

IMPACT OF GST ON REAL ESTATE, CONSUMER GOODS AND TELECOM SECTOR

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ABSTRACT

The Goods and Service Tax (GST) is one of the biggest taxation reforms in India, the decision on which is pending in Parliament since March 2011. The central idea behind this form of taxation is to replace existing levies like value-added tax, excise duty, service tax, and sales tax by levying a comprehensive tax on the manufacture, sale and consumption of goods and services in the country. It will also stop the cascading effect of taxes. This paper describe the effects on GST on three major sector of Indian economy i.e. real estate, telecom sector and consumer product.

Key words: Taxation, customer, GST, sector, impact, Indian economy.

INTRODUCTION

GST the biggest tax reform in India founded on the notion of “one nation, one market, one tax” is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens. In other words , under GST one good, one price.

GST: The Short-Term Impact

From the viewpoint of the consumer, they would now have paid more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.


What the Future Looks Like

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for

essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached.

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

Calculation of tax after and before GST

		www.ExcelDataPro.com				
		Street Address, Phone 1234567890, Fax 1234567890, Email: abc@abc.com				
		Pre and Post GST Price Comparison Template				
1. Manufacturer						
		Pre GST		Post GST		Difference
Particulars		Percentage	Amount	Percentage	Amount	Amount
Cost of Production			1000.00		1000.00	
Profit Margin	50.00%		500.00	50.00%	500.00	
Price Including Profit			1500.00		1500.00	
Excise Duty	12.50%		187.50	N/A	0.00	
Price Including Excise			1687.50		1500.00	
VAT	12.50%		210.94			
CGST				9.00%	135.00	
SGST				9.00%	135.00	
Total			1898.44		1770.00	
Input Tax Credit			100.00		50.00	
Price to Wholesaler			1798.44		1720.00	78.44

REVIEW OF LITERATURE

Nitin Kumar, (2014),: The researcher mentioned in his research paper that implementation of GST will try to remove all the shortcomings of present tax structure in India in his research paper “Goods and Service Tax in India-AWay Forward”

ShefaliDani, 2016: The researcher concluded in her study that the proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. The government of India should study the GST regime set up by various countries and also their fallouts before implementing

it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST.

Sachin Abda, 2017: The researcher concluded in his study that GST will be solving all the complexities present in the current indirect tax system. It will be giving relief to various parties like consumers, producers and Government.

Rathod M, (2017): in his paper “An Overview of Goods and Service Tax (GST) In India” concludes that GST will be a step towards a developed India, benefiting to many parties and entire nation.

OBJECTIVES

- To study the impact of GST on real estate, telecom sector and consumer goods.
- To find out the comparison between pre and post indirect tax system.

Real Estate under GST:

Under the new tax structure, due to the input credit benefits that most builders will get on the key raw materials they buy, the base price of property projects launched post 1 July 2017 will be comparatively cheaper. Buying under-construction properties will attract a net effective rate of 12% as against the earlier rate of 5.5% (including value added tax and service tax). Real estate players such as Proptiger and Quikr want to pass this cost benefit on to property buyers. “For new projects with 100% input credit passed to the buyer and land cost being 50% of the project cost, we expect property prices to fall by around 1% in western and northern markets and around 3% in southern markets,” said a report by Edelweiss. However, prices of ready-to-move-in apartments with completion certificates, before implementation of GST on 1 July, would remain steady as these properties are out of the GST ambit. Any price change in the segment will depend purely on demand and supply.

Five significant ways, in which the government’s likely move may impact you keeping in view the large amount of tax evasion and cash generation in real estate, the Modi government is planning to bring the sector under the ambit of Goods and Services Tax (GST).

Here we are taking a look at 5 significant ways in which bringing real estate under the ambit of GST will impact you:

A Standardized Regimen of Tax Rates and Structure: GST intends to put an end to the cascading tax structures that preceded it, make it easier for businesses to comply, put in place a standardized regimen of tax rates and structure, and be instrumental in lightening the taxation-related burden on consumers.

Benefits of Input Tax Credit: Probably the most significant development which GST introduces is the system of Input Tax Credit. “In this system, credits of input taxes paid at

every stage of production or delivery of a service can be availed in the ensuing stages of value addition. In other words, GST only taxes value addition at every stage. For real estate buyers, this means that they will only pay the GST which is charged by the ultimate supplier of the product in the supply chain, and also get the advantage of set-off benefits of all the previous stages,” says AnujPuri, Chairman, and Anarock Property Consultants.

Benefits of Tax Reduction: The government is intent on ensuring that the final customer gets all these benefits, and has included in the GST Bill an anti-profiteering clause which clearly mentions that developers must pass on to the final customer the benefits of tax reduction accruing out of the input tax credit.

Simplified and Transparent Tax Regime: For property buyers, the biggest boon that GST brings is a vastly simplified and transparent tax regime as it applies to the acquisition price of a property. “All properties which are still under construction invite a GST of 12%, over and above stamp duty and registration charges. GST is not levied on completed projects, which means that ready-to-move-in homes do not attract GST,” informs Puri.

Tax on Completed Product will make it More Expensive: Real estate transactions can be classified into two parts from the GST perspective. One is the sale of property under construction, and the second is the sale of completed immovable property. The sale of property under construction is already under GST because instead of service tax, GST is applicable on all under-construction property now.

Taxes before implication of GST

	Bengaluru	Mumbai	Pune	Chennai	Gurugram
VAT	4.0%	1.0%	1.0%	2.0%	4.0%
Service Tax	4.5%	4.5%	4.5%	4.5%	4.5%
Stamp Duty	5.7%	5.0%	5.0%	7.0%	6.0%
Registration Charges	1.0%	1.0%	1.0%	1.0%	0.5%
Total Taxation	15.2%	11.5%	11.5%	14.5%	15.0%

Current Impact of GST on Real estate

The construction of a complex building, civil structure, or a part thereof, intended for sale to a buyer, wholly or partly, is subject to 12 per cent tax with full input tax credit (ITC), subject to no refund in case of overflow of ITC. In other words, residential construction services, will invite GST at the rate of 12 per cent, which will apply to developers selling residential units before completion of construction to the home buyers.

Impact of GST on Telecom Sector

The GST council, has decided that telecom services will attract tax rate of 18 per cent, three percentage points higher than the current 15 per cent services tax.

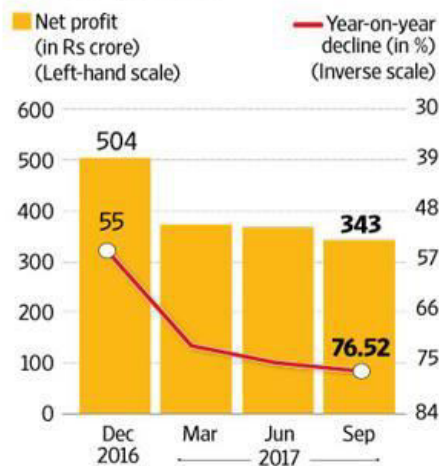
In the case of post-paid customers, most of them have cut down on their mobile expenses by shifting to lower-priced plans. For instance, in August last year, market leader Airtel introduced new 'Infinity' plan for Rs 1,199 which offered unlimited voice calling (local, STD, and national roaming) along with 1 gigabyte (GB) of 3G/4G data along with 100 SMS per day.

In response to Jio, the company is offering 3 GB of 3G/4G data, unlimited voice calling (local, STD, and incoming roaming) and 100 national and local SMS per day for just Rs 499. For customers who's currently paying 15 per cent service tax on Rs 499, that is Rs 74.85 tax, will not mind paying Rs 15 extra because in the larger context, they are now paying substantially less for their post-paid plan - Rs 700.

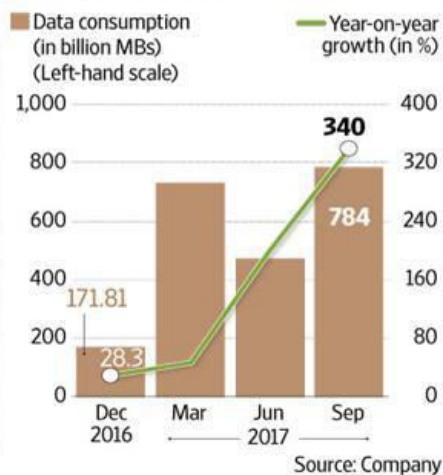
For prepaid customers, the Telco's might have to offer customers a lower talk-time as a slightly higher component of the prepaid packs will go into GST. For instance, customers recharging with Rs 100 pack will get about Rs 82.20 talk time as against Rs 83.96 now. The Telco's will be slightly hit in the case of full talk time prepaid plans where they will have to shell out higher tax component from their pockets. The impact of GST on the telecom sector, and its health, is likely to be marginal.

CROSS CONNECTION

Net profit has fallen sharply over the last four quarters...



...even as data consumption has steadily increased.



Impact of GST on Consumer goods

For the general populace a tax scheme's success is often gauged by how much disruption it causes to everyday life. While it is true that GST is expected to make processes much easier,

both for the government as well as businesses, it is its impact on FMCG sector that is of much consumer interest. And, the Indian economy's fourth-largest sector—fast-moving consumer goods (FMCG)—will be significantly impacted by the GST.

Nearly 81% of all FMCG items are in the 18% tax rate or below. Inputs in food processing industry, such as staples (pulses and food grains), jiggery, cereals and milk, are exempt from GST and items such as sugar, tea, coffee and edible oil will carry a concessional GST rate of 5%. Items of mass consumption, including toothpaste, soap and hair oil, which attract a tax rate of 22-25% (applicable in most of the states), will be taxed at 18% under GST.

There will, however, be a higher rate for detergents and shampoos, at 28%—the highest tax bracket. Surprisingly, even though the government was gung-ho on promotion of AYUSH, it has put Ayurvedic medicines in the 12% tax bracket, up from the existing 7%. Aerated beverages are also impacted by GST. While aerated beverages were usually taxed around 28% in most states—exception being Punjab where the tax was 43%—being categorised as sin goods they will attract a total duty of 40% (28% tax and 12% additional cess).

The industry also wants branded packaged commodities, which will attract a GST of 5%, to be charged at the zero rate applicable to unbranded loose staples including rice, wheat and other cereals

Current GST impact on Consumer goods

The total current tax rate for the FMCG industry is around 22-24 percent. Under GST, the tax rate comes to an average of 18-20 percent. Let's look at how the new tax rates under GST impact major products within the sector

Product	Previously taxed at	Currently taxed at	Companies impacted
Detergents	23%	28%	HUL, P&G, Jyothy Laboratories
Shampoo	24-25%	28%	HUL, P&G, Dabur, Himalaya, Patanjali
Sanitary napkins	10-11%	18%	P&G Hygiene and Health Care
Skincare	24-25%	28%	HUL, Dabur, Himalaya, Patanjali
Hair dyes	23-28%	28%	Godrej Consumer Products
Ayurvedic medicine	7-10%	12%	Dabur, Emami
Toothpastes, soaps, hair oil	22-24%	18%	Colgate-Palmolive, HUL, P&G
Paints	25-26%	28%	Asian Paints, Berger Paints, Nerolac
Branded paneer	3-4%	5%	Nestle, Mother Dairy
Butter, ghee, cheese	4-5%	12%	Amul, Nestle, Mother Dairy

Companies such as Patanjali, ITC, HUL, and Marico are either slashing the prices of goods or increasing the volume of the product on dispatches made from 1 July onward, extending

the tax benefits to consumers under the GST regime. In particular, HUL has slashed the price of its detergent soap Rin bar of 250 gm from Rs 18 to Rs 15 and increased the weight of its Surf Excel bar costing Rs 10 from 95 gm to 105 gm.

CONCLUSION:

On the basis of present study I conclude that GST has a simple tax structure and impact the studied sector in good term in long run prospective. GST have restricts the wilful defaulters of tax. The tax rate is constant with full input tax credit (ITC), a proper check on sales and purchase with input tax credit system so that indirect tax evasion will totally negligible and has same tax rate all over the country which is very useful for the end consumer in terms of purchase price. There is some negative impact on different sectors but surely for short run. But a great step towards the economic development in accordance of the above mentioned study.

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