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## GST and Service Sector in India

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### Abstract:

*The Goods and Services Tax (GST) is a landmark step taken by Government of India to boost the growth of Indian economy and to introduce a more effective Tax regime. GST is a unified tax structure that was introduced by India on July 2017. The new regime has accompanied a significant changes in taxation levels and rules associated with it. The main focus of the present paper is to analyse the GST impacts on Service sector in India-both positive and negative effect. Present study is based on secondary data taken by various journals, reports and other sources. If we see the positive side of GST on service sector, GST is likely to put an end to the double taxation of services. For companies like profit books, 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 sector. The cost of inputs is likely to drop. Inputs taxation like vat, excise duty, and the likes*

*will no longer be an issue to deal with .There are also the downside of this system of taxation like-Lack of centralised registration, increased cost of services to end customers, the burden of public education etc. If we try to conclude we can say that GST is a great move that will push the economy even further. There will be some challenges, but it is a great thing to have a single taxation system for the service providers. For service sector GST system has definitely increased the compliance burden, but things will be much smoother once the issues are addressed.*

**Keywords:** GST, Service Sector, Tax. India.

The biggest tax reforms in independent India, the Goods and Service Tax (GST), finally rolled out at the midnight hour on June 30,2017, with President Pranab Mukharjee and PM Narender Modi pressing a button to mark the occasion in the historic central hall of Parliament. The new regime has accompanied significant changes in taxation

levels and rules associated with it. The GST replaces 17 central and State taxes, including Services tax, value added tax, octroi, duties and other charges except custom duties across the country except Jammu and Kashmir. The tax will create the common market in the \$2 trillion economy with 1.3 billion people. It is expected to curb Tax Terrorism and Inspector Raj. All the goods and Services have been slotted under 4 tax slabs-5 percent, 12 percent, 18 percent and 28 percent as against 15 percent levied on all taxable services. There is also a cess over above the highest rate for demerits goods.

Salient highlights of 4- slabs service tax structure are as follow:

- Luxury Hotels, gambling, race club betting and cinema services will attract a tax rate of 28 percent.
- Education, health care and non AC rail travel will remain exempted from the GST tax regime.
- Telecom and financial services will be taxed at a rate of 18 percent.
- Transport services will be taxed at the rate of 5 percent. Cab aggregates like Ola and Uber will have to pay 5 percent under GST in places of 6 percent.
- AC rail travel will attract 5 percent tax. Economy class air travel will attract 5

percent GST while business class will attract 12 percent.

- Non AC restaurants and AC restaurants will attract a GST of 12 percent and 18 percent respectively.

### **Objectives of the study**

- To study the main highlights of GST.
- To study the impact of GST on service sector in India.

### **Methodology**

The research paper is based on empirical study. It is a type of descriptive research paper and based on secondary Data taken from various Journals, news papers and other reports.

### **Review of Literature**

**Agrawal Kailashchandra Yogesh (2017)** attempted to explain the mechanism of GST and its effects on Indian economy and concluded that GST is at the infant stage in Indian economy and it needs some times to experience its effects on India.

**Kawle S Pooja and Aher.L.Yogesh (2017)** analysed the impact of GST on Indian Economy and concluded that GST will have positive impacts on Indian Economy. A single tax will help to maintain simplicity and transparency by treating all goods and services equal without giving a special treatment to some type of goods and services. GST may assure the possibility of overall gain for the economy.

**Poonam (2017)** tried to attempt to spot the concept of GST and its current status in India. The paper is an attempt to give information of GST system and cleared that GST would be very important step in the field of indirect taxation. It will reduce the cascading and double taxation effects by combining central and state taxes.

**R Sankar (2017)** analysed the impacts of GST on various sectors and conclude that GST have both positive and negative impact on each sectors. The GST system of indirect taxation has made the duty on manufacturing goods from 14 percent to 18 to 20 percent. As a result the price of the software products will be at high, which will give either a neutral or slightly negative effects on the technology sector as a whole.

### **Impact of GST on Service Sector**

The GST is said to have positive impacts on the economy as a whole. But when it comes to sectoral wise classification, the GST has positive as well as negative impact on each of the sector. Here the impact of the GST on some service sectors are given-

#### **Banking sector**

Banks have always been a huge pillar of the Indian economy. In India most of the banking and financial services are exposed to service tax, at the rate of 15 percent under the new tax regime, GST rate for financial services , transactions such as banking ,mutual funds, insurance has been increased to 18 percent from 15 percent earlier. Thus financial services transactions to become marginally costlier.

#### **Healthcare services**

There are no taxes on services to make them cheap and easily available to all. Healthcare services include care and treatment for illness, injury deformity, pregnancy and abnormality along with diagnosis service patient transportation services, also clinical establishment by the Hospital. Due to healthcare services are exempted from GST, the input tax credits are not available for

healthcare services provider. This increased the input tax cost and affected the burden of tax on healthcare services on end-users or patients.

### **Information technology sector**

Under GST the IT sector will now attract a tax of 18 percent. In the case of purely software businesses the cost of business increases under GST. Even though the GST rate for the IT industry has increased to 18 percent, it will still see continued growth to the boost in software sales.

### **Automobiles**

Buyers of passenger vehicles in the premium segment will be key beneficiaries of GST, which will reduce the effective duty on such models. Prices of small cars will more or less remain the same as there will only be a minor hike in the duty under the GST.

Cars will be taxed at the top rate of 28 percent plus a cess in the range of 1 percent to 15 percent. A current levy of indirect taxes on cars varies from 30 percent to 45 percent. The rate of GST is as per the expectations of the industry and almost all segments of the industry have benefitted by way of a reduced overall tax burden in varying degree. Moreover, elimination of cascading effect and efforts of input tax credit at every stage of

value chain will reduce the cost. So the impact of GST may be positive for car segment of automobile sector.

To make further reforms in taxation sector in India 23<sup>rd</sup> GST council meet was held on 10<sup>th</sup> November 2017. The main features of this meeting are-

- GST rate cut for more than 178 items.
- Massive relief for small businesses for compliance.
- All service providers with turnover up to rupees 20 lakhs exempts from GST registration. Including those who supply inter-state or supply through e-commerce operators, such service providers do not have to register.
- In case of restaurants GST rate cut to 5 percent with no input tax credit.

### **Conclusion**

It can be concluded that GST will have mixed impact on service sector. There was a concept of centralised registration in service tax, but no such provision in GST. Under GST service providers is required to take registration in every state from where he is providing service. Burden on service providers with respect to registration and further compliances is increased. But if we see at positive side in GST regime, double taxation has abolished. It can be concluded



that the GST is at the infant stage in Indian Economy. It will take some time to experience its effect on Indian Economy.

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