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IMPACT OF GST IMPLEMENTATION ON BUSINESS SECTOR ACROSS THE STATE OF KERALA

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The implementation of Goods and Services Tax (GST) in India marked a significant shift in the taxation system on July 1st 2017 aiming to streamline processes and unify the nation under a single tax regime. However, amidst the purported benefits of the GST framework, concerns have emerged regarding the treatment of businesses. While consumers have experienced the purported benefits of reduced tax burdens and streamlined processes, the business sector find themselves in comprehensive analysis of the current GST framework and its impact on business sector, this paper highlights the need for targeted interventions to mitigate their economic strain.

Proposing a solution-oriented approach, this paper advocates for the gradual implementation of corrective measures to alleviate the plight of business sector. By phasing in adjustments to the GST framework over time, policymakers can effectively address the concerns of business sector without disrupting the broader economic landscape. Such a gradual approach allows for the careful calibration of policy interventions, ensuring a balanced transition for all stakeholders involved.

Drawing upon insights from economic theory, policy analysis, and empirical evidence, this research paper offers practical recommendations for policymakers to consider. By prioritizing the concerns of business sector and implementing targeted reforms in a phased manner, India can realize the vision of GST as a transformative taxation system that fosters inclusive growth and equitable outcomes for all segments of society.

Keywords- GST, Business sector, Taxation, policy maker, targeted reforms, suggestive measures

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IMPACT OF GST IMPLEMENTATION ON BUSINESS SECTOR ACROSS THE STATE OF KERALA

The Goods and Services Tax (GST), introduced in India on July 1st, 2017, aimed to unify and simplify the nation's taxation system. Kerala, a state known for its diverse economic activities ranging from agriculture, transportation, construction to tourism and IT services, experienced both challenges and opportunities following the implementation of GST. This article delves into a comprehensive analysis of the impact of GST on Kerala's business sector, highlighting key aspects such as benefits, challenges, sector-specific impacts, and recommendations for reform.

INTRODUCTION TO GST AND ITS OBJECTIVES

GST replaced a plethora of indirect taxes levied by both the central and state governments, such as VAT, central excise duty, service tax, and more. The primary objectives of GST included:

1. UNIFIED TAXATION SYSTEM

One of the primary objectives of GST was to establish a unified taxation system across India. Before GST, the Indian tax structure was fragmented with multiple indirect taxes levied by the central and state governments. This fragmentation resulted in a complex tax environment characterized by tax cascading (tax on tax), where taxes paid on inputs were not fully creditable against output taxes. GST aimed to streamline this by subsuming various taxes into a single tax system. Under GST, both goods and services are taxed at multiple stages of production and distribution, but the tax burden is passed on to the final consumer. This has simplified the tax structure, making compliance easier for businesses operating across different states.

2. CREATION OF A COMMON NATIONAL MARKET

Another crucial objective of GST was to create a common national market by removing economic barriers between states. Prior to GST, interstate movement of goods faced numerous challenges such as entry taxes, octroi duties, and varying state-specific regulations. These barriers fragmented the market and hindered the free flow of goods and services across state borders².

² Anand Nayyar & Inderpal Singh, A Comprehensive Analysis of Goods and Service Tax (GST) in India, 12 INDIAN J FINANCE 58,63(2017)

GST has harmonized tax rates and procedures across states, facilitating seamless interstate trade. Businesses can now transport goods across India without encountering state-specific taxes and checkpoints, leading to reduced logistics costs and improved efficiency in supply chains. This has also encouraged businesses to expand their operations nationally, contributing to the integration of the Indian economy into a unified market.

3. SIMPLIFICATION AND RATIONALIZATION OF TAXATION

GST aimed to simplify and rationalize the indirect tax structure in India. Before GST, businesses had to comply with multiple tax laws, maintain separate records for each tax, and file numerous returns. This not only increased compliance costs but also created administrative burdens, especially for small and medium-sized enterprises (SMEs). Under GST, the tax compliance process has been streamlined through online filing and a single GSTN (GST Network) portal. Businesses now file consolidated returns covering all GST liabilities, reducing paperwork and compliance costs. Input Tax Credit (ITC) allows businesses to claim credit for taxes paid on inputs, thereby eliminating tax cascading and lowering the overall cost of goods and services.

4. BOOST TO ECONOMIC GROWTH

GST was expected to boost economic growth by enhancing the ease of doing business and improving tax compliance. By simplifying the tax structure and reducing compliance burdens, GST has encouraged formalization of the economy. Many businesses that were previously operating in the informal sector have now registered under GST to avail themselves of ITC and other benefits. Improved compliance and tax collections under GST have also provided the government with additional revenue resources. This revenue can be reinvested in infrastructure development, social welfare programs, and other initiatives that stimulate economic growth and development.

5. PROMOTION OF EFFICIENCY AND COMPETITIVENESS

GST aimed to promote efficiency and competitiveness across sectors³. With uniform tax rates and seamless input credit mechanisms, businesses have been incentivized to optimize their supply chains and improve productivity. The elimination of cascading taxes has made Indian goods and services more competitive in both domestic and international markets.

³ CLEAR IAS, <https://www.clearias.com/10-benefits-goods-and-service-tax-gst/> (last visited May 13, 2024)

Small businesses, in particular, have benefited from GST as it provides them with a level playing field against larger enterprises. The availability of ITC allows small businesses to reduce their cost of production and offer competitive prices to consumers.

6. REDUCTION OF TAX EVASION AND BLACK ECONOMY

GST was also introduced to curb tax evasion and the parallel economy. The transparency and digitization brought about by GST have made it more difficult for businesses to evade taxes. Every transaction under GST is recorded electronically on the GSTN portal, making it easier for tax authorities to track transactions and verify compliance.

Additionally, GST encourages businesses to source inputs from registered suppliers to claim ITC. This incentivizes businesses to operate within the formal economy and discourages the use of unaccounted transactions or black money⁴.

POSITIVE IMPACTS OF GST ON BUSINESSES IN KERALA

1. SIMPLIFICATION OF TAX STRUCTURE

- GST replaced multiple state and central taxes with a single tax regime, reducing the compliance burden for businesses in Kerala. This simplification streamlined tax administration and compliance processes.

2. UNIFIED MARKET

- Prior to GST, Kerala businesses faced challenges in interstate movement of goods due to state-specific taxes and checkpoints. GST eliminated these barriers, facilitating smoother logistics and reducing costs associated with interstate trade.

3. INPUT TAX CREDIT (ITC)

- Businesses in Kerala can claim Input Tax Credit for GST paid on inputs used in their operations. This mechanism reduces the tax burden on businesses by allowing them to offset taxes paid on inputs against their final tax liability.

⁴ Id. At 2

4. TECHNOLOGY INTEGRATION

- GST necessitated the adoption of digital technology for tax compliance. Businesses in Kerala had to digitize their operations, which improved efficiency, transparency, and ease of conducting business transactions.

5. BOOST TO ORGANIZED SECTOR

- The formalization of the economy under GST encouraged many businesses in Kerala to register and operate within the legal framework. This shift from the informal to the formal sector enhanced transparency, compliance, and access to credit.

CHALLENGES FACED BY BUSINESSES IN KERALA

1. INITIAL IMPLEMENTATION ISSUES

- Like other parts of India, Kerala encountered initial challenges during the transition to GST. Issues such as understanding new compliance requirements, technical glitches in the GSTN portal, and confusion over tax rates affected businesses, particularly SMEs.

2. IMPACT ON SMALL BUSINESSES

- SMEs in Kerala, especially those in the unorganized sector, faced challenges adapting to the new GST regime. Compliance requirements, the need for digital infrastructure, and skilled manpower posed significant hurdles for smaller enterprises.

3. TAX RATES AND CLASSIFICATION

- The multiple tax slabs under GST (0%, 5%, 12%, 18%, and 28%) created complexity for businesses in Kerala, particularly those dealing with products falling under different tax brackets. This necessitated careful classification and pricing adjustments.

4. SECTOR-SPECIFIC CHALLENGES

- Certain sectors in Kerala, such as tourism and agriculture, faced unique challenges under GST. The tourism industry had to navigate varied GST rates for accommodation, food services, and travel packages, impacting pricing strategies and competitiveness.

SECTOR-SPECIFIC IMPACTS IN KERALA

1. **Agriculture:** The agriculture sector in Kerala, crucial to its economy, experienced mixed impacts from GST. While certain inputs became cheaper due to GST, challenges in pricing and market access persisted, affecting farmers and agri-businesses.
2. **IT and Services:** Kerala's IT sector, known for its strong presence in software services and IT-enabled services, benefited from GST's clarity and uniformity in tax treatment across states. This facilitated easier interstate operations and contract management.
3. **Manufacturing:** Manufacturing units in Kerala adapted to GST by leveraging input tax credits and streamlining supply chains. The reduction in cascading taxes improved cost competitiveness for many manufacturing businesses.
4. **Tourism and Hospitality:** Kerala's tourism sector, a significant contributor to its economy, had to adjust to GST rates varying for different services. While GST facilitated better compliance and reduced tax cascading, pricing strategies had to be revised to remain competitive.
5. **Construction Sector:** GST simplified tax compliance, reduced costs with input tax credit, and encouraged formalization.
6. **Distribution Sector:** GST streamlined logistics, reduced interstate barriers, and optimized supply chains, benefiting businesses.
7. **Transportation Sector:** GST eliminated interstate tax barriers, improved logistics efficiency, and allowed input tax credit, enhancing operational competitiveness⁵.

STUDY FINDINGS AND RECOMMENDATIONS FOR REFORM

A study conducted across various levels of the business sector in Kerala provided insightful findings regarding the perceived impact of GST:

1. **Relief vs. Burden:** Only 18% of respondents viewed GST as a relief, while 32% disagreed, indicating prevalent uncertainty or dissatisfaction.
2. **Preference for VAT:** Surprisingly, 56% of respondents expressed a preference for the erstwhile Value Added Tax (VAT) regime over GST, suggesting discontent with the new taxation system.

⁵ KHATABOOK, <https://khatabook.com/blog/impact-of-gst-on-different-sectors/> (last visited June 25, 2024)

3. **Challenges Highlighted:** The majority (62%) emphasized the need for an increase in the turnover limit, coupled with concerns over technical difficulties associated with GST compliance.
4. **Refund Mechanism:** While 56% acknowledged the importance of a streamlined refund mechanism, 32% remained neutral, suggesting room for improvement in this aspect.
5. **Audit Expenses:** A significant 62% of respondents lamented the high audit expenses incurred under the GST regime, underscoring a substantial burden on businesses.

RECOMMENDATIONS FOR REFORM

Based on the study findings, several recommendations emerge to address the challenges faced by businesses in Kerala under the GST regime:

1. **Reduce Return Filing Frequency:** Implement a "Single Return Per Quarter" system to ease the compliance burden on taxpayers and consultants.
2. **Eliminate Reverse Charge Mechanism (RCM):** Abolish the RCM concept, which complicates tax compliance and accounting processes, causing undue strain on businesses.
3. **Raise Auditing Threshold:** Increase the threshold for mandatory audit to Rs 5 crores to reduce compliance costs and administrative burdens on small and medium-sized enterprises (SMEs).
4. **Reconciliation of Outward Supplies:** Simplify the process by enabling supplier-by-supplier quarterly reconciliation, enhancing compliance and minimizing data handling complexities.
5. **Relax Late Charge Provisions:** Avoid using late fees as a revenue source, fostering a more lenient approach to late filings to encourage compliance.
6. **Introduce Returns Revision Facility:** Provide taxpayers with the option to revise returns within the same tax period, facilitating easier rectification of errors and promoting smoother tax filing processes.

CONCLUSION

In conclusion, the implementation of GST in Kerala has brought about significant changes to the business landscape, offering benefits such as simplified tax structure, input tax credits, and a unified market. However, challenges remain, particularly concerning initial implementation issues, sector-specific impacts, and the need for further reforms to alleviate the burden on businesses,

especially SMEs. By addressing these challenges through targeted reforms and policy adjustments, Kerala can harness the full potential of GST to foster economic growth, enhance business competitiveness, and ensure equitable benefits for all stakeholders in the state.