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Impact of GST on Service Sector

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Abstract

The new goods and service tax (GST), launched on July1,2017, will charge how business is done in India. It is likely to have a significant impact on the service. As of March2014, there were 12,76,861 service tax assesses in the country out of which only the top 50 paid more than 50% of the tax collected nationwide. Most of the tax burden is borne by domains such as IT service telecommunication services, the insurance industry, business support services, banking and financial services, etc. these pan-India businesses already work in a unified market, and will see compliance burden becoming lesser. But they will have to separately register every place of business in each state. India is a strong services-led economy with the sector generating a significant chunk of employment opportunities and contributing to the GDP.Joint Director of the French Tax authority Maurice on 10th April, 1954. There are around 160 countries till date that have implemented GST model including Dual GST has brought in 'one nation one tax' system, but its effect on various industries and services is slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service. This paper examines the impact on GST on service sector after the execution of GST taxation and explores the effects on service sector.

Keywords: GST, Service Sector, Impact. Manufacturing, Distributing and Retailing

Introduction

One nation one tax system beginning by GST in India. A wait of more than a decade came to an end on August 3, 2016, when the 122nd Constitution Amendment Bill, 2014 (popularly known as GST Bill) was passed by the Upper House of the Parliament of India. This is apparently the country's biggest tax reform since independence. The new tax regime, which subsumes all indirect taxes such as sales tax and excise tax, is expected to bring down tax rates in India, while converting the country into a big single market. In short, now, seamless flow of goods and services will occur across 29 states and 7 union territories. The GST council has decided in its 22nd meeting that presently, anyone making inter-state taxable supplies, except inter-state job worker, is compulsorily required to register, irrespective of turnover. It has now been decided to exempt those service providers whose annual aggregate turnover is less than Rs. 20 lacs (Rs. 10 lacs in special category states except for J& K) from obtaining registration even if they are making inter-state taxable supplies of services. Service sector contributes significally in export as well as provides a large scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction. This paper examines the impact of GST on service sector after the execution of GST taxation and explores the effects on service sector.

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 accounting for Rs. 450 crore of tax revenue in 1994 to 120 plus services garnering Rs. 211,414 crore in 2016, the services sector has contributed substantially to the exchequer of the Central Government. The dominant sector per se with an array of establishments employing largely unskilled people, it also accounts for 53.66 percent of India's overall Gross Value Added (GVA) of Rs. 137.51 lakh crore.

Scope of Study

As we were seen as a liability towards the Service Sector since there was no contribution from our side towards, nobody actually paid any attention towards GST in Service sector

Objectives of the Study:

Effective management of working capital is means of accomplishing the firm's goal of adequate liquidity. It is concerned with the administration of current assets and current liabilities. It has the main following objectives-

To study sources and uses of GST in service sector

To maintain sufficient current GST in service sector.

To ensure adequate liquidity GST in service sector.

It protects the solvency GST in service sector.

Hypothesis

Hypothesis means a mere assumption or some supposition to be proved or disproved. But for a researcher hypothesis is a formal question that he intends to resolve. Thus a hypothesis may be defined as a proposition or a set forth as an explanation for the occurrence of some specified group of phenomena either asserted merely as a provisional conjecture to guide some investigation or as highly probable in the light of established facts.

Research Methodology

This research "Impact of GST on Service Sector." is considered as an analytical research.

Analytical research is defined as the research in which, researcher has to use facts or information already available, and analyze these to make a critical evaluation of the facts, figures, data or material.

Source of Data

There are mainly two through which the data required for the research is collected.

Primary Data:

The primary data is that data which is collected fresh or first hand, and for first time which is original in nature.

In this study the Primary data has been collected from Personal Interaction with the Direct Interview Method and Questionnaire Method

Secondary Data:

The secondary data are those which have already collected and stored Secondary data easily get those data form records. Annual reports of the company etc. It will save time, money and efforts to collect the data/

In this study the Secondary data has been collected from various books, websites

Interaction with the Newspapers, Holdings.etc.

GST and Service Sector:

India's biggest tax reform is now a reality. A comprehensive dual Goods and Service Tax (GST) has replaced the complex multiple indirect tax structure from 1July 2017. In the current scenario, procurement of taxable services would be subject to the service tax.

Considering that service tax is levied by the Central Government, the tax would be the same, whether procured locally or interstate. In the GST regime, services procured from outside the State would be subject to IGST and services procured from within the State, would be subject to CGST and SGST.

Service sector scenario after GST implementation:

The author and economist of reports at HIS market, Ashna Dahiya said that after GST implementation, this is the first time when GST has shown some positive signs. In September, the Nikkei India composite PMI output has also increased to 51.1 from last month's index of 49 and it is an expectional case for most of the economist. Even the core sector has shown the highest 4.9 percent hike in the August among last 5 months and the rate has growth rapidly in September also.

Positive Effects of GST on Service Sector:

1. 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.'

2. More Clarity for Software Industry:

For companies like Profit Books, 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.

3. 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.

4. 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.

5. Check out this simple example:

Earlier, service providers used to charge service Tax to the clients and used to pay VAT on the goods purchased, like computers. It was not possible to take set off VAT against Service Tax. But in GST regime, you pay GST on both sales and purchases and hence it's easy to claim input tax credit on that.

6. 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 on GST on Service Sector:

Other than the goods, there are also down sides to this system of taxation. These negative include :

1. 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.

2. 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.

3. 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.

4. Lack of centralized system of accounting:

Every business is 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.

5. Burdensome filling of returns:

As a business owner, you will have to file returns for all the businesses in all the different states separately. This is also because of decentralized registration. This can prove to be burdensome as many 37 returns in just a year.

Conclusion:

Services sector in India is a rapidly growing sector and significantly contributing to fiscal revenues. Ninety percent of the services are placed in the 18% bracket, which in absolute terms is a marginal increase, but is expected to reduce complexity in transaction and improve ease in availing of input credit. Thus, as compared to the current 15% service tax including cusses, the service viz. IT, telecom, insurance, banking etc. may witness negative impact due to increased cost of services. 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. 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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