

11:56 AM   19 MAY <b>LIVE</b> <b>MARKET STATS</b> ▾	सेन्सेक्स <b>30,496</b> ▲ 62.12	निफ्टी 50 <b>9,439</b> ▲ 9.55	सोने ( एमसीएक्स) (□/१० ... <b>28,686.00</b> ▼ -19.00	यू एस डी/भारतीय... <b>64.82</b> ▼ -0.03	पोर्टफोलियो निर्माण करा	ई-टी मार्केट्स आप उत्तरवृत्त घ्या	CHOOSE LANGUAGE MAR
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## Rates on services will determine impact on inflation

BY [KIRTIKA SUNEJA](#), ET BUREAU | MAY 19, 2017, 01:54 AM IST

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NEW DELHI: The multi-tiered [GST](#) may not be inflationary as far as goods are concerned as 81% of them will be taxed at 18% or less with mass-consumption items at the lower end of the bands.

However, the overall impact on retail [inflation](#) will be determined by the tax on [services](#), economists said.

These rates are set to be decided on Friday. GST won't impact [wholesale price inflation](#) as it doesn't include indirect taxes.

"With the current set of tax rates, the government has tried to tackle inflation to a large extent and it looks like inflation on goods will not be there," said CARE Ratings chief economist Madan Sabnavis.

Kotak Mahindra Bank senior economist Upasna Bhardwaj agreed, "Largely, the tax on goods in CPI (consumer price index) basket is on the lower side such as cereals. This will not have a significant inflationary impact but services would determine the overall impact on inflation."

The GST Council has drawn up a four-tier tax structure — 5%, 12%, 18% and 28% — for the new indirect tax regime.



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Besides, a cess will be levied on top of the peak rate on demerit and luxury goods. However, economists cautioned about challenges ahead, profiteering being one.

"Though the tax on high-value items has not been decided, the incidence of tax on mass consumption items is lower," said Crisil chief economist DK Joshi.

"However, the benefits of lower taxes (may) not reach the end consumers as producers can indulge in profiteering. This has been observed in some countries which introduced GST."

Wherever the tax incidence declines, this should be passed on to consumers, he said. India's retail inflation eased in April to 2.99% from 3.89% in March and 5.47% in the year earlier due to lower food prices. This was the lowest in the series that began two years ago.

"The conundrum is that controlled inflation will lead to higher consumption. Moreover, there could be revenue slippages because states will collect excise duty. It might be difficult to sustain the growth of revenue if this rate is not revenue neutral," Sabnavis said.

Countries like Canada, Australia, and New Zealand have seen a one-time increase in inflation after GST implementation, which normalized in a year. Taxes on services could see an increase.

"Services, which is more than half of gross value added, will decide which way inflation will move," said DK Pant, chief economist at

India Ratings, a Fitch Group company.

"It is expected that services like health, education, telecom and electricity could see higher tax. The overall inflationary impact will also depend on goods which are outside the GST."

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