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THE IMPACT OF GST ON BUSINESS AND LEADING SECTORS IN INDIA

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ABSTRACT

Goods and Services Tax GST would be a comprehensive indirect tax on manufacture, sale, and consumption of goods and services throughout India, to replace taxes levied by the central and state governments. The GST is a consumption based tax levied on the supply of Goods and Services which means it would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method allows GST- or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy a tax on goods and services. This paper also highlighted the features, Impact on the business of different sectors. Finally concluded that companies may face initial hiccups transitioning into a more complex tax mode, what is expected to follow is an era of overall economic development.

INTRODUCTION

The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent.

What changes there would be if India launches GST- “The tax rate under GST may be nominal or zero rated for the time being. It has been proposed to insulate the revenues of the States from the impact of GST, with the expectation that in due course, GST will be levied on petroleum and petroleum products.” The central government has assured states of compensation for any revenue losses incurred by them from the date of introduction of GST for a period of five years.

Features of GST:

- It would be a dual GST with the Centre and the States simultaneously levying it on a common base.
- It would replace the following taxes currently levied and collected by the Centre:
  - Central Excise Duty
  - The Excise Duty levied under the Medicinal and Toiletries Preparation Act
  - Additional Duties of Excise (Goods of Special Importance)
  - Additional Duties of Excise (Textiles and Textile Products)
  - Additional Duties of Customs (Commonly known as CVD
  - Service Tax
  - Cess and Surcharge

- State taxes that would be subsumed under GST are:
  - State VAT
  - Central Sales tax
  - Luxury Tax
  - Entry tax (other than those in lieu of Octroi)
  - Entertainment tax
  - Taxes on lottery, betting and gambling.
- The credit of Central GST paid on inputs may be used only for paying CGST on the output and the credit of State GST on inputs only for paying State GST. In other words, the two streams of inputs tax credit cannot be mixed except in specified circumstances of inter-State sales.

- GST would apply to all goods other than crude petroleum, motor spirit, diesel, aviation turbine fuel and natural gas. It would apply to all services barring a few to be specified.
- Tobacco and Tobacco products would be subject to GST. In addition, the Centre could continue to levy Central Excise duty and the State to sales tax.
- A common threshold exemption would apply to both CGST and SGST and dealers with a turnover below it would be exempt from tax. A compounding option (i.e. to pay tax at a flat rate without credits) would be available to small dealers above this threshold.
- The list of exempted goods and services would be kept to a minimum and it would be harmonized for the Centre and States.
- Exports would be zero –rated
- An integrated GST (IGST) would be levied on the inter-State supply of goods and services. This would be collected by the Centre so that the credit chain is not disrupted. Accounts would be settled periodically between the Centre and the State to ensure that the State GST components are transferred to the destination State where the goods and services are eventually consumed.
- The administrative mechanism for CGST and SGST would be harmonized to the extent possible.
- CGST and SGST would be levied at rates to be mutually agreed upon by the Centre and the States based on the revenue-neutral rates.

Impact on Business of Key Sectors:

The Indian parliament has passed legislation to introduce a Goods and Services Tax. This will replace a rapt of existing sales and other indirect taxes and aims to simplify the tax environment for businesses, the following article reviews main provisions and the affected sectors. With the Constitution Amendment Bill (the Bill') having been passed unanimously through the Upper House of Indian Parliament, Indian indirect tax as come a long way in rationalizing its tax structures. The Government's idea of a unified single tax reform critical to enhancing ease of doing business in the country, is expected to create a single unified market across India allowing the seamless movement of goods and services across the countries. Industries experts' are also believed that while in the long run Goods & Services Tax ('GST') will have a positive impact on inflation and government finances, in the near term, inflation is likely to go up and Central Government Finances are likely to be strained due to the need to pay compensation to State Governments. The impact on pricing, and consequently, profitability is largely a function of the rate of the GST. It is expected that some companies will gain more as the GST rate will be lower than the current tax rates they pay, while others will lose as the rate will be higher than the present effective rate. While the rate of GST is yet to be decided , industry observers have assumed an 18% rate recommended by a Government panel in estimating the impact of GST on their businesses.

From an end customers' outlook, the indirect tax cost applicable on most goods is currently on the higher side ,attracting an excise duty of 12.5% (on the factory price VAT of 12.5% to 15%, depending on the State. Additionally there is also a cascading of taxes on account of the levy o CST, input tax credit retention under VAT loss, levy of entry tax/ octroi/local body tax, VTC upto the time the product reaches the end customer. A combined effect of the above leads to an effective cumulative indirect tax rates of 23% to 27% in the hands of the end customer. Assuming that the standard rate of GST is 18%, it is expected that for most goods there should be a reasonable reduction in the overall indirect tax cost. Such reduction in indirect tax costs can lead to reductions in production cost and an increase in base line profits. Alternatively, such reduction in costs may also provide headroom for price reductions benefit end- users.

However there may some other goods such as medicines, textiles, edible oil, and low-value footware, where the rate of excise duty is nil or significantly lower and Value Added Taxes in most states is 5%. As a result, the overall effective tax cost for these goods, after factoring the non-creditable taxes is about 5% to 7%. If these goods are proposed to be taxed at the standard GST rate of 18% (or even at the lower GST rate of 12%) there could be a significant increase in costs for the end customers.

The service tax rate currently applicable is 15% (inclusive of cess) . Under the GST regime, this rate may go up to 18%. For a business customer, GST would be (generally) credible and hence would not result in an increase in cost. However, for an end customer, there primafacie appears to be an increase in indirect tax costs. In this context, it is worthwhile to note that there are several non-creditable taxes, such as VAT/ CST on procurements made to render the output services. Under GST, although the output taxes would increase from the current rate of 15% to an effective rate of 18%, it is expected that all non-creditable taxes forming part of the procurement costs today should become credible and this is expected to marginally offset the increased rate of taxes on the output side, specifically for those service sectors that are capital goods/ inputs intensive.

Key Sectors and GST Impact:

Having discussed likely overall impact of GST on goods and services, it is now pertinent to briefly examine the key sectors and the manner in which GST might impact them. Fast

Moving Consumer Goods (“FMCG”) Sector: The FMCG Sector could generate savings in logistics and distribution costs , given that the need for reduction in warehouses and multiple sales depots Currently it is estimated that FMCG companies pay indirect taxes approximating to almost 23-27%, including excise duty, VAT and Entry tax. Given a GST of about 18%, this could yield a significant reduction in taxes. However, if the recommended 40% “sin/ demerit” rate of GST is may applicable for products such as aerated beverages and tobacco products , the prices of such products may increase substantially.

Real Estate Sector:

GST is expected to be a huge game changer for the real estate sector. This is primarily on account of the fact that presently, there is an overlap of VAT and service tax on the certain portion of works contracts, ranging from 120-145%, depending on the kind of contract and consequent disputes around this with both the central and state authorities; this is expected to be addressed under GST. Also while the excise duty paid on procurements such as steel, cement and other material used in construction presently becomes a cost in the system, GST paid on the said materials may be available as a credit, there by reducing the cost of construction. Further, with CST, entry tax and octroi being subsumed into GST, these will no longer be a cost in the hands of the contractor. Hence, contract prices should come down , which in turn should benefit the developers and , more importantly, buyers real estate, i.e, the common man and woman. More importantly the issue of different tax structures being followed by developers across states or with in the same state should be addressed under the GST regime, with the proposed uniform tax structure. This should ideally benefit the sector as a whole, reducing tax disputes, in addition to tax costs.

E-Commerce Sector:

GST should help create a single unified market across India allowing the seamless movement and supply of goods to every part of the country. It will also eliminate the cascading effect of taxes on customers which will bring efficiency in product costs. This is likely to benefit the e-commerce segment immensely, given that their business model is dependent on connecting venders and customers located across geographies. While the idea of GST is expected to benefit the sector, the proposed mechanism of a collection of tax at source (“TCS”) is likely to create a differential treatment for sales on line v/s off line in addition to increase working capital requirements for sellers and additional administration and documentation workload for e-commerce firms. It is hoped that this provision is not finally brought in.

Media Sector:

The media sector is currently plagued with service tax as well as entertainment tax. GST is expected to bring a major change in this regard and uniformity in businesses. Taxes would go down on account of uniform tax rates. Multiplex chains will save on revenues as there will be a more uniform tax, unlike the current high rate of entertainment tax levied by different states, possibly resulting in a lower average ticket price, increasing ticket collection. Also, the debate over taxation of transactions relating to content/ IP being taxable as intangibles under service tax v/s VAT and possible double taxation issues, there on under the current law, should also be addressed.

Automobile Sector:

The automobile industry is currently burdened with excise duties ranging between 12.5% and 30% and VAT ranging from 50-20%. However it is likely that under GST, luxury cars could be eligible to a higher' sine' rate of tax at about 40%, applicable to demerit goods vis-à-vis a standard rate of 18%. Also, there could be an ambiguity in respect of the criteria for qualification as luxury cars. Further, it is expected that issues relating to valuation of goods that are currently being faced in the industry are also likely to mellow down. Knowledge of the proposed GST rate is a critical need for this industry in order to determine appropriate pricing structures in the new regime.

Overall Industry Comment:

As an overall observation, while GST promises to usher in an era of a unified indirect tax regime, integrating India into a single homogenous market and , more importantly, to solve the myriad issues faced by tax payers today, the finer nuances of GST, such as transition and implementation remain to be seen. Given that the bill has been passed in the Upper House of the India Parliament, the target for the roll-out of GST on April 1st, 2017, appears to be well within reach.

CONCLUSION:

As a result, it is essential that the Government , as well as the industry, prepares itself to transition into GST on time. Companies must make sure that their key areas of impact must be identified, primarily under the categories of Operational impact, financial impact and Infrastructural impact. It is advisable that stakeholder discussions/trainiomng sessions are conducted for their staff, supply chain/ logistics structures are reviewed, customer contacts and vendor relationship are re-examined , cost patterns are re-evaluated and a GST-ready

ERP/ IT System is set up. While companies may face initial hiccups transitioning into a more complex tax mode, what is expected to follow is an era of overall economic development.

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