Ruinous Effects of GST on North, East and Western States of India

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Abstract: *The introduction of GST has a substantial benefit in the field of taxation in India, but also various sectors are having an unpropitious effect in individual 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 the north, east and western states of India are effected by GST, this is shown using the data collected from various states in India and how some of the industries from each state have been shun in lieu of ameliorating.*

Keywords: *GST impact, Sates industries impact, Sectors.*
JEL Codes: *F-38, H-21, H-25, H-26.*

1. INTRODUCTION:

Goods and Services Tax is an indirect tax levied in India on the supply of goods and services. GST is levied at every step in the production process, but is indicated to be refunded to all parties in the diverse stages of production other than the final consumer.

The first country to implement the GST in 1954 was France, and since then an estimate of 160 countries has adopted this tax system in some form or another. Some of the countries with a GST include Canada, Vietnam, Australia, Singapore, United Kingdom, Monaco, Spain, Italy, Nigeria, Brazil, South Korea, and India.

Most countries with a GST have only one integrated GST system, which means that a single tax rate is applied throughout the country. A country with an integrated GST platform merges central taxes (e.g. sales tax, excise duty tax, and service tax) with state-level taxes (e.g. entertainment tax, entry tax, transfer tax, sin tax, and luxury tax) and collects them as one whole tax. These countries tax virtually everything at a single rate.

This tax replaced existing diverse cascading taxes levied by the central and state government. The GST was launched at midnight on 1st of July, 2017 by the president and the Government of India. Transactions made within a single state are levied with central GST (CGST) by the central government and state GST (SGST) by the state government. For inter-state transactions and imported goods or services, an integrated GST (IGST) is levied by central government currently there are 160 countries in total who have implemented GST

2. LITERATURE REVIEW:

- **Chaurasia et al. (2016)** Studied, "Role of Goods and Services Tax in the growth of Indian economy" and concluded that an overall GST will be helpful for the development of Indian economy and also in improving the Gross Domestic Products of the country more than two percent.
- **Sehrawat and Dhanda (2015)** studied, "GST in India: A Key Tax Reform" and concluded that due to dissident environment of India economy, it is demand of time to Implement GST.
- **Pinki et al. (2014)** studied, "Goods and Service Tax Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in the long run if its implementation is backed by strong IT infrastructure.
- **Kumar (2014)** studied, "Goods and Service Tax - A way forward" and concluded that after implementation of GST in India many indirect tax system will be finished and there will be a single tax i.e. GST which is expected to encourage unbiased tax structure.
- **Anushuya and Narwal (2014)** studied, "Application of CGE Modals In GST" and concluded that both GST & CGE are very popular all over the world but GST is a powerful concept in the field of indirect taxes

3. OBJECTIVES OF THE STUDY:

- To study effects of GST regime on various industries in 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 GST regime on various industries in India
H1: There is effect of 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 most affected sector because of the GST regime across various Industries in India

5. SCOPE OF THE STUDY:

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

- Gujarat
- Chhattisgarh
- Madhya pradesh
- Tripura
- Sikkim
- Assam
- Manipur
- Rajasthan
- Himachal Pradesh
- Punjab
- New Delhi
- Uttarakhand
- Haryana
- Jammu & Kashmir
- Meghalaya
- West Bengal

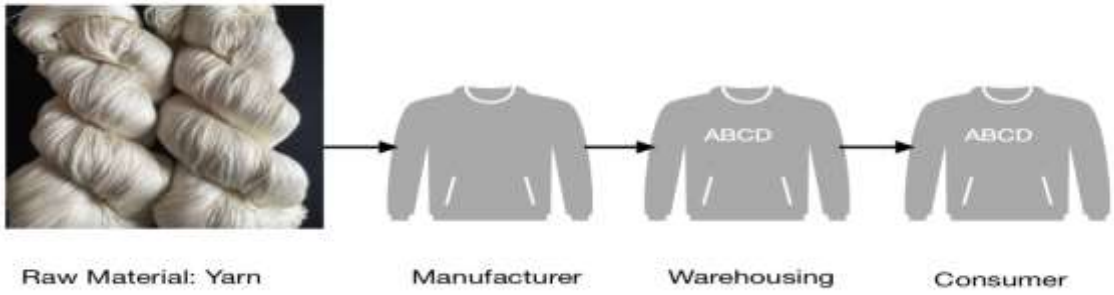
6. ANALYSIS:

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

Negative impact of GST:

- **Dual Control -** Separate tax will be collected by both the state and central on a single transaction of sale and service. Hence, GST cannot be referred to as a single taxation system, but is a dual tax.
- **Incumbent increase of the cost of some commodities -** The tax rate has been increased for many products, thus increasing the costs.
- **Some sectors are at a loss -** Sectors like Textile, Dairy Product, Media, Pharma, IT and Telecom are bearing the burden of a higher tax. Also the price of commodities has increased - like jewellery, mobile phones and credit cards.
- **Real Estate market affected -** GST in India has already had a negative impact on the Real Estate market say the economists. It has added up to 8% to the cost of. New homes and reduce demand by about 12%.

Model of Cascading Effects of Tax before GST:



Model of Cascading Effects of Tax before GST.

STATE WISE ANALYSI:

- **GUJARAT:**

GST slows down Surat's textile trade before GST daily production was 4 crore metres, but currently daily production is reduced to 2.5 crores metres. 6 lakh looms in the city now down by 1lakh in past year 85,000 embroidery machines down from 1.25 lakh a year ago 65,000 number of traders in surat, half of whom have registered losses in the past year Before GST – textile traders in gujarat's. A second largest city came out to the streets. The 5% tax slab included fabric, and surat is a hub of fabric, though yarn- thye raw materials was covered by VAT. For 18 days, the city's textile industry with 65,000 wholesalers spread across 150 markets, stopped work Seurat was the only city to see such fierce opposition to the GST.

- **CHHATTISGARH:**

Weddings in Chhattisgarh have been affected by GST! People there got to pay 12% GST on the total expenses on luxury weddings which are above the bracket of 6 lakh Though GST on clothes reduced from 7% to 5%, this made the costly clothes costlier since the tax rate on costly clothing is 12%.

- **MADHYA PRADESH:**

Wholesale markets are at a great loss due to lack of customers, affected by GST. Also the wholesale markets could not abreast with the new taking regime. . Madhya Pradesh is the biggest producer of pulses. Most of the pulses which are under the 5% levies under GST are high in purchase; hence the sale of branded pulses has decreased.

- **TRIPURA:**

Tripura's forest resources include bamboo, medicinal herbs and wood, which are being exploited for setting up of forest-based industries. Surplus power is a big plus for businesses, especially food processing. With the increase in GST on production of products from raw materials like bamboo, cane and wood, the sellers have a great loss in business and are cumbersome.

- **5. MEGHALAYA:**

An year ago in Meghalaya, the increase in the cost of the basic commodities became problematic to people. The increase in the price of commodities was not only due to the floods but also due to the emerging of Goods and Service tax. People seem to be disappointed due to the rise in price before there was no tax on handicrafts made from bamboo, cane and wood but now there is 5% GST on all such.

- **WEST BENGAL:**

The owners of sweetshops in Bengal claim that 5% GST on sweets is a burden for them. As the sweetshops (most of them) come under the unorganized sectors, most shops do not have the infrastructure to deal with the complexity of GST. The government has not imposed tax on basic raw materials such as paneer, milk, etc but these items after usage in sweets, they have to pay GST.

- **SIKKIM:**

The main sectors of Sikkim are Tourism, Agriculture and Horticulture. Luxury tax was applicable to all kinds of rooms but after GST, rooms with rental up to Rs.2000, no tax. Lottery ticket by Playing increased by 28%, before GST it was Rs.10 and now it's Rs.13. Sikkim runs the biggest lottery company in India, Playwin. Train fare increased

from 4.5% to 5% after GST.

- **ASSAM:**

Assam's famous cane and bamboo handicrafts industry has been affected by GST, the sales shoe a decrease of almost 50%. Due to high tax rates the sales are down while the payments are delayed. Before the implementation of GST the monthly earnings in the pre-Goods and Services Tax period was Rs.30 lakhs but now it has decreased immensely to Rs.12 lakhs. This is putting the skills and entrepreneurship in the industry to death.

As the raw materials are expensive already, in addition to GST it became a new problem to the people, so the result was most of them stopped registering for GST and chance declined their business. Many people in the handicraft business are suffering due to GST like Sankar Das, who lives in Guwahati, is putting a strenuous effort to keep his traditional craft work alive. Handicrafts business in Assam has became cumbersome due high tax rates. As the range of finished products increased from the bracket of 12% to 28%, the number of buyers decreased variously.

- **MANIPUR:**

Manipur is famous for handlooms and handicraft items. Most of the traditionally manufactured products/goods are hardly listed by the government of Manipur. High tax rates on raw materials required and the machines is not very encouraging for this sector. Although the tax that has to be paid at the borders while importing from various states is reduced to one tax, which benefits the government, small out of organised sectors such as saloons, carpenters, etc result in huge loss of revenue.

- **RAJASTHAN:**

In Kishangarh and Makrana sector there are over 2,000 minor and major marble processing units in distress of losing business after GST has been introduced. The GST on marble has risen up to 28% from the present tax incidence of 5%. "The effect would be colossal. Over 70,000 people directly and many indirectly — like-transporters, small and bulk traders — are associated with the marble business and will have to bear the brunt of this".

Sources from the industry say, these issues has been raised before the government and NITI Ayog officials to keep the tax rate modest on marble products to save this core industry in the state.

"Till now, the value added Tax (VAT) was 5% but an over fivefold rise in tax (28%) will make prices of marble exorbitantly high".

"Let me explain if someone buys marble worth ₹1 lakh, he pays ₹5,000 as tax. After GST, he will now have to pay ₹28,000 as tax for the same amount of marble purchased".

[www.hindustantimes.com]

- But according to the latest GST rate on marble and granite :
- All goods of marble & granite
- GST rate before 10th November, 2017- 28%
- Revised rate of GST w.e.f 10.11.2017- 18%
- Very recently updated result shows that it has been reduced from 18% to 5% (marblerubble- Jan 1, 2019).

- **HIMACHAL PRADESH:**

The state of Himachal Pradesh is going to the polls on November 9, 2017. It has, for the last two decades, voted in order to defeat every incumbent government. Whether the same pattern will continue is not certain with no undercurrents of a wave witnessed for or against any party. There are a large number of issues which dominate the present spectrum, including development, employment and governance issues related to the Centre — such as Goods and Services Tax (GST) and the demonetization quagmire; the former has adversely affected tourism, and hence sustenance and development in the state.

Tourism is considered the mainstay for a large number of locals employed directly and otherwise in this major sector in Himachal. No big surprise there as there are more than 20 million tourists, 250 per cent more people than the state's population, visiting Himachal throughout the year.

More than 1.5 million foreign tourists too throng the state in different seasons.

There is a popular belief in the region that tourism flourishes here by default owing to its failure in neighbouring states. But the introduction of GST has created fear in the tourism industry. Though conclusive data to prove that the tax reform has dissuaded tourists from visiting the state is not available at the moment, leaders in the industry are feeling the pinch.

Every year, more than 40 lakh tourists visit a small city like Shimla with a population of just 2,00,000. Industry owners have complained about the utter confusion and chaos that persists with the introduction of the GST.

A look at the list of tourist destinations across the world and the tax that is collected from the travellers would prove how erroneous it is to have an exorbitant 28 per cent GST on tourism in the state.

Country name Tourism tax in percentage

01. Belgium 6%
02. France 5.5%
03. Israel 0%
04. Portugal 5%
05. Spain 7%
06. Switzerland 3.6%
07. Indonesia 10%
08. Malaysia 10%
09. Philippines 12%
10. Singapore 7%
11. Thailand 7%
12. Vietnam 10%
13. Cambodia 12%
14. Laos 10%
15. Brunei 0%

The memorandum submitted by the Hotel and Restaurants association of North India has categorically demanded a rollback of the tax. It is interesting to note tourism's sizeable contribution towards the state's GDP. Its share is more than 7.5 per cent. It is a source of sustenance for a large section of the Himachali society. Officially recognised hotels have a capacity of 1,000 beds and home stays, running unrecognised, can claim an equal number in terms of occupancy. This in itself shows the ambit of tourism in the state.

The memorandum from the hotel industry further highlights the need for a favourable tax structure for the industry. It should encourage the FTAs as well as the meetings, incentives, conferencing, exhibitions (MICE) segment to come to India, thereby contributing to India's foreign kitty. In the study conducted by the Association for Economic Co-operation (OECD) on the impact of taxes on the competitiveness of tourism, it was highlighted that most nations recognise that tourism is a critical economic driver. European countries have fostered the growth of tourism by keeping taxes in the sector to a minimum, as evident from the above table.

It is extremely detrimental for employment in the city as the hotel and restaurants industry in Shimla directly employs more than 20,000 people.

GST remains a heavily criticised reform and hence the mood of the electorate seems unfavourable for the BJP. The party, however, has tried to brush it aside by presenting it as a case of Congress and BJP's joint efforts. How it will affect the prospects of candidates only time will tell. But there is a strong undercurrent of anger against the advocates of GST in the tourism industry.

- **PUNJAB:**

➢ Mainly affected sector in Punjab is plywood manufacturing units in the city of Ludhiana located on the fringes of Ludhiana city in Hambran, small plywood manufacturing unit.This unit had a workforce of 110 which had been reduced to 70. The one's possessed of do not have much work either. Since the time of introduction of goods and services tax (GST), there has been a total of 60% fall in the demand for plywood, with the tax rate of 28% on furniture goods.

➢ Farmers in such states then began replacing paddy and wheat crops with poplar and eucalyptus trees in vast areas of agricultural land. In 1996, the Supreme Court imposed a ban on cutting of forest wood. Parminder Singh, a 33 year old farmer in Walipur Kalan village who has been growing poplar for the last 20 years, says, "Now, nobody is ready to pay a single penny beyond Rs 5.5 lakh for poplar trees that were grown at a cost of Rs 8 lakh. Now I am in a fix whether I should cut the trees this year or not." It takes around four to five years for one crop to ripen.

➢ One of the common household articles being purchased by many is Furniture. On the account of a high tax rate, the price is expected to rise up to 25%, thereby pushing this basic household fundamentals beyond the common man's reach. Around 200 manufacturing units (around 10%) of the total 3,200 are involved in manufacturing luxury plywood articles while the rest fall in the micro, small and medium enterprises' ambit." -- *Baldev Singh, vice president of All India Plywood Manufacturers Association*

➢ Over 500 plywood manufacturers in the state are on the verge of closure of shops because of sudden increase in tax under GST rollout. The manufacturers who had been observing shutdown from July 14 to 17,2017 complained that under GST, they have been forced to pay 28% tax while earlier they had to pay just 14.5% VAT to the state government.

While excise duty of 12.5% was also applicable like any other industry, it never translated into reality in plywood business as all the industries below Rs 150 crore of annual turnover were exempted from this tax.Since plywood

manufacturers make less than turnover limit, they never paid excise duty and were paying just 14.5% VAT to state government.

However, their profits got severely dented under GST rollout as the tax took a sharp jump to 28%.since GST doesn't observe any exemption, even plywood manufacturers are not able to avail the tax benefit. Ashok Agarwal, president of Awadh Plywood Manufacturers Association(UP) said, "It was said that GST would abolish all kinds of earlier taxes and single tax system will be observed. But in case of plywood, we have to pay Mandi tax extra(about 5%) to the state government which increase our production cost thereby making us less competitive."

Manjeet Singh Narula, vice president of the association said, "Moreover the increased taxes will also impact livelihood of farmers who were providing raw materials for plywood production. It is ironical that while luxury segment goods just have to pay 18% tax, industries like us which are directly associated with farmers' produce have been burdened to pay huge tax of 28% under GST.

- **NEW DELHI:**

High tax rate, stiff compliance rules have impacted inter-state business in the national capital region, says traders in Kashmera gate. R.K.Chawla, the owner of Sneh traders private limited said "we used to do an annual turnover of about Rs.15 crores but this year, we will be happy to do even Rs.2 crores. Most of his buyers are from the national capital region, including Noida in Uttar Pradesh and Gurgaon in Haryana. Wholesalers and retailers from this areas would place bulk orders with him but the orders are no longer coming because of auto components fall in the highest goods and services tax slab of 28% nobody wants to pay 28% to us because

There cost will rise and how will they sell it to their customers at a cheaper rate if they cannot avail input tax credit." input tax credit is tax deduction companies are allowed because on taxes they have paid while buying inputs to provide goods and service.

A wholesaler in Gurgaon pays 28% tax in Delhi to procure goods worth Rs.1000. it works out to Rs.280 including Rs.140 as central GST and Rs.140 as state GST. Since the supply has been made over the counter in Delhi, the buyer can claim input tax credit on the state GST of Rs.140 only if is registered as goods and service tax trader in Delhi. The auto parts industry says this requirement has resulted in a big drop in sales.

According to R.K.Gupta, president of automotive parts merchants association, sales are down by at least 50% because of tax compliance burden ."there is no buyer in the market, who do we supply to?" he said. "the problem is that compliance burden is so much for the retailers who come from NCR to buy goods from us that they are no longer coming and they choose to buy from wherever they are located without having to bear transportation costs." He added ,"we are not even able to market rent for our shops."

- **UTTARKHAND**

Rudrapur city, in northern Uttarakhand, is intended to loose its status of being a gold refining hub due to the new tax regime which is causing it to loose earlier benefits. With the goods and services tax (GST) in place, all state levies like the sales tax and excise got subsumed in the GST. Some 26 billion or dore gold refineries were set up and they were getting a 0.75% tax benefit in the earlier tax regime.

However, to keep the promise of area-specific tax exemptions, the central government has issued a notification saying it will refund its share of taxes where area-specific exemptions were given earlier. However, this refund will be on value addition after taking into account input credit. And in the case of bullion refining, the benefit is negligible and several units have become unviable.

Uttarkhand has 10,000 jewellers and 3% GST on gold items may hit their business. The prices of gold items are likely to go up by Rs 600 every 10 grams. Therefore the number of buyers may reduce. There are around 26 billion refineries in Rudrapur, and last year, of the 300 tonnes of dore (unrefined gold) refined, two-thirds was refined by these units, according to industrial estimates.

Industrial units set up in several northern and North-East states like Jammu and Kashmir, Uttarakhand, Himachal Pradesh, and Sikkim were exempt from state-level sales tax or the value-added tax, and the central excise duty.

These welfares were offered to attract industries. However, in Uttarakhand, some 26 billion or dore gold refineries were set up and they were getting a 0.75 per cent tax comfort in the earlier tax regime. These units import dore at New Delhi airport and move it to Uttarakhand and send refined gold to consuming centres. They are still able to pay premiums to gold mines in western Africa and South America, from where they procure dore.

The commerce ministry issued a notification dated October 5, saying the central government would refund units in such excise-free zones on value addition. Based on a revenue-sharing formula between the Centre and states, the Centre will refund 58 per cent of its share of the central GST, which is half the GST.

However, in the case of gold refining, value addition is negligible in percentage terms and the refund amount may not be even Rs 500 per tonne.

"Now it is time for the state government to notify the refund of their part of taxes in line with the central government's announcement. Otherwise, Uttarakhand and other such area-based refineries will become unviable and they have to shift the units elsewhere or close down the business," said Rajesh Mehta, executive chairman of Rajesh Exports, which has a 150-tonne capacity bullion refinery in Uttarakhand.

Rajesh Exports was planning to merge this refinery with Valcambi.

The merger would have helped Rajesh Exports refinery to attempt to get LBMA (London Bullion Market Association) accreditation.

Now "we will review our plan if the state doesn't come up with a refund notification".

Another refiner, however, said that "these benefits were offered by the government, and based on that we set up units. Withdrawing benefits midway will be illegal and can be challenged in the court".

- **HARYANA:**

Many of them loose their as economy grows in Paniput. Tilak Raj Bathla's tiny weaving factory is one of the few still humming on a once busy road in Panipat, known as the country's "textile city".

Dozens of workshops are locked from outside, while dogs and cows roam through other banned factories. Dealers of scarp enquire about of idle power-looms. Bathla says his neighbours, could not comply with monthly online filings required under the GST regime. Hiring some of the customers and accountants to steer a system which has been altered number of times already, while others fought to cope with delayed tax returns caused by flaws in the centralised software.

The government has said it is launching a simplified tax measure to provide everyone. Finance ministry spokesman D.S. Malik said he has considered the requests from small businesses, time to time. But he neglected the loss of jobs.

India's economy increased from 5.6% to 8.2% within a period of time. Economists said the number was coming from those companies who held off the productions an year ago before the month of July, implementation of GST. A survey by the AITUC in July found that a fifth of India's 63 million small-scale businesses – bestow 32% to the economy and employing 111 million people – faced a 20% loss since the GST levy, and had to sink thousands of workers. More than 50 workers and factory owners Reuters spoke with in Panipat, about 90 km north of New Delhi, said over a third of the city's 10,000 weaving units had closed or curbed production.

Chand Multani, president of the Panipat Handloom Owners' Association, pointed to the tax headaches behind a bed-sheet that costs barely $2 dollar as an example.

The manufacturing of the sheet, its dyeing, ironing, embroidering and packaging are all done by different business units. GST has to paid at every stage of production in the new system which can be claimed, provided they have registered with tax authorities and have a GST number.

This is a lot of work for many businessmen."GST has proved a death warrant for us," Ravinder Kashyap, 22, who lost his job as a power-loom operator earlier this year, said in Panipat. He said his employer had lost sales orders because of the mess caused by the tax and so had let him off along with scores of others. "If this carries on for one or two years, we'll have to commit suicide."

- **JAMMU AND KASHMIR:**

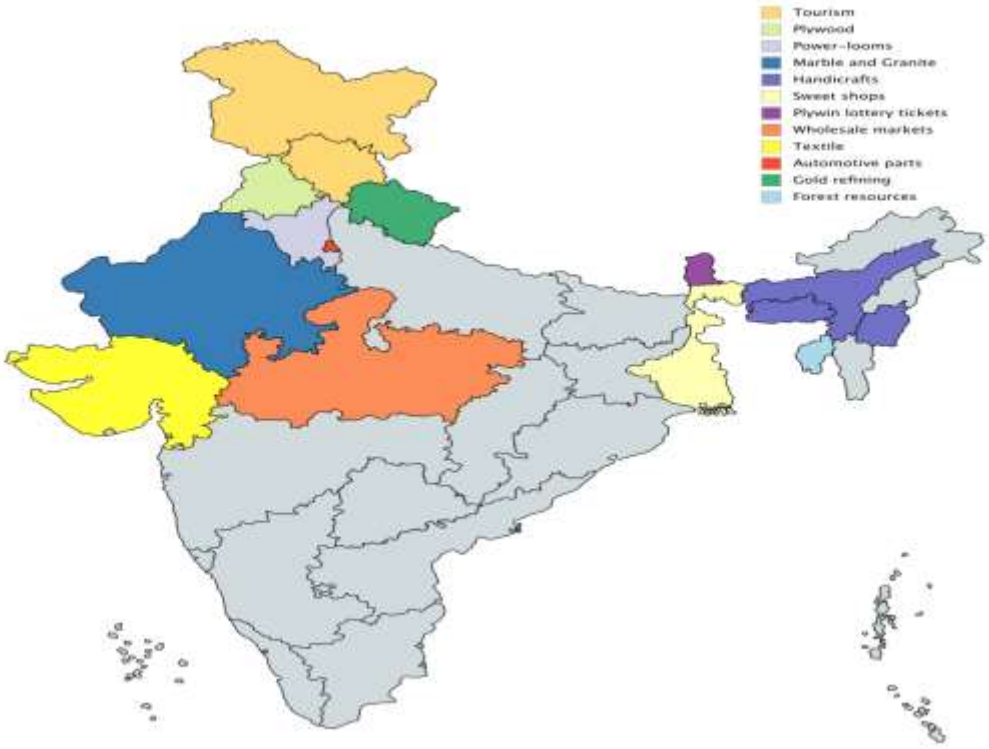
GST having "negative" effect on tourism in J&K: parliament Panel . The implementation of GST on tourism will have manifold effects, mostly negative on its economy. Even though J&K is profited by a net gain of Rs.1580 crores in the revenue to the government due to GST, it also has major effect on tourism in J&K. a parliamentary panel has noted, adding the centre should reconsider the indirect tax regime on tourism related activities in the northern state. The business owners of small scale hotel's bed, breakfast and home stays cannot list their properties on various trace intermediary websites as there is a levy of 18% of GST, which cuts across the profit they make, making their venture "unsustainable". The panel also recommended that the tourism Ministry organise its own publicity campaign in order to remove the negative impression of the state which is based on incorrect facts.

7. CONCLUSION:

- Though GST has been well portrayed as beneficial tax regime, yet there are many complications so as to gain benefits.
- Many states throughout India have been affected in diverse sectors which mainly caused cumbersome within small-scale industries.
- The government should motivate food processing development and also produce and market processed food items which can help farmers, instead of taxing at a higher bracket of 18%.
- GST is consumer tax and hence the dispensable income of buyer will go down.
- Either the industry, business including government departments or service sectors, all the sectors of economy shall have to take upon the burden of GST. All sections of economy viz., big, medium, small scale units,

intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected

Diagrammatic presentation:



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