GST in India: Effect on Various Sectors of Economy with Special Reference to FMCG Sector

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Abstract: A 122 Amendment of Indian constitution, GST, is a widespread gigantic concept adopted by government of India from 1 July 2017 to streamline already prevailed circuitous structure of tax. GST, firstly adduce by Union finance minister in 2006-2007 budget at the time of Vajpayee government. GST submerge central and state tax to mitigate cascading taxation to promote common national market. This paper is relevant with the need of GST and its impact on various sectors. This paper more focused on the impact of GST on automobile sector. The automobile sector has been facing the multiple tax system which was very complex. Moreover, with different rates in different state has been another problem in previous tax regime in this sector. The GST has been introduced to remove the shortcomings of the previous tax system and create single countrywide market with “One Nation One Tax”. This paper indents to understand the impact of GST on automobile sector. The various research papers, discussion forums and reports have been studied to reach at the conclusion.

Index Terms: Automobile Sector, GST, “One Nation-One tax”

Introduction
With 122nd amendment of the constitution, the Indian Parliament paved the way for implementation of the largest tax reform in India. The Constitution (122nd Amendment) (GST) Bill, 2014 was passed in August 2016 by the Parliament; ratified by the 19 State Legislative Assemblies and signed by the President on 08 September 2017. Finally, at midnight on 01 July 2017 the GST was launched by the President Mr. Pranab Mukherjee and Prime Minister Mr. Narendra Modi by convening a historic midnight (30 June – 1 July) joint session of both the houses of parliament at the Central Hall. The implementation of Goods and Services Tax (GST) was a long awaited step. GST has replaced multiple State and Central taxes and established a single tax regime in the country.

"This will curb black money and lead to increase in national income and reduce the tax burden on people as the number of tax-payers will go up," as said by the present Vice President and then Union Information and Broadcasting Minister M Venkaiah Naidu on 05 July 17. Now almost six months have passed since implementation of GST. There is lots of chaos among the major opposition political parties (and therefore among the people) regarding the effect of GST on business and common man; whereas the Central Government is sounding all the benefits of GST. The situation creates a curiosity to analyze and understand the actual effect of GST on the various sectors of economy and on the common people.

Objectives of the Study
The research paper intends to through light on the following aspects on the basis of six months experience of GST in Indian Economy:

- To Understand GST and the working of GST Council
- To understand the impact of GST on the various sectors of Economy
- To understand the impact of GST on automobile sector.

Research Methodology
This paper is based on secondary data, which have been derived from various discussion papers, web articles, published journals, newspapers etc. on GST. With the help of these data, attempt has been made to understand GST, Its proceeding and its impact on various sectors.

Tax Structure in India
In India Secretary of Department of Revenue (Ministry of finance, Government of India) deals with all direct and indirect union tax through Central Board of Direct Tax (CBDT) and Central Board Of Indirect Taxes and Custom (CBIC). Both the boards were established under Central Board Of Revenue Act 1963. CBDT deals with direct tax with 6 current members however CBIC deals with indirect tax with 5 members at present.

GST. Prior GST, the tax system of India was destination based. There is dual GST in India which means central and state Government both will impose tax. The GST systems includes:

(i) CGST (Central Goods and Services Tax): Imposed by Central government.
(ii) SGST (State Goods and Services Tax): Imposed by State government
(iii) UGST: Applicable on Union Territories without legislature.
IGST: It is levy on Inter State supply of Goods and services and collected by Central Government.

**GST Council:** GST Council has been constituted by President of India with effect from 12 September 2016 under Article 279 (A) of the amended Constitution. Thus, the GST council is a constitutional body for making recommendations to Union and State Governments on GST. It constitutes with Union Finance Minister as Chairperson, the Union Minister of State in charge of Revenue or Finance and Finance Ministers of all states as members.

**Impact of GST on Automobile sector**

Previously automobile sector was overburdened by various taxes with the average combined tax rate of 26.50% to 44%. Now GST has reduced the burden at a large extent with only 18% to 28%. GST would be charged on consumption rather than origin point. This will reduce the cost of production. The GST rates applicable for vehicles are summarized in the following table:

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Vehicle Category</th>
<th>Tax/Cess Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>GST</td>
<td>Electric Vehicles – Falling under tariff heading 8702, 8703, 8704, 8711</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Passenger Vehicles/Commercial Vehicles/Three-wheelers/Two-wheelers – Falling under tariff heading 8702, 8703, 8704, 8711</td>
<td>28%</td>
</tr>
<tr>
<td>Compensation Cess</td>
<td>4m passenger vehicles (Petrol, Diesel, CNG, Ethanol, methanol, hybrid electric and fuel cell)</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>4m passenger vehicles (petrol, CNG, Ethanol, Methanol)</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>4m passenger vehicles (diesel, Ethanol, Methanol)</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>350cc two-wheelers falling in tariff heading 8711</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>10 – 13 seater public transport vehicles falling in tariff heading 8702</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: SIAM

**Performance Analysis of Automobile Sector in 2017-2018 (Post GST)**

Above figure shows the increasing trend of production in the automobile sector. Based on the available literature we find the following impact of GST on Automobile Sector

**Price Analysis Before and After GST**

Following charts represent price analysis of before and after GST impact on the value of vehicles

<table>
<thead>
<tr>
<th>Vehicle Type</th>
<th>Before GST</th>
<th>After GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger vehicles</td>
<td>31.4%</td>
<td>28%</td>
</tr>
</tbody>
</table>
Commercial vehicles

Before GST 30.2%
After GST 28.0%

Big Cars

Before GST 46.6%
After GST 28%

Green vehicle

Before GST 30.3%
After GST 28%
Positive Impacts

(1) **Reduction in prices of vehicles** - After GST various taxes have been subsumed and overall rate which was 26.50% to 44% has been reduced to 18%-28%, which results in price reduction in vehicles.

(2) **Whole nation as one market** - GST establish the whole nation as one market, which gives competitive advantage to the companies.

(3) **Less tax burden on consumer** - Reduction in tax rates have reduced the tax burden on consumer which makes vehicles more affordable.

(4) **Reduction in operating cost** - GST has led to clubbing of warehouse and infrastructure which will result in reduction in operating cost.

(5) **Solved problem related to transport** - Business of this sector can claim ITC on various elements such as IT and freight services which has removed various problems related to transport and logistics.

(6) **Encourage foreign investment** - GST will encourage the production of vehicles on lower cost which will make it competitive at the international front which will boost foreign investment.

(7) **Less tax compliance** - Automobile sector was overburdened with various types of tax such as service tax, custom tax road tax etc. Now GST has subsumed these tax.

(8) **Helpful for start ups** - Business more than 10 lakh turnovers are required to register under GST and business of between 10lakh-15 lakh turnovers will be charged with less tax rate. However earlier this registration was 5 lakh turnover.
Negative Impacts

(1) **Capital lock**-GST is payable at the transfer of vehicle otherwise capital will be lock, this negatively affects outflow.

(2) **Blockage of cash**-Manufacturer would pay GST on the issue date of coupon if they planned to offer free services and warranties, however consumer will avail this service and pay the amount later this lead to blockage of cash.

(3) **Complex GST process**-GST process is complex which has been adversely effecting e-commerce and startups related to automobile industry. SAIM has said that automobile manufacturers fails to file claim and approximately 1,000 crores have been stuck in GST claim. Automotive exporters are claiming input tax credit refund is not working properly. Compensation Cess has enhanced 1-22% from 1-4%

(4) **Transferring of goods from manufacturers to factories**-Any transfer of goods from manufacturer place to factories also a subject matter of tax but some vehicles are exceptions such as three wheel vehicles, hydrogen vehicles etc.

(5) **Frequent change in tax rate**-frequent changes in tax rate will lead to abrupt future projections \(^{16}\)

Impact of GST on Other Sectors

(1) **Impact of GST on Real Estate Sector**: Real estate sector is major contributor in employment after agriculture. This sector contributes up to 6% in GDP. Under previous law in real estate sector contractor charged Vat and service tax and also paid excise duty, Octrai and entry tax at the time of procurement of raw materials. GST has increased transparency in this sector as all the taxes have been subsumes in GST. Comparison of before GST and During GST is given below\(^{17}\)

<table>
<thead>
<tr>
<th>Content</th>
<th>Previous rate</th>
<th>Current rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement</td>
<td>23-24%</td>
<td>28%</td>
</tr>
<tr>
<td>Iron rod</td>
<td>18%</td>
<td>19.5%</td>
</tr>
<tr>
<td>Bricks</td>
<td>25%</td>
<td>28%</td>
</tr>
</tbody>
</table>

(2) **Impact of GST on Healthcare and Pharmaceuticals**: Indian Pharmaceuticals Industry is the third largest in the world and it contributes about 5% of country’s GDP. Under previous law there were 8 types of taxes imposed which have been merged into one uniform tax after GST implementation. There are some advantages of GST regarding this sector:

- GST has helped in rationalizing supply chain
- Under GST duty charged on import of equipment and machinery would be allowed as credit although earlier it was treated as tax credit
- This growing sector is gaining boost by avoidance of multi taxation and withdrawal of CST.
- One important positive impact is healthcare services would be affordable along with latest machinery and technology\(^{18}\)

(3) **Impact of GST on hospitality Industry**: Hospitality industry is also a growing industry and experts believe that this industry has seen major changes post July 17. Industry paid VAT and luxury tax previously. Following table evaluate previous and current tax situation in those sector\(^{19}\)

<table>
<thead>
<tr>
<th>Tariff per night</th>
<th>Service tax</th>
<th>VAT</th>
<th>Luxury tax</th>
<th>GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>INR 1000-2500</td>
<td>15%</td>
<td>12-14.5%</td>
<td>On top of all the tax</td>
<td>12%</td>
</tr>
</tbody>
</table>

Conclusion

As GST is a crucial step taken by government of India to reform the taxation, every sector of the economy have its own share of struggle to adjust with the expected pros and unexpected cons of GST and automobile sector is not an exception. GST council is operating efficiently to implement the GST. GST Council is conducting meetings to improve the implementation of GST based on experience and taking various measures such as revising rates so that the economy may get positive impact of this reform. Specifically our research paper shows the effect of GST from various perspectives to find out the impact of GST on automobile sector. Automobile sector is coming out of the initial difficulties like GST filing procedure, capital blockage and increased tax rate on some types of vehicles. Reduction in cascading effect of previous tax regime and reduced tax rate on small vehicles and ITC are the advantageous for this sector.

From analyzing the 2017-2018 year performance and various data released by Department of Industrial policy and promotion, Automotive Component Manufacturers’ Associate of India, Society of Indian Automobile Manufacturers, can witness remarkable performance of this sector. This sector has started to enjoy the positive effect of GST. This sector may contribute in higher GDP and increase tax revenue. However, successful compliance of this law is must for its impact on the economy.

References

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