GST: India Inc gets ready, in fits and starts

Firms across sectors say they are ready for new regime, but SMEs find the deadline challenging

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Illustration: Ajay Mohanty
The biggest tax reform since Independence — goods and services tax (GST) — was kicked in from Friday midnight and companies say they will keep their date with the new indirect tax regime.

The GST will harmonise a maze of central and state levies into a national sales tax, creating a single customs union that would ease the cost of doing business and improve growth of India’s gross domestic product.

Though the intent has been hailed as good for the economy, teething problems remain with a five-rate structure for various goods and services, and elaborate documentation to ensure the tax, which works on a system of input credits from supplier to consumer, is paid.

While the fear of large companies has been trade destocking, consumer goods, auto and pharmaceutical majors, Business Standard spoke to, say these issues will ease in the coming months. Small and medium enterprises (SMEs) though are yet to figure out the finer points of the GST and are expected to see business suffer in July due to their inability to comply on time.

"The general perception was that the government would extend the deadline (to roll out GST)," said Krishan Arora, partner, Grant Thornton India, who has worked with SMEs on the GST. "Unfortunately, that was not the plan despite hardships caused due to the piecemeal finalisation of legislation and rules," he said.

Large firms have another point of view on the issue, saying the GST was in the works for a while now.
“I think the government has done an excellent job of finalising the details of the GST and has remained committed to rolling it out on July 1. With the good monsoon expected this year, I will not be surprised if we get into double-digit GDP growth in the next financial year,” Adi Godrej, chairman, Godrej Group said in a recent interaction.

“We are optimistic about the GST. It will bring in a lot of ease in doing business and we will be passing on the benefits to our customers,” K N Radhakrishnan, chief executive officer, TVS Motor, said.

“We are working closely with our supply chain to ensure smooth transition. While there will be initial hiccups, we will have to ensure that the movement to the new regime is handled well. We are guiding our partners on how to manage old and new invoices,” Ajay Seth, chief financial officer, Maruti Suzuki, said.

“We have prepared ourselves to implement the new regime from July 1. We may see some delay in invoicing it for the first few days. However, we are internally ready. Since we don’t want inventory to go out of stock, we have promised distributors and retailers of giving them the necessary discounts to cover their costs.”
losses. This way, they do not need to destock our portfolio,” said C T Renganathan, managing director, RPG Life Sciences.

“We have a transition plan and are prepared to shift our working to the new system from July 1. In our domestic business, we have far less number of suppliers and we are all ready. There will be some increase in working capital requirements, but we are prepared for it,” said G N Gauba, chief financial officer at automobile component major Motherson Sumi. The latter’s group subsidiary MothersonSumi INfotech & Designs has helped in the company’s transition to GST.

Despite this, companies continue to be on their feet till the very end to avoid last-minute glitches. Hindustan Coca-Cola Beverages, bottling arm of Coca-Cola India, for instance, is conducting a massive training and capability-building programme currently for its distributors across the country to familiarise them with the GST. Hundred trainers of Hindustan Coca-Cola, each split into teams of three, are camping in different parts of the country to train its 4,000-strong distributor force. So far, the firm said, 50 per cent of this distributor team in states such as Karnataka,
Rajasthan, Maharashtra, Jharkhand, Madhya Pradesh, West Bengal, Andhra Pradesh and Tamil Nadu have been trained by it.

Ashok Leyland, the commercial vehicle major, said it saw fleet operators holding their decision to purchase trucks even as manufacturers aligned production and inventory requirements in line with the GST. The near-term outlook, the company said, was moderate for the industry.

Ashish Trivedi, director-finance, International Automotive Components India, said challenges in terms of lack of clarity on certain transition rules and regulations remained. "On the suppliers side, the challenges would be their ability to meet the compliance requirements of GST Network (GSTN), which requires timely and accurate uploading of individual transactions. This has to also match with our transactions. As many of our vendors are smaller companies, they will have to invest significantly in terms of information technology and manpower to comply with the GSTN requirements," he said.

Meanwhile, hospitals, diagnostic chains and medical technology firms say they are bracing for new challenges ahead. Though health services to consumers are exempt, there will been an increase in the tax component on devices and equipment such as syringes, needles and hospital beds by around 5-10 per cent, pushing up their price.
“It (GST) is a radical transformation of tax structure and given the changes, there is apprehension about its execution. There are also concerns about managing the cost inflation because of the new rates,” Anjan Bose, secretary general, NATHEALTH (Healthcare Federation of India), said.

With inputs from Arnab Dutta/Ajay Modi/Aneesh Phadnis/Shubham Parashar/T E Narasimhan/Karan Choudhury

Healthcare set to become expensive after GST implementation

Laxmi Yadav, Mumbai

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India is the fastest growing healthcare market in the world relying on well trained medical professionals and quality healthcare at affordable rate to meet the demand. With the implementation of GST from July 1, healthcare is going to be expensive as the medical equipments and services consumed by healthcare providers fall under 12-18 per cent category.

The GST council has fixed 12 per cent rate for medical equipments, 18 per cent for maintenance contract (both labour contract and comprehensive contract) and health insurance, 28 per cents for accessories like inverters and refrigerators. Even though the government has exempted healthcare from GST, the tax of services consumed by healthcare service providers will be increased ranging from 3-16 per cent post GST. This will result in rising cost of healthcare delivery. Hospitals falling under 0 slab of GST may not get input tax credit, they are likely to pass on the additional tax burden to patients.

Now luxury tax, state specific taxes like octroi will be subsumed under GST which is a welcome step. High end medical equipments which attracted 12.63 per cent tax will now be taxed 17.28 per cent. Comprehensive maintenance contract will now attract 18 per cent from 8 per cent earlier. This will add significant expenditure to hospitals. Labour contract will now attract 18 per cent from 15 per cent GST rate. Healthcare devices and accessories such as catheters which were charged 10.16 per cent will now be taxed 23.15 per cent. Hospital beds were taxed 11 per cent, now they will be taxed 18 per cent. Life saving drugs and diagnostic kits will attract 18 per cent from 5.5 per cent.

Healthcare Federation of India (Nathealth) in its presentation to the government and GST Council has suggested GST rate of 5 per cent on sale of medical equipments, devices, insurance, other services consumed by hospitals so that tax burden on healthcare supply chain will be reduced.

National Health Policy 2017 focuses on prevention of exclusions on social, economic reasons as well as national health mission. The policy emphasizes on increasing affordability, accessibility but through the GST, the expenditure of healthcare providers will go up to 5-10 per cent. Absorbing increased cost will be a challenge for private healthcare providers catering to 80 per cent of healthcare needs, said Anjan
Bose, secretary general, Nathealth.

The fundamental element of GST is that citizens benefit from decline in prices of goods and services due to elimination of cascading effect of taxes. The rise in tariffs on various heads is a cause of concern for the healthcare industry, he added.

Considering low penetration of insurance in the country, GST rate of 18 per cent on insurance will adversely affect its penetration, he said. Currently the country's insurance coverage stands at 25 per cent from 8 per cent few years back.

The preventive healthcare which is one of the key focus areas of the government will become costly as the health check up attracts 18 per cent tax, he concluded.

Echoing concern of Bose, Anupam Verma, President, Wockhardt Hospitals Ltd said “Healthcare services have been exempted from GST to a large extent. Therefore the status by and large would be as before. However, there is a change in the inputs costs for the service provider in terms of increase of tax on outsourced services like housekeeping, security etc. This would push the costs of treatment upward. We have yet to analyse the impact of change in prices of medicines and consumable. This factor would entirely depend on the manufactures who will be fixing the prices afresh. By the information so far, on this account, the impact on the cost to the patient should be very marginal.”

Consumers will benefit from GST to a certain extent: Medical experts

Namrata Devikar

Pune: Medical experts opine that though healthcare is exempted from GST, there will not be any direct impact on services but in the coming six months, there is a possibility of increased costs for a few things. However, directions set by the government in the recently announced National Health Policy along with GST should set a positive road map for the sector.

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Pune: Medical experts opine that though healthcare is exempted from GST, there will not be any direct impact on services but in the coming six months, there is a possibility of increased costs for a few things. However, directions set by the government in the recently announced National Health Policy along with GST should set a positive road map for the sector.
Amol Naikawadi, Joint Managing Director, Indus Health Plus said GST is a remarkable step taken by the government and exempting healthcare from it will help consumer to some extent.

“Due to input tax levied on products and services, it will impact the costs for healthcare providers. The companies working in this domain will absorb the cost themselves to a certain point, however, in the long run, the consumers will have to pay for the service cost,” noted Naikwadi. He said the healthcare services should be included in GST at a nominal rate.

“This will ensure that all transactions in the healthcare sector will be mapped in the system. The government will get additional revenue and the healthcare organisations will get benefit of input tax credit. There is limited input on the overall cost of healthcare to the end consumer,” said Naikwadi.

Anjan Bose, Secretary General at NATHEALTH said the decision to exempt healthcare services from GST is welcome. “The decision will provide much-needed support for progress of the healthcare sector. We recommend rational rates on goods such as devices, equipment and diagnostic related to medical and health sector,” said Bose.

“Rational rates would certainly push ‘Make in India’ campaign and set a positive road map for the health of the country,” he added. He added that the directions set by the government in the National Health Policy should set a positive roadmap for the sector.

“This should also send a positive signal to investors for infusing much-needed funds into healthcare and accelerate innovation for improving access to affordable healthcare,” said Bose.