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## A STUDY ON THE IMPACT OF GST ON CONSTRUCTION PROJECTS IN CHENNAI CITY

**Dr.G.S.DHANASHREE & Dr.H.KAMILAH BANU**

Assistant Professor, Department of Commerce, Vels Institute of Technology, Science and Advanced Studies (VISTAS), Pallavaram, Chennai

### Abstract

*GST on construction material has rationalized the taxation system and subsumed various state and Central government taxes. The government also levies GST on construction contracts. Before July 2017, the tax levied on the goods and services was complex, as there were numerous taxes imposed on the goods and their services. However, the introduction of GST (Goods and Services Tax) has made the process simpler by eradicating excise duties, Octroi, VAT, customs duties, etc. The basic needs of the person include food, shelter, and apparel. It is essential to have in-depth GST on construction as this sector employs approximately thirty million people across the country. Moreover, contributing two hundred billion worth of assets every year. To govern the activities taken under construction, the concept of work contract has been introduced.*

**Keywords:** Construction, Exempted, GST and Government.

### Introduction

GST will lend a whole lot of transparency in the real estate sector while also playing a major role in minimizing unscrupulous (black money) transactions. Currently, there is a huge percentage in every project where expenditure goes unrecorded on the books. GST by curbing the practice of fake billing on purchase-side will help cut down cash component in construction, which in turn, will help in boosting stakeholder's confidence.

Although the GST rate of 18% on the supply of works contract in the construction sector may be higher than the previous rates, the regime of local composition schemes is over, though now they are eligible for full input tax credit. However, many of the listed construction services such as constructions of dams, roads etc. which were previously exempted are now under the GST purview. This basically means the average construction contract in the previous regime which used to hover around the 11–18% range is now chargeable at a flat rate of 18%. As a matter of

fact, if you take exempted services into consideration, this marked difference is more pronounced, like certain infrastructure services are no more exempt in current regime. Having said that, thanks to the availability of input tax credit, the construction sector is expected to benefit in the long run. This is because, under the GST regime, the input tax credit on the raw materials would result in an overall neutral tax incidence for construction services. Additionally, with GST, real estate developers will have access to free input tax credits on GST paid for services and goods purchased by them while the rate of GST on outward supply is 12% including the value of land. As the inward supply consist of many a items with more than 12% rate.

Overall, GST is expected to help bring a lot of required transparency and accountability. Moreover, owing to the expected free flow of credit, developers should be able to enjoy an increase in overall margin. Whether these benefits trickle down to the consumers is yet to be seen as the pricing in

this sector tends to be dictated by market forces rather than costing policies. Looking from the consumer point of view, the one primary advantage would be in terms of decrease in the overall tax burden on goods and increased transparency in tax system. GST will also help in eliminating unnecessary paperwork while eliminating time wastage spent by good suppliers at various state borders.

### Objectives of the Study

- To understand the concept and supply chain of GST.
- To know the GST Rate Structure.

### Review of Literature

*Pinki et al. (2014)* studied, "Goods and Service Tax Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure

*Lourdunathan & Xavier (2017)* conducted a study based on exploratory research technique on the basis of past literature to study the opinions of manufacturers, traders, society etc. about the GST and the challenges and prospects of introducing GST in India. They concluded that no doubt GST stands with one tax one nation slogan and will provide relief to producers as well as consumers. Its efficient implementation will lead to resource and revenue gains. They also said that seamless credit and return processing without human intervention requires educating, training, and conducting workshops on GST on the part of government.

*Mujalde, S. and Vani, A., (2017)*, in their research paper on 'Goods and Services Tax (GST) and its outcomes in India' focused on the features of GST, impact of GST on Indian economy and discussed possible advantages and challenges of GST.

*Priyanka & Manoj (2019)*, conducted that GST is a combination of all indirect taxes in India and also a value added tax which is imposed on goods and services by both Centre and state government. The largest tax reform in India is on 1st July 2017 when GST in India is launched and introduced. Thus goods and services tax (GST) was defined as a consumption based tax collected from

manufacturer, sale and consumption of goods and service further helps in transforming the country into one integrated common market. After its implementation many imprecise debates were raised on goods and services tax (GST).

*Priyanka Sharma (2020)* Goods and Services Tax (GST) is one tax subsuming all the indirect taxes in the economy. It is said to be national tax. Because, it is a uniform tax across all states of the country: only one rate will prevail on one set of goods across all parts of the country. GST is essentially a tax on value addition covering the entire range of production activity from manufacturer to the consumer. The present paper tries to explain the concept of GST, find out the structure of GST and its types, explore the positive as well as negative impact of GST on Indian economy. The present study is based on secondary data and the secondary sources includes books, journals, websites, newspapers, magazines etc.

*Paramasivan C (2021)* GST is one of the most important and innovative milestones in Indian taxation system which help to simplify the tax system in India. The implementation of GST will be in favour of free flow of trade and commerce throughout the country. Therefore, it is concluded that awareness of GST become an important point of effective implementation of taxation system in our country.

### Limitations of the Study

- The sample size was small and cannot be applied to the entire population.
- The study was conducted with the basic assumption that the information given by the respondent is factual and represents their true feelings and behaviour.
- Since all the products and services are not widely used by all the customers it is difficult to draw realistic conclusions based on the survey.

### Research Methodology

A sample size of 100 has been used and convenience sampling has been adopted for the study.

### Analysis and Findings

*Table 1 Showing the responses on whether GST has increased the cost of material procurement.*

| Options        | No. of Respondents | %   |
|----------------|--------------------|-----|
| Strongly Agree | 28                 | 28% |
| Agree          | 20                 | 20% |

|                   |            |            |
|-------------------|------------|------------|
| Neutral           | 27         | 27%        |
| Disagree          | 16         | 16%        |
| Strongly Disagree | 9          | 9%         |
| <b>Total</b>      | <b>100</b> | <b>100</b> |

**Table 2 Showing the responses on whether GST makes the construction projects slower.**

| Options           | No. of Respondents | %           |
|-------------------|--------------------|-------------|
| Strongly Agree    | 30                 | 30%         |
| Agree             | 13                 | 13%         |
| Neutral           | 26                 | 26%         |
| Disagree          | 18                 | 18%         |
| Strongly Disagree | 13                 | 13%         |
| <b>Total</b>      | <b>100</b>         | <b>100%</b> |

### Findings

- Most of the respondents know about GST through Mass Media.
- Most of the respondents agree with the implementation of GST in India.
- Most of the respondents think that since GST has been implemented it has caused higher price of goods & services.
- Most of the respondents think that GST has increased the cost of acquisition of land has increased.
- 91% of respondents think that Goods & Service Tax is more beneficial to both Government and people.
- 53% of respondents think that GST has increased the tax burden on people/consumer.

### Suggestions

- Process must be simplified in local languages so that business can operate efficiently in the best interest of the people and for economic growth.
- Technological glitches of the GST network should be sorted out.
- Provision to amend GST Return once uploaded, in case of clerical error, a provision to rectify those return can be given.
- The facility to file quarterly returns can be extended to assesses with up to 10 Crore turnover.

### Conclusion

Study brought out concept of construction sector under new GST regime and compared it with old GST regime. Input tax

credit was not available under pre-GST regime. Different state had different rule which increased compliance burden on supplier. Further cost of construction increased and become burden of consumers.

Rate of GST under construction sector have increased as compare to old GST regime. But there has been benefit of input tax credit in all supply chain including inert-state trade. However GST council reviewed rate time to time. Construction sector is largest contributor in Indian economy. It is not only related to construction but also concerned with related services also. Government shall give more incentive for positive growth in construction sector.

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