



Impact of GST on Chemical industries

What is GST?



Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.

In simple words, GST is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India.

Central Taxes

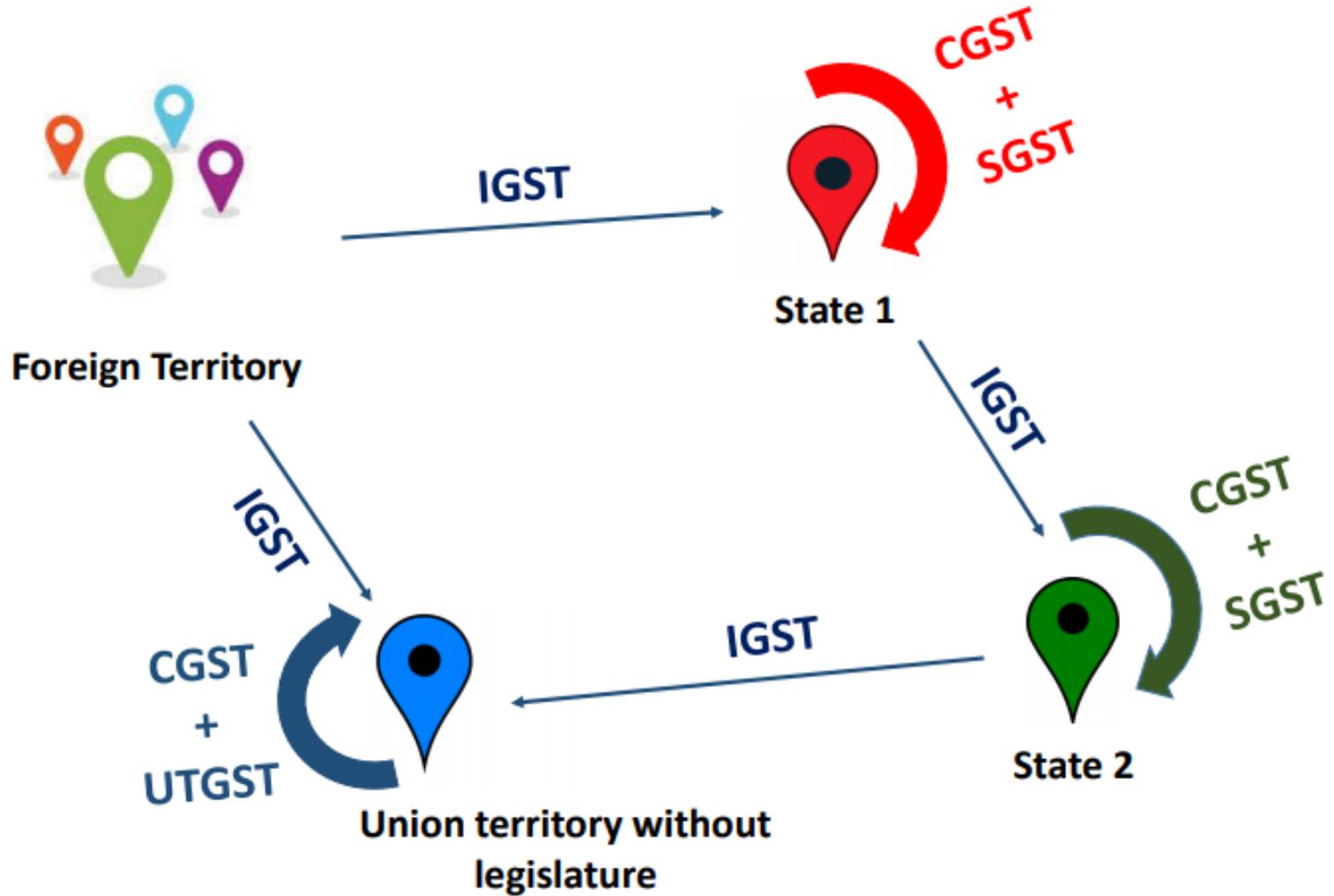
- Central Excise duty
- Additional duties of excise
- Excise duty levied under Medicinal & Toilet Preparation Act
- Additional duties of customs (CVD & SAD)
- Service Tax
- Surcharges & Cesses

GST

State Taxes

- State VAT / Sales Tax
- Central Sales Tax
- Purchase Tax
- Entertainment Tax (other than those levied by local bodies)
- Luxury Tax
- Entry Tax (All forms)
- Taxes on lottery, betting & gambling
- Surcharges & Cesses

GST Types



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Positive impact



- Almost every predictable impact of GST on the Indian industrial sector looks positive, especially for the chemicals industry. Chemicals businesses in India have long suffered the wrath of added taxations on their production capacity as well as their consumption demands.
- The existing taxations have impelled the rise in the production costs of manufacturing vital chemicals, which has resulted in the price-hike of the end products and made such goods unaffordable for gross consumption.
- That's why the GST Act is trusted to be seminal for the unbarred progress of the Indian chemicals industry in the years to come.

Unification of Taxes



- The prime benefit of implementing the GST legislation is that it will integrate the chemicals market by decimating the tax complications grappling the interstate trade of chemical companies.
- To accomplish this, GST will incorporate the crucial Central and State taxes such as the Central Excise, the Service Tax, the Countervailing Customs Duty, the Special Additional Duty, the Central Sales Tax (CST) and other VATs.
- Such double taxations get more tedious when the end-user industries are located in various states and the taxations witness additions from the duty levied by the concerned State Governments. Owing to the fact that the Service Tax, CST and VAT levied upon interstate transactions differ according to the involved States, the GST will subsume them under three taxable levies – the Central GST (CGST), the State GST (SGST) and the Integrated GST (IGST).
- The GST Bill will avoid any double taxation at combined rates and keep the rates of State-level tariffs consistent throughout the country. The inferring taxation will allow chemical manufacturers to produce chemicals and supply them to different States without any additional taxable duties.

Reduction of Production cost



- The facilitation of national trade has been hampered by the surging VATs implied on manufacturers of chemicals. The mitigation of CGST and SGST will also lower the cascading effect of multiple taxations on the production capacity of chemical industries.
- For an instance, an agrochemicals manufacturer in Ludhiana has to deal with the burden of paying diverse taxes to the State Government in Punjab as well as the Central Government. In the process, the manufacturer ends up paying more than 25 percent of aggregated levies, and has no option but to hike the production value of the chemicals.
- The implementation of GST will result in exertion of IGST for interstate trade and SGST & CGST for transactions within a State. Consequently, the production costs and the resale prices of chemicals will be extensively lowered, urging the industry leaders to concurrently expand the gross production capacity of the chemicals sector in India.

Ancillary advantage



- The aforementioned benefits of lowered production costs and reduction of transactional tax rates will have a major influence on the growth of paints and construction chemicals industry.
- The booming real estate sector will continue to generate demand in construction chemicals market, but the implementation of GST will make sure that the construction chemicals retailers are not edged away from the sales profits. The absence of warehousing or supply chain costs will help maintain the affordable prices and promote the consumption of chemicals. Non-uniformity of VAT rates will be irrelevant as GST will be implied at a common rate upon every product sold in the chemicals industry.
- Lowered transit time, availability of chemical materials at the desired time, and hassle-free transportation systems are also observed as the indirect advantages of implementing the GST in the Indian chemical businesses.

The downside of GST implementation



- Among all the levies merged, the Basic Customs Duty will be the only taxation exempted by the Bill and will continue to be charged post-GST implementation. While there aren't many drawbacks of enacting the GST on the chemicals industry.
- The GST mechanism is based on the destination of the transaction, not the source. Therefore, the specification of where the goods are sold is necessary, which can be difficult for complex purchase orders existing among chemicals companies and other end-use industries.
- On the other hand, the improved input tax credits and surging headline rate of the GST are likely to soften this "goods v/s services" inequity.

THANK YOU

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