Impact of Goods and Services Tax on Indian Economy – Logistic Sector

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ABSTRACT

Important new legislation in India is the Goods and Services Tax (GST). The GST Act bill was first adopted by the Rajya Sabha on August 6, 2016, and then by the Lok Sabha on August 8, 2016. On July 1, 2017, the legislation will go into force. All value creation is subject to the Goods and Services Tax (GST), which is a multi-stage, destination-based tax. Products and services are subject to this kind of tax based on the location of the final consumer. It is proposed that all steps, from manufacturing to consumption, be taxed, with the potential to reclaim taxes already paid. In a nutshell, the final customer is liable for all taxes, and value added to a product or service is subject to taxation.

Input Tax Credit (ITC) was made accessible across the whole value chain, and the government benefited greatly from this since GST consolidated a broad range of national and state taxes on most goods and services. The number of tax brackets has decreased to a historic low. The creation of a consolidated digital platform for use by taxpayers is also well underway.

More than 26 months and many policy changes later, it seems that not everything has gone as planned. This, however, was not completely out of the question, and the government was prepared to suffer short-term losses in exchange for long-term gains. The tax rates and number of tax bands under India's Goods and Services Tax (GST) are among the highest and most extensive in the world. The rising technical and regulatory obstacles only make life more difficult. The government has enhanced the GST collection goal to Rs. 1.10 crore per month commencing in December 2019 to guarantee revenue collection according to objectives. It is the duty of GST officers to ensure that the appropriate GSTR-1 and 3B returns are filed if penalties or fines were waived at a recent GSTC meeting. Taxpayers who want to avoid penalties must come forward and file their returns by January 10, 2019. The existing GST cannot be considered flawless since it does not apply to all products and services, there are difficulties to collecting input tax credits, and GST rates are often skewed.

Trucking (including both freelance drivers and large fleets), storage and warehousing, and third-party logistics (3PL) are just a few of the numerous subsectors that make up the logistics business. Large and small businesses, as well as asset-heavy and -light businesses, are subsets of these categories. Government reforms, ambitions to expand the transport sector, increased retail sales, and the rise of the e-commerce sector are all projected to contribute to India's solid economic growth, which in turn will boost the logistics industry in the nation. Online freight platforms and aggregators are quickly growing in India's logistics business due to low entry barriers and reduced capital expenditure. A well-planned communications campaign is necessary to inform businesses, consumers, and key intermediaries including tax practitioners, the tax administration, and the political class about the new GST system. As manufacturing in India grows to make up 25%-30% of GDP by 2025, the country's warehousing industry will also expand. It is projected that India's logistics market would grow by 10.5% between 2019 and 2025.

Since the goods and services tax (GST) has replaced the various state VATs, businesses no longer need a presence in the heart of many states' economies. Because of this, companies may reevaluate their current supply chains and set up centralised hubs to take advantage of economies of scale. Organisations now have a centralised location from which to take advantage of time-saving procedures like bulk-breaking and cross-docking. Nagpur, India's "zero-mile city," is receiving a flood of investment from retailers and warehouse corporations banking on GST's overhaul of the nation's logistics environment. They anticipate that Nagpur will become the "nation's warehouse." Warehousing, storage, and other manpower services were formerly taxed at 15% but will now be taxed at 18% due to the GST. As a result, there is now more motivation for a 3PL to go towards providing services that involve substantial value addition and for which input tax credit may be claimed. This might lead to mergers and acquisitions within the warehousing and storage sector.

It is still possible to employ the "reverse charge mechanism" for transport services, but the taxpayer will not be able to claim an input tax credit since the main expenditure in providing such services, petrol, is not subject to GST. This might be useful for medium-sized transportation businesses who have trouble submitting their taxes every 20 days. However, this may have consequences for businesses that make use of transport services but are subject to taxation in the event of a service charge but are unable to claim a corresponding input tax credit. Because of the possibility of key companies exiting the pure transportation sector and entering into additional value-added services, the industry may be disrupted by difficulties in negotiating and paying for transport services.

Logistics is one sector that stands to gain from the new GST regulations. The increased frequency of filing returns and the necessity for compliance from all players in the value chain to claim the input tax credit would initially lead to an increase in compliance and adjustment expenses. The industry's short-term profits will take a hit, and the climate will become more volatile. There will inevitably be improvements in operational efficiency. Logistics costs for producers of nonbulk items might be reduced by as much as 20% under GST, despite the fact that GST would do little to fix the fundamental problems with India's transportation infrastructure. Therefore, the effects and net cost savings of GST would differ significantly across industries.

INTRODUCTION OF INDIAN TAXATION

The primary responsibility of every nation's government is to maintain order and provide for its citizens' basic necessities. In India, there is a tremendous economic divide between the country's high and bottom strata. The government should enact policies to help lessen social disparities. Governments throughout the world have responded by creating complex tax and subsidy structures.

James Wilson, the Finance Minister of British India, created the Income Tax Act in 1860, however taxation on several professions in India dates back far older. The most important modification to Income Tax law occurred in 1922 with the enactment of the 1919 Chelmsford Reforms. The boundary between federal and state duties and powers was drawn more clearly as a result of these amendments. This legislation establishes taxes as the primary revenue stream for the state. Two years after India's independence, in 1958, the Direct Taxes Administration Enquiry Committee was set up. The Income Tax Act, 1961 entered into effect on April 1, 1962, after the recommendations of the Law Commission and the Enquiry Committee.

INTRODUCTION OF GOODS AND SERVICE TAX (GST) IN INDIA

In India, all commodities and services are subject to the commodities and Services Tax (GST), an indirect tax on production, circulation, and consumption. Different federal and state taxes have been replaced by it. On July 1, 2017, as part of the 101st Constitutional Amendment Act (122nd Amendment Bill), India implemented a new, nationwide indirect tax known as the Goods and Services Tax (GST). Former indirect taxes including value added tax (VAT), service tax, excise duty, central sales tax, and entrance tax have been incorporated into the new system. India's tax structure was overhauled in 2017 with the passage of GST, a reform with the declared purpose of establishing "One Nation One Tax" throughout the nation.

The uniformity of tax regulations across jurisdictions and industries is a direct outcome of the introduction of GST. According to predetermined standards, the central government and the various states were to split the budget. It was simpler to provide consistent service and commodities throughout India since there were no extra state taxes.

Disputes between individual states have forced postponements of the GST's introduction. Below is the timetable that will be followed.

MEANING AND NATURE OF TAXES

Taxes are a kind of monetary charge placed on individuals and enterprises by the federal government, state governments, or other officially recognised local organisations in India. A country's tax system is crucial to its economic well-being. The purpose of levying taxes is to amass a revenue stream that can be used to finance a broad variety of public services and initiatives. In order for the government to fulfil its economic and social aims, such as minimising economic inequities, taxes are, unfortunately, an unavoidable evil.

The authority to levy and collect taxes is split between the federal, state, and municipal governments in India, as stated in Article 265. Taxes and cesses are monetary charges, such as sales tax, income tax, Value Added Tax (VAT), excise duty, customs duty, etc. You may classify every one of these levies as a "direct tax" or a "indirect tax."

WHAT MAKES UP THE GST

All goods and services produced or supplied inside India are subject to GST unless exempted below. The components of the Goods and Services Tax are as follows:

Commonly, the "CGST" will be used to refer to the Central Goods and Services Tax.

The CGST Act of 2016 consolidated a variety of different taxes and levies into a single rate of GST for all goods and services supplied inside the state. Intrastate sales (sales within the same state) are subject to the CGST.

VAT, state sales tax, Octroi and entrance tax, luxury tax, lotter, betting, gambling, etc. taxes were all formerly collected by different divisions of the state government but are now all collected under the umbrella of a single SGST. Similar to the CGST, the SGST is applied solely on transactions that occur inside the borders of a particular state.

There should be just one general sales tax on all "goods and services."

The federal government will collect IGST when a transaction includes more than one state. In accordance with IGST, every international trade must be conducted.

UTGST stands for "Union Territory Goods and Services Tax."

The UTGST is 5%, of which the federal government and the state of Utah each get 2%. Agreements between parties in the same bargaining unit have the force of law. Payment of IGST is required when relocating between territories or between states within the same territory.

The only Indian regions exempt from UTGST are Andaman and Nicobar, Dadra and Nagar Haveli, Lakshadweep, and Chandigarh. Not included are the union territories of Pondicherry and Delhi, each of which has its own government and chief minister.

The GST unifies several different taxes into one simple rate. It is crucial to this endeavour that all businesses and individuals be given a fair playing field. The federal government and the states might collect more money if trade volumes, tax compliance, and the size of the tax base all increase.

OBJECTIVE OF STUDY

To trace the historical progression of India's taxation system.

To become well-versed in GST and everything it entails.

Analyse the impact of the Goods and Services Tax on the Indian economy.

This study aims to understand the implications of GST on the Indian economy with a special focus on the logistics sector.

Determine the challenges faced by logistics companies as a result of GST and the measures taken to address them.

SCOPE OF THE STUDY

The study summarises the circumstances before and after GST was implemented.

Finding out if GST is beneficial or detrimental to the logistics sector is the focus of this study.

The research shows how the logistics sector has contributed to India's GDP.

It describes the GST's effect on the many aspects of logistics.

LITERATURE REVIEW

In 2014, Garg analysed GST's results in India. He tried to stress not only the desired outcomes of the proposed GST approach but also the challenges and opportunities it brings. He said that implementing GST was the next logical step in reforming India's indirect tax system. He went on to say that GST will boost GDP and tax income for the country. According to Kumar's (2014) findings, the Goods and Services Tax (GST) will encourage location-neutral tax structures and assist reduce economic distortion created by the current tax regime in India. Sehrawat and Dhanda (2015) examined the pros and cons of introducing GST to India. They reasoned that a more streamlined and equitable tax system would be good for India's economy. They enumerated the various advantages and cautioned that the success of GST implementation is crucial to India's path towards a world-class tax structure and a simpler tax system. Khurana and Sharma (2016) performed study to better understand the proposed GST approach and its drivers, objectives, and impact on India's tax system. They noted that although GST would benefit everyone (particularly federal and state governments), manufacturers and consumers stand to gain the most. Munde and Chavan (2016) examined the Goods and Services Tax (GST), analysing its pros and cons and proposing reforms to make it more effective. They reasoned that if the obstacles were removed, taxpayers would be delighted with the new system, and if the GST procedures proved simple and ensured the involvement of all stakeholders, the system would undoubtedly aid in economic growth and price rationalisation.

RESEARCH METHODOLOGY

Data for the study came from a mix of primary and secondary resources. Finding previously unconsidered factors in an issue is what an exploratory investigation is all about. The questionnaire served as the primary data collector, and its findings and suggestions are presented here. Extrapolating findings to the whole population may be impossible if statistical power is low. The results of the research will be established when the survey is conducted and the data is analysed. Data collection has been halted temporarily due to the current lockout induced by COVID-19. Throughout the study, we trusted that the information provided by our participants was accurate.

The phrase "secondary data" is used to refer to data that was acquired from a secondary source in addition to the original source. The data was analysed using a percentage-based method, and the results are supported with visual aids such as charts and graphs.

DATA ANALYSIS

A standardised questionnaire was used to gather the data. Respondents are asked to express their level of agreement, disagreement, or neutrality with each statement using a 5-point Likert scale. A bar chart is used to make the data more simpler to read.

The survey will help us understand the challenges the sector is facing as it implements the GST. By include both large and small businesses, the poll shows that GST has been widely adopted since its introduction. There was a high level of participation from both MSMEs (69%) and large businesses (41%). Respondents have not only highlighted the most critical difficulties, but also made real proposals for simplifying and enhancing GST.

The survey indicates that GST will improve business supply chain operations. Over sixty percent of people polled expressed satisfaction with the current interstate checkpoint setup. Sixty-plus percent of respondents claimed that cargo vehicles were no longer stopped and checked at state borders once GST was imposed.

The industry has identified challenges with the GSTN interface, an abundance of paperwork, and high compliance costs as the most significant issues.

CONCLUSION

The paper highlights how difficult India's GST system is in contrast to other nations' value-added tax systems due to India's high tax rates and larger variety of tax rates. A uniform rate, few exceptions, well defined regulations and procedures, a well-resourced and structured administration, and compliance programmes that involve training and audits depending on the risk posed by the organisation are all necessary to accomplish this. It was difficult for companies, especially exporters, to recuperate their losses. Your request for a refund of the IGST you paid on exports cannot be processed if the dates on the shipping invoice and the tax invoice do not match. The requirement that the tax invoice and the shipping bill be dated the same is something they like to see relaxed. When a firm moves raw materials to its SEZs in other states, it is considered to have made a sale and is subject to GST. Internal payments should be exempt from GST. The significant majority of respondents to our poll think that additional information should be made available by the government in order to safeguard against any unwarranted harassment resulting from the anti-profiteering legislation. Several commenters suggested the government publish illustrative guidelines and a list of frequently asked questions to clear up any misunderstandings. Due to the time and effort needed to submit returns under GST, reconcile inputs on the GST site, create e-way bills, etc., several respondents reported that employment rose as a result of GST. The Goods and Services Tax (GST) improved the job picture for accountants but increased the need for operational hiring as businesses focused on their strengths. As a result of being unable to pass on increased taxes to consumers, more than half of those questioned (58%) reported lower gross margins. The "e-way bill" may slow down shipping because of the increased number of road inspections. India's logistics sector, which was once categorised as a service provider, is now recognised as a supplier of "end to end solutions" for a variety of sectors. No matter how much progress India makes in the manufacturing sector internationally, logistics is likely to overtake manufacturing as the primary economic engine in the country.

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