

## **“An Analytical Study of the Impact of GST on Startups”**

**Anjali Parag Kalkar**

Principal IOS, College of Computer Sciences, Wakad Pune, MS, India

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### **Abstract**

One of the major tax reforms after the independence of India is GST (Goods and Service Tax). GST will simplify all the indirect tax by integrating all major taxes like excise duty, service tax, VAT, Octroi etc. into a single tax which made the tax structure in India much less complex increasing the ease of business.

Introduction of GST will increase transparency and simplify the existing tax system, hence reducing documentation cost and increasing the ease of business for startups but it will also lead to an increase in effective tax rate for service providing startups and will at least increase inflation in short term. In the following paper we made an attempt to investigate the impact of GST on the Indian startups. This paper tries to consider all possible advantages and disadvantages of GST on Indian startups. Further we tried to present a detail study of the impact of GST particularly on the manufacturing startups in comparison to the previous tax system.

**KEYWORDS-** GST, Impacts, startups-sectors.

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### **I. INTRODUCTION:**

Goods and service tax or GST will be one tax to subsume all taxes. It will bring in “One nation one tax” regime. Goods and Services Tax (GST) is an indirect tax levied in India on the sale of goods and services. Goods and services are divided into five tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. Under GST, the manufacturer pays taxes while purchasing raw materials for the product. This amount can be credited to the next reseller until the product reaches the consumer.<sup>1</sup>

### **Definition of GST**

“GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set of benefits from the producer’s / service provider’s point up to the retailer’s level where only the final consumer should bear the tax.”

### **II. OBJECTIVES**

- To ascertain the impact of GST on Indian startups.

### **III. HYPOTHESIS:**

H<sub>0</sub>. The introduction of GST has **positive** impact on service sector with respect to the calculation of tax liability and tax structure.

H<sub>1</sub>. The introduction of GST has **positive** impact on manufacturing sector with respect to the calculation of tax liability and tax structure.

### **STARTUP: MEANING**

A **startup company (startup or start-up)** is an entrepreneurial venture which is typically a newly emerged, fast-growing business that aims to meet a marketplace need by developing a viable business model around an innovative product, service, process or a platform.

Startups have become an important source of self-employment and employment to deserving unemployed youth in India. A transparent, easy and simple taxation system with less paperwork will be more beneficial for startups. GST will surely impact the cost of manufacturing or service providing by startups.

### **LITERATURE REVIEW:**

**Santosh. H. Raghavendra (2016)** anticipated that GST would address the issues and empower startups under GST and enable them to focus on business expansion.<sup>2</sup>

**Jaykishan Prithiani (2017)** concluded that in case of manufacturing startups, the new tax law increases the tax liability. But for service-based startups, it offers a bundle of advantages. In the long run GST may have a positive impact.

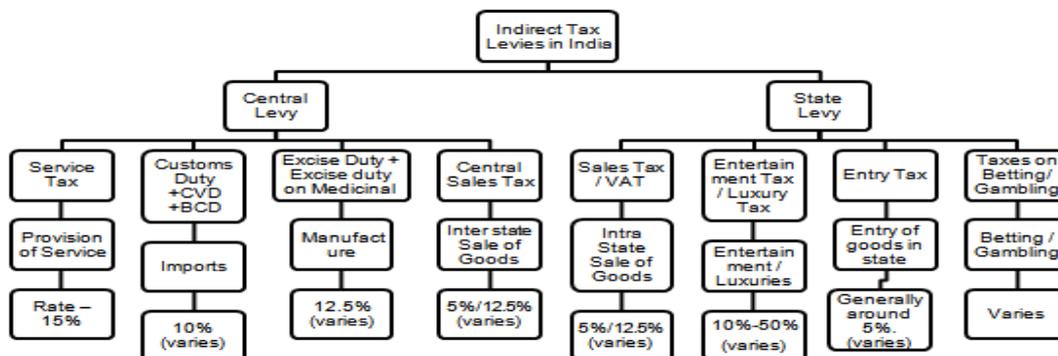
**Shreya Bhardwaj (2017)** believes that in the long run the positives will outweigh the negatives of the GST regime.

Since GST has been introduced recently, very less research has been done in this field. No research has been done earlier on GST studying its impact on service and manufacturing startups.

### **IV. RESEARCH METHODOLOGY:**

The researchers have collected the data from secondary sources. The research paper contains the information which has been analyzed from the data available on the site of Government of India ([www.gstcouncil.gov.in](http://www.gstcouncil.gov.in)) Here the technique used is percentage method.

## V. PREVIOUS TAX STRUCTURE:



## SAMPLE STATEMENT FOR CALCULATING: PREVIOUS TAX SYSTEM

(Table no. 1)

	INTRASTATE TRADE		INTERSTATE TRADE		INTERNATINAL TRADE	
Manufacturer	Value of goods (1)	xx	Value of goods (1)	xx	Value of goods (1)	xx
	(+) excise duty	xx	(+) Excise duty	xx	(+) BCD	xx
	(+) VAT	xx	(+) CST	xx	(+) CVD	xx
	Value of goods (2)	xx	Value of goods (2)	xx	Value of goods(2)	xx
Trader	Value of goods (2)	xx	Value of goods(2)	xx		
	(+)VAT	xx	(+)CST	xx	Tax exempt	xx
	Value of goods(3)	xx	Value of goods (3)	xx		

*BCD – Basic custom duty, CVD – Countervailing duties, VAT – Value added tax, CST- Central sales tax*

## AFTER ESTABLISHMENT OF GST

(Table no. 2)

	INTRASTATE TRADE		INTERSTATE TRADE		INTERNATIONAL TRADE	
Manufacturer	Value of goods or services (1)	xx	Value of goods or services (1)	xx	Value of goods and services (1)	Xx
	(+) C-GST	xx	(+) I-GST	xx	(+) BCD	Xx
	(+) S-GST	xx			(+) I-GST	Xx
	Value of goods or services (2)	xx	Value of goods and services (2)	xx	Value of goods or services (2)	Xx

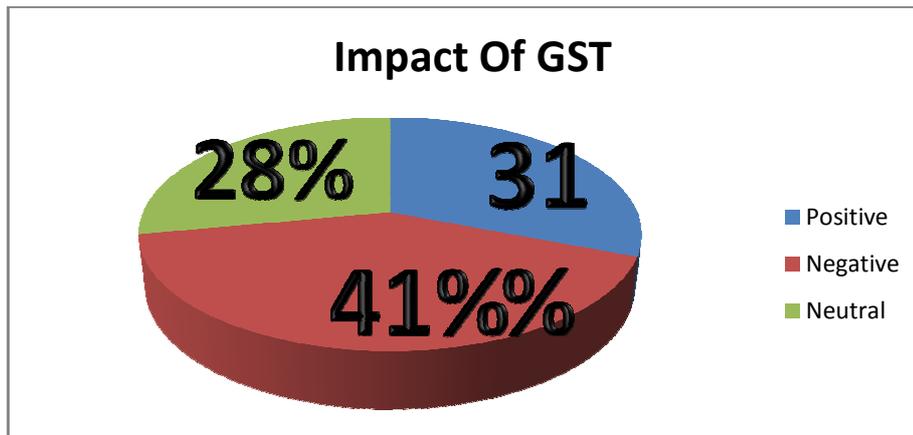
### DATA ANALYSIS:

A survey was conducted by localcircles.com amongst 3,300+ startups to find out the difficulties faced by them. More than 2500 responses from across the country, highlighted the issues startups faces. The question which was asked in this survey and the data collected is presented below (table no.3). Out of 2500 respondents 41% revealed that GST has a negative impact, whereas only 31% stated that it has a positive impact on Indian startups.<sup>6</sup>

- **As a startup, what has been the impact of GST on your business?**

(Table no. 3)

Sr. No.	Parameter	No. of responses	Percentage
1.	Positive	785	31%
2.	Negative	1038	41%
3.	Neutral	709	28%
	Total	2532	100%



*Note: The above Pie chart is based on table no.3*

**Source:** <https://www.localcircles.com/a/press/page/startup-challenges-in-india#.Wnq-LaiWbIU>

#### VI. IMPACT OF ON MANUFACTURING STARTUPS:

Manufacturing sector will face consequences, under the previous tax structure: excise laws, only manufacturing business with a turnover more than Rs.1.50 cr. has to pay excise. After GST, it has been reduced to Rs.20 lakhs thus **increasing the tax burden** for many startups with the only respite being composition scheme. GST also implemented a **lot of paper work** for startups. Young entrepreneur faced **difficulty in the registration** for GSTIN number without which they cannot validate their bill. Some were not able to **understand the whole process of GST**, which was felt as one the major obstacle in the process of taxation.<sup>3</sup>

#### VII. IMPACT OF GST ON SERVICE STARTUPS:

Double taxation was affecting many service providers. Earlier, the works contract was complex, and this took a toll on many people. Here, the transfer of goods is a part of the service contract. This means that every invoice has the value of the goods used as well as the services supplied. These two attract a tax rate of 70% each bringing the total to 140% which is very high. After GST, **these two are considered to be one** and thus taxed as 'supply of service.' The point of taxation enables us to determine the tax rate and due dates for payment of taxes. The liability to pay CGST / SGST on the services shall arise at the time of supply as determined by GST provisions.<sup>5</sup>

Earlier, service providers used to charge Service Tax to the clients and used to pay VAT on the goods purchase. It was not possible to take set off VAT against Service Tax. But in GST regime, you pay GST on both sales and purchases and hence **it's easy to claim** input tax credit **on that**. For instance in case of manufacturer. The tax to be paid on the final product is INR 650. The purchase tax paid is INR 500. The input credit you claim is INR 500 and the final taxes you will pay is INR 150.

## **VIII IMPACT OF GST ON REAL ESTATE INDUSTRY**

Sale or transfer of immovable property is outside the purview of GST, however, on procurement of materials for civil construction GST will be applicable and ITC of the same is not admissible. Inadmissibility of ITC may impact negatively. Hopefully, this issue will be addressed appropriately while declaring the final law. Stamp duty will continue. Work contract for commissioning of movable or immovable property shall be supply of service. Renting, leasing, licence to occupy land and building will also be supply of service. Where consideration has been received for construction of a complex or building or civil structure is without getting certificate from competent authority it shall be supply of service. The impact on service sector depends on the GST rate vis-à-vis current rate of service tax

## **IX IMPACT OF GST ON TRANSPORTATION INDUSTRY**

Trucks in India drive just one third of the trucks in US (280 kms vs. 800 kms), on top of that, only about 40% of total travel time is spent on driving, major time is consumed at check points and other official stoppages. A recent news indicate that Road Transport and Highway ministry is considering overhaul of around 80 border check post across the country to ensure seamless flow of goods under GST regime. Thus, ensure eliminating check points delays, higher moving time of wheels and lower transit time which will certainly boost the business, reduce inventory holding requirements, transportations cost and better asset utilisation. Distribution and warehousing patterns will improve. Impact is going to be positive on this count

## **X IMPACT OF GST ON PHARMA INDUSTRY**

Impact on Pharma sector will largely depend on the rate of proposed GST vis-à-vis current rates of indirect taxes. Pharma sector generally have an inverted duty structure i.e. excise duty on raw material is around 12.5% whereas on finished goods it is around 6-7%, this results in accumulation of refund dues from government. Sector is hopeful of making refund process fast and simple, this coupled with savings in warehousing and logistics cost may anticipate a positive impact.

## **XI IMPACT OF GST ON TEXTILES INDUSTRY**

Currently, the domestic cotton based industry is not subject to excise duty and on branded readymade garments with MRP > Rs. 1000 excise duty is 2% with abatement rate of 40% (without Cen vat) or 12.5% (with Cen vat). However, manmade fibre sector attracts a regular duty structure (with Cen vat). It is to be seen whether lower GST rates are declared for this sector, failing which this sector may have a negative impact.

## **XII IMPACT OF GST ON FMCG SECTOR**

FMCG products have a general excise duty rate of 12.5 per cent and a VAT at around the same level. As standard GST rate is expected to be lower than this, which if passed on to

the consumer will have a positive impact on this sector. At the same time, FMCG companies will save on logistics costs.

### **XIII IMPACT OF GST ON SERVICES SECTOR**

Services sector in India is a rapidly growing sector and significantly contributing to fiscal revenues. As indicated so far, that the standard GST rate would be 18-20%, as compared to the current 15% service tax including cesses then the services viz. IT, telecom, banking, insurance, etc. may witness negative impact due to increased cost of services.

### **XIV OVERALL IMPACT ON INDIAN ECONOMY**

**One market** – The trade of country will be converted into one market as compared to numerous markets due to different tax structures in several states as of now.

**Inflation** – There is a general perception that GST would drive Inflationary effect in the near term because producers will increase the rates if GST rate is higher, but refrain from passing on to customer if it is lower, consequently, inflationary effect may be there.

**Exports** – With lower logistics cost, full offset of ITC and seamless flow of goods cost, efficiencies will be achieved and Indian products would be more competitive.

#### **States having higher consumption to benefit**

The pattern of consumption will be the criteria for accrual of tax revenues to states. Accordingly, the tax collection will go the states having higher consumption as compared to the present system of collection by manufacturing states.

To conclude, although initial teething troubles will be there in transition phase and few sectors may face the challenges, nevertheless, the degree of positive impact is much more than challenges. IT driven taxation regime, lesser manual intervention of tax authorities, positive effect on so many sectors and uniform tax structure may witness increase in GDP for Indian economy.

GST which is likely to be inflationary would hit people in the lower income group hardest as they currently pay little or no income tax at all. However, a number of considerations suggest that the impact would be moderate. Sales tax and service tax component are already hidden in the prices of all commodities and basic items would be largely exempted from GST. Other necessities such as fuel and power, public transport and medical care are concerned, there is sufficient already. Government need to intervene to ensure that the poor is protected from GST effect.

**TAX CALCULATION AFTER ESTABLISHMENT OF GST**

(Table no.4)

Service startup	Intrastate trade		Interstate trade		International trade	
Service provider	Value of goods (1)	xx	Value of goods (1)	xx	Value of goods (1)	Xx
	(+) Service Tax	xx	(+) Service Tax	xx	(+) Service tax	Xx
	Value of goods (2)	xx	Value of goods (2)	xx	Value of goods (2)	Xx

**XV. CONCLUSION:**

After the detail study of the impacts of the provision of GST on the startups in India, we can conclude that GST has relatively more positive impact on the startups of service sectors as compared to that of startups of manufacturing sectors. The research paper concludes that as GST has not been established completely its further effects can be only anticipated and in future it may have negative or positive impact on the startups and other industries of the Indian economy.

**XVI SUGGESTIONS:**

- awareness campaign must be held all over India regarding the changes in tax system; accordingly the Indian startups should also make some efforts to gain knowledge in this regard.
- Registration procedures can be simplified.

**XVII LIMITATIONS:**

The study is limited to only manufacturing, industries and service sector of startups due to time constrains.

**XVIII SCOPE OF FURTHER STUDY:**

The study can be taken up to cover the issues faced by other sectors of startups and after the completion of this financial year there is a scope for collection of primary data in this regard.

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