IMPACT OF GST ON VARIOUS INDUSTRIES

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INTRODUCTION

Vat was introduced in all over country in 2006 and GST is the logical conclusion of the successful introduction and imposition of Value added Tax in India. In its standard format GST is a single tax replacing all the indirect taxes and collected by a single authority but in our country the system of Governance is Federal and both centre and states have the power to collect indirect taxes in one form or another. Hence a formula is developed to introduce a compromised GST with the consent of the States hence we can call it Indian format of GST.

First it was referred in 2006 in the Budget speech of the FM that GST will be introduced in India from 1st. April 2010 but later for one or other reasons it was postponed from year to year and it is evident from this delay that it is not easy for the lawmakers to introduce GST in our country and now since 2016 is declared as GST introduction year, let us see what is Indian format of the GST and further what is the basic characteristics of India GST , the problems associated with it and further what is the possibility that the 2016 deadline will be met.

GST BE IN 2016

We have been promised in 2006 that GST will be introduced in 2010 but after that GST was extended from year to year. Now it is declared that GST will be introduced in 2016 but till date the constitution bill is only cleared from only one house of the parliament and it is still to be cleared from the upper house (Rajya Sabha). After that it has to be ratified from the half of the state assemblies. This will be first step towards introduction of the GST in India.

After that Goods and service Tax acts and rules are to be framed by the centre and each of the states. Sometime will also be required for sorting out some of the issues still to be settled between the states and the centre.

At present we are running in 2015 hence practically almost one year is left and in my opinion it is not enough hence if we take that everything is going on very well then 1st April 2017 will be the suitable date for introduction of Goods and service tax in India.

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Historical background of GST

GST was first recommended by Kalka Task Force on implementation of Fiscal Reforms and Budget Management Act 2004 but the First Discussion Paper on Goods and Services Tax in India was presented by the Empowered Committee of State Finance Ministers dtd.10th Nov.10th, 2009.

In 2011, the Constitution (115th Amendment) Bill, 2011 was introduced in Parliament to enable the levy of GST. However, the Bill lapsed with the dissolution of the 15th Lok Sabha.

Subsequently, in December 2014, the Constitution (122nd Amendment) Bill, 2014 was introduced in Lok Sabha. The Bill was passed by Lok Sabha in May 2015 and referred to a Select Committee of Rajya Sabha for examination.

Definition of GST

"GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set of benefits from the producer's / service provider's point up to the retailer's level where only the final consumer should bear the tax."

Scope of GST

- All goods and services are covered under GST Regime except Alcoholic liquor for Human Consumption,
- Tobacco Products subject to levy of GST and Centre may also levy excise duty
- GST Council yet to decide the incidence and levy of GST on following;
    - a)Crude Petroleum
    - b)High Speed Diesel (HSD)
    - c)Motor Spirit (Petrol)
    - d)Natural Gas
    - e)Aviation Turbine Fuel

Objectives of GST

- One Country – One Tax
- Consumption based tax instead of Manufacturing

- Uniform registration, payment and Input Credit
- To eliminate the cascading effect of Indirect taxes on single transaction
- Subsume all indirect taxes at Centre and State Level under
- Reduce tax evasion and corruption
- Increase productivity
- Increase Tax to GDP Ratio and revenue surplus
- Increase Compliance
- Reducing economic distortions

Action Plan of GST Council

- List number of Taxes, cesses, and surcharges to be subsumed under GST
- Preparation of list of goods and services subject to, or exempt from GST
- Determination of threshold limit of turnover for application of GST
- Fixation of rates
- Preparation of model GST Laws, principles of levy, apportionment of tax benefits
- Firming up Place of supply Rules
- Recommend on Compensation to states losing on revenue post implementation of GST, subject to maximum time limit of 5 years.

Following are the key features of the proposed GST model:-

1. **Dual Goods and Service Tax : CGST and SGST**
2. **Inter-State Transactions and the IGST Mechanism:** The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his

own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

3. **Destination-Based Consumption Tax'**s will be a destination-based tax. This implies that all SGST collected will ordinarily accrue to the State where the consumer of the goods or services sold resides.
4. **Computation of GST on the basis of invoice credit method:** The liability under the GST will be invoice credit method i.e. Canvas credit will be allowed on the basis of invoice issued by the suppliers.
5. **Payment of GST:** The CGST and SGST are to be paid to the accounts of the central and states respectively.
6. **Goods and Services Tax Network (GSTN):**A not-for-profit, Non-Government Company called Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments will provide shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders.
7. **Input Tax Credit (ITC) Set Off:** ITC for CGST & SGST will be taken for taxes allowed against central and state respectively**.**
8. **GST on Imports:** Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
9. **Maintenance of Records**: A taxpayer or exporter would have to maintain separate details in books of account for ailment, utilization or refund of Input Tax Credit of CGST, SGST and IGST.
10. **Administration of GST:** Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body of the GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio.
11. **Goods and Service Tax Council:** The GST Council will be a joint forum of the Centre and the States. The Council will make recommendations to the Union and the States on important issues like tax rates, exemption list, threshold limits, etc. One-half of the total number of Members of the Council will constitute the quorum of GST council.

GST Impact on Various Industries, Impact of GST on Various Industries, Sector wise Impact analysis. Impact of GST on Indian Economy, Impact of GST on Indian Market. GST Impact on Automobile Industry, GST Impact on Real Estate Industry, Impact of GST on Transportation Industry, GST Impact on Parma Industry, GST Impact on Textiles Industry, Impact of GST on FMCG Industry, Impact of GST on Services Industry etc. Now check more details for "**Impact of GST on Various Industries, Sector wise Impact analysis**" from below….

Impact of GST on Various Industries, Sector wise Impact analysis

Impact of GST on Automobile Industry

Car Segment: Current levies of Indirect taxes and Cesses on Cars varies from 30% to 45%. If standard rate of 18-20% is declared for small cars as well as 40% for luxury cars, both will be benefited. Moreover, elimination of cascading effect and offset of input tax credit (ITC) at every stage of value chain will reduce the cost. By and large, impact may be positive for car segment of automobile sector.

Commercial Segment: Reduction in transit time will increase the fleet productivity and speedy delivery of goods. Better availability of vehicles for transport services may lead to increased competition, nevertheless, change in storage and warehousing patterns may also lead to higher interstate movements of goods, so it may be a mixed bag for truck operators.

Impact of GST on Real Estate Industry

Sale or transfer of immovable property is outside the purview of GST, however, on procurement of materials for civil construction GST will be applicable and ITC of the same is not admissible. Inadmissibility of ITC may impact negatively. Hopefully, this issue will be addressed appropriately while declaring the final law. Stamp duty will continue. Work contract for commissioning of movable or immovable property shall be supply of service. Renting, leasing, licence to occupy land and building will also be supply of service. Where consideration has been received for construction of a complex or building or civil structure is without getting certificate from competent authority it shall be supply of service. The impact on service sector depends on the GST rate vis-à-vis current rate of service tax

Impact of GST on Transportation Industry

Trucks in India drive just one third of the trucks in US (280 mms vs. 800 kms), on top of that, only about 40% of total travel time is spent on driving, major time is consumed at check points and other official stoppages. A recent news indicate that Road Transport and Highway ministry is considering overhaul of around 80 border check post across the country to ensure seamless flow of goods under GST regime. Thus, ensure eliminating check points delays, higher moving time of wheels and lower transit time which will certainly boost the business, reduce inventory holding requirements, transportations cost and better asset utilisation. Distribution and warehousing patterns will improve. Impact is going to be positive on this count

Impact of GST on Pharma Industry

Impact on Pharma sector will largely depend on the rate of proposed GST vis-à-vis current rates of indirect taxes. Pharma sector generally have an inverted duty structure i.e. excise duty on raw material is around 12.5% whereas on finished goods it is around 6-7%, this results in accumulation of refund dues from government. Sector is hopeful of making refund process fast and simple, this coupled with savings in warehousing and logistics cost may anticipate a positive impact.

Impact of GST on Textiles Industry

Currently, the domestic cotton based industry is not subject to excise duty and on branded readymade garments with MRP> Rs. 1000 excise duty is 2% with abatement rate of 40% (without Cen vat) or 12.5% (with Cen vat). However, manmade fibre sector attracts a regular duty structure (with Cen vat). It is to be seen whether lower GST rates are declared for this sector, failing which this sector may have a negative impact.

Impact of GST on FMCG Sector

FMCG products have a general excise duty rate of 12.5 per cent and a VAT at around the same level. As standard GST rate is expected to be lower than this, which if passed on to the consumer will have a positive impact on this sector. At the same time, FMCG companies will save on logistics costs.

Impact of GST on Services Sector

Services sector in India is a rapidly growing sector and significantly contributing to fiscal revenues. As indicated so far, that the standard GST rate would be 18-20%, as compared to the current 15% service tax including cesses then the services viz. IT, telecom, banking, insurance, etc. may witness negative impact due to increased cost of services.

Overall Impact on Indian economy

One market – The trade of country will be converted into one market as compared to numerous markets due to different tax structures in several states as of now.

Inflation – There is a general perception that GST would drive Inflationary effect in the near term because producers will increase the rates if GST rate is higher, but refrain from passing on to customer if it is lower, consequently, inflationary effect may be there.

Exports – With lower logistics cost, full offset of ITC and seamless flow of goods cost, efficiencies will be achieved and Indian products would be more competitive.

States having higher consumption to benefit

The pattern of consumption will be the criteria for accrual of tax revenues to states. Accordingly, the tax collection will go the states having higher consumption as compared to the present system of collection by manufacturing states.

To conclude, although initial teething troubles will be there in transition phase and few sectors may face the challenges, nevertheless, the degree of positive impact is much more than challenges. IT driven taxation regime, lesser manual intervention of tax authorities, positive effect on so many sectors and uniform tax structure may witness increase in GDP for Indian economy.

GST which is likely to be inflationary would hit people in the lower income group hardest as they currently pay little or no income tax at all. However, a number of consideration suggest that the impact would be moderate. Sales tax and service tax component are already hidden in the prices of all commodities and basic items would be largely exempted from GST. Other necessities such as fuel and power, public transport and medical care are concerned, there is sufficient already. Government need to intervene to ensure that the poor is protecting from GST effect.

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