GST: Fundamentals, Macroeconomic and Industry Impact

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The rates for Good and Services Tax (GST) have been finalized by the GST Council for nearly all goods and services produced and consumed in the country. Come 1 July 2017, there would be essentially 4 tax slabs – 5%, 12%, 18% and 28%, under which the country's goods and services would be taxed by the Centre and the State. The majority of goods and services will be taxed at a rate of less than 18%.

Further, a number of goods and services have been exempted from the tax structure and for a handful of goods the tax rate is yet to be finalized.

On certain goods (viz. luxury goods), a cess over the peak rate of 28% has been imposed for a period of 5 years. This is mainly done to compensate states for any revenue loss with the implementation of GST.

India has adopted a **dual GST model**, where there will be 2 levels of taxes that would be levied separately by the Central Government and State Governments. Both the Central and State GST would be levied concurrently.

GST is definitely the biggest tax reform in the country. The various facets of GST along with the macro-economic and sectoral impact are analyzed here.

How is GST different from Current tax regime?

Currently, the taxation system of the country involves taxes being levied separately by the Centre and the States (with no overlaps), which are governed by various laws and have a number of tax rates (17 different rates between the centre and state).

The GST regime would subsume the various laws and there would be a single tax law and 4 tax rates that would be charged by the Centre and across States.

While currently, taxes are levied on the manufacture of goods or on sale of goods or on provision of services, GST will be levied on "supply" of goods and services. Also, GST is established on the concept of "destination based consumption taxation" as against the prevailing "origin based taxation".

The Fundamentals

The dual GST model adopted by India includes GST levied by Centre, called **Central GST (CGST**), levies by the State (including Union Territories) that would be **State GST (SGST)** and for inter-State supply of goods and services, there would be an **Integrated GST (IGST)**. Union Territories without legislature can levy **Union Territory GST (UTGST)**.

CGST	Taxes that were earlier levied by the centre that have been subsumed under CGST. Applicable on supplies within the state, taxes levied and collected by Centre. The tax revenue collected under CGST goes to the Central Government.
SGST	Taxes that were earlier levied by the state that have been subsumed under SGST. It will be applicable on supplies within the states and the tax will be levied and collected by states only. The SGST tax revenue goes to the State Government.
IGST	IGST will be applicable on interstate and import transactions and will be collected by the centre. The tax collected under this will be shared by both Centre and State.

17 taxes levied by the State and Centre will get subsumed under GST in order to mitigate the issue of double taxation and to create a unified common national market for India.

Taxes subsumed under CGST that were earlier levied by Centre

- Centre excise duty
- Duties of excise (Medicinal and toilet preparations)
- Additional duties of excise (Goods of special importance)
- Additional duties of excise (Textile and textile products)
- Additional duties of customs (known as CVD)
- Special additional duty of customs (SAD)
- Service charges
- Cesses and charges

Taxes subsumed under SGST that were earlier levied by State

- States VAT
- Central sales tax
- Purchase tax
- Luxury tax
- Entry tax (all forms)
- Entertainment tax (excluding those levied by local bodies)
- Taxes on Advertisment
- Taxes on lotteries, betting, gamling
- State cesses and charges

Source: CBEC

Input Tax credit (ITC): To prevent the cascading effect of taxes, GST enables Input Tax Credit across goods & services at every stage of supply. This enables set-off of taxes paid throughout the chain i.e. from the original producer/ service provider to final retailer. Under GST, claiming of ITC would now entail electronic matching and validation of (tax) credit; supplier wise, invoice wise and item-wise (HSN code). This necessitates tax compliance across the supply chain.

GST rates, Administration, Compliance and Compensation to States:

GST rates have been finalized for 1211 goods and 36 broad categories of services. Nearly 50% of goods fall under the 18% tax rate, 14% of goods fall under 5% tax rate, 17% under 12% tax rate and 19% under 28% tax rate. In case of services, the majority of services come within the 18% tax rate.

Table 1: GST rates for select Good and Services

0%	5%	12%	18%	28%	Commodities where GST rates are yet to be decided
Fresh and pasteurized milk	Coffee	Chemicals	Pastries and cakes	Aerated drinks	Alcohol for human consumption
Curd	Tea	Agarbatti	Pastas	Consumer durables	Petroleum crude/Petrol/Diesel/Aviation fuel/Natural gas
Fruits	Sugar	Toothpowder	Cornflakes	Cars	Bidis
Vegetables	Edible oil	Candles	Hair Oil	Five star hotels	Footwear
Jaggery and gur	Coal	Dry fruits	Vinegar	Movie tickets	Textiles
Food grains and cereals	Airlines (Economy class)	Airlines (Business class)	Slag, ash and residues	Racing	Gems and Jewellery
Common salt	Railways(AC)	Bicycles and other cycles	Essential oils	Betting on racing	
Education	On cab aggregators (Ola and Uber)	Tractors	Banking and insurances	IPL matches	
Healthcare	Aluminum Ore	Electrically operated vehicles	Telecom	Three and two-wheelers	
Hotel and lodges with tariff below 1000	Fish and Fish fillets	Live Horses	Information and technology	Pan Masala	
Butter milk	Transport of passengers and goods by rail	Butter and other fats	Auctions of spectrum	Amusements parks	

Note: rates above do not include cess

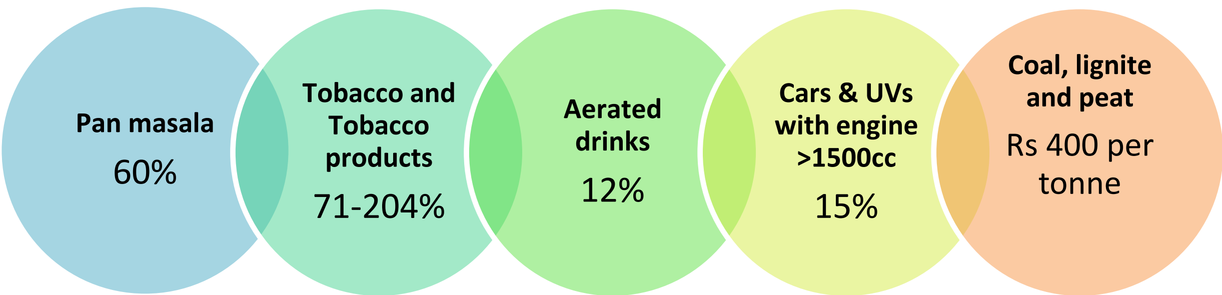
Administration and Compliance:

- All administrative control for 90% of taxpayers having turnover below Rs 1.5 crore would lie with State and 10% with Centre. This has been done in order to ensure single interface.
- For tax taxpayers having turnover above Rs 1.5 crores, the administrative control would be divided equally between Centre and State.
- Tax-payers with an annual turnover of up to Rs.20 lakh and those with an annual turnover of up to Rs.10 lakhs in Special category states namely Arunachal Pradesh, Assam, Jharkhand, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Himachal Pradesh, Tripura, Uttrakhand are exempted from GST.
- GST will not be levied on exports.
- Dealers having a turnover of less than Rs.50 lakhs are eligible to apply for Composition Scheme under GST. As per this scheme the tax payer is required to file quarterly returns as against monthly returns as required under GST. The tax rate would be less than 1% for manufacturers, 2.5% for restaurant sector and 0.5% for other suppliers. Also, these tax payers cannot claim input tax credit. The scheme is available for intrastate suppliers.

Filing of tax return in GST regime

- Online filling of returns as opposed to the option of manual filling of challan currently.
- Currently, the seller is required to file quarterly returns for service tax and VAT. Under the GST regime, a tax payer needs to file one annual return and 3 monthly returns (for outward supplies, inward supplies, and monthly returns). Thus, a tax payer has to file 36 monthly returns in a year from the 4 returns filed currently. **In all, the tax payer has to file a total of 37 returns during a year per state**. In case the tax payer has branches in other states, he is required to file separate returns in each state. (E.g. if tax payer has branches across say 15 states, he will be required to file a total of 555 returns in a year). The administration and compliance of GST would entail time and costs for both the government and tax payers.

Compensation to states: As states would be losing out on revenues earned with the implementation of GST, the GST Council has planned to levy a cess over the rate of 28% on certain luxury and demerit goods for a period of five years in order to compensate States for any revenue loss on account of implementation of GST. Some of the compensation cesses are mentioned below:



International Comparisons

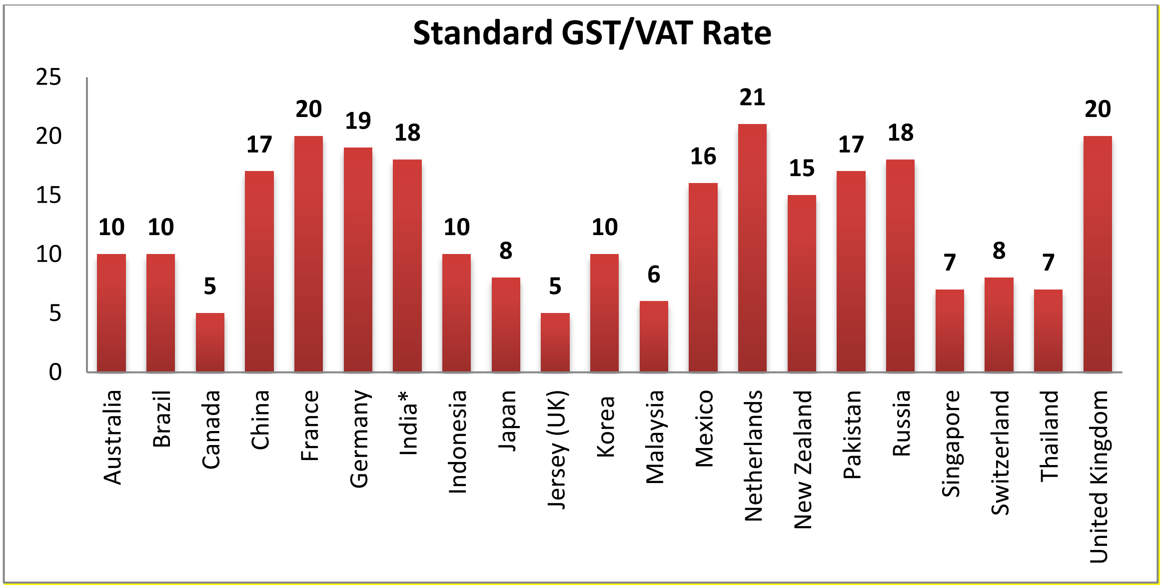
All around the world, GST is a destination based tax on the consumption of goods and services. It is thus conceptually similar to that India. In some countries, VAT (value added tax) is the substitute for GST. As of 2016, almost 160 countries have implemented a GST system. Most of the countries have a single unified GST system.

At present, Australia, Canada, Singapore, New Zealand, Jersey (UK), Malaysia, Indonesia and Pakistan have a GST system while other countries have a VAT system in place. Most countries, while imposing VAT, have not been able to entirely do away with other indirect taxes. Various other duties continue to exist.

Brazil follows a dual system where GST is levied by both the Federal and State or provincial governments. It has a multiple-rate system with tax levied at State (ICMS), Federal (IPI) and Municipal (ISS) level. ICMS rates vary from state to state from 0% to 25%; however, the standard rate is 17%. Canada too has a dual GST structure with Federal Level and State Level GST. The standard GST rate here is 5% and some goods and services are exempt from GST. Most countries have a unified taxation system.

Region	*No. of Countries*
ASEAN	*7*
Asia	*19*
Europe	*53*
Oceania	*7*
Africa	*44*
South America	*11*
Caribbean, Central & North America	*19*
Total	***160***

Source: Royal Malaysian Customs Department



*Note: * The GST structure ranges between 5%-28% with majority to commodities falling under 18% bracket.*
Source: OECD (2016) and CBEC

France was the first country to introduce the GST/ VAT system in 1954. Currently, the rate of VAT is 20% within the country. In case of the U.K., Germany and Japan, the applicable VAT is 20%, 19% and 8%, respectively. Likewise, Singapore, New Zealand and Australia have implemented GST at 7%, 15% and 10%, respectively. Recently, Malaysia has introduced GST at the rate of 5% from April 1, 2015. It has been seen that for most countries, the introduction of GST has proved to be beneficial in terms of providing unified and effective tax system.

In China, GST applies only to goods and to repairs, replacement and processing services. It is only recoverable on goods used in the production process, and GST on fixed assets is not recoverable. There is an additional business tax for services.

In comparison with other major emerging market economies (EMEs), India has highest rate of GST at 18% (with major commodities falling under this rate). However, some of the developed countries like France, Germany and United Kingdom have higher GST rates (19-20%). As per the latest available data from OECD (2016), the average VAT/GST rate in major OECD countries (20-22%) is higher than the rate proposed for India (average 18%) and that in emerging market economies (excluding India) is lower at around 12%.

The impact of GST on price levels is difficult to ascertain as there are various factors other than tax rates that drive price levels. In case of Singapore, where the GST rates were higher than the pre-GST rates, it was seen to have an inflationary impact, albeit temporarily. Singapore experienced an uptick in inflation in 1994, the year in which the GST was implemented. Inflation rose from 2.3% in 1993 to 3.1% in 1994. Thereafter in 1995 it moderated to 1.7% and to 1.4% in 1996. In case of Malaysia, the impact on price levels was controlled with various price control measures being undertaken by the Ministry of Domestic Trade and Consumer Affairs.

Most countries faced challenges in the implementation of the nation-wide tax rate. International experiences suggest that even after several years of implementation, countries still face problems pertaining to tax evasion and avoidance. It has been seen that for the effective implementation of GST/VAT, the tax rate structure should be simple and should have a comprehensive coverage over the production distribution chain.

The main issues faced by countries is of tax evasion arising out of small businesses not registering; under-reporting of actual sales by traders; traders collecting tax but not remitting to the government; and traders making false claims for refunds.

Macro-Economic Impact

1. **Inflation**

The tax rates for the various component of the Consumer Price Index (CPI) indicate that the overall tax incidence would not increase.

The tax rates on food and beverages, that has nearly 46% share in Consumer Price Index (CPI), is likely to reduce by 2%-3% on an average owing to reduction in tax rates on edible oils, sugar and confectionary, spices, non-alcoholic beverages and prepared meals. The taxes continues to be nil for basic food articles like cereals, milk, eggs, meat and fish, fruits and vegetables. There has been substantial reduction in taxes on tobacco. There is however a cess that is imposed on the same, ranging between 71-204%. The tax rate for clothing item would be more or less retained at the pre-GST levels. Within services, the transport services continues to be around 5% while recreation & amusement and personal care services will be taxed at 28% (26% earlier) . Health and education are being kept out from the purview of GST.

The table below lists out the main segments of CPI, their weights and the expected change in the tax rate after the implementation of the GST. GST on balance is unlikely to have a significant impact on price levels in India as the rates under GST for most commodities have been either retained at pre-GST levels or lowered. ***Hence, the implementation of the GST is likely to be non-inflationary here. It may even have a moderating effect on inflation***. ***Ceteris paribus, the retail (CPI) inflation could moderate by 25-50 bps going ahead on account of GST in the best possible case.***

Items	Weight in CPI	Change in Tax rate (%)
Food and beverages	**45.86**	**(-) 2-3**
Cereals and products	9.67	Nil
Meat and fish	3.61	Nil
Egg	0.43	Nil
Milk and products	6.61	Nil
Oils and fats	3.56	(-) 6-7
Fruits	2.89	Nil
Vegetables	6.04	Nil
Pulses and products	2.38	Nil
Sugar and confectionery	1.36	(-) 5-6
Spices	2.5	(-) 1-2
Non-alcoholic beverages	1.26	(-) 10-12
Prepared meals, snacks sweets etc	5.55	(-) 12-14
Pan, tobacco, and intoxicants	**2.38**	**50***
Clothing and footwear	**6.53**	**0.5-1**
Clothing	5.58	(-) 0.5
Footwear	0.95	NA
Housing	**10.07**	**NA**
Fuel and light	**6.84**	**NA**
Services (household goods & services, health, transport etc)	**28.32**	**2-3**

*Source: CARE's estimates Note: * inclusive of additional cess*

2. GDP

GST on its own may not lead to an increase in physical output. Increase in output would be driven by demand conditions – domestic and foreign. Demand for goods is unlikely to be guided by GST given that on the whole the price impact of the tax is neutral. To this end, there may not be a significant impact of GST on economic output/ GDP. Unless prices of goods with lower GST rates come down significantly for goods which have elastic demand, final demand conditions may remain unchanged. Higher savings on spending due to GST can transfer those funds to consumption of other goods. Hence, the precise impact needs to be observed.

However, as in the pre-GST era, there has been under reporting and even lack of reporting of goods and services produced and used by the small and unorganized players, their contribution to economic activity was not accurately or effectively captured. With GST bringing about better tax compliance, the hitherto uncovered segments would get better represented. Those businesses that were wholly in the cash and informal segment would now have to move to the formal segment in order to claim the input tax credits. However, as this would only bring those who were at the fringes into the formal tax system, the increases on this account too could be limited.

According to CARE, on account of the GST system, the country's GDP has a potential to increase by 0.25%-0.50%. This will be contingent on the full implementation and compliance of GST.

3. Revenue Collection of the Government

In terms of revenue collections, there would be an increase in tax revenues of the government to the extent of growth in GDP. Given the limited increase in GDP on account of the new tax system, the GST would be largely revenue neutral for the government. In terms of widening of tax base with the implementation of GST, it would increase to the extent more businesses come under the formal tax system viz. those who were dealing in the cash markets. The expected improvement in tax compliance, post GST implementation, could see those on the periphery coming into the tax system. It may thus not result in a significant increase in tax payers.

As per CARE's estimates, with GST, the tax revenues of the government could potentially increase by 1%-2%, when real GDP grows by 0.25% to 0.5%. This is based on the extrapolation of the relationship between growth in nominal GDP and increase in tax revenues and the expected increase in GDP on account of GST. For a 0.25% to 0.5% increase in real GDP, nominal GDP would increase by 0.4% to 0.8%, which in turn could result in tax revenues increase by 1%-2%.

Industry Impact

Automobiles

(Rates in %)	Pre GST					Post GST			Change in rate
Vehicle type	VAT[1]	Excise Duty	CST	Infrastructure + Luxury cess	Total	GST	Cess	Total	
Small Cars* (Petrol/Diesel)	14.5	12.5	2	0+1	**30.0**	28.0	1.0/3.0	**29/31**	-1/1
Mid-sized Cars@	14.5	24.0	2	4+0	**44.5**	28.0	15.0	**43**	-1.5
Large Cars# (Luxury Cars)	14.5	27.0	2	4+1	**48.5**	28.0	15.0	**43**	-5.5
SUV/MUV (Luxury Cars)	14.5	30.0	2	4+1	**51.5**	28.0	15.0	**43**	-8.5
Buses	14.5	12.5	2	-	**29.0**	28.0	-	**28**	-1
Trucks	14.5	12.5	2	-	**29.0**	28.0	-	**28**	-1
Two-wheelers	14.5	12.5	2	-	**29.0**	28.0	3.0	**31**	2
Three-wheelers	14.5	12.5	2	-	**29.0**	28.0	-	**28**	-1

- The tax incidence for most categories of vehicles will go down post GST implementation in July 2017
- This is considered to have a positive impact on the automobile industry, with key beneficiaries of GST being especially the utility vehicle (premium cars) segment buyers who will enjoy the reduction in the total tax incidence despite a cess of 15% with GST rate of 28%.
- Prices of small cars will remain more or less the same with a minor change in tax rate. Two wheelers on the other hand may see some increase in overall tax on back of the cess.

Note: 1. *VAT rates may vary across states, luxury cess of 1% is collected at source for vehicles whose ex-showroom cost is more than Rs.10 lakhs, Octroi & Green Cess is charged in select states*
**Indicates cars which have engine capacity less than 1,500 cc in case of diesel and 1,200cc in case of petrol and length less than 4 meters.*
@' Indicates cars which have engine capacity less than 1,500cc in case of diesel and 1,200cc in case of petrol and length more than 4 meters
#indicates cars having engine capacity more than 1,500cc in case of diesel and 1,200cc in case of petrol and length exceeding 4 meters.
Definition of SUV as per central excise department is a vehicle with engine capacity greater than 1,500cc, length exceeding 4000mm and ground clearance 170 mm and above

Auto Ancillaries

- Most of the goods under the auto component industry along with tyre industry will attract a tax rate of 28 per cent which is highest tax slab under the new tax regime (except for tyres for bicycles, cycle-rickshaws and three wheeled powered cycle rickshaws). However, with input credit available, the impact of the same would be tax neutral for OEMs. For tyres in bicycles, cycle-rickshaws and three wheeled powered cycle rickshaws, a 5% rate is applicable under the GST.
- Also, while raw material natural rubber was exempted of any excise before GST, a 5% GST has been levied on natural rubber under the new regime. Another raw material for auto industry – steel, has been included in the 18% tax rate bracket under GST. The effect will be neutral.
- GST rate of 28% however will severely impact the replacement market for auto-parts.

(Rates in %)	Pre GST			Post GST			Change in rate
Auto Ancillary	VAT*	Excise Duty	Total	GST	Cess	Total	
Auto Components							
Storage batteries including separators	13.5	12.5	**26.0**	28.0	-	**28.0**	2
Parts and accessories of:							
Tractors	6.0	12.5	**18.5**	28.0	-	**28.0**	9.5
Motor vehicles used in transport of people	13.5	12.5 – 24.0	**26.0 - 37.5**	28.0	-	**28.0**	2 - 9.5
Motor vehicles used in transport of goods	13.5	12.5 – 24.0	**26.0 - 37.5**	28.0	-	**28.0**	2 - 9.5
Special purpose vehicles	13.5	12.5	**26.0**	28.0	-	**28.0**	2
Motorcycles	13.5	12.5	**26.0**	28.0	-	**28.0**	2
Carriages for disabled persons	Nil	Nil	**-**	28.0	-	**28.0**	-
Tyres							
Motor cars, buses, lorries, motorcycles etc	13.5	12.5	**26.0**	28.0	-	**28.0**	2
Bicycles, cycle-rickshaws and three wheeled powered cycle rickshaws	6.0	5.0	**11.0**	5.0	-	**5.0**	-6
Retreaded tyres, tyre tubes and flaps	13.5	12.5	**26.0**	28.0	-	**28.0**	2
Raw Material							
Rubber							
Natural Rubber	6.0	-	**6.0**	5.0	-	**5.0**	-
Latex	6.0	12.5	**18.5**	12.0		**12.0**	-5.5
Synthetic Rubber (SBR)	6.0	12.5	**18.5**	18.0		**18.0**	-0.5
Steel	5.0	12.5	**17.5**	18.0		**18.0**	0.5

Note: *Considered the VAT rates for the state of Maharashtra, VAT rates may vary across states*

Metals

Industry	Excise Duty	VAT*	Effective GST rate
Steel	12.50%	5.0%	18.0%
Iron	12.50%	5.0%	18.0%
Aluminum and articles thereof	12.50%	6.0%	12%, 18%, 28% (majority of the products come under 18%)

Note: *Considered the VAT rates for the state of Maharashtra, VAT rates may vary across states.*

- The GST rate for steel is unlikely to result in much change in its price. However, lower GST rate for transportation services and coal are expected to reduce cost for the steel companies to some extent.

Telecom

Industry	Service Tax	Effective GST rate
Telecom services	15%	18%^

^with full input tax credit

- The new GST rate for telecom is unlikely to impact demand. With intense competition in the telecom industry, the consumers are already getting the benefit of lower charges for voice calls and data services.

- Also, the consumers are now getting more benefits in terms of data usage and voice calls due to severe competition in the industry as the telecom players try to retain their share. Thus the increase in tax is unlikely to affect the demand for the service.
- Further the service provider would be able to claim full input tax credit, which was not available in the earlier regime.

Food Products

Industry	Excise Duty	VAT*	Effective GST rate
Sugar (Khandsari sugar)	6%	Nil	5%
Edible oils	6%	6%	5%

Note: *Considered the VAT rates for the state of Maharashtra, VAT rates may vary across states.*

Note: VAT by Maharashtra government is nil for sale of edible oil manufactured and sold by the Tel Ghani Units registered under the Khadi and Village Industries Commission Act, 1956 or, as the case may be with the Khadi and Village Industries Board constituted under the Bombay Khadi and Village Industries Act, 1960 for a turnover not exceeding rupees twenty lakh in a financial year.

- The government kept the essential commodities like sugar and edible oils under the low tax bracket of 5%. Accordingly, there are no major changes in the overall rate for these commodities. However, GST would be beneficial for packaged oil which earlier attracted higher effective tax on account of VAT, which was applicable on the same.

FMCG

	Pre GST Regime			Post GST Regime		
Product	Central Taxes	State Taxes	Total^	GST	Cess	Total
Personal Use						
Tooth Powder	12.5%	13.5%	26.0%	12.0%	-	12.0%
Tooth Paste	12.5%	13.5%	26.0%	18.0%	-	18.0%
Hair Oil	12.5%	13.5%	26.0%	18.0%	-	18.0%
Hair Dyes	12.5%	13.5%	26.0%	28.0%	-	28.0%
Shampoos	12.5%	13.5%	26.0%	28.0%	-	28.0%
Soaps	12.5%	13.5%	26.0%	18.0%	-	18.0%
Liquid Soaps	12.5%	13.5%	26.0%	28.0%	-	28.0%
Cosmetics & Skin Care	12.5%	13.5%	26.0%	28.0%	-	28.0%
Perfumes	12.5%	13.5%	26.0%	28.0%	-	28.0%
Kumkum, Bindi	12.5%	-	12.5%	0.0%	-	0.0%
Home Use						
Washing Soaps	12.5%	13.5%	26.0%	18.0%	-	18.0%
Detergents & Washing Liquids	12.5%	13.5%	26.0%	28.0%	-	28.0%
Agarbatti	-	-	-	12.0%	-	12.0%
Candles	12.5%	6.0%	18.5%	12.0%	-	12.0%
Essential Oils	12.5%	13.5%	26.0%	18.0%	-	18.0%

^ does not include CST rates which would have been applicable for inter-state sales. State taxes considered above pertain to the state of Maharashtra.

- An attempt has been made to create a distinction under the GST regime for FMCG goods generally consumed by the lower income group and those consumed by the middle & higher income groups. Accordingly, toothpowders, hair oils, soaps, kumkum and bindis have seen a reduction in overall taxes.
- Lower taxes on the above mentioned products may results in some uptick in demand for these products as they get cheaper. However, overall GST regime is unlikely to make any major difference on the demand or prices for FMCG products.

Consumer durables

	Pre GST Regime			Post GST Regime		
Product	**Central Taxes**	**State Taxes**	**Total^**	**GST**	**Cess**	**Total**
Air Conditioners	12.50%	13.5%	26.0%	28.0%	-	28.0%
Refrigerators	12.50%	13.5%	26.0%	28.0%	-	28.0%
Washing Machines	12.50%	13.5%	26.0%	28.0%	-	28.0%
Geysers & Water Heaters	12.50%	13.5%	26.0%	28.0%	-	28.0%
Television	12.50%	13.5%	26.0%	28.0%	-	28.0%
Speakers, Microphones	12.50%	13.5%	26.0%	18.0%	-	18.0%
Mobile Phones	12.50%	13.5%	26.0%	12.0%	-	12.0%
Smart Phones & Tablets	12.50%	13.5%	26.0%	18.0%	-	18.0%
Vacuum Cleaners	12.50%	13.5%	26.0%	28.0%	-	28.0%
Electrical Kitchen Appliances	12.50%	13.5%	26.0%	28.0%	-	28.0%
Personal Grooming Appliances	12.50%	13.5%	26.0%	28.0%	-	28.0%

^ does not include CST rates which would have been applicable for inter-state sales. State taxes considered above pertain to the state of Maharashtra.

- Under GST regime overall tax incidence on mobiles phones (including smart phones) and microphones, would be lower. This we believe is in lines with the digitalization thrust of the government.
- For all other consumer durables, the applicable rate has been kept at 28%, which considering the CST rate of 2% for interstate transfers would largely be tax neutral.

Hotels and Restaurants

	Pre GST Regime		Post GST Regime	
Services	**Central Taxes**	**State Taxes**	**Central Taxes**	**State Taxes**
Restaurant (without air conditioning)	-	-	18.0%^	-
Restaurant (with air conditioning)	15% on service component^^	12.5% of food bill 20.0% for alcohol bill	18.0%^	-
A/c restaurant in 5 star or above rated hotel	15% on service component^^	12.5% for food bill 20.0% for alcohol bill	28.0%^	-
Accommodation in hotels, guest houses, etc. where room tariff is less than Rs.1000 per day	-	-	-	-
Accommodation in hotels, guest houses, etc. room tariff Rs.2500/- and Rs.5000/- per day	9%	10%	18.0%^	-
Accommodation in hotels, guest houses, etc. where room tariff is above Rs.5000/- per day	9%	10%	28.0%^	-

^ With full input tax credit

^^ Considered to be 40% of the bill amount + service charges.

- Under GST regime, the overall tariffs for premium hotels (four star and above) may see an increase, which may have some impact on the demand which had seen a pick-up in the last financial year.
- Further, the practice of bundling of meals with room tariffs may see a decline, especially for four star category hotels, as higher tariffs above the stipulated levels of Rs.5000 per day may attract higher tax rates.

Cement

	Before GST			After GST
Impact on	**Customs Duty**	**VAT**	**Excise Duty**	**GST***
Infrastructure, Real Estate	22%-25%			28%

- Increase in tax rate would not have a substantial impact. The 5% tax rate applicable on key inputs like limestone, sand, gypsum and iron ore is significantly lower than the prevailing rates.
- There would be no major change in the prices of cement, and on the contrary, the cement prices may remain stable against an expectation of hike in prices due to GST. Demand would remain stable.

Coal

	Before GST			After GST
Impact on	**Customs Duty**	**VAT**	**Excise Duty**	**GST***
Steel, Power	11-13%			5%

- Even though the existing tax rate is higher than the new tax rate, the effective payable existing tax rate, post tax-credit and deductions is in the range of 4.5-6%. Hence there would be no major change in prices of coal for buyers. Prices of thermal power would remain stable or may fall marginally. We don't expect a change in demand for coal.

Real estate

Before GST			After GST
Customs Duty	**VAT**	**Excise Duty**	**GST***
9-12% (Excluding Stamp Duty of 4.5-7%)			12% (Excluding Stamp duty)

- There would be none to marginal effect on the prices of real estate/properties. In order to avail tax rebates, developers would have to cut on cash component and inputs need to be sourced from registered vendors in order to claim any tax rebate.

Capital Goods

	Before GST			After GST
Impact on	**Customs Duty**	**VAT**	**Excise Duty**	**GST***
Infrastructure and Manufacturing	2-4%	12-14%	12%	18%

- Capital goods and its intermediaries have effectively seen a major cut in the tax rate and this should have a positive impact on the overall industry. However, demand would only gradually pick up as some deferred spend in specific projects may see absorption post implementation of GST.

Engineering, procurement and Construction (EPC)

	Before GST	After GST
Impact on	VAT and Duties	GST*
Infrastructure (Roads and Construction)	9-11%	12%

- With input tax credit available, the new tax rate would be effectively lower than the existing tax rates. EPC players would benefit with improvement in margins.

Renewable Power

	Before GST			After GST
Products	Customs Duty	VAT	Excise Duty	GST*
Renewable Energy Devices (Solar)	Up to 1.5%			5%
Renewable Energy Devices (Wind)	8.50%			5%

- A 3.5% rise in tax liability is unlikely to have much impact on the demand, with the solar panel market witnessing fall in prices. At the same time, in case the prices of solar devices stabilize at the current levels, the power tariffs may see a slight uptick to compensate for hike in taxes.
- Wind energy equipment may see fall in prices with the taxes easing and the industry would surely look to pass on the tax rebate to the buyers to boost some demand.

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