduced. In addition, the Input Tax Credit will ensure a better working capital flow for the organizations.

Table No.:2
GST rate for following Raw Material and Production Cost have been reduce

S. No.	Description	Present Rate	New GST Rate
1	Mangoes sliced dried	12%	5%
2	Khakra and plain chapati / roti	12%	5%
3	Namkeens	12%	5%
4	Kerosene oil	18%	18%
5	Ayurvedic,Unani,Siddha,Homeopathy medicines,	12%	5%
6	Poster Colour	28%	18%
7	Plastic waste, parings or scrap	18%	5%
8	Rubber waste, parings or scrap	18%	5%
9	Paper waste or scrap	12%	5%
10	Sewing thread of manmade staple fibres	18%	12%
11	Yarn of manmade staple fibres	18%	12%
12	Marble and Granite	28%	18%
13	Cullet or other waste or scrap of Glass	18%	5%

(**Source:** Field Survey)

3. Input Tax Credit Mechanism:

Unlike the earlier taxation system, with the implementation of GST, cost of any services, including logistics, will be considered a value adds, and the manufacturer will get tax credit for the service tax paid. Now service providers can also avail the credit of VAT/ GST paid on inputs procured, and it will eventually pass on to the supply chain as cost savings.

Enough has been said about what a significant reform GST will be. However, if there is one thing that completely stands out about this new tax, it is – the mechanism of input credit under GST.

A business, you may have already heard of VAT input credit, and you will soon know how it differs from GST input credit.

GST input tax credit mechanism allows persons registered under GST to set-off their GST tax liability. Since GST is a consumption-based tax, the input tax credit mechanism ensures that the ultimate GST liability is passed on to the consumer. Though a person registered under GST for most inputs can claim input tax credit, some types of goods and services are not eligible for input tax credit claim. In this article, we look at such goods and services, which are not eligible for input tax credit under GST.

Table No.3

Items Not Eligible for Input Tax Credit under GST

SL.No.	Items
1	Food, Beverages and Outdoor Catering
2	Beauty Treatment, Health Services & Cosmetic and Plastic Surgery
3	Lost or Stolen or Damaged Goods
4	Personal Consumption

(**Source:** Field Survey)

Notes:

- Expenses relating to food, beverages and outdoor catering can be claimed as input tax credit only when inward supply of goods or services or both of a particular category is used by a registered person for making. However, outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply. Hence, regular taxpayers would not be eligible for claiming input tax credit on expenses relating to food, beverages and catering.
- Beauty treatment, health services, cosmetic and plastic surgery related expenses cannot be claimed as input except when inward supply of goods or services or both of a particular category are used by a registered person for making. However outward taxable supply of the same category of goods or services or as an element of a taxable composite or mixed supply. Similarly, expenses relating to membership of a club, health and fitness centre is not eligible for input tax credit.
- Goods or services used for personal consumption are not eligible for input tax credit.
- Input tax credit is not available for goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples.

4. Less the Business Units, More Productive the Result:

Since GST will be levied on every transaction that takes place across all business units, even across different states this will cause businesses to rethink the idea of having warehouses in different locations. Previously to save cost on state based indirect tax system, many businesses had their BUs in multiple locations. With GST implementation, businesses will now deploy work economically, which will lead to timely production of raw materials and cause less wastage.

Table No. 4
Cheaper GST Rates on different Items

SL.No.	Items	GST Rate
1	Clothing and footwear	0% to 18%
2	Soaps, hair oil	18%
3	Pressure cookers, pans	12%
4	Aerated drinks, tobacco and luxury goods	28%
5	Tea, coffee and spices	3% to 4%%

(**Source:** Field Survey)

Notes:

- Clothing and footwear have been put under different tax slabs ranging from 0 to 18 per cent. But most of them will get cheaper under the GST.
- Products like soaps, hair oil and toothpaste will become cheaper at 18 per cent tax. They are currently taxed at 24-28 percent.
- Kitchen items like pressure cookers, pans will get cheaper as they will be taxed at 12 per cent GST rate, much less than the current 19.5 per cent rate.
- Aerated drinks, tobacco and luxury goods have been kept in the tax slab of 28 percent under GST and will get costlier. Coca Cola has already announced it will increase prices of Coke.
- Tea, coffee and spices will be taxed at 5 per cent. Currently, they are taxed at 3-4 percent.

5. Larger Warehouses Setup:

With lesser location constraint, the manufacturers can club there warehouses and consolidate into one large warehouse with state-of-the art handling facilities and equipment. Simultaneously, with larger warehouses, transportation lot sizes will automatically increase, making way for more efficient bigger trucks. The savings in tax cost is clearly visible and this will ensure overall benefit to the economy and the society.

GST will diverge the attention of conscious tax savings on supply chains to efficiency-oriented approach as warehousing sector will be optimized to a greater deal. This will not only save logistics costs for LSPs but these benefits would be passed on to the customers too.

There is no running away from the fact that GST is going to be implemented pretty soon. But we can assume very safely that impact of GST on warehousing in India is going to lead us in the positive direction. Warehousing sector is bound to get more organized and overall profits are there to be reaped. There is an estimated growth of around 18 % in warehousing until 2017, which will be above 20% in the coming years with GST's implementation.

Conclusion:

The GST regime will be a game changer for Indian Economy and will provide competitive advantage to the Indian Manufacturing industry, which accounts for 16% of the GDP. With the proposed law under GST, the cost of manufacturing goods is expected to reduce while the consumption will scale up. With proper implementation of these changes, India's GDP will also be boosted and will further because a growth in the country is GDP by 1-2%.

The taxation of goods and services in India has, hitherto, been characterised as a cascading tax on production resulting in misallocation of resources and lower productivity and economic growth. The tax collection will go the states having higher consumption as compared to the present system of collection by manufacturing states. The GST Council finalized the tax rates for most of the goods and services and has backed the 1 July deadline for rolling out the unified indirect tax that will help create a single national market and ensured that items of mass consumption bear the least tax burden. Thus, based on the current tax rates (central excise and VAT) for key product segments across sectors and the finalized GST rates.

However, macro benefits emanating from implementing GST far outreach the negatives; it is also a significant change communicating to the world at large that we are focused on one path for economic progress.

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