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An Analytical Study of GST Effects on Banking and Manufacturing Industries in India

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ABSTRACT:
The implementation of the Goods and Services Tax (GST) in India marked a significant reform in the country's indirect taxation system, aiming to create a unified and transparent tax structure. While GST has streamlined taxation across sectors, its impact varies depending on the nature of business operations, input-output structures, and regulatory frameworks. This research paper presents a comparative analysis of the taxation impact of GST on the banking sector and the manufacturing sector in India.

The banking sector, being service-oriented, operates under a distinct taxation mechanism compared to the manufacturing sector, which deals with tangible goods and complex supply chains. The study examines differences in tax rates, compliance requirements, input tax credit utilization, operational efficiency, and profitability.

Using a qualitative research approach based on secondary data, the study finds that GST has increased compliance complexity in the banking sector while significantly benefiting the manufacturing sector through reduced cascading taxes and improved supply chain efficiency. The paper concludes that GST has had a more favorable impact on manufacturing than banking, highlighting the need for sector-specific reforms.

KEYWORDS:
GST, Banking Sector, Manufacturing Sector, Taxation, India, Input Tax Credit, Comparative Study

INTRODUCTION :

Tax reforms play a crucial role in economic development by influencing business operations, investment decisions, and overall growth. The introduction of GST in India on July 1, 2017, replaced multiple indirect taxes such as excise duty, VAT, and service tax with a unified tax system.

The banking and manufacturing sectors are two pillars of the Indian economy. The banking sector provides financial services such as lending, deposits, and payment systems, while the manufacturing sector produces goods across industries like automobiles, textiles, and electronics.

Under GST, these sectors are taxed differently due to their inherent nature. Banking services are generally taxed at 18%, whereas manufacturing goods fall under multiple tax slabs ranging from 5% to 28%.

This study aims to compare the taxation structure and impact of GST on these two sectors, identifying key differences, challenges, and opportunities.

LITERATURE REVIEW:

Existing literature provides valuable insights into the sectoral impact of GST:

- Studies indicate that GST has reduced the cascading effect of taxes in the manufacturing sector, improving efficiency and cost structure.
- Research highlights that the banking sector faces increased compliance requirements due to multiple service points and customer locations.
- Scholars note that input tax credit utilization is more effective in manufacturing than in banking.
- Literature also suggests that GST has improved logistics and supply chain efficiency in manufacturing.
- Some studies emphasize that the banking sector experiences challenges in apportioning input tax credit across branches.

Overall, literature suggests that GST has a more positive impact on manufacturing compared to banking.

OBJECTIVES OF THE STUDY:

1. To analyze the GST framework for banking and manufacturing sectors.
2. To compare tax rates and compliance requirements.
3. To evaluate input tax credit utilization in both sectors.
4. To assess the impact of GST on operational efficiency.
5. To identify sector-specific challenges and opportunities.

RESEARCH METHODOLOGY:

Type of Research

- Descriptive and comparative research

Data Sources

- Secondary data (journals, reports, government publications, industry analysis)

Approach

- Comparative analysis of pre-GST and post-GST scenarios
- Sector-wise evaluation

Scope

- Focus on India
- Analysis limited to GST framework

HYPOTHESES

H1: GST has a uniform positive impact on both banking and manufacturing sectors.
H2: Manufacturing sector benefits more from GST than banking sector.
H3: GST has improved operational efficiency in both sectors.
H4: Compliance burden is higher in the banking sector compared to manufacturing.

GST Structure: Banking vs Manufacturing

Banking Sector

- Services taxed at 18%
- No distinction between essential and non-essential services
- Input tax credit available but restricted
- Complex compliance due to multiple branches

Manufacturing Sector

- Tax rates vary: 5%, 12%, 18%, 28%
- Full utilization of input tax credit
- Benefits from reduced cascading taxes
- Improved logistics and warehousing

Comparative Analysis

- Tax Rates and Structure

- Banking: Uniform tax rate (18%)
- Manufacturing: Multiple tax slabs

Observation: Manufacturing sector experiences varied tax burden, while banking has uniform taxation.

Input Tax Credit (ITC)

- Banking: Limited ITC utilization (often 50% rule)
- Manufacturing: Full ITC utilization

Observation: Manufacturing sector benefits more from ITC provisions.

Compliance Requirements

- Banking: High compliance due to branch-level reporting
- Manufacturing: Moderate compliance

Observation: Banking sector faces higher administrative burden.

Operational Efficiency

- Banking: Limited impact
- Manufacturing: Significant improvement in supply chain

Profitability

- Banking: Margins affected due to compliance costs
- Manufacturing: Improved margins due to tax efficiency

FINDINGS

The key findings of the study are:

- GST has simplified taxation for both sectors.
- Manufacturing sector benefits more due to ITC and reduced cascading taxes.
- Banking sector faces higher compliance burden.
- Supply chain efficiency has improved significantly in manufacturing.
- ITC restrictions limit benefits for banking sector.
- GST has enhanced transparency in both sectors..

DISCUSSION/RESULTS:

The comparative analysis highlights the uneven impact of GST across sectors. The manufacturing sector has gained significantly from GST due to improved tax efficiency, seamless input tax credit, and better logistics.

In contrast, the banking sector faces structural challenges due to the nature of its operations. The requirement to manage GST compliance across multiple branches increases complexity and costs.

Moreover, restrictions on input tax credit limit the benefits for banks. While GST has improved transparency and reduced tax evasion, the compliance burden remains a concern for service-based industries like banking.

Thus, while GST is a progressive reform, its implementation needs to be tailored to address sector-specific issues.

CONCLUSION:

GST has transformed India's indirect taxation system, bringing uniformity and efficiency. However, its impact varies across sectors. The manufacturing sector has emerged as a major beneficiary due to reduced tax cascading, improved supply chain efficiency, and full utilization of input tax credit. On the other hand, the banking sector faces challenges such as compliance complexity and restricted ITC benefits. For a balanced economic environment, policymakers should consider reforms such as easing ITC restrictions for banks and simplifying compliance procedures. Overall, GST is a step in the right direction, but continuous improvements are essential for maximizing its benefits across all sectors.

CONFLICT OF INTEREST:

This paper is based on a conceptual review of published literature and does not involve direct funding or collaboration with commercial biotechnology entities. The author declares no financial or personal conflicts of interest related to the subject matter discussed.

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