

## **A Research Paper on an Impact of Goods and Service Tax (GST) on various sectors of Economy**

**Bhawana Khanna<sup>1</sup>, Pavneet Kaur<sup>2</sup>**

<sup>1</sup>MBA, Baba Farid College of Management & Technology, (India)

<sup>2</sup>MBA, Baba Farid College of Management & Technology, ( India)

### **ABSTARACT**

*Goods and Service Tax had become effective from this year July, 2017. The present paper is an exploratory study which shows the impact of Good and Service Tax on Various sector of Economy. The findings shows that tax rates has significantly impacted various sectors of economy but still it has reduced the burden of tax on final consumer by removing cascading effect on consumer.*

**Keywords: GST, Impact, Economy**

### **I. INTRODUCTION**

The Goods and Services Tax has deeply impacted our Indian taxation system. The GST Act was passed in the Lok Sabha on 29th March, 2017, and came into effect from 1st July, 2017.

‘Goods and Services Tax’ (GST) is the one and only indirect tax which is being levied to replace all the indirect taxes present in India such as sales tax, Value Added Tax (VAT), entertainment tax and service tax. In simple words, GST is an indirect tax which is applicable on the supply of goods and services. GST is applied with the expectation to introduce a simple, efficient and uniform Indirect tax structure in India. The consequences of GST are: A) The problem being faced at present by various sectors such as Telecom, Real Estate, Financial services etc. will be resolved. B) taxability would not be dependent on ‘goods’ or ‘services (existing in current regime) and taxable event would occur simultaneously on supply of goods and services and. C) Existing complexities relating to ‘works contract’, software, intellectual property etc., are expected to be eliminated making taxation of such transactions simpler, and reducing their tax burden. D) The complexities of the existing system concerning valuations and classification of goods and services on account of the varied interpretations and rulings will be eliminated. E) Lower administrative burden will provide simplicity by standardizing GST return/challans and payments and provide for easy access through a central web-portal for registration, refund etc. In short, GST when implemented is expected to perform as miracles. The taxation system of India so far which has been applied is a complex combination of different- different companies, properties and personal income taxes which made it useless. Until recently the tax rates varies from state to state, but the types of tax were also not consistent. Our taxation system has always been seen as one of the major obstacle in growth of economy. Multi National Companies faced huge problems in tackling their tax payables. They also faced difficulties as payment of double taxation. This becomes the reason of tax evasion in our country. So to cope with all the problems discussed GST was implemented.

## II. OBJECTIVES

The objective of this research paper is to understand the effect of GST on various sectors of Economy. The paper will specifically examine its role in sectors like FMCG

## III. METHODOLOGY

This study is based on Secondary data.

- The data is collected from different newspapers, articles in magazines and websites.
- The study is Exploratory in nature.

## IV. IMPLEMENTATION OF GST

Under the GST scenario, tax is to be levied at every point of sale. GST is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.”

- **Multi-Stage:** The GST will be applicable at every point when goods will move from one point to another starting from manufacture to final sale to consumer as: Procurement of raw materials to manufacturing Goods; then shifting to warehouse and then selling to mediator and from mediator to final consumer. As the tax is applicable at each and every stage; hence it is considered as multi- stage tax.
- **Value Addition:** The GST system is to be followed to overcome the cascading effect of Indian Taxation system which will be applied only when there will be addition in value of Goods and transfer of ownership from one to another. GST is implemented to improve the collection of taxes and to boost the development of economy of our country by removing the indirect tax hurdles between states and integrating the country through a uniform tax rate. It is to be applicable as:

Action	Cost	10% Tax	Actual Liability	Total
Buys Raw Material	1000	100	100	1100
Manufactures @ 500	1500	150	50	1650
Adds Value @ 300	1800	180	30	1980
Total	1800		180	1980

- **Destination-Based:** GST is to be levied on the basis of destination. It means the final tax will be paid by the final consumer at final destination. For example if goods manufactured in Punjab and are sold to the final consumer in Haryana . Since Goods & Service Tax (GST) is levied at the point of consumption, in this case Haryana, the entire tax revenue will go to Haryana.

In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Center will then share the IGST revenue based on the destination of goods.

## V. EFFECT ON VARIOUS SECTORS OF ECONOMY BY IMPLEMENTING GST

**1. Real Estate:** The GST rate on under-construction real estate projects will be 12 per cent only and not 18 per cent as there will be abatement for land cost. Buyer of real estate property is expected to pay for two main criteria; for the cost of land and for the construction of the house. The current system levies a service tax and stamp duty on the construction, while providing for 75% abatement. Service Tax and VAT will be replaced by Central GST and State GST whereas stamp duty stays unchanged as it is out of purview of GST.

## VI. BENEFIT TO BOTH BUYERS AND SELLERS WITH SINGLE TAX SYSTEM

The below mentioned issues are expected to be overcome by implementation of GST:

- lack of transparency at the time of purchase of property.
- Increase in input cost.
- Complexities in procurement of funds for construction.
- Delays in possession of property.

Apart from this, buyers have to face difficulties as payment of VAT which varies from one state to another state including taxes as excise duty, stamp duty, and service tax which is fixed at 15 percent.

As a result, buyers were bound to pay double taxes for the purchase of under construction house.

- 1. FMCG:** Fast moving consumer goods sector will benefit from the GST due to the present of a huge scale of unorganized market in India. GST rate for products like hair oil, soaps and toothpaste has been lowered by 500-600 bps from the previous rates. Companies such as Colgate-Palmolive, HUL, Britannia, Heritage Foods etc will benefit from the move.
- 2. Airlines:** This is expected that travelling in business class will become expensive as after the implementation of GST, tax rate is expected to raise from 9 per cent to 12 per cent. However, GST on economy class is fixed at 5 per cent which is quite lower than the previous 6 per cent. Lower tax rate on economy travel is positive for companies like Inter Globe Aviation, Jet Airways and Spice Jet.
- 3. Pharmaceutical:** Pharmaceutical products will face rise in GST rate with 2% from 10% to 12% earlier whereas the healthcare sector will remain excluded from the GST however the inputs by the healthcare sector will be taxed at 18 per cent. Companies like Dr Lal Pathlabs will be benefited.

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4. **Financial Services:** With the implementation of service tax into GST, the rate of GST on financial services is increased to 18% from 15%. Shares of companies like Motilal Oswal Financial Services, Edelweiss Financial, Geojit Financial Services etc will remain in limelight.
5. **Telecom:** Under the GST face telecom services will be taxed at 18 per cent which is a hike as earlier the rate was just 15 per cent. Bharti Airtel, Idea Cellular and Reliance Communication will be centric point after implementation of GST.
6. **Cement:** GST rate is expected to be same as earlier for Cement industry as earlier cement was taxed at 12.5 per cent excise and VAT rates between 12.5-15.5 per cent. Under GST, the cement will be taxed at 28 per cent, which is nearly the same as the current tax structure. The companies like UltraTech Cement, Birla Corporation, JK Lakshmi Cement, Deccan Cement and India Cement are in limelight after the implementation of GST.
7. **Automobile:** The GST rates is remained same for automobile sector as the hybrid cars which will be taxed at the 28 per cent GST +15 per cent cess. Tractors category is to be taxed with higher rate with 12 per cent which was earlier only 6-7 per cent which will be negative for the tractor companies.
8. Companies like Exide Industries, Minda Industries and Amara Raja Batteries are expected to be in lime light.

## VII. FINDINGS AND CONCLUSION

The major findings of the paper elaborates that no doubt the current GST system is a multi stage, destination based effect on goods and services but it will be a major source of revenue for Govt. as it shows significant impact on each and every sector of economy.

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