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GOODS AND SERVICES TAX: A TACTFUL OPPORTUNITY TO ENHANCE INDIAN ECONOMY

V.HEMANTH KUMAR[1] & V. NARENDHRA[2]

[1]Senior Executive –HR, Sidhi InfoTech, Bangalore, Karnataka, India

[2]Assistant Professor, Sree Vidyanikethan Institute of Management, Tirupathi, India

ABSTRACT

The sixteen year dream has come true when Rajya Sabha had passed the Goods and Services Tax bill in the parliament. The bill can make the entire country to walk into unified market. Indian parliament had created a history by passing the bill on 3rd August, 2016. It is good news for not only Indian economy but also for majority of other country economies. The present Indian government is putting all its efforts to get this bill into force from 1st April, 2017. Considering past few decades GST is one of the biggest tax reforms in the country. This bill is more advantageous to the economy in the form of minimising corruption, tax evasion and controlling black money. It paves path for organized and transparency in the tax system. It has the capacity to change completely the direction and to speed up the country's economy. My article tries to focus on the concept of GST, its implication on the Indian economy with respect to manufacturing sector, primary sector and service sector. And its benefits to the both Indian public and companies

KEYWORDS: GST, Economy, Manufacturing Sector, Primary Sector and Service Sector

INTRODUCTION

Goods and Services Tax popularly known as GST is comprehensive indirect tax on manufacture, consumption and sale of goods and services through out the country. It replaces the different taxes levied by the central and state governments. Based on the input tax credit method the Goods and Services Tax would be levied and collected at each stage of sale or purchase of goods and services. GST is a great step tpwards transformation. It replaces the 17 indirect taxes levied and collected by both central and stare governments of India.

Central government encourages all businesses to register under GST. As a normal commercial activity these businesses can claim tax credit to the value of GST they paid on purchase of goods and services. It can free the country from different types of taxes in the economy finally benefiting both the company and the consumer. The central government is confident that with the introduction of GST in the country there is a chance that the growth in GDP is further enhances by 1.5 – 2 percent.

Goods and Services Tax

Goods and Services Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level [1]. In the supply chain the tax is collected through a tax credit mechanism on value added goods and services at each stage of sale or purchase. Goods and Services Tax is expected to build a corruption free and transparent tax administration. Under this tax system the tax burden is divided equitably between manufacturing and services. The new tax system would promote exports and boosts growth. And it is estimated that India will gain $15 billion a year implementing GST. In GST system both central taxes and state taxes are collected at the point of sale. As a result the prices are likely to come down to benefit the individuals and these lower prices lead to higher consumption, there by benefiting companies. Goods and Services Tax is been considered as biggest tax reform in India. It can be a big game changer over a period of time.

Since there are still long expert discussions going on, it has very long road ahead to travel. The welcoming news is that we don't be having taxes on taxes. The central government gets the authority to levy taxes in the states through GST. With GST the tax regime also increases leading to higher tax revenues to the government. To get the bill passed in the parliament the central government accepted to withdraw I percent extra surcharge. India's economy looks attractive to the foreign investments with the introduction of Goods and Services Tax.

Some Facts about Goods and Services Tax

- France was the first country to introduce GST system in 1954.
- 140 countries in the world have already implemented Goods and Services Tax
- Most of the countries have unified GST system
- There shall be no distinction between goods and services
- Goods and Services Tax will be levied at the destination point not at various points
- India is planning to implement dual GST system
- There are discussions going on and the final GST rate is expected at around 14-18 percent
- Central government assuring state governments that their existing revenues would be protected for few years
- Goods and Services Tax may not be applied on alcohol, tobacco and petroleum products
- Goods and Services Tax is likely to get implemented from 1st April, 2017
- It has get support from at least 21 states out of 29 states in India to get its stance
- From the international experiences it can be observed that inflation tends to raise when GST is implemented
- Goods and Services Tax on services will be potentially higher compared to present taxes.
- The central government promised to withdraw 1 percent extra surcharge
- One country one tax system
- Majority of the corporate leaders welcomed the new tax system GST

REVIEW OF LITERATURE

Taxation

A tax is financial charge or other levy imposed upon a tax payer whether is an individual and legal entity by a state or the functional equivalent of a state to fund various public expenditures [2]. The main purpose of the taxes is to raise revenue to fund governments. This will help the governments to carry many functions. This will facilitate them to plan expenditures on infrastructure, legal system, public transportation, public safety, education, scientific research, military and culture. In India there are different taxes imposed and they are grouped under two

- Direct Taxes such as
  - Income Tax
  - Wealth Tax etc...
- Indirect Taxes such as
  - Sales Tax
  - Value Added Tax
  - Excise Duty
  - Service Tax etc..

There are totally 25 types of taxes in India [3]. For any country taxes are the best source of revenue. Below are the details of share of taxes in GDP of few countries in the world.

Table 1

Country	GDP (In Million Dollars)	Taxes Share in GDP (%)
America	17,946,996	26.9
Japan	4,123,258	28.3
Germany	3,355,772	40.6
Britain	2,848,755	39
France	2,421,682	44.6
Brazil	1,774,725	34.4
Russia	1,326,015	19.5
India	2,073,543	17.7
China	10,866,444	22
Pakistan	269,971	12

Source: World Bank data, 2015.

Manufacturing Sector

Manufacturing is the production of merchandise for use or sale using labour and machines, tools, chemical and formulation [4]. The manufacturing sector is closely connected with industrial design and engineering. According to some economists, manufacturing is a wealth producing sector of a country [5].

Top 10 countries by manufacturing output

Table 2

Rank	Country/Region	Output in US Million Dollars
1	China	12,578,627
2	United States	3,713,300
3	Japan	904,590
4	Germany	787,503
5	South Korea	389,582
6	India	321,721

7	Italy	296,611
8	France	283,664
9	United Kingdom	282,675
10	Russia	248,481

Source: Data by World Bank, 2014[6]

Manufacturing sector has emerged as one of the high growth sectors in India. The Indian Prime Minister Mr. Narendhra Modi had launched the "Make in India" programme to place India on the world map as manufacturing hub and give global recognition to the Indian economy [7]. India ranked 6th position among the world's 10 largest manufacturing countries. Manufacturing sector in India has the potential to touch US $ 1 trillion by 2025. This sector has the potential to account for 20-30 percent of the country's GDP.

Service Sector

According to the US senses bureau, the service sector produces intangible goods, more precisely services instead of goods [8]. The service sector is comprised of various service industries such as information technology, health care, securities, banking, entertainment, technical, telecommunications and scientific services. According to few economists the countries with service sector centred economies are considered to be more advanced than industrial or agricultural economies.

Top 10 countries by service output

Table 3

Rank	Economy	Output (In US $ Billions)
1	United States	14,083
2	China	5,202
3	Japan	3,078
4	Germany	2,335
5	United Kingdom	2,248
6	France	1,948
7	Italy	1,362
8	Brazil	1,340
9	India	1,336
10	Canada	1,132

Source: According to IMF and CIA world Fact book, 2015.

The dominant sector in India's GDP is service sector. It is also the sector which is attracting significant foreign investment flows. It is also contributing significantly to exports and providing large scale employment. Service sector in India is growing at 8 percent per annum and contributing 64 percent India's GDP in fiscal year 2015-16[9]. India is the ninth largest service sector in the world. The services exports in 2014 stood at US $ 155.6 billion contributing 7.5 percent of the GDP and the services imports stood at US $ 81.1 billions in 2014-15.

Primary Sector

The primary sector of the economy is the sector of an economy making direct use of natural resources [10]. This includes mining, agriculture, forestry and fishing. This sector is most important to the less developed countries. Generally in developed countries the primary sector has become more technically advanced, such as using mechanisation in farming [11]. The share of primary sector in India has been decreasing from decade to decade. There has been a huge fall from more than 50 percent share in 1950-51 to less than 20 percent share in 2011-12[12]. In 2007, 52 percent workforce was employed in primary sector despite a steady decline in its share in the GDP. It is still playing a significant role in overall socio-economic development in India. The Indian government is encouraging the farmers to diversify from traditional crops to high value horticulture crops for the long term economic development and encouraging them to use conventional methods in forming.

Research Methodology

I have used descriptive research and have conducted an in depth literature review to study the various expert views and to understand the theme of the concept. The data for the study has been mostly collected from secondary sources such as journals, magazines, news papers and internet sources.

Impact of GST on different sectors in India

Goods and Services Tax has impact on three sectors of Indian economy differently

GST on Manufacturing

The manufacturing sector is going to favour from GST. The proposed GST would reduce manufacturing cost and benefit end customers. The elimination of multiple tax structure at central and state level would make the sector viable and globally competitive [13].

Automobile Industry

The present taxes in automobile industry are ranging between 30-47 percent. With implementation of GST the taxes might come down to 20-22 percent. The transportation time and material cost might reduce dramatically. The transportation and supply chain cost might come down to 30-40 percent. Therefore GST has positive impact on automobile industry.

Pharma Industry

The GST might have neutral impact on Pharma industry. The excise duty on this sector is at 6 percent. It has subsidies from the government. They might continue same after implementing GST. But transportation cost might come down.

Fast Moving Consumer Goods

At present the taxation on FMCG industry is higher than 20 percent. The FMCG products will become cheaper once GST is implemented. The transportation and material cost come down benefiting end customers. So, GST has positive or neutral impact on FMCG.

Consumer Durables

At present the taxation on this sector is between 7-30 percent. With implementation of GST the price difference between organized and unorganized sector might come down. Few companies might get benefit from GST. Overall the GST might have neutral impact on this sector.

Textile Industry

The impact of GST on textile industry might be neutral. If the rate is higher then the sector might have some negative impact. But few exporting companies might get definite benefit out of GST.

Cement Industry

The cement industry has taxes between 27-32 percent. With GST the tax rate might come down to 18-20 percent. The transportation cost also comes down which has a major burden on the company revenue. GST has positive impact on cement industry.

GST IMPACT ON SERVICE SECTOR

Information Technology & Information Technology Enabled Services

Present tax on IT & ITES is at 14 percent. With GST the tax rate might increase to 18-20 percent. Since, major income for these companies is coming from exports they might get some tax benefits. On the whole this industry might have negative or neutral impact from GST.

Banking Industry

At present there is 14 percent tax on some banking transactions. Implementing GST might increase tax rate to 18-20 percent. With this situation the maintenance costs might also increase for banks. And also few financial services such as loan processing charges, debit, credit card charges and insurance premium might become dearer. Overall GST might have negative impact on banking sector.

Media

Presently, the companies offering DTH services are under the tax regime 20-21 percent which includes service tax 14 percent and entertainment tax 5-7 percent. Broadcasting companies have 14-15 percent tax rate. By implementing GST the tax rate might come down to 18-20 percent. The DTH companies will definitely benefit through GST. The broadcasting firms might have neutral benefits.

Logistics Industry

With implementation of GST the transportation time comes down. The demand for heavy capacity vehicles increases leading to decrease in overall transportation expenses. The interstate transportation becomes easy creating demand for logistics services. The industry is still facing some problems with unorganized firms, implementing GST might show a solution for this problem. The GST might have positive impact on logistics.

Telecommunication Industry

At present the telecom industry has 14 percent service tax. With GST the taxes might go up to 18 percent. This leads to a big problem for telecom companies. They might have two options available with them; one is to completely transfer this increase to customers or partially transforming tax burden to the customers. In both the ways GST has negative impact on telecommunication industry.

Entertainment

At present the taxes including service tax, entertainment tax and VAT combinedly have 22-24 percent on entertainment companies such as multiplexes etc. with implementation of GST this tax might come down to 18-20 percent. This is areal good news for the companies. The company’s revenue might increase as taxes come down. The company’s earnings before income and tax might increase by 250 to 350 points. Therefore GST has positive impact on entertainment industry.

Benefits of GST

- Promotes exports and boost economic growth
- Helps to raise employment
- GST will divide tax burden equally between services and manufacturing
- Builds a transparent and corruption free tax administration
- Both individual and company are benefited with GST
- The system makes logistics and supply chain management convenient all over India
- Small businesses can get free from search harassments from the officials
- No taxes on taxes
- It gives scope for India's manufacturing sector to compete strongly against major international players
- GST will definitely supports and boost "Make In India" policy

Limitations

- Attitude of tax payers towards GST
- Fears of inflation
- State governments support towards implementing GST

CONCLUSIONS

Goods and Services tax is considered as major tax reform policy in India. Most economists are very positive about implementation of GST. The present central government is taking GST very prestigiously to implement. They are putting all their efforts to implement it from 1st April 2017. Economists say that for a short period of time the inflation is tend to raise with the implementation of GST but in long run inflation comes down to satisfactory level if the tax rate is fixed at 18-20 percent. Implementing GST in India aspires to streamline and simplify the application management and governance of indirect taxes giving forward.

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