

GOODS & SERVICE TAX

Impact analysis on various sectors



India's looming the new regime of Goods & Service Tax ("GST"), a modern tax reform which will usher in growth and opportunities for businesses in India. It is a tax trigger, which will lead to business transformation for the industry. It will have a far-reaching impact on business avenues, compelling organizations to realign bottlenecks such as production cost, production time, supply chain, compliance, logistics etc. with changing indirect tax structure.

GST is a value added tax where tax is imposed only on the value added at each stage in the supply chain. It is levied at all points in the supply chain. Credit is paid for acquiring inputs used in making the supply. In India GST is defined as "tax on supply of goods or services other than alcohol for human consumption". In simple language, GST is a single tax on all goods and services in the entire economy.

GST can make the indirect tax system very efficient and will benefit all stakeholders including manufacturers, sellers, the ultimate consumers and the tax collecting governments apart from giving a substantial boost to GDP growth.

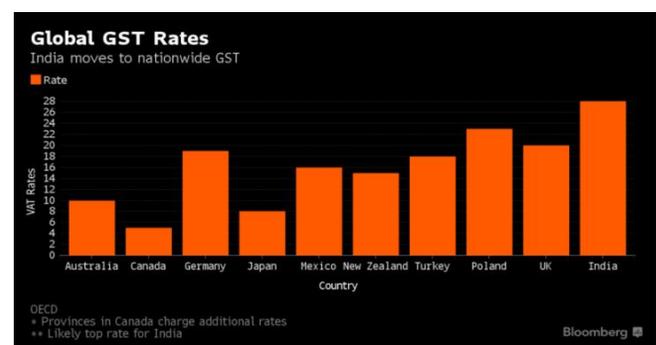
GST will turn India into one common market, leading to greater ease of doing business and big savings in logistics costs from companies across all sectors. GST may not have a uniform impact on all sectors, given their varying taxation structures. Some companies will gain

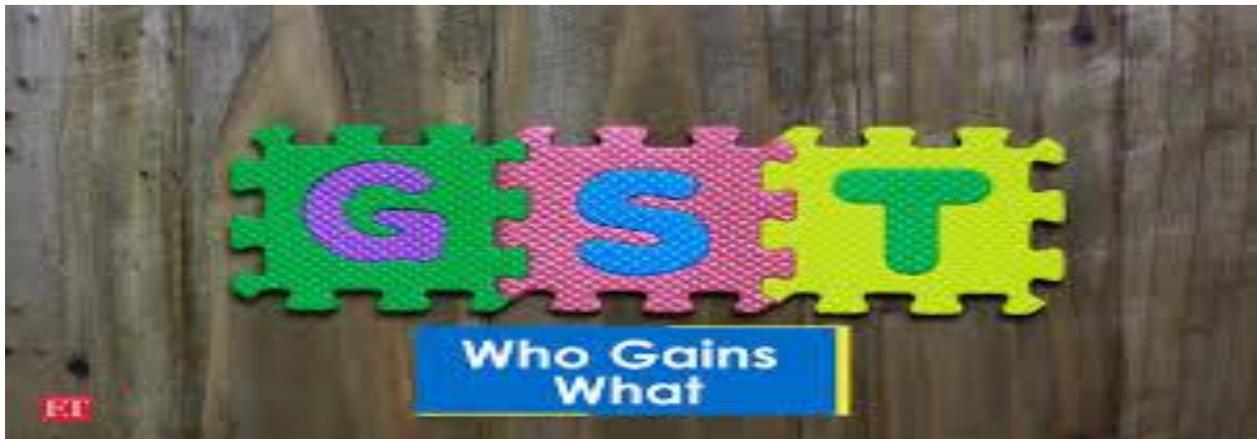
more as the GST rate will be lower than the current tax rates they pay, others will lose as the rate will be higher than the present effective rate.

The GST council has approved the rates of taxes on goods and services in its 14th council meet held on May 18, 2017. The rates of individual commodities were taken up for consideration in the four approved slab rates i.e. 5%, 12%, 18% and 28% with additional cess for demerit and luxury goods.

In the 14th meeting of the Council, **about 60% of the items will be in either the 12% or 18% tax brackets.** Only 19% of the items will be in the 28% slab, the highest rate.

Among all, the logistics sector, comprising inbound and outbound segments of manufacturing and services supply chains, is likely to get the much-needed boost. However, all major business dynamics will have to be thoroughly analyzed to assess the impact of GST on businesses.





Here's a brief look at how the GST might impact various sectors of the economy

Manufacturing



The manufacturing sector in India is not only plagued with concerns ranging from decline in exports and infrastructure spending but also with the burden of complying with a complex indirect taxation system. Multiple indirect tax legislations have led to significant compliance and administrative costs, classification and valuation disputes and generally impaired the ease of doing business in this sector.

The implementation of GST will significantly improve the competitiveness and performance of India's manufacturing sector.

For most industrial products, GST rates have been slated at 18%. Today a manufacturer pays about 28-30% as taxes, so this means an average saving of around 10%.

GST will affect the manufacturing sector in the following ways:

State Incentives & Area based incentives

Presently, companies have set up their manufacturing units with significant investment outlays based on incentives offered by states under their respective investment promotion policies. However, under the GST regime, such flexibility given to the states is likely to be curtailed to achieve the intended effect of uniformity.

Further, ***GST will only be credited to the state where the supplies are consumed***, as opposed to the present situation where the producer state is credited with central sales tax on inter-state sales. This would lead to a loss of revenue for the producer states and therefore such states may not be in a financial position to continue offering such incentives.

In addition to above, manufacturing units enjoy exemption of taxes based on their location in specified backward areas, capital investment etc. There is ***no clarity under the GST on the treatment of such area based exemptions*** resulting in loss of unutilized portion of such incentives.

Increased working capital

Impact on working capital may be significant for the manufacturing sector. Currently, stock transfers are not subject to tax. However, under the GST regime, **stock transfers are deemed to be supplies and are subject to GST.** Though GST paid at this stage would be available as credit, realization of this GST would only occur when the final supply is concluded. This would likely result in cash flow blockages and therefore companies would have to rethink their supply chain management strategies to minimize this impact on their cash flows.

Free supplies & Discounts

Under the present indirect tax regime, free supply of goods is not subject to VAT. GST law stipulates that specific transactions without consideration would also be treated as supplies. Accordingly, **free samples may be subject to GST, leading to increase in overall costs.**

Since GST law stipulates that post supply **discounts are to be excluded from the transaction value**, provided such discounts are known at or before the time of supply of goods and are linked to the invoices for such supply. Thus, companies may also need to analyze existing post supply discounts/incentive schemes where the quantum of discount is not known at the supply stage.

Supply chain restructuring

Currently, the supply and distribution models are structured to optimize indirect tax impact arising at various levels of value addition. Transition to GST will result in such decisions being taken to optimize business efficiency (as opposed to indirect tax efficiency). Currently, firms spend a high 5-8% as product distribution and warehousing cost. **GST would lead to lower transportation and distribution costs.**

With the advent of GST, it is hoped that such **warehousing and logistics decision would be**

based on economic efficiency such as costs and locational advantages vis-a-vis key customers.

Also with overall reduction of cascading effect of taxes, especially on the post-manufacture stage of the supply chain, manufacturing sector stands to benefit significantly and have a positive effect on the cost of manufactured products in the hands of consumers. However, concerns remain on specific issues such as the **additional 1% origin tax, increased cash flow issues on account of GST payable on stock transfers** and increased costs owing to exclusion of petroleum fuels from the ambit of GST.

Yet the lower taxes, simplified tax structure, seamless tax credit facility and technology driven easy tax compliance system offered by **GST provide an ideal platform to increase manufacturing's share of GDP from the current 17.4% to 25% by 2025.**

E-commerce



Currently, the federal indirect tax structure with different tax regimes in various states has led to confusion and uncertainty on the tax treatment of online marketplaces and aggregators. GST will help remove the ambiguity that currently exists in this sector and insulate such operators from ad hoc laws and arbitrary levies imposed by state governments. However, it may result in higher compliance challenges for the e-commerce sector.

Compliance costs

Under the new regime, **every electronic commerce operator would need to collect tax at source and deposit** applicable GST when payments are to be made to the supplier.

In the current regime, e-commerce players are treated only as service providers and are therefore required to comply with only one central service tax legislation. Under GST, with the burden of TCS @ 1%, such electronic commerce operators will also be required to undertake additional compliances in states where the supplier is located.

However, it has been kept at 1%, which is the lowest. Thus, **E-commerce consumers are likely to remain unaffected once GST sets** even as players like Flipkart and Amazon prepare to deduct 1% of the payment it makes to sellers under the new tax regime. This will not significantly increase the onus and compliance burden on electronic commerce operators.

Stock transfers to be taxed

Under the GST Law, **specified transactions without consideration would also be treated as supplies**. Intra-state and inter-state stock transfers, between branches or warehouses of a single e-commerce entity, would be deemed to be supplies, subject to GST. Though the tax paid would be available as credit to the entity, this may result in cash flow blockages.

Credit available only when tax is paid

Credit can only be claimed on taxes which have been paid to the credit of the government.

However, removal of cascading effect and consolidation of taxes could bring in significant benefits such as unrestrictive cross utilization of credits of service tax paid on input services like warehousing, logistics, commission of marketplace. The **GST will therefore facilitate seamless credit across supply chains**, with tax set offs available across the production value-

chain, both for goods and services, therefore bringing down the overall cost of supplies. This cost benefit would be ultimately passed on to the customers or help in increasing the books of the companies.

Real Estate



Indian real estate sector is estimated to account for about 5% of India's gross domestic product and is considered the second-largest employer in the country.

Real estate sector is already subject to multiple taxation, the implementation of GST is theoretically expected to help the consumers and builders.

The GST regime will be a game changer for real estate sector and the **12% GST on construction projects meant for sale to buyers will boost the sector**.

Ambit of GST under real estate is likely to result in more transparency, which will significantly reduce tax evasion through more efficient transaction-tracking methods and improved enforcement and compliance. Since GST may be levied on a single value, the current issue of levying tax on tax (VAT on central excise duty) is likely to be removed.

Transfer of (completed) properties may continue to be outside the purview of GST and be liable only to applicable stamp duties. However, **on procurement of materials for civil construction, GST will be applicable**.

At present, developers pay various non-creditable taxes on supplies like excise duty,

customs duty, CST, entry tax etc. on the procurement side, and the buyers pay service tax and VAT on purchase of residential units when booked prior to their completion. GST will replace these multiple taxes with a single tax and all the developers will **get the input credit on the material they are using in construction**, thus ensuring a smooth flow of credits through the chain which in turn will reduce costs for all players.

Also, the present tax laws provides an abatement of 75% on service tax to be paid for property valuing less than one crore, whereas properties valuing more than one crore allows only 70% of abatement resulting in a pay out of service tax at the rate of 4.50%. In addition to above, applicability of VAT & stamp duty is also there. However, abatements will be removed and stamp duty will continue under GST, increasing the overall tax liability.

Affordable housing will continue to be exempted from service tax under GST.

The heavily taxed real estate sector welcomes a single stable 12% GST rate, inclusive of the value of land and with full input tax credits. Thus, the actual tax incidence under GST will be lower than the existing multiple indirect taxes on the sector. Also, the GST rate for work contracts will also be offset by input credits thereby providing a seamless and simplified tax policy.

The implementation of GST will broadly benefit real estate sector by ensuring a uniform tax structure and improve tax compliance by developers. It looks at bringing in greater transparency for the sector and may minimize unscrupulous transactions. GST will have a cascading effect for the home buyers, as developers with more margins in their hands will be able to restructure the cost of the products in favour of consumers thereby reducing the property prices.

Banking



Banks have always been a huge pillar of the Indian economy and taxpayers are literally banking on them for financial needs.

In India, most of the banking and financial services are exposed to service tax, at the rate of 15%. Under the new tax regime, GST rate for financial services transactions, such as banking, mutual funds, insurance and stockbroking has been **increased to 18% from 15% earlier**. Thus, **financial services transactions to become marginally costlier**.

GST applies to all services wherein there is a supply of services for consideration. So, in banking transactions such as credit card payments, fund transfer, ATM transactions, processing fees on loans etc., where the banks are levying charges, increased tax rates would apply. This would have a slight inflationary impact.

Also, Interest on loans, trading in securities, foreign currency and retail services will also fall within the ambit of GST. Thus, it appears that imposing GST on banking and financial services will make the financial services costly.

However, interest on fixed deposits, bank account deposits etc. which do not attract a charge will remain so even under the new regime.

Since GST is a destination-based tax, it might be a challenge to determine the destination of

certain services (at present, services are taxed at the place of rendering the service). This may lead to a difficulty in determining state GST, central GST or inter-state GST on B2B and B2C transactions.

Automobiles



Buyers of passenger vehicles in the premium segment will be key beneficiaries of GST, which will reduce the effective duty on such models. Prices of small cars will more or less remain the same as their will only be a minor hike in the duty under the GST.

Cars will be taxed at the top rate of 28% plus a cess in the range of 1% to 15%. Small cars will be charged 1% cess on top of 28% tax, mid-sized cars will attract 3% cess and luxury cars 15% cess on top of the peak rate.

Tax rates on automobiles

Luxury cars	28% GST + 15% cess
Small petrol cars	28% GST + 1% cess
Small diesel cars	28% GST + 3% cess

A current levy of Indirect taxes on cars varies from 30% to 45%. The rates of GST are as per the expectations of the industry and **almost all segments of the industry have benefitted by way of a reduced overall tax burden in varying degree.**

Moreover, elimination of cascading effect and **offset of input tax credit at every stage of**

value chain will reduce the cost. By and large, the impact of GST may be positive for car segment of automobile sector. There will be several key beneficiaries of GST including some really giant companies.

Industry experts opine that GST will lead to the dropping of on road price of vehicles by 8%. Lower prices can be construed as indirect stimulus to boost volumes. Key beneficiaries would be Maruti Suzuki, M&M and Eicher Motors.

However, demand for commercial vehicles may be hit in the medium term. GST will subsume local taxes, reduce time at check-posts and ease logistics hurdles. With fleet productivity increasing, operators may not feel the need to expand mid-term.

Further, GST will also enable the auto dealers to get input tax credit for the GST paid by them at the time of acquiring the vehicles from the OEMs. Similar benefit will accrue to them on the spare part/service businesses.

A reduced overall tax burden will pave the way for stimulating demand and strengthening the automotive market in the country.

Agriculture



The implementation of GST would boost the economic growth by the means of wider tax base, compliance in tax payment and by pushing balance of trade on favorable side.

One of the most radical decisions taken at the GST council meet was to fix the applicable GST

rate at **zero per cent for most of the primary farm produce.**

The central government currently taxes neither production/sale of farm produce nor agricultural incomes. Under GST also, there will be **no VAT and the cesses too are supposed to be subsumed within the zero per cent GST.** Thus, there will be no impact of GST on the farming community.

However, the rates on fruit and vegetable juices, jam, sauces, purees, mixes, concentrates and a host of processed foods have been set at 12 to 18%.

Taking into consideration food consumed by the poor, food grain and milk have been exempted from taxes. Cereals will be taxed at 5%. Under the new GST law, dairy farming, poultry farming and stock breeding are kept out of the definition of agriculture. Therefore, these will be taxable under GST.

The main impact of GST in agriculture would bring is the inflation with currently 4% VAT being increased to 8% on many food items including cereals and grains as the exemption under VAT is limited to unprocessed food. The most affected from the inflation would be the consumers living below poverty line.

Also, the incidence of taxation on agro processing industry would also help in reducing the cost of heavy machinery required for producing agricultural commodities.

Implementation of GST is essential to improve the transparency, reliability, timeline of supply chain mechanism. Since most of the agricultural commodities are perishable in nature. An improved supply chain mechanism due to GST would reduce the time taken for inter-state transportation and would ensure reduction in wastage and cost for the farmers/ retailers.

GST system seeks to replace multiple taxes and tariffs and has set free the decisions on warehousing and distribution from tax

considerations. Under GST, **the logistics and transportation will be more cost and time efficient**, thereby curtailing the wastage of precious food as well.

Moreover, with the ease of availing tax credit under GST regime, it is expected to boost inter-state trade leading to achieving the objectives of National Agricultural Market. Both CGST and SGST will be levied on import of goods and services into the country. Exports, however, will be zero-rated, meaning exporters of goods and services need not pay GST on their exports.

About its implications on agricultural sector, it could be concluded that though the overall tax burden on consumers will be less in new tax regime, but certainly it would have inflationary pressure on the food articles especially processed one which may lead to restoring the consumption towards fresh farm products.

The implementation of GST is going to benefit a lot, the farmers/ distributors in the long run as there will be a single unified national agriculture market which will help them to sell their produce for the best available prices.

Pharmaceuticals



The Indian pharmaceutical industry is the principal supplier of generic drugs all over the world, with 80% of all AIDS drugs produced in India. The UN has provided licenses to six Indian pharmaceutical labs to make generic anti-AIDS medicine for all the developing nations. Indian pharmaceutical companies manufacture 20% of all generic drugs used around the world.

GST in India is likely to have a far-reaching impact on several aspects of business including pricing of products and services, supply chain, IT systems, accounting, tax compliance framework & re-skilling of talent.

The pharmaceutical industry was hoping the GST rate on life-saving drugs would be zero, even as it has been capped at 5% and that of all other formulations at 12%. The rates in the GST regime are slightly higher than what prevail now.

In the GST regime, ***essential drugs that treat malaria, HIV-AIDS, tuberculosis, and diabetes fall in the 5% bracket. Almost all other drugs are in the 12% net.***

Nicotine polacrilex gum is the only pharmaceutical product to be charged at the rate of 18%. Cipla, the brand which produces nicotine gums, will probably be impacted from the rate fixed at 18%. More than the tax rate, the bigger worry for the companies is the disruption the new tax regime will bring.

Medicines to be get costlier as active pharmaceutical ingredient, or raw materials, will be taxed at 18%.

Distributors and stockists are upset at the loss they might have to incur with the increase in the effective tax rate. The effective tax rate on formulations, now 9%, has been increased to 12% and trader margins have been built into the tax rate.

Under the current tax laws on pharmaceutical products, in many states VAT is on maximum retail price, which is on a single point. Due to this, the distribution channel does not pay VAT. Thus, for them paying tax under GST coupled with three returns a month is a humongous task.

Earlier, ayurvedic drugs or medicines were charged an average VAT of 4% and excise of 1.5% due to the excise free manufacturing zone benefit. Under GST, ***ayurvedic medicines could***

get costlier as they would be taxed at the rate of 12%.

No clarification has been provided by the government on the issue of manufacturers operating in excise-free manufacturing zones paying more tax under GST. Most of these manufacturers are competitive in the pharmaceutical industry is due to the excise benefit as they are situated in remote places.

The pharma industry also GST specifically provides for refund of accumulated credit resulting out of increased rate for inputs vis-a-vis reduced rate of output. This is positive news for the pharma industry, which has been struggling with a high amount of blocked credit in the current regime. Also, special provisions for duty-free movement of goods under job work model, which is prevalent in the pharmaceutical industry and fundamental to its operations, have been provided in the new regime.

GST law also provides ***seamless transition of entire credit balance*** as on the cut over date under the present indirect tax laws.

Also, continuity of the area-based indirect tax benefits under the GST regime is critical as this may also indirectly impact the cost of medicines and ultimate price to be paid by the patients.

Since GST on inter-state sale of goods would be creditable, there is an opportunity to remodel current supply chain structure to ensure lower logistics cost and bring in significant operational efficiency which should have a positive impact on the profitability of the companies.

The sector is hopeful of making refund process fast and simple, this coupled with savings in warehousing and logistics cost may anticipate a positive impact.

A lot of the times, medicines are provided without bills in India. GST would curb such practices as providing medicine without the bill

would not be beneficial for anyone in the distribution chain.

The government needs to still provide clarification on the inclusion of the current benefit for the manufacturers under excise for operating from the excise free manufacturing zones. The pharmaceutical industry is also asking for more information on the implementation of GST on the MRP of pharmaceutical products.

FMCG & Retail



GST would have significant impact on the way businesses operate and one of the sectors which would be significantly impacted by GST is the retail sector. Its impact on FMCG firms will depend on their product mix, given that the tax rates have gone up for some products and have fallen for others.

The tax fitments announced by the GST council has evoked a mixed response from the FMCG sector, with some viewing it as positive, while many others have expressed disappointment.

Beverage companies, for instance, said the **effective tax rate of 40% on sweetened aerated water** and flavored water under GST was against the stated policy of maintaining parity with the existing weighted average tax, which is significantly below 40%. Aerated beverages have been placed in the highest tax slab of 28% and in addition will attract a cess of 12%.

Apart from driving supply chain efficiencies, bringing untaxed players into the tax net, a large section of the industry still operates in the

unorganized segment, thus GST will level the playing field for the larger, established players in the industry.

However, the GST rate structure shows that not all FMCG companies stand to benefit from the new regime.

	Detergents	Baby foods	Sanitary napkins	Shampoo
GST RATE	28%	18%	18%	28%
CURRENT RATE	23%	5-12%	10-11%	24-25%
COMPANIES IMPACTED	HUL, P&G, Jyothy Lab	Nestle	P&G Hygiene and Health Care	HUL, P&G, Dabur, Himalaya

The rates for various FMCG segments have mostly been along expected lines. Items of mass consumption like toothpaste, soaps, hair oil etc. have been put under the 18% tax slab, significantly lower than the 22-24% tax rate they have been paying. This is in accordance with the government's stance of keeping tax rates low for mass consumption products. In fact, the GST rate schedule indicates that nearly 81% of all items are in the 18% tax bracket or below. The remaining 19% fall in the 28% tax slab.

	Skin care	Ayurvedic medicine	Hair dyes	Paints
GST RATE	28%	12%	28%	28%
CURRENT RATE	24-25%	7-10%	23-28%	25-26%
COMPANIES IMPACTED	HUL, Dabur	Dabur, Emami	Godrej Consumer Products (GCPL)	Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel

The FMCG companies, whose tax incidence has come down under the GST regime, are likely to pass it on to the consumers in the form of lower prices. Lower prices could potentially support volume growth for certain products, particularly in the rural segment. It is believed that it could result in a faster consumption shift from unbranded to branded products, spurring

volume growth for FMCG companies. Simultaneously, it will also bring operational efficiency with rationalization of supply chain by removing bottlenecks. Analysts also point out that tax exemption provided to several critical products required for food processing like jaggery, cereals and milk would benefit this industry.

However, surprisingly some of the widely consumed products have been placed under the highest tax slab of 28% which is slightly higher than the rate levied earlier. Higher tax rate in paints, baby food, detergents and shampoo is a real dampener since these are daily-use, mass consumption items. Manufacturers will have to pass on the higher tax incidence to consumers in the form of higher prices of these goods.

Most of the **items belonging to the premium category have been put under the highest tax slab of 28%**. These include health supplements, skin care, aerated drinks, and liquid soap, among other goods. But this is not going to have a particularly negative impact on manufacturers as they had been paying similar taxes earlier.

For most other FMCG majors, the GST rate structure is likely to be neutral or marginally positive, as their broad portfolios would see a mixed impact. In case of HUL, for instance, tax incidence has reduced for soap, toothpaste and tea, but increased for detergent, shampoo and skin care. For Godrej consumer products, lower tax incidence on soaps and insecticides is a positive, but higher tax rate for hair dye is a negative.

In addition to the above, following are to be considered:

Increased availability of input tax credit

At present, the CVD on import of goods, excise duty on goods manufactured in India, CST on inter-state procurement of goods and service tax on input services, are a cost to the retailers.

However, the **GST charged on the aforementioned transactions would be creditable**. This would eliminate the cascading effect of taxes and could lead to reduction in effective tax cost for various products.

But, a higher rate of GST on certain products could offset the benefit of increased credit availability mentioned above and lead to higher tax cost.

Promotion schemes

Retailers currently offer various marketing schemes such as “Buy one get one free”, free samples, etc. to customers. At present, the products given free of cost are not liable to sales tax. However, in the GST regime, **supply of goods by one person to another without consideration could also be liable for taxation**. This would lead to increased cost of promotion and also pose a challenge as regards the valuation to be adopted for calculating GST on such goods.

Further, FMCG companies **could generate substantial savings in logistics and distribution** costs as the need for multiple sales depots will be eliminated. Currently, FMCG companies pay nearly 24-25% including excise duty, VAT and entry tax and a lower rate of 18% will yield significant reduction in taxes. Also, warehouse rationalization and reduction of overall tax rates is expected to generate saving.

Thus, several of the rapidly moving consumer goods companies such as HUL, ITC, P&G will benefit immensely by this tax structure of a GST rate equaling to 18%. Also, much relies on the exemptions which are being retained along with the excise benefits. Benefits aren't expected to be huge and will happen slowly as per several of the analysts.

Energy



The energy sector is a key driver for economic growth but remains plagued by policy and regulatory bottlenecks. Lack of pass through of indirect taxes contributes to the inefficiencies that have crept into this sector. Unfortunately, this legacy issue is set to continue under the new GST regime, with generation and sale of electricity being kept outside the purview of GST but capital goods and services used in the energy sector being brought within the GST net.

New GST rate slabs for coal and capital goods are expected to bring cheer to the power sector. Coal, the key raw material for about 60% of the power produced in the country, has been placed under the 5% slab, while capital goods and intermediate industries will be under the 18% slab.

Thus, **the 5% rate for coal, down from 11.7% in the current tax regime is a major breather** as it would help reduce the final tariff which would be passed on to the consumers.

At the same time, capital goods falling in the 18% tax slab would also help the power project developers to reduce their cost and hence the capacity charge will reduce.

Currently, tax concessions and exemptions, both at the central and state level are available on specified goods and services which are used in the energy sector. However, with the **GST regime generally set to trim such exemptions**

and concessions, the effect on the energy sector may be significant.

Increased cost of energy projects

While goods and services required for setting up energy projects will be subject to GST, they will not be creditable for the generating entity leading to a cascading of indirect taxes. Also, there is no clarity on whether the various concessions/ exemptions available for setting up energy projects will continue under the GST regime.

Moreover, removal of concessional rate for inter-state procurement for EPC contracts would not allow the project owners to structure their procurements as inter-state sales to reduce tax costs.

In the **absence of such tax exemptions and concessions**, there is a possibility of a significant increase in project costs.

Impact on renewable energy

With a view to encourage clean energy, multiple tax concessions and exemptions have been extended to the renewable energy sector. As a result, green energy is generally available at reduced tariff rates. However, there is **no clarity on whether such benefits would be extended under the GST regime**. It is necessary that the government continues to offer tax breaks to the renewable energy sector, for it to remain a competitive option to conventional fuel based energy.

Therefore, a lower tax rate of 5% on renewable energy equipment would **not result in any increase in the renewable energy costs and the cost of energy projects in India**. This would remove GST incidence at the terminal stage, and also enable suppliers to obtain tax refunds of their own input costs.

Further, energy is a core sector in any economy since power is a key requirement for every commercial activity. Any tax distortion faced by

this sector on account of electricity being outside the ambit of GST, will have a cascading effect on the rest of the economy, negating some of the very benefits sought to be brought about by the introduction of GST. Accordingly, it is felt that the Government has missed an opportunity by not integrating generation and distribution of electricity with other supplies which interact with it, under the umbrella of GST.

Therefore, the viability of the energy sector, under the current GST regime, would depend upon the exemptions and concessionary tax which may be put in place to counter the impact of different tax regimes on the input and output side. Exemptions in renewables will need to be grandfathered for this sub-sector to remain viable.

Telecom



From the conventional belief of being a communication service provider to providing multiple streams of value added services, the telecommunication (telecom) sector has become one of India's core economic drivers.

Presently, the telecom industry faces several shortcomings such as cascading effect of taxes, issues with the classification of services, etc. that hamper the growth of this sector.

One of the major concerns for telecom service providers is the **denial of input tax credit on telecom towers**. However, under the GST regime, telecom would be allowed to avail such

input tax credit for utilization against output GST liability.

In order to achieve the desired goal of expanding the telecom business and accomplishing socio-economic development, it is essential that the cost of the telecom service provider goes down, which will result in lower tariff rates and broader consumer base. Considering an overall objective, the proposed GST framework seems to have addressed the concerns of the telecom sector.

The **seamless flow of credit under the GST** regime will help reduce the overall cost and eventually the benefit can be passed on to the end-user by lowering tariff rates. There would be a pertinent increase in free cash flow which can be used in business development opportunities.

All service related sectors are expected to be negatively-affected as the service tax rate is 15% currently and **GST rate on telecom has been fixed at 18%**. Even a moderate rise in tax could hit demand and profits. Given the data volumes are slowing and with the launch of Reliance Jio, the times ahead for telecom companies are going to be tough and this will be reflected in their stock prices as well.

Also, most telecoms have obtained centralized service tax registration certificate and undertake centralized compliances. However, under the GST Law, **separate registration would be required in each state** from where the services are rendered leading to increased compliance requirements as compared to the current regime.

Telecoms would still need to advocate with the Government for unresolved issues under GST such as double taxation on account of free supplies to service provider, absence of provision for transition of input tax credit, lack of clarity on telecom's eligibility to claim credit relating to passive infrastructure etc.

The telecom sector is vibrant, price-sensitive and has a high growth potential. Strong policy support from the government under GST is crucial for overall development.

Conclusion

The taxation of goods and services in India has, hitherto, been characterized as a cascading and distortionary tax on production resulting in misallocation of resources and lower productivity and economic growth. It also inhibits voluntary compliance. It is well recognized that this problem can be effectively addressed by shifting the tax burden from production and trade to final consumption. Thus, a flawless GST law in the context of the federal structure would optimize the effectiveness. GST is a well-designed destination-based value added tax on all goods and services which is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-through and the tax essentially sticks on final consumption within the taxing jurisdiction.

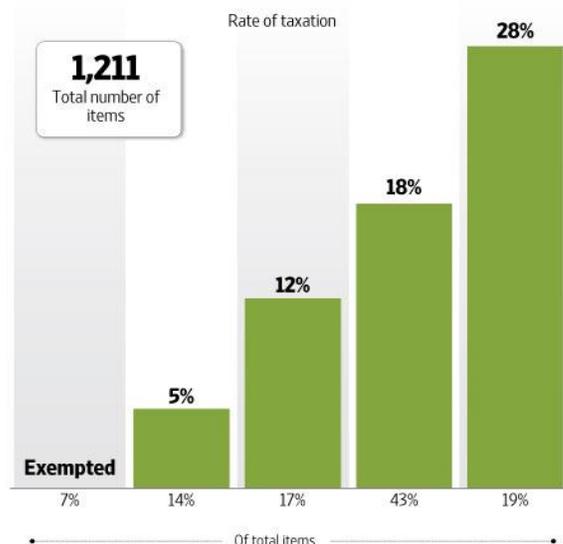
Further, the pattern of consumption will be the criteria for accrual of tax revenues to states. Accordingly, the tax collection will go the states having higher consumption as compared to the present system of collection by manufacturing states.

The GST Council finalized the tax rates for most of the goods and services and has backed the 1 July deadline for rolling out the unified indirect tax that will help create a single national market and ensured that items of mass consumption bear the least tax burden.

Thus, based on the current tax rates (central excise and VAT) for key product segments across sectors and the finalized GST rates, we expect most sectors to gain or otherwise in a limited way.

GST TAX STRUCTURE

The council decided on the tax rates for 1,211 items of goods and services, of which 7% will be exempted, 14% will fall in the 5% slab, 17% in the 12% slab, 43% in the 18% slab and 19% in the 28% slab.



As discussed above, there is a mixed response from the FMCG sector, with some viewing it as positive, while many others have expressed disappointment. The impact on FMCG firms will depend on their product mix, given that the tax rates have gone up for some products and have fallen for others.

Services sector in India is a rapidly growing sector and significantly contributing to fiscal revenues. Ninety percent of the services are placed in the 18% bracket, which in absolute terms is a marginal increase, but is expected to reduce complexity in transaction and improve ease in availing of input credit.

Thus, as compared to the current 15% service tax including cesses, the services viz. IT, telecom, insurance, banking etc. may witness negative impact due to increased cost of services.

However, macro benefits emanating from implementing GST far outreach the negatives, it is also a significant change communicating to the world at large that we are focused on one path for economic progress.

The overall impact of GST on Indian economy would be positive.

- **The trade of country will be converted into one market** as compared to numerous markets due to different tax structures in several states as of now.
- **GST would drive inflationary effect** in the near term because producers will increase the rates where GST rate is higher, but refrain from passing on to customer where it is lower, consequently, inflationary effect may be there.
- With **lower logistics cost, full offset of input tax credit** and seamless flow of goods cost, efficiencies will be achieved and Indian products would be more competitive.

To conclude, IT driven taxation regime, lesser manual intervention of tax authorities, positive effect on so many sectors and uniform tax structure may witness increase in GDP for Indian economy.

About us

AJSH & Co LLP (“AJSH”) is an independent firm of Business Advisors and Chartered Accountants with its corporate office situated at New Delhi. AJSH has brought together a team of highly qualified and experienced consultants from diverse professional fields and expertise. We cater to Indian and multinational corporates, high net worth individuals, financial institutions, start-ups and expatriates.

We specialize in the fields of accounting, auditing and assurance, taxation, foreign investments along with a host of other financial services. AJSH is an ISO certified firm and is also registered with PCAOB (USA). We have clients in India, USA, Africa, Australia, Europe, Hong Kong, Japan, China, Malaysia, Singapore and Thailand. Thus, we work across several different time zones based on our client needs.

Mercurius Advisory Services (“MAS”) is a firm based in New Delhi, India and offers a comprehensive suite of professional consultancy services to its clients ranging from accounting, finance and taxation to legal consultancy and human resource management. MAS is a team of eminent and trained advisors and consultants, specializing in the field of outsourcing services across the globe. MAS is an associate firm of AJSH.

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