

A STUDY ON GOODS AND SERVICE TAX AND ITS IMPACT ON HANDICRAFT INDUSTRIES

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ABSTRACT

VAT implementation was the first step towards improvement in indirect taxes in India which showed that Government was working in right direction. After that although it take too long to implement the GST, Goods and Services Tax finally introduced by the 101st Constitutional amendment in India from July 1, 2017. It's really a great and biggest tax reform in India since independent. GST is a comprehensive tax system that will subsume all indirect taxes of State and Central Governments. It created the whole India a single seamless national market. GST would be applicable on "supply" of goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services. GST would be based on the principle of destination based consumption taxation as against the present principle of origin-based taxation. This is the major change in indirect tax system where the revenue will be distributed among all the States on consumption basis which make each State financially independent. It would be a dual GST with the Centre and the States simultaneously levying it on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States would be called State GST (SGST). Union territories would levy Union territory GST (UTGST). This paper will try to understand the main features of GST and how it impacted Handicrafts Industries, its challenges and suggestion for growth of Handicraft Industries.

KEYWORDS: VAT, GST, CGST, UTGST, SGST, Origin-based Taxation.

Introduction

Taxes are inevitable for every country to develop its economy and indirect taxes are the major source of revenue for any economies in the world to grow. India had indirect tax system which was divided between Union and States in the form of Excise duty, Service Tax, VAT, CST, Entry Tax etc. for which credit was not allowed for Taxes paid under different legislature e.g. Credit of Excise duty and Service Tax which were Levied by Central Government was not allowed against VAT liability which was levied by State Government. This leads to cascading effect. Further, every state had their own tax rates which had created trade boundaries between states. Businessmen were hesitant to order goods from other states both due to financial reasons and due to compliance burden.

Our original taxes system was very complex and confusing, which led to inefficient tax structure, high cost of production and non-competitive environment for businesses to grow at domestic as well as at international market which ultimately resulted in shirking the revenue of Government. We were unable to provide the world business community a level playing environment in comparison to the global market which also results in low level of foreign investment, France was the first country who introduced GST in 1954 and later GST have been adopted by more than 160 countries. Most of the countries followed unified GST while some countries like Brazil; Canada follows a dual GST system where tax is imposed by both central and state.

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With a view to overcome from all the drawbacks of the prevailing taxation system i.e. adding value at each stage, setting off the taxes both at state and at central level, increases the efficiency of taxation system, improves the economic growth and brings the whole nation to one national market.

First time in 2000 the then Prime Minister Shri Atal Bihari Vajpayee has suggested to adopt the GST and formed an Empowered committee consists of State finance ministers, representatives from the Centre and states were requested to examine various aspects of the GST proposal and create reports on the thresholds, exemptions, taxation of inter-state supplies, and taxation of services. The committee was headed by Asim Dasgupta, the finance minister of West Bengal.

In 2004 A task force that was headed by Vijay L. Kelkar, the advisor to the finance ministry, indicated that the existing tax structure had many issues that would be mitigated by the adoption of GST system.

First time in February 2006 The finance minister announced in his budget speech that from 1st April 2010 India will introduce the GST.

In May, 2007 a Joint Working Group on GST was formed, which submitted its report to the Empowered Committee (EC) on November, 2007.

In April 2008, Empowered Committee (EC) finalised its view on GST and submitted a report titled "A model and roadmap for Goods and Services Tax (GST) in India".

In July 2009 Pranab Mukherjee, the new finance minister of India, announced the basic skeleton of the GST system. In November 2009 The Empowered committee headed by Asim Dasgupta put forth the First Discussion Paper (FDP), describing the proposed GST regime.

In 2010 Finance Minister P Chidambaram had announced to postpone GST for one year and will be implemented from April, 2011.

In 2011 The 115th Constitution Amendment Bill **was** introduced in Lok Sabha for the levy of GST on all goods and services across India. Later the Bill was lapsed due to completion of parliamentary terms.

In December 2014 India's new finance minister, Mr. Arun Jaitley, submits the revised Constitution (122nd Amendment) Bill, 2014 in the parliament which was passed by Lok Sabha on 6th May 2015.

In June 2016 The Ministry of Finance releases the draft model law on GST to the public, expecting suggestions and views. In August 2016 Rajya Sabha had also passed the Bill and in September 2016 the honourable President of India gives his consent for the Constitution Amendment Bill to become an Act.

In 2017 four Bills related to GST became an Act after approval in the parliament and the assent of President and these are

- Central Goods and Service Tax Act, 2017
- Integrated Goods and Service Tax Act, 2017
- Union Territory Goods and Service Tax Act, 2017
- GST (Compensation to States) Act, 2017

The GST Council also finalised on the GST rates and GST rules. The Government declares that the GST Act be applicable from 1 July 2017.

Definitely the implementation of GST is a step forward towards Chanakya saying that "The Ruler should act like a bee which collects honey (Tax) without causing pain to the honeycomb", The same was also evident by implementing the VAT which was a major improvement over the pre-existing Central excise duty at the national level and the Sales tax system at the State level and then the Goods and Services Tax (GST) which is indeed a further significant improvement towards a comprehensive indirect tax reforms.

Objective of the Study

The study has the following objectives:

- To know the Concept of GST
- To study the impact of GST on Handicraft Industries

Research Methodology

The Research paper is based on the exploratory research, keeping in view the objective of research, as GST is still emerging in India and still there are so many frequent amendments since its implementation therefore this research paper focuses on extensive study of secondary data.

Impact of GST on Handicraft Industries

Overall, the introduction of GST is reported to have disrupted the business environment and the handicrafts industry stakeholders are facing multitude of challenges in conducting their routine business operations. Following are the issues or challenges under the new GST regime faced by the handicraft industry stakeholders:

- Pre GST regime there were no taxes on small unregistered suppliers and job worker if they supply to handicraft exporter. In India these unorganized, very small in size and labour intensive units are backbones of handicraft exporters who supply them most of their requirements. They are not able to comply the costly and complex GST law and due to this most of these supplier and job worker have either stopped or changed the work. Handicraft exporters are also reluctant to pay GST on Reverse Charge Mechanism (RCM). In a survey conducted by EPCH amongst 100 job workers:
 - All the job workers reported that the volume of job work from manufacturers/ exporters have dropped down due to this new GST regime.
 - 100% of the respondents feel that due to low volume of work, cash inflows have also decreased.
 - Expenditure towards tax compliance has increased.
- In pre GST regime in most of the States the exports of Handicrafts were exempt and exporters were eligible to make purchase without payment of VAT on the basis of declaration forms. Now under GST handicraft export are no more exempt, it is taxed at zero rated with fulfilment of certain conditions e.g. all handicraft exporters are required to submit LUT or BOND if they want to export without payment of IGST which require Bank guarantee also. Further if an exporter doesn't want to submit the LUT or BOND then he has to pay the IGST and then apply for refund of GST which again has additional compliances.

The effect of GST is that most of the exporters of handicrafts work on borrowed capital. The process of payment of GST first and then claiming the refund at later stage would result in the blocking of huge funds for the exporters engaged in the sector.

Following are the feedback of survey conducted by EPCH:

- Close to nine-tenth (88%) of the manufacturer exporters reported that they affected by requirement of LUT/BOND for registered person who intends to supply of goods or services for export without payment of IGST.
- The degree of affectation was understood to be high for majority of the respondents.
- In comparison to normal business handicraft business requires more amounts to be blocked in stock which includes lot of sampling and may be kept for a long period of time. As per GST transitional provision ITC carried forward on account of stock as on 1st of July, 2017 the stock has to be sold within a period of one year otherwise the ITC accumulated on stock will be lapses, which is not justifiable.
- Under pre GST era Duty Credit Scrips on export of handicraft were presently being used towards payments of Custom duty, CVD, SAD etc. and it is a freely transferable in open market. But now under GST law Duty Credit Scrips can be utilized only for payment of Basic Customs Duty. This limitation result in drop in the value of Duty Credit Scrips by 40-50% in market price.
- In pre GST era freight charges to be paid by exporter were exempt from VAT but now under GST, if order is taken by exporter on CIF basis then the freight charges are taxable under GST @18% which increases the cost of export.
- One of the provisions previously available to the handicrafts exporters for the enhancement of the quality was the provision of duty free import of essential embellishment, trimmings, tools and consumables vide para 1 B.1 (vi) of the Foreign Trade Policy (FTP) and parallel customs notification (No. 50/ 2017) issued to this effect. These handicraft exporters have an entitlement

of Duty Free Import up to 5% of the export turnover of the preceding year was available to the exporters. Now under GST Act only Custom duty has been waived on imports of duty free items while exporter has to pay the IGST on the imports which again raise the addition cost.

- GST rates for textile job worker are applicable at 5% compared to 18% in handicraft sector which creates confusion for many job workers who handle both kinds of work.

Conclusions

GST in India is inspired by the system in Canada because of the federal structure. Even though it's too early to interpret the effects of GST on the Indian economy and particularly for handicraft sector, but it can be predicted wisely that the GST will be of significant benefit to the economic growth in the country. It is for the first time that the taxes have been nationalized instead of being divided into state levels. The small scale and local production and consumption have to be balanced with the international utilization of this new system in India.

The purpose of implementing GST, the biggest indirect tax reform in India, will only be achieved when Central and State governments genuinely co-operate with each other in deciding the framework of tax rates, exemptions and commodities featuring in each category of tax rate with *consensus-ad-idem*. In Untangling the complicated web of the indirect tax base in India, GST is undoubtedly a major step forward if enforced with fairness and reasonableness.

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