

## **Impact of GST on Service Sectors**

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**Abstract:** GST abbreviation for "Goods and Services Tax", and is an inclusive indirect tax imposed on the production and consumption of goods and services at the national wide replacing the taxes levied by the state and central governments of India. Globally it was introduced in the year 1954 in France. Across the world more than 150 countries have adopted it. It is one of biggest tax reform. With GST implementation, Indian market will be unified and will lower the business cost in long run. Along with reduced cost it will also help in seamless movement of goods and services across states. The present paper tries understanding impact of GST on different sectors of economy.

**Key words:** Goods and Service Tax, Impact, Sector, reform.

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### **I. Objective of the study**

- To have a brief understanding on GST.
- To examine the influence of GST on different Businesses operations.
- To understand the effect of GST on selected sectors in the Indian.

### **II. Research methodology**

The paper attempts at descriptive analysis taking data from the secondary sources as journal articles, reports and the internet. Extensive use of secondary data for analysis and interpretation of research outcomes are done in the study.

### **III. Introduction**

India, world's one of the biggest domestic economy following the federal system of tax levying and collection of its various taxes. Tax policy of any economy play an important role in the economic up lift in terms of both efficiency and equity. A efficient tax system should keep in view issues relating to wealth and income distribution and also ensuring to generate sufficient tax revenues to meet government expenditure for public services and infrastructural development of economy. In simple, the GST reduces the number of stages wherein taxes need to be paid, in turn reducing the possibility of manipulation in tax valuation and payments leading to transparent mode of tax administration. Cascading effect of tax payment can be alleviated towards individuals and also leading to revenue boost in certain states and price reduction in goods and services. In this paper, research tries to throw light on the issues that currently plague the newly levied GST taxation system in India as well as the impact of GST on a few selected sectors.

#### **Definition of Goods and Service Tax:**

New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except tax on the supply of the alcoholic liquor for human consumption

#### **Why GST Is Important:**

- GST will ensure the uniformity of taxes across the states regardless of place of manufacture or distribution.
- GST will widen the tax base improve tax compliance remove existing unhealthy competition among state and re-distribute the burden of taxation equitably among manufacturing and services. GST environment would lead to improved disclosure of economic transactions which may have a positive impact on direct tax collection also
- GST integrates the tax bases and allows seamless flow of input tax credit across the chain value of goods and services produced leading to reduction in cost of goods and services produced. The average tax burden reduction will reduce the overall cost of production on companies making goods cheaper in the international market leading to growth of international trade at large in the long run.

- Central tax collection system becomes more transparent resulting in increasing revenue at the Centre and State and also making tax evasion difficult. It will moderate cascading effect, double taxation and allows for better amenableness through lowering the tax burden on goods and services.

#### **Benefits of GST:**

##### **For the consumer:**

- Single and transparent tax proportions to the value of goods and services.
- Reduction of prices: Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is very big reason to say that we can see a reduction in prices. However if the government seeks to introduce GST with a higher rate, this might be lost. For Business and industry:
- Less compliance: Instead of maintaining big records, returns and reporting under various different statutes, all assesses will find comfortable under GST as the compliance cost will be noted that the assesses are, nevertheless, required to keep record of CGST, SGST, and IGST separately.
- Removal of cascading.
- Improve competitiveness.

##### **For central and state government:**

- Increased in government revenues: - This might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.
- Simple and easy to administer.
- Better controls on leakage.
- Consolidation of tax base.
- Higher revenue efficiency

#### **Impact of GST on Various Industries**

##### **1. Textile/Readymade Garment**

Textile industry being one of the important industries contributing to GDP will be of great benefit through the implementation of GST in India. The prime advantages are as follows:

- 1.1 Break in input credit chain supply
- 1.2 Overall reduce in manufacturing cost
- 1.3 Benefit of Input credit to the capital goods

Exemption of GST on ready-made garments up to Rs. 1000 and taxing of 12% for branded garments above Rs. 1000.

##### **2. Import and Export**

Implementation of the GST has left with both its positive and negative effects on Exports of goods/services. They will be treated as zero-rated supply under GST law i.e. ITC (Input Tax credit) and a refund will be allowed.

Interstate supplies treatment will be given on Imports of goods/services and are liable for IGST and BCD (Basic Customs Duty). Under GST, ITC of IGST will be allowed, but ITC of BCD is not.

Many Indian manufacturers are even afraid that this might result in foreign clients shifting to other countries in search of quicker supply. Many handmade product corporations are still not clear about the GST related paperwork, new prices, labour rates and other related things which have kind of put a temporary hold on exports from the country.

According to a news report, the production of handmade items has decreased by about 40% after GST. The largely impacted sectors are gems & gold jewellery, pharmaceuticals, readymade garments and other corporates that are involved in the export of handmade goods.

It also seems that many dealers are unhappy with the new GST rates as the GST Council has so far received over 133 requests for change in GST rates of different products. This may also be a major reason behind the decrease in the exports.

##### **3. Banking**

GST rate of 18% is levied on banking services, insurance policies, ATM transactions etc. The previous tax rate was 15% only. Now banking and financial services will become costly. On other hand GST has reduced

its indirect taxes, i.e. Ease of doing business in the banking and financial sector leading to increase in business. It will lead to enhanced demand for funds management and digital transactions in the banking industry. The existing cascading system of taxation has been replaced by the GST administration, making the slogan of 'One Nation, One Tax' a reality and as expected to make its impact on the each and every business sector including the service sector also. In the service sector, specifically the financial services, NBFCs, and Banks, which is based on funds and insurance based, are deeply impacted.

#### **4. Hotel and Tourism**

Recent trends in Tourism and hotel industry shows an import contribution towards grow India's GDP. GST rates for hotels are structured in accordance to their tariffs

- Less than Rs. 1000 = 0% (GST free)
- Rs. 1000 to 2500 = 12%
- Rs. 2500 to 7500 = 18%
- Above Rs. 7500 = 28%

It is expected to relief the tourists as GST of 5% is liable to tour operator leading to reduce in the overall tour package cost.

#### **Entertainment**

The entertainment services tax rates vary from 18% to 28%. Different taxes are imposed in different states which directly depend upon type of entertainment service or product rendered.

The states where the entertainment service tax were high as 28%, GST implementation will decrease the overall cost of entertainment. Entertainment is one of those industries that attract for more than one type of tax in India.

In addition to the central taxes, states as well as local authorities used to charge taxes on entertainment services such as movie theatres. However, all these taxes have now been replaced with a single tax after the implementation of the Goods & Services Tax (GST) in India. Let's see the impact of GST on Entertainment.

The owners in the entertainment industry will also have to pay GST on entertainment services, including ticket sales and food & beverages sold by them, however, the additional tax can be recovered through input credits (ITC) on the service components such as rent, security and other related services of the entertainment facilities. To conclude, GST will decrease the entertainment services cost in most of the states in which entertainment tax was higher than 28%. However, the states which already had low or no tax on entertainment services will see a rise in the cost of movie tickets and other related services.

#### **5. FMCG (Fast-moving consumer goods)**

Among the biggest economic platforms in India, FMCG sector is one of them. After the GST implementation, most of the FMCG products and services will be taxed about 18 to 20 percent which will be low to the previous rates, leaving benefits to the business holder, manufacturers and consumers directly.

### **IV. Conclusion**

The analysis in this paper of the Services Sector in general and six sectors in particular indicates not only the potential of the services sector, but also the major issues and problems areas. Only few sectors are analyzed here, there are many potential sectors. Telecommunication industry, healthcare, professional services, real estate, prospects are bright.

By subsuming all the indirect and other taxes to provide the "one nation One tax", we can say it is a great move that will boost the economy even further. In as much as there will be challenges, it is a great thing to have a single taxation system for the service provider.

GST system has definitely increased the compliance burden for service providers. GST implementation is bound to face several problems during initial days but thing will be smoother once the issue are addressed.

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