

GST Impact on Construction and Service Sectors

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Abstract: The Goods and Service tax (GST) is the biggest and substantial indirect tax reform. The main purpose of GST is to replace existing taxes like value added tax, excise duty, service tax and sales tax. GST is known to be a game changer for the Indian economy.

The objective of the study is to analyze the impact of Goods and Service tax after its implementation in various sectors and know the overall impact on Indian economy. Secondary data is collected from official websites of Government and taxation articles. From this research it is clear that GST reduce the tax burden of the tax payers. In construction sector all the items tax rates have decreased than before, but in-service sector there is neutral impact.

Keywords : GST, Indirect Tax, supply chain, intrastate transactions, finance portfolio, inter-state supply, value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales and pricing.

Introduction:

Goods and Service Tax

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

The GST journey began in the year 2000 when a committee was setup to draft law. It took 17 years from then for the law to evolve. In 2017 the GST Bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017 the GST Law came into force.

In keeping with the federal structure of India, it is proposed that the GST will be levied concurrently by the central government (CGST) and the state government (SGST). It is expected that the base and other essential design features would be common between CGST and SGST for individual states. The inter-state supplies within India would attract an integrated GST (IGST), which is the aggregate of CGST and the SGST of the destination state.

The following are the silent features of the proposed GST system:

- The power to make laws in respect of supplies in the course of inter-state trade or commerce will have the right to levy GST on intrastate transactions, including on services.
- The administration of GST will be the responsibility of the GST Council, which will be the apex policy-making body for GST. Members of GST Council will comprise central and state ministers in charge of the finance portfolio.
- The threshold for levy of GST is a turnover of Rs. 1 million. For a taxpayer who conducts business in a northeastern state of India the threshold is Rs. 5,00,000
- The central government will levy GST on inter-state supply of Goods and Services. Import of goods will be subject to basic customs duty and IGST.
- GST is defined as any tax on supply of goods and services (other than on alcohol for human consumption)

The key benefits associated with GST are:

- Offers a wider tax base, necessary for lowering tax rates and eliminating classification disputes.
- Eliminates the multiplicity of taxes and their cascading effects.
- Automates compliance procedure to reduce errors and increase efficiency.

GST would be levied on the basis of the destination principles. Exports would be zero-rated, and imports would attract tax in the same manner as domestic goods and services. In addition to the IGST in respect of supply of goods, an additional tax of up to 1% has been proposed to be levied by the central government. The revenue from this tax is to be assigned to the origin states. This tax is proposed to be levied for the first two years or a longer period, as recommended by the GST Council.

With GST, it is anticipated that the base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. GST would bring in a modern tax system to ensure efficient and effective tax administration. It will bring in greater transparency and strengthen monitoring, thus making tax evasion difficult. It will impact the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales and pricing.

Objectives: To analyze the difference between before GST and after GST in the construction and service sector. To know the impact of GST after its implementation in construction and service sectors.

Research Methodology: This report is based on secondary data
Secondary data has been collected from the taxation articles and Government official tax website.

INDUSTRY PROFILE

Construction Sector:

Construction is an overall term meaning the craftsmanship and science to shape items, frameworks, or associations, and originates from Latin development (from com-"together" and struere "to accumulate") and Old French development. To develop is the action word: the demonstration of building, and the thing is development: how something is fabricated, the idea of its structure.

In its most broadly utilized setting, development covers the cycles engaged with conveying structures, framework and mechanical offices, and related exercises all the way to an amazing finish. It ordinarily begins with arranging, financing, and plan, and proceeds until the advantage is manufactured and prepared for use; development additionally covers fixes and upkeep work, any attempts to grow, broaden and improve the benefit, and its inevitable destruction, destroying or decommissioning.

As an industry area, development represents over 10% of worldwide GDP (6-9% in created nations) and utilizes around 7% of the worldwide workforce - over 273m individuals. The output of the global construction industry was worth an estimated \$10.8 trillion in 2001.

It does not mean that will leave thousands of laborers jobless. It is an irrational thinking as it is well said that 'tomorrow will take its own course'. In broader sense every individual of the country will get benefit of increased productivity directly or indirectly.

Types of construction

Total construction work can be divided into two broad categories viz. public and private.

The public projects i.e. whose direct beneficiary will be the public, is usually handled by the government, of course govt. get it done by any contractor or by construction company by awarding the work through bids and tenders. It is public money or any financial aid or loan from agencies like World Bank, are spent. Dam, Bridges, Canals, Metro Rail, Power Projects are typical examples of public projects.

Private projects like house of an individual or construction of a factory, a nursing home, hotel or project in which taxpayer's money is not involved can be said as a private project. Frankly speaking profit motive is always there in most of the private projects.

In private projects, capital outlays are less as compared to public projects. Secondly in Indian working environment one cannot afford delay in private projects but cost over runs and delays in public project is an everyday phenomenon in India.

The following are the types of construction sectors:

- Building construction
- Residential construction
- Non-residential construction
- Infrastructure construction
- Industrial construction

Service Sector

Every economy comprises of three divisions. They are essential division (extraction, for example, mining, agribusiness and fishing), optional segment (producing) and the tertiary segment (administration segment). Economies will in general follow a formative movement that takes them from a substantial dependence on essential, around the advancement of assembling lastly toward a more help based structure. Generally, producing would in general be more open to global exchange and rivalry than administrations. Subsequently, there has been an inclination for the principal economies to industrialize to go under serious assault by those trying to industrialize later. The resultant shrinkage of assembling in the main economies may clarify their developing dependence on the administration division. Notwithstanding, at present and tentatively, with emotional cost decrease and speed and unwavering quality enhancements in the transportation of individuals and the correspondence of data, the administration segment is one of the most serious global rivalry. The administration segment is the most well-known working environment in India.

The administration segment comprises of the delicate pieces of the economy, for example, protection, government, the travel industry, banking, retail, instruction, and social administrations.. In delicate part business, individuals use time to send information resources, coordinated effort resources, and cycle commitment to make efficiency, adequacy, execution improvement potential and maintainability. Administration industry includes the arrangement of administrations to organizations just as conclusive buyers. Administrations may include transport, circulation and offer of products from maker to a shopper as may occur in wholesaling and retailing, or may include the arrangement of a help, for example, in bug control or diversion. Products might be changed during the time spent offering an assistance, as occurs in the eatery business or in gear fix. In any case, the emphasis is on individuals associating with individuals and serving the client instead of changing physical products.

Service sector in India

Administration Sector in India today represents the greater part of India's GDP. As indicated by information for the money related year 2006-2007, the portion of administrations adds to 55.1 percent of the GDP, though industry, and horticulture in shares 26.4 percent, and 18.5 percent individually. This shows the significance of administration industry to the Indian economy and as administration segment presently represents the greater part the GDP denotes a watershed in the advancement of the Indian economy and takes it closer to the basics of a created economy.

There was checked quickening in the development of administrations area in the nineties. While the portion of administrations in India's GDP expanded by 21 percent focuses in the 50 years somewhere in the range of 1950 and 2000, almost 40 percent of that expansion was packed in the nineties. While practically all assistance divisions took an interest in this blast, development was quickest in correspondences, banking, inns and eateries, network administrations, exchange and business administrations. One reason for the unexpected development in the administrations division in India in the nineties was the progression in the administrative structure that offered ascend to advancement and higher fares from the administrations segment. In the current financial situation it looks that the blast in the administrations division is digging in for the long haul as India is quick developing as worldwide administrations center.

Indian help industry covers a wide array of exercises like exchanging, banking and account, infotainment, land, transportation, security, the board and specialized consultancy among a few others. The significant areas that join together to comprise administration industry in India are recorded underneath.

- Information Technology
- Trade & Financial services
- Education
- Media
- Hospitality, accommodation and food services
- Entertainment, culture and recreation
- Transportation and warehousing
- Storage
- Healthcare & social assistance
- Tourism
- Real estate and leasing
- Public administration and defense

DATA ANALYSIS AND INTERETATION

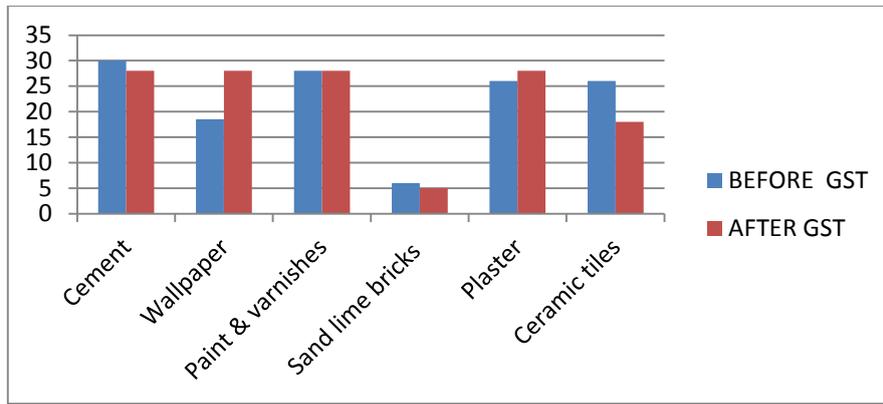
Construction Sector:

Table 1.1: The difference between tax percentages in Construction Sector before and after GST.

ITEMS	BEFORE GST	AFTER GST	DIFFERENCE
Cement	30 %	28%	2%
Wallpaper	18.5%	28%	-9.5%
Paint & varnishes	28%	28%	0%
Sand lime bricks	6%	5%	1%
Plaster	26%	28%	-2%
Ceramic tiles	26%	18%	8%

Source : taxguru.com

Figure 1.1: Graphical representation of difference between tax percentages in construction sector before and after GST.



Source: self

Interpretation:-

From the above table implementation of GST has favourably affected the Construction sector, most of the items tax rates have decreased than before?

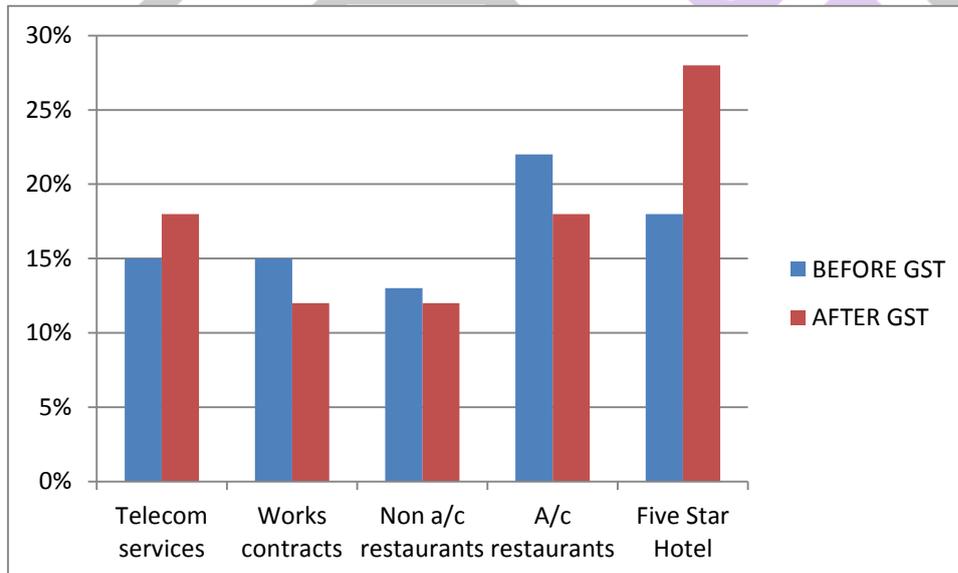
SERVICE SECTOR:

Table 1.2 : The difference between tax percentages in Service Sector before and after GST.

ITEMS	BEFORE GST	AFTER GST	DIFFERENCE
Telecom services	15%	18%	-3%
Works contracts	15%	12%	3%
Non a/c restaurants	13%	12%	1%
A/c restaurants	22%	18%	4%
Five Star Hotel	18%	28%	-10

Source: taxguru.com

Figure 1.2 : Graphical representation of difference between tax percentages in service sector before and after GST.



Source: self

Interpretation:-

The above table clearly shows that the GST implementation is mostly beneficial to the service sector but only telecom tax rates have increased and the Five Star restaurants have fallen into the luxury category, these tax rates have also been increased. So there is a neutral impact on service sector.

Construction Sector

Figure 1.3: The price of the cement bag before and after GST.

2 Cement Trader (per bag)						
		Pre G ST		Post G ST		Difference
Particulars	Percentage	Amount	Percentage	Amount	Amount	
Cost of Goods		200.00		200.00		
Margin		16.00		16.00		
Price Including Profit		216.00		216.00		
Add: Excise Duty	14.50%	31.32	N/A		0.00	
Price Including Excise		247.32		216.00		
Add: Other Costs		9.00		9.00		
Total Cost		256.32		225.00		
VAT	14.50%	37.17				
CGST			14.00%	31.50		
SGST			14.00%	31.50		
Total		293.49		288.00		

Source: cleartax.com

Interpretation

From the above table there is a decrease in the prices of the construction items due to decrease tax rates. Recently the tax rates have been revised and decreased from 28% to 18%. Hence there is a favourable impact on the construction sector.

Service Sector**Figure 1.4 : The price of the double bedroom for 4 days in a luxury hotel**

Luxury Hotel room						
		Pre G ST		Post G ST		Difference
Particulars	Percentage	Amount	Percentage	Amount	Amount	
Cost of service		25000.00		25000.00		
Food charges		818.00		818.00		
Total		25818.00		25818.00		
Add: Entertainment tax	5.70%	1471.63	N/A		0.00	
Add: Luxury Tax	10.52%	2716.05	N/A		0.00	
Total		30005.68		25818.00		
CGST			14.00%	3614.52		
SGST			14.00%	3614.52		
Total		30005.00		33047.04	-3042.04	

Source : cleartax.com

Interpretation:

From the above table we can suggest that the prices of the luxury hotels have been increased because of GST. But by observing the tax rates it is clear that the prices of normal hotels decreased. Hence the overall impact of GST on the service sector is neutral that is prices of some services increased and some of them decreased.

Findings:

- The tax rates of the items have decreased, increased as well as neutral in construction sector. Cement, sand lime bricks and ceramic tiles have decreased than before, wallpaper and plaster tax rates have increased & there are no changes in paint & vanishes tax rates.
- In service sector the tax rates of work contracts, non a/c restaurants and a/c restaurants have decreased than before, telecom service and five star hotel tax rates have increased.
- There is a decrease in the prices of the construction items due to decrease tax rates. Recently the tax rates have been revised and decreased. Hence there is favourable impact on the construction sector.
- The implementation of GST is beneficial to the construction and service sector due to the reduced tax rates. In construction sector all the items tax rates have decreased than before. And in service sector there is neutral impact.
- It is beneficial for the customers due to tax rates that have been decreased.
- Initially both the sectors had faced problems due to the changes in the Indian tax rates. But with the proper guidelines

given by the government, the industries had successfully copied with changed tax structure.

Conclusion:

In spite of the fact that the GST sway has rolled out a different improvement in tax assessment framework, it might discover hard for Indian economy to adapt up to the change yet has unquestionably a decent future for the economy in the later years. GST is said to increment in the way of life of individuals lessening the average cost for basic items that in a roundabout way improves the money related arrangement of country, along these lines improving the Indian economy. Accordingly, GST has a more prominent effect in agricultural nation like India.

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