IMPACT OF GST ON PRICES OF GOODS AND SERVICES: A STUDY OF PRICES OF SELECTED GOODS AND SERVICES

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Abstract

Goods and Services Tax (GST) is a broad tax levy on Sale, manufacture, and consumption of goods and services at a national level. One of the chief taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Earlier, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. July1, 2017 Once GST is implemented, all these taxes have to cease to exist. Now There is only one tax, that too at the national level, supervised by the central government. India is a developing Economy and in the context of Indian population and their consumption pattern we must see the impact of GST on different prices of goods and commodities.

Keywords: GST, Goods and services, Economy, Impact on sector, GST Benefits.

INTRODUCTION

The introduction of GST was a very significant step in the field of indirect tax reforms in India. To mitigate the problem of double taxation or cascading effect it amalgamates a large number of Central and State taxes into a single tax. For all persons & dealers it opens the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which was estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets & would have a positive impact on economic growth. Due to GST transparency increases & self policy making will be done.

By integrating most central and state taxes in single tax and adjusting the credit of taxes paid on supply paid at earlier stage in entire value-chain will reduce cascading in businesses, increases competition & improves liquidity.GST is a destination based tax & follows multi point collection method. Tax payment to be made at every stage & tax paid on previous stage will be available for set off at next stage. From this, the tax burden is transferred to the final consumer and Industries get benefitted from better cash flows and better working capital management.

The GST brought with it a swing of overarching impacts on a large number of commercial sectors. The consolidation of various levies into a remarkable structure has affected almost every aspect of consumption in our Life, hence, we are doing a series of blogs about the Impact of GST across various sectors such as consumer, automobile, IT, banking, the stock market, healthcare etc.

Impact of GST

a. **Technology Driven**: GST is based on technology to a great extent. Due to this human interference will reduce to a great extent & it would boost decision making.

b. **Easier to do business**: It will help in making our products more competitive in the both national & international market and also boost "Make in India" campaign. Import of services would be treated as inter-State supplies and would be subject to IGST which is equal to CGST & SGST .This will result in equality in taxation on local and imported goods.

c. **Increase in Government Revenue:** GST is expected increase the Government Revenue by widening the tax base and improving the taxpayer compliance. GST is likely to improve India's ranking in the Ease of Doing Business Index and is estimated to increase the GDP by 1.5% to 2%.
d. **Transparency**: GST will bring more transparency to indirect tax laws Since the entire supply chain will be taxed at the rate of the first stage of supply, the economics and tax value of supplies are easily identifiable. This will help the industry to take credit and the government to verify the correctness of taxes paid.
e. **Less compliance than existing laws:** The taxpayers will not be required to maintain records and show compliance with a central government and state governments like Central Excise, Service Tax, VAT, Central Sales Tax, Octroi, Entry Tax, Luxury Tax, Entertainment Tax, etc. All intra-state supplies (which are nearly identical laws) for the Goods and Services Tax Act and the Integrated Goods and Services together with the Central Goods and Services Tax Act and State (or Union Territory) Tax for all inter-state supplies (which also has most of its basic features derived from the CGST and the SGST Act).

Objectives of the study

1. To study the concept of Goods and Services Tax (GST) and its impact on various goods and commodities in Indian Economy.
2. To understand how GST will impact on selected goods and commodities in India.

METHODOLOGY:

Secondary data collection: A variety of secondary data is collected from various magazines, news Papers, articles.

MEASURING IMPACT

The Goods and Services Tax (GST) has been termed a prospective game changer, the single chief tax reform in India, According to Indian Government it is the concept of "one nation, one market, one tax". GST has brought in 'one nation one tax' system, but its effect on various prices of goods and commodities is slightly different. How the goods and services tax will affect the prices of selected consumer-facing sectors of the Indian economy. What remains to be seen, however, is how the GST rates—from 5% to 28%—will affect various consumer-facing sectors of the Indian Economy. A look at some of these sectors and how GST will impact them:

AUTOMOBILE: The car used by passengers part is expected to see an overall decrease in tax outgo, with bigger cars and sport utility vehicles (SUV segement) benefiting from lower tax rates. GST adds to the challenges the sector has faced, from demonetisation and then implementation of more stringent emission norms. The passenger car segment is expected to see an overall reduction in tax outgo, with bigger cars and sport utility vehicles (SUV) benefiting from lower tax rates. ICRA Ltd has estimated the total tax on small cars at 29% from the current 31.4%, while for an SUV, the tax rate will fall from 55.3% to about 43%. In the near term, however, car dealers have been cutting down on stock levels, which are expected to affect sales growth. The bright spot is that demand growth forecasts are robust, and analysts expect sales growth of 8-12% in FY18 for passenger cars and two-wheelers. GST is not expected to have a significant impact on commercial vehicle sales, according to ICRA. The base tax rate for the segment is 28%, compared with the current rate of 30.

CEMENT: Cement makers will see some relief in tax payout as the sector has been categorized in the 28% slab as against the effective tax rate of 29-31%. Contrary to expectations of cement firms, which were hoping for an 18% GST rate, the sector has been categorized in the 28% slab. Despite that, cement makers will see some relief in tax payout as the effective tax rate for packaged cement is anyway 29-31%. On the raw materials front, taxes on coal, limestone and lignite have been cut to 5%. However, the fuel mix of many cement firms currently has a higher proportion of imported petroleum coke. Meanwhile, a clean energy cess on coal and royalty to states for quarrying limestone remain. Given the already subdued demand and the lack of clarity on the impact of GST, prices are unlikely to surge in the near term.

CONSTRUCTION, REAL STATE: The sector is likely to gain from the input tax credit that is available under GST rules. So far, the construction sector, including real estate, has had an effective tax outgo of between 11% and 18%. It varied based on the nature of the contract, the service tax applicable on the services availed and also varied taxes on goods used in construction. For instance, construction of roads, dams and irrigation projects enjoyed a service tax exemption. Under GST, the entire works contract is charged 18% tax. However, in spite of higher rates, the sector is likely to gain from the input tax credit that is available under GST rules. This is only partially available under the existing regime.

CONSUMER DURABLES: White 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.

JEWELLERS: The GST rate on gold jewellery has been fixed at 3%, lower than expectations of a 5% rate. The new rate is close to the current 2%. Hence, it should not affect consumer buying dramatically. Additionally, the tax rate on jewellery making charges has been cut to 5% from 18% decided earlier. This should bring some relief as the tax levied on buyers declines and to that extent, is favourable for demand.

LUXURY HOTELS: High-end luxury hotel chains will pay more compared with pre-GST levels. From a pre-GST tax rate that varied between 18% and 25% based on state levies, GST classifies hotel into four buckets based on room tariffs. Those with room rates below Rs1,000 will be tax-exempt, although the rest will be taxed at 5%, 12%, 18% and 28%. The highest 28% has been slapped on hotels with above Rs7,500 room rates. So, high-end luxury chains will pay more compared with pre-GST levels. Hotels may pass on part of the cost as demand is still not buoyant enough in these categories. In the past two quarters, higher foreign tourist arrivals and business travel has lifted occupancy levels to an average of 77% pan-India.

MULTIPLEXES: Multiplexes are expected to benefit, primarily owing to input tax credit on fixed costs such as rent and common area maintenance. Multiplexes are expected to benefit, primarily owing to input tax credit on fixed costs such as rent and common area maintenance. The GST rate has been fixed at 28% for tickets costing over Rs100. This is higher than what the industry had expected. However, the food and beverage (F&B) segment will attract 12-40% under GST depending on the composition of F&B items. Nevertheless, the negative impact of GST is expected to be offset by input tax credit. On an aggregate basis, rating company ICRA Ltd expects operating margins of industry players to expand by 2.5-2.8%.

TELECOM: Telecom companies, already weighed down by high taxes and levies, now need to contend with an additional 3% tax with the shift to GST. Telecom companies, already weighed down by high taxes and levies, now need to contend with an additional 3% tax with the shift to GST. A service tax of 15% applied to telecom services earlier. Post-paid subscribers will see a roughly 2.6% additional to their gross bill. But incumbents such as Bharti Airtel Ltd and Idea Cellular Ltd are likely to absorb the additional cost for many of their pre-paid tariff packs. On the other hand, the availability of input tax credit is expected to reduce operating costs and capital expenditure. Thus, the impact on profit margins could be small.

SERVICE PROVIDERS: As of March 2014, there were 12, 76,861 service tax assessees in the country out of which only the top 50 paid more than 50% of the tax collected nationwide. Most of the tax burden is borne by domains such as IT services, telecommunication services, the Insurance industry, business support services, Banking and Financial services, etc. These pan-India businesses already work in a unified market, and will see compliance burden becoming lesser. But they will have to separately register every place of business in each state.

LOGISTICS: In a vast country like India, the logistic forms the backbone of the economy. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the "Make In India" initiative of the Government of India to its desired position.

E-Commerce: The e-commerce sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the GST law specifically proposes a Tax Collection at Source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1%.

Textile: The Indian textile industries provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it previously attracted zero central excise duty (under optional route).

Pharmacy and healthcare: Pharmaceutical products will see 12 per cent GST as against earlier rate of 10 per cent.

Healthcare : 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.

FREELANCERS: Freelancing in India is still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They are taxed as service providers, and the new tax structure has brought about coherence and accountability in this sector.

AIRLINES INDUSTRY: 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 SpiceJet.

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.

Startups: With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Previously, many Indian states had different VAT laws which were confusing for companies that have a pan-India presence, especially the e-com sector. All of this has changed under GST.

The highlights of the current changes are as under:

Table-1: Highlight of the current changes

Industry	Current rate	Proposed in GST
Automobile	30%	28%
Cement	29-31%.	28%
Construction, real state	11% and 18%.	18%
Consumer durables	27 per cent (including 13.5 per cent VAT)	28%
Jewellers	18%	5%
Luxury hotels	18% and 25%	5%, 12%, 18% and 28%. The highest 28% (Size basis)
Multiplexes:	12-40%	28%
Telecom	12%	service tax of 15%
Healthcare	24%	18%
Airlines industry	9 per cent to 12	5%

CONCLUSION

Goods and services tax (GST) has become a actuality from July 1, 2017. There are expectations that the tax reform will improve the Indian economy and enormous shift will be seen from unorganised to organised sector. In the context of prices of various goods and commodities the following goods and commodities will be cheaper and costlier. Goods like Corn flakes, Buscuits, Medicine, Ice cream, Packaged tea and coffee, watches, Mithai, Chees, Masala, Branded goods, Soap, Hair oil, Two, wheelers, Meat, Tooth paste, Coocker etc has become Cheaper. Services like Radio taxi, Movies, Entertainment services,AC trains, Air travel, Restuarantes, Dhabas will be cheaper Goods like Mobile phones, Butter, Packaged Chiken, Bhujia, Edible oil, Cigarettes, Hookah, Air conditioners, Refrigerators, Washing machines, Aerated drinks, Coal, Steel, Laptops, Desktops, Monitors and printers. Tea coffee masala, Paint, Small cars, Chocolates, Sanitary ware, Detergent, Skin cream. Services like Online shopping, Mobile phone Bills, Insurance premiums and other fees, Banking charges, Internet wifi, DTH services, School fees, Courier services has become costlier

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