
## GST

On the midnight of July 1, 2017, India ushered in the Goods and Services Tax (GST), which has been termed as a potential game changer and the single biggest tax reform undertaken by India since independence. This single indirect tax regime is founded on the concept of 'one nation, one market, one tax' and will dismantle inter-state barriers to trade in goods and services.

GST is going to be a critical reform for the Indian economy as it would simplify taxation norms by consolidating a range of taxes under one umbrella. Previously, different states had different tax laws. There were nearly 17 taxes that businesses had to pay authorities, which made it a cumbersome and expensive affair. GST will result in a simplified tax structure and a unified tax base, with common rules and administrative procedures coming into effect across the country. It is expected to widen the tax base and bring in greater transparency.

There are expectations that the tax reform will boost the Indian economy and a huge shift will be seen from the unorganized to the organized sector.

GST has five rate slabs under which various goods and services will be taxed – 0%, 5%, 12%, 18% and 28%.

### Sectoral impact

GST is expected to have different impact on different sectors.

- GST rate for products like hair oil, soaps, toothpaste, etc. has been lowered from the previous rates, which will benefit the FMCG sector.

- Consumer durables, which were previously taxed at 27%, will now be taxed at 28%, which will not have any significant impact.
- For airlines, tax on business class will now increase from 9% to 12%, whereas tax on economy class will now reduce from 6% to 5%.
- Cement will be taxed at 28%, which is nearly the same as charged previously.
- Services like banking, financial services, insurance, brokerage, telecom, eating out, online shopping, etc. will become more expensive as the tax has increased from 15% to 18%.
- GST on gold jewellery is 3%, which is close to the previous 2%, but the tax rate on jewellery making charges has been cut to 5% from 18% earlier, which will reduce the prices and drive demand.
- For the auto industry, GST is expected to be neutral as small and mid-segment cars are expected to be cheaper, whereas luxury cars are expected to become more expensive.
- Multiplexes are expected to benefit due to input tax credit on fixed costs.
- GST classifies hotels into four buckets based on room tariffs and the high-end luxury hotels will pay more compared with previous rates.
- 5% GST rate on apparel priced below INR 1000 is expected to give a boost to the value fashion business, whereas for apparel priced above INR 1000, GST rate of 12% may force companies to raise prices.
- For real estate, all under-construction properties will be charged at 12% on property value, excluding stamp duty and registration charges and it will not apply to completed and ready-to- move-in projects. Lower transportation and logistics costs under GST may reduce overall cost for property developers. They will also get the benefit of claiming input tax credit, which can improve their profit margins.

Under the anti-profiteering provision, all companies shall pass on the benefits of reduced taxes to the consumers, which shall be beneficial for the consumers in terms of lower prices.

**Overall impact on economy**

- Revenues

Reviewing the revenue earnings as result of implementation of GST, the revenue growth is expected to fall to 8 percent as compared to 22 percent from indirect taxes in 2016-17, due to implementation issues. In the earlier system of tax collection, Value-added tax (VAT), each person in the value-chain used to get an input credit on the tax paid by the previous persons, which would act as an incentive to make sure the previous person in line had paid tax. Implementation of GST shall enable the combining of excise, sales and service tax and allow the combined input credit for these taxes, thus laying the structural foundation for receiving tax credits.

As per estimates, 46% of states' own tax revenue is expected to be subsumed by GST. States shall be compensated for any shortfall in revenue from GST for first five years by the center. The growth rate has been assumed as 14% compounded from 2015-16 on an average, below which the states shall receive a compensation.

An important factor to consider in this scenario, is the impact of implementing GST on the income divergence between different states in India. In contrast to earlier situation, where every state had different tax rates, GST brings all the states under one similar tax structure. When earlier, the states could raise their bargaining power to win international projects on the basis of taxation structure, there is little scope for poorer states to do that now. As the investments shall be driven by deeper prospects such as better private sector productivity and better quality of governance, states will have no negotiation grounds for taxation structure, increasing the income disparity among states.

- Inflation

Another important aspect to consider, while evaluating effects of GST is impact on inflation. According to estimates, GST is not expected to impact inflation greatly since a huge proportion of the CPI basket constitutes of food and fuel. Food and fuel compose around half of the CPI basket and are exempted from GST. However, GST is expected to greatly impact the service sector. National accounts data show that a sizeable proportion of private final consumption expenditure in the domestic markets is of services. And under GST the tax on services has gone up by 3 percent. This shall mostly impact the major consumer of services, the upper and middle class.

- Imports and exports

In case of imports and exports within the country, imports of goods and services shall be treated as inter-state supplies and IGST shall also be levied on such goods and services. The taxation procedure shall follow the destination principle and the tax revenue in case of SGST, will be accrued to the state where the imported goods and services are consumed.

On the international imports, there would be no change in the levy of basic customs duty, education cess, anti-dumping duty, safeguard duty, etc. However, additional duties of customs which are in common parlance referred to as counter veiling duty, and special additional duty of customs (SAD) would be replaced with the levy of integrated GST (barring a few exceptions).

The transition rules approved by the GST Council allow full credit for central excise duties paid on goods over INR 25,000. However, this facility is available only for manufactured goods. As a result, such provisioning may create a sudden spike in the prices of imported consumer electronics, durable goods and cellphones.

Exports will be treated as zero rated supplies. No tax will be payable on exports of goods or services; however, credit of input tax will be available to the exporters.

- National growth rate

According to an estimate by IMF, the adoption of GST could help raise India’s medium-term GDP growth to over 8%. This growth shall be a combined result of structural reforms, along with a sustained period of lower global energy prices.

Investors and rating companies across the world expect GST to contribute to the higher GDP growth due to increase in ease of doing business, unifying the national market and enhance India’s lucrativeness as an investment destination among the emerging markets.

GST, thus, represents a long-pending economic overhaul reform, which has finally been implemented. In a diverse economy like India, it may take a long time for such kind of a massive reform to normalize. However, the task now lies ahead for the regulators and other authorities to see that the process is adopted smoothly in the economy.