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# A Study of Goods and Services Tax on Manufacturing units with special reference to 'Rainbow International PVT. LTD. Patna'

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**Abstract :** *The announcement of GST on 1<sup>st</sup> July, 2017 created significant disruption throughout the economy. This study analyses the impact of GST on manufacturing unit and consumers perception to this, 'One Nation One Tax' concept. Conceptually, GST has numerous benefits This study is focused on the fact that manufacturers and consumers need to have more knowledge about the benefits of GST. Overall GST is known to be beneficial for both the consumer and the manufacturing concern including Rainbow International Pvt. Ltd.*

**Key words:** *GST, CGST, IGST, ITC, CST, VAT, Cascading effect.*

### Introduction :

Tax is system of raising money to finance the Government, who in turn uses this revenue to fund soldiers and police, builds dams and roads, funds schools and hospital, allocates funds for people below the poverty line and for various other purposes. (Charles E. McLure Jr et al)

Taxes in India are levied by the Central Government and the state governments. Local Authorities can also collect some minor taxes like municipality tax

GST or Goods and Services Tax is a replacement of many Indirect Taxes in India. The Goods and Services Tax Act was passed in the Parliament of India on 29<sup>th</sup> March 2017. The GST ACT came into effect on 1<sup>st</sup> July 2017.

GST has enabled people to pay a unified tax on goods and services instead of 17 different taxes paid in pre GST regime. The two sales on which GST is charged are Intra-state sales and Inter-state sales respectively. In Intra-state sales the goods are produced and its and consumed in the same state whereas in Inter- state it is done between two different states.

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### Levy of GST :

Intra-state sales = Central GST & State GST

Inter-state sales = Integrated GST

### Purpose of Goods and Service Tax (GST)

- One Nation One Tax
- Reduce the Cascading Effect of taxes
- Set Off of Indirect Taxes
- Overlapping of State VAT and Service Tax
- State Taxes and VAT
- Cascading of Taxes
- Tax on Goods
- Tax on Services
- Double Taxation
- Origin Based Tax

### Impact on Manufacturing Unit :

The manufacturing sector might be revived under the focused efforts of government and by an implementation of GST regime that could even lead to experience a paradigm shift from an agrarian economy to manufacture and service based economy. For India, becoming a manufacturing hub will need various strategic reformations to simplify the existing system in the country. One of the much-publicized proposed reform “make in India” scheme initiative taken by the government is aligning with the implementation of the **GST. The implementation of GST will significantly improve the competitiveness and performance of India’s manufacturing sector. However, prior to its roll out, it will be incumbent upon the Indian government to address certain stakeholder concerns, if it wants to foster long term growth in this sector.** The manufacturing sector in India is not only plagued with concerns ranging from decline in exports and infrastructure spending but also with the burden of complying with a complex indirect taxation system. Multiple indirect tax legislations have led to significant compliance and administrative costs, classification and valuation disputes and generally impaired the ease of doing business in this sector. The implementation of Goods and Services Tax (GST) is therefore critical and necessary to give a boost to an already flagging sector.

GST is one of the key policy changes that will have a direct impact on manufacturing establishments. So far, the existing complex tax structure has been a dampener, resulting in a slow growth of the sector. GST is expected to liberate the sector by unifying tax regimes across states.

Over all, GST is expected to have a positive impact and boost manufacturing. Here is why

- Removal of multiple valuations will create simplification
- Improved cash flows
- Reduced Cost of Production
- Hassle Free Supply of Good
- Restructuring of Supply Chain Management
- Area Based Exemption
- Removal of Cascading taxes will lead to Lower Cost to Consumer
- Entry tax sub-summation will reduce cost of production

### Objectives

- To develop a general understanding on GST implemented in India on 1 July 2017.
- To determine the features and impact of GST in general on manufacturing concern.
- To determine the impact of GST on Rainbow International Pvt. Ltd.
- To check whether GST reduces the cost of production in general and in Rainbow International Pvt. Ltd.
- To identify that the manufacturers are able to return filing online (in special context to Rainbow international Pvt. Ltd.).
- To compare its Pre-GST scenario with Post GST scenario.
- To evaluate Rainbow International Pvt. Ltd performance after GST.
- To ascertain the extent of success attained by rainbow international Pvt. Ltd. after GST.
- To Study the perception of Consumer towards GST in general.
- To Study the perception of manufacturer’s towards GST in general.

### **Hypotheses :**

A supposition or proposed explanation made on the basis of limited evidence as a starting point for further investigation

- GST on manufacturing unit is a positive initiative for them to attain success in doing business.
- The position of Rainbow International Pvt. Ltd is better in Post GST period

### **Methodology :**

The conclusiveness of research means performing a methodological study in order to prove a hypothesis or answer a specific question. The findings will be used as an input for decision making .The study followed a well-defined line of action in order to have disciplined methodology. Collecting correct data can make any project successful. The data information can be of two types:- Primary data and Secondary data. Primary data is also known as 'first hand data' as it is solely collected by researchers themselves whereas Secondary data is also known as 'second hand data' as it is collected by any other person or organisation but used as reference.

- **Primary Data Sources :** The Primary Data have been collected from the sources of Rainbow International PVT Ltd. through structured questionnaire and friendly interview. The data has been collected by constructing a schedule of questions. The questionnaire has been prepared for the study of GST in manufacturing concerns with point of view of consumers in Patna
- **Secondary Data Sources :** Secondary Data were collected from sources like-
  - Internet
  - Booklets
  - Magazine
  - Newspaper

### **Data Analysis and Interpretation**

- **Manufacturers**

#### **Table 1.1. Manufacturer's perception on the impact of GST on the profit level of their business.**

It can be clearly seen in the pie chart (fig-1.1a) that the majority of the respondents i.e. 78.26% have reported increase in their profit levels after the introduction of GST (Goods and Services Tax).

#### **Table 1.2. Manufacturers perception towards their Cost of Production in the post GST.**

In the Fig-1.2a, it is clear that majority i.e. 57% of the manufacturers agreed that GST has reduced the cost of production. This 57% included 47.83% of agreed manufacturers and 8.70% of strongly agreed manufacturers. Hence, it can be concluded that GST has reduced the cost of production for the manufacturers.

- **Rainbow International PVT. LTD.**

#### **Table 2.1. Classification of products manufactured by Rainbow international in the ratio they are produced**

From the fig 2.1a, It can be clearly seen that, Rainbow international produce water tanks in majority i.e. 50%, pipes 43% and rest 7% they produce ice cream boxes as it is seasonal product.

- **Consumer**

#### **Table 3.1. Classification of respondents on GST increases the tax burden on common man.**

According to Fig-3.1a, it shows that majority of the respondents i.e. 33.6% agree with this statement and 31.9% disagree with it which is very close. Also, 4% strongly disagree, 24.5% are neutral and 6% are strongly agreeing. So, it can be concluded that majority of the respondents agree to this statement.

### **Findings :**

After analysis and interpretation of the data following findings were emerged:

- **Manufacturer's Perception**
  - More than 47% of the manufacturers responded that GST has reduced Cost of Production.
  - Also it was reported that GST lead to increase in sales and hence profit level also increased.
  - Around 86% manufacturers purchase their raw material from Bihar
  - More than 25% manufacturers responded that GST will have a positive impact on small scale Industries.
  - GST more or less confuses the manufacturers.

- In Rainbow International PVT. LTD.
  - The sales has increased in post GST years
  - Cost of production decreased 168/kg to 148/kg
  - The company files monthly GST through online method
  - Tax burden after GST has decreased.
- Consumer's Perception
  - Most of the respondents are female
  - Majority of the respondents i.e. 59.1% comes under the age group 20-30 years.
  - More than 70% of the respondents belong to the category any other which mostly included students in their UG and PG courses.
  - Most of the respondents perception is positive towards GST and they are somewhat aware of GST through mass media.
  - Majority of people said that GST is a very good tax reform for India and it is a turning point of the taxation system.
  - Majority of people said that there is still a need for clarity on GST and open discussion on it.

#### **Conclusion :**

It is concluded that GST provides various benefits specially to the manufacturing sector. Some are destination based tax system instead of Origin based and introduction of ITC (Input Tax Credit) which has reduced the cost of goods.

Elimination of cascading effects of tax, the cost of production has also reduced. The compliance burden, specially on manufacturers has also gone down to a great extent.

Due to implementation of GST the sales has comparatively increased for Rainbow International PVT. LTD.

It was also found that in post GST scenario manufacturers are able to file tax returns themselves.

#### **Suggestions :**

- Suggestions to Manufacturers
  - Most of the manufacturers do not have in-depth knowledge about GST. So seminars, awareness camps, workshop should be set up for these manufacturers.
  - Most of the manufacturers depend upon intermediaries to file online return rather than knowing that they can do it themselves and hence incur extra cost because of lack of knowledge as to how to file the return. So, the manufacturing unit can take proper help from the GST consultancies and get themselves educated on the certain tips and tricks so they can enhance their business performance.
  - The higher hierarchy of the manufacturing units should educate their employees on the needs and aspects of GST.
- Suggestions to Rainbow International Pvt. Ltd.
  - The company should educate their consumer and its employee on GST.
  - The company can also organize training camps for its employees.
- Suggestions to Consumers
  - Most of the consumers are still unaware about GST which creates confusion in their minds. So they should arrange and attend campaigns, awareness camps, road shows etc.
  - Also Government, Semi-Government and non-government organisation should take initiative in order to educate ordinary people about GST.

**LIST OF TABLES**

• **Manufacturers**

**Table 1.1. Manufacturer's perception on the impact of GST on the profit level of their business**

Sr. No.	Response	No. of respondents	Percentage (%)
1.	Increased	18	78.26%
2.	Decreased	5	21.74%
	Total	23	100%

**Table 1.2. Manufacturers perception towards their Cost of Production in the post GST**

Sr. No.	Response	No. of respondents	Percentage (%)
1.	Strongly Disagree	1	4.35%
2.	Disagree	3	13.04%
3.	Neutral	6	26.08%
4.	Agree	11	47.83%
5.	Strongly Agree	2	8.70%
	Total	23	100%

• **Rainbow International Pvt. Ltd.**

**Table 2.1. Classification of products manufactured by Rainbow international in the ratio they are produced**

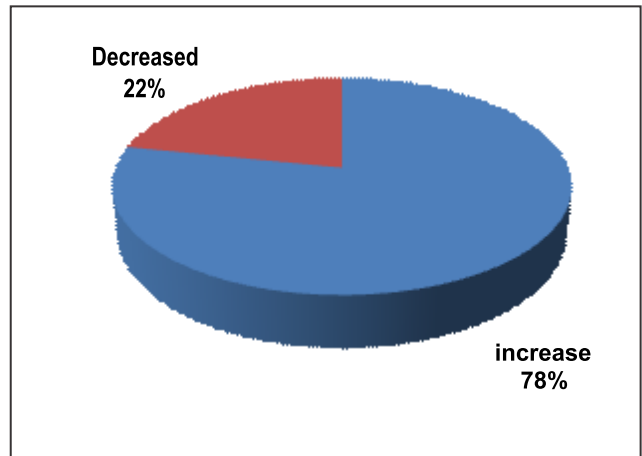
Sr. No	Products	Percentage (%)
1.	Pipes	43%
2.	Water Tanks	50%
3.	Ice cream boxes	7%
	Total	100%

• **Consumers**

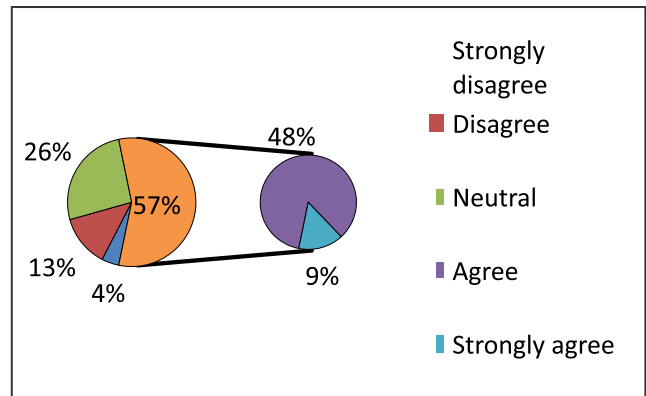
**Table 3.1. Classification of respondents on the statement "GST increases the tax burden on common man"**

Sr. No.	Response	No. of respondents	Percentage (%)
1.	Strongly Disagree	8	6.9%
2.	Disagree	4	4%
3.	Neutral	24	21.8%
4.	Agree	53	48.2%
5.	Strongly Agree	21	19.1%
	Total	110	100%

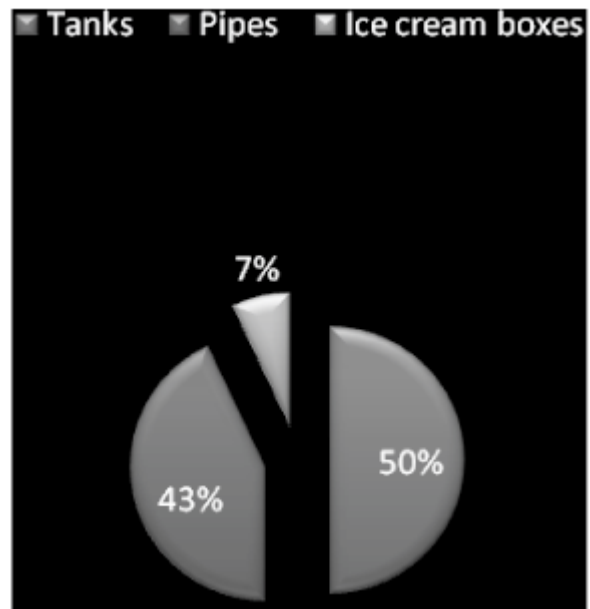
**LIST OF FIGURES**



**Fig. 1.1.a**



**Fig. 1.2.a**



**Fig. 2.1.a**

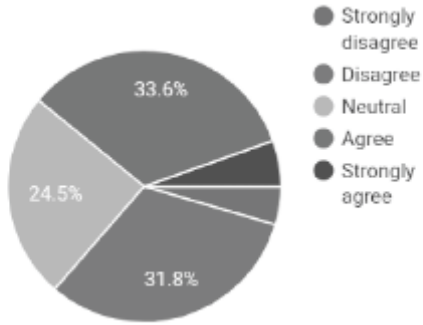


Fig. 3.1.a

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