

A Study on Impact of Goods and Services Tax on different Sectors of Economy

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Abstract

Goods and services tax (GST) is an indirect tax levied on supply of goods and services. After the implementation of GST all other indirect taxes subsumed in it. The purpose of implementation of GST was to remove the cascading effect and ensures transparency in the taxation system. But in five years of implementation, it can be experienced that everything is not happening as per plan. Different sectors of the economy have different impacts due to GST system. In this paper the impact of GST on different sectors have been studied. It can be seen that every sector is not equally affected by the implementation of GST. Some sectors are benefited but some sectors have negative impact due to this system.

Keywords: GST, Economy, Sector, Taxation, Cascading Effect.

Introduction

It was a biggest tax reform in India. The effective rate of GST in India is 0%, 5%, 12%, 18%, 28%. GST is an indirect tax levied on supply of all goods and services in India. It is Comprehensive (Absorb all indirect taxes except some state taxes), multistage (levied on every stage of production), destination based (collected from point of consumption not origin). The purpose of its implementation was to ensure transparency, increase exports, remove unemployment and improve the economic growth but its system and complex structure, High operational cost and complexity has increased the burden on different sectors and especially on micro, small and medium enterprises.

GST has impacted different sectors in different ways. In this paper the impact on some important sectors will be studied.

Objective of the Study

The objective of this study is to find out the impact of this new taxation system on different sectors of the economy because taxation system plays an important role in framing plans and policies of the firm and it is important for firms, individual and policymakers to understand the complexities of this system and its impact on different sectors.

This work has following objectives:

1. To find out the impact of GST on different sectors of the economy especially on service and manufacturing sector.
2. To study the growth, importance, problems and prospects of GST and its implementation in India.
3. To evaluate the comparative impact of previous tax structure and GST on Indian economy specially on service sector.
4. To investigate the comparative impact of previous tax system and GST on different- sectors of the economy.

Review of Literature

K Gupta, KT Shankar in 2021 concluded in paper titled "A study of the impact of goods and service tax on educational sector" that GST has increased the cost because of increased tax rate on different commodities and institutions providing education in higher education and after higher secondary have to pay taxes on services on transportation, catering, house-keeping etc.

Dr. Tanveer Ahmad Dar (2021) in paper titled "A study on the impact of goods and services tax (GST) on Indian economy" mentions that in spite of a lots of challenges for tax collectors and tax payers in

short run, it is a major tax reform in indirect taxation system because it makes a country a single market with a single tax. He concluded that GST have positive impact on producers and distributors because the cascading effect is reduced and cost related with supply chain decreases. In conclusion he says that GST can boost the economy because it is a uniform and transparent system

Dr. G.P. Dang* Jyotika Kaur* DivneetKaur in research paper titled "Impact of goods and services tax on micro, small & medium enterprises of India" states that the implementation of GST have numerous impacts on MSME sector:

1. Now it is easy to set up ma business.
2. Logistics overhead reduces.
3. The threshold limit also reduces which have significant positive impact on MSME. But GST have some adverse impact on MSME also. Due to its implementation the operation cost increases and it is totally a digital based system which is not practical in the country like India.

CA Narendra Kumar Bansal & Dr Saurabh Sharma in the paper titled "A Study on Impact of Goods and Services Tax on Agriculture Sector in India" concluded that implementation of GST has positive impact on agricultural inputs, fertilizers, chemicals& cost of seeds and organic manure, plant protection chemicals does not have any impact due to this system. Further tractors, solar penal, electric pumps including submersible pumps, pipes and their fittings and farming diesel engine are having positive affect as rate of indirect tax are reducing in new indirect tax regime, hence cost for these all equipment and machineries will be reduced.

Abhishek Mehrotra* Dr. Rosy Kalra in his research paper titled "Impact of Goods and Service Tax on Indian Economy" concluded that GST is a significant reform in taxation system. It insures transparency in the indirect taxation system. It has illuminated on impartial tax structure by offset the exemption levied on taxes. GST has removed the distortions of the economy by removing previous complex tax structure. It also provides a common market in entire nation.

Shefali Dani (2016) constructed a study on impact of goods and services tax on Indian economy has found that it is a half-hearted attempt to rationalised entire indirect system. She also concluded that government should focus on poor people who may affected by inflation after implementation if GST.

Research Methodology

The research is based on analytical and exploratory in nature.

Sources of Data

In this study secondary data is collected from different annual reports of corporateas well as reports published by government organizations and previous research works.

Impact on different Sectors

Impact on Agriculture Sector

Agriculture sector have positive impact of GST. Agriculture sector contribute around 16% of Indian economy. Due to GST the timeline, credibility and transparency of supply chain management improved. A good supply chain management insures reduction in waste and expenses of this sector. It is also helpful in decreasing the cost of heavy equipment used in the production of agricultural commodities. In some cases, the cost of commodities like fertilizerincreases because in previous tax structure it was taxed @ 6% (1% excise+ 5% VAT)but after implementation of GST the tax rate increases to 12%. The same impact can be seen on the price of tractors. Now input tax credit can be claimed by manufacturers so it is beneficial for them. GST is beneficial for the producers of milk and milk related commodities previous tax structure allows VAT on milk and certain related commodities but fresh milk is tax free under GST.

Impact on Manufacturing Sector

The implementation of GST is helpful for manufacturing sector also due to following reasons:

It removed numerousvaluations and ensures simplification because in previous tax structure the excise duty was based on transaction value in some states and in other states it was based on quantity. Which creates confusion in valuation method? After implementation of GST now calculation is based on transaction value which simplifies the calculation.

Before implementation of GST entry tax was imposed on inter-state supply which increases the price of commodities now entry tax subsumed and supplier is not required to pay the entry tax. In GST taxation system the supplier can claim input tax credit on input goods which is a good indication for cash inflow.

Single registration process is also a good indication for the manufacturers working in India.

Impact on Service Sector

Financial Sector

Difficulty in registration process -Before implementation of GST single registration process was applicable for banks working in different states also but now banks have to registered its business separately for each branch.

Before GST there was only one adjudication authority for any issue but after implementation of GST multiple adjudication authorities are working in case of any dispute. We can say that now adjudication process becomes time consuming and inconvenient.

Before implementation of GST only a part of VENVAT credit was available to the banks and these institutions was not eligible for VAT credit on received goods but now due to GST the credit on obtained goods can easily be received.

Insurance Sector

Before implementation of GST service tax on term insurance premium & health insurance

premium was 15% but after implementation of GST 18% rate is applicable which increases the rate of premiums. Due to implementation of GST the policyholders will have to pay more premiums on their insurance due to increase in GST rate.

Positive effect of GST on Service Sector

After implementation of GST double taxation is removed. The firms which are selling online software was not clear whether to apply service tax or VAT but after implementation of GST now product and services can clearly be separated which will remove the confusion. The firms which are providing repair and maintenance services can now claim for credit of inputs as well as credit of input services which will decrease the prices of services and attract more clients.

Before implementation of GST the service providers were charging service tax on services and paying VAT on products purchased that's why it was not possible to set off VAT against services tax but now service providers will charge GST from its clients and will be GST on purchases so it is easy to claim input tax credit on that.

Previous taxation system was not applicable in Jammu and Kashmir and every state has its own rule of taxation but now GST is applicable in all over India which brings the entire service sector under single taxation law.

Negative effect of GST on Service Providers

In previous taxation system the service providers were allowed for centralized registration but after implementation of GST they have to register their business in the state in which they are providing their services and have to pay CGST tax.

Due to lack of centralized registration under GST the concerns are required to maintain its accounting in each state which is inconvenient and costly.

Due to lack of centralized registration system the businessmen are required to file GST return in every state which can prove a burdensome and tiresome as well.

Free services are also taxable under GST.

Conclusion

After the four years of implementation of GST it seems that everything is not happening as per plan. This tax is quoted as one country one tax because this system includes all the indirect taxes which was different in different states. It is a big reform in Indian taxation system which is still facing lots of hardships. In the earlier taxation system, the tax was imposed on various stages from production to final consumption. It means goods and services were taxed multiple times known as cascading effect but after the implementation of GST now every product and service are taxed only once.

In conclusion we can say that GST has positive effect on different sectors of the economy because it ensures transparency and uniformity in indirect taxation system but it has adverse effect on some sectors also. It is complicated and complex system which is not easy to understand for every businessman in the country. It is totally operated

through electronic mode and in the country like India electricity and internet connectivity is not available in some areas. Continuous change in slab is also a big problem of this system. Central government made a promise to compensate the losses of states due to implementation of GST but states are still waiting for this recovery.

Thus, we can conclude that is a good reform in taxation system of the country but some modifications are still required in it.

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