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Arpit Jain
Indore Institute of law,
Madhya Pradesh, India

Impact of goods and service tax (GST) on small business enterprise in reference to automobile industry

Arpit Jain

Abstract

The research paper is regarding the impact of GST on the small business enterprise and the automobile industry. The implementation of GST created a condition of chaos and confusion among the people. GST was a game changer taxation system for Indian economy. It is one of the biggest reforms to unify all the indirect taxes. It covered those goods which were earlier not covered under the taxation system. The GST was implemented to reduce the concept of 'tax on tax' and to increase the GDP of the country. The implementation of GST fixed the rates for particular commodity to avoid fluctuation in the price from state to state. GST helped to lower the prices in the automobile sector. The cost of vehicles has reduced due to the fixed rate at 18% and 28% on the vehicles while the prices of the automobile spares have increased by implementation of GST. The basic aim behind the implementation of GST was to the upliftment of people below poverty line and the boost in business activities. It is a tax imposed at each point of supply of the good.

Keywords: Goods and service tax, GST on automobile sector

Introduction

Research Aim

The objective of the research is to scrutinize the impact of GST on economy of India and various industries in reference to Automobile sector. The aim to conduct the research is to understand the conceptual framework of GST and understand the working mechanism in the country. The research analyse the growth in the automobile industry after the implementation of GST. The research is conducted to analyse the difference between expected and the actual result in the industry.

Area of the research

The researcher has done the research over the impact of GST on the automobile industry after the implementation of GST. The study has been done to analyse the decrease in the price of the car and increase in the price of spare parts. The research has been done over the benefits and the ambiguities of the GST law.

Research Methodology

The research methodology adopted for the purpose of the study is doctrinal. The research is based on the journals, annual reports, newspaper and online websites. Available secondary data was extensively used for the study.

Research question.

GST is one of the biggest reforms in the country. The study analyse the expectations and reality of the implication of the GST in the various sectors of the country.

1. What are GST and its benefits and ambiguities in the sector?
2. How GST affected the taxation and pricing policy in automobile sector?
3. Analyse of the situation before and after the implementation of GST in the automobile industry?

Correspondence
Arpit Jain
Indore Institute of law,
Madhya Pradesh, India

Chapter outline

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1.1 Goods and Service Tax

India is a hub of tax where people pay a number of taxes which create confusion. GST is a dual taxation based system that includes central and state service and goods tax. It was implemented to eliminate all the indirect taxes imposed. It enhanced the free flow of goods which would lead to increase economic growth of the country. The slab are divided on the basis of 5%, 12%, 18%, 28% rates^[1]. The tax is imposed on manufacturing, sale and consumption of the good. This taxation system was launched on 1st July, 2017. It aimed at “one nation, one market”. It subsequently aimed to reduce the tax burden on the dealers. Every individual has duty to pay tax on output and has credit on input tax paid. Tax is a compulsory contribution to the legislative authority.

1.2 Features of GST

1. It is a collection of all indirect taxes levied on goods and services and works as a uniform taxation system for the country.
2. It has encouraged movement of goods throughout the country and also increased the exports.
3. It helped to minimize the corruption from the country.
4. Prices of the goods are reduced due to decrease in the manufacturing cost of the good and competitiveness is increased.
5. It would lead to increase the GDP of the country by the removal of cascading effect of tax.
6. Provide transparency in taxation system.
7. It increased the creditability on the purchase.
8. The system is based on common TIN^[2] registration of the dealers.
9. It would help the people below the poverty line.
10. Goods have a nomenclature (HSN) that is applied to the goods^[3].

11. Specific provisions in the law are provided for the issues and dispute settlement.

1.3 (A) Types of GST

1. *CGST* that stands for Central Goods and Service Tax.
2. *SGST* that stands for State Goods and Service Tax.
3. *IGST* that stands for integrated goods and State Tax.

(B) Slabs of GST

1. For goods the rate is 20% out of which centre shares 12% and 8% is imposed by the state.
2. For service the rate is 16% in which both state and centre shares equally 8%.
3. For essential commodities the rate is 12% that is also equally divided among state and central government.
4. 0%- For food grains and necessary goods.
5. 5%- Mass consumption goods.
6. 12% & 18%- Other products
7. 28%- Luxury Goods.

1.4 GST Taxation Structure

Tax Structure

1. Direct tax
 - a. Income tax
2. Indirect tax (GST)
 - a. Intra state
 1. *Central GST*
 2. State GST
 - b. Inter state
 1. Integrated GST

2.1 Impact on various sectors after implementation of GST

1. Automobiles-The automotive industry in India is a vast business producing a large number of vehicles annually, used by the huge population of the country. There were several taxes applicable to the sector like excise, VAT (Value Added Tax), sales tax, road tax, motor vehicle tax; registration duty which increased the prices of the vehicles to be paid by the buyers which is not unified as a single tax.
2. Cash flow of business – Elimination of Excise duty on manufacturing resulted in improvement in cash flow and inventory because GST is to be paid at time of sale of good not at the time of removal of good from factory.
3. Manufacturers - The multiple taxes had increased the burden on the taxpayers which is now eased and area which was earlier not covered under tax is also now covered under the Taxation scheme^[4].
4. Online shopping – The online shopping has decreased as e-commerce industry has to also pay tax deducted at source for every purchase from seller but online transaction is widely used due to the demonetization and digital India scheme. All the bank transactions and other activities are done online.
5. Banking service - Users have to pay 3% more tax (18%) for utilizing the bank service. The customer will have to pay more for using ATM card, net banking, Credit card, debit card and other facilities.
6. Agriculture Sector – Agriculture sector covers 16% of the Indian GDP. GST resolved the transportation issue of the agricultural- products. The goods can be moved throughout the Indian Territory without any extra tax.

So the goods can be supplied to deficit state and can generate good revenue which is helpful for farmers.

7. Hotels and restaurants - Hotels below tariff of Rs 1000 are exempted from tax while above Rs 1000 are charged GST at rates of 12% and 18% [5]. Eating out is cheaper to 0.5% as earlier tax was 18.5% and presently it is 18%.
8. Insurance service - Taxes on insurance service have been increased to 18% from 15%. Insurance whether it is life or non-life insurance has been increased upto 3%.
9. Entertainment [6] tax is fixed at 28% for cinema and other entertainment industry at 18%.
10. Real estate - GST led to increase in real estate price by 8%. It is one of the pivotal sectors in the country which contribute a huge portion in country's GDP.
11. GST is not applicable on Alcohol and petroleum products. These sectors comprise of about 40% of states revenue.

2.2 Challenges faced in implementation of GST

1. Registration process lead to a hassle. It led to a chaos among common people.
2. Demonetization led to a doubtful situation on implementing GST.
3. It was also influenced by the political force.
4. It had an impact on the cash flow and working capital of the business enterprise.
5. GST was introduced on stock transfer from one state to other which earlier was not applicable.

2.3 Comparison between before and after implementation of GST

TRANSACTION	NEW SYSTEM	OLD SYSTEM
Sale within the state	State GST & Central GST	VAT & Excise duty
Sale outside the state	Integrated GST	CST & Excise duty

Earlier the consumer or any person had to bear the Value added tax and Excise duty both which is now eliminated by State GST and Central GST when the sale is done within the state boundaries. When sale is done outside the state CST and Excise duty both were to be paid by the person but after implementation of GST only Integrated GST has to be paid by the person on inter-state sales.

3.1 Reference to automobile industry

India is one of the highest vehicles producing country in the world. It is a vast industry because of the population of the country. India is not only leader in manufacturing 4 wheelers but has also developed over manufacturing of the two wheelers and today India is the second largest bike manufacturer in the world. Under the old taxation system while buying a car a person had to pay various tax like VAT, sales tax, Road tax, RTO charges, Motor vehicle tax, Registration duty, excise duty, etc. There were some ambiguities due to difference in the tax rates in different states. Several kind of exemptions were provided by state to the dealers and industries for manufacturing of the vehicles which lead to fluctuations in the rates of the vehicles. The automobile chain has acquired simplicity of working together in the country.

It is common tendency among manufacturers to set up industry and warehouse at place where the state offers better tax structure this leads to lack of international

competitiveness of the sector. After implementation of GST exports are expected to vary between 3.2% and 6.3% [7]. The GST rates on automobile industry are kept under 18% and 28% rate slab. The luxury cars are covered under 28% rate slab.

3.2 Impact of GST on automobile industry

The tax charged by the buyers on the automobile industry were VAT (value added tax) and extract with a rate of 30% - 45% but which is now 18% and 28%. The traders have the capacity to guarantee the GST paid on purchase and sale of the good. Extract paid on stock exchange will be secured by IGST. GST is helpful for the producers to acquiring the vehicle spare parts at less cost because of an enhanced production network under GST. The price of the vehicles has been subsequently decreased by implementation of GST.

In year 2012 17 million vehicles were manufactured, in 2015 20 million vehicles were manufactured and in year 2017 25 million vehicles were manufactured which show the subsequent increase in the sale of automobiles [8]. Total production volume has grown at rate of 5.56% between year 2012 and 2017.

3.3 How GST worked on the cost of price of cars?

	Pre GST (Rs.)	GST (Rs.)
Manufacturing cost	400000	400000
Total tax(excise duty, VAT, Octroi)	188920 (47.23% total tax)	72000 (18% GST)
Cost to dealers	588920	472000
Margin @10%	58892	47200
Sale price	647812	519200
VAT/GST	80976 (12.5%)	93456 (18%)
Price to retail customers	728788	612656

The comparative study of pre and post GST has been showed in the above table. We can conclude that the total tax which earlier amounted to 47.23% is now fixed at 18% which helped to decrease the cost price to the dealer who after adding 10% margin sale the car which led to the difference in the amount.

3.4 Comparison of Tax on segments of vehicle before and After GST

- (a) **Two wheelers** - The two wheeler section is divided into 2 parts that of engine capacity more than 350cc and less than 350cc. The total of 30.2% tax was charged before GST but after GST the tax was reduced to 28%.

	Pre GST	Post GST
Engine below 350 cc	30.2%	28%
Engine above 350 cc	30.2%	31%

- (b) **Commercial Vehicles**- The earlier tax structured total was 30.2% but the change is as follows.

	Pre GST	Post GST
Commercial vehicle	30.2%	28%
Buses with capacity upto 13 passengers	30.2%	43%

- (c) **Passenger Vehicles**- The tax included NCCD, infra cess, CST and VAT and the total tax was 31% but it was reduced to 28%.

	Pre GST	Base rate	Cess	Effective Rate
Cars below 4 metres. (Petrol)	31.3%	28%	1%	28%
Cars below 4 metres. (Diesel)	33.4%	28%	3%	30%
More than 4 meters less than 1500cc	45.6%	28%	15%	27.6%
More than 4 meters	50.3%	28%	15%	29%
SUV	53.6%	28%	15%	27%
Hybrid	30.3%	28%	15%	30%

3.5 Positive impact of GST

- 1. Price of the vehicles:** Before implementation of GST the taxes were divided into 4 slabs those were Excise duty, Sale tax, Road tax and RTO (registration) tax which is now merged into one. The proposed tax rate of 18% will help to cut down the price of vehicles.
- 2. Unified market:** After the elimination of indirect tax the whole nation will be unified in a single market.
- 3. Employment level:** The automobile industry has provided employment to about 29 million of people.

3.6 Ambiguities in the law

- 1. Valuation problem:** The automobile sector is currently dealing with the valuation of the cost of the showroom showcase and entrance, promotional subsidies, valuation of demo of the vehicle and other commercial charges. Today dealers motivating force plans are not subject to VAT, but there are issues on materialness of administration charge on merchants, contingent upon the terms of each plan.
- 2. Credits on Seller tooling:** It is commonly practiced by merchants in the automobile industry to create apparatuses for fabrication of spare parts. Basically, the responsibility for apparatuses is exchanged by original equipment manufacturers (OEM's), and the cost is likewise recouped from OEMs. Under the GST model only goods which are used in the place of business of OEM are eligible for GST credit in the OEM's hands. This would lead a challenge to the OEMs in availing credits relating to tools located in the premises, on which cost is recovered by the vendors. This resulted in the increase in the cost of tooling and the cost for manufacturing.
- 3. Time of supply for payment:** The duty was paid at the time of removal of the vehicles and VAT at the time of sale of vehicle. But the GST model implies that time of supply of goods should be at earliest of: (a) Date of removal of goods, (b) Date at which goods are made available to buyer and (c) Date of invoice.
- 4. Cost of Spares:** Implementation of GST has reduced the price of Vehicles but increased the tax rates at the spare parts of the vehicles which would act as a drawback to the sale.

4.1 Suggestive measures

The industry requires an environment which would enhance its development. The car business is focused on creating volumes in different sections to gain development which would be easier with the help of lower extract rates as they will increase the sale and create a good manufacturing volume. The GST will benefit all section of society in long run. It led to inflation in few years but will enhance GDP in subsequent years.

1. The government should have slowly moved towards the implementation of GST which would not lead to the certain economic boom in the market.
2. Proper education and awareness about GST was required before its implementation so that each and every citizen would have understood its concept.
3. GST is at very initial stage in India and will surely take some time to give positive effects in the economy.
4. Well maintenance of the GSTN portal is required to enable proper flow.
5. Suggestions and changes according to each state should be applied for the betterment of GST.

4.2 Conclusion

Automobile industry has now become a prominent industry which contributes to the growth and development of Indian economy. The automobile industry's turnover is estimated to be 7.2% of total GDP. The automobile industry provides employment to about 29 million people and contributes to 13% of excise revenue for the government. The industry has tuned an investment of Rs 50,000 crores in last three financial years. The current change has bought a change in industry to bring it out from the downward fall in the last two years (2014-2015).

Removal of various indirect taxes will increase in the sale of the cars. It provided various employment opportunities in the sector. A uniform taxation system helped to stop people from tax invasion.

GST will lead to a corruption free administration. Direct taxation has discouraged people to evade from paying the tax to government. In short run it has affected the economy but as increase in tax payers will lead to increase in GDP and economic growth and development of the country and will also increase the revenue to the government.

4.3 References

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