

A Study on the Impact of Gst on India's It Sector

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ABSTRACT

Goods and Services Tax, the only name currently holding a pivotal position in the Indian dictionary of indirect taxation, is one of the eminent policies and decision of the Indian Government till date. However, the responsibility doesn't end up with just the implementation of the giant tax structure but to look after the pros and cons of the taxation system which it has brought with its implementation across various sectors of the Indian economy. Considering the same aspect, this research paper aims to study about the impact of GST on one of the most important sector of Indian economy, that is, the IT sector. With the GST implementation, what are the advantages as well as issues or disadvantages the sector is facing and how it has increased the tax burden on the various IT tools, equipments and in what manner it has impacted the major IT players in our country. The study will be of descriptive nature and secondary data will be presented in the paper to explore the target areas of study.

Keywords: GST, ITC, IT SECTOR, E-COMMERCE.

INTRODUCTION

Goods and Services Tax is the major game changer of our financial sector reforms which has created a unified market for the entire nation by removing all the heap of indirect taxes which were earlier imposed over goods and services in our country. From the time this major decision came into practice, that is, 1st of July 2017, the economy of the country has been experiencing a lot of challenges along with certain merits which can be understood by studying different sectors' performance with their own perspective. Some has addressed overburdened complexities while some sectors are of the opinion that this indirect tax regime has turned out to be a boon for them. Keeping such twofold aspect in mind, this research paper attempts to study the overall impact of GST over one of the very important sector of our Indian economy, that is, Information Technology sector.

The importance of the IT sector is well known to us but the reason for this study is not only the contribution of IT sector towards the development and growth of our economy, but that the entire GST structure is built upon the pillars of technological and digital networking. This indirect taxation scheme would have become a big failure if viable and sound IT support system has not been there. This sector has a vital role and contribution towards the execution and working of GST regime as most of the system and procedures under this taxation structure works via online platform. Hence, it becomes necessary to get an understanding whether GST has been a booster for the IT sector or it as given a pitfall to its main supporter.

LITERATURE REVIEW

- Prof. Dr. Vijayalakshmi Srinivas and Prof. Prasad Ghodke (2020) studied, “GST-Awareness, Perception and Practical Difficulties of Entrepreneurs in the Unorganized Sector of Beed district” and found that most of the entrepreneurs in the unorganized sector are not aware about the GST Structure and they are not satisfied with the implementation of GST and because of this they have negative perception about this taxation system. Major problems that they are facing are due to being less aware about the implementation of GST.
- Arun Gautam and Dr. Rohit Bansal (2019) studied whether GST is a booster or twister for IT industry with the help of secondary data and found that the e-commerce operators and business dealers who are trading online have opined that GST implementation has negatively affected their business. The tax rate applicable over the products and services provided by this sector is 18% which is a little high yet their study concludes that in the long run GST is going to promote the IT industry in positive terms with the help of input tax credit and other favourable supports offered by Indian Government towards the Industry.
- Sudipta Chakraborty (2018) studied, “Effects of GST on MSMEs and its impact on GDP Growth of India- A Study” and found that these sectors have faced two fold consequences right from the time when the Indian Government has announced the New Tax Regime till the post implementation period. During early stage, it was problematic for the small and medium traders to tackle with the issues which have been put forward by the GSTN but afterwards the regular efforts and financial assistance from the Government the MSMEs evolved being improvised and progressive.
- Dr. S. Gautami (2018) studied, “Effect of Goods Services Tax on Micro Small Medium Enterprises in India” and explored the level of awareness among small business entrepreneurs on GST. As per the findings conducted, most of the respondents briefly knew about the GST mechanism and there was a positive approach towards the business size and awareness level. The businessman agreed that they would come through challenges which would arise because of the implementation of GST.
- Akshara Mahesh and Karthika k. (2018) have studied “Impact of GST on Automobile Industry in India” and found that majority reduction can be seen in the prices of luxurious automobiles which will boost their revenue, however, similar is not the case with small cars. The researchers have also suggested that GST will be beneficial for the automobile industry in the long run.
- S.D Kharde (2017) studied “Impact of GST on Indian Automobile Industry” and found that customers who would buy small and mid size segment vehicles will gain the most among all the different segment buyers. However, large and luxury car dealers have yet to struggle with the high GST rates which can affect their sales in the short run.
- Pooja Jha and F.B Singh (2017) studied “A Study on Implementation of GST and its Repercussion on Indian Automobile Sector” and found that GST regime has a positive outlook for the Automobile Industry in terms of improved efficiency in road logistics and reduction in the prices of small cars and two wheelers but focus should be maintained on proper administration of GST and issues resolution.

IMPORTANCE AND OBJECTIVES OF STUDY

- To study the impact of GST on the IT sector in India.
- To study the benefits and challenges faced by the IT sector after GST implementation.

RESEARCH METHODOLOGY

This paper presents a descriptive study to analyse the impact of GST implementation on the IT Sector of our country. To accomplish the set objectives, information and data of secondary nature have been taken from various relevant websites, research articles, journals, etc.

GOODS AND SERVICES TAX MECHANISM

GST is a sole tax mechanism which has been developed on the surface of earlier prevalent indirect tax system of VAT. It will not be wrong to call GST a modified and extended version of Value Added Tax, as the new GST is actually charged on the value addition made to the goods and services. It is a consumption based indirect tax which is levied on the supply of goods and services. The implementation of GST has comforted the traders, manufacturers and businessmen by granting them freedom from the trap of innumerable tax rates with all of them having varied formalities and different level of complexities to comply with. The main reason for the implementation of GST is to prevent the cascading effect of taxation and to encourage the concept of “one nation, one tax and most important one common market”.

INPUT TAX CREDIT

ITC is a mechanism which is specifically designed to remove the most problematic feature of earlier tax regime which is Cascading effect of taxation. Cascading effect of tax simply means ‘tax on tax’. In the earlier system of taxation, taxes which were levied by the Centre were not allowed as a set-off from the tax payment levied by the State and vice-versa. However, the problem has not only been solved under the new tax regime but to a major extent has offered advantage to many of the traders and businessmen as they can avail credit of taxes paid at every stage of manufacturing and supply.

“Any registered person can avail credit of tax paid on the inward supply of goods or services or both which is used or intended to be used in the course or furtherance of business.”

- *ITC Mechanism in GST; www.cbic.gov.in*

In simple terms, input credit means the amount of tax which you have paid on inputs will be deducted from the amount of tax paid on output and hence, repetition of tax is avoided.

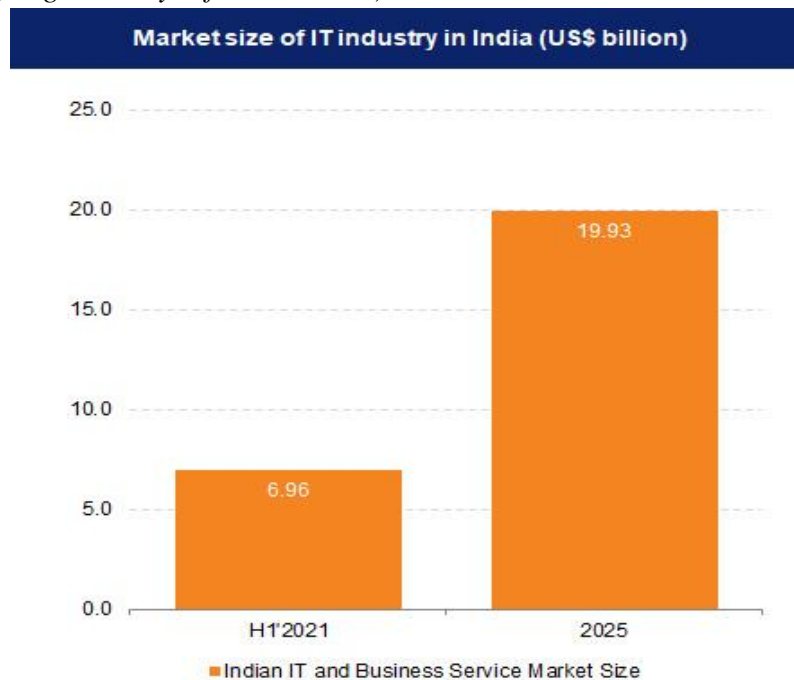
INFORMATION TECHNOLOGY SECTOR

The Indian IT sector has become one of the major growth drivers for the country’s economy, contributing considerably towards the country’s GDP and public welfare. The IT industry contributed for 7.4% of India’s GDP in FY22, and this share of contribution is expected to reach 10% by 2025. With the increasing pace of innovative digitization, India is now ready for the next phase of growth in its IT revolution. India being one of the major countries using internet, in the world at the most affordable rates, with nearby 76 crore citizens now have the access to the web.

The present focus is on the production of significant economic value and citizen empowerment, which can be appropriately implemented with the help of concrete foundation of digital infrastructure and enhanced digital access provided by the Digital India Programme. In terms of digital adoption, India is amongst one such country which is agile to follow any new advancement. This has been achieved through the combined efforts of government action, commercial innovation and investment, and new digital applications that are already improving and permeating a variety of activities and different forms of work, thus having a positive impact on the daily lives of citizens. The points mentioned below are noteworthy with respect to Indian contribution towards IT sector-

- India shares nearly 55% market share of the US\$ 200 to 250 billion global services sourcing business in 2019-20, across worldwide.
- As per the data published by National Association of Software and Service Companies (Nasscom), the revenue of Indian IT industry reached US\$ 227 billion in FY22 which is a year on year growth of 15.5%.

(Source of data: ibef.org/industry/info-tech-India)



India’s IT and business services market is expected to reach US\$ 19.93 billion by the FY 2025.

IMPACT OF GST ON THE INFORMATION TECHNOLOGY SECTOR

The following changes have taken place post GST implementation which has a significant affect over the tax rates, sales and working of the entire IT industry:

- According to GST law, maximum items used in the IT industry like Printer, photo copier, fax machines, and ink cartridges will now fall under GST slab rate of 28% as opposed to the previous 18% tax rate.
- The software services will be charged at 18% under GST as compared to 15% service tax of the previous system. The tax rate on software CD’s (and other electronic packaged software) will also be 18% under GST.
- The IT companies will have to arrange the hardware and software to make their systems in compliance with GST. This has increased the cost of infrastructure and is affecting business capabilities, especially for small businesses and startups as they lack these technical and financial supports in the initial period of their business.
- One of the positive aspects of GST is the facility of Input Tax Credits (ITC) which will be available to IT traders selling goods and services via online platform.
- The ERP and accounting service providers are also facing the technical challenge of upgrading their previous ERP systems in accordance with GST or they need to create complete new GST software like Gen-GST. This has added additional burden to their cost of operation.

- The Central Service Tax was the sole point of taxation in the IT industry as per the old taxation scheme with one point of registration. After GST implementation
- In the earlier taxation scheme related to IT industry, there was a single point of taxation, i.e. the central service tax. But, in GST regime, it covers 111 points of taxation. So the companies will have to handle with the States as well as the Centre separately, which is going to enhance the compliance cost.
- Under the previous regime, the implementation of ERP used to be a long-term contract which was spread over the years, and the service tax was charged accordingly. In GST, the ERP supply will be periodic, and the tax will be charged accordingly.
- GST also brings a great positive thing for the accounting software developer companies in India. Many firms have already launched their GST software to help their businesses and CAs with the new tax regime.
- GST effectively removes the cascading effects of taxes on all the supplies of IT goods and services. Thus, the consumers will now have to pay only the actual tax amount. This will not only decrease the cost but also will improve the investment capability of the IT companies in the country
- Export of various IT related services, such as software development, consultancy, and BPO services will be zero-rated under GST and companies will be allowed to claim credits on the input tax paid
- The tax rate for freelancers selling various IT services has been increased to 18% from the earlier 15% service tax. Bloggers with annual earning of less than 20 lakhs need not register for GST and/or pay tax.
- Under GST, all the e-commerce sellers are required to register and pay taxes, irrespective of their annual turnover. E-commerce firms also do not get the benefits of the Composition Scheme in GST. The online marketers will have to collect TCS from their suppliers and pay it to the government; the ITC will be allowed on such TCS paid.

E-COMMERCE OPERATORS

E-Commerce is the sharp edge for business today. E-Commerce means dealing of goods and services digitally. The traders create web portals and usually sell their products or services directly to consumers using a digital shopping cart and collect payment through various online mode of payments and also Cash on Delivery. In overnight E-Commerce became a dominant online activity. Its effect can be seen in all areas of business.

For E-Commerce traders, the GST has boosted administrative expenses. Also, on the grounds that e-retailers have hundreds of sellers on their structures, it drastically increases compliance burden. Currently, E-Commerce companies discharge their output service tax liability through centralized registration. Under GST, the centralized registration option is not be available. Therefore e-commerce operators need to obtain registration in each state having their place of business, resulting in increased compliances.

BEFORE GST	POST GST
<p>When Radha raises the Invoice: Product price = Rs. 5000</p> <p>CST @2% = Rs. 100</p> <p>Final price = Rs. 5100</p> <p>In addition, the dealer in Jaipur needs to bear entry tax @2% = Rs. 102 Total cost to the dealer in Jaipur = Rs. 5202</p> <p>When the dealer in Jaipur will sell jeans to the customer locally, she/he will sell the shoes at Rs. 5202+ profits.</p> <p>Since credit of CST and entry tax is not allowed</p>	<p>When Radha raises the Invoice: Product price = Rs. 5000</p> <p>IGST @18% = Rs. 900</p> <p>Final price = Rs. 5900</p> <p>When the dealer in Jaipur will sell jeans to the customer locally, he/she will sell the shoes at Rs. 5000+ profits.</p> <p>Since credit of IGST is allowed</p>

PLACE OF SUPPLY

Previously the taxation scheme of the IT service providers was carried out only from one location, i.e., the head location of the firm. Under GST a ‘place of supply’ provision has been introduced, which brings the need of various billing and invoice in the case of single contract services where the delivery is happening from multiple offices of the same activity. For that, the IT companies will have to register in those states as well where there customers and clients reside.

GST RATES ON IT SERVICES AND PRODUCTS

- The tax rates of the IT services and goods have experienced a little hike after the implementation of GST. But the cascading impact and multiple-tax system has been removed completely. So the consumers will now only pay a single GST tax amount.
- The E-commerce marketplace, which is a very big part of the Indian IT industry, is also facing major changes in the new GST tax regime. The GST provision states the online marketplaces to deduct TCS, i.e. tax from the sellers, and deposit it to the government. So, each of the sellers will have to register and file returns online if they wish to claim the credits on TCS paid.
- This is likely to hamper the industry growth thus making the situation worse and can also create a situation in which the seller could even draw their hands from such online platforms to sell their commodities, but that is highly unlikely.

SL. NO.	COMPUTER PARTS	PRE GST RATES	GST RATES
1	Laptop and Desktop	15%	18%
2	Optical and Hard Drives	5%	18%
3	RAM, PD, Memory Chips	-	18%
4	Monitors LED/LCD (up to 32 inches)	14.5%	18%
5	Monitors LED/LCD (greater than 32 inches)	18.5%	28%
6	Laptop Adapter	-	28%

1. BENEFITS AND CHALLENGES FACED AFTER GST IMPLEMENTATION

- Before the GST implementation, there was ambiguity regarding the Software companies as either they should be taxed as a company trading in goods or trading in services. This confusion was actually because State considered software as goods while the Centre regarded it as a service. Due to this, IT Companies used to pay dual tax in the form of VAT to States and Services tax to the Centre. However, the problem has been sorted out after GST came into existence through proper and clear classification.
- The benefit if Input tax credit has reduced the payment burden of IT Companies as well by granting the facility of offset of input tax.
- Zero rated GST is applicable on the exports of any kind of IT services like BPO, Software development, technical consultancy which is a major advantage for the sector. Not only this, supplies made to SEZ units are also kept zero rated but refunds of input is allowed to the companies.
- An important clause to be noted here is that, refund claim is to be allowed only if the services have been delivered entirely from India. However, a major step taken by the GST Council in favour of Software companies who work in partnership with foreign firms by allowing input tax credit on the partial delivery of services from India or abroad.
- GST has removed the cascading effect of taxation which will no doubt benefit the companies in many aspects.
- Major problem faced by the sector is the rise in the cost of IT products and services like, printers, monitors, fax machines, photocopy machines, etc. which will ultimately increase their operational cost and in turn will affect the demand and sale of such products.

CONCLUSION AND SUGGESTION

Previously, India relied on a complex indirect taxation system comprising various taxes and taxation systems. However, the implementation of GST aided in unifying all of these taxes. This simplified the assessment process and made accounting and compliance easier.

- With the increasing pace of strategic alliance between the domestic and international players to deliver IT solutions across the globe, India scaled 3rd on rank at worldwide with 608,000 cloud experts across all verticals.
- Our IT firms have delivery system all around the world and to enhance the growth of same the Union budget 2022-23 has allocated Rs. 88,567.57 crores for IT and telecom sector.
- The association of Indian economy with Information technology (IT) is very well aware of all the changes that IT sector will face after the GST implementation and has also issued a warning that serves not to take the information technology in an easy way as it contributes to the economy in a very heavy proportion. While the National Association of Software and Services Companies (NASSCOM) president R. Chandrashekar mentioned that upcoming GST regime will create a difficult scenario for the industry as with GST, there are many complex invoicing and billing will come over which can further strangle the taxation of IT industry making a tough growth.
- Although GST has introduced an increased tax rate of 18% for most of IT services and an immediate increase in the cost of implementation, it will definitely have a positive impact in the long-term. Factors like ITC, no GST on exports and removal of cascading of taxes will reduce the cost and increase the overall benefits of the IT sector in the country which will be seen in later years to come.
- The sale of packaged software was subject to VAT and service tax under the previous tax regime. In most states, the VAT rate was around 5%, while the service tax rate was 15%. Excise duty was also

levied on the manufacture of IT products. For instance, if the software is distributed on a CD, DVD, or hard disc, it is subjected to three taxes. GST will eliminate all such complications and double taxation.

- Presently, the IT sector's GST will be 18% on software services provided by software companies. Since GST in the IT sector has an 18% rate, the cost of software services will increase. It will also result in higher infrastructure and administrative costs for businesses of all sizes. However, such companies also avail themselves of ITC benefits, which will help them rescue costs.
- All in all, the IT industry will benefit from GST laws due to a boost in sales in the industry in the form of software sales. The availability of ITC will also help businesses lower their operational costs, improving their profitability.

As the sector in today's era of increasing digitization has a very important and long run role to play, the Government must affect certain tax reduction measures which can help the industrial players cope up with the increased operational and administrative expenses. Apart from that certain steps regarding providing training and refresher courses on handling the complex billing and TCS calculation can be provided to make the entire IT industry fully benefitted from the GST regime.

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