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IMPACT OF GOODS AND SERVICE TAX (GST) ON MANUFACTURING SECTOR

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ABSTRACT

India is emerging as the one of the growing economies in the world. India is currently Asia's third largest economy by GDP. The share of services sector is 57 per cent (in 2013), followed by industrial sector at 25 per cent, and agriculture sector at 18 per cent. Industrial sector is generally accepted as the vibrant and leading sector in an economy that enables economic development by utilizing the deposited resources, fulfilling the needs of the society, augmenting international trade and laying an effective path to reach the sustainable development. The Government of Indian recognizes the consequence of the manufacturing sector in the country's economic growth and development. The government also understands that becoming a manufacturing hub will have to need numerous strategic reforms to make simpler manufacturing in India. Make in India and the implementation of the GST is one of the proposed reforms thus leading to manufacturing synergy in India. The GST has already been introduced in nearly 160 countries of the world and France was the first to introduce GST in the year 1954. The journey of introduction of GST in India has been long and was a culmination of the efforts of many political leaders and officers of the Centre and State Governments. The 101st Amendment of constitution empowers the centre and state to levy and collect the GST at uniform rate except Alcoholic liquor for human consumption. GST as a historic tax reform is expected transform the indirect taxation in India came into effect from 1st July, 2017. The impact of GST on manufacturing sector is to be positive, on the other hand, India's manufacturing performance has been uninspiring. Therefore this paper made an attempt to assess the impact of GST on manufacturing sector.

KEYWORDS: Goods and Services Tax (GST), Gross Domestic Product (GDP), Gross Value Added (GVA), Manufacturing Sector.

INTRODUCTION

India is emerging as the one of the growing economies in the world. India is currently Asia's third largest economy by GDP. The share of services sector is 57 per cent (in 2013), followed by industrial sector at 25 per cent, and agriculture sector at 18 per cent. Industrial sector is generally accepted as the vibrant and leading sector in an economy that enables

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economic development by utilizing the deposited resources, fulfilling the needs of the society, augmenting international trade and laying an effective path to reach the sustainable development. Hence, industrial development is considered as an important instrument that drives socio-economic development of a nation. Honourable Prime Minister Narendra Modi launched the Make in India initiative in the year 2014, with the primary goal of making India a global manufacturing hub.

GOODS AND SERVICES TAX (GST)

Good and Services Tax (GST) which is shortly know as GST is a proposed system of Indirect Taxes in India merging most of the existing taxes into single system of taxation. The constitution of India (One hundred and first amendment) Act, 2016 was passed by Lok Sabha and passed by Rajya Sabha on August 2016. GST was launched at the stroke of midnight hour of June 30 - July 1, 2017.GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits up to the retailer level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services. Ultimately, the burden of GST is borne by the end-user (i.e., final consumer) of the commodity/services. According to clause 12A of Article 366 of the constitution, goods and services tax means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. According to same Article, goods includes all materials, commodities, and articles (clause 12), services means anything other than goods (clause 26A) and state with reference to articles 246A, 268, 269A and Article 279A includes a Union Territory with legislature (clause 26B). The power to levy GST is derived from Article 246A of the constitution which confers concurrent powers to both parliament and state legislature to make laws with respect to GST. However, clause 2 of Article 246A read with Article 269A provides exclusive power to the Parliament to legislate with respect to inter-state trade or commerce. The taxable event under GST is the supply of goods and/or services. CGST and SGST are levied on intra-state supplies with IGST is levied on inter-state supplies.

BRIEF HISTORY OF GST

The GST has already been introduced in nearly 160 countries of the world and France was the first to introduce GST in the year 1954. The journey of introduction of GST in India has been long and was a culmination of the efforts of many political leaders and officers of the Centre and State Governments. The ideas of the GST was first mooted in the year 2000 during the Prime Minister ship of Mr. Atal Bihari Vajpayee and committee was set up headed by Mr. Asim Dasgupta (West Bengal Finance Minister) to design a GST Model. In 2003, Prime Minister ship of Mr. Atal Bihari Vajpayee set up another task force under Mr. Vijay Kelker to recommend tax reforms. On February 28, 2006 the Union Finance Minister in his Budget 2006-2007 proposed GST would be introduced from 1st April, 2010. Mr. Nandan Nilekani released Information Technology Strategy for GST in 2011. With several years of political stage show, the Lok Sabha passed the 122nd Constitutional Amendment Bill for GST in 2015. The 101st Amendment of constitution empowers the centre and state to levy and collect the GST at uniform rate except Alcoholic liquor for human consumption. On the other hand five petroleum products viz, Petroleum Crude, Motor Sprit (Petrol), High speed diesel, natural gas and date from aviation turbine. GST as a historic tax reform is expected transform the indirect taxation in India came into effect from 1st July, 2017.

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ADVANTAGES OF GST

- Check post across the country were abolished for free and fast movement of goods
- It will inject the revenue of the state governments
- The GST levied on petrol and petroleum products may curtail the income of the higher groups and enhance the revenue of the government
- The central government will compensate losses to be incurred from GST by the state government for a period of five years.
- The unique slogan in GST is to make India one nation, one market and one tax.
- Cashless system will check corruption and black money circulation in the country.

DISADVANTAGES OF GST

- The maximum rate of GST in China it is 17 per cent, South Africa it is 14 per cent and Russia it is 8 per cent but it is 28 per cent in India.
- In current system, many products are exempted from taxation, the GST proposes to have minimal exemption list.
- Currently, higher taxes are levied on fewer items, but with GST, lower taxes will be levied on almost all items.
- GST is not applicable on liquor for human consumption.
- Stamp duty will not fall under the GST regime and will continue to the imposed by states.

THE INDIAN MANUFACTURING INDUSTRY

The Indian manufacturing industry has emerged as one of the high growth sectors in India, and the launch of 'Make in India' initiative further propelled and gave this sector the necessary boost. According to the Global Manufacturing Competitiveness Index published by Deloitte, India is expected to set its global mark by becoming the fifth largest manufacturing country in the world by the end of the year 2020. In addition, the Government of India has set an ambitious target of increasing the GDP share of manufacturing industry from its current stagnant 16 per cent to 25 per cent by 2025.

POSITIVE IMPACT ON MANUFACTURING SECTOR

The global experiences have witnessed that GST results in numerous benefits to all stakeholders. The major benefits of GST are:

- **REDUCTION OF TRANSPORTATION COST AND TIME:** GST will help in removing multiple and checkpoints at state border. This will auxiliary save the logistics time and effort and make sure faster delivery of goods.
- **REDUCTION IN RAW MATERIAL AND PRODUCTION COST:** The primary objective of GST is to remove the cascading effect of taxes and follow a uniformed tax regime in India. Manufacturing sector will affect directly in a way those cost of raw materials and production.
- **EASY CREDIT MECHANISM:** Unlike the earlier taxation system, with the implementation of GST, cost of any services, including logistics, will be considered a value add, 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.
- **IMPROVED CASH FLOWS:** Under GST regime, manufacturers can assert input tax credit on input goods, which leads to be a positive impact for cash flow. SMEs are ardently observing the time difference

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between input tax credit and the credit being presented.

- **SETUP OF LARGER WAREHOUSES:** The manufacturers can club their lesser location warehouses into one for handling facilities and smooth functioning.
- **INDIA, A COMMON NATIONAL MARKET:** GST will be levied only at the time of consumption, and not production. Earlier VAT was levied at various points (from manufacturing to retail outlets). As a result, retailers had to increase the final cost of goods being sold to the end consumer. With GST, economic distortions will be removed, leading to a common national market.
- **NEGATIVE IMPACT ON MANUFACTURING SECTOR**
- **TIME OF SUPPLY:** In current regime of tax the time of duty on manufacture attracts at the time of removal where as in GST regime it will earliest of the four such as (Date of Issue of Invoice, Date of Payment, Date of Removal, Debit in the books of Receiver).
- **INCREASE IN WORKING CAPITAL:** In GST regime of tax, stock transfer has been made taxable, which requires the huge working capital because the realization of tax going to be on final supply tills that It may block the capital.
- **NO CREDIT OF PETROLEUM PRODUCT:** Petroleum Product has been kept out of GST hence; the tax paid on Petroleum Product is not eligible as credit and same became the cost. Each industry requires the Petroleum Product such as Fertilizer Industry, Power Sector, and Logistic Sector etc.
- **INTRODUCTION OF REVERSE CHARGE ON GOODS:** In current regime Of tax structure there was reverse charge on specified services but in case of GST even the reverse charge will be applicable on goods.
- **POST SUPPLY DISCOUNT:** If the discount has to be given post supply than it must be known to both the parties at the time of supply or pre-supply and the proof of being known is the clause of discount must be there either in contract or agreement or offer etc.
- **MATCHING CONCEPT OF RETURNS:** In current regime, if the tax has been made the purchaser to supplier then he is eligible to take the Credit it is immaterial whether the same has been credited to Central Government by the supplier or not. But in GST Regime, the matching concept if tax credit will be there, if credits pertaining to supplier does not match with purchaser than it will not be accepted in return unless it is rectified by both the parties.
- **DENIAL OF CENVAT CREDIT ON PURCHASES MADE FROM UNORGANIZED/ UNREGISTERED PERSON:** There is a limitation in the implication that small businesses may not for all time find it feasible to purchase goods from registered vendors only.

SLOWED DOWN GROWTH IN EIGHT CORE SECTORS

The eight core infrastructure sectors which are vital in the growth of the country are Coal, Crude Oil, Natural Gas, Refinery Products Fertilizers, Steel, Cement and Electricity. Official data regarding eight core sectors exhibited that the growth rate decelerated down to 2.4 per cent in July due to contraction in output of crude oil, refinery products, fertilizer and cement. These sectors registered growth of 8.1 per cent last year.

The Index of Industrial Production (IIP) of eight core sectors account for 41 per cent to the total factory output which recorded a growth rate of 0.8 in June 2017. The production of crude oil declined to 0.2 per cent, fertilizer 0.3 per cent and cement 2 per cent, Coal output declined to 0.7 per cent against 4.1 per cent in July 2016.

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National output increased to 6.6 per cent. Steel production and power generation increased to 9.2 per cent and 5.4 per cent respectively. Only steel output increased relatively higher by 9.2 per cent to July 2017 against 5.8 per cent in July 2016.

IMPACT OF GST ON VARIOUS SECTORS

S. No	Industrial Categories	June 2016-2017 (Quarter)	June 2017-2018 (Quarter)
1	Financial Insurance, Real Estate, Professional Services	9.4	6.4
2	Electricity, Gas, Water Supply and Other Utility Services	10.3	7
3	**Manufacturing Dipped**	**10.7**	**1.2**
4	Agriculture, Forestry and Fishing	2.5	2.3
5	Construction Sector	3.1	2

The financial insurance, real estate and professional services has a growth of 9.4 per cent in the 2016-2017 (June-Quarter) which declined to 6.4 per cent 2017-2018. In case of Electricity, Gas, Water Supply and Other utility services growth reduced from 10.3 per cent to 7 per cent. Manufacturing sector dipped from 10.7 per cent to 1.2 per cent and in construction sector, the growth also dipped from 3.1per cent to 2 per cent in 2017-2018 (June-Quarter).

THE EFFECT OF THE GST ON MANUFACTURING INDUSTRY IN INDIA

- **CEMENT INDUSTRY:** Cement industry is the one of oldest manufacturing industry the industry has the greatest historical background. Where the civilization is there is role of the cement, make in India concept applicable for this industry. The industry has some indirect taxes. By the GST effect the cement industry has indirect tax which might be subsume as 16 per cent to 20 per cent .currently tax burden of indirect taxes from 27 per cent to 32 per cent decrease of tax rate as 16 per cent to 20 per cent it my create /facilitate as operating expenses such as transportation expenses benefits that the subsume of expenses the industry can claim the above benefits in future.
- **AUTOMOBILE INDUSTRY:** At presently automobile industry payment of the tax sum of 30 per cent to 47 per cent the effect of GST the tax rate decrease from 20 per cent to 22 per cent so at least the consumer may get the benefits.
- **CONSUMER AND DURABLE SECTOR:** Currently the consumer and durable claiming revenue net tax total tax percent is 7 to30, the sector had been exempted from such taxes so the effect of GST, the industry would have to get the benefits. The difference between organized and unorganized Sectors is that the rates gap may sub sum. Warehousing and logistics expenses may reduce C.G.C.E Havel, Voltas, Blue star Bajaj electrical simfani, Hitachi, etc companies are benefited by the effect of GST.
- **IT & ITES:** In the India IT sector 50 percent to 70 percent of the graduates depend on the only IT sector. The net tax rate is 14 per cent. By the implementation of GST the tax may be 18 per cent to20 per cent to increase. In IT sector the revenue is mainly depending on only export of IT products and services revenue of IT export exempted from the GST. So the GST effect is to be Negative.
- **TELECOM SECTOR:** The telecom sectors presently the tax rate is 14%.By the causes

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of GST the tax rate on telecom sector would have to increase as 18%. So the result of GST on telecom sector will be negative. The public sector is to be critical. In future the concept of “one tax and one nation” caption is not suitable for Telecom sector.

- **BANKING AND FINANCIAL SERVICES:** Banking is heart of financial India (wealth). In India public and private banking industry is the reflection of mixed economy. The banking sector’s net tax rate is 14 per cent by the effect of GST the rate will be increased from 18 per cent to 20 per cent. That the differential tax rate causes as Loan fees, debt and credit charges, insurance premium, etc the financial services charges burden on customers will increase. So the GST will also influence on customer purchasing power. In the banking business transactions will have also effect on share market.
- **PHARMACY INDUSTRY:** The pharmacy sector are getting exemptions regional wise. The excise tax rate is 6 per cent. Till the end of the duration the subsidies will have to continue, then after that they will not available. The new tax pattern the industry could not remain constant it is considerable because the encouragement of pharmacy sector.
- **TEXTILE AND GARMENT INDUSTRY:** Emerging industry has playing key role in textile and garments .That the industry has recipient of tax rate is currently from 6 per cent to 7 per cent that tax rate may or may not be continued it is clear in that process the output of tax rate may hick by the effect of GST which is negative .the textile sector enjoy some of few companies like page industry, Aravind, Raymond etc.
- **DTH/MEDIA COMPANY:** DTH and media sector’s average tax payment rate presently 19 per cent to 21 per cent apart from that service tax is 14 per cent, entertainment tax is 5 per cent to 7 per cent Brad costing companies are paying tax rate is 14 per cent to 15 per cent these two departmental taxes are effect by the GST 18 per cent to 20 per cent. Currently news and print media has been exempted from that taxes, the GST prove to DTH and some Negative to print media and broadcasting.

CONCLUSION

The Government of Indian recognizes the consequence of the manufacturing sector in the country’s economic growth and development. The government also understands that becoming a manufacturing hub will have to need numerous strategic reforms to make simpler manufacturing in India. Make in India and the implementation of the GST is one of the proposed reforms thus leading to manufacturing synergy in India. The impact of new GST regime would be a modern tax reform which will usher in opportunities for business in India. There are high hopes that the new GST system will lead to manufacturing sector by changing the cascading tax system to the goods and services tax. In addition, all major business dynamics will have to be thoroughly analysed to review the impact of GST on business.

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APPENDIX-A

CONSTITUTIONAL PROVISIONS PERTAINING TO TAXES

Article	Brief Description
27	Freedom as to payment of taxes for promotion of any particular religion
246	Subject-matter (including taxes) of laws made by Parliament and by the Legislatures of States
246A	Special provisions with respect to Goods and Services Tax (GST)
248	Residuary powers of legislation, including taxes
265	No tax shall be levied or collected except by authority of law
268	Duties levied by the union but assigned to the states
269	Taxes levied and collected by the union but assigned to the states
269A	Levy and collection of Goods and Services Tax (GST) in the course of inter-state trade or commerce
270	Taxes and duties levied and collected by the Union but distributed between the Union and the states
271	Surcharges on certain duties and taxes for the purpose of the Union
276(2)	Monetary limit on taxes on professions, trade, calling or employment
279A	Goods and Service Tax Council (GST Council)
285(1)	Exemption of property of the Union from state taxation
286	Restriction on states to impose tax on the supply of goods or services or both, where such supply takes place: a) Outside the state or b) In the course of import of goods or services or both into or export of goods and services or both out of, the territory of India.
287	Exemption from state taxes on electricity consumed by the Government of India
289	Exemption of property and income of a state from union taxation
244(2) and 275(1)	Powers of District Councils to levy taxes in tribal areas
366(12)	Definition of goods
366(12A)	Definition of goods and services tax
366(26A)	Definition of services
366(26B)	Definition of state with reference to Articles 246A, 268, 269, 269A and 279A

APPENDIX-B

Constitutional Definitions

GOODS: According to clause 12 of Article 366 of the Constitution, goods include all materials, commodities and articles.

GOODS AND SERVICES TAX: According to clause 12A (11) of Article 366 of the constitution, goods and services tax means any tax on supply of goods, or services or both.

SERVICES: According to clause 26A (12) of Article 366 of the Constitution, services means anything other than goods.

STATE: According to clause 26B (13) of Article 366 of the Constitution, state with reference to Articles 246A, 268, 269, 269A and 279A includes a Union Territory with legislature.

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