

## **A Study on Impact of Goods and Services Tax (GST) on Service Sector in India**

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### **Abstract**

The service sector in the country amounts to a considerable share in the GDP and its performance is critical. The service sector in the country is characterized by series of small establishments with low value additions that houses large numbers of unskilled persons. Though the GST's contribution to the economy is significant, the service tax will amount to 2 percent from an enterprise. Some of the most important service sectors are banking, telecom, insurance, construction, business support and transportation.

The Government has come up with a four-tier GST rate structure for service providers such as 5 percent, 12 percent, 18 percent and 28 percent. However the bulk of services will be taxed at 18 percent. It is also said that the GST is more likely to increase the tax frequency for this sector.

Under GST, double taxation effect caused due to disputed goods and services in the current regime will be removed. Under the GST regime both supplies of goods and services will be treated equally with the unique rate of tax individually.

In terms of registration, the main challenge in the GST for service providers will be multiple registrations. The service tax will be collected by the Center under a centralized registration format. However, States are unwilling to agree to centralized registration and thus the government is exploring a new arrangement for centralize compliance verification. This is an organised effort to persuade states through the GST council.

**KEYWORDS-GDP, CGST and SGST.**

### **Introduction:**

The service sector in the country amounts to a considerable share in the GDP and its performance is critical. The service sector in the country is characterized by series of small establishments with low value additions that houses large numbers of unskilled persons. Though the GST's contribution to the economy is significant, the service tax will amount to 2 percent from an enterprise. Some of the most important service sectors are banking, telecom, insurance, construction, business support and transportation.

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### **Literature Review**

**Indian Taxation System:** India has got a well-structured and simplified taxation system, wherein an authoritative segregation has been done among the Central Government, the different State Governments as well as the Local Bodies. The Department of Revenue under the Government of India's Ministry of Finance is solely responsible for the computation of tax. This department levy taxes on individuals or organizations for income, custom duties, service tax and central excise. However, the agriculture based income taxes are levied by the respective State Governments. Local bodies have got the power to compute and levy taxes on properties and other utility services like drainage, water supply and many others. The past 15 years have witnessed tremendous reformations of the taxation system in India. Apart from the rationalization of the rates of tax, simplification of the different laws of taxation has even been done during this period. However, the process of tax rationalization is still in progress in the Republic of India.

**Constitutional amendment act:** For GST The One Hundred and First Amendment of the Constitution of India, officially known as The Constitution (One Hundred and First Amendment) Act, 2016, introduced a national Goods and Services Tax in India from 1 April 2017. The GST is a Value added Tax (VAT) and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the IGST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages Indian Central and State governments. It is aimed at being comprehensive for most goods and services. The GST implementation in India is "Dual" in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST).

**Research Methodology:** An exploratory research technique based on past literature from respective journals, annual reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax was used. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

### **Objectives of the Study**

1. To study the inexplicit opinions among the service providers and society about the Goods and Services Tax (GST).
2. To study impacts of Goods and Service Tax (GST in India) in service sector.
3. To study positive and negative effects of Goods and services Tax (GST) on service sector in India.
4. To understand the provisions of GST to which a service sector should be compliant.

### **Impact of GST on Service Providers**

#### **1. Expensive Services**

Currently 15 percent service tax is applicable on services rendered which include 0.5 percent for Swachh Bharath cess and 0.5 percent for Krishi Kalyan Cess. The GST will increase the rate of tax ranging between 18 percent to 28 percent which will result in expensive services and works. Whenever services attract lower than 15 percent service tax rates, the government will intervene to maintain its percentage.

#### **2. Collection of Service Tax from J&K**

Under the GST regime, service tax will be extended and collected throughout the entire country including Jammu and Kashmir. The GST also allows the Central Government to collect service taxes on rendered services in the state of Jammu and Kashmir which will eventually increase the Government's revenue.

#### **3. Registering the Place of Business**

Under GST, centralized registration will not be available as the service provider needs to get registered under that particular State Government for registering his business office as well as from where he/she intends to provide services.

#### **4. GST Returns**

The GST Service tax law offers a number of returns while the current service tax system provides two half-yearly returns in regards to the services rendered during that period.

The following are the GST service tax returns:

- For Outward supplies of sale made by taxpayer except for Compounding taxpayer
- For Inward supplies received by a taxpayer except for Compounding taxpayer
- For Monthly return except for Compounding Taxpayer
- For Quarterly return for Compounding Taxpayer
- For Periodic return by Non-Resident Foreign Taxpayer
- For Return for Input Service Distributor (ISD)
- For Return for Tax Deducted at Source(TDS)
- For Annual Return

## **5. Multiple Rates for Multiple Services**

Since the service sector of the country accounts to the country's \$2 trillion economy, there is a risk in slowing the sector's growth. However, different economic classes have different tax values and cannot be taxed at the same rate. Under GST, healthcare and education services will be exempted, while services offered by five-star hotels will be taxed at 28 percent. Telecommunication and financial services will be taxed at a rate of 18 percent triggering a downfall.

## **6. Additional Challenges**

According to the State Bank of India, some problems such as banks will need a minimum of six to eight weeks to ensure the working of some complex tasks including management of diverse back end processes, software training to link through the GST, employee training over new taxation system, and creation of a good management. There is no centralized registration for the Service sector while other jurisdictions under GST have centralized registrations.

### **Positive Effects of GST on Service Sector**

#### **1. No double taxation:**

This is one thing that was affecting many service providers. In the previous system of taxation, the works contract was complex, and this took a toll on many people. Here, the transfer of goods is a part of the service contract. This means that every invoice has the value of the goods used as well as the services supplied. These two attract a tax rate of 70% each bringing the total to 140% which is very high. With the implementation of GST, these two are considered to be one and thus taxed as 'supply of service.'

#### **2. More Clarity for Software Industry:**

For companies, that sell online software, it was not clear whether to apply VAT or Service Tax on the product. In GST regime, there is a clear distinction between products and services which will remove the confusion for service industry.

### **3. Repairs and maintenance:**

The service providers that provide repair and maintenance services to companies will be able to claim both the credit of input and credit of input services as provided by the GST system. The current regime only offers the credit of input services which is a bit limiting. Now that they can claim both of the credit of input and credit of input services, they can offer their repair and maintenance services at lower prices and thereby attracting more clients.

### **4. Access to inputs held in stock:**

The service providers will access CENVAT credit of input that is held in stocks. This is best applicable when a person is moving from one category of taxation to the next like the exemption category to the taxable one.

Check out this simple example – Earlier, service providers used to charge Service Tax to the clients and used to pay VAT on the goods purchased, like computers. It was not possible to set off VAT against Service Tax. But in GST regime, you pay GST on both sales and purchases and hence it's easy to claim input tax credit on that.

### **5. Fewer costs to service providers:**

In the previous system of taxation, the credit of VAT and CST that were paid to the input were billed to the service provider. Luckily, with the GST system, the CENVAT credit of SGST/CGST, as well as the IGST that are to be paid on inputs and capital goods are all taken care of under the GST system. This is a relief to the service provider.

### **6. The cost of inputs is likely to drop:**

Now that the multiple taxation systems are abolished, the cost of inputs will go down. Inputs taxations like VAT, Excise Duty, and the likes will no longer be an issue to deal with.

### **7. It will bring equality in all states:**

The previous taxation system did not cover Jammu and Kashmir. This presented a disadvantage to other places in India because taxation provisions did not cover these two places. However, GST now covers the whole land bringing all service sectors under the same taxation laws.

### **Negative effects of GST on Service Sector**

Other than the goods, there are also down sides to this system of taxation. These negatives include:

**1. Lack of a centralized registration:**

With the previous taxation system, many service providers rejoiced over being able to register all their businesses in different areas from a central place. However, this privilege has been taken away. Now, they have to register their businesses in the respective state and pay the CGST tax.

**2. Taxation for free services:**

If a business is going to supply services for free, they will still get taxed for it. Every supply that is made without consideration is taxed. This means you have to prepare yourself before you offer any free services.

**3. Increased cost of service to end consumer:**

Because the rate of taxation will go higher in the GST system, the end consumer will also feel a pinch of extra expenditure. The taxation is between 18% and 20%. Because this rate is high, the cost of service will be higher.

**4. Lack of a centralized system of accounting:**

Every business in every state has to have their accounting records because there is no centralized registration of businesses. Every business in every state is financially accountable to that state for taxation. This means that the accounts of the business will have to be separate.

**5. Burdensome filling of returns:**

As a business owner, you will have to file returns for all the businesses in all the different states separately. This is also because of decentralized registration. This can prove to be burdensome and tiresome as well. You are needed to file as many as 37 returns in just a year.

**6. The burden of public education:**

The business owner is charged with the responsibility of educating the masses on the benefits of this GST system. Failure of which may lead to unprecedented events.

**What you can do to comply with the GST?**

As a service provider who is subject to the GST taxation system, it is very important that you ensure your business complies with the provisions of GST. You can do the following to ensure that you comply with regulations of GST

### **1. File your returns under GST:**

When there has not been much activity in the business, you can file nil returns. Failure to comply with this will attract a penalty. You have detailed information on all activities of the business.

### **2. Vendor ratings:**

The government has a mechanism in place, which rates vendors based on how timely they are with their returns, their payments and so on. People who look forward for working with such vendors will be rating them on the basis of these scores.

### **3. Know your SAC:**

In GST regime, you need to mention 'Service Accounting Code (SAC)' for every service you sell. So, it's important for you to know the correct SAC of the service you are selling.

### **4. Raising invoices:**

Proper GST compliant invoices have to be raised under the GST system. Invoices issued to the GST showing compliance have specific fields that need to be filled before issuance. The issuance is done via a GST portal and information on both the buyer and seller are captured.

### **5. Know the applicable taxes:**

It is important to know that the GST system is made of two components and that is the CGST and the SGST. The taxes subsumed at the CGST include central excise duty, special additional duty of customs, services tax, additional excise duty, and additional customs duty.

The SGST component is made by subsuming the purchase tax, luxury tax, entertainment tax, VAT, Octroi and entry tax, and others.

If you are selling within your state, you need to apply SGST & CGST and if you are selling outside your state, you must apply IGST.

### **6. Use good GST accounting software:**

Good software will help you with filling your returns more easily and in a faster, error free way. Software will alert you of any discrepancies that may be there so that you can correct it before any damage is caused.

### **Conclusion:**

By subsuming all these to provide the country with a single taxation level, we can say it is a great move that will propel the economy even further. In as much as there will be some challenges, it is a great thing to have a single taxation system for the service providers.

For service industry, GST system has definitely increased the compliance burden. GST implementation is bound to face hiccups during initial days but things will be much smoother once the issues are addressed.

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