45 & 46

ISSN 0976-0377
RNI. MAHMUL02805/2010/33461

International Registered & Recognized
Research Journal Related To Higher Education for all Subjects

INTERLINK RESEARCH ANALYSIS

(UGC Approved.Refereed & Peer Reviewed Research Journal)

Year - X, Issue - XX, Vol. - I | Impact Factor 6.20 (GRIFI) | July 2019 To Dec. 2019

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"Recent Economic Reforms & Its Impact on Industrial Development in India"

(20th - 21st Sept. 2019)

Editor in Chief
Dr. Avinash V. Pawar

RNI. MAHMUL02805/2010/33461
Interlink Research Analysis
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GST in India: Impact on Manufacturing sector

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INTRODUCTION:

On July 1, 2017, Goods and Service Tax (GST) was introduced in the Indian Economy, which was a replacement to existing indirect taxes like excise duty, Service Tax, VAT, etc. It was levied all over India on the supply of goods and services. We need to analyze the 600-day journey of the biggest change in indirect taxes.

GST has unified the common market and triggered "One Nation, One Tax" with its invent. GST has pushed the economy one step closer to a common market i.e. free movement of capital and services. A consumer in Kanyakumari now pays the same tax on an item as one in Jammu & Kashmir. As many as 17 taxes and multiple cesses were subsumed into GST, aligning India with global regimes. Central taxes such as excise duty, services tax, countervailing duty and state taxes — including value added tax, Octroi and purchase tax — were all rolled into one. It also ensured a single law for the whole country with uniform procedures and rules, which reduces compliance burden under various laws and business complexity.

Doing business has become easier as the hassle-free movement of the goods enables smoother transport thereby plugging in the logistical inefficiencies. The introduction of GST Network and E-Way bills has solidified the country's supply chain and put in place a structure that facilitates transparency. Now a dealer can track their shipments whether it is intrastate or interstate. A recent ICRA survey of 50 transport companies found turnaround time in road transport reduced 18-20% since the implementation of GST. Besides, implementation of the e-way bill on consignments of Rs 50,000 and above was gradually freeing them from unnecessary checking by state government raid parties.

- Increased demand and consumption of goods.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.

GST IMPACT ON INDIAN ECONOMY:

- Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.
- Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- GST will add to the government revenues by extending the tax base.
- GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.
- GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.

IMPACT OF GST ON MANUFACTURING :

The manufacturing sector in India is a major economic driver. Today, Indian manufacturing companies have attracted the global spotlight and are transforming into significant global competitors. A glimpse of the history, India's manufacturing sector has fulfilled momentous milestones, from initial industrialization and the license raj to liberalization and the current phase of global competitiveness.

6. ***Area-based Exemptions***

Manufacturing units in remote or backward areas enjoy tax exemption based on their locations. As per the theory of GST, since the entire country is considered a unified market, the location-based exemptions stand invalid. This might be a true issue of concern for companies currently enrolled under this incentive.

7. ***Petroleum Exclusion from GST***

The impose of excise duty by the Central government on five petroleum products – high speed diesel, petroleum crude, motor spirit, aviation turbine fuel and natural gas – will be continued.

PROBLEMS IN INPLEMENTING GST :

There are certain challenges and problems in implementing the GST in India. Some of them are as follows.

1. There is no such clear picture about the GST both to the government and to the general public.
2. There is no cooperation between the Central government and the state government in implementing the GST. Even though, if implemented the levy of Tax remains on the part of the state.
3. The State government generally refuses to accept it. As the states levy taxes on the Destination principle i.e. (the state in which the product or service is sold or rendered), so in order to lose the revenue they were avoiding it.
4. The Revenue Neutral Rate (RNR) is the key factor responsible for the effective implementation of GST. But under GST, we could not say that the revenue remains same as that of the current system of taxation.
5. Loss of revenue to the state. If we buy any product the VAT @ 14.5% is included towards it, after the GST regime, there will be no VAT then it results on the loss of revenue to the state.
6. Even though the government said that they will pay the loss of revenue to the state government, it will be again imposed on the general people in some other forms.
7. It involves massive cost on the training of the staff of the Taxation department.

CONCLUSION:

The GST is very crucial tax reform since independence of India, so the government both central and state have to conduct awareness programmes and various literacy programmes about GST to its various stakeholders.

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