

PRESUMPTIONS AND REALITY OF GST: A STUDY OF CEMENT SECTOR IN INDIA

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Abstract

The goods and service tax (GST) after its implication in July 2017, the much-awaited tax, which is also known as one tax was presumed to be one of the best tax system in Indian history and will benefit the economy. The study analysis the presumptions which are made before the establishment of the tax system and the effect and impact of the tax system after the implication of GST regarding the cement industry and its allied sectors.

Keywords: GST, pre-GST, Post GST Indian Cement Companies

1. INTRODUCTION

The Indian taxation system is divided into two types that are direct and indirect taxes. Whilst the direct taxes are levied on the individuals and corporate and which is further utilized for their benefit, whereas indirect taxes are levied on the sales and purchase of goods and services and the tax is collected by the seller and the burden of the tax is levied on the seller only for the benefit of the individuals. These taxes are levied to the different users by the central government and state government. (Investindia.gov).

As per the World Bank ease of doing business (EoDB) ranking 2019, the rank of India was enhanced and has taken a leap from the 142nd position surveyed in 2014 to 63rd position in 2019 as per the “World Bank Ease of Doing Business Ranking 2020”.

The study is further divided into 3 sections, where section one is the introduction of the study, in which the taxation system prevailing in India will be discussed, section 1.1 analysis the GST tax regime in India, 1.2 discusses about Pre GST regime to find out the difference that made in Indian tax system, section 2 study about the literature available about the pre-GST and post-GST taxation system and its effect on different sectors including cement and its allied industry. Section 3 is the Methodology adopted will be a systematic review analysis as a finding of the different studies done on pre and Post GST era and their assumption about the reality of the GST in the cement Industry. These different keywords related to GST and its impact on the cement industry will be studied on different researcher parameters and finally, the last section is about a conclusion that is derived from the methodology.

1.1 Analysis of the GST tax regime in India

GST regime was implemented in the Indian tax system in the year 2017 on 1st July. GST was considered as one of the biggest indirect tax in India. The tax is levied on manufactured goods and sales and consumption of goods and services provided by central and state governments. India follows the dual system of GST where both the taxes are levied by central and state governments. Figure 1 shows the different models of GST.

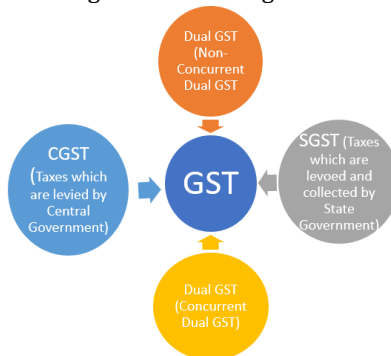


Figure 1: Models of GST

CGST- According to Central GST the tax levied is in the form of a National one-tax system. The tax is levied on the intrastate supply of the goods and services which collected by the central government leaving very little scope for the sub-national government to collect taxes.

SGST- The model in the GST is SGST that is the taxes that are levied by the state government and where the interference of central government from GST and VAT completely. In this instance, the state will serve GST as the instrument of distribution of taxes and redistribution of taxes. Because of the implementation of the SGST tax, where the central government's loss of revenue is by quitting this tax area which has been mitigated by a proportionate reduction in fiscal payments towards the state. This will certainly boost the states' revenue capacity and decrease their reliance on the central government.

Dual GST model: The dual GST model is divided into two categories

1. Non - Concurrent Dual GST
2. Concurrent Dual GST

Non - Concurrent Dual GST: As per the model, GST on products can be imposed by the state government only, whereas GST on services may be imposed by the centre government solitarily. In this model state governments already have the authority to charge taxes on the sale and purchase of products and immovable property, whilst the central government for taxation of services has the authority to collect taxes on services. There would be no effort that is required to impose a single central tax on interstate services. This dual GST approach would be unpalatable to both the central and states government.

Concurrent Dual GST: Concurrent Dual GST is also called the Indian GST model, which is the model having both the Central GST and State GST levies on a similar base. GST will be levied simultaneously by both the governmental levels as central and state governments. Under this paradigm, there will be Central GST, which is managed by the central government and the other is state GST which would be administered by the State government. Both products and services would be taxed concurrently by the central and states under this scenario.

GST in India also has some of the benefits to the Indian consumers which are mentioned in the below figure 2.

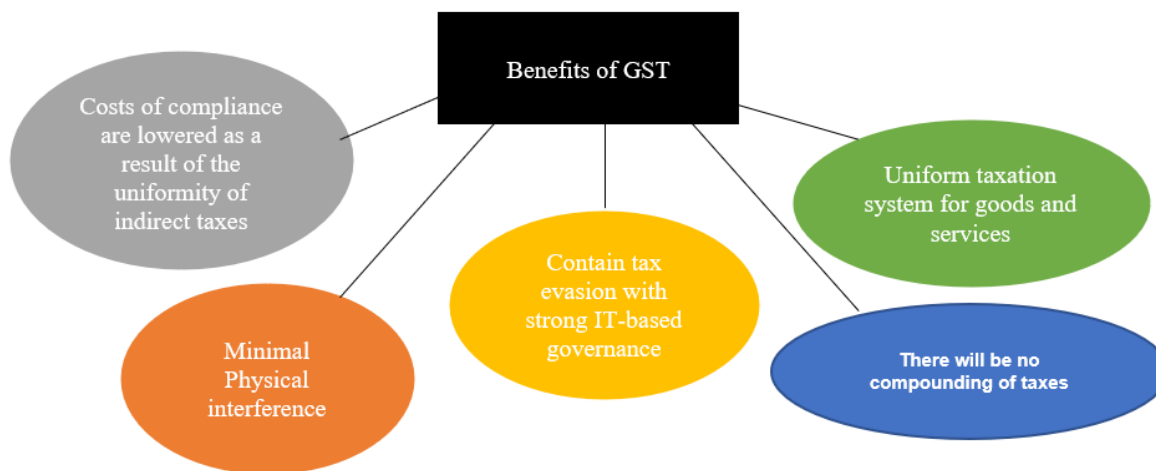


Figure 2: Benefits of GST

1.2 The Pre-GST Regime in Indian Scenario

The pre-GST regimes in the Indian cement industry during the implementation of Value-Added tax system (VAT), the taxes were implied according to the different states such as Rajasthan VAT was implemented with the rate of 12.5%. In the northern states, the rate of sales tax and VAT was similar to VAT with 8-12% and this was also considered as negative for the cement industry. The VAT implied in West- Bengal is considered in a positive manner with 20.70%, whereas in the eastern states the rate was around 12-13%, which was expected to be negative on the cement industry. In Maharashtra, the cement industry attracts the VAT with 15.80% which is considered as positive for the industry, whilst in another part of the western region of the country the tax rate was around 8-13% which is also found to be negative. In the southern region the VAT was applied at 12.5% in the cement industry, and this was also considered as positive.

1.2.1 Drawbacks related to VAT

- It was not feasible to obtain input tax credits (ITC) on services under the VAT system.
- The VAT has the cascading effect that makes the goods and services more expensive including other taxes in VAT tax
- Every state has different taxes and products goods and services increased and decreased as per the state
- CST contributions cannot be deducted from VAT or vice versa.
- Taxes come in a variety of forms.
- Every state has their own defined laws and legislation.

1.2.2 Introduction of GST over VAT

- The GST system's principal objective was to streamline India's tax structure. This will decrease the intricacy of the tax system before the GST, which was plagued by several multi-dimensional difficulties.
- The complication of taxes and its cascading effect were significant factors in the decision to abandon the previous system of taxation in goods and services.
- The previous tax structure includes many taxes including excise duty on manufactured goods, Wealth Tax, Sales Tax, Central Sales Tax, Import and Export taxes, Service Tax, Luxury Tax. This creates complications in the tax system and unintentional tax distribution.

LITERATURE REVIEW

As stated by Nayaka B (2021) an increased rate of GST has impacted the cement industry, which is not utilized and the reason is the economic impact and policy hindrance in the growth of the cement industry. The 28% slab rate of the cement industry, which is seen as the highest slab rate in comparison with the developing and underdeveloped countries and this has also been expected to be a burden for the end-users.

As per the study conducted by Manoj S (2019), it is assumed that after its implementation it will create a imperil in the cement industry. The imposition of a 28% tax rate on cement and allied industries have created encumber in the overtax charged from the industry. As per the financial year 2017, the cement industry has a growth rate of 11.14% and was expected to accomplish 407 million tons by the year 2017. According to the author, the study suggests with the implementation of GST will affect the profit of the sector and will have a negative impact on the industry and its allied sectors.

Rajamani, K., Lekshmi, R. S., & Ravi, A. (2018) study aims at comparing between existing tax system (VAT) and how the different traders perceive about the GST what challenges they will face with the implementation of GST in their turnover and growth of the industry. The study also analysis that if there is a scarcity of information and awareness about the one tax system may paralyze the implementation of the tax system specifically in the small towns, where the people and dealers from the authority.

Upashi, R. (2017) study analysed the effect of GST on the Indian economy and on the different industries including the cement industry. The author also identifies that change in the taxation system and bringing a unified tax system will bring together in a similar platform corporate and government sector both. Finally, the study suggests that the GST will bring mixed effects on the different sectors in the Indian economy.

According to the study conducted by Meena D (2015), he draws up a conclusion that being cement industry one of the crucial industries among the major eight industries of India, after the implementation of GST particularly regarding consumption, production, investment, and government intervention, which will deteriorate the growth of cement industry and its capacity won't be increased from more than 4%, whereas industry-wise capacity utilization will be 70% of the production.

Gupta N (2014) stated in his study that with the implementation of GST it is presumed that GST will be considered as a business-friendly tax system, the higher taxes charged in the cement industry will not be in the form of inflation in tax rates as one nation one tax system is followed through GST. This will also enhance the fiscal and economic condition of the government and for the consumers and dealers the tax system will be more transparent and tax dodging can be avoided.

According to the study conducted by Khan et al (2012) examines the weakness of VAT in comparison with the upcoming tax regime GST and how transparency is maintained through the GST. The study also focuses on the sectors which are not included in the GST tax system that are real estate, oil & gas, and many of the taxes are also not included in GST which may be seen as troublesome for the small and SME sectors.

METHODOLOGY

The methodology conducted for this research is a systematic review analysis adopted from Aromataris E and Pearson A (2014). For the conduct of the study keywords such as the implementation of GST on cement industry, implementation of GST in cement allied industry, the effect of GST on cement industry, the benefit of GST on cement industry, advantages of GST over CENVAT, CENVAT, GST. To search the relevant keywords from the databases such as Research Gate, Scopus, Elsevier, Google scholar, and directory of open access journals (DOAB). Other than this data was collected from magazines, blogs, and GST data websites.

To understand the process of systematic analysis figure one explains the process of systematic review analysis.

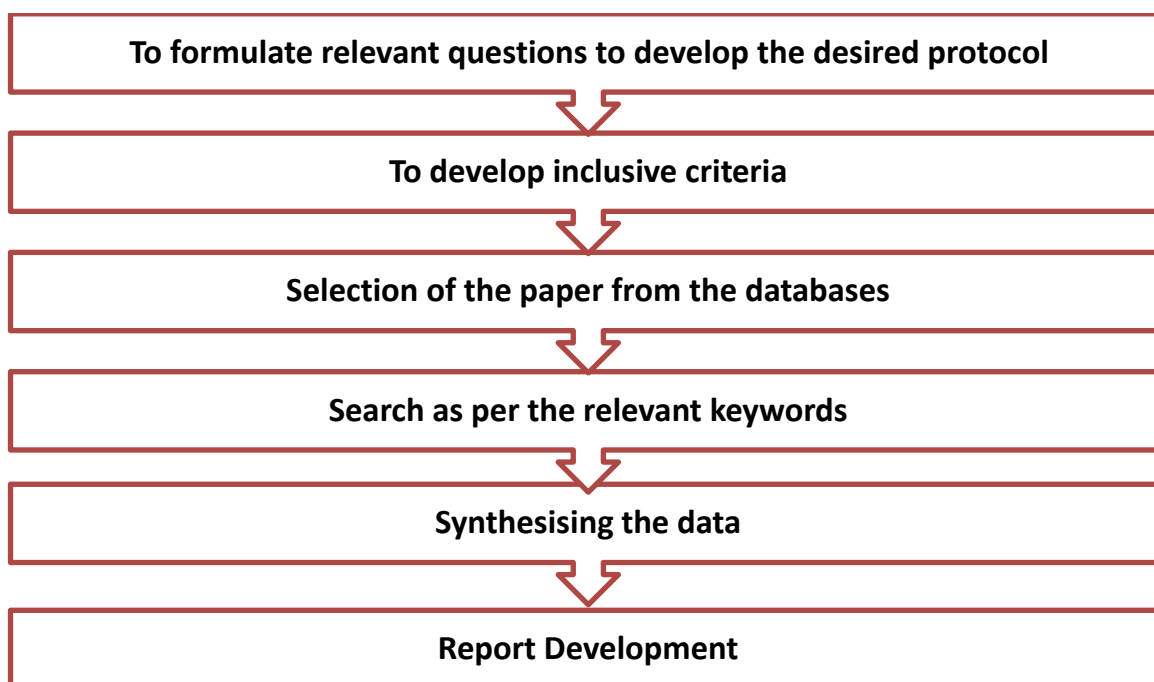


Figure 3: Systematic Analysis review

A detailed explanation of the process of a systematic literature review is mentioned below

- **To develop a relevant question to design and develop a relevant protocol**

THE OBJECTIVE OF THE STUDY

The study focuses on finding out the implication of GST on the cement industry and its allied industry and to find out whether the assumption which is made related to the GST and what is the reality of GST on the cement and allied industry. The research questions to find out the objective of the study are as follows:

- RQ1: Whether the assumptions made related to GST were appropriate
- RQ2: The previous tax system was much fruitful for the cement industry

▪ **Identifying and evaluating the different papers available**

To identify the paper available different databases were searched using the keywords related to GST, Taxation system, Taxation in India, Cement Industry taxation, GST in cement industry. With the keywords, further papers were recognized as having similar keywords. The outcome of this review process will provide the papers related to GST and the cement industry and its pre-assumptions and reality after its implication and whether it is proven as beneficial for the cement and its allied sectors.

▪ **Inclusion and exclusion criteria**

For the inclusion and exclusion criteria for the review study are illustrated in figure 4. The paper selected for the study from 2012- 2021, that is when the GST implication as a uniform tax system was proposed and was not introduced as a taxation system in India and later after the implementation of the taxation system in July 2017, what are the reality of the tax system over the cement industry and its impact on the cement and its allied sectors. The process is explained in figure 4.

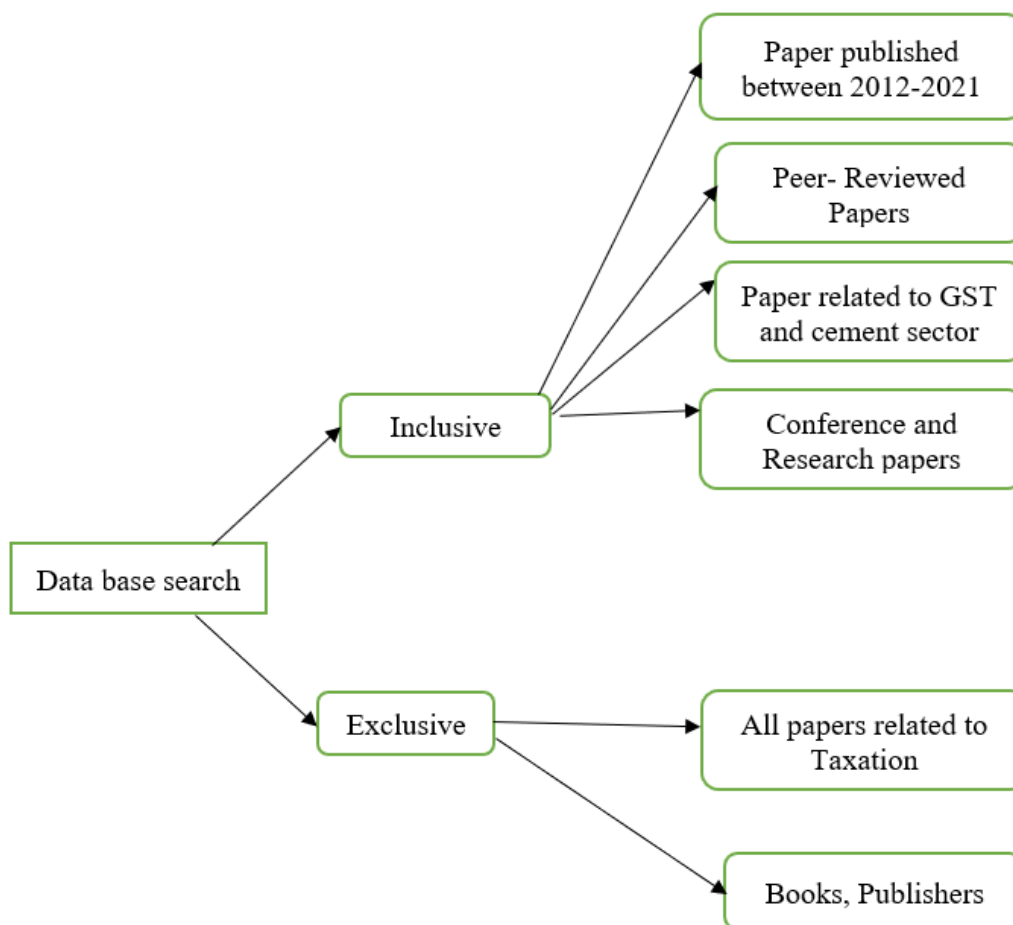


Figure 4: Inclusion and exclusion criteria

▪ **Synthesizing and extracting the data**

The synthesizing and extracting of the data are explained in figure 5

Figure 5: Synthesizing and extracting the data

According to figure 5, from the database of Google scholar, Academia, ResearchGate and Directory of Open Access Journal (DOAJ), Scopus, Springer, Sage publication the search criteria was implied having the GST impact or its future implication on the cement industry and its allied industry were selected and further reviewed. As per the selection criteria only 11 papers were selected for the review from the year 2012-2021. The rejected paper was either not specifically about the impact of GST on cement or it is about the complete taxation system process in the Indian context. Further figure 6 explains the selection process through PRISMA flow for the final selected paper identification.

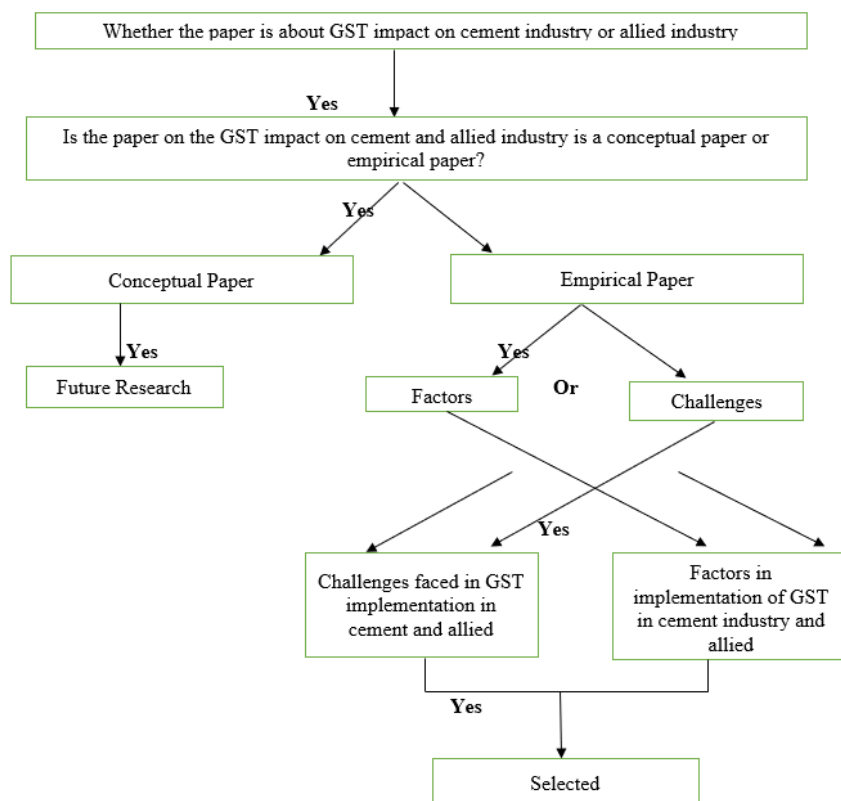


Figure 5: Synthesizing and extracting the data

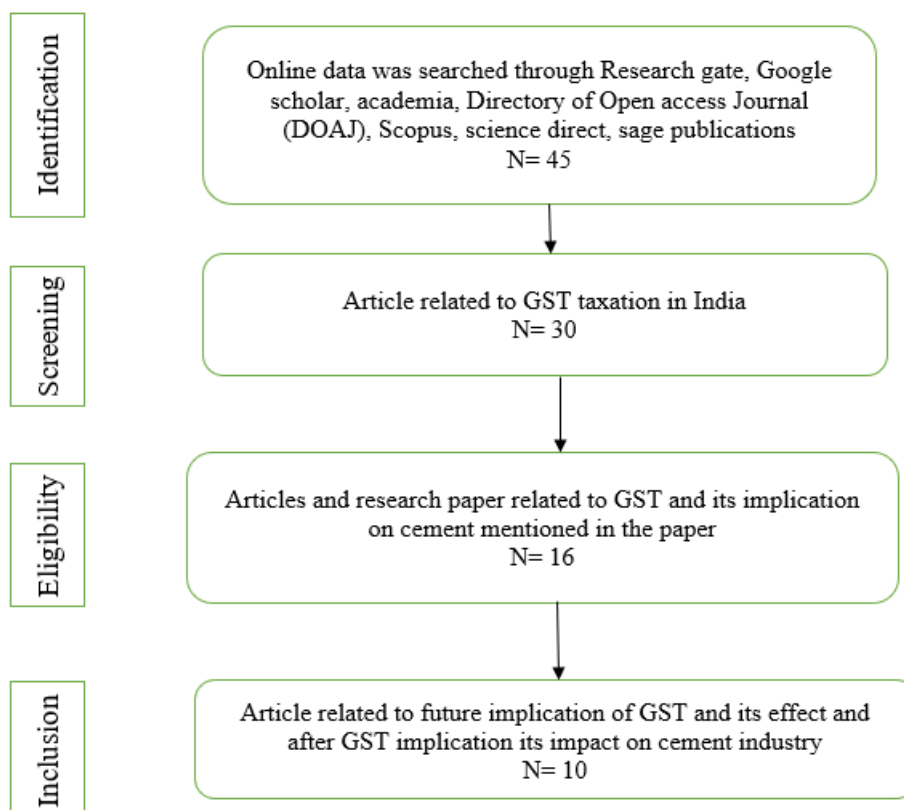


Figure: 6 PRISMA flow model

2. Result and Conclusion

The summary of the papers selected for the analysis as per the PRISMA flow model is mentioned in table 1.

5.1 Summary of 10 papers:

Author	Theory	Data	Factors/Variable	Findings	Method
Nayaka B (2021)	Impact of GST on Cement industry	Secondary data	Comparison on price rates on the cement after GST	To achieve more FDI in the real estate and construction sector government need to reduce the GST	Analytical study
Rajamani, K., Lekshmi, R. S., & Ravi, A. (2018)	Dealer's opinion about GST implication on cement industry	A questionnaire survey among 150 dealers in Chennai	Cement Dealer's opinion about GST over VAT taxation in India	More than 70% of the dealers feel that GST is appropriate, efficient, and transparent taxation system	Descriptive analysis
Manoj. S (2019)	Impact of GST in India over cement industry	Secondary Data	Impact of GST after its implementation over different sectors including cement	It will create a menace in the industry and with the increased rate it will hamper the production rate in India	Descriptive analysis
Shinde M (2019)	GST impact on the Indian economy and also on cement sector being eight largest sectors in Indian economy	Secondary data	Impact of GST on the Indian economy and some context to cement industry being one of the top eight industry	In the cement industry, GST will be seen as neutral as compared to VAT as no changes are found, but it is seen as a transparent system	Descriptive analysis
Taak A and Kumar (2019)	GST implication and SCM impact on cement industry	SAP-LAB methodology	Mixed method Primary data (Interviews) and secondary data	Supply chain management lack supply chain management and it affect the	Empirical research

				cement industry as the tax rate is 28%	
Kumar A(2017)	Challenges and future reforms related to GST after its implication in the Indian economy	Secondary data	Impact of GST on various industries and its effect after implication	The cement industry is on the neutral side after the implementation of GST as there is no change in the VAT and GST taxes	Analytical analysis
Swaroop P.U (2016)	Whether India gained or loose after the implication of GST	Secondary data	impact of GST on various industries and its effect after implication	After the implementation of GST in India, the cement industry will lower down the infrastructure cost	Descriptive analysis
Singh, D. P., & Agrahari, S. K.(2015)	The impact of GST on the manufacturing sector in the Indian market	Secondary data	Impact of GST on different economic sectors	With the implication of GST and reduction in cost after the VAT, the subsume of indirect expenses will provide benefit to the sector in the future.	Observation Method
Sayal, S. (2020)	Impact of GST on real estate sector in India	Secondary data	ITC and real sector and GST impact on the real estate sectors	With the implementation of GST, the real estate developers can claim ITC at 12%, and also GST has brought transparency in the system	Analytical analysis
Rane, N. P.,	To examine how	Secondary data	Construction industry	After the	

& Lende, P. K (2016)	GST will impact on Indian duty system		and impact on it after GST implication	implication of GST, there will be a steep increase in the construction sector	
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Table 1: Summary of the selected papers

As per the results achieved from the systematic literature review, it is analysed that the expectation of the dealers and consumers of cement and allied industry (real estate, construction industry, transportation, and supply chain management companies) was that there will be a positive impact on the cement sector with the implementation of GST with 28% of tax slab which is comparatively less from VAT that reaches to around 32% by including not only VAT but also octroi charges, service taxes. After the implementation of GST, there is a mixed review from the cement sector and allied industry, as according to some the GST is neutral as compared to the previous taxation system, but the only thing that is applicable in the GST tax system is transparency in the taxation system which was not there in the previous taxes. The real estate and construction companies show the positive response towards the GST implication there has been a disruptive change that not only the dealers of the real sector and construction companies can claim ITC but with a uniform levied system at the rate of 12% where they can avail the ITC benefits in the commercial projects, where if they are not availing the benefit of ITC it will be at the rate of 1% reduction in the taxes for affordable housing projects and for under-construction projects the rate is 5% reduction without availing ITC benefits.

FUTURE IMPLICATIONS AND SUGGESTIONS

This study is the analysis of presumptions that are made about the GST tax system in comparison to the previous taxes implacable in the Indian context. The study is conducted based on a systematic literature review from the research already conducted and the comparison was made accordingly. For future research, the limitation of the study was the data was collected on the secondary data, but for more detailed analysis researcher suggest to conducting primary research from the consumers and dealers and industry, to get the preview of both the perspective from consumers and dealers and how it has impacted the industry after the GST implication.

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