

## A PRAGMATIC ANALYSIS OF DEVELOPMENT IN INDIAN ECONOMY AFTER GST REGIME WITH SPECIAL REFERENCE TO ANCILLARY INDUSTRIES

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### ABSTRACT

*The ancillary industry sector has arisen over the period years as a very vivacious and self-motivated sector of the economy. It adds to current for nearly 35 per-cent of the gross value of output of the manufacturing segment and over 40 percent of the total exports in the country. Goods and Service Tax (GST) is a major recent tax reform implemented in India to bring in the 'one nation-one tax' system, but lamentably this recent tax reformation into GST had both sweet and sour brunt from various segments of business societies of India. Under the system of GST tax is levied at the final level of consumption and not at the manufacturing level. The research paper focuses on the outset of goods and service tax and its consequences on the Indian Economy. Present study is an attempt to portray the clear picture of challenges and benefits of GST in India. It will help to reduce the corruption which in return will give boost to the economic growth of the country. GST shall further open multiple avenues for the employment, which in return will help in strengthening the GDP of country. An important feature of GST is that products and services are equalized and are taxed at a fixed rate until customers access it within the supply chain. Therefore, tax reforms give equal rights to large and small businesses and taxpayers. Productive aspects can draw in a better picture in Indian economy exhaling pessimistic aspects. In order to measure the impact of the GST nation necessitate some time for waiting while consequently Government needs to provide learning and training of the new Tax regime systems in every part of country. We all should keep our fingers crossed that when GST will be fully functional and successful it may act as an excellent system to shrink the black money and may be counted as an astonishing initiative by the Government of India subsequent to the Demonetization of the currency in 2016.*

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**Keywords:** GST, Taxation, Ancillary Industry, Boon, Bane, Benefits.

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### Introduction

GST in an initiative in order to eradicate the multiple taxes levied over the consumers such as service tax, excise duty, sales tax etc. India's tax system requires a great correction so as to remove the problem of double taxation charged by the authorities from the consumers, which in results not only affects the general public up to a great extent as well as hampers the economic growth of country in all. Unsystematic tax policy demotivates investors, industrialist, businessmen and Tax payers a lot. Indirect taxes are but obviously related to growth of GDP, thus play an important role.

The word 'Tax' has been acquired from a Latin word 'taxare' which means to estimate. Tax can be explained as a mandatory contribution agreeable to legislative authority which is forced by government in various ways. The taxes whether direct or indirect taxes are developed and imposed by the constitution of India. According to Article 246 of constitution of India, the union and state governments are given particular authority to levy taxes on their states. The central source of revenue for Government

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is basically Tax and the policies concerned with it play a significant role on the economy together with efficiency and equity. The aim of good tax system should be making effective tax revenues to reduce the expenditure of government on infrastructure development and public services. Taxes can be divided into two broad types i.e. Direct and Indirect taxes. Indirect taxes contribute more than 65% of share, compared to direct tax

After seventy (70) years of Independence on midnight of 30th June 2017, Prime Minister of India Mr. Narendra Modi launched India's principal circuitous tax reform - Goods and Service Tax (GST). This newly developed tax regime GST is governed by GST council with head and chairman authority being granted to Finance Minister of India. GST reform is believed to be biggest ever tax reform since independence. In India, the Indirect tax is being imposed both by Central as well as State government. Both the Central and State government have multiple kinds of taxes. Many of the Taxes have in existence from pre-independence days. Central Exercise duty is being imposed since more than 75 years. Sales tax is being levied by some States prior to the independence. The taxation systems have been coming from very long decades and one among those is the service tax. This is being imposed since 1994 and it has been almost 24 years. It is assured that after the introduction of Goods and Service tax (GST), all the taxes will be brought to "ONE NATION ONE TAX" which will substitute all the taxes of Indian Government which were levied by Central and State government as well as local authorities.

Historical tax regime in India is depicted in table 1as below:

**Table 1: Historical indirect Tax Structure In India**

Central Taxes	State Taxes
1) Central Excise duty	1) State VAT / Sales Tax
2) Additional duties of excise	2) Central Sales Tax
3) Excise duty levied under Medicinal & Toiletries Preparation Act	3) Purchase Tax
4) Additional duties of customs (CVD & SAD)	4) Entertainment Tax (other than those levied by local bodies)
5) Service Tax	5) Luxury Tax
6) Surcharges & Cesses	6) Entry Tax (All forms)
	7) Taxes on lottery, betting & gambling
	8) Surcharges & Cesses

Consequently GST is a single indirect tax for the whole nation, one which will make India a cohesive common market. Right from the manufacturer to the consumer, GST will be single tax on the supply of goods and services. To abolish each and every small indirect tax, and in order to provide benefit to the consumers, Government aimed to bring GST to India as a single tax structure. According to the Finance Minister Arun Jaitley, GST might be a game changer in respect to the financial integration of India. Moreover, tax rates differ from each state to other but it will ensure a comprehensive tax base with minimum exemption that will help each industry to reap benefits from common procedures and could be able to claim for taxes paid.

#### **Definition of Ancillary or a Small Company**

- **As per companies act 2013**
  - Paid-up capital which does not exceed 50 lakhs or such higher amount as may be prescribed which shall not be more than five crores rupees
  - Turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than 20 crore rupees. Provided that nothing in this clause shall apply to-
    - A holding company or a subsidiary company
    - A company registered under section 8 or
    - A company or a body corporate governed by any special act

Ancillaries and tiny industries institute an imperative and decisive segment of the industry sector. The involvement of these sectors to employment is next to agriculture. The ancillary and small scale sector contributes to over 40 percent to the gross turnover in the manufacturing sector, 45 per-cent of manufacturing export and 34 per-cent of total exports.

India has been the first among current developing countries to have allotted a noteworthy and positively stated role to ancillary and small scale industries from First Five year plan them self. These enterprises are normally more labour intensive than large scale industries. These sectors includes small but moderately contemporary manufacturing industry, controlled non-manufacturing activity, such as construction industry, transportation services and trading and traditional of casual activity, these initiatives help in the process of economic growth and development by fascinating more employment, lower investment cost involved per job, poverty improvement, indigenisation and emerging entrepreneurship in the country. Usefulness of small scale enterprises relies upon the entrepreneurial and managerial competences of those involved in the business. The possible saving growth has not been sufficiently tapped in our country. Entrepreneurs are extremely motivated to save and capitalize and they reserve a greater quantity of their earnings for this particular purpose than does the common people.

In rural parts, specified condition to self-assurance, funds may be prepared from bigger farmers and can be routed into rural industry. Ancillary and Small industries do also plays quite a vital role in balanced development' and it benefits in keeping pollution free environment.

Ancillary and Small enterprises play a major role in contributing into the Indian economy. They can produce the goods at a low capital cost, utilizes available local raw materials, utilizes home-grown skills, broadens entrepreneurial base, enables balanced local growth and small enterprises avoids the movement of labour to the bigger cities. The village and small industries sector contributes a major share to the total output in manufacturing as well as to major exports. The small organizations of our country have been showcasing a great rate of growth as equated to the industrial sector as a complete.

Taking over the enormous capability of the area, one would expect tax laws to be service full for the development of this area. Shockingly for the E-Commerce industry, the flow aberrant assessment laws in India are an obstacle to activities, frustrating the development of the area. As GST law, 2017 has been implemented by the government on 1 July 2017, it would be relevant to discuss what will be the problems plaguing the Ancillary industry under the Previous Indirect tax laws and whether the same will be addressed in the GST law or will worsen the position specifically for NCR region ancillary industries.

The Ancillary industry in NCR region of study is as yet in its outset, yet it has shown a striking development throughout some undefined time frame and has contributed altogether to the nation's GDP. GST is fundamentally an aberrant expense imposed on the offer of merchandise and ventures and is viewed as an answer for a few complex assessment diseases being experienced by the Ancillary industry or Companies or sellers. The presentation of GST which is a utilization based assessment is required to end the tussle between the states to burden Ancillary industry transactions. The execution of GST for Ancillary industry can give them a truly necessary service from the intermittent sale tax requests, examinations, and stoppage of merchandise at the check post.

#### **Literature Review**

A research study named "Goods and Service Tax Reforms and Intergovernmental Consideration in India" which was conducted by Ehtisham Ahmed and Satya Poddar in the year 2009 reported that GST prologue will endow India with easy to handle and very transparent legal tax structure which may augment in output and productivity of Indian economy. Paper also critiqued the dependency of benefits of GST on rational and applicable blueprint of GST.

An another important study carried in year 2011 titled "GST in India: A Big Leap in the Indirect Taxation System" by Dr. R. Vasanthagopal elucidated that the new tax regime GST if conversed from presently utilized complicated indirect tax system in India will but obviously help Indian economy as a booster dose. Success of GST can be assured from the history of acceptance of GST in 130 countries and their case studies reveals that if implemented successfully GST will serve as an asset for India.

Similarly a study conducted by Agogo Mawuli in May 2014 on "Goods and Service Tax-An Appraisal" postulated that that GST may have some pessimistic impact on low income countries and may not provide wide expansion in economy of poor countries. The study recommended that if these countries want to put into operation GST, than as per analytics the applicable rate must be less tha ten percent.

Survey on “The post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM)” was executed by Saravanan Venkadasalam in year 2014. Research shows that seven of the ten ASEAN nations are previously using the model of tax regime i.e. the GST. Study suggested that the domestic final utilization outlay and general government utilization outlay are significantly correlated to the gross domestic product as required which support the economic theories as well. On contrary the effect of the post GST differs in countries such as Philippines and Thailand have shown negative relationship after adoption of GST on nation’s development.

Another research on “Goods and Service Tax- Panacea For Indirect Tax System in India” conducted by Pinki, Supriya Kamma and RichaVerma in July of 2014 reported that executing NDA Government in India seems positive towards realization of new tax system GST may prove to beneficial for central government, state government as well as for common Indian populace.

Monika Sehrawat, and Upasana Dhanda, conducted an analysis on “GST In India: A Key Tax Reform” in year 2015, there study reported that “GST will give India a world class tax system by grabbing various healing to manufacturing and service sector. But unfortunately the success will depend on the rational design and timely implementation of GST in India”.

Last but not least an important study by Dr. P Vijayaraghavan<sup>1</sup> and Mr. Muhammed Unais conducted recently in April 2017 on “Impact of GST on Indian Economy” stated that the GST implementation on one may side reduce tax burden on manufacturers and thus can act as an catalyst for the higher production rate but on another side may also cause some disparity among common man which h may last up till successfully implementation of benefits of GST for cascading effect which empowers the manufacturers to produce to their optimum capacity and in nut shell will help in nations economic development.

#### Objectives of the Study

Present research endeavor is entitled to study following objectives:

- To conceptually analyze the concept of Goods and Services Tax in India
- To outlay salient features of Indian novel tax regime GST on Ancillary industries in India.
- To envisage the impact of GST over the Indian economy.

#### Research Methodology

Current research endeavor is explanatory in nature and based on secondary research methodology thus data for study was collected from various published journals, articles, newspapers and magazines. To furnish the objectives of research descriptive type research design has been adopted where in the accessible secondary data is intensively used for research study.

#### Results and Analysis

Study accomplished that the new tax regime GST if conversed fully from historically utilized complicated indirect tax system in India will but obviously help Indian economy as a booster dose and have many benefits which are stated as underneath:

For business and industry	For Central and State Governments	For the consumer
<ul style="list-style-type: none"> <li>• Easy compliance</li> <li>• Removal/mitigation of cascading/double taxation</li> <li>• Improved competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>• Simple and easy to administer</li> <li>• Better controls on leakage</li> <li>• Consolidation of tax base</li> <li>• Higher revenue efficiency and collections</li> </ul>	<ul style="list-style-type: none"> <li>• Single and Transparent tax proportionate to the value of goods and services</li> <li>• Price reduction</li> <li>• Increase in real income and purchasing power</li> </ul>

Apart from the above benefits GST will also have following advantageous features:

- The tax structure is made lean and simple
- The cost of Indian goods and services in the international market will subsequently fall due to fall in tax burden on companies boosting the Indian exports.
- Reduce the transaction costs of businesses by facilitating seamless movement of goods across states
- It is good for EOUs, as it is not applied for goods and services exported out of India. Uniform tax rates across the states
- With the introduction of GST, the CST will be detached.

### **Impact of GST**

#### **On Indian Economy**

- GST will prove an effective tool to progress the tax to GDP ratio of the country.
- The GDP growth is likely to rise by 2%, however one percent of additional tax may affect GDP hesitantly.
- It can be postulated that GST may rise 8-10 % of GDP every year.
- It can also be stated that if implemented successfully GST is likely to heighten Indian GDP by 100 to 150 bps consequential there will be increased tax revenue.
- As per the expectation it can be proclaimed that manufacturing sector would encompass benefit from the GST neutral rate which is expected to be between 17-18% and the tax rate must be around 24%.
- In service sector if GST implemented at 17-18% rate it won't be better. As already in financial year 2016-2017 service tax has increased from 12.36% to 14% and additional burden of 0.5% as Swachh Bharat Cess as well as an extra burden of 0.5% of Krishi Kalyan Cess had been implemented in year 2017, thus finally if these are more increased by another 3-4% than it would be a definite impede in the segment of service sector which will directly or indirectly have impact on consumers.
- Hypothetically it can be assumed that the increased tax revenue by the governments will raise the capital expenditure, which will have consequently better benefits on the growth of financial system of India.
- As around the globe around 160 countries have experimented and successfully using GST, resulted in streamline tax system in those countries. It can be said that the same thing may happen in India if all things go well and GST is implemented successfully in India.
- An indirect advantage of GST to manufacturing industries can be enlightened that GST provides tax credit to these manufacturers which ultimately reduces tax saddle, thus will help the growth of Indian economy.

#### **On Sectors**

##### **Information Technology Sector**

IT services in earlier days had a multi-lavational presence with the preferred mode of service tax compliance being on a centralized basis from a single location, and IT service provider also enjoyed the input service credits as well as enjoyed the refunds. But now under GST, service providers are required to pay State GST or Central GST or Integrated and GST across multiple states. New GST taxation regime had increased the duty on the IT related manufacturing goods from 14% to 18-20%. In Consequence of tax rate hike, the prices of the IT related software products are slightly higher thus may have a neutral or slightly negative impact on the Technology Sector as a whole. But on contrary the IT sector is slightly benefited through tax reduction.

##### **Telecommunications Sector**

The telecommunications sector is on the high pace in India, with inception of companies like Reliance Jio which had made a buzz in the telecommunication market and are directly related with the tax regimes of country. Before GST 14% of tax was levied on telecommunication services but after implementation of GST 18% of tax is passed over to the customers and this gives a picture that GST will undoubtedly adversely affect customers of this sector, but inspite of any tax and charges etc, the no of

customers are increasing day by day in telecommunication sector, thus it can be clearly postulated that the revenue generated by government of India from the source of GST tax on this sector will on high trajectory which will in time boost the Indian Economy.

#### **Health and Medicines (Pharmaceuticals) Segments**

Health care and drug manufacturing companies were paying taxes around 15- 20%. (Depending on various categories and schedules of drugs). After GST implementation taxes are significantly reduced on various categories of drugs and allied health care services, it would create a positive impact on the sector as well as the health sector prices will drop and benefits will be transferred directly to the general Indian civilians, who will be asked to pay less or nil on their hospital and medical bills, which definitely act as the catalytic factor in the economic growth of individual as well as whole country.

#### **Automobiles Sector**

Sector on wheels i.e the Automobile industry in India had made a remarkable growth after Independence. As the sources of income and revenue increases the need of automobile both two and four wheelers is bent. After the Government allowed foreign automobile players to manufacture and sell their vehicles in India this sector also got a narrative story. This sector was paying a tax rate of a range between 15-25%. And after GST the rate is reduced to 18% which will create a huge positive impact on the automobile industry and which will be profitable to both the Manufacturers/ dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted which will be direct benefit on Indian Economy. GST has benefitted the segments of industry in India by reduced tax burden in individual ways. In Automobile Industry, there will be huge blast due to implementation of Goods and Services Tax.

#### **E-Commerce Sector**

Supply chain decisions are imperative for e-commerce industry. The supply chain issues were resolved by implementation of GST, as it has helped in lesser paperwork and shipments and returns also can be effectively controlled. As the tax standardized across all the state borders, companies are now able to execute logistics strategies in a better way. In turn that is providing benefit with quicker deliverables and making easy entry for the new entrants.

#### **Media and Entertainment Sector**

The media were affected with a tax rate of 22% before GST and as the authority for levy of taxes remains to be the right of the local bodies, after implementation of GST the fares of cinema will reduce their price whereas the cost of DTH services will be slightly higher. The GST will have a neutral or slightly negative impact on Media and Entertainment Industry.

#### **Transport Sector**

GST is providing benefits to the transportation sector in two ways, firstly by reducing the logistics cost and thereafter by increasing the efficiency both within India and outside.

#### **Land, Real Estate, Renting**

**It was evaluated from various financial analysts that 7.3 % of Indian GDP** is obtained from Real Estate sector. Housing and real estate is also rated as the largest generator of employment straight away after IT. Prior to GST, real estate's were taxed in the form of stamp duty and rental transactions were covered under service tax. Construction activities and works contracts were liable to service tax. So this sector was under multiple tax burdens. GST is helping the consumers and builders. The GST regime changed the phase of real estate business and the 12% GST on construction projects improved the sector. After the implementation of GST, real estate is looking forward for a positive impact. As GST will cut all indirect taxes under it being a single system of Taxation, the prices of property will reduce and as well as the price of construction. Thus, on long run we can have a good positive impact of GST on the Real estate sector which will definitely portray the impact on Indian Economy. And in nut shell various other Government schemes and operations such as Pradhan Mantri Awas Yojna etc will catalyze the impact of GST on real estate and will surely reach to a level where all Indians can afford a social status of house.

#### **Manufacturing Sector**

In manufacturing sector the GST proved to be a great advancement and has improved the performance as well. GST rates for several industrial products have been newly reduced at 18% which was earlier around 28-30%. Thus, resulting on an average saving of 10%.

## Banking

Banking sector were mostly facing service tax at the rate of 15%. But after the implementation of GST, the tax rate for financial services transactions, such as banking, mutual funds, insurance and stock broking will increase from 15% to 18%. Thus financial services transactions becoming more costly to common man. But easy availability of Online banking facilities, habitual use and cheap availability of Internet have increased the online banking operations upto many folds after demonetization in November 2016. Thus, the GST tax collected from the high frequency transactions will be helpful for Indian Government in upliftment of economy of country as a whole.

- **Negative Impact of GST on the Common Man or Disadvantages of GST**
  - After the inclusion of GST in country small traders and service providers dealing in interstate supply of goods or services now need to get registered, pay GST and file GST returns also irrespective of the sales/income they generate (whether high or low).
  - Enormous organizations having various staff could deal with this procedure effectively. But, for little undertakings who have quite recently begun their wander, it is bit hard to take after the method as at first they need to incredibly battle for their reality in the market. A little exception in such manner could have been a major moan of alleviation for such individuals! Truly would like to see some unwinding to it in the coming days.
  - With an increase in cost of services, which will finally increase the monthly expenses of organizations.
  - Budget of an individual needs to be rescheduled as the cost of various products is changed at a large.
  - Laws pertaining to GST are not easily understood by small businessmen and service providers and they are still getting an insight of new law each other day.
  - General populace at large will require a moratorium period to change from traditional system to more advanced GST, thus people require some help centers etc to =easily get facilitated with the system.
  - At onset of GST inflation of country can be at apex which may finally settle down bit lower on long term basis. But it will definitely ebb and flow as and when the GST rates are changed.
  - For the fruitful usage of GST, extensive number of officers is being prepared and deliberate IT programming is being created yet determined time will be taken for the general population including the makers, the wholesalers, the retailers or the last buyers to comprehend the entire procedure and apply it accurately.

## Conclusion

GST is definitely a revolutionary change to reform indirect taxation in India and has positive effects on GDP growth, Tax revenue, exports, employment and so many. But even after a decade Government have failed to implement it, due to variety of reasons like, compensation mechanism for the states, GST rates, and issues relating to food products, petroleum, and tobacco and many political issues as well. The GST law will help the government to catch the tax evaders and this will stop revenue leakages as existed in earlier indirect tax law. GST will ensure a seamless flow of credit from manufacturer to the traders by eliminating cascading effects on them. Overall tax burden will come down after the implementation of GST. Being the tax rate same in all states, the transportation and storage cost will come down. In the current study, the advantages and disadvantages and the related challenges of GST has also been studied in accordance to Indian scenario. Moreover, in case of advantages the exports and manufacturing activity will boost up generating employment increasing the level of GDP. Ultimately it may help in poverty obliteration by generating employment and additional fiscal resources. GST will initiate effective flow of taxes as Input Tax Credit will be accessible across goods and services at every stage of supply; productive aspects can inhale drawing a better picture in Indian economy exhaling pessimistic aspects. In order to measure the impact of the GST nation necessitates some time for waiting while consequently Government needs to provide learning and training of the new Tax regime systems in every part of country. We all should keep our fingers crossed that when GST will be fully functional and successful it may act as an excellent system to shrink the black money and may be counted as an astonishing initiative by the Government of India subsequent to the Demonetization of the currency in 2016. The implementation of GST would pave way for a simple and understandable tax structure, and also help in avoiding any evasion taking place at any level. Thus, lot being said and done, an appropriate implementation would lead to actually understand whether "GST is a boon or bane"

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