IMPLICATIONS OF GST ON COMPENSATION PACKAGE IN THE PERSPECTIVE OF HUMAN RESOURCE DEVELOPMENT IN INDIAN INDUSTRY

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ABSTRACT

The recent introduction of GST has multidimensional effect on every sector of economy. In respect of specific industrial unit it will affect Production, finance, marketing and also HR activities. It is a time to review and analyze the impact of GST provisions on every activity so as to develop suitable policies and procedure to adjust with new tax policy. The HR Department performs several practices to train, motivate, stimulate, develop and retain the quality human resources. The research examined the implications of Goods and Services Tax (GST) on Human Resource activities in Indian Industries. The research revealed that the GST has direct and indirect effects on employer and employee relations. The research suggests that the HR Department should initiate necessary steps to rectify the existing HR compensation package suitable to the satisfaction of employees and organization. The paper ended with a discussion on implications and limitations of the research and scope for future studies.

Keywords: Goods and Services Tax (GST), Human Resource Development (HRD), Input Tax

INTRODUCTION

At micro level, Human Resource Development is not only concerned with skill development but also focuses on overall development of employees. Similarly, at national (Macro) level it plays a vital role to create productive man power through health, hygiene, education, housing facility and quality life. The recent introduction of the Goods and Service Tax (GST) has created major changes to everyone including large scale industrial projects, small and medium scale units, managers, employers, employees and even common public. Everyone is a consumer at different stages. GST is complex and comprehensive taxation policy adopted by Government of India on absorbing multiple taxes like excise duty, service tax, Value added tax, octroi etc. by amalgamating State and central tax policies. GST is a two tiered ‘One country, one tax’ regime.

The GST introduced in India as per the 101st amendment of the Constitution of India, which is recognized as The Constitution (One Hundred and First Amendment) Act, 2016. It is nothing but Value Added Tax (VAT), which a comprehensive tax wherein an authoritative segregation has been done among the Central Government, the different State Governments and local bodies. The Department of Revenue under the Ministry of Finance, Government of India’s is solely responsible for computation of tax.

This is a biggest fiscal reform in India w.e.f. 1 July 2017, which has compelled every business unit even sole proprietors to cope up with GST regime. The comprehensiveness of GST has not spared any industrial functions including Human Resource Development activities in the organization.
department is required to revise and restructure as per GST requirement and conditions to maintain and enhance employer employee relations. Hence, the HR professionals have engaged in assessing the effects of GST on their transactions in respect of employees under various categories.

MANAGING COMPENSATION PACKAGE

The HR Department of the organization is required to take appropriate measures to determine compensation packages to their employees by considering different dimensions such as qualification, nature of job, salary expectations, availability, his contributions towards organization and also psychological aspects. It is already a difficult task for HR specialist to fix wages - salary and wage differentials acceptable to employees and their leaders. In addition to this, the recent GST regime has posed further complications.

For every business unit it is always profitable to retain and develop existing human asset of the organization. Because the process of hiring new employees can be long, expensive and cumbersome, therefore most companies employ the strategy of HRD to promote longevity of employees within the company because through this an employee is likely to progressively scale up the managerial ladder. The compensation is the first and prime motivation tool in HRD. An average employee of the organization is entitled to several benefits, which are classified as Monetary and Non-Monetary Benefits or compensation or remuneration as mentioned in the Figure.1.

Figure 1. Components of Compensation Package

Salary or wages is a fixed amount paid in exchange of services rendered by an employee as per his work profile and efficiency. Bonus is the reward to an employee or a group on attainment of performance based goals. Commission is a compensation generally offered to the sales staff on achieving a specified sales target of product or service. Incentives are short term as well as long term in nature. Short term incentives are in the monetary as well as in the form of gifts in kind and long-term incentives are stock options, profit sharing other than bonus etc. Perquisites constitutes major source of income to employees. It takes care of several needs such as company provided car or bus, provident fund, gratuity, vacation travel, club membership and so on.

IMPORTANCE OF COMPENSATION AS A MOTIVATION TOOL IN HRD

According to Bates, two mission-level objectives should guide HRD practice. The first objective emphasizes HRD as a strategic asset. HRD objectives should address the long-term performance goals of the organization and help ensure that those goals are met. The Second mission–level objective is to enhance learning, human potential and high performance in work systems in ways that contribute to substantial human development. (Dr.Tare and Wakode 2012). The compensation package act as an motivation tool to the employees to explore potentials in them and also to contribute high efficiency towards their assignments.

Further, the standard of living, status in the society, motivation, loyalty efficiency and productivity of employees depend up on Compensation package. Recently, though the managers, IT experts, tax
advisors, technicians are available in large, a company cannot afford to replace them or hire from market. It is a responsibility of HR department to retain quality human resource of the organization. Retaining high-caliber person is more difficult than attracting and recruiting them.

LITERATURE REVIEW

Human resource of the organization is key factor in the all components of the production of goods and services. Every HR Department should make sincere attempt to understand their human resources in its proper perspective in the context of changing policies of Government as well as globalization. K.Aswhathappa (2008) expresses importance of compensation to attract or retain employees in boom time and also in a weakened economy. All these changes illustrate that compensation practices must change. But compensation continues to be important, visible and often a concern in HR management.

Shefali Dani (2016) in a research paper on impact of Goods and Service Tax on Indian Economy’ expressed views about proposed GST regime is a half-hearted attempt to rationalize Indirect tax structure. GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate.

Lourdunathan F and Xavier P (2016) expressed that there are mixed response, inexplicit, arguments and opinions among the manufacturers, traders and society about the goods and services tax (GST) to be implemented by Government of India from 1st April 2017 this year. The paper reviews the expected positive impact on various sectors and industry.

RESEARCH GAP

The induction of GST system shall have multidimensional effect on every sector of economy. In respect of specific industrial unit it will affect Production, finance, marketing and also HR activities. It is a time to analyze the impact of GST provisions on every activity so as to frame suitable policies and procedure to adjust with new tax policy. In this respect, there are several areas of HR practices where in detailed study is required to adjust with GST environment in the light of grabbing tax benefits in the interest of employees and organization. This will definitely help to achieve objectives of Human Resource Development.

IMPLICATIONS OF GST ON COMPENSATION POLICY

HRD is a comprehensive term and not to merely cover the payroll spectrum, or maintain the Human Resource Information System (HRIS) database, or merely ensure compliance issues and the continuance of ethical and legal dynamics within the organization are maintained. HRD seeks to involve all participants of the organization through the motivation of continuous enhancement, development, and career progression for every member of the team to achieve overall vision, mission and goals of the organization as a whole including employees. The recent induction of GST has affected the HR activities from different angles, such as:

Inter Departmental Conflict

An immediate effect of GST has been experienced by the sales staff. Most of the time sales and other staff goes on field to conduct a business representation. They stay in hotels and also spend money on food. Recently the GST at the rate of 12 to 18 % has been charged (Now, it is reduced to 5%, but in case of Five Star Hotels it is remained at the rate of 18%), which is above the regular payment received by an employee from the Accounts department. Moreover, the Accounts Department has started asking for proper receipt for accommodation and meal. If in case an employee performs his duty in rural remote area, this may cause unwarranted conflict between them. Further, if in case the service provider hotel has no GST registration number and if in case the bill contains the words ‘ GST Applied ‘ the accounts people do not accept the claim resulting in lesser amount being reimbursed to them.
This has caused frustration among the employees. Here, HR practitioners must resolve such minor issues immediately so as to not create any unwanted grievance or conflict among staff which may give birth to broader demand of revision of wages, allowances and claim rates.

**Unauthentic Suppliers**

As per GST rules, the person who is last in the supply chain will be deemed as end user and may have to absorb the cost if he/she is not GST registered person. The chain is longer, the GST cost will be more. In the HR activities involving staff claims and benefits such as transport and travel, meal, lodging, medical and entertainment may have increased in cost due to GST, which is possible to claim as input tax. The service provider who are required to register while some may not be legally bound to register or some must have applied for registration. The unregistered suppliers may adopt malpractice of charging high price, which is not admissible to claim as input tax. In such cases the HR Department is required to remain alert to avoid any unwanted issues and cost to employees or to the Company.

**Effect on Transportation Policy**

Many companies provide transportation facility in the form of free cab pick-up bus services to their employees at subsidized rate to commute from home to work place. As per GST provision if transportation facility is a part of service contracts it will not be considered as supply by the employer and this will not attract GST. It means if the company engages in direct cab/bus facility without any charge to employee, GST will not be made applicable. In case of contract on behalf of employees, if GST is charged to a company, the company can later claim taxes paid on cab/bus expenses as a credit if they provide service to employees at open market value. The Company has to play a role as a mediator to recover transportation cost on behalf of employees.

**Effect on Subsidized Free Food**

Most of the companies provide canteen facility by offering food either at free cost or at subsidized rate in their regular work day. If in case company provides this incentive to employees by paying to the outdoor caterers, the GST will be applicable on such payments at the rate of 18% and on alcohol products VAT as per state Government Rules. Like transportation service, the company has to play role as a mediator to recover cost from employees by paying to the outdoor caterer. It means the company has to alter their existing contract with the caterer to show canteen expenses as a service to employees at open market rate to claim the reimbursement of GST as input tax.

**Ceiling on Corporate Gifts**

A difficult task before HR Department is to retain quality human resources. Hence, the companies offer attractive gifts on different occasions like birth day, diwali festival, fare-well and so on to their employees. Generally, the gifts offered to all employees or an individual in the form of wrist watches, luggage baggage, wall clock, mobile handsets (for Personal use), and cash purses and so on. The introduction GST has attracted tax on such gifts if the total value of gift crosses the ceiling of Rs.50000 in a particular financial year. This is applicable in case of gifts offered to an individual employee also.

**Effect on HR Consultancy**

The companies may seek consultancy services from external HR agencies in respect of Executive Personnel Search services, labour contract services, Permanent Placement Services, Temporary and Contract Staffing Services, Long Term Staffing Services(Pay rolling),Temporary Staffing to permanent placement services, Co-employment staffing services and other employment and labour supply services. It should be noted by HR Department that GST at the rate of 18% would be applicable for these services.
Spread effect

On goods and services like medicine, coffee, tea, spices etc. the GST will be charged at lowest rate. This may result into making some goods and services cheaper which will impact in increasing revenue and profitability of company. The low rate of GST will also result in increasing export of the goods and services. It is expected by the Government to pass on this benefit to consumers. Some of the companies may hike prices to grab high profit opportunity. In both the cases a company may earn high profit. The employees are regarded as partners in profit sharing. This may compel the company to restructure Compensation package to retain existing talent and also to attract quality human resources.

Favourable Impact on some of the Compensation

The recent GST provisions have excluded some of the incentives, a part of compensation packages, which will prove harmonizing employer and employee’s relations. They are Temporary accommodation, Personal accident insurance, Mobile Handset for company use, Mobile Reimbursement, Medical Insurance, Health Check Facility, Long Service Award, House Lease, Company Cab/bus, Employee referral programme, Relocation benefits,

These areas of compensation package will facilitate HR Department to restructure the incentives to be given to employees to skip from GST purview.

DISCUSSION AND CONCLUSION

The present GST regime has put forth the challenges before the HR managers. Just like a proverb ‘Stitch in time, saves nine’, the HR Managers are required to initiate curative measures to design HR policies in the perspective of GST suitable to employees and organization so as to avoid complications in HR system. The step towards GST is an attempt of the Government to rationalize Tax structure by eliminating varieties of taxes. Rather, it has become compulsory for HR managers to revive the existing HR practices.

The study in respect of HRD and GST reveals that:

1. HR Department should not be ignorant of the procedure, methods and rules of GST. HR Department should play a pivotal role in understanding clearly every detail about GST and its direct and indirect effect on HR activities and accordingly the HR Department must lay down the policy in respect of Procedure, methods and rule to get proper reimbursement of claim and other benefits.

2. HR Department must appoint GST liaison person to plan an innovative services without affecting the regulatory services.

3. HR Department must list activities affecting employees’ on the basis of Direct Cost and Indirect Cost. GST on Travelling, hotel accommodation etc. can be classified as direct Cost and Education, Medical reimbursement as Indirect Cost.

4. HR Department must revise transportation facility as a part of contract either between employee and company or between cab/bus contractor and company. to avail benefit of input tax credit. There is a need to provide direct transportation facility to safeguard the liability of GST on the company.

5. It is task of HR Department to plan the policy of offering gifts in the financial year to ascertain the applicability of GST.

6. The expert tax consultants’ and IT personnel need to be recruited or hired to meet the requirements of organization.
LIMITATIONS OF THE STUDY AND SCOPE FOR FUTURE RESEARCH

This study is primarily based on secondary data. An empirical study was not conducted to validate the finding of the study. Since the GST is introduced recently, it will be too early to evaluate and analyse actual implications on Human Resource Development activities in the industry. Researchers, Practitioners and academicians may undertake a detail study of Post GST effects on HRD in couple of years in various industrial sectors.

REFERENCES