Budget 2017: What the upcoming GST reform means for the common man's pocket

Budget 2017: The current approach and speculations around GST tax rates and its implementation date have left the common man worried.

With the sticky issues of dual control and jurisdiction over high seas settled in the recently concluded meeting of the Goods and Service tax (GST) Council, the much awaited GST regime finds itself one step closer to reality. Arguably one of the biggest tax reforms in independent India, GST finds itself making inroads slowly but steadily as the Union Finance Minister cites July 1, 2017 as a more 'realistic' date for implementation.

With multiple GST rate structure agreed for various goods and services, it is apparent that GST may not be introduced in its pure form in India i.e., there should be uniform tax rate for all goods and services across the country. The current approach and speculations around GST tax rates and its implementation date have left the common man worried about how this paradigm shift in the taxation structure is going to impact his pocket.

Beginning with the very basic necessity, food, it is only fair to expect that the government continues to exempt necessary food items such as milk, food grains, vegetables from GST and to not add any burden to the consumer's wallet. For other essential items such as edible oil, spices, tea etc. with GST rate likely to be 5% basis the recommendations of the GST Council, the overall impact will be neutral as compared to the current taxes on such products.

With the increased focus on the government's 'Digital India' initiative, one also needs to assess the impact of GST on its basic drivers in the form of mobile handsets and internet services. As mobile handsets are currently taxed at around 7%, a sum of Excise Duty and Value Added Tax (VAT), any increase in the same could derail or obstruct the initiative's progress. This probably makes a case for the government to keep cheaper smart phones in the concessional tax bracket of 12% and make them affordable for the lower sections of the society. Internet services, on the other hand, are also likely to see a 3% rise in tax rate from the current service tax rate of 15% to the proposed GST rate of 18%. This can make the consumer cough up more money to the telecom operators, who unless decide to drop the prices for survival in the aggressive 4G market.

For medicines, the consumers may not feel a pinch since the current tax structure on medicines is likely to remain more or less the same as long as medicines are taxed at the concessional tax rate of 12%. Instead, consumers may experience a dip in their medical bills if the pharmaceutical companies pass on the positives of GST in the form of reduction in tax costs, by reducing their prices. On the other hand, for life saving drugs, one would hope that the same are either kept exempt or taxed at 5%.

Speaking of cars which are fast emerging as a necessity for the middle class society, the rates are likely to remain in the same range since the proposed additional cess could take care of the differential between the current tax incidence and the peak rate of GST of 28%.

Having said the above, the real impact would be a trickle-down effect of whether the positives of GST in the form of removal of cascading effect of taxes, additional tax credits etc. are passed on to the end consumer by the manufacturer by reducing the prices.

Similarly, looking at the rate change in isolation, it appears that services such as saloon, tuition, gymnasium etc. consumed by common man would become costlier as the rate is likely to increase from 15% to 18%. However, if the benefit of additional tax credits (VAT paid on goods used by service provider, Central Sales Tax (CST) etc.) is passed on to the end consumer, even services may not become costlier or perhaps may become cheaper.

In a nutshell, GST appears to be a mixed bag with certain necessities getting cheaper, while the others are likely to disturb household budgets. Irrespective of the above, the economic history of various countries suggests that while introduction of a Value Added Tax in the form of GST has seen an inflationary trend in the initial 12 to 18 months, eventually the market competition and dynamics are bound to take charge and force businesses to pass on the benefit to the consumers resulting in overall growth in the economy.

The anti-profiteering provision contained in the draft GST law also refrains businesses from pocketing the gains of GST, and if necessary can be used to help ensure the benefit of GST is passed on to the consumers.

Thus, as India prepares for one of its biggest tax reform with expectations soaring high, the task is cut out for the government to not only ensure smooth transition for all businesses into a more simplified tax regime, but more importantly to live up to the industry’s expectation of making products and services affordable.

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