

Impact of GST on performance of Manufacturing and Service sectors in Bengaluru

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Abstract : *GST abbreviation for "Goods and Services Tax", it is the replacement of indirect tax in India imposed on the production and consumption of goods and services at the national wide. Globally it was introduced in the year 1954 in France. Across the world more than 150 countries have adopted it. GST is one of biggest tax reforming India. With GST implementation, tax procedures and policies are uniform and it helps the industries to pay unified percentage of tax on their transaction and turnover. The study was conducted to know the perception of employees in manufacturing and service sectors on the impact of GST. The opinion of respondents was gathered through a 5 point scale and factor analysis was used to identify the main constructs of the perception of employees on GST and its impact on performance of manufacturing and service industries was analysed through regression analysis. The study revealed that the Dimensions Problems and Clarity have negatively impacted the perception of employees on the impact of GST and the dimensions Benefits and Timing have positively impacted the perception of employees on the impact of GST.*

Key words: Compliance, GST, GSTN, GSTR, ITC,

I. INTRODUCTION

India is a country with rapid developing economy and ranked 7th in the world. Dynamism is the main feature of business environment which makes the state to change its policy whenever required. Tax is the main sources of income for the country collecting of which leads to increasing the infrastructure in the country that facilitates in increasing the number of industries in the economy. The changes has been made in Indian taxation system by replacing indirect tax with GST has made much changes in indirect tax slab and also affected the manufacturing and service sectors which are the backbone of the country.

II. STATEMENT OF THE PROBLEM

The introduction of GST in India had mixed reactions in all the sectors of business. While a

few welcomes it as a boon, still a large number of companies feel it as a burden and it may have an adverse effect on their business. Therefore, the researcher felt it necessary to study the impact of GST in business and had chosen Manufacturing and Service sectors for the study.

III. REVIEW OF LITERATURE

The study conducted by Lourdunathan & Xavier [1] studied the prospects and challenges of implementation of GST in India and the opinions among various sectors like manufacturers, traders and society about GST. The study found challenges for industries in adopting and following GST practices in the firm. The study about GST conducted by Ishan Bakshi & Indival Dhasmana [2] revealed that the Goods and Services Tax (GST) might adversely affected economic growth in the initial part of 2017-18 before providing a boost from the fourth quarter onwards, economists said. They added retail price inflation would largely remain unaffected but inflationary expectations would persist as prices would rise for services such as premium air travel and air-conditioned hotels as well as goods such as aerated drinks, hybrid cars and fertilizers. These items have negligible weights in the consumer price index (CPI). Suravi Kataruka [3] proved in his research that Malasia also had witnessed the implementation GST. It was based on the principle 'one nation, one tax.' A single, comprehensive tax structure has come into place instead of the various taxes levied at the Central and State levels. Some views of leading economists may be understood from the following. He summarized that three pillars of Malaysian economy called agricultural, service and industrial sector and contribution has not decreased after the implementation of GST. Karan Choudhury & Arup Roy Choudhury [4] analyses that Indian e-commerce players, the proposed tax collected at source (TCS) on them under the much-awaited goods and services tax (GST) being capped at one percent, failed to bring much cheer into the sector marred by valuation tumbles and massive layoffs. According to industry experts, while the government is on the right track with the decision of GST Council to cap the percentage, the

problem is with TCS itself. The draft law proposed a levy of one percent without any limit and also said that the cap in the law would ensure the levy remains below that level. Seema Shokeen [5] through her study Impact of Goods and Services Tax Bill on the Indian Economy found that the biggest advantage of the GST is in terms of the reduction in the overall tax paid by the consumer currently, free movements of the goods from one state to another, and minimization in the paperwork up to a large extent. This paper analyzed the effect of the GST Bill on the Indian economy in general and for small, medium, and large enterprises in specific. Dani [6] found various strengths, weakness, threats and opportunities of GST like strength is it will drop the cascading effects of taxes on production and distribution of goods and services, opportunity is that it will help states and center to collect more revenue, main weakness is that various taxes are not included in GST and main threat is that GST is very fond of technology and India being developing country does not have strong IT structure. Adhana, D. K [7] analyzed GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. The paper highlighted the background of the taxation system, the GST concept along with significant working, comparison of Indian GST taxation system rates with other world economies

IV. OBJECTIVES OF THE STUDY

The objectives of the study is to identify the dimensions which may represent the perception of employees on GST and the involvement of these dimensions in the performance of the companies in manufacturing and service sectors. To be more specific, the objectives are precisely termed as

- To identify the dimensions of GST on the perception of employees

- To evaluate the effect of dimensions of GST on their impact on performance of companies.

V. HYPOTHESIS

There is no combined effect of the dimensions of GST on performance of companies.

VI. METHODOLOGY

The introduction of GST in the country two years ago had received huge welcome as well as opposes across the country. In order to study the opinion of people on the implementation of GST and its impact in the business, the researcher has carried out a pilot study to find out the opinion of employees in the manufacturing and service sectors on the impact of GST on their companies. As many as four companies in each manufacturing and service sector were selected for study and a sample of 100 employees across these companies were selected and had been administered a well-structured questionnaire to know their opinion on the impact of GST. The questionnaire contained all the relevant points on implementation, timing, notifications, etc. of GST and as many as 30 statements were included. This questionnaire was issued to the selected employees in the select companies and the data is analyzed through SPSS for its reliability and validity. Statistical tools like descriptive statistics, factor analysis and regression analysis were used for analyzing data.

VII. DATA ANALYSIS AND INTERPRETATION

The overall data is found to have a reliability coefficient of more than 0.7, thus satisfying the norms of reliability. Further, in order to reduce the number of statements and to identify the main underlying constructs of the 30 statements taken for study, factor analysis was deployed and the following six main constructs were identified, as detailed in Table 1.

Table I : Factor Analysis – Identification of dimensions

Dimensions	Statement	Component					
		1	2	3	4	5	6
Transparency	Application of GST is more transparent.	.793					
	Govt Should have postponed filing of GSTR 1, GSTR 2 and GSTR 3 returns, till the GSTN network is made fully stable, and continued only with GSTR 3B till such time.	-.738					
	Seminar and Proper training on GST should have been provided through Industry Associations before introduction.	.688					
	GST increased the burden of compliance	.629					
Problems	Your company's IT system was ready to comply with GST requirements.		-.576				
	You are facing significant issues in compliance with e-way bill mechanism.		-.859				
	Introduction of GST in India has affected the demand for the product/services.		.701				
Clarity	Existing Service Tax Laws are clear and plain on the value of the taxable service.			.696			
	Existing Service Tax Laws are clear and plain on the method of Payment.			.585			
	Existing Service Tax Laws are clear and plain on the timing of the payment.			-.785			
	Existing Service Tax Laws are clear and plain on the applicability of the tax.			.681			
Impact	GST impacted in increasing the prices of your products / services to customers.				.649		
	GST is main factor influencing the pricing decision of your products and services.				.721		
	You are feeling that paying more tax now than before GST.				.721		
	GSTN return filing portal can be more effective.				-.675		
Benefits	GST regime provide enough incentives to exporter of goods and services.					.811	
	Adequate steps were taken by Government to respond industry needs to adopt GST.					-.696	
	Matching of ITC (Input Tax Credit) is useful to the taxpayers as it can avoid disputes in future.					.680	
Timing	Notifications/ circular/ Clarifications/ rules and regulations have been published much in advance.						.767
	Dead line given for GST compliance is satisfactory.						.632

While performing factor analysis, the statements which were not contributing to the overall variation in the data were removed from further analysis, as the same were found not relevant to

the study. The reliability and validity of the dimensions extracted were examined and depicted in Table II and III.

Table II : Test for Normality of dimensions extracted

	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis		Z _{skew}	Z _{kur}
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error		
Transparency	1.25	4.75	3.575	.820	-1.258	.427	1.410	.833	-2.946	1.693
Problems	1.67	5.00	3.500	.917	-.170	.427	-.953	.833	-0.399	-1.145
Clarity	2.00	4.50	3.383	.688	-.294	.427	-.866	.833	-0.689	-1.040
Impact	1.75	4.50	3.233	.612	-.446	.427	.305	.833	-1.045	0.366
Benefits	1.33	4.67	3.700	.873	-.970	.427	.829	.833	-2.271	0.996
Timing	2.50	5.00	4.050	.648	-.503	.427	-.119	.833	-1.179	-0.143

The observation of value of Z_{skew} Z_{kur} reveals that all the values are lying in between the range of -2.58 to +2.58 that satisfies the normality condition and it is concluded that statistical

analysis with parametric tests like t-Test, ANOVA etc. can be applied to the data to arrive at meaningful decisions.

Table III : Construct Reliability and Validity of dimensions extracted

Statement	Factor Loading	Loading ²	Error	Construct Reliability (CR)	Average Variance extracted (AVE)
5	.793	0.629	0.371	0.806	0.511
10	.738	0.545	0.455		
4	.688	0.474	0.526		
18	.629	0.396	0.604		
19	.576	0.332	0.668	0.760	0.511
27	.859	0.737	0.263		
1	.701	0.491	0.509		
22	.696	0.484	0.516	0.783	0.477
23	.585	0.342	0.658		
24	.785	0.616	0.384		
25	.681	0.464	0.536		
15	.649	0.421	0.579	0.786	0.480
16	.721	0.521	0.479		
29	.721	0.520	0.480		
12	.675	0.456	0.544		
14	.811	0.658	0.342	0.774	0.535
3	.696	0.484	0.516		
21	.680	0.463	0.537		
7	.767	0.588	0.412	0.659	0.494
9	.632	0.399	0.601		

extracted) and Validity (AVE > .5) norms. Therefore it is decided to frame the main

The dimensions were found to satisfy the Construct Reliability (> .7 for all the dimensions

questionnaire with the above Dimensions and the average of the statements under each of the dimensions will be taken for further statistical calculations. However, AVE a little below 0.5 for two dimensions can be overseen for violation of norms, because of the proposed large sample size of 480 for the study.

The statistical tools like t-test, ANOVA, Discriminant Analysis (or) Regression Analysis are proposed for the study to achieve the objectives.

After identifying the main constructs of GST, the researcher tried to bring out the impact of these dimensions on the performance of select

companies in manufacturing and service sector and used the statistical tool Regression Analysis for the same. The perception of employees were taken on a 5-point scale on the degree of impact of GST on the performance of their companies with 1 being the lowest level through 5 being the highest level of performance. Therefore, the main constructs of GST identified through Factor Analysis were used in Regression Analysis as independent variables and the perception of employees on the performance of their companies was treated as dependent variable. The results of the regression analysis is depicted in the Table IV.

TableIV. RESULTS OF REGRESSION ANALYSIS

Dimensions	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Significance of Model		R ²
	B	Std. Error	Beta			F	Sig.	
Constant	5.017	1.498		3.349	.003	3.453	0.014	0.613
Transparency	.109	.204	.113	2.109	.023*			
Problems	-.227	.200	-.263	-2.405	.012*			
Clarity	-.053	.270	-.046	-.196	.846			
Impact	-.127	.260	-.098	-.487	.631			
Benefits	.077	.188	.085	2.807	.005*			
Timing	-.341	.255	-.079	-1.335	.195			

* Significant at 5% level of significance.

The high value of F and low value of p ($< .05$) verifies the model fitted by the regression analysis is statistically significant and the independent variables explain the variation on the perception on performance of companies. It can also be seen that the R² of the model is .613, which implies that about 61 per cent of the variation in Performance of companies is explained by the dimensions of GST. The dimensions Transparency, Problems and Benefits had a significant impact on the performance of companies (Sig. $< .05$). The other dimensions Clarity, Impact and Timing did not have any impact on the performance of companies. The dimensions Transparency and Benefits had a positive impact on the performance of companies, whereas the component Problems had a negative impact on the performance of companies. This implies that if the rules of GST of transparent and beneficial to the companies, it increase the performance of companies. At the same time, if the Problems are more, it will have a detrimental effect on the performance of the companies. The high beta value of -.263 for the component Problems indicates that, problems in compliance

of GST is the major influencing factor which will have adverse effect on the performance of companies and the next influencing factor is Transparency (Beta = .113) which implies the transparency in rules will positively influence the performance of companies.

VIII. CONCLUSION

As GST had received a mixed response from all walks of life in our country the present study was conducted to bring out the impact of GST on performance of companies in the perception of employees working in manufacturing and service sectors. The study revealed that the dimensions of GST - Problems and Clarity have negatively impacted the perception of employees on the impact of GST and the dimensions Benefits and Timing have positively impacted the perception of employees on the impact of GST. Middle and top level finance and accounts managers had reacted that more clarity would have been given by the tax officials in order to understand new tax structure of GST taxation. The GST compliance problems have to be reduced in order to make it

smooth and easy to pay GST. It is suggested that the government should think of refining GST in a more flexible manner so that all sectors of business would benefit out of it.

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