

Goods & Service Tax



Understanding GST

- GST means a **Comprehensive tax on supply of Goods or Services or, both**. It will be applicable on transaction value and combines other taxes such as state/local tax, entertainment tax, excise duty, surcharges, octroi, etc
- GST is **consumption based tax**, i.e. tax will be payable in the State in which goods and services are finally consumed. The States from which goods or services are supplied will not get any tax as goods or services are consumed in another State
- Applicable on 'supply' of goods or service or on both, in India, except Jammu and Kashmir. Also, not applicable on supply of alcoholic liquor for human consumption
- **Expected to revolutionise the Indian tax system** and also considered to be the biggest tax reform since Independence

One Tax which subsumes all other indirect taxes in India

Central Taxes

Duty of Excise

Service Tax

Special additional duty of customs

Central Excise Duty

Additional duties of customs

Surcharge

Swachh Bharat Cess

Local Taxes

Entry Tax

Entertainment Tax

Cess and Surcharge

VAT/Sales Tax

Luxury Tax

Taxes on lotteries, gambling

Problems in the Current Indirect Tax Structure

Cascading Effect of Taxes

**Multiple Acts and
Compliances**

**Different
Adjudications**

Problem 1

Problem 3

Problem 5

Problem 2

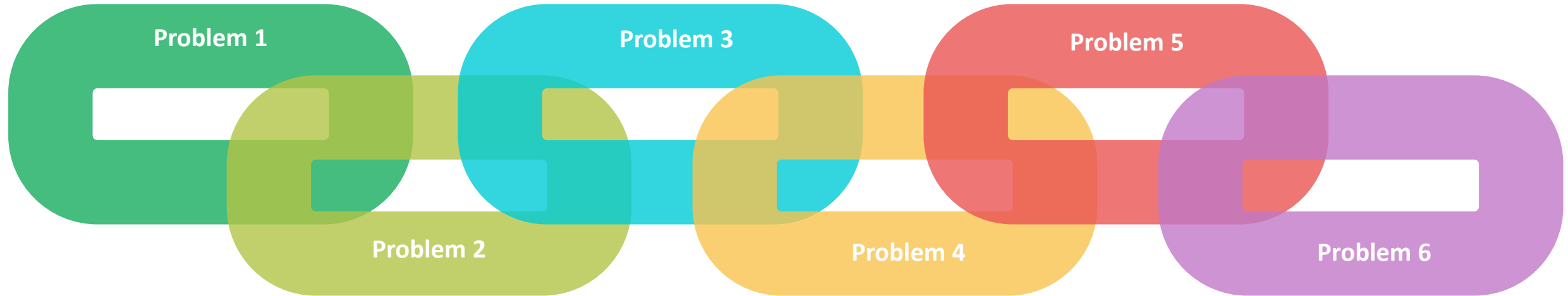
Problem 4

Problem 6

**Multiple Tax
Rates**

**Different Valuation
Basis**

Complex



Components of GST



Understanding components of GST

Central Goods and Services Tax (CGST)

- Paid on all transactions, collected by the Center
- Input CGST against CGST and IGST

State Goods and Services Tax (SGST)

- Paid on all transactions within a State, collected by the States
- Input SGST against SGST and IGST

Integrated Goods and Services Tax (IGST)

- Paid on all inter-state transactions, or import of goods into India, collected by the Center
- Input IGST against IGST, CGST and SGST

Advantages of GST

Avoid Double Taxation



Avoid Cascading Effect



Simplified & Unified
Tax System



Reduce Interface with different
departments

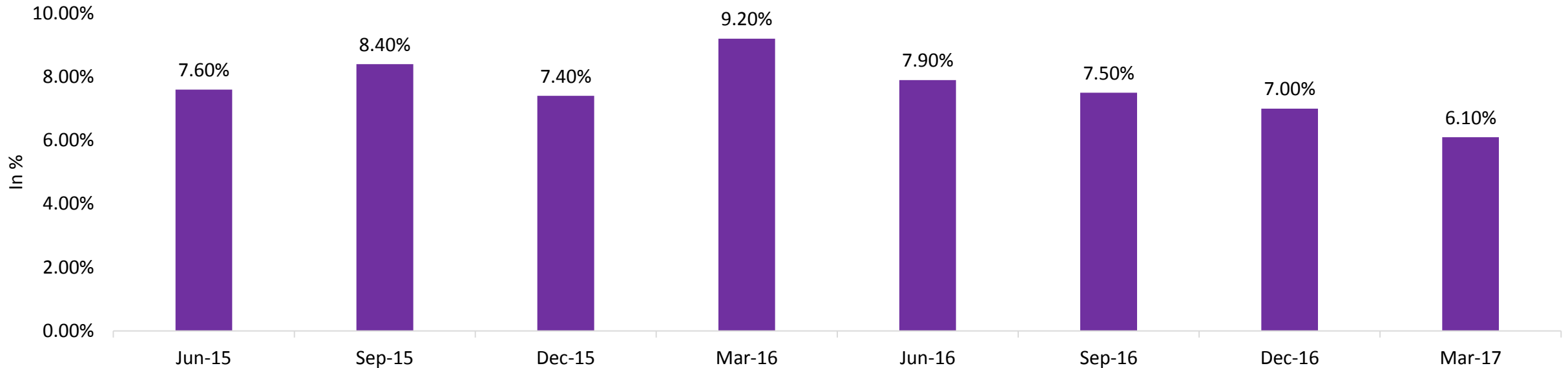


Ease of Doing Business



GST will lead to higher GDP growth rate

Indian GDP growth rate over the last 8 quarters



- Improved tax efficiency; controlled leakages; better tax to GDP ratios are expected to take economy to next level
- Single common market is expected to increase ease of doing business and in turn attract foreign investments
- As per IMF, GST could help India's medium-term GDP growth to over 8%

What will be the enablers of this GDP growth?



Consumption Boost

Lower Distribution Cost

Boost to Make in India

Higher Tax Collection

- In current system rate structure is very high and has cascading effect
- With GST, overall taxes on goods are likely to come down making them cheaper; in turn boosting consumption
- India will become a seamless market without any difference between inter-state or intra-state sales
- More competent and efficient cross-state transportation ; less paperwork; thereby reducing logistics cost
- GST will streamline compliance; increase ease of doing business
- The cost of production of various products will go down because you have input tax credit; so manufacturing in few products will become more viable
- Cross checking of invoices and inbuilt advantage of claiming input credit will increase tax net
- GSTN will ensure 100% reconciliation of sale invoice

How profitability of corporations will increase?

One Single market

Logistic cost is expected to be lower under GST regime

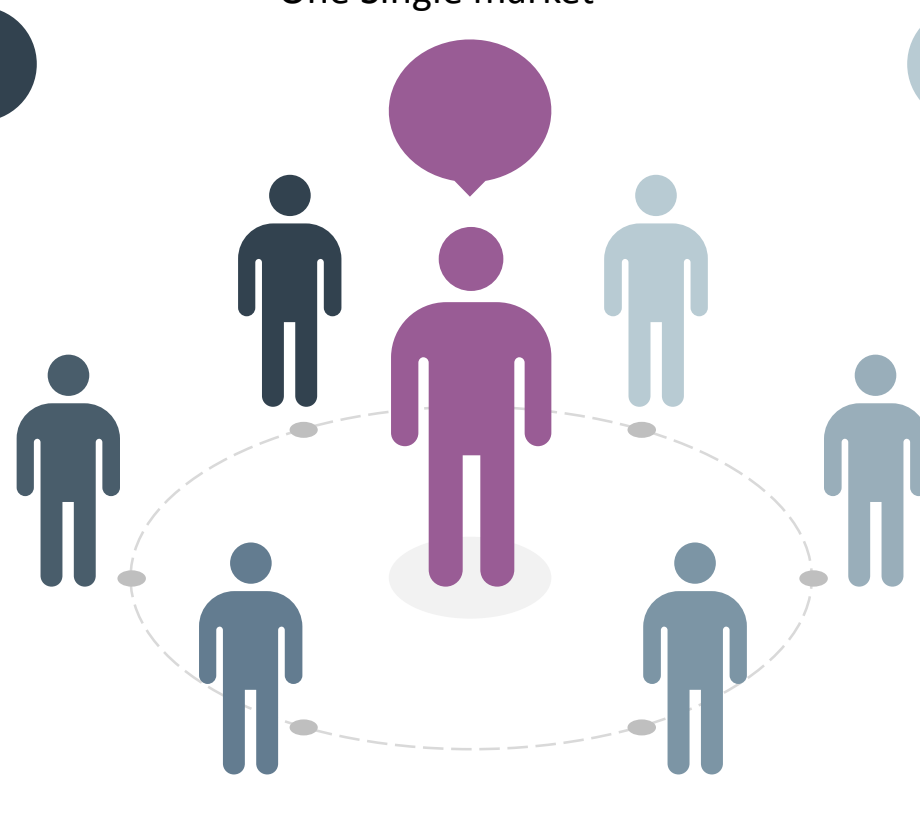
Higher rotation of inventory; efficiency in operations

Single market will led to better resourcing of raw material

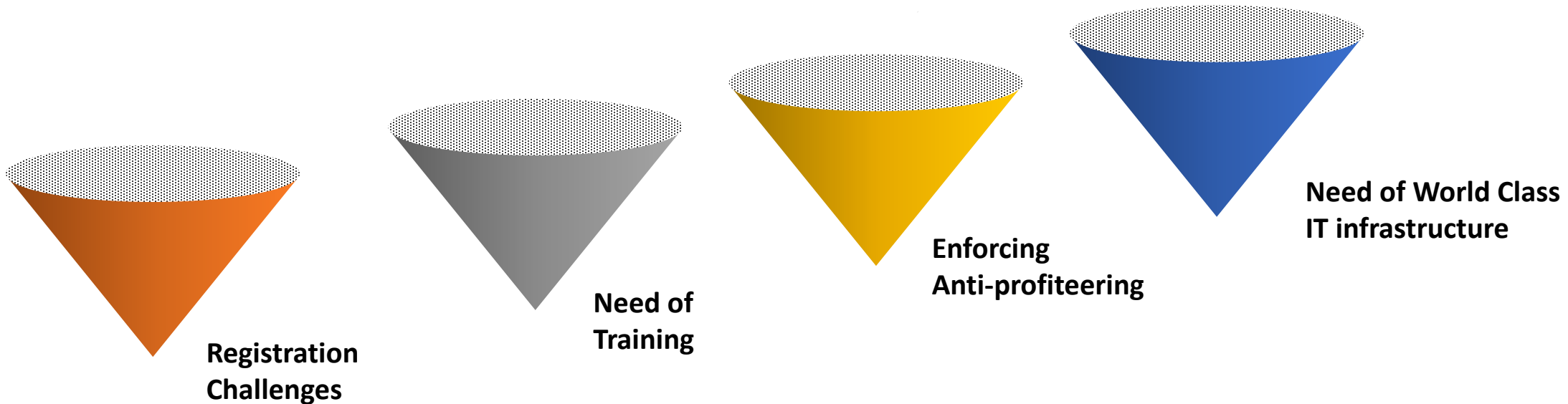
Consumption boost to fuel demand

Lower compliance cost

Ease of doing business



Challenges and the IT backbone for implementing GST



- GSTN is the company which is responsible for building and maintaining the IT infrastructure
- In the last GST Council meeting on 3 June, executives from GSTN made detailed presentation on the amount of work done and the IT preparedness
- GSTN has expressed its confidence that it is fully ready with the work it has been assigned
- GSTN has approved 34 GST Suvidha Providers (GSPs), which would help mostly smaller companies and traders uploading data on GST network

Sectoral analysis (1/3)

Auto & Auto Ancillaries

- The Passenger Vehicle segment will see reduction in overall taxation under GST
- Hybrid Vehicle will attract total levies of 43% under GST (28% tax, 15% cess), more than smaller petrol and even diesel vehicles which would attract levies in the range of 29-31%

Neutral

Energy

- Major Petroleum products like petrol, diesel have been kept out of GST
- Coal, the key raw material for about 60% of the power produced in the country, has been placed under the 5% slab. This is a major breather as it would help reduce the final tariff, which would be passed on to the consumers

Positive

Capital Goods

- All capital goods and all industrial intermediaries would attract 18% tax instead of 28%
- The fall in rates would help the capital goods industry in a big way; helping improve revenue and margins

Positive

Sectoral analysis (2/3)

Financial Services

- Tax on financial services transactions will rise from the current 15% to 18%
- The new GST rates will apply to some banking transactions, mutual funds, insurance and stock market which were earlier taxed at 15% including Krishi Kalyan cess and Swachh Bharat cess

Marginally Negative

Healthcare/Pharma

- GST would help the Pharmaceutical companies in rationalising their supply chain;
- Effective tax to be broadly in line with the current tax rate

Neutral

FMCG

- Implementation of GST would help in saving considerable amount of expenses on logistics
- It is expected that the reduction in cost and taxes would make the consumer goods cheaper

Positive

Sectoral analysis (3/3)

IT

- Under GST both the IT service providers and their clients will be eligible to claim full credit of GST; this is expected to eliminate the cascading effects of the present tax structure
- Reduction in transaction costs of doing business would eventually lead to an improved competitiveness

Positive

Telecom

- Telecom services will become costlier with the increase in tax rate from 15% to 18%. This will lead to lesser talk-time on fixed denomination packs for pre-paid users which account for almost 95% of total user base in India;
- Pan India service will increase compliance cost

Marginally Negative

Realty

- GST has been fixed at 12% for under construction and new projects. Whereas, raw materials like cement and steel have been fixed at a 28% taxation rate
- The sector is likely to benefit from the availability of input tax credit

Marginally Negative

Investor perspective

- **Mutual funds** are not directly taxed as they are investments and not consumption; Related activities in the mutual fund investment like commission, brokerages, expenses, etc. are only taxed
- GST rates for financial transactions such as mutual fund has increased from **15%** to **18%**; Marginal impact on investor to the extent of increase in total expense ratio
- **Banking services** such as savings account and fixed deposit, are going to remain unaffected as they do not have service tax associated with them
- Higher rate of 18% would make the **insurance premium** slightly more expensive
- ***GST is the next big reform which will completely overhaul the tax collection system in India; with all the enablers in place it is expected that this will pave for success in Indian markets over the coming years***

THANK YOU

Contact Details

MUMBAI

15, Ground Floor, Dosti shoppe Link Dosti
Acres, Antop Hill,
Wadala (East)
Mumbai - 400 037 Maharashtra,
Ph : 022 -2414 8864.

GURGAON

1154, 11th Floor Tower B, Spaze Techpark,
Sohna Road
Gurgaon - 122001
Haryana, Ph : 0124-4246036/8
Fax : 0124-4246037.

KOLKATA

Malancha, 4A, Elgin Road,
Kolkata - 700020 West Bengal,
Ph : 033 - 4003 4585,
Ph : 033 - 4006 8556
Fax : 033- 2280 8557.

COIMBATORE

207, 3rd Floor, Tulsi Complex,
1334 Thadagam Road, RS Puram,
Coimbatore - 641 002,
Tamil Nadu,
Ph : +91 422 4367 309.

SILIGURI

Himadri Bhawan Opp.
Gurudwara, Sevoke Road
Siliguri - 734401
West Bengal,
Ph : 0353 -2430 273.

Contact us

research@alphacapital.in

contact@alphacapital.in

Disclaimer:

In the preparation of the material contained in this document, Alpha Capital has used information that is publicly available, including information developed inhouse. Some of the material used in the document may have been obtained from members/persons other than the company and/or its affiliates and which may have been made available to the company and/or to its affiliates. Information gathered and material used in this document is believed to be from reliable sources. The company however does not warrant the accuracy, reasonableness and / or completeness of any information. We have included statements / opinions / recommendations in this document, which contain words, or phrases such as “will”, “expect”, “should”, “believe” and similar expressions or variations of such expressions that are “forward looking statements”. Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc. Alpha Capital, the Mutual Fund, The Trust and any of its officers, directors, personnel and employees, shall not liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner.

For ICRON’s standard disclaimer, please refer our weblink viz. <http://www.icraonline.com/legal/standard-disclaimer.html>