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Goods and Service Tax (GST) - Impacts on Five Key Sectors of Indian Economy

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Abstract

The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. It is a single indirect tax for the whole nation, one which will make India a unified common market. It is a single tax on the supply of goods and services, right from the manufacturer to the consumer.

Introduction

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system.

On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market**.** At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits**.** The current system taxes production, whereas the GST will aim to tax consumption.

Experts have enlisted the benefits of GST as under:

- It would introduce two-tiered One-Country-One-Tax regime.
- It would subsume all indirect taxes at the center and the state level.
- It would not only widen the tax regime by covering goods and services but also make it Transparent.
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.
- It would bring down the prices of goods and services and thus by, increase consumption.
- It would create business-friendly environment, thus by increase tax-GDP ratio.
- It would enhance the ease of doing business in India.

Why GST needed

GST will break the complicated structure of separate central and state taxes which often overlap with each other to create a uniform taxation system which will be applicable across the country. Taxes will be implemented more effectively since a network of indirect taxes like excise duty, service tax, central sales tax, value added tax (VAT) and octroi will be replaced by one single tax. The state will still have a say in taxation, as the number of taxes will be reduced to three with Central GST, State GST and Integrated GST for inter-state dealings.

GST rates

The GST Council, headed by Jaitley and of which all states Finance Ministers are members, has approved four main tax slabs -- 5 per cent, 12 per cent, 18 per cent and 28 per cent that aims to lower tax incidence on essential items and to keep the highest rate for luxury and demerits goods. The lowest rate of 5 per cent will be on items of mass consumption which are used particularly by common people. The second and third category of standard rates of 12 and 18 per cent will accommodate most of the goods and services. The fourth slab of 28 per cent is levied mainly on white goods such as refrigerators, washing machines etc.

Exemptions under GST:

Under GST, the government has fixed GST rates on 1,211 goods and 500 services in the range of five to 28 per cent. Certain items such as alcohol, petrol, diesel and natural gas will be exempt under the GST. In addition to these, the GST Council has also classified certain items under the 0 per cent tax rate, implying that GST will not be levied on them. This list includes items of daily use such as wheat, rice, milk, eggs, fresh vegetables, meat, fish, sindoor, bindi, stamps, judicial papers, printed books, newspapers, bangles, handloom, bones and horn cores, bone grist, bone meal, kajal, children's' picture, drawing or colouring books, human hair.

GST rates

GST’s implementation over the past few days, startups have been pinging @askGST_GoI, the official Twitter handle of the Government of India, for clarity on this new tax reform. As their enterprises are vulnerable to any major changes in economy due to a new policy implementation, founders and employees of these companies are extremely concerned about the impact of the four tax slabs of 5%, 12%, 18%, and 28% that have been specified in GST. Many Indian businesses have limited capital and resources at their disposal, meaning that any confusion can quickly escalate into panic. Along with these concerned parties, millions of customers are wondering about the impact of this new tax system on the amount of money they will need to shell out to avail of their preferred goods and services. In this article, I'll attempt to break down the impact of GST on the most popular sectors of India's startup ecosystem, including real estate, e-commerce, hospitality, smartphones, and ride hailing.

Real Estate

Under the new tax structure, due to the input credit benefits that most builders will get on the key raw materials they buy, the base price of property projects launched post 1 July 2017 will be comparatively cheaper. Buying under-construction properties will attract a net effective rate of 12% as against the earlier rate of 5.5% (including value added tax and service tax). Real estate players such as Proptiger and Quikr want to pass this cost benefit on to property buyers. “For new projects with 100% input credit passed to the buyer and land cost being 50% of the project cost, we expect property prices to fall by around 1% in western and northern markets and around 3% in southern markets,” said a report by Edelweiss. However, prices of ready-to-move-in apartments with completion certificates, before implementation of GST on 1 July, would remain steady as these properties are out of the GST ambit. Any price change in the segment will depend purely on demand and supply.

E-commerce

E-commerce websites such as Flipkart and Amazon.in will have to collect TCS (tax collected at source) at a fixed 1% rate, and pay this collection to the sellers listed on their websites. This is likely to impact prices and make online shopping more expensive. Though the latest notification issued by the government stated that the provisions of "TDS (Section 51 of the CGST/SGST Act 2017) and TCS (Section 52 of the CGST/SGST Act, 2017) will be brought into force from a date which will be communicated later."

Also to deal effectively with GST, e-commerce platforms are regularly engaging and training the sellers on their stores. Commenting on GST's impact Rajiv Kumar, Founder, e-commerce website StoreHippo has stated: "We are thrilled to announce the reformation of our tax engine in accordance to GST. E-Commerce platforms need to provide flexible and powerful tax solutions after the implementation of GST and StoreHippo facilitates this through its new move, aimed at simplifying GST for all involved."

Travel and tourism

Depending on room rates there are four slabs for hotels and lodges. While Hotels and lodges with room rates below $16 (Rs 1,000) a day have been exempted from GST, accommodation costing $16 - $39 (Rs 1,000-Rs 2,500), $39 - $117 (Rs 2,500-7500) and above $117 (Rs 7500) will attract 12% 18%, and a 28% tax slab respectively. Ritesh Agarwal, founder and CEO, OYO concurs that the lower tax rate for budget hotels sector will ensure that the industry's quality upgrade continues while delivering standardized accommodation to millions of middle-class travelers. He says, "Hotels are the single biggest contributor to tourism industry which accounts for 7.5% of the GDP. The move will boost revenue from the travel & tourism sector for the next many years. The industry is expected to contribute $280 Billion to the GDP by 2026 and will pass on the benefits of uniform taxation across the country to travelers." Budget travelers also have a reason to cheer as air travel for economy class passengers has become cheaper. On the other hand, business class fares are going to cost more with a marginal increase from earlier 9% to GST rate of 12%.

Ride Hailing Apps

Tax rates are expected to rise from 14.5% to a range between 29% and 43% for drivers who do not own cars and are associated with Ola and Uber cab-leasing programs. This is due to leases becoming costlier post-GST. For instance, these individuals were paying an EMI of Rs 25,000 pre-GST, and in a present scenario they are likely to pay an EMI of around Rs 35,000 to Rs 40,000 post-GST.

Transport services have been taxed at 5%, which will also apply to cab aggregators like Ola and Uber. The government has not only reaffirmed its pro-consumer, pro-business stance by keeping transport services in the lowest tax bracket but also put to rest any apprehensions among drivers and riders around GST rates being inflationary. Thus, GST will bring down the tax rate for ride-hailing services marginally. The new rate structure as compared to the previous service tax rate of 6% is a step in the right direction by the GST council. But while the 1% fall may bring some cheer to consumers, driver partners of both Ola and Uber will be affected.

Smart phones

Under GST, mobile handsets are being taxed at 12% as compared to an earlier range of 8-18% implemented in various states. As a result of this average reduction in tax levied, Apple has reduced prices of its iPhone by 7.5% and Lenovo has announced a reduction in prices of models sold through offline brick and mortar stores. Motorola handsets, a Lenovo owned entity, sold through brick-and-mortar stores are also likely to see a downward price revision in coming days.

According to Rajesh Agarwal, co-founder of Micromax: "The government seems to be in a 'walk the talk' mode, they have been fostering a local manufacturing environment in the country and have been mindful of the early investments that have been made into manufacturing in India by many corporate houses already." A further 10% basic customs duty has been levied on imports of mobile phones to give protection to local production, thereby giving impetus to several local companies such as Micromax, Intex and foreign firms including Foxconn, Flex, Salcomp and iPhone-maker Wistron, that have pumped millions into setting up more than 70 phone and component manufacturing units over the past couple of years.

Conclusion

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, 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. Until the consensus is reached, the government should resist from implementing such regime

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