GST Waiver will Increase Cost

Why in News

Goods and Services Tax (GST) The Ministry of Finance is not in favour of granting exemption, as has been demanded by various sections of the industry.

Key Points

- **adverse implications on state finances, businesses would suffer**Providing GST exemption will have serious also and consumers would be hit by price rise.
- **block Input Tax Credit (ITC) because the final product is tax-free.**Exemption would as manufacturers will pay GST on inputs but cannot claim ITC Thus, it will increase the cost of manufacturing, which will lead to increase in cost of products.
- **increase compliance burden for manufacturers**The GST exemption will also who would be required to maintain separate accounts for inputs and goods used for the production of the item.
- **GST exemption provides incentive for imports,**
  This makes imported goods cheaper than locally produced goods.
  Further, the which do not have input taxes as compared to domestic supplies.
- In the past when the GST exemption on sanitary napkins was allowed, it had led to similar hardship for domestic manufacturers of sanitary napkins.

Goods and Services Tax

- **indirect tax**Goods and Service Tax (GST) is an levied on the supply of final goods and services. The GST has subsumed indirect taxes like excise duty, Value Added Tax (VAT), service tax, luxury tax etc.
- **consumption tax**It is essentially a and is levied at the final consumption point.
- **value addition**It is levied only on the and is collected on goods and services at each point of sale in the supply line.

- **can be set off later input tax credit.** The GST that a merchant pays to procure goods or services (i.e. on inputs) against the tax applicable on supply of final goods and services. The set off tax is called
- **cascading effect or tax on tax** The GST avoids the which increases the tax burden on the end consumer.

Benefit of Input Tax Credit

- Imagine a manufacturer of shirts. He buys raw material or inputs — cloth, thread, buttons, tailoring equipment — worth Rs 100, a sum that includes a tax of Rs 10. With these raw materials, he manufactures a shirt.
- In the process of creating the shirt, the manufacturer adds value to the materials he started out with. Let us take this value added by him to be Rs 30. The gross value of his good would, then, be Rs 100 + 30, or Rs 130.
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    - Therefore, the effective GST incidence on the manufacturer is only Rs 3 (13 – 10).
    - **input tax credit** Rs. 10 is the for the manufacturer.

  At a tax rate of 10%, the tax on output (this shirt) will then be Rs 13. But under GST, he can set off this tax (Rs 13) against the tax he has already paid on raw material/inputs (Rs 10).

<u>Source: IE</u>