

While Indian markets are at all time high and the stock market story looks rosy, we are here with a continuation to our previous communication. In our last communication, we presented our view on the India Growth Story and why we believe in the mettle of Indian economy. We believe India is going through a tectonic shift in the socio-political and economic context. Looking at the global developments and tax structure of developed countries, GST was the need of the hour. GST is the biggest transformation in tax reforms India has seen in years. It has left everyone, from a common consumer to business entrepreneurs, curious over what changes it may bring upon.

About GST:

The Goods and Service Tax (GST) is a **comprehensive Value Added Tax on the supply of Goods and Services**. GST will **replace all the indirect taxes** (Excise duty, VAT, CST etc.) levied on goods and services by Government once it is implemented. It will impact tax structure, tax incidence, tax computation, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system.

The Goods & Services Tax (GST) is currently imposed in about 160 countries in some form or other, with the average GST rate of around 16%. Many countries across the world have single unified GST system. Keeping in mind the federal structure of India, we shall adopt a **Dual GST model**, meaning that GST would be administered both by the Central and the State Governments.

Transaction	NEW system	OLD System	Comments
Sale within the state	SGST and CGST	VAT & Excise / ST*	Under the new system, a transaction of sale within the state shall have two taxes, SGST – which goes to the State; and CGST which goes to the Centre
Sale outside the state	IGST	CST & Excise / ST*	Under the new system, a transaction of sale from one state to another shall have only one type of tax, the IGST – which goes to the Centre

A Dual GST will be levied on the taxable value of every transaction of supply of goods and services at rates yet to be specified. The GST will be levied at multiple rates ranging from **0% to 28%**. GST Council finalized a four-tier GST tax structure of **5%, 12%, 18% and 28%**, with lower rates for essential items and the highest for luxury and de-merits goods that would also attract an additional cess. The compulsion of multiplicity of rates under GST was explained by Honorable Finance Minister in his response to the GST debate in the Lok Sabha, by stating that **India cannot afford to have the same rate on ‘hawai chappal’, ‘baby food’ and ‘BMW cars’**.



8th April, 2017

Why do we need GST in India?

India is notorious for its complex tax system. For new businesses and startups, it becomes impossible to navigate through various direct and indirect taxes. Constant changes to taxes like Service Tax are making things even worse. The federal structure of our country allows both states and centre to levy taxes separately, which cause the **cascading effect, simply speaking— tax on taxes**. While Income tax, Excise duty, Service tax and Central Sales tax (CST), Securities Transaction tax is levied by the center; VAT/sales tax, Entry tax, State excise, Property tax, Agriculture tax and Octroi is charged by the State governments. But now, the things are set to change with the GST as it is set to become one of the **biggest fiscal reforms** that our country is going to witness. All businesses, small or large are going to get impacted because of this **paradigm shift** in the indirect tax regime.

What will make for a good GST?

While passage of the Bill is a constitutional moment, GST has entered its last and critical phase— **determination of the GST rate structure**. India needs to learn lesson from other countries that have implemented similar tax regimes. Given the complex structure and the need for **businesses to undergo transformation** to adapt to the GST regime, it would be quite challenging for the Indian Government to implement GST within a short period. Another aspect lies in the statistic that **GST will be inflationary** if the effective tax rate will be higher than what prevailed before.

Although having multiple rates under GST is not a desirous situation, but as the forecasters of GST are saying, we cannot let 'best' be the enemy of 'good', so let us start with a 'good' GST which **subsumes multiple taxes, nullifies cascading taxes and slowly tries and moves towards an 'ideal/best' GST** with one rate across goods and services, thereby **creating a true single market** in the country.



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