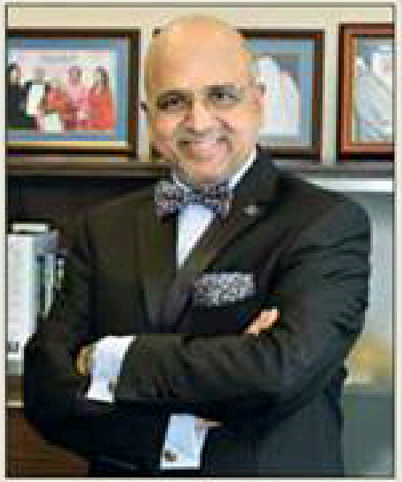
BANKING ON KNOWLEDGE

India to benefit from its passage of GST bill in longer term

By Dr R Seetharaman



On August 3, 2016, the Upper House of India's Parliament voted unanimously in favour of the long-awaited GST bill. The lower house of Parliament also cleared the bill with amendments on Monday, and now it has to be adopted by more than 50% of states for formation of a GST council. Once 50% of states agree to the amendments, it will then be introduced in the winter session of Upper House of Parliament to finalise the GST taxation rate. We see higher chances of it getting accepted by the Upper House as there were no votes against the passage of the bill.

GST is a broad-based, single indirect tax, levied on goods and services across the country. GST will include most of central and state indirect taxes such as VAT, excise duty, service tax, central sales tax, additional customs duty and special customs duty.

GST is a mechanism to collect tax on value-added goods and services at each stage of sale or purchase in the supply chain. States have rejected the concept of a revenue-neutral rate. The Subramanian committee recommended that the standard rate should be at 18%.

The National Institute of Public Finance and Policy has recommended a rate between 23% and 25%. The opposition, especially the Congress party, does not want the rates to be notified through a Money bill, but by a Finance bill. The chief economic advisers-led panel report has recommended a standard GST rate to be 17%-18%.

GST is expected to improve overall efficiency in the allocation of resources and increasing the competitiveness of domestic production in the international markets. The goods and services are expected to witness lower prices once implemented, depending on a tax rate

the government finalises. Transportation, logistics, warehousing and manufacturing companies will see positive benefits as there have been incidents of multiple taxation on each stage of production of goods and services. In the longer-run, we see GST improving the tax collection for the government, improving profitability for the manufacturing sector, driving the investment cycle and resulting in higher GDP growth. We also see this as a credit-positive move for the country's current rating of BBB-.

Moody's has said that Rajya Sabha's approval to the constitutional amendment bill paves the way for the implementation of the goods and services tax (GST), and is a positive development for India's credit rating. Moody's, said in a statement it believes the impact of the GST will be positive for most corporate sectors across the value chain, spanning procurement of raw materials, manufacturing of goods, sales and distribution of finished goods and services, logistics, and warehousing of goods from manufacturing locations to end-customers.

India currently has a government which has the majority in the lower house. In the past, the Upper House had cleared FDI in insurance sector, Debt Recovery Tribunal bill, Mines and Mineral bill, coupled with government taking pro-active stance on approving lot of pending projects, improving e-governance and increasing outlay of government expenditure on rural sector.

We expect all the measures taken by the government to be accretive for GDP growth. IMF, in its April-2016 outlook, expects India to grow by 7.45% and 7.49% during 2016 and 2017 respectively. India benefits substantially on lower oil prices, the Oil bill has halved to $64bn in 2015-16 on import of 202mn tonnes of crude as compared to 189.4mn tonnes during 2014-15. The current passage of GST bill in the Upper House of Parliament will benefit the country in the longer-term.

■ *Dr R Seetharaman is Group CEO of Doha Bank.*