



INDIA TAXATION - POLICY ALERT

- **Implementation of a new government tax regime - Goods & Service Tax (GST)**



India finally has brought reforms to its over complicated tax system by adopting the GST system which goes live from 1st July 2017. GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level under which no distinction is made between goods and services for levying of tax. It substitutes all indirect taxes including Octroi, Central sales tax, service tax, central excise tax and VAT. Both Central and State Governments will impose GST on goods and services produced and the imports in the country.

One of the main objective of Goods & Service Tax (GST) would be to eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax till the level of final consumers will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country.



India's services sector accounts for the predominant share of GDP, and its performance is critical. The sector in India is characterized by a plethora of small establishments with low value addition, employing large numbers of unskilled persons. The important services sectors from the revenue point of view are banking, insurance, telecom, construction, business support and transportation.

The government has unveiled a four-tier GST rate structure for the services sector — 5 per cent, 12 per cent, 18 per cent and 28 per cent.

Currently, services industry attracts 15 per cent tax, which shall shoot up to 18-28 per cent depending on the rate the GST Council agrees on. Consequently, restaurant bills, expenditure on staying at hotels would go up. Similarly, air travel will also turn costlier. Sectors such as commercial vehicles, telecom, print media, cigarettes and jewellery would also be adversely impacted. Business auxiliary services like Relocation and Moving services shall now attract an 18 per cent tax from an earlier 15 % service tax. This will impact cost of services from India and will increase costs for corporate customers and RMC partners.