

## GST: efficiencies have risen in manufacturing

India's manufacturing sector gives a major thrust to economic growth, contributing to the GDP, creating employment opportunities and attracting foreign investments.

The Industrial Policy Resolution of 1956, known as the economic constitution of India, laid down the structure of the manufacturing sector. Subsequent policies have continued to give importance to the sector.

The share of manufacturing in the GDP was 16% at the beginning of the 12th Five Year Plan. While the service sector's share is predominant, it is pertinent to note that the manufacturing sector is a major consumer of services.

Till recently, the manufacturing sector was burdened with multiple indirect taxes viz. central excise, service tax and VAT. In addition, non-availability of tax credit for central sales tax increased the cost. Introduction of GST, in the backdrop of the 'Make in India' initiative, does away with multi-layered taxation.

For major sectors, tax rates are mostly in line with the present effective tax incidence. Sectors such as consumer durables, construction material and FMCG, GST rates have seen a marginal difference.

State-border check posts, established to scrutinise documents and location-based compliance, adversely impacted the overall production and logistics time, which reduced the efficiency of Indian manufacturers.

These check-posts have been abolished with the introduction of GST. The new tax regime will unify the Indian market and help smooth the flow of goods within the country. Prior to GST, the inter-state sale was subjected to 2% CST without input credit, whereas GST on inter-state supply is available for input credit. This would lead to removal of an extra level of warehousing in the supply chain resulting in cost benefits.

GST contemplates input credit of tax on supply of goods or services. The GST Act provides a list of services for which input credit is not available. Thus the system intends to provide seamless input credit. This welcome change helps businesses plan well on product pricing and estimating cash flows.

Anti-Profiteering rules mandate that any reduction in the tax rate or the benefit of input tax credit needs to be passed on by way of commensurate price reduction. Standing committees, both at the Central and State levels, will examine complaints and refer cases for investigation based on merit.

After investigation, the Directorate General of Safeguards will report to the anti-profiteering authority. The authority will review the report before taking a decision.

The authority, which has a sunset period of two years, has powers to debar an assessee from conducting business, to levy penalty, or to enforce refund of proportionate price reduction.

The GST system excludes certain petroleum products. Natural gas, a clean fuel, is one of them. Certain industries which use them as key input were allowed input credit under the erstwhile VAT system. Keeping natural gas out of the GST system would increase the production cost. The GST Council, which is considering this aspect, has to take quick, positive action in this regard to avoid cost increases.

Another important issue is how exemptions and incentives granted under the erstwhile excise and VAT system would be continued under the GST regime. Central and State governments are yet to come out with a concrete proposal. It has to be ensured that what was intended, while granting the incentive, is continued under the GST system.

### **Going forward**

The GST System contemplates seamless input credit. Administrative machinery has to ensure this is implemented in letter and spirit. The GST Council has to constantly watch developments and give suitable directions to achieving the objective of seamless input credit.

The Council should also ensure that actions taken by the anti-profiteering committee are genuine and not arbitrary. This will boost the confidence of the industry in the GST system and embolden them to concentrate on business development.

The Council has to take a pragmatic view in making changes to the tax rate for certain goods and services about which select industries are concerned.

Both the Central and State governments have to be congratulated for implementing the GST system in a smooth manner, without disrupting businesses. The manufacturing sector has always extended its support to the initiatives taken by the Government. Now too, this sector has accepted the GST system and is working well with the governments.

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**This is the fourth instalment of a six-part series on GST implementation across industries. The series has been facilitated by the Confederation of Indian Industry**

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