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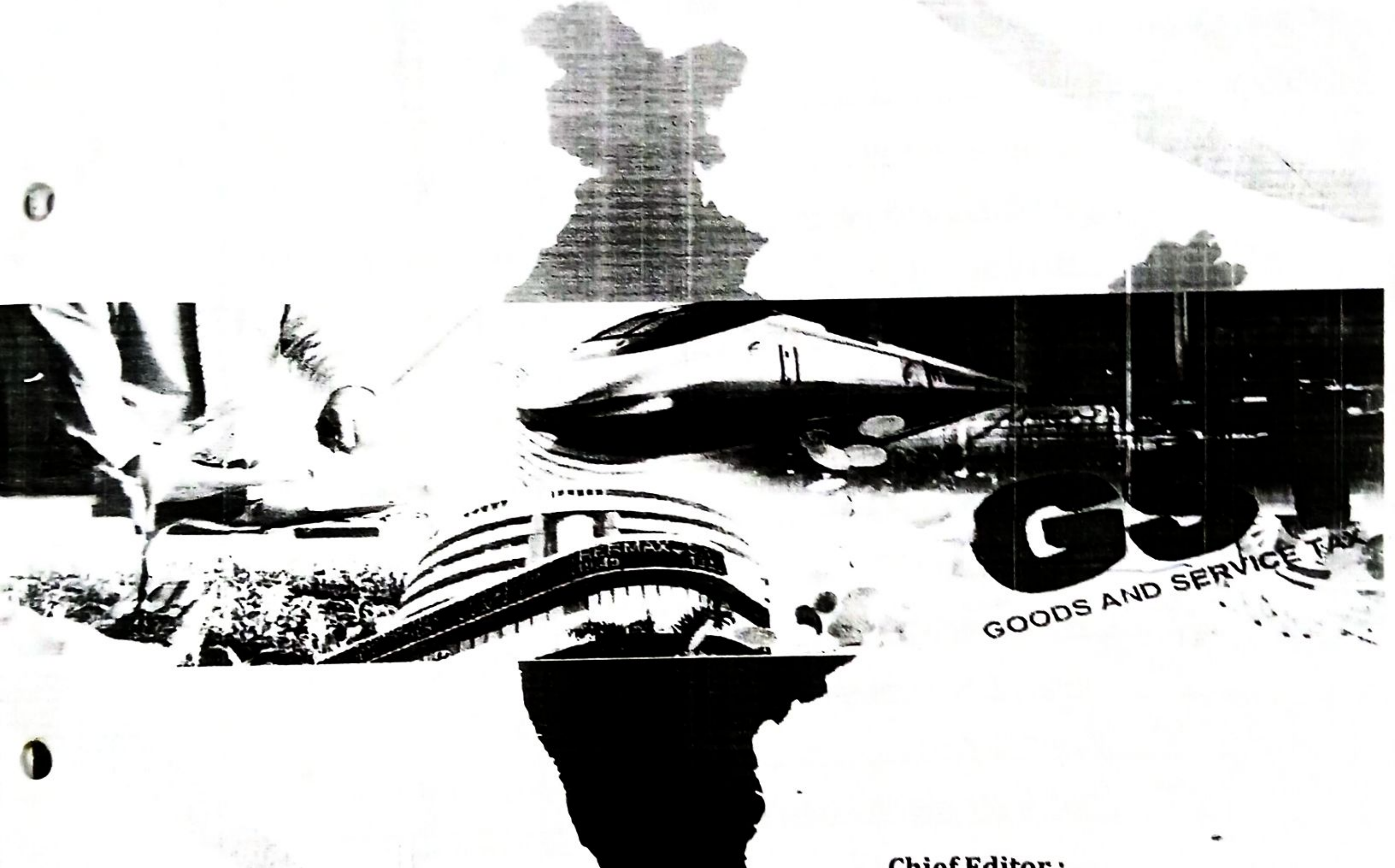
CHANGES IN TAX SYSTEM AND INDIAN ECONOMY



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GST-Industry and Service Sector

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Abstract :

India is a strong services-led economy with the sector generating a significant chunk of employment opportunities and contributing to the GDP. It contributed around 66.1% of India's Gross Value Added (GVA) growth in 2015-16, is the biggest magnet for Foreign Direct Investment (FDI), and an important net foreign exchange earner. Some of the core areas of service are banking and financial services, outsourcing, research and development, transportation, telecommunications, real estate and professional services. The new Goods and Services Tax (GST) is a unified tax structure that was implemented by the Government of India on 1 July 2017. The new regime has ushered a significant change in taxation levels and rules associated with it. On an average, we see the tax slab increasing from 15% to 18% for most of the services. While this may translate to higher cost of services to the end consumer, GST also presents a whole lot of opportunities, pushing ease of business. This comprehensive tax policy is expected to be one of the most important contributors to the Indian growth story. Moving to a 'goods and services tax' would impact the national economy, international trade, firms and consumers. This paper tries to analyse the impact of GST on Indian economy i.e. on Industry and Services.

Key Words: GST- Goods and Services Tax, **IGST**- Integrated Goods and Services Tax, **CGST**-Central Goods and Services Tax, **SGST**- State Goods and Services Tax, **FMCG**- Fast moving consumer goods sector, Industry, Service Sector.

Introduction:

The goods and services tax (GST) is proposed at creating a single, unified tax structure and unified market that will favorable every-thing for consumer, individual tax payer, corporate and the whole economy. Government if India and various state government will impose GST on almost commodities and services those produced in the country.GST will play role for the foster growth and development of Indian economy. GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. The release of the Model GST Law is a laudable effort and is an important milestone in the GST journey. This provides an opportunity for stakeholders to engage with Government and collaboratively shape a final law that ensures certainty, efficiency and ease of compliance. The Model GST Law, contains comprehensive provisions of Central / State Goods and Services Tax (CGST / SGST) and the Integrated Goods and

Services Tax (IGST). Goods and Services Tax- GST is a tax levied when a consumer buys a good or service. It is meant to be a single, comprehensive tax that will subsume all the other smaller indirect taxes on consumption like service tax, etc.

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development Cascading tax revenues have differential impact on firms in the economy with relatively high burden on those not getting full offsets. Analysis of the tax levy can be extended to international competitiveness of the adversely affected sector of production in the economy. Such domestic and international factor lead to inefficient allocation of productive resources in the economy. .this results in loss of income and welfare of the affected economy. Even though the country has moved on the path of tax reforms since mid 1980's yet there are various issues which need to be restructured so as to boost productivity and international competitiveness of the Indian exporters. The proposed GST is a long pending and much awaited tax reform which India is hoped to iron out the wrinkles in the existing indirect taxation system.

Impact of GST on Industry and Services Sector including Central and State Governments and The Consumer :

The impact of GST can be summarized as under:

A) For Central and State Governments

a) Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

b) Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would incentivize tax compliance by traders.

c) Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

B) For the consumer

a) Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

b) Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

While good players were previously taxed at 27 per cent (including 13.5 per cent VAT) against 28 per cent under the new GST regime. There are expectations that with GST coming in picture, there will be some increase in the prices of most consumer durable items. However, market analysts do not see any significant impact on the margins of the consumer durable companies post GST implementation. One should keep an eye on companies like Crompton Greaves, Symphony, Whirlpool, Havells and Voltas.

C) For business and industry

a) Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

b)Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

c)Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

d)Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

e)Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

1) Fast Moving Consumer Goods Sector (FMCG)

Fast moving consumer goods sector (FMCG) will benefit from the GST due to the present of big unorganized market. GST rate for products like hair oil, soaps and toothpaste has been lowered by 500-600 bps from the previous rates. Companies such as Colgate-Palmolive, HUL, Britannia, Heritage Foods etc will benefit from the move.

2) Pharma and Healthcare

Pharmaceutical products will see 12 per cent GST as against earlier rate of 10 per cent. Angel Broking believes companies will be able to pass on this full impact to the patients. The healthcare sector will remain exempt from the GST however the inputs by the healthcare sector will be taxed at 18 per cent leading to rise in the operating costs. Companies like Dr Lal Pathlabs will benefit.

3) Airlines

Travelling in business class will become expensive as after the rollout of GST, tax rate will increase from 9 per cent to 12 per cent. However, GST on economy class is set at 5 per cent, lower than the previous 6 per cent. Aviation Turbine Fuel has kept outside the GST and the indirect tax structure will continue. As a result, aviation companies will now face two set of taxes, i. e. GST and indirect tax. Tax input credit under the GST is only available on input services for economy class travel. Lower tax rate on economy travel is positive for companies like Inter Globe Aviation, Jet Airways and Spice Jet.

4) Brokers and Equity Investments

With the service tax being subsumed into your overall GST, the rate of GST on financial services stands modified from 15 per cent to 18 per cent. Angel Broking in a blog explains that on a 1 per cent round brokerage, your overall cost due to the subsuming of service tax into GST will be about 0.03 per cent or 3 basis points. From a long-term investor's perspective, this may not be too significant since the overall shift is just about 3 basis points. However, for short term traders, this 3 basis points additional cost will change the economics of churning their funds in the equity markets. Whether that actually impacts the eventual volumes and liquidity in the markets remains to be seen. One thing investors and traders need to watch out for in the equity market is whether this higher cost results increases the basis risk or not. Shares of companies like Motilal Oswal Financial Services, Edelweiss Financial, Geojit Financial Services etc will remain in limelight.

5) Cement

According to Angel Broking, GST implementation is expected to be neutral for the cement industry. Earlier, cement was taxed at 12.5 per cent excise and VAT rates between 12.5-15.5 per cent. Under GST, the cement will be taxed at 28 per cent, which is nearly the same as the current tax structure. Reduction in the prices of coal and GST will benefit cement companies further. D-Street investor should keep an eye on companies like Ultra Tech Cement, Birla Corporation, JK Lakshmi Cement, Deccan Cement and India Cement etc.

6) Telecom

The sector is facing severe pressure in the form of intense competition from Reliance Jio. Under the GST regime, telecom services will be taxed at 18 per cent as against 15 per cent earlier.There are expectations that it will work as a salt on the wound for the sector. Any price increase will further dampen the scenario. Bharti Airtel, Idea Celluar and Reliance Communication should be eyed on stock market.

7) Automobile and Auto Ancillaries

The GST rates are mostly expected to be neutral to the auto sector except for the hybrid cars which will be taxed at the 28 per cent GST +15 per cent. Most other vehicle categories will not see significant change from the current tax structure. Tractors category will be taxed at 12 per cent against current 6-7 per cent which will be negative for the tractor companies. Demonetization and BSIII norms have already hurt the sector during the first half of 2017. Under the GST, input tax credit will not be available for the dealers for the stocks existing before 1st July hence companies are offering discounts on their vehicles. This is expected to result in margin pressure in the June quarter. Stocks such as Exide Industries, Minda Industries and Amara Raja Batteries should be watched by investors.

8) Real Estate

The effective GST rate on under-construction real estate projects will be 12 per cent only and not 18 per cent as there will be abatement for land cost, according to a report by PTI quoting tax consultant EY. Brokerage firm Edelweiss in a research note said, "We believe impact on property prices under GST will be driven by cost structure and extent of input credit available under GST passed to buyer." One should keep an eye on companies like Sobha, Brigade Enterprises, Oberoi Realty and Sunteck.

9) **Insurance**

Insurance policies: life, health and motor will begin to cost more from April 2017 as taxes will go up by up to 300basis points.

Conclusion:

GST is a long term strategy and the positive impact shall be seen in the long run only. This can happen if GST is introduced at a nominal rate, to reduce the overall tax burden of the final consumers. The rate of GST also plays a crucial role in deciding the actual impact of GST on the comments man. Let us hope this "One nation, one tax" proves to be a game changer in a positive way and proves to be beneficial not only to the common man but to the country as a whole. GST will open a new chapter in the history of tax reforms in India. The Service Sector will try to avoid or reduce tax liability by terming the major part of service costs as reimbursements or revenue expenses etc. which could be got back.

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