



## Impact of GST on key sectors in India

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### Abstract

In the past two years, the Government has been focusing on various sectors that contribute vitally to India's GDP. While addressing the concerns of some key sectors, the Government has tried to meet industry's expectations and at the same time safeguard its revenue. This paper deals with the impact of changes under GST focus on some key sectors like, real estate sector, solar industry, automobile sector and hospitality and tourism sector in India.

**Keywords:** key sectors, transformation, GDP, pivotal sectors

### Introduction

The goods and services tax (GST) has completed two years of operation. In the past two years, the GST regime has undergone significant transformation. The goods and service tax (GST) which was launched two years ago, has stabilized quicker than expected and its benefits will accrue to the economy in the years to come.

The GST journey has been nothing short of a roller coaster ride. The Government has been working proactively since its implementation to remove ambiguities and provide necessary clarifications on sector specific issues and most importantly reduce the tax rates of goods and services in order to make the Indian market competitive in the global arena.

### Review of Literature

Sandip Somany (2019) <sup>[1]</sup> said that, "There is a need to highlighted some of the key sectors that the Government should consider in the third year of GST implementation and need to take next level of reforms in the GST framework to enhance the ease of doing the business in India in true sense".

Ramya N. Sivasakthi (2017) <sup>[2]</sup> stated that, "All the sectors of the economy, whether the industry, business including government departments and service sectors shall have to bear the impact of GST".

### Methodology

This study is descriptive and uses the exploratory technique. The data for the study was collected from secondary sources such as magazine, journals, articles published online and offline and Review reports on GST.

### Scope of the Study

The real estate sector, solar power, automobile sector and the hospitality and tourism industry are the key drivers of growth and pivotal sectors of the Indian economy and all these sectors contributes 6-8% to India's Gross Domestic Product (GDP) and

Also plays a vital role in terms of employment generation in India. The Impact of these sectors cannot be fully assessed as it largely depends on tax rates. However, these sectors get substantial benefits from GST implementation. With multiple taxes applicable previously like service tax and VAT, with the GST coming into the picture, the indirect taxation in these sectors is wholly revamped.

### Objectives of the Study

1. To study the changes happened on key sectors before and after GST implementation
2. To analyze the effect of GST on key focus sectors in India

### Real Estate Sector



**Fig 1**

The real estate industry is one of the most important pillars of the Indian economy. The industry which was bogged down with sluggish growth, heaved a sigh of relief when the GST Council reduced GST rates on output supplies. Under the new scheme of taxation for the sector, developers have the option to pay GST at the rate of 1% on affordable housing properties and 5% on other residential properties.



**Fig 2**

A residential house or flat with a carpet area of up to 90 sqm in non-metropolitan cities and towns and 60 sqm in metropolitan cities with a value of up to INR Rs. 45 lakh (metropolitan and non-metropolitan cities) has been categorized as affordable housing. The metropolitan cities are Bengaluru, Chennai, Delhi NCR (Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon and Faridabad), Hyderabad, Kolkata and Mumbai (the whole of MMR).

**The reduced GST rates have been made applicable effective 1 April 2019, subject to the following conditions –**

1. A builder will not be eligible to claim input tax credit, a proportionate credit reduction is
2. Required for under construction properties as on the date of transition to the new scheme. Builders will have to purchase 80% of input and input services from registered persons. If procurement of input and input services falls short of 80% of the total procurements, the builder will be liable to discharge GST on such shortfall under the reverse charge mechanism.

The GST rate on the reverse charge liability will be (a) at the rate of 28% on cement, (b) at applicable rates on capital goods and (c) at the rate of 18% on other procurements. While the intent of the Government to reduce the tax rate is appreciated by the sector, execution of this intent at the ground level involves proportionate reversal of Input Tax credit, the need for procurement of 80% of input and input services from registered persons and liability to pay GST under reverse charge mechanism in the event of failure to meet the 80% criteria is going to be a challenging task.

In the real estate industry, it is a common practice for landowners and developers to come together for the development of a property. In such cases, the landowner's contribution is his or her land and the developer uses its expertise to construct or develop a project. The development rights are transferred by the landowner to the developer for construction of the property. To acquire development rights, the developer pays the landowner either in cash or transfers to him or her some of the units constructed under the project. Such arrangements may be executed by way of Transfer of Development Right (TDR) by the landowner to the developer or through a Joint Development Agreements (JDA).

According to the notification issued by the Government, GST is not payable on services by way of TDR for residential projects

Commencing after 1 April 2019, where consideration has been received prior to issuance of completion certificate or before the date of first occupation, whichever is earlier. In the case of a project comprising of both residential and commercial apartments, exemption is to be computed on a pro-rata basis on the carpet area of the residential apartments.

This exemption is not available for an apartment that remains un-booked on the date the completion certificate is issued or before the date of first occupation, whichever is earlier. In this case, GST is payable by the promoter under the reverse charge mechanism and the time of supply is the date of issuance of the completion certificate or date of first occupation, whichever is earlier.

**Solar Industry**



**Fig 3**

Solar power is one of the fast developing industries in India. The country's solar installed capacity reached 28.18 GW on 31 March 2019. Statistics indicate that India has become the lowest cost producer of solar power in the world. The Indian Government had an initial target of 20 GW capacities for 2022, which was achieved four years ahead of schedule. In 2015, the target was raised to 100 GW of solar capacity (including 40 GW from rooftop solar systems) by 2022, targeting an investment of US\$100 billion.

The Government has taken various measures to promote green energy and has implemented various policies and regulations to boost generate solar power in the country. At this stage, the industry expects tax regulations to be favourable and contribute to its growth. Under the GST regime, the solar power sector is beleaguered with different tax rates. This has resulted in an inverted duty structure, which is coupled with unclear and complicated tax GST rate of 5% applies on specified devices and equipment used to set provisions.

The solar power plants such as solar photovoltaic (PV) modules, solar heaters and other solar power-based devices such as solar cells and solar panels that account for 55%-60% of the overall project cost. Components such as module mounting structures, cables, inverters, batteries, and transformers are charged a higher GST rate. Compared to the tax structure under the GST regime, the effective duty incidence under the erstwhile tax regime was approximately 2% to 3%. This was largely due to exemptions available to solar power-generating systems, solar PV modules and other solar energy devices in various states.

## Auto and Auto Ancillary Sector



Fig 4

Automobile sector in India is growing fast and the growth pattern seems to have a clear correlation with the reforms related policies those influenced both domestic demand pattern as well as trade. India is global major in the two wheeler industry producing motor cycles, scooters and mopeds principally of engine capacities below 200cc. The two wheeler industry in India has grown at a compounded annual growth rate of more than 15% during the last five years and Indian two wheelers comply with some of the most stringent emission and fuel efficiency standards world-wide.



Fig 5

In India two wheelers is the second largest producer in the world and the world's number one producer is located in India. India is the largest tractor manufacturer, the fifth largest commercial vehicle manufacturer and the thirteenth largest producer of passenger cars in the world. The Auto industry currently employs more than 30 million people both directly and indirectly. The auto industry is a key employment generator in the OEM factory that manufactures the vehicles, in the inbound auto component and logistics industry that makes and delivers components & systems and the out bound logistics and dealer network that sells, maintains and distributes the cars.

Every vehicle produced, generates secondary and tertiary employment. The industry generates employment of 13 persons for each truck, 6 persons for each car and four persons for each three wheeler and one person for two wheelers. It is important to appreciate the sector's multiplier effect on economic activity. If

the industry produces as per its potential, it could generate employment of over 35 million people by 2020.

The automotive sector contributes more than 7% to India's GDP currently. Under the Automotive Mission Plan 2026, the Government aims to propel the Indian automotive industry to a position that ranks among the top three in the world in engineering, manufacture and exports of vehicles and components, growing in value to over 12% of India's GDP.

In the Union Budget 2019, the Government has laid special impetus on the use of clean energy and provision of affordable and environment-friendly public transportation options for the common man. The GST Council has sent a proposal to the Fitment Committee for reduction in the GST rate on electric vehicles from the present rate of 12% to 5%. The auto sector comprises Automobile Manufacturers (OEMs), auto ancillaries engaged in supplying components to OEMs, dealers of OEMs involved in sale of final products to end customers and service providers involved in providing after-sales services for vehicles. The auto sector's operations are somewhat complex from the tax angle. Under pre-GST provisions, the sector had a complicated tax structure, with multiple taxes that had diverse provisions, a multiplicity of classifications and rates, the cascading effect of intermediate taxes, valuation-related issues etc.,

### The following are some of the key developments under the GST regime with respect to this sector:

1. A number of taxes have been subsumed into a single GST levy, with uniformity of legal provisions across the states, a common tax base for both components of the GST (CGST and SGST), cascading of taxes being avoided and valuation methods such as MRP- based valuation for spare parts being done away with
2. On the other hand, Road Tax or registration fees have not been subsumed in the GST, despite strong recommendations from the auto industry. This continues to be an extra cost for end consumers.
3. The concessional rate of tax for hybrid cars (other than those that meet the small car criteria) in the earlier tax regime has been withdrawn. Under the GST regime, they are subjected to tax at the rate of 43%, which is a major set-back for this upcoming segment.
4. There is still ambiguity on the tax treatment of post- sale repairs and servicing due to the concept of 'composite supply'
5. The Government, vide a recent circular, has clarified that the additional discount given by a supplier of goods to a dealer is a post-sale incentive where the dealer needs to undertake activities such as special sales drives, advertisement campaigns and exhibitions. Such transactions then become independent ones and the additional discount is the consideration for the dealers undertaking such activities.
6. Another related aspect is the eligibility of credit on cars held for demonstration purposes. The authorities are of the view that credit is not eligible on such cars as these are not sold but are used for advertisement purposes. In a recent ruling, the Kerala AAR held that demo cars are an indispensable tool for sales promotion by providing trial runs to customers and enabling them to understand the features and functions of the vehicles. Therefore, despite there being an outright credit restriction on motor vehicles, cars used by dealers for



4. As India becomes an even bigger player in the global hospitality and tourism industry, there is a need to provide tariffs for such services to be at par with global rates. Our Asian counterparts Japan and Singapore have very low tax rates for their hospitality sector (7 % and 8% respectively). India is a Global tourism hotspot but it loses out on the back-packer crowd due to high tax cost in the sector.

In the third year of GST, the hospitality industry expects the Government to reconsider the GST structure for it to align with global tariffs. It is expected that this will attract many more tourists and enable Indian businesses to compete in the global market.

### **Conclusion**

Both Central and State Governments have taken Industry's concerns into consideration and resolved the same timely, which gives immense confidence to the business fraternity that we are on the right path. The way the GST council and the tax administrators have worked in the last two years, continuously aiming towards bringing simplification, rationalization of rates and broadening the base under the GST regime praiseworthy.

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