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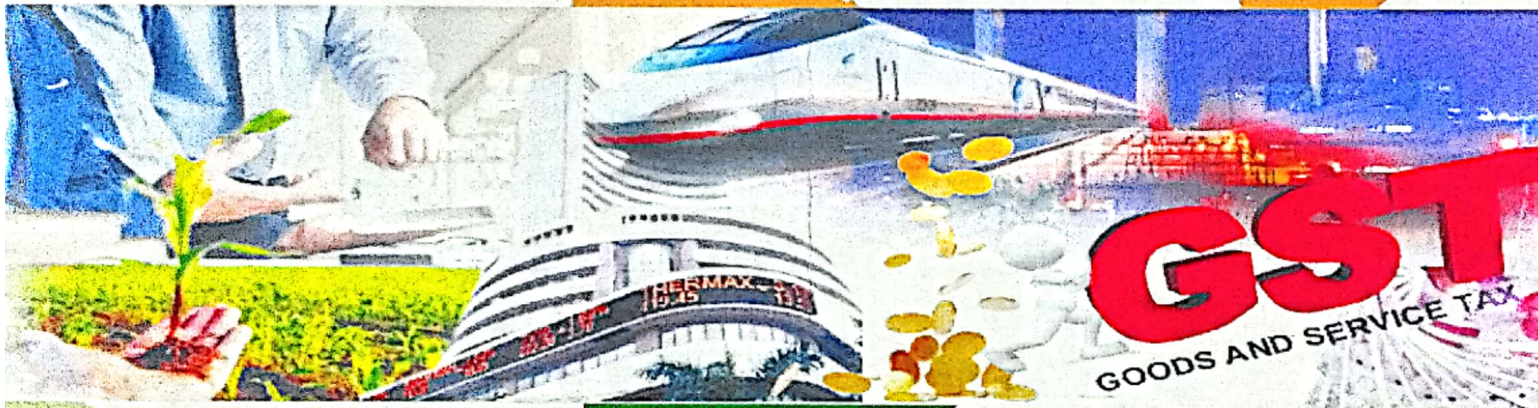
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CHANGES IN TAX SYSTEM AND INDIAN ECONOMY



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**INDEX**

No.	Title of the Paper	Authors' Name	Page No.
1	Indirect Taxation in India: Reforms for Economic Prosperity	Dr. Ritesh Kumar Singhal	05
2	Advantages and Disadvantages of GST in India	Dr. G. D. Kharat	10
3	Is GST A Bugbear for Indian Customers?	Ruby Gandhi	15
4	Impact of GST on Industries	Dr. Soumath Samap	19
5	Role of GST in Modern Indian Economic Era	Dr. G. L. Shendge, Prof. G. T. Pawar	22
6	GST India Indirect Tax Reforms	Dr. Smil Chuge	24
7	Impact of Goods and Services Tax on Indian Economy - with reference to Agriculture sector	Mr. B. S. Pawar	29
8	GST- Structure, Impact and Future	Mr. D. P. Kumbale	34
9	GST and Its Advantages and Disadvantages: A Study of Nashik City	Dr. Vijaykumar Wawle	36
10	GST Council : An Overview	Prof. Rizwana Hamdani	43
11	'Goods and Services Tax (GST) - Its Impact on Consumers'	Prof. Vitthal Sadafule	48
12	Impact of Goods and Service Tax on Indian Industry	Dr. Ajaykumar Palwe	52
13	Problems of Indian Tax System	Dr. H. M. Kshirsagar, Dr. M. V. Jagtap	56
14	Goods and Service Tax (GST) and Indian Economy	Dr. N. C. Pawar	62
15	Revolution in the Tax System of India	Dr. D. R. Bachhav, Dr. Smt. Meena Patil	66
16	GST-Industry and Service Sector	Dr. Arti Lokhande	71
17	A Study on Impact of GST on Indian Economy	Dr. Valjayanti Rathil	76
18	वस्तू व सेवा कराचे फायदे व त्यातील उणीवा	डॉ. नारायण गाढे	81
19	वस्तू व सेवा कराचे फायदे : एक दृष्टीक्षेप	प्रा. देवानंद मांडवधरे	87
20	जीएसटी आणि लघु व मध्यम उद्योग	डॉ. रजनी सावंत	90
21	जीएसटी आणि ग्राहक	डॉ. चंद्रकला शेवाळे	93
22	जीएसटी : भारतीय कर प्रणालीतील एक बदल	प्रा. पु. म. व्ही. शिंदे	96
23	भारतीय कर प्रणाली	प्रा. अरुण शिंदे	100



24	जी. एस. टी. - फायदे व परिणाम	प्रा. उदय टेके	105
25	वस्तु व सेवा कर : एक आर्थिक क्रांती	प्रा. महादेव क्षीरसागर	111
26	मुघलकालीन जमीन महसूल पद्धती	प्रा. जितेंद्र पगार	114
27	भारतीय अर्थव्यवस्थेत वस्तु व सेवा कराची भूमिका	प्रा. मनोज देशमुख	117
28	भारताच्या कर प्रणालीतील सुधारणा - जीएसटी	डॉ. बी.एम. सोनवणे	120
29	कर व्यवस्थेचे ऐतिहासिक अवलोकन	प्रा. विजय माटे	123
30	वस्तु व सेवा कर : एक दृष्टीक्षेप	श्रीमती शिल्पा यन्नावार	127
31	वस्तु व सेवा कर आणि भारतीय अर्थव्यवस्था	डॉ. अनिल वाडकर	130
32	वस्तु व सेवा कराचे सामाजिक जीवनावर होणारे परिणाम	प्रा. हर्षवर्धन जाधव	135
33	वस्तु व सेवा कर : एक मूल्यमापन	प्रा. धनंजय पगारे	140



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Impact of GST on Industries

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Introduction to GST

GST stands for "Goods and Services Tax", and is proposed to be a comprehensive indirect tax on manufacture, sale and consumption of goods as well as services at the national level. Its main objective is to consolidate all indirect taxes into a single tax, except customs replacing multiple taxes, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration.

Simply put, goods and services tax is a tax on goods and services imposed at each point of sale or rendering of service. Such GST could be on entire goods and services or there could be some exempted class of goods or services or a negative list of goods and services on which GST is not levied. GST is an indirect tax in lieu of tax on goods (excise) and tax on service (service tax). The GST is just like State level VAT which is levied as tax on sale of goods. GST will be a national level value added tax applicable on goods and services.

France was the first country to implement the GST in 1954, and since then an estimated 160 countries have adopted this tax system in some form or another. Some of the countries with GST include Canada, Vietnam, Australia, Singapore, UK, Monaco, Spain, Italy, Nigeria, Brazil, and South Korea. India is another country to implement GST from 1st July 2017

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Impact of GST tax on Indian Industries

After the implementation of GST there will be certain amount of impact in every sector. Some of these impacts can be temporary while others may remain permanent.

Textile

The textile industry in India brings employment opportunities to a large number of skilled and unskilled workers. It contributes about 10% of the total annual exports of India. And this figure is likely to increase in year 2017-18 and onwards. GST impact on readymade garments such as trousers, saree, shoes, apparel and other clothing materials is experienced due to cotton value chain on these products. In a recent decision taken by the GST Council members, the tax rate on job work for textiles and textile products has been reduced to 5% from 18%. Other impact of GST on textile industry is input tax credit, which is not allowed if a registered taxpayer procures the inputs from composition scheme taxpayers or the unorganized sector. It is available for the tax paid on capital goods.

Iron and Steel

Iron and steel are primary requirements of the construction industry and commonly used in the manufacturing of machine parts. After GST implementation, special additional duty (SAD) on iron and steel has been abolished. The other major impact of GST on iron and



steel industry in India includes reduction of cost and time in logistics, bringing more employment opportunities in undeveloped states, utilizing natural resources and protection to domestic industry.

Pharma & Healthcare

India's pharmaceutical industry ranks 14th in terms of value and is 3rd largest in the world. GST impact on healthcare industry is constructive. It has helped industries to streamline the taxation structure as eight types of taxes were levied on pharmaceutical industry before GST. The GST impact on pharma companies reveals that they can now rationalize their supply chain and they need to review their distribution networks and strategies. The GST rates on pharma and healthcare industry range from 5% to 12%. So, like other sectors, there is an impact of GST on healthcare industry.

Cement

India is the 2nd largest cement producer in the world right after China. Under GST regime, effect of GST on cement industry will not be significant particularly on GST rate on cement. Earlier tax rates on cement products were between 27% and 32%, however now GST rates of 5% to 28% are levied on cement articles. Many market experts believe that there is a positive impact of GST on cement industry in India on certain parameters. For example, GST gives a boost to supply chain management of cement. So, cement manufacturers can maintain multiple warehouses across states to avoid state entry taxes and CST. Moreover, as vehicles transporting cement from one state to another are spending lesser time at checkpoints, so transit time gets declined. Certainly, cement industry can enjoy savings on transportation costs.

Telecom

Telecom industry of India can basically be divided into three parts namely equipment manufacturers, infrastructure providers and telecom service providers. After launch of Reliance Jio, the sector is facing severe pressure in the form of intense competition. Now Goods and Services Tax or GST has been implemented, the GST on telecommunication services is taxed at 18%, which is higher than rates charged earlier. GST rates are also applicable in different range on other products and services in the telecom industry. Certainly, like other industries, there is an impact of GST on telecom sector in India.

Automobile

The automobile industry in India is a vast business producing a large number of cars and bikes annually, fueled mostly by the huge population of the country. Under the current tax system, there are several taxes applicable on this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty on car and bikes which will be absorbed by GST. The two taxes charged to the end consumer on car and bikes currently are excise and VAT, with an average combined rate of 26.50 to 44% which is higher than the expected rates of 18 and 28% under GST. Therefore, there will be less burden of tax on the end consumer under GST. Implementation of GST would reduce the cost of manufacturing of cars and bikes due to the subsuming of different taxes levied currently. Under GST, the taxes would be charged on



consumption state rather than the origin state, which would give a boost to the growth rate of the automobile industry.

FMCG (Fast Moving Consumer Goods)

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US\$ 13.1 billion. Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. FMCG is also one of the fastest growing sectors among all the sectors in the Indian economy. The current tax rate for the FMCG industry including all the taxes is around 22-24%. GST might be implemented with the expected rate of 18-20 %. FMCG sector would be benefited from GST in the form of saving a considerable amount of expenses on logistics. Distribution cost of the FMCG sector currently amounts to 2-7% of total cost, which is expected to drop to 1.5% after implementation of GST.

Hospitality and Tourism Industry

The Indian hospitality and tourism industry, which was at US\$ 136.2 billion at the end of 2016, is one of the sectors which will see major changes post-July. Experts observe that the implementation of GST will help the sector by reducing costs for customers, harmonizing taxes, and reducing business transaction costs. Under the Goods and Service Tax, the hospitality sector stands to reap the benefits of standardized and uniform tax rates, and easy and better utilization of input tax credit. As the final cost to end user decreases, we can expect the industry to attract more overseas tourists than before. This would ideally result in improved revenues for the government.

Conclusion

According to the prediction the economic growth of at 2% is expected once GST is implemented. It will widen the tax regime by covering goods and services and increase its transparency. It will absorb all the indirect taxes at the center and state level. It will free the manufacturing sector from cascading effects of taxes and leading to the improvement of cost competitiveness of goods and services. The prices of goods and services will go down thus increasing the tax GDP ratio. Doing business in India will be much easier as the rules and structure will be made much simpler.

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