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Impact of GST on India's Infrastructure

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Abstract—*GST is all set now to roll out from July 1, 2017 and is the most discussed issue and keeping companies busy and anxious about its implementation. Though most of the industries have high expectation from GST, provided they get little more time for work out the complexities of GST implementation. Expectations are also high from present government to work towards economy development and most importantly towards the development of infrastructure like roads, railways, ports, power etc. This paper is an attempt to understand the impact of GST on various infrastructure sectors and tries to address an important question that whether Goods and Services tax will act as a growth and development catalyst or it will prove itself to be a massive burden when actually implemented. Overall, impact will largely be dependent on how the various industry absorbs the tax rates and how companies align to it. Those that are able to scale up and adjust to the new norms with the implementation of GST will be the beneficiaries.*

1. INTRODUCTION

Currently, GST is highly discussed topic for Government and also for the public. A lot have been said about its implementation benefits and downsides. Government is focusing on development where they consider GST to improve country's GDP by at least 1 to 2%. There is a significant expectation from the present government to work towards development of economy and especially the development of public infrastructure like cheaper availability of electricity, better network of roads, bridges, rail, port, dams, airport etc.

An important question which arises is whether Goods and Services Tax will act as a growth and development catalyst or it will prove itself to be a massive burden when actually implemented.

2. CURRENT SCENARIO

The Indian infrastructure sector largely encompasses power, port, roads, railways and mining. Although these sub-sectors are often referred to in the same breath when talking of infrastructure, the indirect tax landscape is varied and very unique for each of them.

Infrastructure development is of national importance which is why Goods and services for infrastructure projects enjoy a large number of concessions and exemptions under Central and State laws. Still, the multiplicity of taxes and general construct of contracts give the infrastructure sector a heightened degree of complexity from the perspective of indirect taxes.

3. IMPACT OF GST ON VARIOUS SECTORS

3.1 Logistics & Supply Chain

Benefits of GST in transport and logistics sector is indisputable, though improving quality of roads, railway and airway infrastructure is one point to focus on for better and efficient implementation of GST. In the foreseeable future the logistic industry should benefit from the initiatives by the Central Government particularly with the implementation of GST. Though currently it's a challenge for the companies to bring its all the vendors under this compliance. But it will surely help economy to grow faster due to greater tax collection and the convergence of so called GREY market into the official market which in turn help the FDI and rapid growth in manufacturing. Although, clarity is still not there about how the e-way bills will function. Many big E-commerce companies expressed their concern about the ambiguity in e-way bills. But hopes are high and logistics sector is looking forward to GST implementation and it's a ray of hope for the logistics sector as belief is that GST will help this sector in minimizing logistics cost and weed out the currently prevalent multi-level tax structure, delays in transit, wastage of fuel, cumbersome regulations, policies and approvals in different states.

The GST is expected to enable a reduction in cost by as much as 20% to 30%, as companies configure their supply chains on four parameters.

First, as India becomes one big market, there will be larger but fewer warehouses. Big Bazaar has already worked on it in Indore and proven to be a cost reduction strategy in supply chain. It will be a hub and spoke model of operation. Consolidation of warehouses closer to the regions of consumption would mean economies of scale, better negotiation power for manufacturers thereby ultimately benefiting consumers.

Second, it will lead to a larger number of bigger trucks on roads as there is greater adoption of the hub and spoke model.

Third, these changes will lead to greater economies of scale for transport operators and lead to more companies outsourcing their logistics operations.

Four, reduction in waiting and idling time at inter-state barriers and checkpoints is expected to provide a huge relief.

Trucks in India drive just one third of the trucks in US (280 kms vs. 800 kms), on top of that, only about 40% of total travel time is spent on driving, major time is consumed at check points and other official stoppages. A recent news indicate that Road Transport and Highway ministry is considering overhaul of around 80 border check post across the country to ensure seamless flow of goods under GST regime. Thus, ensure eliminating check points delays, higher moving time of wheels and lower transit time which will certainly boost the business, reduce inventory holding requirements, transportations cost and better asset utilisation. Distribution and warehousing patterns will improve. Impact is going to be positive on this count.

3.2 Power Sector

GST is expected to inflate electricity cost up to 8% as the GOI has decided to keep this sector out of arena of this new tax system. Power producing companies both renewables and conventional would have to pay GST for their inputs such as fuel and machinery but will not be able to get these taxes refunded, given that their output – electricity is exempted. This higher cost of producing electricity will then be passed on to consumers under the "change of law" clause in Power purchase agreement (PPA). Developers selling electricity in the spot market or on non-PPA basis would have to factor in the higher cost.

Power sector is one of the critical sectors of the economy. As the growth of industries, especially manufacturing sector and emerging sector like information technology and retail, is directly linked to the cheap availability of power, lets understand how will the power sector be impacted on introduction of proposed GST.

A quick look at the taxation structure of power sector indicates that it is currently grappling with (a) withdrawal of full exemption of customs and excise duty (full exemption is available only to approved mega power plant), (b) full levy of service tax and VAT on various procurements, (c) lack of input tax credit, (4) non-levy of excise duty or VAT/sales tax on sale of electricity and finally (5) non-availability of credit to the industrial users.

The truncated tax structure for power sector leads to cascading effect of taxes which results in enhanced tax cost of setting up, generation and distribution of electricity. For an ideal GST regime, electricity should have been brought within its ambit in order to avoid undue cascading of taxes, like in developed nations such as European Union, Australia and Canada.

3.3 Telecom

Mobile handset prices likely to go down or even out across states. Manufacturers are also likely to pass on to consumers cost benefits they will get from consolidating their warehouses and efficiently managing inventory as it was also discussed deeply in a conference of CII on E-Commerce where it was clearly mentioned that no vendor can make profit through GST implementation. It has to be pass on to the customers in terms of lower commodity price.For handset makers, GST will bring in ease of doing business as they may no longer need to set up state specific entities and transfer stocks to them and invest heavily in to logistics of creating warehouses in each state across the country.

3.4 Roads

India's national highway network is very critical and is responsible for carrying 40% of the country's traffic. The government had announced increasing the existing length of national highways from 97,135km to 200,000km.But still lot has to be done in this sector and needs to be analysed as to how road infrastructure will support GST with present not so very good condition.

3.5 Civil Aviation

Few petroleum products like crude, aviation turbine fuel, natural gas, petrol and diesel are out from the coverage of GST for initial few years while the remaining ones like kerosene, LPG and naptha are covered. Flight fares are likely to get costlier as airlines will not be able to get credit on tax paid on jet fuel.

3.6 Railways

The Goods and Services tax is a heated topic in Railways as most of the logistics support happened through this mode of transportation. So, it is imperative to study its cause and effect of over the vast railway sector which encompasses almost all the working project sector. Indian Railways (IR) manages the railways in the nation and is under control of Ministry of Railways. While IR has a different budgetary designation by a method for Rail Budget, its operations are liable to certain direct/indirect assessment arrangements as far as immediate expense, excise obligation, service charge, Swachh Bharat Cess (SBC) and so on.

IR works through zones, divisions and a large portion of public area endeavors, other than different plans of action/extends under PPP/JVs. Significant income wellsprings of IR incorporate cargo, traveler admission, promotion, and publicity, arrive rent, different leases and so on. Looking for the development, modernization, and support of railways, IR is in critical need of assets or plans whereby IR can raise subsidies proficiently with ease to meet it's here and now/long haul budgetary prerequisites.

Certain issues needs to be thought of under the GST administration

i) Rapid Diesel (HSD(/ Light Diesel Oil (LDO) devoured by Indian Railways might be considered as contribution with the end goal of Cenvat Credit.
ii) Railroad locomotives / Coaches might be exempted from Excise Duty / GST
iii) Present Chapter 86 of CETA, 1985 relating to **Overhead electric wires** and other related types of gear might be secured under the meaning of Capital Goods for permitting Cenvat Credit.
iv) All the undertakings initiated by Indian Railways through Public Private Partnerships might be exempted from proposed GST and so on to facilitate Rail Infrastructure Development and to boost Indian economy.
v) Long haul leases implied for improvement of foundation considered as an exchange of benefit.
vi) Cleanliness at Railways Stations, Railways tracks and so on might be incorporated into Sanitation Conservancy and saved from requiring of GST in national intrigue and remembering SBC activities.
vii) Indian Railways might be absolved from the instalment of GST under turn around charge system/TDS arrangement.
viii) The dread of Railways being scammed in the GST comes when the legislature has been concentrating on increasing Railways share up in transport to 45% by 2030 from 33% at thus point.

3.7 Ports:

The new tax law will not only impact development and construction of ports but will also impact provision of port services. In general, at present, there is no exemption on the import of inputs for construction and inputs services. Under the proposed GST law, IGST rates will apply. The IGST rate needs to be analysed as to know if there will be an incremental cost or not for operators. The concerns for the maritime and logistics industry relate to the ambiguity regarding the taxation system of basic ocean freight charges for goods transportation on international waters, mechanism of valuation, the place of supply of shipping services (whether service provider and service receiver are located in or outside India, charter hire of vessels, repair of vessels, etc.), the taxability of the transfer of right to use equipment, the classification of composite supply, input tax credit, as well as registration and returns.

Mr. Shashi Kiran Shetty, Chairman, Allcargo logistics tells in a recent interview with Economic Times that there are quite a few initiatives propagated by the government, for instance, the Sagarmala project which aims at developing port infrastructure, cutting down procedural bottlenecks, developing port based industrial townships, focus on movement of cargo through the coast, better rail / raod connectivity to the ports, proposed reform to form port authorities like in any developed countries by moving away from the traditional model of port trusts. This will help the ports to deal with day to day challenges more effectively and make decisions much faster. We also see a lot of emphasis in replacing outdated equipments which help tremendously in productivity of the ports.

4. CONCLUSION:

To conclude, further developments in GST space would have to be reviewed to know the true impact that GST will have on infrastructure sector. At this stage, it is important to identify key areas of concern that require immediate advocacy and file suitable representations with the government so as to facilitate implementation of GST that acts as an enabler of infrastructure growth.

Overall, impact will largely be dependent on how the various industry absorbs the tax rates and how companies align to it. Those that are able to scale up and adjust to the new norms with the implementation of GST will be the beneficiaries.

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