Gst & Its Impact On Various Industries

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INTRODUCTION

For the introduction of biggest tax reform in India there is need of some change in the existing Indian laws due to which the 101stConstitutional amendment was introduced and passed by Lok Sabha on 6thMay 2015 in the budget session of the Parliament. The Model GST & IGST Law released on 14th June, 2016 by Empowered Committee of State Finance Minister.GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at the national level. India is moving towards introduction of Goods and Services Tax (GST). GST would be multistage comprehensive Value Added Tax (VAT) encircling both goods and services.GST would be major indirect tax reform in India where both Centre and State Governments will have power to tax goods as well services at every stage of production and distribution of such goods and services. There have been already steps taken by the government in April 2005 by introducing Value Added Tax (VAT) at State level for cleaning up of hidden indirect taxes which has helped in facilitating the expansion of tax base, [2]and also helped in better tax compliance and pushing up the taxes for majority of Indian States. Now, the Government have taken strong steps by introducing GST system which will further clean up the indirect tax system by reducing cascading of taxes and facilitating nation-wide market for goods and services. Under GST, it is expected that harmonization of indirect tax structure (tax rates and tax base across States), concurrent taxation power of Centre and States on consumption of goods and services and joint monitoring of same taxpayers would result in better tax compliance, minimum leakage of revenue and better tax coordination between Central and State tax administrations. GST will be distributed among various States and Centre as we follow the federal structure. There will be two component of GST one is called CGST (Central GST to be levied and collected by Central Government) and the other one is called SGST (State GST to be levied and collected by State Government) these both component will be applied at the same time on taxable supply whether it is a good or service on each stage with a benefit of set off earlier tax paid. GST will be a destination-based tax i.e. SGST will be available for State where the goods or services will be consumed.

HISTORY OF TAXATION SYSTEM

The first ever known system of taxation in the world was in Ancient Egypt which was around 3000 BC - 2800 BC. There is evidence present which shows that there exists a system of taxation in which ruler along with the member of his kingdom took the tour of the kingdom and collected tax from the people. Other records are of granary receipts on limestone flakes and papyrus. There is also a mention of some sort of taxation system in the Bible. In Genesis[3], it states “But when the crop comes in, gives a fifth of it to Pharaoh.” Joseph was telling the people of Egypt how to divide their crop, providing a portion to the Pharaoh.

Concept of taxation is not new for Indian society as well; it can be traced from ancient times. Indian taxation system finds its roots in many ancient books like ‘Manu Smriti’[4] and ‘Arthasastra’. The Islamic rulers imposed Jizya[5] which lost its existence at the time of Akbar. However, Aurangzeb, the last prominent Mughal Emperor, levied *Jizya* on his mostly Hindu subjects in 1679. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the *ulema*[6].

During the rule of Britishers in India there were some remarkable changes made in the taxation system of India. Although, these changes were made for giving benefits to the British government only and its exchequer but it has started some kind of reform in modern and scientific method of taxation tools and systems. Major change in taxation system of India came in 1922, when the country witnessed a paradigm shift in the overall Indian taxation system. The administrative system and taxation system was set up by the Britishers in India for the first time. In the tax regime of Britishers there were mainly two types of taxes viz. Direct[6] and Indirect taxes[7].Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax has been provided in the Constitution of India which allocates the power to levy various taxes between Centre and State.

WHY THERE WAS NEED FOR GST

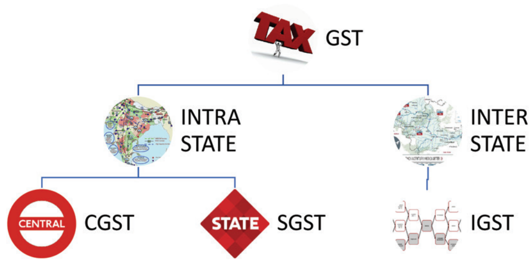
There are various drawbacks in our present Indirect taxation system which lead to the adoption of GST based tax system in India. Some of the reason to adopt GST is -

- GST is supposed to bring in uniformity which is currently missing in our existing indirect tax structure. To explain to a layman, in the current structure we have multiple taxes levied by Centre (excise, service tax, etc.), by State (VAT, CST, entry tax, etc.) and then also by local municipal bodies.
- GST helped in avoiding cascading effect of taxes to some extent.
- GST will lead to credit availability on interstate purchases and reduction in compliance requirements.
- Provides, greater certainty and transparency of taxes.
- GST will lead to credit availability on interstate purchases and reduction in compliance requirements.
- There was an urgent need for uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of world.

SAILENT FEATURE OF THE ACT

Levy of GST

GST is levied on supply of all goods or services or both except supply of alcoholic liquor for human consumption. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out and GST Council shall decide the date from which they shall be included in GST. Electricity has also been kept out of GST. As discussed earlier there is a dual structure present in the GST which provides the Centre and the States simultaneous levy of tax on a common base. The GST levied by the Centre on intra-State supply of goods and / or services is called the Central GST (CGST) and that levied by the States/ Union territory is called the State GST (SGST)/ (UTGST). Similarly, Integrated GST (IGST) is levied and administered by Centre on every inter-state supply of goods and services.



Input Tax Credit-

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs.

Say, you are a manufacturer –

Tax payable on output (FINAL PRODUCT) is Rs.5050

Tax paid on input (PURCHASES) is Rs.3000

You can claim INPUT CREDIT of Rs.3000 and you only need to deposit Rs.5050 in taxes.

The CGST and SGST are to be paid to the accounts of the Centre and the States separately. Taxes paid against the CGST and SGST will get (ITC) within CGST and SGST chains respectively but cross utilization of ITC between CGST and SGST would not be allowed.

TAX WILL BE LEVEIED ON SUPPLY

- GST does not distinguish between goods and services.
- GST is applicable on supply of Goods & Services. In GST regime, all supply such as sale, transfer, barter, lease, import of services, etc. of goods and/ or services made for a consideration and in some cases without consideration (like permanent transfer of business asset) will attract both Central GST (to be levied by Centre) and State GST (to be levied by State).
- The CGST and SGST would be applicable to supply of all goods and services made for a consideration except for the exempted goods and services.

OTHER FEATURES OF THE ACT

- The administration of the CGST will be with the center and that of SGST with the states
- Since the CGST and SGST are to be treated separately, they are to be paid to the accounts of the Centre and the states separately.
- GST is payable at the time of supply and hence the determination of time and place of supply is crucial as far as levy of GST is concerned.
- GST is levied on the transaction value. Transaction value is the actual price paid or payable for the said supply of goods and/or services between un-related parties.
- GST will allow 'Input Tax Credit' to the business houses without any denial or restrictions
- Inter-state supply of goods and services for consideration are to attract additional tax.
- The tax payer would need to submit periodical return in common format to both the central and state GST authority. Each taxpayer would be allotted a PAN-Linked Taxpayer Identification Number with a total of 13/15 digits which would bring the GSTPAN-Linked System in line with the prevailing PAN-Linked-Income Tax facility.
- There are 33 GST Laws (31 for states and 2 for Union Territories)
- There would be time limit for Show Cause Notice (SCN) ranging from 3 to 5 years.
- GST rate is determined keeping in view that it would yield at least the same revenue to the centre and states as collected through the various indirect taxes that would be subsumed under GST. Such rate is known as Revenue Neutral Rate.

 Rates of the tax are with the upper limit of the tax rate of 14% has been provided in Section 8(1) of CGST /SGST Law and & 28 % on IGST (Section 5(1) of IGST Law). It is expected Clean Cess and Swachha Bharat Cess will also be additionally imposed on the luxury goods and beverages. Needless to say, no ITC credit will be available on such cess.

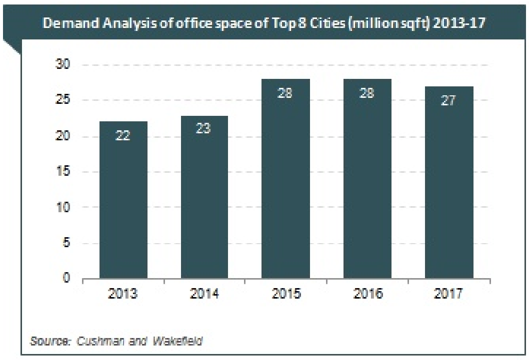
Goods and Services Tax or GST is a reality as business operations have been taking place across the states and around the world under new taxation policy in India. There are certainly expectations that this tax reform will boost the Indian economy; however, there are doubts as well that it will have both positive and negative impacts on industries. So, what is the impact of GST on various sectors in India? Let's get the answer of it by putting some light on impact of GST on various sectors such as textile, iron & steel, pharma & healthcare, cement and telecom.

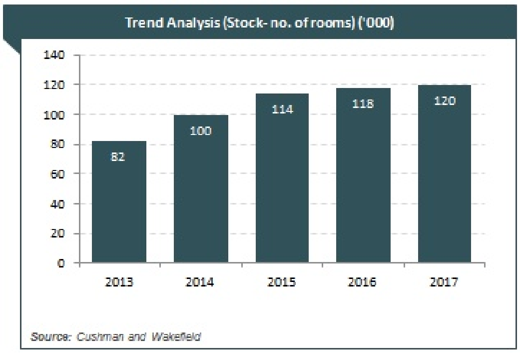
IMPACT OF GST ON VARIOUS INDUSTRIES

IMPACT OF GST ON REAL ESTATE SECTOR

Real estate is one of the major revenue-generating sectors for the Indian economy. With backward and forward linkages to around 250 ancillary industries, the sector has been making rapid strides in recent times and has emerged as one of the most important contributors to the economy. It is the second-largest employer, next only to agriculture, and accounted for 7.8 per cent of GDP during Financial Year 2014-15, according to the Economic Survey of India, Financial Year 2014-15. By one account, the sector will be worth a staggering $180 billion in revenues by 2020.

The real estate sector had a substantial growth of 22% in its private equity investments from 2015 to 2016. During the third quarter of 2016, there was substantial a 9% increase in investment for residential properties from the previous quarter.





These Graph show the growth in the Real Estate sector[8].

Taxation of Real Estate sector in the Previous structure - In former regime the transactions were broken into three parts

- The value of goods and materials
- Value of services and
- Value of land

The States apply VAT to the goods portion. And the Centre taxes the services portion. There was no explicit tax on the transaction value of land. The State also collected stamp duty and registration charges for the registration of property.

Earlier builders/developers paid following indirect taxes:

- Service tax (ST) on services either to provider or on reverse/ joint charge (sub-contractors, manpower supply etc.) ;
- Value added tax (VAT)/Central sales tax (CST) on steel, cement, RMC, electrical sanitary, lifts, DG sets etc.;
- Excise duty on all items paid earlier to those on which VAT paid.

GST REGIME FOR REAL ESTATE SECTOR

Under the previous tax laws, VAT and Service tax charged by Contractors and excise duty, entry tax, octroi was paid on the procurements. GST law will increase the margin in the hands of contractor/developer by removing all the above taxes.

Real estate sector has implications on developers, buyers encompassing cost of land, material and building cost.

The final product, the housing unit, will be taxed at 12 per cent, with credit for taxes paid on inputs. The cost of logistics of transportation of bricks, cement or iron has been reduced through the subsuming and streamlining of taxes.

GST on Construction Material-

Description of goods	GST RATES	VAT
Steel	18 %	5 %
Cement	28 %	12.50 %
Marble and granite	28 %	12.50 %
Blocks of marble and granite	12 %	12.50 %
Sand lime bricks and bricks	12 %	5 %
Natural sand, pebbles, gravel	5 %	5 %
Lifts and elevators	28 %	12.5 %

GST ON UNDER CONSTRUCTION PROPERTY

Previously, demand of tax depends upon the status of the property i.e., whether the property is under construction or completed. When property is under constructional buyer was subjected to the payment of VAT, service tax, stamp duty, and registration charges Under revised order from the government, under-construction properties will be taxed at 18% which includes 9% SGST plus 9% CGST. The government has also allowed deduction of land value equivalent to one-third of the total amount charged by a developer, thus, making the effective tax rate as 12%.

GST ON PURCHASED PROPERTY AFTER COMPLITION

Properties purchased after completion were exempt from VAT and service tax, and only stamp duty and registration charges were payable. Moreover, the state where the property was situated was also a relevant consideration because VAT, stamp duty, and registration charges all being state levies varied from state to state. Service tax was a central levy and was charged on construction. So, the calculation of taxes was very tedious in the earlier regime.

GST ON CONTRUCTION OF IMMOVABLE PROPERTY UNDER WORK CONRACT

Works contract as well as sale of under-construction property deemed as 'service' Free of cost supplies by recipient to contractor would be liable to GST. Thereafter, the contractor may need to include value of such free supplies in the value of his services.

SOME KEY FEATURE OF GST ON REAL ESTATE-

Seamless flow of credits :	Under GST, credit of all taxes paid on procurement of goods/ services will be allowed so that net outflow of GST liability would be minimized.
Broadened Tax base	There were many construction projects which were exempted earlier in the previous regime are now liable to be taxed under GST.
GST on Joint Development Agreements	Now, definition of 'supply' will also include Barter, so GST will also be levied on the Joint development agreements. Comparative flat value may have to be taken for calculating GST on such transactions
Treatment of the Land Component	Since stamp duty is being paid, the land component would be allowed as deduction in the valuation of real-estate transactions in the GST.
Requirement of completion certificate	If completion certificate is not received, GST may not be levied after the first occupancy of the premises. GST is levied if amount is received prior to completion certificate and there is no GST if the entire amount is received after the completion certificate

Treatment in case of SEZ/ EOU's	Such supplies will be treated as a 'Zero Rated Supplies' therefore no GST needs to be charged for supply of goods or services to the Special Economic Zones.
GST on Stock Transfers	Builders operating from multiple locations in different states, then are required to pay GST on stock/ Assets transfers from its premises in one state to its premises in another state.
Multiple Registrations	Concept of centralized registration for all the projects came to an end and builders having a site in multiple States are required to obtain registration in each State from where the construction activity/ supplies are being undertaken.
High Compliance	Compliances are very high in the GST regime as one has to file 37 Returns in one financial year for each registration
Transitional Credits	Builders should be able to transfer the following credits to the GST regime: ● Credit of Service Tax ● Excise Duty/ CVD ● VAT/ SAD ● Entry Tax

CONCLUSION

The impact of GST on real estate sector is expected to be neutral under GST. Though still, there is going to be a substantial benefit from GST as it will bring a lot of required transparency and accountability. Developers/Contractors would reap the benefit of many taxes which will be subsumed by GST.

Unified tax system brings smooth flow of funds in the value chain, reduces compliance cost to developers. Cement cost may reduce. Short term impact is negligible No clarity on taxability of TDR.

Overall, the GST regime is expected to bring more transparency in Indian real estate. Since the new tax will subsume multiple taxes, there will be smooth cash flows in the real estate value chain. The residential property buyers will get the benefit of GST because of the moderate rates. While the short-term impact of GST will largely depend upon the GST rate along with input credit on under construction components, it is expected to aid in creation of a more transparent and efficient market in the long term.

Real estate sector should be happy with GST even when rates for some commodities are higher than former rates.

IMPACT OF GOODS & SERVICE TAX ON TEXTILE INDUSTRY

Introduction

India's textiles sector is the oldest industries in Indian economy. Textile sector is one of the largest contributors to India's exports with approximately 13 per cent of total exports. The textile industry has two broad segments. First, the unorganized sector consists of handloom, handicrafts and sericulture, which are operated on a small scale and through traditional tools and methods. The second is the organized sector consisting of spinning, apparel and garments segment which apply modern machinery and techniques such as economies of scale.

The textile industry employs about 45 million people directly and 20 million people indirectly. India's overall textile exports during FY 2015-16 stood at US$ 40 billion.

Taxation Industry is the Industry which is very lucid in every segment & that is vertically integrated from raw material to finished Products (From fiber to retail).

Before discussing Impact of Goods & Service Tax on Textile Industries we should have understanding about former Tax structure. What was Tax liability in the sector of textile prior to GST & whether the new structure of Tax for textile industries would aid in the growth of industry or not.

In the previous Tax structure there were different Acts under which tax was levied such as when the goods were manufactured then tax was levied under Central Excise Act, similarly on different level and for different stages tax is levied under different acts in the previous regime of tax.

Textile Sector can be decided in to different segment for the computation of taxability under the former regime.

- ❒ **Cotton Value Chain (fiber to yarn)**
- ❒ **Yarn to Fabric (Natural & Man Made)**
- ❒ **Fabric to Garments**
- ❒ **Export of Textile Product**
- ❒ **Transpiration of textile product**(raw material to finished product)

Cotton Value Chain (Fibre to Yarn)- The process of yielding cotton from the fiber at different stages is known as the cotton value chain. These stages are

of

So, in the previous regime Cotton Value chains were exempted from Excise duty and Some of the states levy tax on the Sales of the garments of cotton.

Now, talking about the present structure GST is applicable of cotton value chain which have raised many eyebrows toward the government as it may have negative impact on textile sector specially on cotton value chain, currently supply of unprocessed cotton to the mills and from ginning mills to spinning mills are currently exempted and further supply of cotton to traders and for the job worker are taxable under GST former will taxed under supply of goods and later will be taxed as supply of service.

Yarn to Fabric – There will not be a major change in the segment of processing of yarn to fabric as in the former regime also the excise duty was applicable. Now in GST as the Excise duty is subsumed so this segment will attract tax at the rate of 4-5%.

Garments – Previously, Garments including textiles are being subject to lower rate of VAT / Sales tax in many states. For small players, the option of paying taxes at concessional rates is also provided under composition scheme in many states. In GST garment are liable to be taxed under two categories garment which are below Rs.1000 are taxed at the rate of 5 % which is same in comparison to the former tax structure but the garment above R.1000 are now taxed at the rate of 12 % which is much higher in comparison to the previous tax structure, previously Excise duty and CST was applicable.

Export of Textile Products - The exports will be zero rated under the GST as there will be transparency and availability of full ITC for exporters which is currently being provided by duty drawback schemes.

Transportation of Textile product - GST will also companies reduce logistics cost by 1.5-2.5% as they reconfigure their supply chains and bring in three key structural changes to the logistics industry.

Effect of GST on overall Textile Industries

Textile Value Chain	Former Tax Regime	New Tax Regime (GST)
Fibre Manufacturing (Natural)	Excise duty- 0% VAT/CST-)0-5 %	Cotton -5% Silk and Jute- 0 %
Fibre Manufacturing (Manmade)	Excise – 12.5 % VAT/CST- 0-5%	18%
Spinning(Yarn)	Excise- Exempted VAT/CST-0-5%	MMF-18% Others-5%
Weaving (fabric)	Excise- Exempted VAT/CST-0-5%	5%
Garment < Rs.1000	Excise duty- 0% VAT/CST- 0-5 %	5%
Garments > Rs.1000	Excise duty- 1.2% VAT/CST- 0-5 %	12%

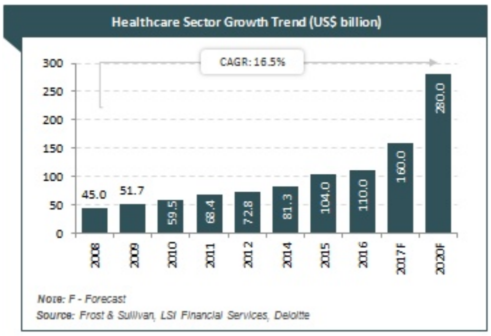
According to the table textile commodities will fall under the 0% to 18% tax cloud.

Conclusion- GST will have a positive Impact on the textile industries in long term because GST is more structured then the former regime. Now in the new regime there are less compliance in comparison with the previous structure one more positive impact of GST will be that ITC is available at every stage of the supply so it will benefit the manufacturer and supplier of the textile industry. If there are some positive effects of GST then there are negative aspect of GST as well one of them is in the previous regime cotton value chain were exempted but in the new tax structure tax is levied on these products also at the rate of 5% due to this it will change the cost of finished product, another GST has failed to resolve the issue of differential duty structure in the industry as well as the issue of fiber neutrality. If we look in to the short-term effect of GST on textile has affected the worst then the economic slowdown which hit the industry seven years ago. Now, the urge of the industry is to have some new reforms and government should introduce some new policy regarding the Rebate of state levies and allocation for the same should be increased and the scope of Rebate should extend to all the product instead of garments only. If these major deformities were rectified by the government in the upcoming days then textile industries will emerge as the major industry not only in India but globally as well.

IMPACT OF GST ON HEALTH CARE SECTOR

Healthcare sector can be considered as very important sector for the development of the country There will be an increase of US$ 372billon in 2022 in comparison with 2016 where the revenue was US$ 110 billon with The Indian healthcare sector is expected to increase from US$ 110 billion in 2016 to US$ 372 billion in 2022. Rising income level, greater health awareness, increased precedence of lifestyle diseases and improved access to insurance would be the key contributors to growth.

The private sector has emerged as a vibrant force in India’s healthcare industry, lending it both national and international repute. It accounts for almost 74 per cent of the country’s total healthcare expenditure. Telemedicine is a fast-emerging trend in India; major hospitals (Apollo, AIIMS, Narayana Hrudayalaya) have adopted telemedicine services and entered into a number of public-private partnerships (PPP). Further, presence of world-class hospitals and skilled medical professionals has strengthened India’s position as a preferred destination for medical tourism.



For discussing about the impact of GST on the Healthcare sector, it can be divided in to the following component-

- **Clinical establishment /Authorized medical practitioner**
- **OPD (Out Station department)**
- **Health Insurance**
- **Veterinary Services**
- **Technical testing of new drugs**
- **Medical devices**

Clinical establishment- means a hospital, nursing home, clinic, sanatorium or any other institution by, whatever name called that offers services or facilities requiring diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognized system of medicines in India

Former regime- Health care services: Health care services provided by a clinical establishment, an authorized medical practitioner or para-medics are exempt from service tax by virtue of the notification.no.25/2012 from 01.07.2012.

Under GST- Health care services provided by a clinical establishment, an authorized medical practitioner or para-medics are exempt from service tax by virtue of the notification no. 9/2017-Integrated Tax (Rate).

Private hospitals – These are the liable for tax in the prior regime also , there are some changes in the rates for these which are discussed below –

Hospital Room Rent	Applicable GST Rates
Below Rs.1000	0%
Rs.1000 to Rs.2499	12%
Rs.2500 to Rs.7499	18%
Above Rs.7500	28%

Out- patient department - It is the section of the hospital where patients are provided medical consultations and other allied services. This service is not liable to be taxed as it will be exempted under the same entry discussed above.

Health Insurance – In the previous era also these were liable to be taxed. India is a one of the country where health insurance coverage is very low comparing with other developing nations here only 18% of the people have health insurance in the urban areas and only 15 % are covered under rural areas; health insurance was taxed under service tax at the rate of 15 %. Now, under GST tax on health insurance has been increased to 18 %.

Medical Consultancy-Medical Consultancy here by refers to the consultancy by an authorized medical practitioner for the different purposes which do/do not involve the treatment for the same. The purposes for which Medical Consultancy can be given areas follow

Dietitians, Health-Care Consultants, Weight-Loose Consultants, etc. No GST will be applicable on the medical consultancy services under the same entry discussed above.

Medical Test - A medical test is a kind of a procedure performed to detect, diagnose, or monitor diseases, disease processes, susceptibility, and determine a course of treatment. Medical Test has been exempted from the liability of service tax in the previous regime and now in the new regime medical test has also been exempted. But for the private sector diagnostic will rise in the prices of diagnostics such as blood tests, X-rays, MRI and strip-based diagnostics as they are put under either 12 or 18 percent slab which is higher than the previous tax rate on these services. In the pre-GST era the 10-15 percent of out of pocket expenditure is on diagnostics which is increased in the post GST period.

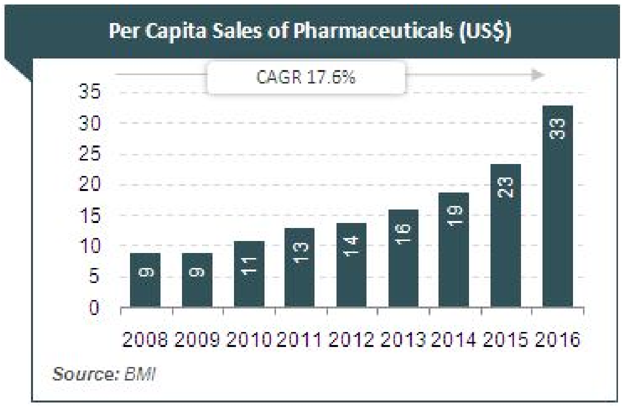
Medical device equipment- The tax liability on device and equipment used or medical purpose are likely to get relief as in the previous structure they are charged at the rate of 31 % and some other taxes are also applicable at that time but now in the GST they are taxed at the rate of 12 %.

Veterinary Services- Veterinary medicine is the branch of medicine that deals with the prevention, diagnosis and treatment of disease, disorder and injury in non-human animals and Veterinary doctor refers to doctor for the treatment of animals or bird's disease and such other services for the same. These services are exempted in the pre and post GST era.

Conclusion- GST is to help the industry in streamlining the tax structure, improving the operational mechanism and easing the way of doing business in India. GST would have a positive effect on this alternative medicine sector and will significantly contribute towards the growth of medical tourism in the country. "The research-based pharmaceutical industry was hopeful that there would be a reduction in the tax incidence on product.

IMPACT OF GST ON PHARMCEUTICAL INDUSTRY

Indian pharmaceutical is one the largest sector in India and is growing at a very rapid rate. When compared globally Indian pharmaceutical industry is one the third largest industry in terms of volume and is thirteen largest in terms value. India stands third in terms of cost of production after Germany & USA and when we compare labour cost with the other western countries then India's labour cost is 50 % cheaper and cost of setting up a power plant for pharmaceutical is 40 % less than the other western countries. Government of India has also taken many initiatives to promote pharmaceutical industries; government has adopted policies like 'Pharma vision 2020; and introduced mechanism of Drug price control. The Indian pharmaceutical market size is expected to grow to US$ 100 billion by 2025, driven by increasing consumer spending, rapid urbanization, and raising healthcare insurance among others. Pharma sector's revenues are expected to grow by 9 per cent year-on-year through fiscal 2020.



Tax structure of Pharma Industry –

Earlier there are various taxes which were applicable at pharma industry on the central, state and municipal levels, such as, central excise duty on manufacture, customs duties on imports, service tax on delivery of services and VAT among others which results in a higher compliance and a cascading effect in the taxation structure. Currently, medicaments falling under chapter heading 3003 and 3004 are generally liable for excise duty at the rate of 6%. Previously Vat and excise duty was applicable on medicine at the time of manufacture excise duty was applicable and Vat was applicable on value-addition there were different tax rates applicable depending upon the composition of the medicine. Previously medicals were charge at the rate of 9.5 % including excise and Vat but many medicine were exempted from tax such as medicines used by large population these are mainly contra-septic pills and human blood and its component but as regard to some allopathic medical care Vat and excise was applicable in the previous regime excise duty was not applicable on some of the medicine only Vat was applicable amounting to 5 % on medicine like ORS, Vaccine and insulin. Under specific notifications covered under the central excise law, non-imposition of the excise duty has been benefiting the notified lifesaving drugs / APIs used in manufacture of life saving drugs but Central excise duty (tax on manufacture) is levied at 12.5% on some of API, whereas the formulations manufactured there from are subject to Central excise duty at 6% on the Maximum Retail Price (MRP) of said goods minus a special abatement. Certain food supplements (nutraceuticals) are also manufactured by pharma companies which attracts full rate of excise duty i.e., 12.5% and VAT 13.5% in Maharashtra, 14.5% in Karnataka. Moreover, it is a general practice in pharmaceutical industries to distribute Physician's Samples (PS) to medical fraternity. Presently excise duty is being paid and VAT is not applicable. Prices of some medicine are also capped by government authority i.e., National Pharmaceutical Pricing Authority (NPPA) they are now also get effected after the introduction of GST.

GST ON PHARMA INDUSTRY

There are mostly three rates applicable on the medical sector 12%, 5% and zero. Exemption on Human blood component and contra septic are continued like the previous structure and GST is applicable on formulation of medicine which is 12%, now 5 % GST will be applicable on the ORS, insulin, vaccines. After GST, prices of medicines with 12% GST will have increase by 2.30%. Prices of medicines with 5% GST will have no change from before. In summary, medicines with 12% GST will have a 2.30% increase over pre-GST MRP. Medicines with 5% GST will continue to be sold at the pre-GST MRP.

Product	Before GST	After GST
Medicament	VAT – 6 % (generally)	GST applicable – 12 %
Active Pharmaceutical Ingredients (API)	VAT + 17.6% Excise	GST applicable – 18 %
GST on Formulation of Medicine	VAT + 9.5 % Excise	GST applicable – 12 %
Free Samples	Excise duty is applicable and VAT is not applicable	Tax will be charge as it will be supply and no ITC will be available
Stockiest and Chemists	No registration is required.	Registration is not required under transition provision.
Nutraceuticals (not clear food or medicine)	Excise duty is applicable under heading of residuary	If chargeable under food then charge under 28 %

Conclusion – There will be a positive effect on the pharmaceutical industry as there were multiple taxes applicable on the medicine but now in the new regime it will be easy all the taxes are now subsumed in to GST. Manufacturing cost of Indian pharma industry would be reduced. This would have a cascading impact giving incredible chance to upgrade supply chain and distribution methodology. GST would have an impact on the contracts with vendors and customers, pricing, ERP systems, working capital, internal control and accounting. GST would impact every aspect of the business of pharma companies.

IMPACT ON LOGISTICS & WAREHOUSE

The Indian logistic industry is anticipated to grow steadily, led by e-commerce penetration, economy revival, proposed GST execution and government initiatives like "Make in India", National Integrated Logistic Policy, 100% FDI in warehouses, food storage facilities. Furthermore, with respect to India's GDP growth the logistics industry is expected to grow at 1-1.5x as logistics business is directly correlated with economic activity. Despite these reasons, the logistic sector in India remains entangled in several complexities which primarily includes higher logistic costs and complex tax structure. The implementation of Goods and Service Tax (GST) bill is expected to trim the logistic costs up to 20% from the current levels; however, the persisting high logistic costs could only be resolved by development of logistics infrastructure. The Indian logistic sector is primarily categorized into four segments as

a. Warehousing.
b. Freight forwarding.
c. Value added.
d. Transportation.

GST – BEFORE AND AFTER

Let us consider the example of a manufacturing company in Bangalore, which moves its goods to Agra. The actual sale happens in Agra and the finished goods have to be transported from Bangalore to Agra across different states. As per the current taxation norms, one has to pay Central Sales Tax (CST) when moving a good to another state and selling it in the other state. However, if the good is moved for stocking and not for sale, then CST need not be paid. So many companies in order to avoid paying CST, they show this movement as moving to stock and not moving to sell. To do this, companies have warehouses in every state where the finish goods are stored and then the goods are transported for sale from the warehouse in each state. Let us consider another example of a city called Gwalior in Madhya Pradesh which is approximately 30km from Agra. Shipping the goods from Agra warehouse to Gwalior requires the company to pay CST as Gwalior in Madhya Pradesh and Agra is in Uttar Pradesh.

So, the companies ship goods from Jhansi warehouse, which is approximately 250km to Gwalior to avoid CST. With the implementation of GST, the companies will be free to setup their own warehouses to optimize cost and improve customer service. The following central and state taxes are integrated into GST.

MODEL OF LOGISTIC INDUSTRY AFTER GST

GST will help companies reduce cost by redesigning their supply chains with four key structural changes

• India becomes one big market; there will be fewer and larger warehouses.

• GST will result in larger trucks on road while the overall number of vehicles will go down. The new tax will result in greater adoption of a hub-and-spoke model in segments such as warehousing, cold chain, container freight stations and inland container depots. • GST will also bring in scale to logistics companies as there will be a lot of savings, stoppage of wastage and lower delays,

• These above changes will lead to greater economies of scale for transport operators and lead to more companies outsourcing their logistics operations.

ADVANTAGES OF GST TO LOGISTIC COMPANIES

LIMITATIONS

❒ State-border checkpoints, which are tasked with material scrutiny and location-based tax compliance, negatively impact the overall production and logistics time and account for roughly 60% of a truck's transit time.

❒ With GST's imminent implementation, the logistics industry should start exploring different supply chain models with their clients and at the same time develop a completely synchronized ERP accounting system to support inventory supply management as required under the GST regime.[9]

Conclusion

From the above analysis, it is clear that the implementation of GST will have a significant impact on logistics sector in India. If GST is properly implemented, then it will have a double positive impact on the logistics industry that is logistics costs will come down and logistics efficiency will increase both within India and exports. So, the main objective of logistics management, that is customer satisfaction at least logistics costs, will be achieved with the implementation of GST. The GST implementation will also lead to emergence of organized service providers since taxes will not be added costs for the business. In the previous scenario, the logistics sector is a highly fragmented industry with very few large organized players.

The unorganized sector would have to shape up and join hands with the organized players for setting up economies of scale. In a nut shell, the successful implementation of GST could reduce transportation cycle times, enhance supply chain decisions, lead to consolidation of warehouses etc. which could help logistics reach its potential in terms of service and growth. So, it will be great boom for the logistics sector which leading to accelerated economic growth. It provides a unique opportunity to streamline business operations to become more compliance and profitability-oriented, rather than tax-oriented. It puts power in the hands of business leaders to bring about positive change and steer their enterprises on a growth path, powered by GST- compliance. GST holds exciting time for all the stakeholders, be it logistics operator, e-commerce players and the end consumer. It won't be unfair to say that GST will disrupt the existing ecosystem and will make it more efficient and competitive going forward Overall, one can say that the impact of GST on the logistic sector is positive but then there are some issues such as multimodal transportation rates are yet not clear which results in complexity between the service provider and the one who is receiving the services, the various rates available for the multimodal transportation creates confusion and clarification regarding the same is the need of the hour.

(Endnotes)

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2 For majority of Indian States, sales tax was first point tax on sales which was not able to capture value addition in subsequent sales. There are three alternative ways that GST could attract investments – a) removal of cascading of taxes could release working capital which is currently blocked as unpaid ITC, b) removal of stranded costs (including transaction costs) involved in inter-state sales of goods will induce investment, c) if benefits of cascading of taxes are passed on to consumers, it will induce consumers' behavioral changes through price and income effects, and generate additional demand for goods and services. It is also expected that seamless access to market across Indian States will facilitate achieving better efficiency in production and distribution and could minimize costs which will attract larger investment.

3 chapter 47, verse 24 - the New International Version

4 Manu is considered a law giver in the Hindu tradition. *Manu Smriti* is one of the 18 Smritis

5 *Jizya* is a per capita tax levied on a section of an Islamic states on-Muslim citizens, who meet certain criteria [6] Refers to the educated class of Muslim legal scholars engaged in the several fields of Islamic studies.

6 It is the tax paid to the government directly by the assessee. The Income Tax, Wealth Tax and Corporate Tax are classical examples of direct taxes in India.

7 When the taxes are paid indirectly, it comes Under the purview of indirect taxes. It is the tax that is levied on goods or services rather than on persons or organizations. The excise duty; customs duty, sales tax and service tax are examples of indirect taxes.

8 See https://www.ibef.org/industry/real-estate-india.aspx as updated on Jan 25th 2018

9 http://www.business-standard.com/article/news-ians/petroleum-products-alcohol-excludedfromgst-regime-115050600638_1.html