The Producing sector in any country can rightly be deemed as the backbone of its economy, leveraging its resources for maximum economic boost, which then makes way for competitive trade and business to take place – locally, nationally as well as globally. India too has, emerged as one of the high growth sectors in the manufacturing space, a fact evidenced in an increase of no less than **7.9 percent in Gross Value Added (GVA)** at basic constant prices year-on-year as of 2016-17.

What’s more, the Make in India project helmed by the Government of India is all set to maximize the country’s demographic and geographic advantages to build India into a manufacturing and technological hub (particularly in the electronics sector), marking its commercial territory on the world map by the end of 2020. On a statistical level, the GDP share of the manufacturing sector is expected to surge to 25 percent by 2022, up from the current 16 percent, **along with** 100 million jobs by 2022.

Despite these figures, the ground reality of this sector is steeped in much chaos and an apparent under-utilization of resources even as other factors suppress growth in this segment. From inadequate road and energy infrastructure to bureaucracy to regulatory blockades, this industry has had to tackle too many obstructions to report any consistent, steady growth; with one of the biggest menace being the complicated, haranguing tax structure. And while not all of them can be tackled with a one-solution-many-pronged approach, the implementation of Goods & Services Tax (GST) does promise some concrete relief to stakeholders by doing away with some of the impediments, which is predictably expected to spill over to other connected industries/sectors as well.

GST has a positive role play to the Producing or manufacturing industry.

Advantages – Impact of GST on producers or Manufacturers

1. **Reduced Cost of Manufacturing** – Under the erstwhile tax regime, producers or manufacturers had to pay an excess of 25-26% as production costs, quite clearly due to the effect of cascading taxes such as excise duty (at 12.5%) and VAT (at 14.5%), on the lines of taxing two different taxable events. Now under GST though, **tax would be levied on single taxable event**. This consequently means goods are expected to get cheaper, thus, driving more sales and lending the concerned stakeholders a strong hold in an increasingly competitive market.

2. **Simplification of taxes levied through removal of differential valuations** – Excise duty, which under the old tax structure was calculated on the basis of different methods such as – Specified duty, Tariff Value, Value based on Retail Sale price, Ad Valorem duty – will now be streamlined and easier to calculate as **GST pushes for transaction-based valuations only**.

3. **Subsumed taxes mean less costs and better quality of goods and services** – A key factor in driving down production costs is that most of the taxes on inter-state supplies that were earlier not creditable (central sales tax, OCTROI, entry tax, etc.) would now be available for set-offs, thus, reducing the burden on the producers or manufacturing sector and setting up a steady flow of credit. With **most taxes getting subsumed under the GST structure** (except customs duty, Stamp Duty which will continue to be levied as before), other participants in the trading channel also stand to gain from this move i.e. retailers and distributors will now be able to avail credit on the taxes levied, and such accessibility of input tax credit at various stages of the commercial
process would effectively lead to reduced prices, which can safely be considered a win-win scenario for both the producers or manufacturing and other related sectors and the end consumer. Also, with the burden of indirect tax on the producers or manufacturers substantially lessened, the industry shall now be able to focus more on the quality aspect of the production process rather than merely the commercials, thereby filling the quality gaps in a country severely in need of an upgradation in goods produced.

4. **Restructured and streamlined supply chain leading to improved business efficiency**—Most of the supply chain management earlier depended on taxes operating in different states. Now flagged under the ‘one-nation-one tax’ concept of GST, businesses are now required to re-engineer their supply chains, which in turn will encourage them to focus more on optimizing business efficiency and operability instead. For example, **multiple warehouses in different states would no longer be needed**, and with the extra layers of the supply chain done away with, producing or manufacturing businesses can now solely focus on strategizing their supply chain with respect to economic, demographic and geographic targets. The resultant improved inventory management, when combined with input tax credit benefits (as described above) will lead to plummeting storage costs, less time wasted at various checkpoints, and ultimately, the emergence of a sturdy producing or manufacturing sector, the immediate effect of which shall undoubtedly be felt in the logistics sector.

5. **Only registration as per the State to apply henceforth**—Earlier, if a single producers or manufacturer had multiple factories in a single state, he was required to obtain a separate registration for each of the factories. However, under the current GST regime, a single taxable producers or manufacturer would need to apply for a single registration only, irrespective of the number of factories that lie within the said state. This logically means less paperwork and less bureaucratic intervention to be dealt with at every stage, eventually resulting in better business management.

6. **Small manufacturing businesses can now opt for Composition Scheme**—producing or Manufacturing businesses with a turnover of not more than 75 lacs are now eligible for availing the Composition Scheme under GST (at a rate of 2%), providing some measure of tax relief to the intended beneficiaries. Of course, exceptions apply as to which producing manufacturing businesses can and cannot opt for this scheme, along with documentary compliance and other conditions that must necessarily be fulfilled by the said consumption dealers who stand eligible to apply for the same.

7. **No assessment by multiple tax authorities**—Previously, separate tax assessment authorities were to take care of varied taxes those being –VAT, Service tax, Central Excise, sales tax, etc. This not only rendered the whole procedure chaotic but was extremely time-consuming as well, leaving producer or manufacturers vulnerable to dealing with tax queries they did not quite know how to navigate, while negatively affecting their business. Henceforth though, instead of separate authorities assigned to take care of the assessment based on the type of tax, assessment will be carried out in defined a three-fold system i.e. State authorities would take care of SGST assessments, while Central authorities would look into CGST and IGST assessments respectively. This would result in a more efficient tax assessment system, that would not only save a lot of time, but would also aid producers or manufacturers in dealing with the procedure better without having to deal with multiplicity of tax-related queries as well as their implications. Apart from aforementioned advantages being some of the striking results of the GST, a few others are also expected to make their impact felt. For example, compliance with **GST’s anti-profiteering clause** (that mandates businesses pass on benefits derived from tax reduction/input
tax credit availability to end consumers) would ensure producers or manufacturers operate on the right side of law, while keeping customer interests in mind. This paves the way for the government as well as the producing or manufacturing sector to work in harmony for a common good than functioning from a perspective of us-versus-them. With introduction of the electronic mode of filing forms, manual paperwork would be considerably reduced; going electronic shall also ensure bureaucratic laches at multiple filing stages is also done away with.

And last, but not the least, with the unification of taxes brought about under the GST, classification of disputes under excessive calculation heads of the erstwhile tax regime is expected to be significantly minimized, thus, clamping down on the volume of tax litigation currently plaguing the tax administration as well as the courts.

Disadvantages – Impact of GST on Producers or Manufacturers
Not all is hunky-dory though; there are a few concerns surrounding this newly developed tax mechanism, some of them being:-

- **producers or Manufacturers** would now be faced with an increase in working capital requirements – owing to receipt of advance, stock transfers (other than own depot and warehouse in same state due to same GSTIN) as well as branch transfers now made taxable under GST.
- Petroleum products being kept out of the purview of GST, tax paid on the same would not be available as credit, thus bringing about no respite in related industries – such as power and logistics industries that will continue to feel the burden of balancing a cost-benefit scenario in such a context.
- **Reverse charge that was earlier confined to specified services only, shall now be applicable to goods as well.** And as a burden borne by recipients of goods/services instead of the supplier of the same, the producing or manufacturing sector will find itself considerably strained under these increased costs.
- As regards CENVAT credit, the same shall be available only on goods purchased from registered dealers (in case of unregistered dealer first tax payment by debiting Cash ledger is required then can claim ITC on it) so this too, is a limitation in the sense that small businesses may not always find it feasible to purchase goods from registered vendors only.
- With GST aiming for better tax compliance, comes the inevitable requirement of businesses overhauling and streamlining their existing transactions, which, eventually calls for more resources and money to be pumped into these compliance measures. From hiring skilled personnel for taking care of the technical know-how, to ensuring legal checks and balances at every step, becoming GST-compliant itself will incur heavy costs for businesses that have till date not really followed the book.
- **Operational and structural confusion is expected to last a while** since most businesses do not still understand certain aspects of new rules brought under GST- one of them being area-based exemptions (that allowed exemptions for in select states like the North-East in case of threshold i.e. 10 lakhs while in other state it is 20 Lacs);. This means a considerable shift in financial position of producing or manufacturing companies who would now have to take stock of the situation and reassess their business strategy.

The disadvantages, though not too many, are crucial when perceived in the larger scheme of things and can go a long way in providing a boost to p manufacturers, if worked on/rectified. The inevitable consequences of GST cannot be wished away, as producers or manufacturers realize they will have to put up with some inconvenience for a while now.
However, the government may re-consider lifting the limitation as regards availing of CENVAT credit – on goods purchased from registered dealers alone (while in case of unregistered first payment of Tax is mandatory). This will act in significantly reducing the burden on manufacturing units. More deliberation is required on bringing power and electricity under GST, which, if eventually sanctioned, would aid in bringing down operational costs for businesses in a dramatic way. As of now though, manufacturers have a lot to be relieved about, as they see less hassle and more structure in the management of their businesses.

India already figures as one of the powerhouses listed under the “Mighty Five” as per the Global producing or Manufacturing Competitiveness Index published by Deloitte Touch and the Council on Global Competitiveness. With factors like cheap labour, a burgeoning demographic profile and economic expansion, the India is all set to take on rival neighbour China that continues to spell an aggressive boom in the producing or manufacturing space. If GST indeed delivers the results expected of it, undeniably, India will soon get on the road to becoming an unstoppable force in this arena and many others.

**Conclusion**

The government plays a pro-active role in framing GST legislation and addresses the concerns of the industry players. It is important to Producers or Manufacturers to understand and implications the new legislation than evaluate. GST is a new legislation should try and resolve the existing complications in the light of legislation apart from a simplified tax administration and structure. GST implementation is the biggest ever indirect tax reform in the country turns out to be a win-win situation to Producers or Manufacturers.

**References:**


