

An Analytical Study of GST for Construction Industry

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Abstract - Financial management plays an important role in success of a construction company and hence study of taxation system is necessary. With the implementation of "One nation one Tax", there has been a drastic change in the working environment of the construction industry which has led to changing rates of laborers, construction materials, machinery pertaining to construction, technologies used in construction, which has ultimately affected the cost of construction as well as the cost of buying and selling properties.

This paper aims to analyze whether GST is barrier or benefit to the construction industry. The objectives of this study include knowing the basics of GST, understanding tax slabs for various construction materials and to analyze prices of residential project before and after implementation of GST. The scope of study will commence by comparing features of the earlier taxation regime with the GST regime and will conclude with evaluating the effect of GST. This study is limited to comparative analysis of material prices for a bungalow project in Solapur city. The methodology adopted for this research included interviews with professionals. These interviews were vetted through questionnaires. A market survey was conducted to understand the effect of taxes on various construction materials. A comparative analysis for a bungalow project was carried out to understand the impact of GST on the residential project.

Key Words: GST, Construction industry, VAT, Service Tax, Cascading effect, Input Tax Credit.

1. INTRODUCTION

The journey of GST started in the year 2000 when a committee was setup to draft GST law. It took 17 years from then to evolve. In 2017, the GST bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017, the GST law came into force.

Goods and Service Tax (GST) is an indirect tax which was introduced and is applicable throughout India from 1st July 2017. It has replaced multiple taxes levied by the central and state government. Under GST, goods and services are taxed at the following rates- 0%, 5%, 12%, 18% and 28%. GST is considered as biggest tax reform since 1947.

GST has subsumed 17 central and state indirect taxes and 23 cesses into a single tax. GST is divided into four types-

CGST (Central Goods and Service Tax)

SGST (State Goods and Service Tax)

IGST (Integrated Goods and Service Tax)

UTGST (Union Territory Goods and Service Tax)

It observes a multi-stage collection process in which tax is collected at various stages and input tax credit for the tax paid at the previous stage is made available as a set-off at the next stage of transaction. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all previous stages.

The purpose of this study is to evaluate the effect of GST by comparing the material prices of a bungalow project before and after the implementation of GST. This study will help to clarify the ongoing argument and confusion among the traders, manufacturers and builders/ developers about the effect of GST on construction industry.

2. LITERATURE REVIEW

In the research paper titled "GST in India: A Big Leap in the Indirect Taxation System", Dr. R. Vasanthagopal clearly explains that India was suffering from a complicated indirect taxation system and implementation of One Nation, One tax will give boost to the Indian economy. He addresses the cascading effect of the earlier indirect taxation system. He concludes that GST will surely be a step towards growing economy. [1]

In their research paper titled "Implementation of Goods & Service Tax (GST) in India Emerging Opportunities & Challenges", Sabari Nath T V gives an overview of the earlier tax system. The author explains the core concept of GST and also compares non-GST regime to the GST regime and concludes that GST will help to eliminate the cascading of taxes at multiple level and will help to build a transparent corruption free tax administration. [2]

In the research paper titled "Goods and Service Tax (GST): As a new path in Tax Reforms in Indian economy", Dr. G. Sunitha and P. Satischandra highlight the concept of GST, its effect on Indian economy and benefits of GST. [3]

In the research paper titled "Basic Concepts and Features of Good and Service Tax in India", Girish Garg sheds light on history of taxation system in India. The author explains objectives of GST. He summarizes various salient features and benefits of GST. He also describes impact of GST on various industries including the Housing and Construction Industry and concludes that GST will strengthen nation's economy and development. [4]

A book published by The Institute of Company Secretaries of India (ICSI) titled “GST- A Simplified approach and Practical Guide for GST Accounts Assistants” gives the background of GST, how and why it was implemented. It provides clear explanation of the various sections of GST Act with simple examples. It also consists of various formats (Registration forms, Payment forms, practitioner forms, etc) [5]

In the research paper titled “An Overview of GST”, Dr. N Visalakshi and Dr. K. Kanaka Raju explain various concepts of GST. The authors shed light on impact of GST on a consumer through a comparative study and conclude that implementation of GST has eradicated multiple taxes, problems and issues in the economy. [6]

In the research paper titled “A study of Goods and Service Tax in India- A positive reform for indirect tax system”, Akanksha Khurana and Aastha Sharma focus on impact of GST. The main finding is that GST will have a positive impact on various sectors and industry. [7]

3. POSITIVE IMPACT OF GST

1. GST is a single tax system and it will reduce the number of indirect taxes.
2. The prices of product and services will reduce due to elimination of cascading effect and easy availability of Input Tax Credit (ITC).
3. All the indirect taxes are merged into GST and this will reduce the burden of state and central government.
4. GST is charged only on the value addition unlike indirect taxes under VAT and service tax regime. This will help the market to develop.
5. GST is a transparent and corruption free system.

4. NEGATIVE IMPACT OF GST

1. Some goods will become cheaper while other will be expensive and hence it will be a mixed bag for the consumers.
2. Provision of services will become expensive.
3. It will take some time for the construction firms to adjust to this new system of taxation and better manage the working capital requirement.
4. If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

5. TAXES SUBSUMED

Table -1: Central taxes subsumed

Central taxes subsumed	
Central Excise Duty	Taxes on Manufacturing
Excise duty under Medicinal and Toilet Preparation Act	

Additional duties of Excise	Taxes on imports
CVD & Special CVD (Additional duty of customs under section 3 of customs tariff Act, 1975)	
Central Sales Tax	Taxes on Sales
Service Tax	Taxes on Services
Surcharges and cesses which relate to supply of goods and services	Other

Table -2: State taxes subsumed

State taxes subsumed	
Value Added Tax/ Sales Tax	Taxes on Sales
Entry Tax	
Purchase Tax	
Tax on lottery, betting and gambling	
Luxury Tax	Other
Tax on advertisement	
Surcharges and cesses which relate to supply of goods and services	

6. RESULTS FROM QUESTIONNAIRE SURVEY

Following are the results from Questionnaire survey which was focused on the views of Chartered Accountants and tax practitioners having at least 5 years experience and clientele of construction industry.

Table -3: Comparison of features

Features	VAT and Service Tax Regime	GST Regime
No of Taxes	Multiple Taxes	Single Tax
Input Tax Credit (ITC)	Restricted Input Tax Credits	Input Tax Credits easily available
Basis of levy	Confusion between origin & destination based tax	GST is a Destination based tax
Cascading effect (Tax on tax)	Cascading of taxes	No Cascading effect
No. of returns	Multiple returns	Single Return
No. of registrations	Multiple registration nos. for different laws like Excise, Service Tax and VAT	Single Registration number under GST- GSTIN
Data and records	More Maintenance of data & Records	Less maintenance of data & records

7. RESULTS FROM MARKET SURVEY

From the market survey, it was found that the earlier tax system had various hidden taxes such as Excise duty (tax on manufacture of excisable goods), CST (Tax on inter-state sale), and other taxes like LBT, Octroi, Entry tax etc in addition to Value Added Tax (VAT). Following table shows comparative analysis of tax rates before and after implementation of GST.

Table -4: Tax rate comparison for construction materials

Sr. No	Material	Pre-GST					Post-GST	Difference
		Excise	CST	VAT	Other	Total		
1	Cement	12.5%	2%	13.5%	4%	32%	28%	-4%
2	TMT Steel	12.5%	2%	5%	4%	23.5%	18%	-5.5%
3	Coarse Aggregate	-	-	6%	-	6%	5%	-1%
4	River Sand	-	-	6%	-	6%	5%	-1%
5	Bricks	-	-	6%	-	6%	5%	-1%
6	Floor and Dado Tiles	12.5%	2%	13.5%	4%	32%	18%	-14%
7	Plywood	12.5%	1%	12.5%	4%	30%	18%	-12%
8	Laminates	12.5%	1%	12.5%	4%	30%	18%	-12%
9	Wires and Cables	12.5%	2%	13.5%	3%	31%	18%	-13%
10	Glass	12.5%	2%	13.5%	3%	31%	18%	-13%
11	Paints and Varnish	12.5%	2%	13.5%	4%	32%	18%	-14%
12	Sanitary Fittings	12.5%	2%	13.5%	4%	32%	18%	-14%
13	Wooden Doors and Windows	12.5%	2%	12.5%	3%	30%	18%	-14%
14	Aluminium Window Sections	12.5%	2%	13.5%	3%	31%	18%	-13%
15	Marble and Granite	12.5%	2%	13.5%	4%	32%	18%	-14%
16	AAC Blocks	12.5%	-	5%	4%	21.5%	5%	-16.5%
17	Waterproofing chemicals	12.5%	2%	13.5%	4%	32%	18%	-14%

Note- Green colour indicates reduction in taxes for construction materials. Orange colour indicates hidden taxes in Pre-GST Regime.

Table -5: Taxes levied in supply chain before and after implementation of GST

		Pre-GST		Post-GST	
A	Cost of Material manufactured		1000		1000
B	Excise Duty	12.5%	125	Nil	00
C	A+B		1125		1000
D	Sale from one state to another	CST @ 5%	56.25	IGST @ 18%	180
E	C+D		1181.25		1180
F	Add Profit		200		200
G	E+F		1381.25		1380
H	Sale to retail dealer in same state	VAT @ 12.5% on G	165.75	CGST @ 9% on F	18
I			00	SGST @ 9% on F	18
J	Final cost of material (G+H+I)		1547		1416

8. COMPARATIVE ANALYSIS

Following table shows comparative analysis of material prices for a bungalow project in Solapur city. Material prices for each of the particulars were derived from rate analysis and quantity estimations.

Table -6: Comparative analysis of material prices for a bungalow project before and after implementation of GST

S. No	Particular	Base Price	Pre-GST	Post-GST	Difference	% Difference
1	PCC	30252.59	34959.25	34323.09	636.16	2.10%
2	Back Filling	3098.55	3284.46	3253.47	30.98	1%
3	Rubble Soling	8148.89	9147.33	9007.06	140.27	1.72%
4	RCC	142284.50	169292.56	165738.45	3554.11	2.49%
5	UCR	9720.20	10911.16	10743.84	167.32	1.72%
6	Steel	147600.00	182286.00	174168.00	8118.00	5.5%
7	BBM 9" thick	7768.05	8412.44	8314.18	98.25	1.26%
8	BBM 6" thick	110983.57	120016.12	118632.41	1383.70	1.24%
9	BBM 4" thick	12257.45	13268.82	13114.41	154.41	1.25%
10	Internal Plaster	38538.33	44801.79	43960.50	841.28	2.18%
11	External Plaster	65395.04	75183.77	73853.09	1330.68	2.03%
12	Vitrified Flooring	66657.03	84488.32	77291.33	7196.99	10.79%
13	Vitrified skirting	2372.10	3131.17	2842.83	288.34	12.15%
14	Ceramic flooring	23968.20	31638.02	28491.39	3146.62	13.12%
15	Granite steps & frame	21075.05	26967.31	24520.88	2446.42	11.60%
16	MS Pergola	6089.58	7536.15	7185.70	350.44	5.75%
17	MS Grill	8771.59	10896.18	10350.48	545.70	6.22%
18	MS Railing	2285.90	2839.04	2697.36	141.68	6.19%
19	Teak Wood Door Frames	4950.00	6113.25	5841.00	272.25	5.5%
20	Flush Doors	15840.00	20592.00	18691.20	1900.80	12%
21	Al. Sliding Window	26271.00	34677.72	30999.78	3677.94	14%
22	Brick Bat Coba	35104.83	39192.22	38612.58	579.63	1.65%
23	Granite Kitchen Otta	13526.84	15569.72	14869.69	700.02	5.17%
24	Internal Painting	14416.51	19029.80	17011.48	2018.31	14%
25	External Painting	17857.09	23571.36	21071.37	2499.99	14%
26	Plumbing & Sanitation	62642.47	74835.45	71668.92	3166.52	5.05%
27	Electrification	20880.82	24945.15	23889.64	1055.50	5.05%
28	Total	918756.25	1097586.66	1051144.24	46442.42	5.05%

9. BENEFITS

9.1 To Builders/ Developers and Vendors/ Traders

- 1) One Nation, One tax.
- 2) Simplified registration process.
- 3) No Cascading effect.
- 4) Single and simplified return filing.
- 5) Duplication of work is avoided.
- 6) Simple online procedure for filing returns.
- 7) Development of common national market.
- 8) Availability of easy Input Tax Credit (ITC).
- 9) Less Paperwork.

9.2 To the Clients/ End Users

- 1) Simpler tax system.
- 2) Reduction in prices of goods and services due to elimination of cascading effect.
- 3) Transparency in taxation system.
- 4) Uniform prices throughout the country.

10. DRAWBACKS

- 1) More compliance cost as returns to be filed every month
- 2) Rectification of mistake is not possible.
- 3) Heavy penalty for non-filing of timely returns.
- 4) GST website problems.
- 5) More frequency of filing returns.
- 6) Frequent changes in tax rates.

11. CONCLUSION

GST is simpler and beneficial than the earlier taxation system. Tax rates for the input materials have drastically reduced and hence the impact of GST on material prices is positive. For a residential bungalow project, prices of input material have reduced by 5.05%. As we are new entrants in this taxation system, there are few shortcomings in this taxation system. The government is taking serious steps to overcome these shortcomings. If we overcome all these shortcomings, GST will surely benefit all the key players in the construction Industry.

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