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IMPACT OF GST IN VARIOUS SECTORS

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ABSTRACT In the ever changing economic scenario, liberalization, privatization and globalization (LPG) policies of the Government, in recent years, have made an indelible impact by bringing into force new economic system in India. Amidst economic crisis across the globe, India has posed as a beacon of hope with ambitious growth targets, supported by slew of strategic missions like 'Make in India', 'Digital India', etc. Goods and Services Tax (GST) is expected to provide the much needed stimulant for economic growth in India by transforming the existing basis of indirect taxation towards free flow of goods and services within the economy and also eliminating the cascading effect of tax on tax. In this paper an attempt has been made to study the impact of GST in various sectors.

KEYWORDS : Economy, Government Policy, LPG, GST

INTRODUCTION

Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. The single GST replaced several former taxes and levies which included: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi, Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime. GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India adopted a dual.

GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the government of that state. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue.

IMPACT OF GST:

The following are the impact of GST in Various Sector:

I. FMCG

Fast moving consumer goods sector will benefit from the GST due to the present of big unorganised 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.

II. 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.

III. 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.

IV. 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. As a result, and 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.

V. 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.

VI. 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 UltraTech Cement, Birla Corporation, JK Lakshmi Cement, Deccan Cement and India Cement etc.

VII. 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.

VIII.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 cess. 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. Demonetisation 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

IX. 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.

CONCLUSION:

The introduction of Goods and Services Tax would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would alleviate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods and services. Introduction of GST would also make Indian products competitive in the domestic and international markets. Last but not the least, this tax, because of its transparent character, would be easier to administer. However, once implemented, the system holds great promise in terms of sustaining growth for the Indian economy.

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