

Impact of Goods and Service Tax (GST) On the Service Industry in The Indian Economy

Navin Chand Meena, Research Scholar, Department of Commerce, Shri Khushal Das University, Hanumangarh
Dr. Kamlesh, Assistant Professor, Department of Commerce, Shri Khushal Das University, Hanumangarh

Abstract

The earlier system of indirect taxation in India was complicated due to the multiplicity of taxes levied by both the Central and State governments. This created a complex and conflicting indirect tax structure, leading to multiple compliances and administrative costs. There was no uniformity in tax rates and structures across the country, and the cascading effect of taxes (tax on tax) further inflated costs. The introduction of Goods and Services Tax (GST) subsumed several indirect taxes and aimed to unify tax structures. GST is expected to boost the Indian economy in the long run and reduce tax evasion. GST is a multi-tier tax structure where the tax burden ultimately falls on the consumer, and it is designed as a value-added tax levied at every stage. The Goods and Services Tax Council plays a pivotal role in ensuring uniformity in the law and providing recommendations for its implementation.

Keywords: Goods, Services, Tax

INTRODUCTION:

As of March 2018, there were around 13 lakh taxpayers in India, with the top 50 paying more than 50% of the total tax collected. Key sectors like IT services, telecommunications, insurance, BPO, and banking bear the bulk of the tax burden. The Indian government introduced Goods and Services Tax (GST) on July 1, 2017, to streamline taxation and introduce a uniform tax structure across the country, including Union Territories. This reform replaced multiple indirect taxes like VAT, CST, service tax, excise duty, and more, with a single GST tax. The implementation of GST aims to reduce manufacturing costs due to a lower tax burden and, consequently, reduce consumer prices. It is expected to increase consumption, which will drive demand and lead to an increase in the supply of goods and services. The current tax slabs under GST include rates of 0%, 5%, 12%, 18%, and 28%, and these have brought greater transparency to the system.

OBJECTIVE:

- To understand the concept of Goods and Service Tax (GST).
- To analysed the impact of GST on the service industry in the Indian economy.

METHODOLOGY:

This research is a desk-based study using secondary data gathered from various journals, articles, research papers, internet sources, amendments in the parliament, and reports from workshops conducted by various stakeholders. A descriptive method is used to assess the data.

GST IMPACT ON THE SERVICE SECTOR:

4.1 Construction Service

Work contract services, which fall under construction services, are defined under Section 2 (119) of the CGST Act. These services are categorized as a supply of services, and GST is payable on such services. Work contracts are typically contracts for services where the supply of materials is incidental. The general GST rate for work contracts is 18% (9% CGST and 9% SGST or 18% IGST).

4.2 Distributive Trade Services:

- **Trading Services (Wholesale & Retail Trade):** These are taxed at 18% GST (9% CGST and 9% SGST or 18% IGST).
- **Hospitality Services:** Accommodation, food, and beverage services are taxed at varying GST rates, depending on the service. For example, hotels are taxed at 12% or 18%, while restaurants may be taxed at 5% or 18%, depending on their turnover and services provided.

4.3 Passenger Transport Service

- **Rail & Air Travel:** Passenger transport services by rail in first-class or AC coaches are taxed at 5%. Services like metro, monorail, or tramway are exempt from GST. Air travel in economy class is taxed at 5%, while higher-class services are taxed at 12%.
- **Road Transport:** AC contract carriage, radio taxis, and stage carriages are taxed at 5% (2.5% CGST and 2.5% SGST). Other road transport services like local taxis or buses are exempt.

4.4 Goods Transport Service

GST applies to goods transport services by road, but services provided by a Goods Transport Agency (GTA) and courier services are taxed at 5%. Certain transport services, such as those involving agricultural products or newspapers, are exempt from GST. The reverse charge mechanism applies in cases where the recipient of the goods is unregistered.

4.5 Financial Services:

- **Banking Services:** Banks and NBFCs (Non-Banking Financial Companies) provide services such as loans, deposits, and interest payments, which are exempt from GST. However, services like foreign exchange conversion, chit fund operations, and insurance services are taxable under GST.
- **Insurance Services:** General insurance services and life insurance services provided under government schemes are exempt from GST. However, other insurance services are taxable at a rate of 18%.

4.6 Real Estate Services

- **Leasing and Renting Services:** Renting or leasing of property is subject to GST at 18% (9% SGST and 9% CGST). However, renting for residential purposes is exempt.
- **Leasing of Machinery & Licensing of IP:** Leasing of machinery, goods, or the right to use intellectual property is treated as a supply of services, subject to GST.

4.7 Business and Production Services:

- **Business Auxiliary and Support Services:** Services like legal, advertising, and marketing services are taxable under GST. Advertising services, for example, are taxed at 5% GST, while legal services provided to businesses are taxed under the reverse charge mechanism.

CONCLUSION:

The introduction of a single tax system through GST is expected to encourage new business entrepreneurs across various sectors like manufacturing, services, and trading. GST's consumption-based taxation model eliminates the cascading tax effect and enables the free movement of goods and services across India. This will lead to reduced costs for businesses and better access to goods for consumers, thereby boosting overall economic growth. Additionally, the transparent nature of GST will increase the ease of doing business, attract foreign investments, and support the growth of start-ups in India. As companies continue to adapt to the GST system, it is expected to promote long-term economic benefits through increased tax compliance and improved supply chain efficiency.

BIBLIOGRAPHY:

1. CA Ashok Batra (03rd Edition) *Goods and Service Tax Law and Practice*, ISBN 9789388313926, Published by Wolters Kluwer India Pvt. Ltd
2. The Simplified Indian GST Law by Prakhar Jain, First Edition 2018 ISBN 9789387193048. [Self-Publish]
3. Bharat's *Goods & Service Tax Manual* Book containing GST Acts, Rules & Rate of Taxes [BuyTestSeries.com] ISBN 9789351396918.
4. How to Practice as a GST (Goods and Service Tax) Professional (Practitioner), [General Forum on GST] [CA Club India]
5. Goods and Service Tax Council Discussion Forum [Government of India]. [GST Council Website]