

“Impact of Gst on Service Sector”

Mrs. Rohini Sajjan

Research Scholar, Dept. of Studies & Research in Business Administration Tumkur University, Tumkur Karnataka

I. Introduction

GST is an inclusive tax levied on manufactures, sales and consumption of goods and services at a nation level. “GST is a tax reform in India that has a broad base that initiates the applicability of an proficient and synchronized tax system. GST is concept that has been acknowledged worldwide and more than 140 countries have accepted the same. General rate of GST ranges between 15%- 20% in most of the economies.

II. Implementation Of Gst

VAT was no doubt a success but still some short coming were there in the structure of tax levying methods both at the State and the Central level. Government of India’s CENVAT had the shortcoming of non-including several taxes in the overall frame work.

The present VAT scheme at the State level includes CENVAT on the goods loads leading to cascading effect of CENVAT element. Normally any goods produced will be valued on the basis of physical input and services drawn upon, so there must be an integration of VAT on the goods taxed on the services at the State level and the same should be taxed in such a way that it should not lead to cascading effect on service tax.

Further, removal of cascading effect, tax layers and simplified structures, the GST would encourage acquiescence and also expected to widen the tax base. But almost all media reports state that the GST tax reform has the potential to enhance the India’s GDP at least by 2%.

In comparison to pre-existing Central and State tax system to VAT a considerable improvement has been observed. GST is a further step to simplify the tax system, a comprehensive tax system with higher significance inclusive of all the taxes at State and Central level. 6.2 per cent to 9.4 per cent increase in the revenue rate is expected is the assumption of leading researchers. The revenue-neutral rate is the rate for GST that will not make a net difference to the overall tax collection of centre and states”.

Objectives Of The Study

- To understand the silent features of GST
- To understand the Tax Credit Mechanism System of GST
- To analysis impact of GST on Service Sector in India
- To diagnose the opportunities & challenges for service sector

III. Features Of Gst

The GST Framework could easily be one of the most important tax reforms to be tabled for discussion in the Parliament. It does bring with some problems, like division of taxation power between Centre and State. The GST will be applicable on the basis of Destination principle.

So the GST has two components:-“One levied by Centre (hereinafter referred to as Central GST) and the other levied by the States (here in after referred as State GST)

However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. will be uniform across these statutes as far as practicable.

The GST would be levied in 3 different forms.

CGST	SGST
This is applicable in the case of Inter-State sale of goods and provision of service	In case of sale of goods Intra-state then tax will be charged as per this form.
Taxes/Duties Covered under CGST	Taxes/Duties Covered under SGST
Central Excise Duty	Entry tax (not octroi)
Service Tax	Entertainment tax
CVD, SAD	VAT/Sales Tax
Excise duty on M&TP etc.	Luxury tax etc.

Integrated Gst (Igst)

- The scope of IGST Model is that centre would levy IGST which would be CGST plus SGST on all inter-state transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.
- IGST will be combination of CGST and SGST and the same will be collected by the Centre in the Origin State.”

Tax Credit Mechanism



Time bound refund of credit will be allowed in cases such as exports and inverted duty structure. It is clear that cross utilisation of CGST and SGST is not allowed generally but the IGST mechanism will make this credit fungible.

Impact Of Gst On Service Sector

“The services sector is not only the dominant sector in India’s GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. “The government has unveiled a four-tier GST rate structure for the sector — 5 per cent, 12 percent, 18 per cent and 28 per cent. The bulk of the services will, however, be taxed at 18 per cent. The sector is currently taxed at 15 per cent, so the GST regime will likely increase tax incidence for this sector. India’s services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage, communication, financing, insurance, real estate, business services, community, social, personal services, and services associated with construction. The sector contributed around 66.1 per cent of its Gross Value Added growth in 2015-16”.

Gst Impact Analysis - Sector-Wise

• Logistics

“The logistics segment in India formulates the mainstay of the economy. We can fairly accept that a well-organized and mature logistics industry has the dormant to coil the “Make In India” initiative of the Government of India to its expected position”.

• E-commerce

“In India e-commerce has been growing by bounds and constraints. In many ways, GST will help the e-com sector’s continued growth but the long-term effects will be particularly interesting because the GST law exactly proposes a Tax Collection at Source (TCS) mechanism, which e-com companies are not too pleased with. The current rate of TCS is at 1%”.

• Pharma

“GST is helping the pharma and healthcare industries. It will create a level playing arena for generic drug makers, increase medical tourism and shorten the tax structure. If there is any concern whatsoever, then it relates to the pricing construction (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all”.

• Telecommunications

“The prices in telecom will come down after implementation of GST. “Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST has negated the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs”.

- **Textile**

“The Indian textile industry offers service to a large number of skilled and unskilled workers in the country. “It donates about 10% of the total annual export, and this charge is likely to surge under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it previously attracted zero central excise duty (under optional route).”

- **Real Estate**

“The real estate sector is one of the most essential sectors of the Indian economy, playing a significant role in occupation generation in India. The influence of GST on the real estate sector cannot be fully measured as it largely depends on the tax rates. However, the segment will see substantial benefits from GST application, as it has brought to the business much-required transparency and responsibility”.

- **Agriculture**

“The agricultural sector is the largest contributing segment the overall Indian GDP. “It covers around 16% of Indian GDP”. One of the major issues faced by the agricultural sector is the transportation of agri-products across state lines all over India. GST will resolve the issue of transportation”.

- **FMCG**

The FMCG sector is experiencing noteworthy savings in logistics and distribution prices as the GST has eradicated the essential for multiple sales depots.

- **Freelancers**

“Freelancing in India is still a budding industry and the rules and regulations for this disordered industry are still up in the air. But with GST, “it will become much easier for freelancers to file their taxes as they can easily do it online. They are taxed as facility providers, and the new tax structure has transported about consistency and responsibility in this segment”.

- **Automobiles**

“The automobile industry in India is a massive profession producing a large number of cars annually, fuelled mostly by the huge population of the country. Under the previous tax system, there were several taxes applicable to this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST”.

- **Start-ups**

“With augmented limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Previously, many Indian states had different VAT laws which were confusing for companies that have a pan-India presence, especially the e-com sector. All of this has changed under GST”.

- **Life Insurance Premium**

“The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.”

- **Mutual funds Returns**

“GST impact on your returns from mutual funds’ investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.”

Opportunities and Challenges for Service industries

- “Costlier Services: In current tax regime, service tax is applicable at the rate of 15% on Services rendered which includes 0.5% for Swatch Bharat Cess and 0.5% for Krishi Kalyan Cess but it is expected that under GST regime services will be charged by higher rate of tax at 18%”.

- “Notices from Taxation Authorities: In current tax system, both Central and State Govt. have right to collect the tax according to the rights given in list I, II and III in the Constitution and because of that sometimes it becomes so confusing to find out to pay taxes to which department in regards to goods and services like software, works contract etc. Having disputes between Central and State Government and what’s happening is that the person paying tax to service tax department getting notices from the VAT/CST department and the person paying the VAT/CST liability gets the notifications from the Services tax department. But with the introduction of single tax GST regime, the double taxation effect due to disputed goods and services in the current tax system will get eliminated. In GST tax structure both supplies of goods and services will be treated once with the unique rate of tax respectively”.

IV. Conclusion

Implementation of GST by Govt. is one of the revolution in the economy. By categorising the tax into SGST, CGST & integrated tax it has avoided the cascading effect. But implementation of GST is not effectively planned & structured. On the whole it has both positive & negative impact of service sector depending on the tax slab mentioned on different services. Therefore, few amendments & restructuring is expected in the GST law.

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