

Implications of New Goods & Services Tax on Telecommunications sector in India: Professionals' Perception

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Abstract

India's telecommunications industry has revolutionised communicating channels in the country with one billion mobile users as on January 2018 and mobile internet users are expected to reach 500 million by July 2018 as per Kantar Indian Market Research Bureau.

However, the industry has been majorly hit by the introduction of the Goods and Services Tax in 2017. Goods and Services Tax rate on the Telecommunications industry was set at 18%, which is 4% more than the 14% paid under the previous tax regime. Telecommunications operators have so far been compelled to absorb the costs due to the hypercompetitive conditions. The additional compliance load on the service providers is also quite extensive.

This paper studies the implications of this new tax regime on the Telecommunications Sector. Results reveal that Goods and Services Tax will make the audit procedure relaxed, cheaper Internet and call rates and reduced service cost of Mobile wallets. Respondents are optimistic about its positive impact on the Growth of Indian Economy.

Keywords: Goods and services tax; telecommunications; perception; impact; implications; India

1. Introduction

The tax imposed on goods and services other than on the revenues or profits is the Indirect Tax. It includes taxes like entertainment tax, Value added tax (VAT). In this system, a producer has to pay the tax when the finished good moves out from the production place, and also the tax has to be paid again at the

retail enterprise when the good is sold. Due to this cascading effect in the previous indirect tax regime central Government has introduced new Goods and services Tax (GST) in India with effect from 1st July 2017.

Goods and Services Tax (GST) is the system of imposing tax on goods and services to combine all Indirect taxes under one Canopy with the most wide-ranging and constant chain of benefits from the point of manufacturers and service providers till the point of retailer, intends in removing the cascading effect i.e. "Tax on Tax effect." In this perspective, this present study has been undertaken to answer the following research questions:

- What do you mean by Goods and Services Tax (GST)?
- How does GST differ from the previous indirect tax regime
- What are the implications of Goods and Services Tax (GST) on the telecommunications Sector in India?

1.1. Features of Goods and Service Tax:

- There are two components of GST, one is Central GST and another is State GST levied by Central and State Government respectively. The CGST and SGST would be suitably approved, with reflecting revenue consideration and acceptability.
- The goods and Services which were exempted earlier under previous tax system are now taxable under Goods and Services Tax.
- Taxpayers should pay their taxes individually to Central and State

Government in the form of CGST and SGST.

- Input tax credits (ITC) are allowed for taxes paid against the CGST for the Central Government and same can be utilised for further payments of only Central GST, by the CGST taxpayers. Except in Inter-state supply of Goods and Services, there is no permission for the cross utilisation of ITC among Central and State GST.
- Under new GST regime, the taxpayer has to submit the periodical returns in the prescribed format to both the central and State Authorities of GST.
- The states opine that Compounding system for GST must have upper limit and floor tax rate with respect to the gross annual turnover.
- Prescribed to follow a uniform procedure to collect both the state and Central GST and to make respective changes in the prescribed legislation.
- Every taxpayer is given a 14-15 digits identification number which is linked to their PAN.
- At Present, the GST rates are indicated under the slabs of 28 percent, 18 percent, 12 percent and 5 percent.

Table 1: Taxes at the Centre and State Level are being subsumed into GST

| At the Centre Level | At the State Level |
|---|---|
| Central Excise Duty | Subsuming of State Value Added Tax/Sales Tax |
| Additional Excise Duty | Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States) |
| Service Tax | Octroi and Entry tax |
| Special Additional Duty of Customs | Purchase Tax |
| Additional Customs Duty commonly known as Countervailing Duty | Luxury tax, and |

Source: www.gstindia.com

Table 2: Comparison of Previous Indirect Tax regime and GST regime

| Sl. No. | Issues | Previous Regime | GST Regime |
|---------|-----------------------------|--|--|
| 1 | Wide-ranging Scheme” | There are different tax laws in Indirect tax system.” “e.g., Value added Tax (VAT), Custom duty, etc. | Under this system, there will be single law i.e., GST system which combines all Indirect tax system. |
| 2 | Rate of Tax | Under this system, the tax Carries different rates. e.g., Service tax in India at 14 percent whereas Excise duty is charged at 12.36 percent. | Goods and Services tax system maintains a uniform rate in both the central and state level separately. |
| 3 | Cascading Effect | The problem of cascading effect arises in Indirect tax regime because the Central sales tax credit and the other taxes are not permitted. | The problem of cascading effect will not arise as the concept of Central sales tax credit is abolished in the GST system. |
| 4 | Burden of Tax | Under Indirect tax regime, the burden on the taxpayer to pay the taxes will be more. | Under GST regime, the burden on the tax payer will not be more as the new system is expected to reduce all taxes. |
| 5 | Burden of Cost of Consumers | As a result of effect of cascading, the prices of the goods will be increased which creates the burden on the Consumers. | Under GST, the effect of cascading will be abolished which leads to the decreased cost of goods which thereby reduces the burden on the Consumers. |

Source: www.gstindia.com

2. Research Methodology:

Keeping in mind the objectives of the study, Explanatory research design is being adopted to conduct accurate analysis & gain best results.

2.1. Objectives:

- To analyse the perceptions of the chartered accountants towards the Goods and Services Tax (GST) & its implications on telecommunications sector in India.
- To Study the challenges & prospects of implementing new Goods and Service Tax regime on Telecommunications Sector in India.

2.2. Scope of the study:

The study is restricted to the Telecommunication sector in India. The study will focus on the Impact of new GST regime when compared to the previous tax regime in the telecommunications sector.

2.3. Data Sources

Opinions have been collected from Chartered accountants of Bengaluru and Mysore for the survey. Secondary data is collected from various e- journals, newspapers, articles and magazines.

2.4. Review of Literature:

Agogo Mawuli(2014) in his article titled “Goods and Service Tax-An Appraisal” found that Goods and Service Tax is not suitable for the countries which have low Income and it fails to present the growth in Broad based for the poor countries. But even though these countries wish to implement GST then they must be less than 10 percent of Goods and Service Tax rate for growth. [[1]]

Dr. R. Vasanthagopal(2011) in the paper titled “Goods and Service Tax in India: A Big Leap in the Indirect Taxation System” concluded that Changing into the new faultless GST tax regime from the previous Indirect Tax regime which is quite complicated will end up with the positive outcome to the Indian Economy. More than 130 countries in the world have accepted this Goods and Service Tax. [[3]]

Kumar Nitin (2014) in his paper “Goods and Service Tax- A Way Forward” stated that Economic distortion in the previous Tax system has been removed by implementing the Goods and services Tax System in India and also predicted that GST will support the unbiased Tax system which is different in the geographical Locations. [[7]]

Lourdunathan F and Xavier P (2016) in their paper titled “A study on implementation of goods and services tax (GST) in India: Prospectus and challenges” concluded that High inflationary impact would be on telecommunications, banking and financial services, air and road transport, construction and development of real estate. [[8]]

Ehtisham Ahmed and Satya Poddar (2009) in their article titled “Goods and Services Tax Reforms and Inter-governmental Consideration in India” stated that Implementation of new Regime that is Goods

and Services Tax will make the tax regime more transparent and simpler. And it will also increase the productivity and output of Indian Economy. The advantage of Goods and Services Tax are critically dependent on rational design of Goods and Service Tax.

Shilpa Parkhi(2014) in her paper titled “Goods and Service Tax in India: the changing face of economy” concluded by giving the positive opinion on Goods and Services Tax which has to be applied in India. The paper looked into the previous system of Indirect tax regime such as Value added tax (VAT), Service Tax, etc. and the system to be followed in the collection of the GST. The article concludes that Goods and Services Tax helps in imposing and collecting the taxes with the single form of tax.

Supriya Kamma and Richa Verma(2014) in their article “Goods and Service Tax- Panacea For Indirect Tax System in India” viewed that in India, NDA Government is optimistic in the implementation of GST. As well they also opine that the new tax regime is beneficial to state and central Government and to the consumers in the future.

2.5. Research Gap

After a thorough observation of the above studies, we can notice that the previous studies have been focused only on understanding the concept of GST and its overall implications on Manufacturing sector, construction sector etc. But the implication of GST on telecommunications sector is an untouched area. Hence this study was undertaken to study the Professionals’ perception towards Implications of Goods and Services Tax on Telecommunications Sector in India.

2.6. Limitations of the study:

- This study is limited to the telecommunication sector only.
- This study is based on the data provided by the respondents at a specific point of time and they are subject to change.
- This study attempts to study the perceptions of Chartered accountants only, as they are considered to be expert tax analysts.

3. Results & Discussions:**3.1. Implications of GST on Telecommunications Sector:**

The euphoria of GST brings in sets of cheers, but not everything can be implemented with cent percent accuracy and without having any issues. There are some sector specific issues related to GST, especially with the telecommunications sector. The GST plans related to telecommunications sector of the country seems to come as a mixed packet of sour and sweet candies for this sector. The sector is burdened with struggling high taxes of 18%.

Here are some challenges & prospects for telecommunications operators:

3.2. Challenges of Implementation to Telecommunications sector:

- **Bills may go up:**

Previously, telecommunications services were subjected to a 15% service tax. The GST rate is determined at 18% and telecommunications companies may pass on this to customers. The recommendation of DOT (Dept of Telecommunications) to reduce the tax rate to 12% was rejected by the Finance Minister during Budget 2018. The rise in prices will affect the big giants such as Airtel, Vodafone etc.

- **Distribution of SIM Cards:**

Distributors and agents for the sale of SIM cards were exempt from service tax previously. Similar exemptions for them are not available under the GST regime.

- **Increase in Compliance costs:**

Telecommunications service providers were not obligated to conduct regular “mandatory audit” under previous tax regime. Whereas under GST regime, mandatory audit provisions do apply for them. This will lead to hike in the compliance cost.

- **Capital Investments may increase:**

Telecommunications operators provide services area or circle wise. Generating state-wise revenue will demand a lot of changes both physical and technical to the existing framework and infrastructure.

- **Fluctuating Input Costs :**

With petrol and diesel out of GST radar, Telecommunications operators cannot set their input liabilities. After railways, telecommunications sector takes the second spot in terms of diesel consumption in the entire country.

- **Place of charge:**

In case of transportation of goods/services such as Recharge, transfers via telecommunications, the place of sale and payment and the place of consumption may not coincide and allocation of revenue will have to be negotiated and settled. Clearly defined principles and rules for the allocation of revenue from transactions in such services are needed.

- **Mobile wallets:**

Telecommunications companies have launched a number of value added services including mobile wallets. E.g. AirtelMoney, M-Pesa. Nature of such transactions such as origin of commencement needs to be evaluated for allocation of revenue & hence the taxes to respective states.

- **Tower infrastructure:**

Telecommunications companies had dispute with previous tax authorities regarding the ability to claim CENVAT credit for materials used for constructing towers and shelters. Whereas, under the GST law, a specific restriction has been provided for input tax credit of goods and services used for constructing the immovable property such as towers.

- **Intra-circle roaming and Intra-circle termination services**

The main aspect in this new regime is that the termination of the intra-circle roaming. In multi-state circles the roaming services of intra-circle for same operator is a matter of concern. Telecommunications companies were not required to track such termination and roaming supplies of Intra-circles, as they were categorised as self-supplies. However, under GST regime such self-supplies come under tax net. It's mandatory that telecommunications companies are to be registered PAN-India rendering such services for its valuation for tax purposes.

- **Recharge Coupons:**

The recharge coupons which are used by the customers vary across the states in which they are offered. GST is the destination tax. Applicability of uniform format might bring in different tax rates among different states based on the SGST.

- **Composite supply**

The concept of “composite supply” need to be addressed in relation to the telecommunications service providers and equipments used by them. The GST draft model law is silent in defining the terms for this issue.

3.3. Prospects of Implementation to Telecommunications sector:

- The GST has a provision for “Necessity Services” which can attract a lower rate. Given the importance of communication services, Government may allot telecommunications services under this head in the years to come, making telecommunications services cheaper.
- Telecommunications Operators are betting on a new telecommunications policy (NTP) which aims at increased quality of service, ease of doing business & absorption of new technologies such as 5G & IOT.
- According to tax experts, the entertainment and telecommunications sectors are big beneficiaries as the GST has eliminated a multiplicity of taxes—entertainment tax, luxury tax, VAT and service tax.

- No provision for transition of input tax credit relating to goods purchased: Under the previous regime, telecommunications were not eligible to avail credit of the tax (VAT/ CST) paid on purchase of goods. However, under the GST regime, telecommunications would be allowed to avail such input tax credit for adjusting against output GST liability.

4. Analysis & Findings:

The present study involved analysing the perception of Chartered accountants about the GST implications on Telecommunications sector.

Table 3: Showing Mean and SD scores based on the survey conducted to understand the Implications of Goods and Service Tax on Telecommunications Sector in India

| Sl.No | Statement | Mean | S.D |
|---|---|------|-------|
| Implications of the GST on Telecommunications sector : | | | |
| 1 | Goods and Services Tax clause will make the audit procedure easy for the telecommunications companies | 3.67 | 1.258 |
| 2 | Goods and Services Tax System leads to the positive impact on the profit margin of the telecommunications companies | 3.17 | 1.224 |
| 3 | New Goods and Services Tax Regime will make the SIM Cards and recharge coupons cheaper | 3.08 | 1.565 |
| 4 | Goods and Services Tax clause will reduce the service cost of Mobile wallets such as Airtel money, Vodafone M-pesa etc | 3.08 | 1.394 |
| 5 | Goods and Services Tax system will attract the new company to enter into the telecommunications Market | 3.08 | 1.331 |
| 6 | The telecommunications companies may pay higher tax in the name of Goods and Service Tax when compared to previous regime | 2.92 | 1.453 |
| 7 | Goods and Services Tax system will reduce the tax burden for the telecommunications industry | 2.83 | 1.355 |
| 8 | Introduction of Goods and Services Tax leads to cheaper Internet and call rates | 2.83 | 1.416 |
| 9 | Goods and Services Tax will make the tax payment complicated in the telecommunications sector especially at the time of Inter-linking roaming and International calls etc | 2.5 | 1.334 |

Source: Author's own calculations based on primary data collected.

In order to meet this goal, a structured questionnaire was developed and floated among the Chartered accountants & practitioners majorly from Bengaluru, Mysore, Chennai, Hyderabad, Telangana regions of India. Using snowball sampling technique a total of 126 questionnaires was sent.

Out of these 126, 106 (85 Male & 21 Female) i.e. 84% responses were finally collected and processed for next step. Among the respondents 50% of the of them were Associated Chartered Accountants (ACAs – Less than 5 years of procurement of certificate of practice), 33.33% of the respondents were pursuing the final course of Chartered Accountants and practicing the article ship and 16.7 percent of the respondents were Fellow Chartered Accountants (FCAs - Greater than 5 years of Procurement of certificate of practice). The period of survey was from 6th May to 18th June 2018. The questionnaire of constructed using a five-point Likert Scale of 1-5, 5 being strongly agree, 1 being strongly disagree & 3 being neutral.

Table 3 analyses the opinions received from the respondents on the possible implications of GST on the Telecommunications Sector. Majority of the respondents remained Neutral (Mean value close to 3) on the statements such as SIM Cards and recharge coupons will become cheaper, reduction in the service cost of Mobile wallets, GST will attract new entrants into the telecommunications market, Companies may have to pay higher taxes under GST and Internet & call charges may be cheaper.

Table 4 : Showing Mean and SD scores based on the survey conducted to understand the perception about Goods and Service Tax regime, on the whole.

| S.No | Statement | Mean | S.D |
|---------------------------------------|---|------|-------|
| Overall Perception about GST : | | | |
| 1 | On the whole, Goods and Services Tax regime will increase the revenue to the Indian government. | 4.25 | 1.099 |
| 2 | On overall service sector GST implementation is beneficial to common man. | 4.25 | 1.099 |
| 3 | On the whole, Goods and Services Tax will ensure the abolition of various central, state and local taxes, enabling easier transfer of goods between states. | 4.17 | 1.152 |
| 4 | Goods and Services Tax will drastically change the taxation system and leads to positive impact on the growth of Indian Economy | 4 | 0.823 |

Source : Author's own calculations based on primary data collected.

But respondents majorly agreed (Mean value close to 4) on the point that GST will make audit procedures easy for telecommunications companies.

On the other side, respondents disagreed (not very low) to the point that GST may lead to complications while taxing the Inter-linking roaming and international calls.

Table 4 attempts to evaluate the perceptions of the respondents about GST on the whole. The analysis of the table clearly indicates that respondents have agreed that GST will increase the revenue to the Indian Government, GST shall benefit the common man, GST shall abolish various other indirect taxes that existed under previous tax regime and GST shall have a positive impact on the growth of Indian Economy. On the whole, we can conclude that the respondents are hoping for the new dawn of economic growth in India.

Further, in order to gain increased insights into the outcomes of this survey, the present study also made an attempt to understand the association between Professionals' qualification and their opinion about Implications of GST on Telecommunications sector using a Chi-square test at 90% confidence level using MS-Excel. The data and results are explained below in Table 5.

Table 5 : Showing data and results of Chi-Square test that tests the association between Professionals' qualification and their opinion about GST implications on Telecommunication sector

| Actual Values | | | | |
|----------------|--|----------|-----------------|--------|
| Profession als | Opinion about Implications of GST on Telecommunications sector | | | Tot al |
| | Favourabl e | Neutr al | Not Favoura ble | |
| CA Pursuing | 5 | 6 | 6 | 17 |
| ACA | 9 | 23 | 21 | 53 |
| FCA | 10 | 14 | 12 | 36 |
| Total | 24 | 43 | 39 | 106 |

| Expected values | | | | |
|-----------------|--|----------|-----------------|--------|
| Profession als | Opinion about Implications of GST on Telecommunications sector | | | Tot al |
| | Favourab le | Neutra l | Not Favoura ble | |
| CA Pursuing | 3.85 | 6.90 | 6.25 | 17 |
| ACA | 12.00 | 21.50 | 19.50 | 53 |
| FCA | 8.15 | 14.60 | 13.25 | 36 |
| Total | 24 | 43 | 39 | 106 |

| | |
|----------------|---------------|
| P Value | 0.7352 |
|----------------|---------------|

Table 5 attempts to further test the hypothesis by using a Chi-square test. The hypothesis assumed is as under:

H0: There is significant association between Professionals' qualification and their opinion about GST implications on Telecommunication sector.

H1: There is no significant association between Professionals' qualification and their opinion about GST implications on Telecommunication sector

From the above calculations, the Chi-square test indicates a significance level of 0.7352 at 90% confidence level. For 90% the significance level is 0.1, which is (1-0.90), so the above result shows that the P-value is 0.7352(which is more than 0.1). Therefore we reject the Null hypothesis (H0) and conclude that "There is no significant association between Professionals' qualification and their opinion about GST implications on Telecommunication sector".

5. Conclusion:

The present study explores the implications of Goods and Services Tax on the Telecommunications sector. And the study reveals that Goods and Services Tax will make the audit procedure relaxed, and reduces the complications of inter-linking roaming & International call rates. Whereas there are clear evidences of mixed opinion about SIM Cards and recharge coupons will become cheaper, reduction in the service cost of Mobile wallets, GST will attract new entrants into the telecommunications market, Companies may have to pay higher taxes under GST and Internet & call charges may be cheaper. The study further gained increased insights that there is no significant association between Professionals' qualification and their opinion about GST implications on Telecommunication sector.

At the overall level, respondents seemed to be very confident about the point that GST shall benefit the common man and will strongly result in positive impact on the Growth of Indian Economy. However, in reality the nominal GDP has surged to a low of 6.5% in 2017-18, against 7.1% in 2016-17. However, the surge in GDP rate could also be attributed to other factors such as demonetisation, hike in oil prices etc.

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