

A STUDY ON IMPACT OF GOODS AND SERVICES TAX (GST) ON MANUFACTURING SECTOR IN KARNATAKA

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ABSTRACT

The core idea behind the implementation of Goods and Service Tax (GST) is fully eliminating unwanted and negative impacts of taxes on goods and services within the nation in the area of distribution and production also. The GST in India is giving equal treatments to goods and services and also, it is providing equal rights to all type of business activities. The results explicate that Goods and Services Tax increases cash flows for operations, fully eliminates ill effects of the system of indirect tax, makes filing of tax easy, modifies function of supply chain players, decreases production cost, diminishes product price, enhances return on sales and increases net profit margin. Significant difference exists amongst profile of manufacturing industrial units and impact of Goods and Services Tax (GST) on them excluding establishment. The impact of Goods and Services Tax (GST) on manufacturing industrial units and their performance have significant, positive and moderate relation among them. Goods and Services Tax should decrease cost of transportation and Goods and it must improve incremental profit of manufacturing industrial units.

Key Words: Goods and Services Tax, Impact, Manufacturing Sector

1. INTRODUCTION

Goods and Service Tax (GST) is a unified and inclusive tax structure that is levied on products and services in our nation and it is highly essential for development of India and it is also improving Gross Domestic product of the nation (Garg, 2014). Goods and Service Tax (GST) is the union of all type of indirect taxes and it is put in each and very point of the production, distribution and consumption chain with pertinent set offs in regarding to the tax paid in the earlier points and it is treating all stakeholders of the business equally (Swarupa, 2016).

The core idea behind the implementation of Goods and Service Tax (GST) is fully eliminating unwanted and negative impacts of taxes on goods and services within the nation in the area of distribution and production also (Banik and Das, 2017). The GST in India is giving equal treatments to goods and services and also, it is providing equal rights to all type of business activities (Shokeen et al 2017) and players and it is dual in nature. The central government is levying CGST and the state is levying SGST and both are having similar standards for taxation (Lourdunathan and Xavier, 2017). The GST is impacting all the sectors in India particularly manufacturing sector considerably. Thus, it is necessary to study impact of Goods and Services Tax (GST) on manufacturing sector.

2. REVIEW OF LITERATURE

Firth and Mckenzie (2012) concluded that GST was positively and considerably impacting different sectors in terms of operations, performance and profit and it had removed all issues related with system of indirect tax.

Bird (2012) revealed that GST had improved tax compliances and collection of taxes and it had reduced burdens of tax and constraints in filing tax returns and it had positive impact on efficiency and profitability of various sectors and economy.

Kumar (2014) indicated that the adoption of GST had increased cash flows, sales, performance and profit of manufacturing enterprises and it had removed all issues related with indirect system of tax and reduced paper works for filing taxes among them.

Prasad and Mehta (2015) showed that GST removed all negative effects of multiple taxes and complicated procedure for filing taxes and it increased operations, distributions and profit of enterprises.

Rani and Sunil (2016) found that GST was positively impacting manufacturing industries in terms of reduction of cost and expenses for filing tax and removal of multiple taxes and increase in profit.

Mahender (2017) concluded that the execution of GST had fully eliminated the system of indirect tax and it had helped to increase operations, profit and to reduce cost of production in manufacturing sector.

Sultana (2018) revealed that GST had reduced cost of raw materials, transportation and production and it had improved cash flows, profit and credit accessibility of manufacturing units.

Gautam et al (2019) indicated that GST increased performance and return on investment of manufacturing sector and it had improved supply chain management operations and cash flows of various types of manufacturing enterprises.

Sarkar and Rani (2020) showed that GST had increased cash flows and profit and reduced harmful effects of multiple taxes and cost of operations and improved supply chain operations filing of taxes in manufacturing industry.

Sukumaran and Mani (2021) found that GST had completely removed adverse effects of previous system of tax and it had improved sales and profits of retail outlets and their operations.

3. OBJECTIVES OF THE STUDY

- i) To study impact of Goods and Services Tax (GST) on manufacturing industrial units.
- ii) To examine difference amongst profile of manufacturing industrial units and impact of Goods and Services Tax (GST) on them.
- iii) To ascertain relation amongst impact of Goods and Services Tax (GST) on manufacturing industrial units and their performance.

4. METHODOLOGY

The present study is conducted in Karnataka state. The owners of manufacturing industrial units are selected randomly and data are gathered from 300 owners of manufacturing industrial units. Percentages are used to know profile of manufacturing industrial units and mean and standard deviation are calculated to study impact of Goods and Services Tax (GST) on manufacturing industrial units. ANOVA and t-tests are applied to examine difference amongst profile of manufacturing industrial units and impact of Goods and Services Tax (GST) on them. Correlation analysis is used to evaluate relation amongst impact of Goods and Services Tax (GST) on manufacturing industrial units and their performance.

5. RESULTS

5.1 PROFILE OF MANUFACTURING INDUSTRIAL UNITS

The profile of manufacturing industrial units is presented in Table-1. The results reveal that 55.67 per cent of manufacturing industrial units are operating in sole proprietorship, whilst, 44.33 per cent of them are operating in partnership and 36.00 per cent of them are having investment of Rs.5,00,00,001 – Rs.10,00,00,000, whilst, 16.00 per cent of them are having investment of below Rs.1,00,00,000. The results imply that 49.67 per cent of manufacturing industrial units are running in own establishment, whilst, 23.00 per cent of them are running in leased establishment and 42.67 per cent of them are providing employment to 51 – 100 persons, whilst, 24.33 per cent of them are providing employment to more than 100 persons and 30.67 per cent of them are getting an annual turn over of Rs.75,00,001 – Rs.1,00,00,000, whilst, 18.00 per cent of them are getting an annual turn over of more than Rs.1,00,00,000.

Table-1. Profile of Manufacturing Industrial Units

Profile of Manufacturing Industrial Units	Number (n = 300)	Percentage
Ownership		
Sole Proprietorship	167	55.67
Partnership	133	44.33
Investment		
Below Rs.1,00,00,000	48	16.00
Rs.1,00,00,001 – Rs.5,00,00,000	80	26.67
Rs.5,00,00,001 – Rs.10,00,00,000	108	36.00
Above Rs.10,00,00,000	64	21.33

Establishment		
Own	149	49.67
Leased	69	23.00
Rented	82	27.33
Employment Provided		
Less than 50	99	33.00
51 – 100	128	42.67
More than 100	73	24.33
Annual Turnover		
Less than Rs.50,00,000	76	25.33
Rs.50,00,001 – Rs.75,00,000	78	26.00
Rs.75,00,001 – Rs.1,00,00,000	92	30.67
More than Rs.1,00,00,000	54	18.00

5.2. IMPACT OF GOODS AND SERVICES TAX (GST) ON MANUFACTURING INDUSTRIAL UNITS

The impact of Goods and Services Tax (GST) on manufacturing industrial units is presented in Table-2.

Table-2. Impact of Goods and Services Tax (GST) on Manufacturing Industrial Units

Impact of Goods and Services Tax (GST) on Manufacturing Industrial Units	Mean	Standard Deviation
Goods and Services Tax increases cash flows for operations	4.02	0.91
Goods and Services Tax fully eliminates ill effects of the system of indirect tax	3.87	0.93
Goods and Services Tax makes filing of tax easy	3.80	1.03
Goods and Services Tax modifies function of supply chain players	3.95	0.99
Goods and Services Tax decreases production cost	3.66	1.08
Goods and Services Tax reduces transportation cost	3.37	1.02
Goods and Services Tax diminishes product price	3.99	0.79
Goods and Services Tax enhances return on sales	3.64	0.85
Goods and Services Tax increases net profit margin	3.72	0.76
Goods and Services Tax improves incremental profit	3.33	0.71

The owners of manufacturing industrial units are agreed with Goods and Services Tax increases cash flows for operations, fully eliminates ill effects of the system of indirect tax, makes filing of tax easy, modifies function of supply chain players, decreases production cost, diminishes product price, enhances return on sales and increases net profit margin, whilst, it reduces transportation cost and improves incremental profit.

5.3. PROFILE OF MANUFACTURING INDUSTRIAL UNITS AND IMPACT OF GOODS AND SERVICES TAX (GST) ON THEM

The relation amongst profile of manufacturing industrial units and impact of Goods and Services Tax (GST) on them is presented below.

5.3.1. Ownership of Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

The relation amongst ownership of manufacturing industrial units and impact of Goods and Services Tax (GST) on them is presented in Table-3.

Table-3. Ownership of Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

Ownership	N	Mean	Standard Deviation	t-Value	Significance
Sole Proprietorship	167	36.70	2.83	4.319	.000
Partnership	133	38.19	3.15		

Mean value for impact of Goods and Services Tax (GST) on manufacturing industrial units is 38.19 for partnership and it is 36.70 for sole proprietorship and it explicates that the impact of Goods and Services Tax (GST) is higher for manufacturing industrial units operating in partnership as compared to sole proprietorship.

The t-value is 4.319 and it explains that significant difference exists amongst ownership of manufacturing industrial units and impact of Goods and Services Tax (GST) on them in one per cent level.

5.3.2. Investment of Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

The relation amongst investment of manufacturing industrial units and impact of Goods and Services Tax (GST) on them is presented in Table-4.

Table-4. Investment of Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

Investment	N	Mean	Standard Deviation	F-Value	Significance
Below Rs.1,00,00,000	48	37.75	2.51	2.893	.036
Rs.1,00,00,001 – Rs.5,00,00,000	80	36.91	2.66		
Rs.5,00,00,001 – Rs.10,00,00,000	108	37.89	3.42		
Above Rs.10,00,00,000	64	36.72	3.12		

Mean value for impact of Goods and Services Tax (GST) on manufacturing industrial units is differing from 37.89 for manufacturing industrial units having investment of Rs.5,00,00,001 – Rs.10,00,00,000 to 36.72 for manufacturing industrial units having investment of above Rs.10,00,00,000 and it explicates that the impact of Goods and Services Tax (GST) is higher for manufacturing industrial units having investment of Rs.5,00,00,001 – Rs.10,00,00,000 as compared to others.

The F-value is 2.893 and it explains that significant difference exists amongst investment of manufacturing industrial units and impact of Goods and Services Tax (GST) on them in five per cent level.

5.3.3. Establishment of Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

The relation amongst establishment of manufacturing industrial units and impact of Goods and Services Tax (GST) on them is presented in Table-5.

Table-5. Establishment of Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

Establishment	N	Mean	Standard Deviation	F-Value	Significance
Own	149	37.94	2.86	2.037	.132
Leased	69	37.31	2.84		
Rented	82	36.94	3.41		

Mean value for impact of Goods and Services Tax (GST) on manufacturing industrial units is differing from 37.94 for manufacturing industrial units running in own establishment to 36.94 for manufacturing industrial units running in rented establishment and it explicates that the impact of Goods and Services Tax (GST) is higher for manufacturing industrial units operating in own establishment as compared to others.

The F-value is 2.037 and it explains that no significant difference exists amongst establishment of manufacturing industrial units and impact of Goods and Services Tax (GST) on them.

5.3.4. Employment Provided by Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

The relation amongst employment provided by manufacturing industrial units and impact of Goods and Services Tax (GST) on them is presented in Table-6.

Table-6. Employment Provided by Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

Employment Provided	N	Mean	Standard Deviation	F-Value	Significance
Less than 50	99	36.60	2.82	4.890	.008
51 – 100	128	37.84	3.11		
More than 100	73	37.55	3.13		

Mean value for impact of Goods and Services Tax (GST) on manufacturing industrial units is differing from 37.84 for manufacturing industrial units providing employment to 51 – 100 persons to 36.60 for manufacturing industrial units providing employment to less than 50 persons and it explicates that the impact of Goods and Services Tax (GST) is higher for manufacturing industrial units providing employment to 51 – 100 persons as compared to others.

The F-value is 4.890 and it explains that significant difference exists amongst employment provided by manufacturing industrial units and impact of Goods and Services Tax (GST) on them in one per cent level.

5.3.5. Annual Turnover of Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

The relation amongst annual turnover of manufacturing industrial units and impact of Goods and Services Tax (GST) on them is presented in Table-7.

Table-7. Annual Turnover of Manufacturing Industrial Units and Impact of Goods and Services Tax (GST)

Annual Turnover	N	Mean	Standard Deviation	F-Value	Significance
Less than Rs.50,00,000	76	36.04	2.25	14.562	.000
Rs.50,00,001 – Rs.75,00,000	78	36.91	2.98		
Rs.75,00,001 – Rs.1,00,00,000	92	38.27	2.89		
More than Rs.1,00,00,000	54	38.85	3.54		

Mean value for impact of Goods and Services Tax (GST) on manufacturing industrial units is differing from 38.85 for manufacturing industrial units getting an annual turn over of more than Rs.1,00,00,000 to 36.04 or manufacturing industrial units getting an annual turn over of less than Rs.50,00,000 and it explicates that the impact of Goods and Services Tax (GST) is higher for manufacturing industrial units getting an annual turn over of more than Rs.1,00,00,000 as compared to others.

The F-value is 14.562 and it explains that significant difference exists amongst annual turn over of manufacturing industrial units and impact of Goods and Services Tax (GST) on them in one per cent level.

5.4. RELATION AMONGST IMPACT OF GOODS AND SERVICES TAX (GST) ON MANUFACTURING INDUSTRIAL UNITS AND THEIR PERFORMANCE

The correlation analysis is used to evaluate relation amongst impact of Goods and Services Tax (GST) on manufacturing industrial units and their performance and the result is presented in Table-8.

Table-8. Impact of Goods and Services Tax (GST) on Manufacturing industrial units and their Performance

Particulars	Coefficient of Correlation
Impact of Goods and Services Tax (GST) on Manufacturing industrial units and their Performance	0.57

The correlation coefficient amongst impact of Goods and Services Tax (GST) on manufacturing industrial units and their performance is 0.57 and it is clarifying that they have significant, positive and moderate relation among them.

6. CONCLUSION

The results of this study explicate that Goods and Services Tax increases cash flows for operations, fully eliminates ill effects of the system of indirect tax, makes filing of tax easy, modifies function of supply chain players, decreases production cost, diminishes product price, enhances return on sales and increases net profit margin. Significant difference exists amongst profile of manufacturing industrial units and impact of Goods and Services Tax (GST) on them excluding establishment. The impact of Goods and Services Tax (GST) on manufacturing industrial units and their performance have significant, positive and moderate relation among them. Goods and Services Tax should decrease cost of transportation and Goods and it must improve incremental profit of manufacturing industrial units.

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