

CAN MODALITIES INVOLVED IN IMPLEMENTATION OF GST SCALP PROFITABILITY?

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Abstract

In semi-developed countries or in common parlance, developing countries like India, the taxation system occupies the pride of the place in that it forms the very crux of several issues pertaining to economic development. The tax revenue not only greases all the vital cogs of machines of governance but even innovation and progress have to stem from the same. The Indian tax system may seem a little like a maze which some companies are not able to negotiate expertly. Under such circumstances is there a possibility that the implementation of GST can adversely impact the profitability of a company? The paper also explored relationship marketing factors and profitability among all the aspects of performance per se. Can a cure of a problem worsen the problem itself instead of mitigating it? That is precisely what this paper attempted to investigate.

Keywords: GST, Performance, Tax Structure, Profitability, Financial Reporting, Eigen Value

INTRODUCTION

Goods and Services Tax is purported to be increasing competitiveness and performance in India's business environment. However, declining exports, as well as high infrastructure spending, are a few of the concerns proving to be bottlenecks for the real growth. Some companies are not able to expertly adapt to ground-up changes in the Indian tax system and the real impact of taxation is at its worst when the victims are business and profitability. Earlier there were multiple indirect taxes that had increased the administrative costs for manufacturers and distributors and businesses in general. But with GST in action, they are getting relaxation on compliance burden and due to it, all the sectors are supposed to grow more robustly.

After the implementation of GST, businesses which were not under any tax regime previously have to abide by the tax reforms and rules and are within the ambit of prevalent tax regime. Thus, GST is also avoiding the scope of tax evasion. Consumption tax for current pre-packaged retail products is not charged at the factory's transaction price, but at a percentage of the package's maximum selling price (MRP). This increases MRP and increases consumer costs. Under GST, the manufacturer pays taxes while purchasing raw materials for the product. This amount can be credited to the next reseller until the product reaches the end consumer. This greatly increases the tax burden. During the winter semester, submit the Central GST (CGST) and Integrated GST (IGST) bills along with the main GST bill through various major assemblies. Corporations, especially SMEs, are collected in a variety of industries. Extended indirect taxes GST replaces a variety of taxes such as excise, VAT and service charges with a single tax structure. With frequent skepticism, some start-ups and small businesses should be aware of the negative impact with the launch of GST. According to various government agencies, the GST system should help most SMEs. As industry experts have stated, it will be most effective to get rid of several central and state tax chain effects and start your business. But market optimism is not convincing enough as regards how the new deterrent will affect business and how it will change the company's bottom line. In order to understand all the impacts of tax reform, it is important to grasp the complex aspects of GST and related tax reforms in detail. GST has a wide ranging impact on profitability of the business. Here, what is being attempted is to ascertain the direction of the impact.

REVIEW OF LITERATURE

Sehrawat & Dhanda (2015) analysed the impact of GST on Indian tax scenario. He tried to highlight the objectives of the proposed GST plan along with the possible challenges and opportunity that GST brings. He concluded that GST is the most logical step in Indian indirect tax reforms. Further he mentioned that experts say that GST is likely to improve the tax collection and boost the economic development of the country. **Kumar (2014)** concluded that GST will help in eradicating economic distortion by current Indian tax system and is expected to encourage unbiased tax structures which will be indifferent to geo locations. **Garg (2014)** conducted a study focused on advantages and challenges of GST faced by India in execution. They concluded that a simplified and transparent tax system was the need of Indian economy. Pointing out the various advantages they said that GST will provide India a world class tax structure and a seamless tax system but it will depend upon effectiveness of its implementation. **Khurana & Sharma (2016)** conducted a study with a

view to explore various benefits and opportunities of GST by throwing a light on its' background, objectives of proposed GST plan and its impact on Indian tax scenario. They concluded that GST implementation will definitely benefit producers and consumers although its' implementation requires concentrated efforts of all stake holders especially central and state government. **Lourdunathan & Xavier (2017)** conducted a study based on exploratory research technique on the basis of past literature to study the opinions of manufacturers, traders, society etc. about the GST and the challenges and prospects of introducing GST in India. They concluded that no doubt GST stands with one tax one nation slogan and will provide relief to producers as well as consumers. Its efficient implementation will lead to resource and revenue gains. They also said that seamless credit and return processing without human intervention is required to educate, train, and conduct workshops on GST on the part of government.

RESEARCH METHODOLOGY

Research Objectives

- 1) To understand various factors affecting Profitability of firm Due to GST Implementation
- 2) To explore the variables of GST affecting taxation policies
- 3) To evaluate prominence of each factor by running EFA

Research Design

The present study is more of descriptive and causal in nature as in this study an effort is made to understand relationship amongst various determinants, moderators and customer demand and the impact of all of these on profitability. The causal design is also used in the research as it explains cause and effect relationship between determinants and consequences.

Data Source

This research paper employs both the primary data as well as the secondary data collected from various research papers, published industry compendiums and books, website articles, and published industry journals. Questionnaire was used to collect primary data.

With a view to collecting the desired data to meet research requirement, a structured and self-administered questionnaire is developed. Main objective of preparing this data collection tool was to understand Tax Practitioners perception about impact of GST on profitability and attendant business strategies. To design most suitable research tool, an intensive literature review was done. The purpose to carry such literature review was to find sales of measurements to be used in questionnaire in the form of questions. Multi item scale is used to measure all the variables of the determinants and moderators. All the items are measured on a 5-point Likert scale, where 5 stand for "Strongly Agree" and 1 stands for "Strongly Disagree". Entire questionnaire is divided in to two parts, initial part is about demographics profile of respondents and the later part is about customers' opinion about various sets of determinants and their impact on profitability or broad range of performance.

DATA ANALYSIS AND INTERPRETATION

In multivariate statistics, exploratory factor analysis (EFA) is a statistical method used to uncover the underlying structure of a relatively large set of variables. EFA is a technique within factor analysis whose overarching goal is to identify the underlying relationships between measured variables. It is commonly used by researchers when developing a scale (a scale is a collection of questions used to measure a particular research topic) and serves to identify a set of latent constructs underlying a battery of measured variables. It should be used when the researcher has no a priori hypothesis about factors or patterns of measured variables. Measured variables are any one of several attributes of people that may be observed and measured.

Method of Factor Analysis

Two of the most common methods for Factor Analysis are generally used: (1) Principal Component Analysis, and (2) Common Factor Analysis. Principal component analysis is a method of analysis which involves finding the linear combination of a set of variables that has maximum variance and removing its effect, repeating this successively. Common Factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors.

Differentiating between principal component analysis (PCA) and exploratory factor analysis (EFA), Munde (2016) contended that PCA mainly aims to achieve data reduction. That is, its goal is to find a number of factors that are able to represent the original data and make it easier to express, whilst the main purpose of EFA is to identify latent constructs. In other words, EFA aims to arrive at a parsimonious representation of the associations among measured variables. This distinction is important especially when we know that data reduction does not attempt to model the structure of correlations among the original variables.

With reference to previous brief discussion, we can say that not principal components analysis (PCA) but exploratory factor analysis (EFA), was considered to be the most appropriate technique for this study scales.

KMO and Bartlett's Test of Sphericity

Further, before conducting factor analysis, we must check the appropriateness of using this multivariate analysis technique. This can be done using Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett's test of sphericity (Nargundkar, 2003). As recommended by Kaiser, values above 0.7 are good whereas Between 0.5 to 0.7 also acceptable. (cited by Andy Field, 2005). The KMO measures the sampling adequacy which should be greater than 0.5 for a satisfactory factor analysis to proceed. If any pair of variables has a value less than this, consider dropping one of them from the analysis. The off-diagonal elements should all be very small (close to zero) in a good model. Looking at the table below, the KMO measure is 0.709 hence it is inferred that the sample size is the adequate for the factor analysis.

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.709
Bartlett's Test of Sphericity	Approx. Chi-Square	29169.970
	df	406
	Sig.	0.000

Bartlett's test of sphericity tests the null hypothesis that the original correlation matrix is an identity matrix. For factor analysis, this is an important starting point since the technique is useful only if the variables are correlated. Therefore, for the test to be significant the p-value should be less than 0.05. In this data, the Bartlett's test shows the p-value as 0.000 for chi-square statistic (29169.970) at 406 degrees of freedom and hence the null hypothesis of correlation matrix being an identity matrix is rejected. Therefore, it is established from the statistical measures that the variables have some correlation and therefore, factor analysis is appropriate.

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	12.992	44.799	44.799	12.992	44.799	44.799	4.869	16.790	16.790
2	3.675	12.674	57.473	3.675	12.674	57.473	4.852	16.732	33.521
3	3.155	10.880	68.354	3.155	10.880	68.354	4.268	14.717	48.239
4	2.771	9.556	77.910	2.771	9.556	77.910	3.955	13.637	61.875
5	1.379	4.755	82.665	1.379	4.755	82.665	3.839	13.239	75.114
6	1.137	3.921	86.587	1.137	3.921	86.587	3.327	11.473	86.587
7	.779	2.686	89.273						
8	.545	1.880	91.153						
9	.503	1.735	92.888						
10	.352	1.213	94.100						
11	.343	1.182	95.283						
12	.263	.909	96.191						
13	.239	.825	97.016						
14	.185	.639	97.656						
15	.159	.547	98.203						
16	.110	.379	98.582						
17	.096	.331	98.913						
18	.079	.272	99.185						
19	.059	.204	99.389						
20	.045	.155	99.544						
21	.040	.139	99.683						
22	.025	.088	99.770						
23	.020	.069	99.839						
24	.014	.049	99.888						
25	.011	.037	99.925						
26	.009	.031	99.955						
27	.006	.022	99.977						
28	.004	.014	99.992						

29	.002	.008	100.000						
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Extraction Method: Principal Component Analysis.

The initial solution was determined using PCA method. A method widely used for determining a first set of loadings. This method seeks values of the loadings that bring the estimate of the total communality as close as possible to the total of the observed variances.

Table lists the Eigen values, associated with each linear component (factor) before extraction, after extraction and after rotation. All factors with Eigen values greater than 1 are extracted which leaves us with 29 variables reduced to six factors. Rotation has the effect of optimizing the factor structure and one consequence for these data is that the relative importance of six factors is equalized. First factor explain approximately 44.799 % of variance and other five factor also explain the significantly high variance. Also, it shows a cumulative percentage of 87% of the total variance explained by the six factors and leaving 13% of the variance to be explained by the other 23 components.

Using Kaiser's criterion, the study sought variables with eigenvalues greater than or equal to 1. The first six components had eigenvalues greater than or equal to 1 and accounted for 87 percent of the variance, with component 1 accounting for 44.799 percent of the variance, component 2 explained 12.674 percent of the variance, component 3 explained 10.880 percent of the variance, component 4 explained 9.556 percent of the variance, component 5 explained 4.755 percent of the variance and last component explained approximately 4 percent of the variance. Therefore based on the total variance explained analysis, a maximum of 6 components could be extracted from the combined data set.

The Kaiser criterion has a weakness as it has a tendency to overstate the number of factors. Kalamkar (2002) proposes the use of a scree plot in determining the number of components to retain. The scree plot graphs the eigenvalues against the component number and displays a point of inflexion on the curve, which can be used in determination of number of components to extract. The components before this point indicate the number of factors to retain while the components after the point of inflexion show that each successive factor is accounting for smaller and smaller amounts of variations hence should not be retained.

The rotated component matrix shows the factor loadings of each variable onto each factor. Factor loadings less than 0.4 have not been displayed. As cited by Field (2009), the original logic behind suppressing loadings less than 0.4 is based on Stevens' suggestion that this cut-off point is appropriate for interpretative purposes (i.e. the loadings greater than 0.4 represent substantive values.)

The rotated component matrix helps to determine what the factors represent as the factor loadings denote the correlation (coefficients) between the variable and the factor. The object of the rotation is to ensure that all the variables have high loadings only on one factor. While the researcher has the option of selecting from the two rotation methods: Orthogonal and Oblique; the first method has been selected here so that the rotated factors remain uncorrelated. For this purpose, the rotation method used is 'Varimax'. Larger loadings on a single factor help to interpret the underlying factor. Finally, the factor analysis procedure gives six factors reduced from 29 variables.

Rotated Component Matrix	Component					
	1	2	3	4	5	6
Filing of Indirect tax returns has changed Drastically due to GST	.923					
GST filing process has become smoother than earlier system	.850					
GST filing Process has become safer than earlier system	.835					
It has become very easy to adhere to the compliances due to GST	.820					
Tax Refund system has become faster than earlier system	.915					
Implementation of GST has affected the cost of finished Product		.927				
Implementation of GST has affected the cost of Materials		.784				
Cost of supply chain/ logistics has largely affected due to GST		.931				
Overall there is positive impact of GST on cost of product		.769				
Cost Management has become easier due to GST		.811				
It has become very simple to manage records of inputs from suppliers than earlier						.680

Suppliers of Inputs are positively motivated due to GST system					.623
Benefits of Input tax credit is quite significant in GST system					.778
It is beneficial for suppliers even to manage records of inputs in GST system					.666
Tax payment by suppliers has significantly gone down due to GST system than earlier					.786
It has become very easy to communicate about new tax system to Customers than earlier			.849		
Communication about GST with supplier has become quite simple than earlier system			.763		
Customers can be informed well about new system than earlier			.835		
Benefits to the customer due to new tax system to the customer can be communicated easily			.847		
Supplier benefit due to GST can be communicated easily than earlier			.746		
It's become quite easy to fix price of the products and services in GST then earlier system				.803	
Price determination process under GST is simple than earlier system				.678	
Pricing of goods and services have become more transparent under GST than earlier system				.736	
Ambiguity of pricing has reduced under GST than earlier system				.877	
There is significant impact of GST on Profitability of the firm due to GST than earlier system			.857		
It has become quite easy to maintain profitability under GST than earlier system			.857		
Profit Margins have significant effect of GST Implementation			.722		
It has become very easy to design long lasting profitability Strategies under GST than earlier system			.839		
			.716		
Extraction Method: Principal Component Analysis.					
Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 8 iterations.					

CONCLUSION

This paper is based upon exploratory factor analysis. It is possible to draw insightful inferences from the data collected from the primary survey as well as judicious use of secondary data used here. As can be seen in the above analysis, in total six prominent factors are extracted from the quantitative analysis. The paper also explored relationship marketing factors namely- Compliance factor, Cost factors, Supplier factor, Communication Factor, Pricing Factor, Profitability Factor and Impact of GST. Further this research con this explored variable and later on tries to establish structural causal model of GST Impact on Profitability vis-à-vis business strategies being adopted to improve the bottom line.. Most significantly it brings forth the underlying effect of GST implementation on the over performance of the companies and their profitability as the focal reference point.

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