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IMPACT OF GST ON SERVICES SECTOR IN INDIA

Dr.R.Renuka*

ABSTRACT

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.In this article, we'll assess the GST impact on service sector – both positively and negatively.

Key words: Goods and services tax, GST Rates, services sector

* **M.Com., MBA., M.Phil., Ph.D., NET.Asst. Prof. of Commerce and Management Studies,SRC – SASTRA University, Kumbakonam.**

INTRODUCTION

Over half the nation's GDP comprises of the services sector. As the country gears up to embrace Goods and Services Tax (GST), here is a recap on some key issues and challenges the services sector is likely to encounter and needs to overcome in the initial stages of GST levy.

Presently, services are taxed only by the Central government with the option of the facility of a centralised registration. In fact, most service providers with a multi locational presence have opted for centralised registration and enjoy availing input credits, issuing output invoices, discharging service tax liability, undergoing audits and applying for refunds from a chosen single location. In this backdrop, a transition into a GST regime that entails taxation of services at the State level can be expected to pose some level of compliance challenges for the industry and administrative challenges for the Government.

GST is a value added tax where tax is imposed only on the value added at each stage in the supply chain. It is levied at all points in the supply chain. Credit is paid for acquiring inputs used in making the supply. In India GST is defined as “tax on supply of goods or services other than alcohol for human consumption”. In simple language, GST is a single tax on all goods and services in the entire economy.

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods [2]. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

Experts have enlisted the benefits of GST as under:

- It would introduce two-tiered One-Country-One-Tax regime.
- It would subsume all indirect taxes at the center and the state level.
- It would not only widen the tax regime by covering goods and services but also make it transparent.
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.
- It would bring down the prices of goods and services and thus by, increase consumption.
- It would create business-friendly environment, thus by increase tax-GDP ratio.

HISTORY OF GST

It has now been more than a decade since the idea of national Goods and Services Tax (GST) was mooted by Kelkar Task Force in 2004. The Task Force strongly recommended fully integrated 'GST' on national basis. Subsequently, the then Union Finance Minister, Shri P. Chidambaram, while presenting the Central Budget (2007-2008), announced that GST would be introduced from April 1, 2010. Since then, GST missed several deadlines and continued to be shrouded by the clouds of uncertainty. The talks of ushering in GST, however, gained momentum in the year 2014 when the NDA Government tabled the Constitution (122nd Amendment) Bill, 2014 on GST in the Parliament on 19th December, 2014. The LokSabha passed the Bill on 6th May, 2015 and RajyaSabha on 3rd August, 2016. Subsequent to ratification of the Bill by more than 50% of the States, Constitution (122nd Amendment) Bill, 2014 received the assent of the President on 8th September, 2016 and became Constitution (101st Amendment) Act, 2016, which paved the way for introduction of GST in India. In the following year, on 27th March, 2017, the Central GST legislations - Central Goods and Services Tax Bill, 2017, Integrated Goods and Services Tax Bill, 2017, Union Territory Goods and Services Tax Bill, 2017 and Goods and Services Tax (Compensation to States) Bill, 2017 were introduced in LokSabha.LokSabha passed these bills on 29th March, 2017 and with the receipt of the President's assent on 12th April, 2017, the Bills were enacted. The enactment of the Central Acts was followed by the enactment of the State GST laws by various State Legislatures. Telangana, Rajasthan, Chhattisgarh, Punjab, Goa and Bihar were among the first ones to pass their respective State GST laws. GST is a path breaking indirect tax reform which will create a common national market. GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, CST, luxury tax, entertainment tax, entry tax, etc.

NEED FOR GST IN INDIA

In the earlier indirect tax regime, a manufacturer of excisable goods charged excise duty and value added tax (VAT) on intra-State sale of goods. However, the VAT dealer on his subsequent intra-State sale of goods charged VAT (as per prevalent VAT rate as applicable in the respective State) on value comprising of (basic value + excise duty charged by manufacturer + profit by dealer). Further, in respect of tax on services, service tax was payable on all 'services' other than the Negative list of services or otherwise exempted. The earlier indirect tax framework in India suffered from various shortcomings. Under the earlier indirect tax structure, the various indirect taxes being levied were not necessarily mutually exclusive. To illustrate, when the goods were manufactured and sold, both central excise duty (CENVAT) and State-Level VAT were levied. Though CENVAT and State-Level VAT were essentially value added taxes, set off of one against the credit of another was not possible as CENVAT was a central levy and StateLevel VAT was a State levy. Moreover, CENVAT was applicable only at manufacturing level and not at distribution levels. The erstwhile sales tax regime in India was a combination of origin based (Central Sales Tax) and destination based multipoint system of taxation (State-Level VAT). Service tax was also a value added tax and credit across the service tax and the central excise duty was integrated at the central level. Despite the introduction of the principle of taxation of value added in India - at the Central level in the form of CENVAT and at the State level in the form of State VAT - its application remained piecemeal and fragmented on account of the following reasons: Deficiencies in the existing value

A comprehensive tax structure covering both goods and services viz. Goods and Service Tax (GST) addresses these problems. Simultaneous introduction of GST at both Centre and State levels has integrated taxes on goods and services for the purpose of set-off relief and ensures that both the cascading effects of CENVAT and service tax are removed and a continuous chain of set-off from the original producer's point/ service provider's point upto the retailer's level/ consumer's level is established. No CENVAT after manufacturing stage Non-inclusion of several local levies in State VAT such as luxury tax, entertainment tax, etc. Non-integration of VAT & service tax Cascading of taxes on account of (i) levy of Non-VATable CST and (ii) inclusion of CENVAT in the value for imposing VAT Double taxation of a transaction as both goods and services.

GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, Government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive.

It is no news that the implementation of the GST (Goods and service tax) will pose some major advantages and a few disadvantages to the services industry.

Many service businesses will face a lot of changes over the years as they try to conform to the introduction of this new taxation system and we can be sure that many of them are happy because of the changes. You can trust that this new taxation system will also affect the people in general and not only business owners.

SERVICES SECTOR IN INDIA: AN OVERVIEW

India is a strong services-led economy with the sector generating a significant chunk of employment opportunities and contributing to the GDP. It contributed around 66.1% of India's Gross Value Added (GVA) growth in 2015-16, is the biggest magnet for Foreign Direct Investment (FDI), and an important net foreign exchange earner. Some of the core areas of service are IT and ITES, banking and financial services, outsourcing, research and development, transportation, telecommunications, real estate and professional services.

Service sector is gaining much more importance day by day when it comes to revenue collection, contribution to GDP and employment. Service sector constitutes for more than 50% of Nation's

GDP. Service sector in India not only provides large scale employment to both skilled and unskilled personnel but also significantly contributes towards foreign exchange collection. Telecom, Insurance, banking, Information Technology are the major contributors in service sector industry,

SCHEDULE OF GST RATES FOR SERVICES AS APPROVED BY GST COUNCIL

The fitment of rates of services was discussed on 19 May 2017 during the 14th GST Council meeting held at Srinagar, Jammu & Kashmir. The Council has broadly approved the GST rates for services at Nil, 5%, 12%, 18% and 28% as listed below. The information is being uploaded immediately after the GST Council's decision and it will be subject to further vetting during which the list may undergo some changes. The decisions of the GST Council are being communicated for general information and will be given effect to through gazette notifications which shall have force of law.

Sl.No.	DESCRIPTIONOF SERVICES	GST RATE
1.	Hotels and lodges tariff below Rs. 1000	No tax (0%)
2.	Food parcels,Textile works and Transport services	5%
3.	Non A/C hotels, Business class air ticket and fertilizers	12%
4.	Telecom services, IT services, Postal, financial services, Education services and Real estates.	18%
5.	Race club betting, Cinema and gambling	28%

Source: http://www.cbec.gov.in

POSITIVE EFFECTS OF GST ON SERVICE SECTOR

No double taxation: This is one thing that was affecting many service providers. In the previous system of taxation, the works contract was complex, and this took a toll on many people. Here, the transfer of goods is a part of the service contract. This means that every invoice has the value of the goods used as well as the services supplied. These two attract a tax rate of 70% each bringing the total to 140% which is very high. With the implementation of GST, these two are considered to be one and thus taxed as 'supply of service.'

More Clarity for Software Industry: For companies like ProfitBooks, that sell online software, it was not clear whether to apply VAT or Service Tax on the product. In GST regime, there is a clear distinction between products and services which will remove the confusion for service industry.

Repairs and maintenance: The service providers that provide repair and maintenance services to companies will be able to claim both the credit of input and credit of input services as provided by the GST system. The current regime only offers the credit of input services which is a bit limiting. Now that they can claim both of the credit of input and credit of input services, they can offer their repair and maintenance services at lower prices and thereby attracting more clients.

Access to inputs held in stock: The service providers will access CENVAT credit of input that is held in stocks. This is best applicable when a person is moving from one category of taxation to the next like the exemption category to the taxable one.

Fewer costs to service providers: In the previous system of taxation, the credit of VAT and CST that were paid to the input were billed to the service provider. Luckily, with the GST system, the CENVAT credit of SGST/CGST, as well as the IGST that are to be paid on inputs and capital goods are all taken care of under the GST system. This is a relief to the service provider.

The cost of inputs is likely to drop: Now that the multiple taxation systems are abolished, the cost of inputs will go down. Inputs taxations like VAT, Excise Duty, and the likes will no longer be an issue to deal with.

It will bring equality in all states: The previous taxation system did not cover Jammu and Kashmir. This presented a disadvantage to other places in India because taxation provisions did not cover these two places. However, GST now covers the whole land bringing all service sectors under the same taxation laws.

NEGATIVE IMPACTS OF GST ON SERVICE SECTOR

Lack of a centralized registration: With the previous taxation system, many service providers rejoiced over being able to register all their businesses in different areas from a central place. However, this privilege has been taken away. Now, they have to register their businesses in the respective state and pay the CGST tax.

Taxation for free services: If a business is going to supply services for free, they will still get taxed for it. Every supply that is made without consideration is taxed. This means you have to prepare yourself before you offer any free services.

Increased cost of service to end consumer: Because the rate of taxation will go higher in the GST system, the end consumer will also feel a pinch of extra expenditure. The taxation is between 18% and 20%. Because this rate is high, the cost of service will be higher.

Lack of centralized system of accounting: Every business in every state has to have their accounting records because there is no centralized registration of businesses. Every business in every state is financially accountable to that state for taxation. This means that the accounts of the business will have to be separate.

The burden of public education: The business owner is charged with the responsibility of educating the masses on the benefits of this GST system. Failure of which may lead to unprecedented events.

CONCLUSION

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

By subsuming all these to provide the country with a single taxation level, we can say it is a great move that will propel the economy even further. In as much as there will be some challenges, it is a great thing to have a single taxation system for the service providers.

For service industry, GST system has definitely increased the compliance burden. GST implementation is bound to face hiccups during initial days but things will be much smoother once the issues are addressed.

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