

GST CLASSIFICATION NEEDS RATIONALIZATION TO BOOST ECONOMY

GST Council has fixed rates on nearly 500 services under 4 categories. Various commodities, including daily consumer items and essential commodities are exempted from GST. This will definitely give relief to the common man. However, taxing essential medicines, cellular and banking and insurance services at a higher rate will definitely affect common man as all these are essential services and not luxury so these items should come under 5% GST rate.

The higher GST rate of 28% should be applicable only on liquor, tobacco, cigarette and bidis rather than on various items of essential commodities such as consumer goods. Further, 28% taxes on cement and other building materials including paints will badly affect the Real Estate sector. This would be a dampener for the Construction companies and will impact the infrastructure sector adversely and also impact the economy negatively.

Higher tax rate of 28% on movie tickets has come as a major disappointment since watching movies is a source of entertainment and relaxation in today's stressed world. Further, if the Government allows local bodies to charge entertainment tax over and above GST, it will adversely impact film industry.

The steep GST rate of 28% on hotels with tariff of above Rs 5000 will not only affect business travel but also tourism. Perhaps a lower rate of 18 % would have been more reasonable.

The companies need to take immediate steps to put in place the compliance system. With GST rationalizing/reducing cascading effect of tax, companies will have major task to decide on the prices to be charged from July 01, 2017.

This is unlikely to be a simple exercise and would force companies to understand changes in the cost structure dependent upon multiple factors such as reduction of prices by vendors, availability of additional credits, increase in procurement rates, increase in working capital requirement. The companies would therefore need realignment on business planning and the short available time would make it challenging to achieve. There have been reports on lower rates of migrations to GST network. The Government therefore needs to enhance and push companies to be GST compliant at the earliest.