

# THE IMPACT OF GST ON CONSTRUCTION INDUSTRY

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## ABSTRACT

The Goods and Service Tax (GST) is the greatest and considerable circuitous expense change since 1947. The principle thought of GST is to supplant existing expenses like esteem included assessment, extract obligation, administration duty and deals charge. GST as it is known is good to go to be a distinct advantage for the Indian economy. India as world's one of the greatest majority rule nation pursue the government charge framework for duty and accumulation of different expenses. Distinctive sorts of roundabout duties are required and gathered at various point in the inventory network. The middle and the states are engaged to collect separate duties according to the Constitution of India. The Value Added Tax (VAT) when acquainted was considered with be a noteworthy improvement over the prior Central extract obligation at the national dimension and the business charge framework at the State level. Presently the Goods and Services Tax (GST) will be a further huge leap forward - the following consistent advance - towards a far reaching circuitous expense change in the nation. The Finance Minister in his spending discourse of Budget 2015 has declared on numerous occasions that the expense will be presented on 1 April, 2016. (in any case, in CGST Meeting FM Says: GST execute From first April or May 2017 ). GST charge framework assumes a crucial job in development of India. GST spread 12 charges (Like Vat, Sale charge, CST, KKC and so on). GST is a standout amongst the most essential expense changes in India which has been long pending. It will be required on assembling deal and utilization of products and ventures. GST is required to address the falling impact of the current duty structure and bring about joining the nation monetarily. The paper features the impact on different areas in India. Engaging measurable instruments are utilized to break down and decipher the information gathered through auxiliary sources, for example, official sites of Government. In this exploration we discover GST diminish the taxation rate on Tax payers with on opposite side GST decline the incomes of Union and State Government. Research discovers Goods buy decline 5% to 10%.

**Keywords:** GST, Construction, Construction Industry, Effects of GST, GST in Construction, Construction Cost for GST, Building Construction.

## INTRODUCTION:

### 1.1 ABOUT GST

The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. GST as it is known is all set to be a game changer for the Indian economy. India as world's one of the biggest democratic country follow the federal tax system for levy and collection of various taxes. Different types of indirect taxes are levied and collected at different point in the supply

chain. The centre and the states are empowered to levy respective taxes as per the Constitution of India. The Value Added Tax (VAT) when introduced was considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level. Now the Goods and Services Tax (GST) will be a further significant breakthrough - the next logical step - towards a comprehensive indirect tax reform in the country.

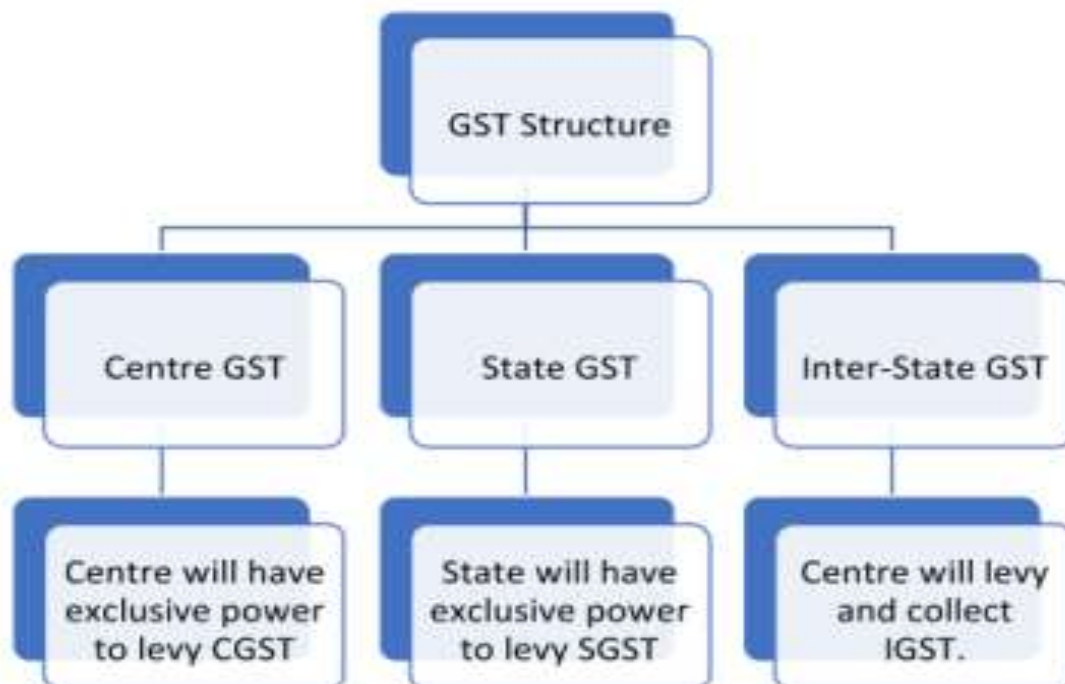
Goods and Services Tax (GST) is an indirect tax which was launched at midnight on 1 July 2017 by the President of India, Pranav Mukherjee and Prime Minister of India, Narendra Modi. The launch was marked by a historic midnight (30 June-1 July) session of both houses of the Parliament convened at the Central Hall of the Parliament.

GST is applicable throughout India which replace multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill.

To arrive at a conclusion, detailed studies starting from the gestation phase to the handover phase would depict in detail where are the area of concern where the cost of project has affected due to GST implementation. Unnecessary cost but it will also help the project manager to analyze and form such schedules that are met with as per the scheduled cost and time frame to nullify the effects of cost variation in the building construction industry. So, to get a clear picture of increase or decrease in cost due to GST, detailed study of a project before and after GST is done for a check in cost variation

## 1.2 GST STRUCTURE

A dual GST is proposed where both centre and state government of administer of GST



## KEY FEATURES OF GST

- Dual Goods and Service Tax : CGST and SGST
- Destination-Based Consumption Tax: GST will be a destination-based tax. This implies that all SGST collected will ordinarily accrue to the State where the consumer of the goods or services sold resides.
- Computation of GST on the basis of invoice credit method: The liability under the GST will be invoice credit method i.e. input credit will be allowed on the basis of invoice issued by the suppliers.
- Payment of GST: The CGST and SGST are to be paid to the accounts of the central and states respectively.
- Goods and Services Tax Network (GSTN): A not-for-profit, Non-Government Company called Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments will provide shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders.
- GST on Imports: Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- Maintenance of Records: A taxpayer or exporter would have to maintain separate details in books of account for payment, utilization or refund of Input Tax Credit of CGST, SGST and IGST.
- Administration of GST: Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body of the GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio.
- Goods and Service Tax Council: The GST Council will be a joint forum of the Centre and the States. The Council will make recommendations to the Union and the States on important issues like tax rates, exemption list, threshold limits, etc. One-half of the total number of Members of the Council will constitute the quorum of GST council.

## GST RATES IN INDIA

- Exempted categories – 0
- Commonly used Goods and Services – 5%
- Standard Goods and Services fall under 1st slab – 12%
- Standard Goods and Services fall under 2nd Slab – 18%
- Special category of Goods and Services including luxury - 28%

## GST: A GAME CHANGER FOR INDIAN ECONOMY:

GST will have a multiplier effect on the economy with benefits accruing to various sectors as discussed below.

**Benefits to the exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost

to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

**Promote “Make in India”:** GST will help to create a unified common national market for India, giving a boost to foreign investment and “Make in India” campaign. It will prevent cascading of taxes and make products cheaper, thus boosting aggregate demand. It will result in harmonization of laws, procedures and rates of tax. It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth. Ultimately it will help in poverty eradication by generating more employment and more financial resources. More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports. It will also improve the overall investment climate in the country which will naturally benefit the development in the states. Uniform CGST & SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighboring States and that between intra and inter-State supplies. Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a “Manufacturing hub”.

## OVERVIEW OF CONSTRUCTION INDUSTRY

The construction industry is the second largest industry in India after agriculture. It accounts for about 11% of India as GDP. It makes significant contribution to the national economy and provides employment to large number of people.

There are mainly three segments in the construction industry like real estate construction which includes residential and commercial construction; infrastructure building which includes roads, railways, power etc; and industrial construction that consists of oil and gas refineries, pipelines, textiles etc.

According to a study by ASSOCHAM, the growing Indian construction industry, currently worth \$70 billion, will rise to US\$120 billion by 2010. Construction is an essential part of any country infrastructure and industrial development. Construction industry, with its backward and forward linkages with various other industries like cement, steel bricks etc. catalysis employment generation in the country. Construction is the second largest economic activity next to agriculture. Broadly construction can be classified into 3 segments Infrastructure, Industrial and Real Estate.

Infrastructure segments involve construction projects in different sectors like roads, railways, ports, irrigation, power etc. Industrial construction is contributed by expansion projects from various manufacturing sectors. Real estate construction can be sub-divided into residential, commercial, malls/multiplexes etc.

The construction activity involved in different segments differs from segment to segment. Construction of houses and roads involves about 75% and 60% of civil construction respectively. Building of airports and ports has construction activity in the range of 40-50%. For industrial projects, construction component ranges between 15-20%. Within a particular sector also construction component varies from project to project.

Construction sector contributed about 11.5% to the country GDP in FY 08. Over past few years, growth of the construction has followed the trend of economic growth rate of the country. The multiplier factor between growth rates of construction and GDP has been about 1.5X-1.6X. Over past 3 years, construction as a percentage of GDP has increased from 8.0% in FY

06 to 8.5% in FY 08. Construction activity being labour intensive has generated employment for about 33 million people in the country.

The construction industry in India is highly fragmented. There are number of unorganized players in the industry which work on the subcontracting basis. To execute more critical projects, nowadays bids are increasing placed in consortium. But the profitability of the construction projects varies across different segments. Complex technology savvy projects can fetch higher profit margins for construction companies as compared to low technology projects like road construction. Various projects in Construction industry are working capital intensive. Working capital requirement for any company depends on the order mix of the companies.

The construction industry operates on the basis of contractual agreements. Over the years different types of contracts have been developed. It mainly depends on the magnitude and nature of work, special design needs, and annual requirements of funds and complexities of job. Construction projects can be materialized through number of smaller contracts which mainly depends upon size of the project and diversified nature of activities to be carried out in the project. As a result, Subcontracting is a common phenomenon in the construction industry

### 1.11 GDP IN CONSTRUCTION:

In India Construction has accounted for around 40 per cent of the development investment during the past 50 years. Around 16 per cent of the nation's working population depends on construction for its livelihood.

The Indian construction industry employs over 30 million people and creates assets worth over 200 billion. It contributes more than 5 per cent to the nation's GDP and 78 per cent to the gross capital formation.

In the 21st century, there has been an increase in the share of the construction sector in GDP and capital formation. The main reason for this is the increasing emphasis on involving the private sector infrastructure development through public-private partnerships and mechanisms like build- operate-transfer (BOT), private sector investment has not reached the expected levels.

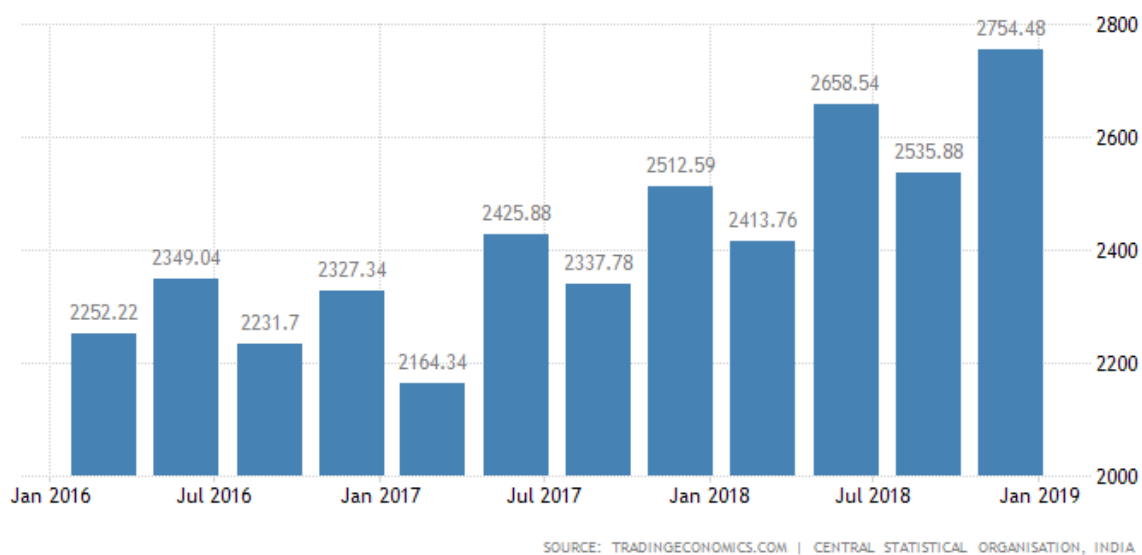


Figure 3-GDP in Construction

## STATEMENT OF THE PROBLEM:

Indirect tax system is very length process in taxation system. GST help to reduce the indirect taxes. In public no one awareness about GST and How GST effect the life of common person. After GST, What is Benefits to various sectors and change in various prices.

## REVIEW OF LITERATURE:

A number of research studies have been carried out on different aspects of GST impact by the researchers, economists and academicians in India and abroad. Different authors have analyzed performance in different perspectives. A review of these analyses is important in order to develop an approach that can be employed in the context of the study related to impact of GST on Construction Industry.

**Pinki, SupriyaKamma and RichaVerma (July 2014)** examined, "Merchandise and Service Tax-Panacea For Indirect Tax System in India" and reasoned that the new NDA government in India is certain towards execution of GST and it is helpful for focal government, state government and just as for purchasers in long run if its usage is sponsored by solid IT framework.

**AgogoMawuli (May 2014)** studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

**Nitin Kumar (2014)** studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

**NishithaGuptha (2014)** in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

**Jaiprakash ( 2014)** in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.

**Dr. R. Vasanthagopal (2011)** studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

**Fabian Christandl, DetlefFetchenhauer and Erik Hoelzl (2011)** conducted a study 2 months before and after a raise in value-added tax (VAT), 303 participants had to estimate the current prices for four products affected and four products not affected by this raise in VAT and the anticipated or recalled prices of these products. Before the VAT increase, an

undifferentiated belief in strong future price increases was prevalent. After the VAT increase, a confirmation bias was found: in retrospect, participants reported price increases that were significantly higher than the official price development and in line with an undifferentiated belief in marked price increases.

**Michael Keen and Ben Lockwood (2010)** explored the causes and consequences of the remarkable rise of the value added tax (VAT). It is observed that the introduction of a VAT, reduces the marginal cost of public funds and it leads an optimizing government to increase the tax ratio. This leads to the estimation, on a panel of 143 countries for 25 years, of a system describing both the probability of VAT adoption and the revenue impact of the VAT. The results point to a rich set of determinants of VAT adoption, and to a significant but complex impact on the revenue ratio. The estimates suggest, very tentatively, that most countries which have adopted a VAT have thereby gained a more effective tax instrument, though this is less apparent in sub-Saharan Africa.

## **OBJECTIVES OF THE STUDY:**

The objective of the study is to analyze the impact of GST on various sectors of construction and real estate such as warehousing, transportation and shipping forwarding because almost 7 to 10 percent of the total spent on construction in India consists of transportation, warehousing and shipping forwarding

- To know the concept of GST.
- To study the features of GST.
- To evaluate the advantages and challenges of GST.
- To furnish information for further research work on GST.
- To understand the concept of goods and service tax on construction industry.
- To understand how GST will work in construction industry.
- To identify the growth factor which affect the construction industry.
- To evaluate the challenges of GST which construction industry have to face.

## **METHODOLOGY:**

### **NATURE OF STUDY:**

The research is an exploratory research and the data collection is done mainly from the secondary data sources such as statistical data available on the official web site of Finance Ministry of India, the books published on GST and various contemporary news articles, journals and papers. The data so collected is used for understanding the present tax structure and for calculating the tax structure in the GST regime along with credit provisions. The basic statistical concept such as forecasting etc. is used for determining the tax liability in of GST at different proposed rates of tax.

Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

## PERIOD OF THE STUDY:

In this study, it is decided to Study and analyze the impact of GST on Construction industry in India for a period of 2 years from the year of GST Introduced in India, covering from 2017-18 to 2018-19. It gives a clear idea about the current scenario regarding the how is the construction industry before GST & after GST.

## DATA COLLECTION:

1. This study is completely based on secondary data mainly collected from the GST India ([www.gstindia.com/basics-of-gst-implementation-in-india/](http://www.gstindia.com/basics-of-gst-implementation-in-india/)). In addition to that, the data has also been collected from published sources and also from websites, newspapers (Business Standard. Economic Times), and Report by Management, Scholars, Researchers etc.

## TOOLS FOR RESULT ANALYSIS:

A variety of tools and techniques are available to the Result analyst. GST analyst chooses the techniques to suit the requirements of different enterprises under different situations. The following are some of the common techniques of financial analysis:

1. Comparative Material Prices Statements
2. Trend Analysis

## LIMITATIONS OF THE STUDY:

However, there are some limitations of the study, which are generally inherent in all such studies conducted at human level. The most important among them are:

In this Project, detail comparison is done only for the execution phase of the development. Working for detail cost, quantities, scheduling & comparison of cost is done only up to partial finishing of project. It is based on the comparison for a project constructed with old tax and with new tax system. The rates of material are prevailing market rates & may change as per the change in locality. This project is conducted purely for educational purpose and has no liability of 100% authenticity of the data provided as the detailed working may have variation . However, all these limitations do not, in any way, affect the worth of this research work.

## RESULT ANALYSIS AND INTERPRETATION:

### BASIC CONCEPT OF GST

<b>Importer to wholesaler</b>		
Gold	100000	100000
Sales Tax (14%)	14000	-
Countervailing duty (12.5%)	12500	-
Excise Duty ( 1% )	1000	-
CGST (18%)	-	18000
<b>Grand Total</b>	<b>127500</b>	<b>118000</b>
<b>wholesaler to retailers</b>		
Price	127500	118000
Add margin (10%)	12750	11800
Other Charges (Like tax, Rent, Transport charge)	15000	15000
<b>Sub Total</b>	<b>155250</b>	<b>144800</b>
Sales Tax (14%)	21735	
SGST (18%)	-	26064
<b>Total Price</b>	<b>176985</b>	<b>170,864</b>



In this above diagram, the basic concept of GST is discussed. How GST is work. In old taxation system (indirect taxation system) tax payer pay more tax but in GST tax payer pay one tax. In above figure- (*How GST Work*)Tax payer pay more tax than GST. Wholesaler pays 27,500/- (Sale Tax + Countervailing duty+ Excise duty) in indirect taxation system. But after GST Wholesaler pay 18,000/- as a tax. Importer maintain many file like Sale Tax, Countervailing duty, Excise duty etc. But after GST wholesaler and Importer need to maintain only GST file.

## COMPARISON OF APPLICABLE TAXES BEFORE AND AFTER GST:

Goods and Services Tax (GST) is an indirect tax applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017.

Construction Materials	Previous Taxes	Taxes under GST	Impact
Cement	31%	28%	Cheaper
TMT Bars	18%	18%	Neutral
Flyash Bricks	5%	12%	Costlier
Tiles	26%	28%	Costlier
Paint	28%	28%	Neutral
Sanitaryware	28%	28%	Neutral
Plywood	28%	28%	Neutral
Electrical Goods	12%	28%	Costlier

### What Will Be The Effective Prices After GST Implementation?

**Short Term Impact:** There will be a increase in the prices of the construction materials (except for cement) because of the increase in the tax rates. In GST regime, smaller unorganized manufacturers and dealers (Usually revenue less than 75 lacks) has the advantage of certain tax exemption/evasion. However these exemptions will discontinue and all companies will have to levy uniform taxes on similar products post GST implementation.

In order to ensure that the buyer is able to get the GST credit of purchased goods, the sellers will have to pay the GST collected every month. This might strain their existing working capital cycles and result in higher costs for them. So there will be an increase in working capital requirement for companies in the short run. But in the long run will be beneficial in light of the expected reduction in logistics and lower tax on inputs under GST. Thus the initial impact of GST would be a slight increase in the cost of construction materials.

**Long Term Impact:** There will be a slight decrease in the cost of construction materials over the long run. But there will be no major impact on the Total Construction cost in Long run because of GST implementation. Although input tax credits help in decreasing the prices of various Construction Materials, an increase of tax for composite contracts to 12% and increase in the taxes on materials like plywood and electrical will normalize the total impact on Construction Costs.

## FINDINGS:

- Quantum of materials, machinery & man power required during the construction phase of the project.
- Basic rates of laborers, materials & machinery pertaining to the project under consideration. Percentage of taxes & their breakup before & application of GST.
- Arriving to the cost of laborers, materials & machinery of the project by application of taxation rates before & after GST.
- Calculation of cost of construction before & after GST. Critical comparison on the cost arrived in terms of individual item of work & nature of effect on it.
- Project Scheduling, check for the areas of time & cost overrun.
- Analyzing the areas of risk along with the detailed report on the impact of these risk on the time frame of the project under consideration.

## DISCUSSION

- Analyzing the taxes & their breakup before GST needs an interdisciplinary approach.
- Arriving at a rate of an item of work is a topic of discussion as there are different views of different agencies working on a project regarding the cost of an item of work.
- Going for a Labor + Material Contract i.e. an Item Rate contract & maintaining the same quality & cost of construction is something the builders & contractors need to work on.
- Change in the entire material procurement system & also in the mode of billing for various item of work.
- Drastic change in the cash flow matrix of the project under consideration due to the required checks to be met with under GST.

## CONCLUSION:

Obviously, GST has led to increase in revenue generation of the sector which is also the biggest employment generation sector. Improvement in the quality of work by the contractors as there is a fixed time duration on cash flow in a project. Builders as well as the other agencies working in this sector have started a panel working on the untouched areas of working on the principles of construction management & risk management of the projects having huge significance in the construction society. An out of the box approach to the various technological option of doing the work has emerged to counter act the cost effect of GST.

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