

Study On GST and It's Impact On Manufacturing Industry

SUBMITTED BY

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ABSTRACT

This study examines the impact of GST on manufacturing industry in India. The study employs a mixed-methods approach, comprising of a review of relevant literature, a survey of manufacturing firms, and interviews with industry experts. The study finds that GST has led to significant changes in the taxation system, resulting in both positive and negative impacts on the manufacturing industry. While the tax reform has streamlined the tax system, reduced the tax burden for manufacturers, and improved compliance, it has also led to an increase in prices for some goods, particularly those in the unorganized sector. The study also reveals that SMEs face significant challenges in adapting to the new tax regime, including a lack of knowledge and expertise in complying with GST regulations. Based on these findings, the study proposes several suggestions to mitigate the negative impact of GST on the manufacturing industry, including the simplification of GST regulations, awareness and training programs, technology adoption, support for the unorganized sector, continuous monitoring and evaluation, and collaboration and partnerships. Overall, the study provides valuable insights into the impact of GST on the manufacturing industry and offers suggestions to policymakers and manufacturers on how to address the challenges faced by the industry.

INTRODUCTION

The Goods and Services Tax (GST) is a substantial tax reform that was introduced in India on July 1, 2017. The commodities and Services Tax (GST) intends to streamline the indirect tax system in India and establish a single market for all of the nation's commodities and services. The GST that was introduced has had a major effect on a variety of economic subsectors, including the manufacturing industry. The new tax system has had an impact, in particular, on Multi-National Corporations (MNCs) operating within the manufacturing sector.

MNCs in the manufacturing industry play a crucial role in the Indian economy, as they contribute significantly

to employment generation, foreign investment, and technology transfer. In recent years, the manufacturing sector in India has been subject to substantial transformations as a result of the widespread adoption of cutting-edge technology and the growing consumer demand for high-quality goods. The introduction of the GST has had a considerable effect on the manufacturing sector, and multi-national corporations have been forced to reorganise their business processes in order to conform to the new tax requirements.

The purpose of this research is to investigate how the GST would affect multinational corporations operating in the manufacturing sector. This research makes use of a mixed- techniques strategy, which combines qualitative and quantitative methods of investigation into a single whole. The qualitative method involves semi-structured interviews with industry experts and managers of MNCs in the manufacturing sector. The quantitative method includes the analysis of secondary data obtained from various sources, such as the government websites, annual reports of companies, and research articles.

The study is divided into several sections. The first section provides a background to the study, outlining the rationale for the study and its significance. In the second portion, we will do a literature study on the Goods and Services Tax (GST) and its influence on the industrial sector. The research approach that was used for this study is discussed in detail in the third part. In the fourth part, the results of the research are presented. These findings include the effect of GST on MNCs operating in the manufacturing sector; the difficulties encountered by MNCs after the introduction of GST; and the tactics used by MNCs in order to overcome these difficulties. The final section provides a summary of the study's findings, conclusions, and recommendations.

Background:

In Recent Years, Indian economy has undergone significant changes with the adoption of various economic reforms aimed at promoting growth and development. GST is one such reform that aims to simplify the tax structure in India and create a unified market for goods and services. The rollout of the Goods and Services Tax (GST) in India has been praised as a major step towards the establishment of a tax system that is both open and effective. However, the effect that the Goods and Services Tax (GST) would have on the different parts of the economy, especially the manufacturing industry, is still up for discussion.

MNCs in the manufacturing industry play a crucial role in the Indian economy, as they contribute significantly to employment generation, foreign investment, and technology transfer. The manufacturing industry in India has undergone significant changes in recent years, with the adoption of advanced technologies and the increasing demand for quality products. MNCs in the manufacturing industry have had to restructure their operations to keep up with the changing market dynamics.

The implementation of GST had significant impact on MNCs in the manufacturing industry. GST has simplified the tax structure and reduced the compliance burden, resulting in a significant reduction in logistics and distribution costs. MNCs can now take advantage of the seamless flow of goods across state borders, leading to a more efficient supply chain. However, the implementation of GST has also led to some challenges for MNCs

in the manufacturing industry, such as the need to restructure their operations to comply with the new regulations and the increase in the tax rate for some goods.

Therefore, this study aims to find out the impact of GST on manufacturing industry. The study will identify the challenges faced by MNCs after the implementation of GST and the strategies adopted by MNCs to overcome these challenges.

LITERATURE REVIEW

Monika Sehrawat and colleagues (2015) conducted research on the many aspects of GST, also known as the Goods and Service Tax, as well as the difficulties that are linked with it. They came to the conclusion that the problems involved with the implementation of GST include the need for sufficient literacy on the idea of GST, approval from all of the states, and legal processes to be followed while implementing GST.

A study article titled "Impact of Goods and Services Tax (GST) on the Indian Economy" was authored by Akanksha Kurana and co-authors in 2016. They have discovered that the items and Services Tax (GST) would increase the input tax credit to the producers, which will ultimately result in lower prices for the items. They have proposed that the government should educate the general population about the principles of the GST in order to gain their support.

Garg et al. (2014) and Kumar et al. (2014) have both said that the Goods and Services Tax (GST) has a favourable influence on the current state of the Indian economy. According to the report from the Indirect Taxes Committee of the Institute of Chartered Accountants of India (ICAI), the Goods and Service Tax would have a beneficial effect on the Indian Tax System.

Garg (2014) performed an analysis on how the GST would affect the current tax climate in India. He made an effort to raise attention to the goals of the proposed plan for the GST, as well as the potential difficulties and opportunities that the GST presents. He arrived at the conclusion that the GST is the next most logical step in the process of reforming indirect taxes in India. He went on to state that analysts believe that the introduction of the GST would likely result in an increase in revenue collection as well as a boost to the overall economic growth of the nation. Kumar (2014) came to the conclusion that the Goods and Services Tax (GST) would assist in eliminating economic distortions caused by the existing Indian tax system. Additionally, it is anticipated that the GST will promote impartial tax structures that will be unaffected by geographic locations.

An investigation on the benefits and difficulties of implementing GST in India was carried out by Sehrawat and Dhanda (2015) as part of their research. They came to the conclusion that the Indian economy required a tax structure that was both streamlined and transparent. They pointed to the many benefits of the GST and claimed that it would offer India with a world-class tax structure and a seamless tax system, but that the success of its implementation will determine whether or not it really achieves those goals.

The research that was carried out by Khurana and Sharma (2016) had the purpose of illuminating the history of the Goods and Services Tax (GST), as well as the aims of the proposed GST plan and the effect that it would have on the current state of the Indian tax system. They came to the conclusion that the adoption of GST would unquestionably be of advantage to both producers and consumers, despite the fact that the implementation of GST needs concerted efforts from all stakeholders, particularly the national and state governments.

An investigation on the benefits and drawbacks of the Goods and Services Tax (GST) was carried out by Munde and Chavan (2016), who then provided recommendations to close any existing loopholes and make the tax system more efficient. They came to the conclusion that tax payers will be willing to accept the change brought about by it if the possible loopholes are dealt with effectively and if the procedures in the GST prove to be simple and assure the involvement of the interest of all stakeholders, then unquestionably it will lead to economic development and the rationalization of prices.

Lourdunathan and Xavier (2017) performed a study using an exploratory research approach on the basis of previous published literature to investigate the perspectives of various stakeholders, including manufacturers, merchants, society, and others, about the Goods and Services Tax (GST), as well as the difficulties and opportunities associated with implementing GST in India. They came to the conclusion that there is no question that the GST adheres to the "one tax, one nation" concept and that it would provide relief to both consumers and producers. Gains in resources and income are expected to result from its effective implementation. They also said that in order to ensure a flawless processing of returns and credits without the involvement of humans, the government must educate its citizens, provide training, and host seminars centered on GST.

STATEMENT OF THE PROBLEM

The cost in monetary terms of a product or service is referred to as its price. A customer is required to spend this amount in order to get the item or service that is being offered. The word "price" does not usually and automatically indicate "money." This is due to the fact that bartering involves the exchange of one commodity or service for another good or service of equal or greater value. However, in this day and age, bartering is no longer a common practice. The historical perspective on value has placed a greater emphasis on price, measured at the very least in ringgit and cents. The monetary system of each culture evolved from a bartering system, in which people exchanged products of equal value for one another. The monetary system of each society makes it easier to acquire things and gain wealth than bartering did. Price has also evolved into an important variable that society uses to influence the state of its economy. The price may or may not include certain things. Then, goods are any product that is tangible, can touch and see the shape of the product while services are the product that intangible and we can't see it but we can feel it when using.

OBJECTIVE OF THE STUDY

- To learn everything there is to know about the history of the GST taxing system.
- Having a firm grasp of the fundamentals of India's recently implemented Goods and Services Tax (GST).
- Recognizing the characteristics of GST and how it differs from India's present taxation structure.
- Analyze GST's potential benefits and drawbacks.
- To assess the potential taxation status of different products and services in India.
- To contribute to studies of GST-based taxation systems in the future.

RESEARCH METHODOLOGY

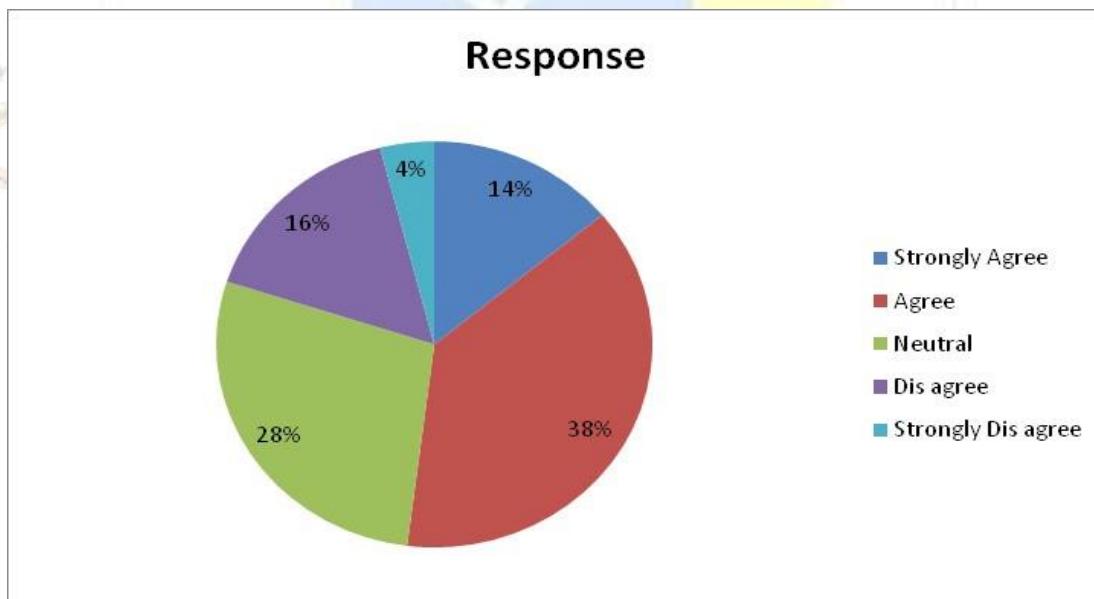
The research design will be a Descriptive Study, which aims to provide an in-depth analysis of GST and its impact on Manufacturing Industry. The study will use both Quantitative and Qualitative Research methods. A Research Survey will be performed among 50 employees of different manufacturing companies in Delhi NCR. The technique of **Random Sampling** will be used in the analysis of the data.

DATA ANALYSIS AND INTERPRETATION

There was an effort to group the replies into categories based on how they responded to the claim that "GST has increased the various legal formalities." Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree are the five possible answer options.

On the basis of their opinions on whether or not India is prepared for GST implementation, respondents have been sorted into many groups.

Response	Respondents	Percentage (%)
Strongly Agree	7	14
Agree	19	38
Neutral	14	28
Dis agree	8	16
Strongly Disagree	2	4

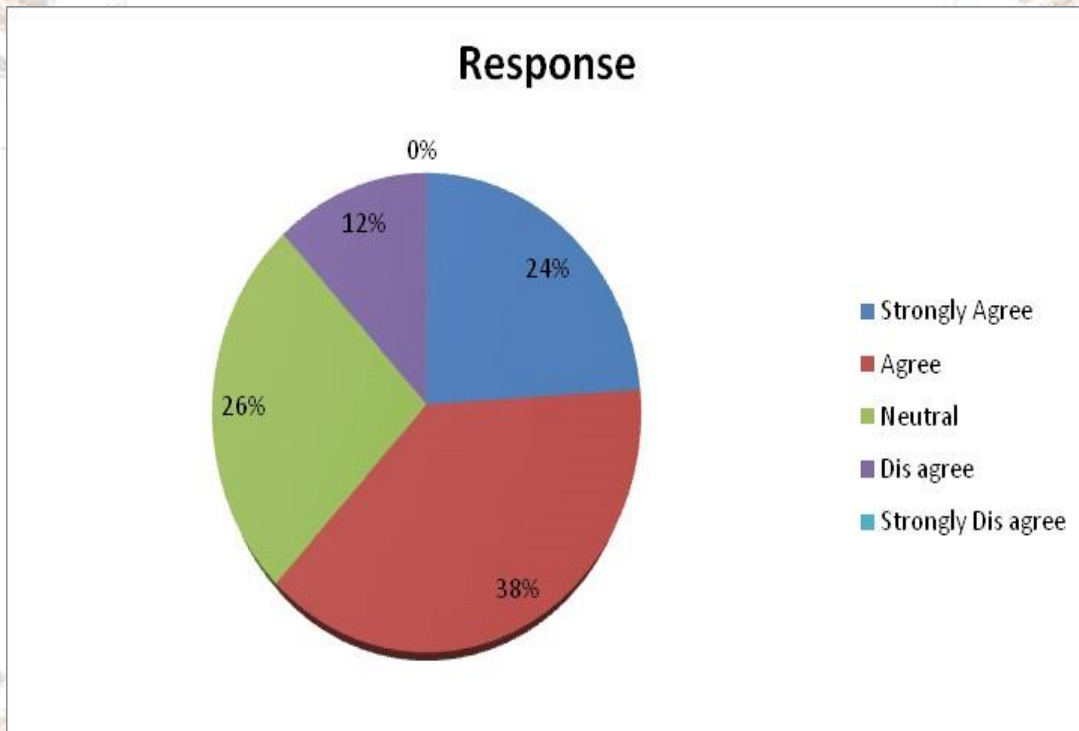


Interpretation:

38% respondents were Agree and 14% were Strongly Agree that India is prepared for GST implementation, 28% were Neutral while 20% respondents were Disagreed

The responses were sorted into groups according to the strength of their claims that GST had made business taxation more expensive. There are five categories of findings presented below

Response	Respondents	Percentage (%)
Strongly Agree	12	24
Agree	19	38
Neutral	13	26
Dis agree	6	12
Strongly Dis agree	0	0

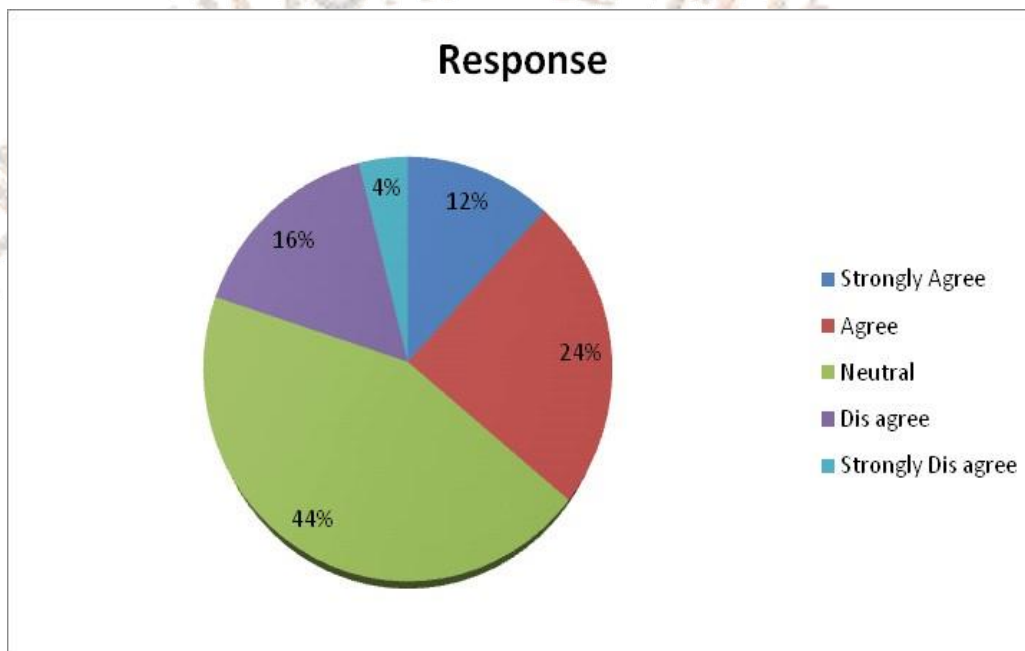


Interpretation:

38% respondents were Agree and 24% were strongly agree that the responses were sorted into groups according to the strength of their claims that GST had made business taxation more expensive, 26% respondents were Neutral while 12% respondents were Disagree.

On the basis of the responses that participants gave to the question "Government has imposed GST on people without any preparation," an effort was made to categorize those who participated in the survey. The presented information has been divided into the categories that are detailed below.

Response	Respondents	Percentage (%)
Strongly Agree	6	12
Agree	12	24
Neutral	22	44
Dis Agree	8	16
Strongly Disagree	2	4

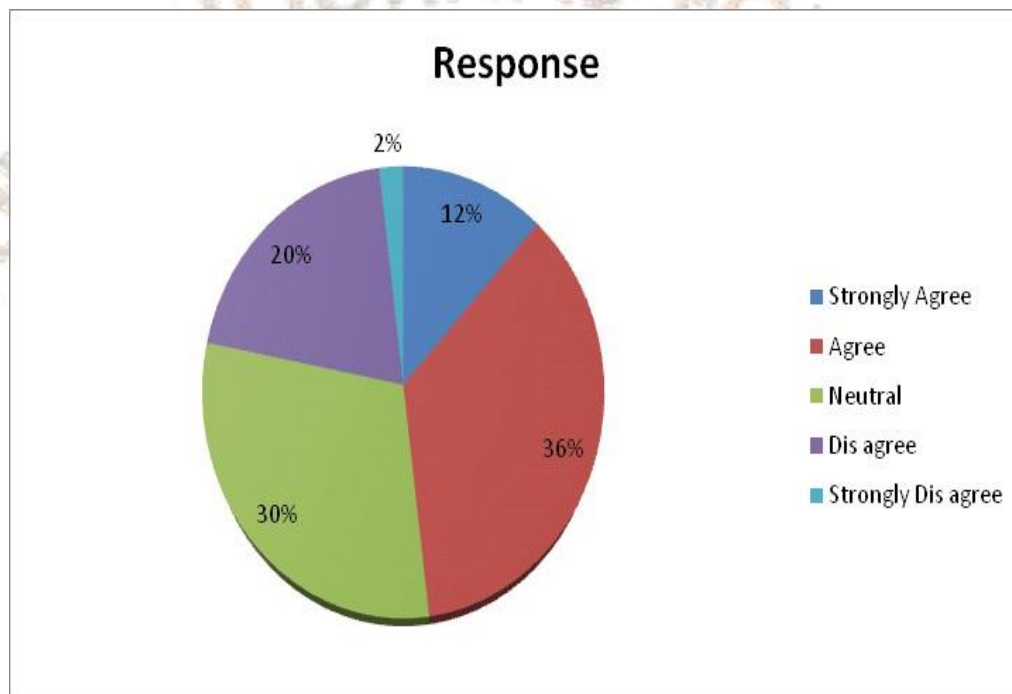


Interpretation:

36% Respondents were Agree & Strongly Agree that Government has imposed GST on people without any preparation, 44% respondents were Neutral while 20% respondents were Disagree.

Based on how they responded to the statement "GST is very difficult to understand," an effort was made to group the respondents into several categories.

Response	Respondents	Percentage (%)
Strongly Agree	6	12
Agree	18	36
Neutral	15	30
Dis agree	10	20
Strongly Disagree	1	2

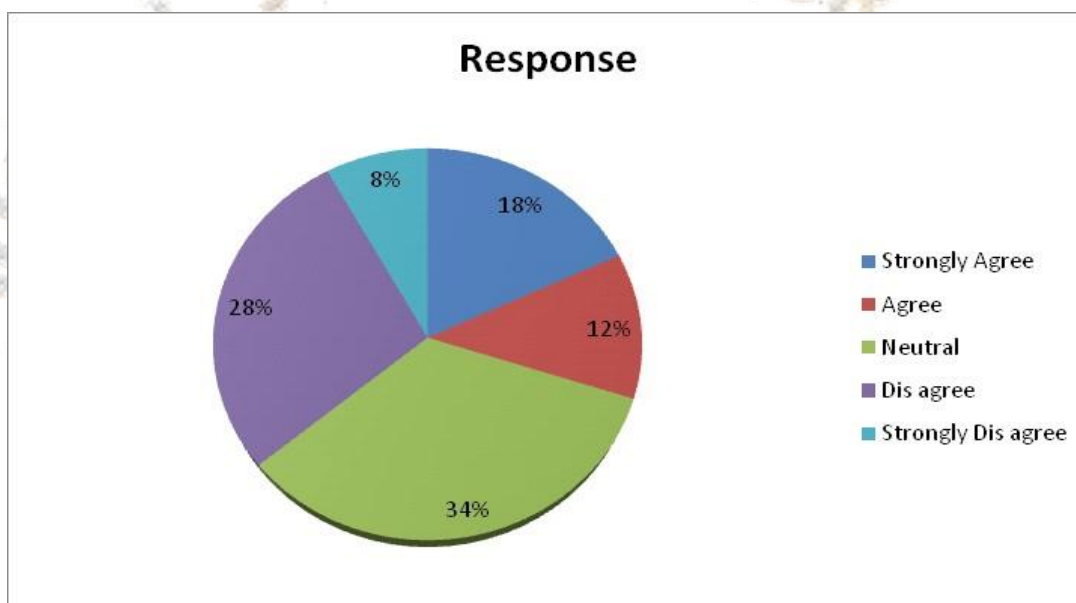


Interpretation:

48% Respondents were Agree and Strongly agree that GST is very difficult to understand, 30% respondents were Neutral while 22% Respondents were Disagree.

An effort was made to categorize the respondents based on their perceptions of the assertion that GST would raise inflation (prices) in the nation. The following statement data are provided as follows:

Response	Respondents	Percentage (%)
Strongly Agree	9	18
Agree	6	12
Neutral	17	34
Dis agree	14	28
Strongly Disagreed	4	8

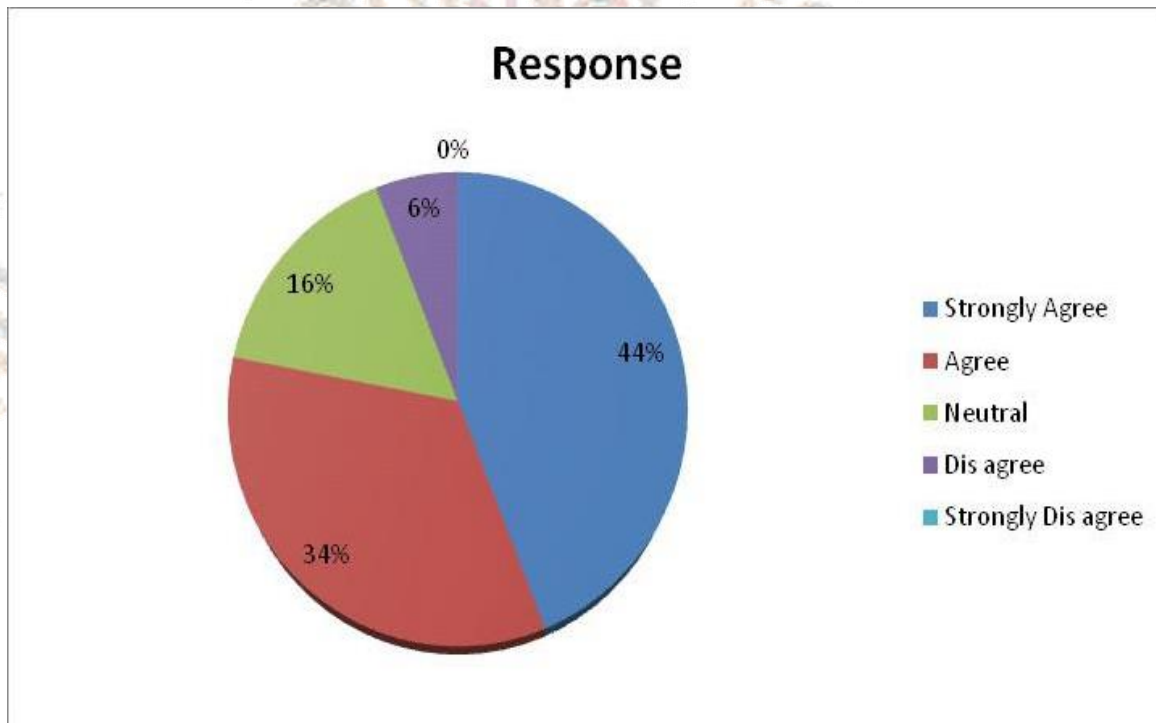


Interpretation:

30% respondents were Agree & Strongly Agree that GST would raise inflation (prices) in the nation, 34% respondents were neutral while 36% respondents were Disagree from this statement.

An effort was made to categorize the respondents based on their responses to the statement GST would boost the government's tax collection. The information gathered from this statement is provided below.

Response	Respondents	Percentage (%)
Strongly Agree	22	44
Agree	17	34
Neutral	8	16
Dis agree	3	6
Strongly Disagree	0	0

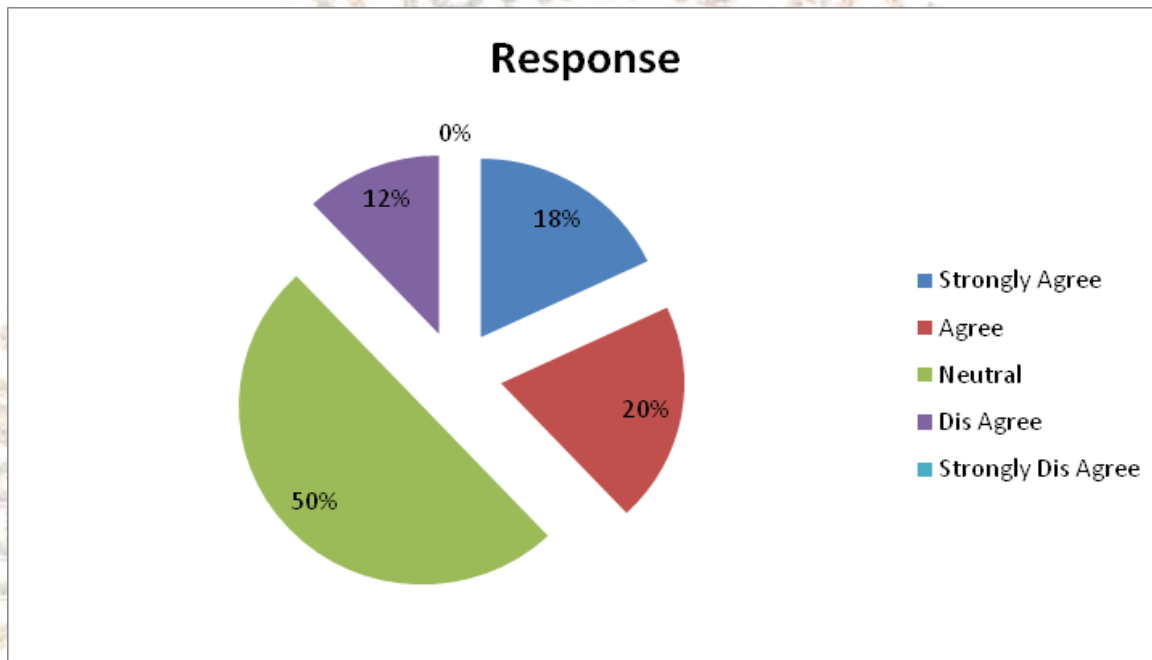


Interpretation:

78% respondents were Agree that GST will boost the government's tax collection, 16% respondents were neutral while 6% respondents were Disagreed also.

An effort was made to categorize the respondents based on their perceptions of the statement GST is severely harming small businesses. The following replies are provided as follows:

Response	Respondents	Percentage (%)
Strongly Agree	9	18
Agree	10	20
Neutral	25	50
Dis agree	6	12
Strongly Dis agree	0	0



Interpretation:

38% respondents were Agree that GST is severely harming small businesses, 50% respondents were neutral while 12% respondents were Disagree with the statement.

CONCLUSION

The purpose of this research was to assess the effect that the Goods and Services Tax (GST) has had on the manufacturing sector in India. According to the findings of the research, the manufacturing sector has been affected in both good and negative ways as a result of the introduction of GST.

The streamlining of the tax system is one of the key beneficial effects of the goods and services tax (GST). The simplification of the previous tax regime that was in place as a result of the implementation of a single tax system has resulted in an improved supply chain as well as lower costs associated with logistics. Additionally, the introduction of GST has resulted in enhanced openness, a decrease in corrupt practices, and an improvement in compliance.

However, the implementation of GST has also posed some challenges for the manufacturing industry. The need to restructure their operations to comply with the new regulations has resulted in increased costs and administrative burdens for manufacturers. Additionally, the increase in the tax rate for some goods has led to a rise in price of goods & services.

The study found that the impact of GST on the manufacturing industry varies across different sectors. The sectors that are more reliant on unorganized and informal channels of distribution have faced more significant challenges. The SME sector has also faced challenges due to the lack of knowledge and expertise in complying with the new tax regulations.

The study also found that the impact of GST on the manufacturing industry is not uniform across the country. The manufacturing industry in the organized sector has seen a more positive impact compared to the unorganized sector. Additionally, the states with a higher proportion of manufacturing activities have seen a more significant impact of GST on their economy.

The study suggests that manufacturers can adopt several strategies to mitigate the negative impact of GST on their operations. These strategies include investing in technology to improve efficiency and reduce costs, collaborating with local partners to navigate the complex tax regulations, and leveraging the benefits of GST by streamlining their supply chains.

SUGGESTIONS

- **Simplification of GST regulations:** The study highlights the need for simplification of GST regulations to reduce the administrative burden on manufacturers. The government should work towards simplifying the regulations to make them more user-friendly and reduce the compliance burden for SMEs.
- **Awareness and training programs:** The study found that the lack of knowledge and expertise in complying with GST regulations was a significant challenge for the manufacturing industry. The government should conduct awareness and training programs to educate manufacturers, especially SMEs, about new tax regime.
- **Reduction of GST rates:** The study found that the increase in tax rates for some goods had led to a rise in prices, which has impacted the demand for these goods. The government should consider reducing the tax rates on such goods to provide relief to consumers and improve demand.
- **Technology adoption:** The study highlights the need for manufacturers to invest in technology to improve efficiency and reduce costs. The government should incentivize technology adoption by providing tax breaks or subsidies to manufacturers who invest in technology.
- **Support for the unorganized sector:** The study found that the unorganized sector faced more significant challenges in adapting new tax regime. The Govt. should provide help to the unorganized sector through capacity building, training, and financial support to improve compliance and ease the transition to the new tax regime.

- Continuous monitoring and evaluation: The findings of this research underscore the need of conducting ongoing monitoring and analysis of how the Goods and Services Tax (GST) is affecting different parts of the economy. The government should maintain a close watch on how the GST is affecting the manufacturing sector and make any required modifications to ensure that the GST is effective in achieving its goals.

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