

# Ruinous Effect of GST on Southern States in India: A Study

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**Abstract:** *The GST introduction has a substantial benefit in the field of taxation in India, but also various sectors are having an unpropitious effect in south Indian states, although one of the scopes for GST was to minimize double taxation and the cascading effect. The primary intent of this paper is to ply the readers about how various industries in India are affected by GST, this is shown using the statistical data collected from various states in India and how some of the industries from each state have been shunning in lieu of ameliorating.*

**Keywords:** GST impact, Sates industries impact, Sectors.

**JEL Codes:** F-38, H-21, H-25, H-26.

## 1. INTRODUCTION:

An indirect tax GST is introduced in India on the basis of supply of goods and services. GST is charged at every level in the production process but it's meant to be paid back to all parties in the different stages of production rather than the ultimate consumer.

The first countries to introduce the GST are France in 1954, and since then an approximate of 160 countries have taken up this tax system in some or another form. Some of the countries with a GST include Canada, Vietnam, Australia, Singapore, United Kingdom, Monaco, Spain, Italy, Nigeria, Brazil, South Korea, and India.

Most of the countries with a GST have a single unified GST system, which means that a single tax rate is applied throughout the country. A country with a unified GST platform combines central taxes (e.g. sales tax) with state-level taxes (e.g. entertainment tax) and collects them as one single tax. GST is an Indirect tax imposed in India on the supply of goods and transport. This tax has replaced multiple cascading taxes existing and was launched at midnight on 1st of July, 2017 by the president and the Government of India. There are 3 types of GST.

1. CGST(Central Goods and service tax)
2. SGST(State Goods and service tax)
3. IGST(Integrated Goods and service tax)

## 2. LITERATURE REVIEW:

- **Chaurasia et al. (2016)** Studied, "Role of Goods and Services Tax in the growth of Indian economy" analyzed the issues and finally concluded that GST taken as whole would be helpful for improving the revenue of Indian economy and this will also help in developing Indian economy and increasing the GDP of the country by more than 2%.
- **Sehrawat and Dhanda (2015)** studied, "GST in India: A Key Tax Reform" analyzed and concluded that because of the nascent environment of the Indian economy, it is the highly preferred demand of time to introduce GST.
- **Pinki et al. (2014)** studied, "Goods and Service Tax Panacea For Indirect Tax System in India" analyzed and concluded that the new formed NDA government in India is highly positively inclined towards the introduction of GST and it is advantageous for state government, central government as well as for consumers in long run if it's enactment supported by strong IT infrastructure.
- **Kumar (2014)** studied, "Goods and Service Tax - A way forward" analyzed and concluded that after the introduction of GST in India multiple cascading taxes will be eliminated and there will be only one tax. GST is anticipated to revitalize unbiased tax structure.
- **Anushuya and Narwal (2014)** studied, "Application of CGE Modals In GST" analyzed and concluded that both GST & CGE are famous all over the globe but GST is a robust concept in the kind of all the indirect taxes.

## 3. OBJECTIVES OF THE STUDY:

- To study the effects of the GST tax regime on various industries in south India.
- To study the most affected sector because of the GST regime across various industries in India

#### 4. HYPOTHESES OF THE RESEARCH:

**HO:** There is no effect of the GST regime on various industries in India

**H1:** There is an effect of the GST regime on various industries in India

**HO:** There is no most affected sector because of the GST regime across various Industries in India

**H1:** There is the most affected sector because of the GST regime across various Industries in India.

The present study has been emphasized on the GST impact on various sectors in India. The following states were considered in the study.

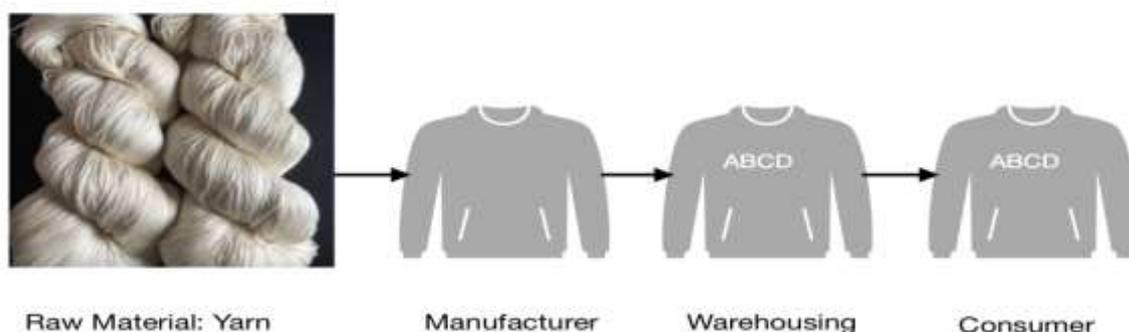
1. Kerala
2. Tamilnadu
3. Telangana
4. Andhra pradesh
5. Karnataka
6. Goa

#### 5. ANALYSIS:

The data is collected through secondary sources from the internet, newspapers, and magazines.

##### The negative impact of GST:

- **Dual Control** - GST is told to be a single taxation system whereas it is a dual tax in reality. Because both the State government and Centre government will fetch separate tax on a single transaction of sale and single transaction of service.
- **Incumbent increase in the cost of some commodities** – The tax levied on different products got increased which will increase the price of the product ultimately.
- **Some sectors are at a loss** - Sectors like Textile, Tobacco, Fishing industries are under the impact of a higher tax. Also, the price of products has increased - like jewellery, phones.
- **Real Estate market affected** – Economists are already under the thought that newly introduced GST has bought Real Estates markets down. It summed up to 8% to the cost of newly constructed homes and gradually decrease demand to 12%.



##### Model of Cascading Effects of Tax before GST.

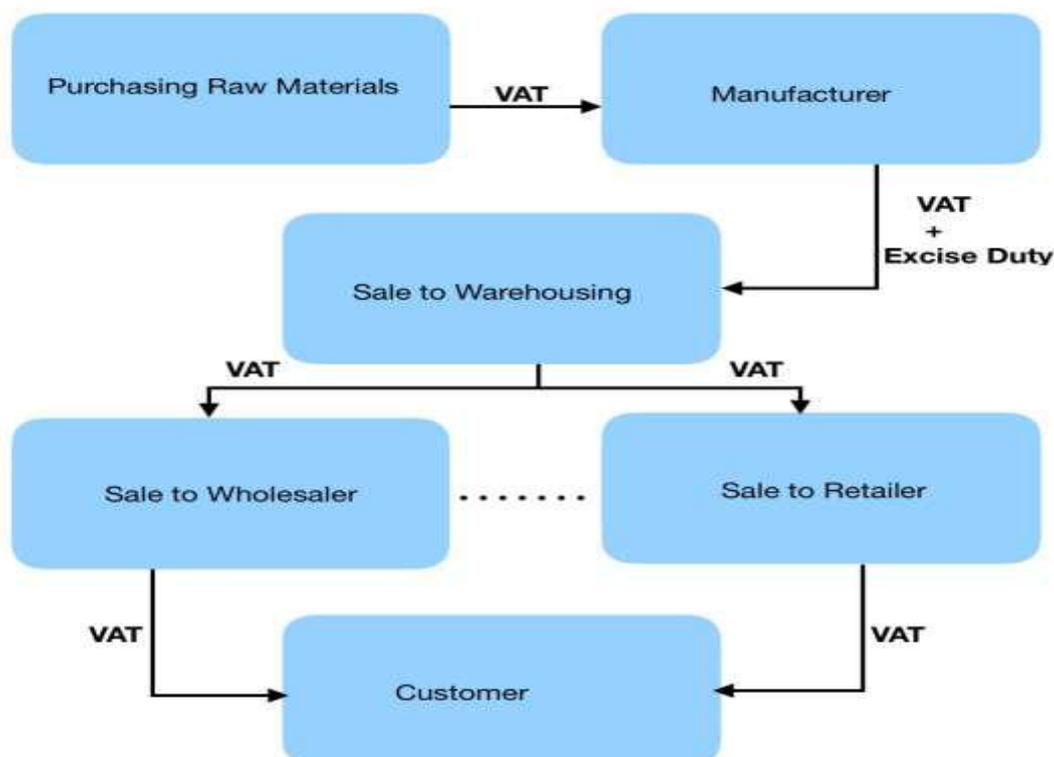
#### STATES WISE ANALYSIS:

##### • KERALA:

The introduction of GST has left the fisheries sector in dire straits, pushing up input costs and bringing down the margins. With a 600 km coast, the fisheries sector provides livelihood to over 14 million in the state, directly or indirectly.

##### Pre and post introduction of GST in fishing industries

COMMODITY	VAT	GST
Fishing hooks	0%	12%
Fishing rods	0%	12%
Fishing ropes	0%	18%
Fishing tackles	0%	12%
Fishing twins	0%	12%
Fishing vessels	5%	5%
Outboard motors	14.5%	28%
Ice boxes	14.5%	18%



**INTERPRETATION:**

“This tax burden has come like a bolt from the blue”, says T.Peter, Secretary, National Fish workers forum (NFF). “It is unaffordable, coming as it does at a time when dwindling returns from the industry are forcing desperate fisherman to seek other livelihood mean”. [Joseph Xavier kalappurackal, General Secretary, all Kerala fishing boat owner association Said ”In absence of any collateral, banks are unwilling to help the fishing community. This has forced a majority of fishermen to fall back on private lenders for conducting business. The government’s promise to extend sufficient credit for construction of boaters and infrastructure remains unmet.

"Another sector being affected is rubber, as per the T&C of e-tender state farming corporation, the contractor should cut and remove the trees from an estate. Further, no other trees or fuel wood the contract of supply, growing crops is rubber trees are agreed to be severed before supply and hence comes under the definition of ‘goods’. Thus, standing rubber trees longer remains as such therefore it can be treated as ‘wood in the rough form’. GST on natural rubber - 5%, latex rubber thread - 12%, synthetic rubber- 18%. Rubber is softwood and can't be used for construction purpose. so the govt has to exempt the rubber trees/wood from the purview of tax” said by one of the applicants".

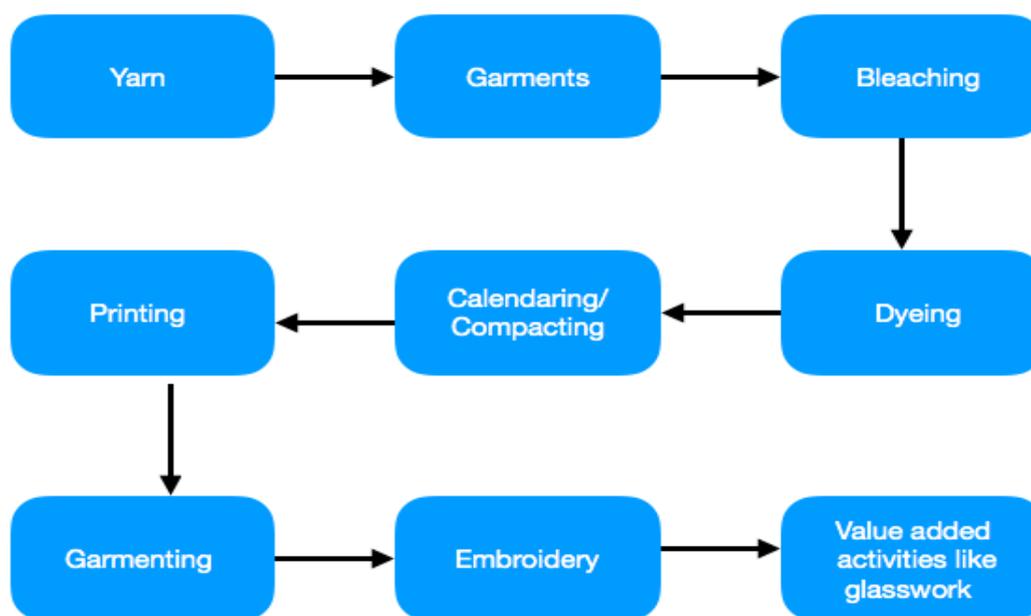
• **TAMIL NADU:**

Micro and small scale pump and spare parts manufacturers in the city have stalled production temporarily as they are unable to meet expenses after GST was implemented. The tax on a motor pump set is 12% while the tax on parts is 18% or 28%. Kovai power Driven motor pumps and spare parts manufacturer’s association (KOPMA) president K.Maniraj said “The industry does an average business of Rs 50 crore a day. But, since June 15, it has come down by

70%.” The association is making attempts to bring a uniform tax rate for all spare parts and pumps.”Earlier we had to pay only 5%. Now we have to pay 12%. Another issue is unacceptability for billing.”300-1000 people don’t want bills” said Maniraj. If spare parts were sold without issuing bills, they are scared of being caught while auditing. Tirupur, a textile hub in southern Tamil Nadu, disturbed about the fact that 18% GST rate fixed for different stages in the production chain.

Tirupur textiles earn Rs 50,000 crore worth every year, including the exports based revenue. This industry employs over 10 Lakh people. Raja M Shanmugham, president, Tirupur Exporters Association, said that over 80% of the units in the Tirupur cluster jobs depend on carrying out different stages of textile production. The product is moved from one level of processing to the at least 5 to 7 times before getting for domestic sales or packed for shipments. In almost every stage of the sale, 18 percent GST will be applied. The worry is about the micro and small units, which was never under any taxes, "T R Vijaya Kumar, managing director, CBC Fashions (Asia) Pvt Ltd explained.

#### Various stages of garment manufacturing



Tamil Nadu’s textile cluster, which includes Tirupur, Erode, Salem, Namakwa, Karur and Coimbatore, is upset over the (GST) rates applied on textile manufacturing industries, including workers, who were exempted from any kind of tax. Tamil Nadu accounts for about one-third of the textile-based business in the country. The power loom sector in Tamil Nadu has an employee of around 914,000 workers, and there are around 1,800 spinning mills and textiles based industries located in the state.

The Southern India Mills Association had exhibited the disappointment to the center for not considering its demand to reduce the GST rate on man-made fiber to 18% and on blended spun yarn to 12%. The textile industry in Erode on "July 5 to six days strike(July 11) demanding abolition of GST on textile goods. About Rs 30 crore worth business would be affected in a day due to the strike” said R.Ravichandan, Erode Handloom cloth merchants’ association president.

#### • TELANGANA

Under GST, 5% is levied on readymade garments priced under Rs.1000 and 12% on those priced over Rs.1000.This would increase by around 10% in the final price paid by the consumer. To protest against GST going to be levied on fabrics, the textile industry in Telangana downed its shutters on June 27 and called for a bandh, which will go on till 29 June. The cotton sector, which was earlier freed from central taxes and was on VAT at the yarn and fiber stage only, but now for cotton silk it is at a rate of 5%. In excise duty, an apparel maker was never asked to pay the excise up to Rs1.5crore of his turnover. In GST the threshold maintained is Rs20 Lakh. Apparel businesses are mostly run and handled by big businesses. The problem is with yarn & fabric businesses as most of them work for apparel maker.

### Different stages in the textile industry



Implementation of GST has affected the handloom sector of Nalgonda(Pochampally), Mahbubnagar districts mainly in Telangana. The raw materials of handloom products have enjoyed zero taxes before GST and now cotton, silk-5%, jari-5%, dyes used in the manufacturing of clothes-5%. According to Geotagging survey done by authorities concerned to Jogulamba, Gadwal, Wanaparthi and Nagar Kurnool have 4000 weavers' families. Of this, about 30,000 families have their handloom machines. Around 15,000 people are seeking out their livelihood by weaving clothes. Gadwal saree occupies international significance. The families with handloom make around 9,900 sarees every month. Rajoli weavers association president Do the Narayana demanded the union government immediately withdraw the tax from handloom raw material and also which is manufacturing from our products.

#### • ANDHRA PRADESH

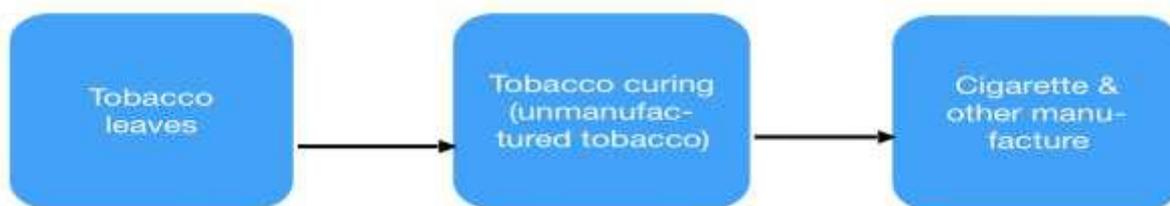
In the Tobacco production, Andhra Pradesh stands on second position and also the second largest exporter with exports of more than \$1 Billion kgs of Tobacco or Tobacco products in the world. over 60% of annual tobacco production approximately 800 million kgs is exported. Tobacco being an agriculture commodity had been exempted from taxes since the former Prime minister, Chaudhary Charan Singh, scrapped excise duty on raw tobacco and unmanufactured tobacco. Guntur, Ongole and Prakasham districts are famous for tobacco leaf and varieties of tobacco mainly FCV as well as Natu tobacco (Non-FCV). The Virginia tobacco trades and farmers in Andhra Pradesh resorted to a day boycott on ongoing auctions on June 12, 2017. Tobacco auctions resumed on June 13, 2017, according to an official of Tobacco Board- He said till date 48 million kg of tobacco had been sold on floors at an average price of RS 140 kg and total expected production in the state is put at 104 million kg against an authorized crop size of 130 million kg. GST council has imposed 5% on tobacco leaves and 28% on unmanufactured(raw) tobacco sold to domestic manufacturers or exporters.

Karatam Reddy Naidu, Honorary President of FAIFA said "Imposing 5% On tobacco leaves is not correct as some of the tobacco crops are used for bidis and other are not brought to the tobacco auction floors or APMCS but are sold in local maids and villages in an unorganized manner." M. Umamaheshwara Rao, president of ITA, appealing to the center and said the industry is already in crisis and this will further aggregate it.

Cigars, Cheroots, cigarillos and cigarettes- 28%

Other manufactured tobacco, homogenized or reconstituted tobacco- 28%

### Different stages involved in cigarette manufacturing



#### • KARNATAKA

As a result of GST, a poll of gloom has descended on channapatna, the toy town on the Bengaluru- Mysore highway. The tax on the wooden inlay works, a product with GI tag, has gone up from 14(including 5.5%) to 28% under GST "inlay products works are rendered on tables and clubbed with furniture. The tax outgo has doubled and sales are done by 70%" said Mr. Ramu, an award-winning inlay work artisan. It is a similar situation with art engaged in wooden carvings which now attract now 18% tax on colorful lacquerware toys and dolls, which went from 5% to 12% has brought down sales and traders are accumulating huge stocks as orders had been canceled. "Toys are gathering dust in warehousing in many artisans is not getting work." said L. Eshwar Raju, who runs Shree toys factory. Increase in tax

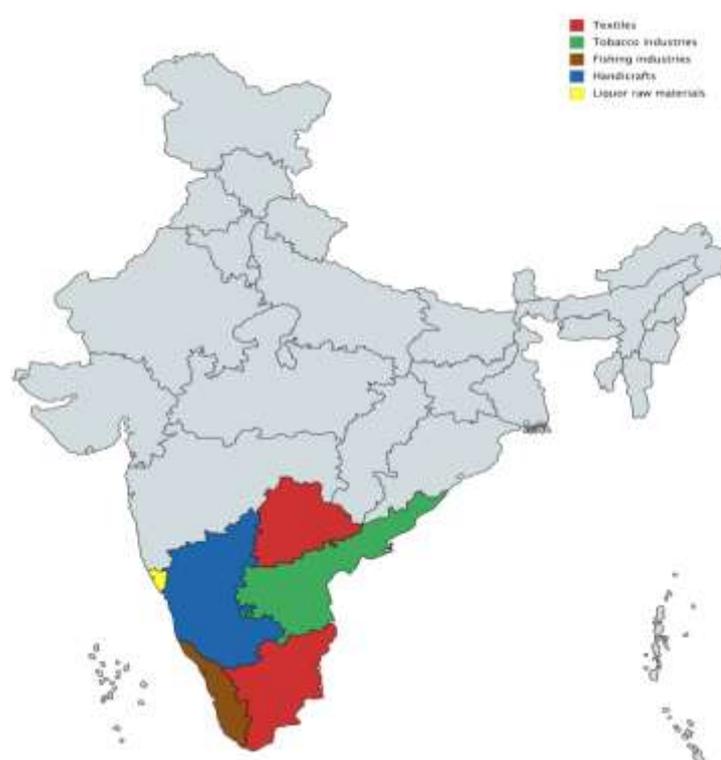
from 5% to 12% on barware, another produce with GI tag had a negative impact on the wholesale. While across-the-counter sales locally have not been improved much since bills are normally not generated, bulk orders from outside Karnataka and online sales have come down as the product cost has increased with the GST. Ilkal says sellers are facing a piquant situation with handling reverse charge mechanism while most weavers from whom they buy saris are in the unorganized sector, sari sellers have to pay 5% GST and then get reimbursement. The state-run Cauvery Handicrafts Emporium, which sells a wide variety of handcrafted products, had a decline in sales by about 17% after GST. Theatre Personality Prasanna, who started a Satyagraha against GST taxation of handmade products is underway in Bengaluru, has been on a hunger strike since October 14.

"The fast is to raise awareness about handmade products and their importance," he said. He urged the center to rescind the GST on all handmade products in the country. He called up strike after five days of fasting. Peenya, Asia's largest industrial estates, which was located on the outskirts of tech city, Bengaluru has undergone various problems post-introduction to GST. Around 12,500 micro, small and medium enterprises are situated there. A job contractor in Peenya, Kempegowda, who runs a business with 1 machine and 1 worker, complains about long credit cycle affecting his business. "I have to pay 18% GST immediately upfront after the sale of the product, but our cycle credit is at least 60-90 days," he says. As his turnover was less than 10 Lakhs earlier he didn't pay any taxes.

#### • GOA

Liquor was excluded from GST and it is placed under VAT. this was done to states to maximize the revenue in times of emergencies and provide flexibilities but it is having a bad effect on the industry, especially in case of Goa. This industry major raw materials include ethyl alcohol, which is levied at 18%, while liquor is levied at 22% VAT, glass bottles and Barley malt are imported from other states and packaging materials such as labels and corrugated boxes are bought locally. In pre-GST, the raw materials were bought under inter-state and were levied at 2% CST, and no ITC(input tax credit) was on them. But the most important fact for liquor producers is that on the final product there is no input tax credited on them, as it is not under the GST. So, there is an effect of double taxation, on the raw materials as well as the final product. This will finally increase the production cost. The big producers, who own a large scale of production can take the cost shocks for a longer time, to sustain the market share. This may drive away the small producers from the market. ex: -a bottle of MRP of 90(750ml) the charge is Ra 20 a litre. when the MRP rises above Rs 90 up to Rs 175, duty is Rs 60 a litre. This will down to incredibly high prices, finally hitting the consumers hard. This will lead to two problems mainly. The consumption of alcohol which is addictive in nature will not bother the consumers even if it is sold at higher prices. so money is moved from major needs to alcohol and especially for the families with low income. Higher tax proportionate to higher revenue, but it increases the illegal liquor consumption and establishes a black market.

#### Diagrammatic presentation:



## **6. CONCLUSION:**

The Narendra Modi government launched GST over a year ago which is India's new tax reform, aimed to replace multiple cascading federal and state taxes and to unite the recline economy. The tax increased the economic efficiency but critics reported that the complex levels of the new taxation have thrown many of the small and medium scale enterprises out of business and driven hundreds and thousands out of jobs and it is clearly shown in paper how South Indian states are adversely affected due to introduction of GST like For Prime Minister Narendra Modi, the negative outcome of the GST, especially the loss of jobs, could prove results in state elections this. In this paper, it is clearly seen that many of the small scale industries like textiles, fishing industries, handicrafts, etc were into loses after the introduction of the GST.

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