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THE IMPACT OF GST ON INDIAN MANUFACTURING SECTOR

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ABSTRACT

Traditionally India's tax regime relied heavily on indirect taxes. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations. But the Indian system of indirect taxation is characterized by cascading, distorting tax on production of goods and services which leads to hampering productivity and slower economic growth. The major argument for a high dependency on indirect taxes was that Majority of the Indian population was mediocre and that the broadening of the base of direct taxes had inherent limitations. There are endless taxes in the present system, little levied by the Center and government rest, to eliminate this multiplicity of taxes and reduce the taxpayer's burden, a simple tax is required and it is the tax On Goods and Services (GST. But the Indian system of indirect taxation is characterized by cascading and distorting taxes on the production of goods and services that hamper productivity and slow economic growth. This article provides an overview of the concept of goods and services tax, advantages, disadvantages and the international scenario. Traditionally, India's tax system relied heavily on indirect taxes. Each nation will impose various taxes on people and things in order to undertake development work in India. Income from indirect taxes was the main source of tax revenue until tax reforms were introduced in the 1990s. The Government of India recently enacted legislation, namely the GST. This paper attempts to explain the positive and negative effects of the GST on manufacturing sector in India.

KEYWORDS: GST Manufacturing industry, Pharmacy, Revenue, Automobile, Consumer.

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INTRODUCTION

However, the manufacturing sector might be revived under the focused efforts of regime and by an implementation of GST regime that could even lead to experience a paradigm shift from an agrarian economy to manufacture and accommodation predicated economy. This is our second update in the series of updates regarding the impact of GST on key sectors of the Indian economy. An intricate tax structure, inadequate infrastructure, and bureaucracy diminishing its capability to perform well on an ecumenical scale engulf the manufacturing sector in India. In this update, we analyses the key impact of the model goods and accommodations tax law and the likely issues germane to the manufacturing sector. The manufacturing sector in India is not only plagued with concerns ranging from decline in exports and infrastructure spending but additionally with the encumbrance of complying with an involute indirect taxation system. One of the much-publicized proposed reform "make in India" scheme initiative taken by the regime is aligning with the implementation of the GST. The manufacturing sector of any country is a major economic driver for the developing economies across the globe. The implementation of goods and accommodations tax (GST) is consequently critical and compulsory to give a boost to an already flagging sector. Our first update on the impact of GST in the e-commerce sector can be accessed from here. For India, becoming a manufacturing hub will require sundry strategic reformations to simplify the subsisting system in the country.

OBJECTIVES OF THE STUDY

The primary objectives of the study are effeteness on different types of manufacturing goods and services. It is a scientific tax system approach .It could be useful to increase the revenue of the country, and enhance the nation's wealth and abolish the absence of tax payment. The concept of GST is "One tax and one Nation".

1. To reduce the burden of tax between state and the Centre;
2. To enhance of revenue through the GST as one tax;
3. To encourage to the manufacturing industry in India;
4. To abolish the absence of tax payment in India.

RESEARCH METHODOLOGY

The data source is based on primary and secondary data. Basically the secondary data has been collected from the concerned departmental records, magazines, journals and newspapers. The primary data information has been gathered from the official of departmental personnel opinions and views. The methodology is based on observation method only.

THE EFFECT OF THE GST ON MANUFACTURING INDUSTRY IN INDIA

Products on Which Tax Burden come down:

Products	Old tax rates in %	GST Tax rate From Ist july-2017 %
Mobile Phones	20.02	12
Footwear(below 500)	14.41	5
Ready-made garments	18.16	12
Cars for the handicapped	20-22	18
Medicines	11	5
Renewable energy devices	17-18	5
Iron ore	17-18	5
Music instrument	0-12.5	0
Contact lenses	18	12
Processed Foods	14	12

CEMENT INDUSTRY: By the GST effect the cement industry has indirect tax which might be subsumed as 16% to 20% currently tax burden of indirect taxes from 27% to 32% decrease of tax rate as 16 % to 20% it may create facilitate as operating expenses such as transportation expenses benefits that the subsume of expenses the industry can claim the above benefits in future. The cement industry is the one of oldest manufacturing industry the industry has the greatest historical background. The industry has some indirect taxes. Where the civilization, there is the role of the cement, make in India concept applicable for this industry.

AUTOMOBILE INDUSTRY: At presently automobile industry payment of the tax sum of 30% to 47% the effect of GST the tax rate decrease from 20% to 22% so at least the consumer may get the benefits. Consumer and Durable Sector: Currently the consumer and durable claiming revenue net tax total tax percent is 7 to30, the sector had been exempted from such taxes so the effect of GST, the industry would have to get the benefits. The distinction between organized and unorganized Sectors is that the rates gap may sub sum. Warehousing and logistics expenses may reduce C.G.C.E Havel, Voltas, Blue star Bajaj electrical simfani, Hitachi, and etc. companies are benefited by the effect of GST.

IT INDUSTRY: In India IT area 50 percent to 70 percent of the graduates rely upon the main IT division. The net assessment rate is 14 %. By the usage of GST the duty might be 18% to20% to increment. In IT part the income is for the most part contingent upon just fare of IT items and administrations income of IT trade exempted from the GST. So the GST impact is to be Negative.

TELECOM SECTOR: The telecom sectors presently the tax rate is 14%.By the causes of GST the tax rate on telecom sector would have to increase as 18%. So the result of GST on telecom sector will be negative. The public sector is to be critical. In future the concept of "one tax and one nation" caption is not suitable for Telecom sector.

BANKING AND FINANCIAL SERVICES: Banking is heart of financial India (wealth). In India public and private banking industry is the reflection of mixed economy. The banking sector's net tax rate is 14% by the effect of GST the rate will be increased from 18% to 20. That the differential tax rate causes as Loan fees, debt and credit charges, insurance premium, etc. the financial services charges burden on customers will increase. So the GST will also influence on customer purchasing power. In the banking business transactions will have also effect on share market**.**

PHARMACY INDUSTRY: The pharmacy sectors are getting exemptions regional wise. The excise tax rate is 6%. Till the end of the duration the subsidies will have to continue, then after that they will not available. The new tax pattern the industry could not remain constant it is considerable because the encouragement of pharmacy sector

TEXTILE AND GARMENT INDUSTRY: Emerging industry has playing key role in textile and garments .That the industry has recipient of tax rate is currently from 6% to 7% that tax rate may or may not be continued it is clear in that process the output of tax rate may hick by the effect of GST which is negative .the textile sector enjoy some of few companies like page industry, Aravind, Raymond etc.

DTH/Media company: DTH and media sector's average tax payment rate presently 19% to 21% apart from that service tax is 14%, entertainment tax is 5% to 7% Brad costing companies are paying tax rate is 14% to 15% these two departmental taxes are effect by the GST 18% to 20% .Currently news and print media has been exempted from that taxes, the GST prove to DTH and some Negative to print media and broadcasting. Dish TV may get benefits ZEE sun HT media Prakash jagaran to negative.

AUTOMOBILE AND BATTERIES INDUSTRY: The field of Batteries would have faced the throat cut competition by the effect of GST Jumbo feasibilities it has the effect on "the transported vehicles may get the benefits by the GST.

REDUCED COST OF PRODUCTION: India's output rose at a softer rate in June 2017, as the growth of order books decreased compared to the previous month. The growth of total work orders eased to a four-month low, particularly due to the intermediate goods category. The new work orders for the consumer goods category continued to rise in June, while capital goods recovered from contraction in the previous month. The manufacturing sector saw weaker growth in June, as it reported a four-month low due to softer expansion in new order work. The tough economic conditions, water shortages, and the implementation of the GST seemed to have affected manufacturing activity in India (VWO) in June, according to the Markit report released in July 2017. The chart above illustrates India's manufacturing PMI over the last year. The Indian (INDY) manufacturing PMI in June 2017 declined to 50. Regardless of the possibility that there is 2% bring down assessment rate in GST it will expand the benefit of the Maker by 10%. 9 in June from 51. There are numerous different favorable circumstances of new GST organization and one of them is decreased cost of creation that is relied upon to be prodded by impose diminishment.

EMPLOYMENT AND PRICE PRESSURES: Price pressures remained soft in June, with the input and output costs increasing at a slower pace in June 2017 compared to May 2017. New product developments and expectations of higher demand due to lower tax rates are expected to improve the manufacturing sector's activity in 2017. The iShares MSCI India ETF (INDA), which tracks Indian equities, fell 2% in June 2017. However, the confidence level in the sector fell to a three-month low due to the implementation of the GST. The new work orders from international markets increased sharply in June 2017 over the last eight months. Manufacturers in India (EEM) have an optimistic outlook toward the output growth in the next 12 months. India's employment and purchasing activity increased marginally in June 2017. The GST could have a negative short-term impact on businesses until it is absorbed by the market.

ADVANTAGES OF GST

REMOVAL OF MULTIPLE VALUATIONS WILL CREATE SIMPLIFICATION: The old tax regime subjects manufactured goods to excise duty, which is calculated differently in different states. While some states calculate excise duty based on transaction value, others calculate it based on quantity. Most manufactured goods' excise duty is currently considered on MRP valuation. This creates great confusion in valuation methods. GST will usher in an era of transaction-based valuation, making calculation of tax much simpler for the manufacturer.

ENTRY TAX SUB SUMMATION WILL REDUCE COST OF PRODUCTION: The subsuming of the entry tax for inter-state transfers is a key reason for reducing cost of goods and services. For example, a supplier of cement from Maharashtra to Karnataka was earlier required to pay entry tax when the supply crossed the interstate border. For Karnataka, the entry tax rate was 5% of the value of the goods. The supplier would pass on this additional cost to the customer, resulting in increase in selling price. With entry tax being subsumed, the supplier need not pay the entry tax rate amount and consequently, not charge the customer this amount either.

IMPROVED CASH FLOWS: Under the new tax laws, manufacturers can claim input tax credit on input goods, which seems to be a positive sign for cash flow. SMEs are keenly observing the time difference between input tax credit and the credit being available.

SINGLE REGISTRATION PROCESS WILL PROVIDE EASE OF REGISTRATION: The old regime required manufacturers to register each manufacturing facility separately, even those in the same state. GST will simplify the plant registration process by allowing single registration for all manufacturing entities within the same state. Previously, if a brick manufacturer had factories in Bangalore, Hubli and Dharwad, each unit had to be registered separately. Under GST, all of these factories would be jointly registered under the state of Karnataka. Of course, different state-entities will require separate registrations under GST too.

REMOVAL OF CASCADING WILL LEAD TO LOWER COST-TO-CONSUMER: The old tax regime does not allow manufacturers to claim tax credit on inter-state transaction taxes such as octroi, central sales tax, entry tax etc. This results in cascading of taxes—an extra cost to the manufacturing company. Manufacturers end up passing on these extra costs to the consumer. The unified GST regime will eliminate multiple taxes and thus lower cost of production; this, in turn, will mean lower pricing for the consumer. For example, prior to 1 July 2017, SMEs in manufacturing used to pay Excise Duty, Central State Tax and sometimes VAT too at 12.5%, 2% and 5.5% respectively. With GST in effect, they are required to pay 18% in taxes.

RESTRUCTURING OF SUPPLY CHAIN: To align with the GST law, businesses will be required to realign their supply chains. However, this is a blessing in disguise. Till date, most supply chain structuring has been designed around how to manage tax regimes. With a single tax regime, this will change, and supply chain structures will focus on driving business efficiencies. An example is that of warehousing. The old regime demands that warehouse management be based on arbitrage between varying VAT rates across states. This is expected to change to bring in economic efficiencies and more customer-centricity going ahead.

INCREASE IN IMMEDIATE WORKING CAPITAL REQUIREMENTS: Branch transfers and depo transfers will be treated as taxable under GST; IGST will be applicable on these transfers. This increases the requirement for immediate working capital. Another reason for increased working capital requirements is that the receipt of advance is taxable as per GST rules. Also, stock transfers are treated as "supply" and hence are taxable under the GST regime.

MORE STRINGENT AND ELABORATE TRANSACTION MANAGEMENT: GST aims to achieve better tax compliance. To make these possible, manufacturers must work towards streamlining existing transactions; this means additional resources and costs. For example, under GST, credit in respect to an invoice can be taken only up to one year of the invoice date. Also, the provision of reverse charge means that the liability to pay tax falls on the recipient of goods/services instead of the supplier. The payment of reverse charge is dependent on the time of supply (30 days from the date of issue of invoice by the supplier in case of goods and 60 days for services).These changes will require manufacturers to carefully assess and track their supply processes, especially the timelines. This may mean hiring a better skilled compliance workforce, and better systems and software. More legal considerations will also mean more costs.

LACK OF CLARITY ON LOCAL EXEMPTIONS: Despite GST being proposed as a unifying platform for indirect tax, all the components for manufacturing are not yet clear. One such area is localized area-based exemptions. The old structure provides certain exemptions for certain goods in specific states (for example the North East or hilly states). Under GST, most of these exemptions are likely to be removed, resulting in a negative cost-impact on these manufacturers. Such companies must reassess their financial position in view of such likely changes. Overall, one can say that the impact of GST on the manufacturing sector is positive. It provides a unique opportunity to streamline business operations to become more compliance and profitability-oriented, rather than tax-oriented. It puts power in the hands of business leaders to bring about positive change and steer their enterprises on a growth path, powered by GST-compliance.

RESTRUCTURING OF SUPPLY CHAIN MANAGEMENT: 100th Amendment Act, 2015 related the separation between "supply to oneself" and "supply starting with one individual then onto the next" and the extra expense should just be forced in situations where is a thought i.e., supply to self ought not be secured inside its ambit. Accessibility of info assess credit on state supply of merchandise and ventures may prompt stockroom re-designing that can expel an additional level of warehousing in the inventory network, henceforth prompting more prominent cost Three prospects of GST-an extra 1% impose on supply of products, the supply of products and enterprises to oneself and information charge credit on between state deal may affect the need for store network limiting as per the constitution advantage.

STATE INCENTIVES: Maker States will have lower money related motivating force to offer such concessions, as GST might be credited to the State where the provisions are expended, rather than the current circumstance where the Maker State is credited with focal deals charge on between state deals. This would prompt lost income for the maker States and in this way such States may not be in a money related position to keep offering such motivating forces, despite the fact that there might be other convincing reasons, for example, era of work, change of framework, advertise creation and so forth. The usage of GST will likewise flag a move far from the maker State assess framework to an utilization State impose framework. Organizations have set up units with critical venture expenses in light of motivating forces offered by States under their individual speculation advancement arrangements. At introduce, States have the adaptability to offer such impetuses. Further, the Model GST Law does not illuminate the destiny of current motivating forces. In any case, it appears to be likely that future motivating forces may just be non-tax based and non-tax impetuses (temperate land rent terms, bring down power obligation and so on. Be that as it may, under the GST administration, such adaptability given to the States is probably going to be abridged to accomplish the expected impact of consistency. Organizations which have based their budgetary projections around these financial impetuses may need to reassess their projections.

AREA BASED INCENTIVES: Manufacturing units enjoy exemption of taxes based on their location in specified backward areas, capital investment etc. There is no clarity under the Model GST Law on the treatment of such area based exemptions. Given this uncertainty, companies should make a representation to the Government for appropriate compensation for the unutilized portion of such incentives.

INCREASED WORKING CAPITAL: Impact on working capital may be significant for the manufacturing sector. Under the current regime, stock transfers are not subject to tax. However, under the GST regime, stock transfers are deemed to be supplies and are subject to GST. Though GST paid at this stage would be available as credit, realization of this GST would only occur when the final supply is concluded. This would likely result in cash flow blockages and therefore companies would have to rethink their supply chain management strategies to minimize this impact on their cash flows.

FREE SUPPLIES: Under the present indirect tax regime free supply of goods are not subject to VAT. The Model GST Law stipulates that specific transactions without consideration would also be treated as supplies. Accordingly, free samples may be subject to GST, leading to increase in overall costs.

DISCOUNTS: The Model GST Law stipulates that post supply discounts are to be excluded from the transaction value, provided such discounts are known at or before the time of supply of goods and are linked to the invoices for such supply. Companies may need to analyses existing post supply discounts/incentive schemes where the quantum of discount is not known at the supply stage. Example, secondary market incentive schemes, volume based discounts etc.

VALUATION OF SELF-SUPPLIES: Supply under the GST Model Law includes self-supplies such as stock transfers and branch transfers. However, the GST Model Law does not prescribe valuation rules for such supplies and therefore further clarity is required.

MRP VALUATION: Currently, various pre-packaged products for retail consumption are subject to excise duty not on the ex-factory transaction value but on a specified percentage of the maximum retail price (MRP) printed on the package. The MRP based value (which is usually between 30%-35% of the MRP) is in most cases, much higher than the ex-factory transaction value leading to a higher excise duty liability than would otherwise be the case. This increased excise duty itself, results in a higher MRP, ultimately leading to a higher cost burden for the consumers. Under the GST regime, GST is payable by the manufacturer at the transaction value, and is creditable for all subsequent resellers up to the final consumer. Accordingly, the unnecessary tax burden of the MRP regime will no longer be relevant

REDUCTION OF CLASSIFICATION DISPUTES: Currently, due to varying rates of excise duty and VAT on different products, as well as several exemptions provided under excise and VAT legislations, classification disputes are a regular cause for litigation under both central excise and VAT, especially for the manufacturing sector. It is expected that the inception of GST which is based on the principles of a simplified rate structure and minimization of exemptions will significantly reduce disputes regarding classification of products.

SUPPLY CHAINS RESTRUCTURING BASED ON ECONOMIC FACTORS: Current supply and distribution models are structured to optimize indirect tax impact arising at various levels of value addition. Transition to GST should hopefully result in such decisions being taken to optimize business efficiency (as opposed to indirect tax efficiency). Example, currently warehousing choices is often based on arbitrage between VAT rates in different States/ between applicable VAT and CST rates. With the advent of GST, it is hoped that such warehousing and logistics decision would be based on economic efficiency such as costs and locational advantages vis-a-vis key customers. However, a key hindrance could be the proposal to levy a 1% origin tax on inter-state supplies.

EXCLUSION OF PETROLEUM FROM GST: Therefore, industries that consume petroleum products as their main inputs (such as the fertilizer industry which use natural gas as an important input) will get significantly impacted by this exclusion. However, exclusion of petroleum products from GST will add to the cost of manufacture as excise duty on such products would not be creditable under the GST regime. The Central government will continue to impose excise duty on five petroleum products (petroleum crude, high speed diesel, motor spirit, natural gas and aviation turbine fuel), while the State governments will continue to impose VAT on these petroleum products. Petroleum products such as high speed diesel are common fuels used in various manufacturing processes, as also for transportation of inputs and final products. Currently, credit of excise duty paid on specified petroleum products is available.

GST AS GROWTH OPPORTUNITY FOR MANUFACTURING: After the execution of GST, makers can secure contributions from the national market without a CST cost for out-of-state acquisitions.

Additionally, the India market will open to makers for their last items: under GST, there will be no compelling reason to open stops or branches in various states, as is at present done to maintain a strategic distance from the 2% CST cost. CST on interstate buys is therefore incorporated into the landed cost of the client, which adds to the cost of these products. Under the Focal Deals Expense (CST) administration, charge is inception based and subsequently its income goes to the state from where deal is made, as opposed to the state where merchandise are expended. The greatest effect GST will have on the assembling segment is that it will bring forth a national market for merchandise. The move to GST will especially affect the assembling division, which presently contributes a quarter towards the national Gross domestic product. This CST advantage is of specific noteworthiness to the assembling business on the grounds that, as opposed to exchanging, the cost of assembling inputs is extraordinarily affected by the falling CST. Therefore, in spite of the fact that VAT credit is accessible for privately acquired products inside the express, no such credit is given for merchandise secured from outside the state on which 2% CST is paid. Besides, government activities like Make in India, Aptitude Improvement, and others plan to considerably expand assembling's impact on the Gross domestic product. GST will be a goal based utilization impose that will cover both intrastate and interstate exchange and trade.

CONCLUSION

Indian business scenario manufacturing industry is the playing significant role, in business world. Indian business situation manufacturing industry is the assuming noteworthy part, in the business world. At the point when the nation concentrate on manufacturing industry that the nation defeats mechanical obstructions. When the country focus on manufacturing industry that the country overcomes technological barriers. In the world every country has the sum of financial or aid to the manufacturing industry. In the world every country has the sum of financial or aid to the manufacturing industry. Be that as it may, concerns stay on particular issues, for example, the extra 1% cause impose, expanded income issues by virtue of GST payable on stock exchanges, and expanded costs attributable to prohibition of oil powers from the ambit of GST. The Administration should investigate these issues in more detail if it's quick to advance its 'Make in India' activities. The Government should look into these issues in more detail if it’s keen to promote its 'Make in India' initiatives. However, concerns remain on specific issues such as the additional 1% origin tax, increased cash flow issues on account of GST payable on stock transfers, and increased costs owing to exclusion of petroleum fuels from the ambit of GST.

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