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## Goods And Service Tax and Its Impact on Information Technology

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### Abstract:

Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for paying of tax. It is mostly substitute all indirect taxes levied on goods and services by the Central and State governments in India. It was implemented from 1st July 2017 onwards. One of the main objective of Goods & Service Tax (GST) would be to eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle. The tax rate rule and regulations are governed by the GST assembly which involves of the finance minister of central government and all the states. the gst are divided into 5five different slabs for collection of tax 0%,5%,12%,18% and 28%.

GST is both beneficial and damaging for different sectors in our nation. Information technology in India is an industry consisting of two major components: IT services and business process outsourcing (BPO). Here main focus is on the impact of GST on IT and Digital marketing industries.

**Keywords:** GST, VAT, Digital Marketing, Indirect taxes, IT services, BPO.

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### Introduction:

GST stands for Goods, services, and tax. It is an indirect tax that will be replaced by the different state and center taxes. The Narendra Modi-led government inaugurated the new indirect tax at the stroke of midnight of June 30 in Parliament. It was implemented from 1<sup>st</sup> July 2017 onwards. One of the main objective of Goods & Service Tax(GST) would be to eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being

a destination-based consumption tax based on VAT principle.

This forms into a single and uniform tax. There are many sectors that have to go through more than 2-3 taxes but after the implementation of GST, there is only one tax. The main purpose of GST is to rationalize the current indirect tax regime which will provide a stable economic environment favorable for growth and development.

GST causes plenty of benefits and damages to various industries in the nation. The benefits of GST will depend upon the type of product manufacturing and its cost.



### Research Methodology:

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

### What is GST:

“One Country One Tax”

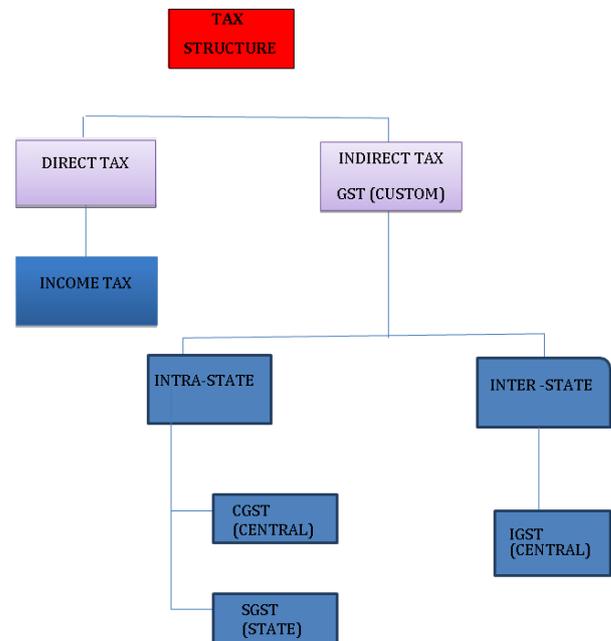
The GST is meant to be a unified indirect tax across the country on products and services. In the current system, tax is levied at each stage separately by the Union government and the States at varying rates, on the full value of the goods. But under the GST system, tax will be levied only on the value added at each stage. It is a single tax (collected at multiple points) with a full set-off for taxes paid earlier in the value chain.

Thus, the final consumer will bear only the GST charged by the last dealer in the supply chain with set-off benefits at all the previous stages.

Goods & Service Tax (GST) would be to eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax till the level of final consumers will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country. Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only

desirable but imperative. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle

### Present GST Taxation System:



### Benefits of GST:

Below listed are some of the benefits of Goods, services, and tax-

1. It will replace all the indirect taxes to form a single tax.
2. One market with equal GST rates across the country.
3. It will boost the GDP as there will be no tax on the taxes.
4. GST will enlarge the overall kitty of the taxes.
5. The various taxes like Central Excise, Vat, service tax etc. will form into one i.e GST

### Concept of GST:

The tax levied on the supply of goods and services. Under the GST system, three components are i.e. CGST, IGST and SGST which comes under the two categories i.e. Inter state and intra state.

- **IGST** is tax levied on interstate supplies of goods and services
- **CGST** is tax levied on intra state supplied of goods and services by the central government
- **SGST** is tax levied on intra state supplied of goods and services by the state government

### **Impact of GST on IT Sector:**

The proposed Goods and Service Tax (GST) law has significantly impact the manner in which businesses function. Following are GST impact on companies in the fields of Information Technology (IT) and consultancy services.

- Tax rate
- Taxes on provision of services
- Better facility to take input credit
- Impact on accounting and financial systems
- Treatment of Exports
- Elimination of cascading effect
- Business Process Change

### **Tax Rate:**

With the Revenue Neutral Rate recommended at 15 to 15.5% and the standard rate suggested at 17-18%, IT services will definitely get taxed at a higher rate than the prevailing Service Tax rate of 14.5%. Thus prima-facie it appears that cost of IT services would jump, especially for end customers who do not claim input credit.

In case of packaged software sales, in most of the states both VAT (~ 5%) and Service Tax (14.5%) is applied leading to dual taxation with effective rate of tax touching 20% due to dual tax and tax-on-tax effect. Under GST, this is likely to come down.

### **Taxes on provision of services:**

Consultancy businesses are currently governed by the provisions of the service tax law. With effect from July 1, 2017 they are to be governed by the provisions of the [GST](#)

[law](#). Among other matters, the model GST law prescribes the nature of tax that would be levied on services rendered. If the supply (i.e. provision) of service happens within the boundaries of a state, the service provider is required to charge Central GST (CGST) and State GST (SGST) simultaneously. If the supply happens outside the boundaries of a state, Integrated GST (IGST) would be levied on the value of supply.

### **Better facility to take input credit:**

GST greatly enhances the ability to take input credits on taxes paid on inputs that are used in the 'furtherance of businesses. This means that service providers will be able to take input credit of taxes paid on goods that are used to provide output service. Notwithstanding the restrictions proposed by the model GST law, business entities will be in a far better position to benefit from taxes paid to procure inputs vis-a-vis the existing indirect tax laws.

This is especially relevant in the case of IT companies who invest significant amount of money in tangible technology infrastructure which are covered under Value Added Tax (VAT) or Central Sales Tax (CST). The levy of VAT / CST results in increased costs and impacts businesses adversely. GST has done away with this anomaly by absorbing VAT / CST & service tax under one levy. This change is one that will be welcomed by IT companies.

### **Impact on Accounting and Financial Systems:**

GST would also change the manner in which business records have to be maintained. IT companies, given their expertise in using technology, would be better equipped to meet these challenges. Business transactions have to be recorded keeping in mind the requirement of the GST law, especially with respect to tracking output & input taxes. There are specific restrictions on the utilization of tax credits

and these have to be given attention while setting up the finance systems. Further, rules governing invoicing guideline are released. Many service companies have automated the system of generating invoices. These systems will need to be revised to meet the requirements of the GST law.

#### **Treatment of Exports:**

Exports are currently 'zero-rated'. The term 'zero-rated' means that the service provider does not have to charge and pay and tax on the value of the export (i.e. the exports are taxed, but at 0%). Though, the service provider can claim refund of all taxes that are paid on services consumed as inputs (i.e. taxes on eligible expenses of the business). The government has given this benefit to encourage exports. There are, however, certain practical difficulties for claiming refund of input taxes.

#### **Elimination of Cascading Effect:**

IT service providers, under GST is able to set-off input GST on purchase of Goods required for setting up the necessary IT infrastructure with their GST output liabilities. Thus, in the long-run these benefits would ultimately flow to end users as IT service providers are lower their costs.

IT software was attracted Central Excise (for manufacture of CDs containing software), VAT (for sale of those CDs) and Service Tax (for selling software in electronically downloadable format). But now Under GST this dual taxation and cascading effect is going to be reduce significantly and the benefits could accrue to end user in the form of lower prices.

#### **Business Process Change:**

GST is a destination based consumption tax, i.e. the tax revenue accrues to the state government where the services are consumed. Previously most IT service companies were registered only with the Central Service Tax authorities and all

accounting and billing was done from a centralized location. Under GST regime, the service provider is required to obtain registration for all the states where the customer is located as the SGST component of IGST has to be accounted for the respective states. IT service providers is also be required to bifurcate services and bill the customer state-wise. This is more cumbersome for IT service provider whose customers have pan-India presence. This brings additional complexities related to distribution of GST credits (for supplies procured centrally) to state wise branches.

#### **Conclusion:**

- GST is one nation one tax.
- Up to now though we will live in same country but there were cost variation in no of goods and products at a various location. GST brings uniformity among the cost of goods at all the location of country.
- GST has strengths then the tax collection mechanism and properly put the check on all the segment of goods produces and sales them.
- As per the GST implementations overall revenue of the IT sector in country will exponentially grow and will benefit the government to have the proper growth and development of country. The implementation of GST within a few year the price of daily needed goods will be reduced and will help to common person to fulfill their daily requirements.
- GST may help the growing the per capita income of society which may contribute in overall GDP of a country and with same speed and space if country progress then with in the few year it may become supreme power of the world.

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