Goods And Services Tax (GST)
Impact on Economy, Industry and People

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Executive Summary

GST: The game changing biggest indirect tax reform is being implemented expectedly from April 1, 2017. The GST Bill (122nd Constitutional Amendment) has been passed by Rajya Sabha and Lok Sabha with the objective of reducing the cascading effect of tax on the cost of goods and services. The implementation of GST in the country is the historic move by the Government which is commendable as India will move towards high growth trajectory in the next few years.

On the occasion of the passage of GST Bill in the Rajya Sabha, Hon’ble Prime Minister, Shri Narendra Modi, called GST as the best example of cooperative federalism and said that this reform will promote Make in India, help increase exports and thus boost employment while providing enhanced revenue. This is a path breaking decision to give India an indirect tax system for the 21st century. Hon’ble Prime Minister also added on this occasion that they continue to work with all parties and states to introduce a system that benefits all Indians and promotes a vibrant and unified national market.

GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

GST includes taxes which are at Central level including Central Excise Duty, Additional Excise Duty, Service Tax, Additional Customs Duty commonly known as Countervailing Duty and Special Additional Duty of Customs. While at State level GST will subsume State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, Taxes on lottery, betting and gambling.

Thus, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

The Make in India program would also get a boost with improvement in ease of doing business by doing away with multiplicity of taxes and their cascading impact. GST will enhance production possibility frontiers; creating millions of employment opportunities for young population and pushing India’s growth trajectory by two percentage points. Simplification of taxation and increased growth trajectory would attract more and more FDIs and increase further the employment opportunities in the economy. The post implementation of GST will be
immense, from increase in Government revenue vis-a-vis better tax compliance and reduced tax evasion, enabling greater control and facilitating efficient monitoring than the traditional taxation system. The increased tax revenues of Government would create scope for enhanced public investments in various social and physical infrastructural activities creating further scope for employment generation.

In the light of the above development, this report has been produced by the PHD Research Bureau, PHD chamber of Commerce and Industry which aims to highlight a wholesome historical and present structure of taxation in India along with a detailed emphasis on the impact of GST on the economy as a whole along with the sub sector emphasis. Further, the report pertains to highlight the suggestive measures for the effective implementation of GST such as fixation of standard rate, increasing threshold amount, transactional value and clear valuation mechanism etc. which can contribute in a massive way for enhancing the post implementation effects of the GST.
1. Taxation through ages

India has a federal form of government which provides Centre and State Government to work independent of each other provided with sources of raising adequate revenues to discharge the functions entrusted to it. Thereby, it has a federal finance system as a backbone for successful operation of the federal form of government by providing financial independence and adequacy.

The apex body responsible for the administration of taxes is the Central Board of Revenue also known as Department of Revenue. It came into existence as a result of the Central Board of Revenue Act, 1924 as a part of Ministry of Finance. The board initially had the sole responsibility of both direct and indirect taxes. However when the administration of taxes became difficult for the board to handle, the board split into:

- **Central Board of Direct Taxes (CBDT)** – which provides essential inputs for policy and planning of direct taxes in India and is also responsible for administration of the direct tax laws through Income Tax Department.

- **Central Board of Excise and Customs (CBEC)** – which deals with the tasks of formulation of policy concerning levy and collection of Customs & Central Excise duties and Service Tax, prevention of smuggling and administration of matters relating to Customs, Central Excise, Service Tax and Narcotics to the extent under CBEC’s purview.

With effect from 1\textsuperscript{st} January 1964 this bifurcation was brought about by constitution of the two Boards under Section 3 of the Central Boards of Revenue Act, 1963.

1.1 Indirect Taxation - present structure and existing challenges

The framework for levy of indirect taxes under the Constitutional provisions in India vide Article 246, Seventh Schedule empowers both the Central Government and the State Governments to levy and collect applicable taxable-event based indirect taxes on transactions of goods and services. The taxable event varies from the point of manufacture or sale or provision of services or imports/exports. The existing indirect tax laws are origin-based tax, structured to levy and collect at the point of happening of the prescribed taxable event. There are a number of indirect taxes applied by the government. Taxes are levied on import, manufacture, sale and even purchases of goods and services. The present structure of tax structure in India is as follows:
The various tax laws are levied and collected as follows:

<table>
<thead>
<tr>
<th>Tax</th>
<th>Taxable Event</th>
<th>Levied by</th>
<th>Collected by</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Excise Duty</strong></td>
<td>Manufacture of Goods in India (excluding goods manufactured in SEZ in India)</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td><strong>Service Tax</strong></td>
<td>Provision of Service Taxable Territory</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td><strong>Sales Tax/ VAT</strong></td>
<td>Sale of goods within the State</td>
<td>SG</td>
<td>SG</td>
</tr>
<tr>
<td><strong>Customs Duty</strong></td>
<td>Import into India from a place outside India or Export from India to a place outside India</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td><strong>Central Sales Tax</strong></td>
<td>Sale of goods Inter- State (i.e. from one State to another State)</td>
<td>CG</td>
<td>SG</td>
</tr>
<tr>
<td><strong>Local Body Tax (Entry Tax/Octroi)</strong></td>
<td>Entry of goods to a State from a place outside the State</td>
<td>SG</td>
<td>SG</td>
</tr>
</tbody>
</table>

Please Note:  
CG- Central Government, SG- State Government  
**Challenges embedded within the existing structure of Indirect Taxation in India**

<table>
<thead>
<tr>
<th>Nature of Challenges</th>
<th>Leads to</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different tax rates on same product under existing VAT / Sales Tax under different States</td>
<td>Different prices due to different rates of tax levied and collected on the same commodity in different states.</td>
<td>no common economic market i.e. absence of integrated market.</td>
</tr>
<tr>
<td>Not leveraging economies of scale</td>
<td>Potential decrease in productivity and lower production.</td>
<td>Fixed overhead costs getting absorbed on lower scale of production.</td>
</tr>
<tr>
<td></td>
<td>Industries unable to gain the low-cost advantage.</td>
<td>Leverage for cost reduction through effective use of technology is not available to industries due to low economics of scale.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>higher cost of production for goods and services.</td>
</tr>
<tr>
<td>Uncertainty in tax laws</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Constitutional pluralism.</td>
<td>Mystic aura of interpretation.</td>
</tr>
<tr>
<td></td>
<td>Contradictory Provisions.</td>
<td>Increase in litigation.</td>
</tr>
<tr>
<td></td>
<td>Subordinate legislations - Rules or Notifications or Circular in some cases tends to override the provisions of the mother Act.</td>
<td>Uncertainty for business / industries and Assesses under different tax laws.</td>
</tr>
<tr>
<td></td>
<td>Multiplicity of taxes.</td>
<td>Multiplicity of Compliance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High compliance cost.</td>
</tr>
</tbody>
</table>

2. Advent of GST

Over the years and since the formation of the Indian government incessant changes in the tax structure have been made in order to make the tax policies much easier and refined for the masses. Thereby making ease of performing activities and speedy business practices a call of the hour.

Taxation system in any country is the revenue generator for the government in order to finance its expenditure. During the mid-1980s India faced a very difficult fiscal environment. Government raised its expenditure levels greatly causing fiscal deficit to increase to such an extent that gave rise to macroeconomic imbalances leading to 1991 balance of payment crisis. In order to reduce the fiscal imbalance in our country and overcoming the deficit concerns it becomes all of more important to bring about major changes in the taxation system.

The Indian taxation system has undergone reforms with rationalization of tax rates, simplification of tax laws, better compliance mechanisms, ease of tax payment and improved enforcement. Thus, widening tax base and reducing the tax rates in order to bring out a large amount of goods into the tax bracket with much ease was the focal point of the changes being done.

A tax system should be based on a friendly environment with minimal hindrances in the business for the tax payer. Such a system would further lead to satisfied tax payers and will further motivate them in fulfilling their obligations willfully. This further leads to less delays and faster economic growth of the economy. Hence, there is a need to move from an adversarial mindset to a facilitative mindset by introducing a vibrant and non adversarial tax policy which would help in enhancing the speed of the economic growth of the country.

The prolonged delays in solving out the disputes on tax matters were witnessed as yet another major obstacle in the growth of the country. These were basically the outcome of the complex tax structure urging the need of the change the present structure in order to lessen the hardship of the tax payers.

In a dynamic global environment tax reforms can serve a multitude purposes. They can help enhance revenue productivity, reducing economic distortions and help create a stable and predictable market environment. In an open economy such as that of India, the focus on the efficient tax system becomes all of more important. The minimization of three different costs namely; cost of collecting taxes, compliance costs to tax payers and distortion costs to economy are the areas to be considered by the Indian taxation system.

Our current structure of indirect taxes is driven by a multiplicity of taxes- some levied by the Centre and others by the States. Each of these taxes applies to a narrow base both in terms of the economic activity it covers and the base of many of these taxes overlaps creating the problem of double taxation. Hence, drawing out money that is twice of what should be paid
from the pockets of the individuals. This can be explained with help of following example of Entry exit taxes.

For instance a Gujarati manufacturer who sources inputs from Maharashtra and then exports the finished good to Mumbai pays State and CENVAT, and a Central Sales Tax of 2 per cent on purchase of inputs from Maharashtra. Also, CST does not qualify for input tax credit for him. On entering Gujarat, inputs are subject to an entry tax. CST is again levied on the finished good “exported” to Maharashtra at the time of exit. On entering Mumbai an octroi is levied on the finished good. This makes the good “imported” into Maharashtra more expensive than locally (in Maharashtra) manufactured goods. Therefore, the manufacturer in Gujarat is discouraged from sourcing inputs from other States. To avoid this, the seller makes a stock transfer by setting up a warehouse in importing state (Maharashtra) and then makes a sale locally. In addition, manufacturer also has to pay service tax on transportation charges. This results in inefficiencies in supply chain impacting inter-State trade.

The Arvind Subramanian committee report suggests that in six states namely Maharashtra, Andhra Pradesh, Karnataka, Gujarat, Tamil Nadu and Kerala, stock transfers, on average, account for as much of inter-state trade as the trade subject to the CST. Inter-state stock transfers in Andhra and Gujarat are more than double (2.65 and 2.14 times respectively) of their inter-state trade subject to CST, to avoid taxes.¹

Taking into account all the above factors tax system has seen evolution right from the pre existing Central excise duty and the States sales tax systems to VAT, MODVAT and then changing to CENVAT. This lead to harmonizing of sales tax structure through implementation of uniform floor rates of sales tax.

Introduction of VAT has been successful in India but there continued to be certain shortcomings in the VAT structure both at Central and State level. For example CENVAT does not include many central taxes such as additional custom duty, surcharges etc. Moreover, no crucial steps were been implemented to capture the value added chain in the distribution trade below the manufacturing level in the existing scheme of CENVAT.

Thus, in order to reduce these loopholes in the taxation system by eliminating the cascading effects of CENVAT and service taxes the rise of the revolutionary reform GST began. With the agenda of reducing the cascading effects of tax on the cost of goods and services, GST: The game changing biggest indirect tax reform is being highly awaited. What is GST? How it works? Will it be really helpful in boosting the Indian economy as it helped other economies? How far one can realize its benefits? These are some of the questions of great concern not only to the business personnel and economy but also to the common man.

The basic comprehension of GST can be made that it is a multi-tier value added tax. It’s called value added tax because at every stage tax would be paid on the value addition thereby reducing the double taxation issue faced by the tax payers. In layman terms we can say that whatever extra value you are adding to the output excluding the inputs would be the one on which you are liable to pay taxes.

**Illustration to understand GST**

Illustration: In terms of a hypothetical example with a manufacturer, one wholesaler and one retailer, how GST will work. Let us suppose that **GST rate is 10%**.

### Manufacturer

| Purchases made: Rs. 100 | Product Price: Rs. 130 | Tax: Rs 13  
| Value Added: Rs. 30 | Tax on the product: 10% of Rs. 130 = Rs 13 | GST to be paid: Rs. 3 (10% of 30)  
| | | Input Tax Credit: Rs 10 (10% of 100)  
| | | Goods sold to wholesaler  

### Wholesaler

| Purchases made: Rs. 130 | Product Price: Rs. 150 | Tax: Rs 15  
| Value Added: Rs. 20 | Tax on the product: 10% of Rs. 150 = Rs 15 | GST to be paid: Rs. 2 (10% of 20)  
| | | Input Tax Credit: Rs 13 (10% of 130)  
| | | Goods sold to retailer  

### Retailer

| Purchases made: Rs. 150 | Product Price: Rs. 160 | Tax: Rs 16  
| Value Added: Rs. 10 | Tax on the product: 10% of Rs. 160 = Rs 16 | GST to be paid: Rs. 1 (10% of 10)  
| | | Input Tax Credit: Rs 15 (10% of 150)  

Thus, the manufacturer, wholesaler and retailer have to pay only Rs.6 (= Rs. 3+Rs. 2+ Rs. 1) as GST on the value addition along the entire value chain from the producer to the retailer, after setting-off GST paid at the earlier stages.
GST will have two components: one levied by the Centre and the other by the States. The Central GST and the State GST are to be paid to the accounts of the Centre and States respectively. It would be applicable to all the transactions of goods and services except the exempted goods and services for example: alcohol, petroleum products etc.

**Taxes to be subsumed in GST**

### Central GST

- **Central Excise Duty & additional Excise Duties**
- **Service Tax**
- **Additional Customs Duty (Countervailing Duty)**
- **All Surcharges and Cesses**

State GST

State cesses & surcharges on goods & services
Taxes on lottery, betting, and gambling
VAT
Entry Tax, whether in lieu of octroi or otherwise
Central Sales Tax
Luxury Tax
Entertainment Tax
Purchase Tax
State Excise Duties
Stamp Duty
Taxes on vehicles
Tax on goods and passengers
Taxes and duties on electricity
All state cesses and surcharges

Besides the dual components of GST the other topic that is being discussed on a massive scale is the how the inter-state transactions of goods and services shall be taxed in GST regime. The Empowered Committee of the State Finance Ministers suggests that for inter-state transactions tax should be levied under the integrated GST(IGST) scheme which is the sum total of CGST and SGST.

**Illustration to understand IGST model**

<table>
<thead>
<tr>
<th>Present Tax System</th>
<th>GST System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product sold from Mumbai to Nagpur, Price: Rs. 1000</td>
<td>Product sold from Mumbai to Nagpur, Price: Rs. 1000</td>
</tr>
<tr>
<td>VAT @ 10% = Rs. 100</td>
<td>CGST @ 5% = Rs. 50</td>
</tr>
<tr>
<td></td>
<td>SGST @ 5% = Rs. 50</td>
</tr>
<tr>
<td>Product sold from Nagpur to Chennai COST = Rs. 1100 PROFIT = Rs. 1000 SELL PRICE = Rs. 2100</td>
<td>Product sold from Nagpur to Chennai COST = Rs. 1100 PROFIT = Rs. 1000 SELL PRICE = Rs. 2100</td>
</tr>
<tr>
<td>CST @ 10% = Rs. 210</td>
<td>IGST @ 10% = Rs 110 (210 - CGST- SGST)</td>
</tr>
<tr>
<td><strong>Total Cost of the product = Rs. 2310</strong></td>
<td><strong>Total Cost of the product = Rs. 2210</strong></td>
</tr>
</tbody>
</table>

In the above example, we note that the tax paid on sale within state can be claim against tax paid on sale outside state in GST system, which is not in the present tax system.

The credit of CGST cannot be taken against SGST and credit of SGST cannot be taken against CGST but both credits can be taken against IGST.
3. GST so far

The talks of implementation of GST have been ongoing in India since the year 2006. This delay in implementation of GST was on account of multiple reasons involving procedural delays at centre and state level. However a year wise analysis on progress and developments of GST can be done as follows:

**2000**

In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta (Finance Minister, Government of West Bengal). It was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country.

**2002-04**

The Kelkar Task Force on implementation of the FRBM Act, 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems and had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle. GST system is targeted to be a simple, transparent and efficient system of indirect taxation as has been adopted by over 130 countries around the world.

**2006**

A proposal to introduce a national level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07. Since the proposal involved reform/restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).

**2007**

Joint Working Group was set up by Empowered Committee of State Finance Ministers on 10th April 2007. The group submitted report to Empowered committee on 19th November, 2007. The report was discussed by the committee and some changes were made accordingly.

**2008**

On 30th April, 2008, the EC sent the report “A Model and Roadmap for Goods and Services Tax (GST) in India” containing broad recommendations about the structure and design of GST to the
government. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST.

### 2009

Based on inputs from Government of India and States, The EC released its First Discussion Paper on Goods and Services Tax in India on the 10th of November, 2009 with the objective of generating a debate and obtaining inputs from all stakeholders. A dual GST module for the country has been proposed by the EC. In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted. This was further trifurcated into three Sub-Working Groups to work separately on draft legislations required for GST, process/forms to be followed in GST regime and IT infrastructure development needed for smooth functioning of proposed GST. In addition, an Empowered Group for development of IT Systems required for Goods and Services Tax regime has been set up under the chairmanship of Dr. Nandan Nilekani.

### 2011

**March 2011** - The constitution 115th amendment bill introduced in Lok sabha for levy of GST on all goods or services except for the specified goods. Constitution Amendment Bill to enable roll out of GST was tabled in Parliament

### 2013

**August 2013** - Standing committee submitted its report on GST  
**November 2013** - Empowered committee rejected government’s proposal to include petroleum products under GST.

### 2014

**December 2014** - The constitution 122th amendment bill passed in Lok sabha for levy of GST which enables the introduction of GST probably by April 2016 on 17th December 2014.

### 2015

**May 6, 2015** - The Amendment Bill (122nd) passed by the Lok Sabha.  
**May 12, 2015** -The Amendment Bill presented in the Rajya Sabha.  
**May 14 2015** - The Bill forwarded to joint committee of Rajya Sabha and Lok Sabha.  
**Aug 2015** - Government fails to win the support of Opposition to pass the bill in the Rajya Sabha where it lacks sufficient number.

### 2016

**Aug 3, 2016**: Rajya Sabha passes the Constitution Amendment Bill by two-thirds majority.
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>In 2000, the Vajpayee government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta (Finance Minister, Government of West Bengal).</td>
</tr>
<tr>
<td>2002-04</td>
<td>The Kelkar Task Force on the implementation of Fiscal Responsibility and Budget Management (FRBM) ACT,2003 and suggested a comprehensive Goods and Services Tax.</td>
</tr>
<tr>
<td>2006</td>
<td>First time proposal for introduction of Goods and services tax was made on 28th feb 2006 by Sh. P. Chidambaram from April 1, 2010.</td>
</tr>
</tbody>
</table>
| 2007 | **10th May 2007**: Joint working Group set up by Empowered Committee of State Finance ministers.  
**Nov 2007**: Joint Working Group submitted its report to the Empowered Committee on November 19, 2007, discussed and changes made. |
| 2008 | **30th April 2008**: Empowered committee's views was sent to government.  
**12th and 16th April 2008**: Comments were received and was considered by Empowered committee. |
| 2009 | **Oct 2009**: Interaction for compensation for loss of revenue to states  
**Nov 2009**: First Discussion Paper on GST released by Empowered Committee. |
| 2010 | **Feb 2010**: Mentioned in the speech of then Finance Minister – GST to be introduced in April 2011 |
| 2011 | **March 2011**: The Constitution 115th amendment bill introduced in Lok sabha for levy of GST on all goods or services except for all the specified goods. |
| 2013 | **Aug 2013**: Standing Committee submitted its report on GST  
**Nov 2013**: Empowered Committee rejected government’s proposal to include petroleum products |
| 2014 | **Dec 2014**: The Constitution 122nd amendment bill passed In Lok sabha for levy of GST which enables the introduction of GST probably by April 2016 on 17th December, 2014 |
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**May 14 2015**: The Bill forwarded to joint committee of Rajya Sabha and Lok Sabha.  
**Aug 3, 2016**: Rajya Sabha passes the Constitution Amendment Bill by two-thirds majority. |

Source: PHD Research Bureau, compiled from JK Mittal, “Introduction to GST”,2015; website of GST seva assessed on 20th May 2016 URL: http://www.gstseva.com/gst/history/
Phasing out of CST began from April, 2007 with the reduction in CST rate from 4% to 3%.

Budget 2006-07 FM proposed introduction of GST from April, 1 2010.


EC finalized its views on broad GST structure consensus on Dual GST (Central and State GST), Separate legislation, levy and administration

First Discussion Paper on GST was released by EC.

EC rejected Central Govt.’s proposal to include petroleum products under GST in November, 2013.

Constitution Amendment Bill to enable roll out of GST was tabled in Parliament

Passage of Constitutional Amendment Bill on GST in Lok Sabha on 6th May 2015. Select Committee presented its report to the Rajya Sabha in the monsoon

2006

2007

2007

2008

2008

2009

2009

2011

2013

2015

2013

2014

2015

Study paper on GST authored by Dr. Parthasarthy Shome was released.

CST rate was further reduced from 3% to 2% in June, 2008.


Revised Constitution Amendment Bill tabled in Parliament on 19 December, 2014.

On Oct 2015, the Joint Committee constituted by EC released business process reports related to payment, registration, refund and return in public domain for comments.

4. Implementation of GST

GST provides the economy a justifiable and fair taxation system as each and every individual who consumes products or services (apart from those which are exempted) will contribute in generating revenue for the Government. It helps in reducing practices of tax evasion by individuals and companies.

Therefore, GST is imposed throughout the production-distribution chain unlike the present sales tax and services tax which is collected at a single point. The burden of the tax is circulated from manufacturer to wholesaler to retailer then finally to the end consumers. This enables greater control and facilitating efficient monitoring than the traditional taxation system.

Making the administration easier by making tax audits effective and efficient, GST will improve making tax payments and producing and submitting information to the tax authorities on time and in the required formats.

GST is considered a progressive step and its benefits are widely been discussed as follows:

• As tax rate would be reduced the prices of commodities will fall. The law of demand principle states that falling prices will lead to increasing demand. So, the demand would rise followed by increasing supply and manufacturing of goods and services. Profitability can be seen in a larger frame that calls for business expansion. Thus, will promote employment.
• GST would bring in uniformity in the tax rates which would make the tax calculation and collection easier by widening the tax base and reducing the tax rate.
• A more comprehensive and wider coverage subsuming several Central and State taxes in GST and phasing out of Central Sales Tax is another beneficial area been provided.
• Through GST there would be integration of all taxes that would split the tax burden equally between the manufacturing and services sector. A common base and common rates across goods and services and very similar rates across States and between Centre and States will facilitate administration and reduce transaction costs.
• With the reduction in the compliance cost our trade and industry will become more competitive leading to an increase in exports and lower domestic prices.
• Improving tax collection machinery and the delivery of tax payer services through GST would be working in compliance of ease of doing business initiative of the government.
• There would be no tax barrier in GST for inter-state movement of goods which would reduce the distribution cost.
• More employment more demand more output produced, all these directs towards increasing the GDP of the economy.
The Implication of GST in various areas of operation

- Impact on cash flow
- Identification of transaction and GST liability
- Compliances
- Cancellation of registration—potential audit?
- GST impact on corporate plans e.g., restricting, new projects and transaction
- Clarification of issues and treatment with tax review panel
- Availing advantage of Trade Facilitation Arrangement

- Changes to master and transaction records
- Systems design changes for VAT/GST compliance
- Sourcing from incentive area vendors
- Preferential GST vendors maximize tax credits
- Best practices for invoicing to maximize tax credits
- Training of IT infrastructure and communication

- Impact on contracts
- Current contracts
- Future contracts
- Effect on demand
- Pricing strategies
- Impact on current pipeline and inventory
- Presence of warehouses

- Legal
- Finance & Administration
- Suppliers
- Consumers
- Sales & Marketing Strategies
- Information System
- Strategy

According to Dr. Awdhesh Singh, ex Commissioner of Customs and Central Excise (2012-15), “The main purpose of GST is to eliminate the dispute of taxing goods and services separately. Nowadays services are sold with goods (e.g. warranty) and goods are sold with services (e.g. SIM card). While our commonsense tells us that goods and services are totally distinct, in reality, you can sell all goods as services and evade taxes. For example, instead of selling a car (as goods), you can sell the car on lease for 10 years (as service) and save the taxes if service is not taxed or taxed at a lower rate.”

Therefore, GST should be implemented in order to eliminate such disputes for all transactions needs to be taxed at the same rate. Goods and services should be taxed and treated equally thereby providing an equitable and just taxation system.

5. Impact of GST on Economy and Employment

The implementation of GST will reduce the barriers between states and will make the country a common market. GST will create a common base and common rates across goods and services and reduce transaction costs. A more comprehensive and wider coverage subsuming several Central and State taxes in GST and phasing out of Central Sales Tax will be beneficial for manufactures and consumers as this is expected to reduce the transaction costs of manufacturers and eventually would reflect in reduction of prices of goods. With the reduction in the compliance costs, our trade and industry will become more competitive leading to increased competitiveness not only in the domestic market but also in the international market.

5.1 Benefits of GST for business and industry

- **Easy compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
- **Removal of cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
• **Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

5.2 **Benefits of GST for Central and State Governments**

• **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
• **Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would incentivize tax compliance by traders.
• **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

5.3 **Benefits of GST for the consumers**

• **Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

• **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

Thus, Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today is impacted by cascading impact of taxation. GST implementation is to going to provide impetus to various reforms and polices introduced by the Government for the ease of doing business and to push India to a more simple, transparent and tax friendly regime. Hence, GST is also beneficial for consumers as there would be only one tax from the manufacturers and service providers to the consumer leading to transparency and efficiency. It will prevent leakages from the system and provide relief in terms of reduced tax burden on most of the commodities.
6. Sector wise Impact of GST

6.1 Real Estate Sector

Presently, real estate sector works under the auspices of multiple indirect taxes such stamp duty, VAT and service tax. Although the stamp duty will be carried forward, VAT and service tax will be supplanted by GST. RERA or Real Estate Regulatory Act and GST are the two ends of a rope that postulates to pull the real estate sector to new heights. Both the regulations aim to target different areas of real estate where RERA provides a regulatory framework for the sector, GST will expedite by ensuring competitive and hassle free business environment. Real estate sector is expected to gain profoundly from the implementation of GST.

The tax structure is expected to act as a catalyst in expansion and panacea for its issues. On one hand GST has been acclaimed by all, RERA gathered mixed reviews. The act is envisaged to be pro-buyers, which aims to safeguard the interest and investment of buyers. Although the act encompasses all the possible safeguard mechanism for the buyers, it may shoot the house prices up in the short run. With change in policy regime by RERA, the developers are set to face multiple financial impediments right from building to selling. For instance, developers need to submit in all the pertinent information such as sanction plans, carpet area, etc to the authority that strips off the power of pre-launches by the developers, which ex-ante RERA was a quintessential route for raising capital. This may push developers to resort for higher cost capital, thereby increasing the final unit value. Similarly, using carpet area instead of super-built up area for actual useable area will make the process more transparent however, the development cost for super-built up area may eventually load off on carpet area, making it exorbitant.

Paint industry, a complimentary industry to real estate, is exposed to a tax regime varying between 24-26% on an average. With the advent of GST, rates will apparently be pegged in the range of 17-19% which is going to be highly beneficial for consumers and also holds expediting repercussion effects on associated industry such as real estate. Another segment that highly correlates with the real estate sector is the cement industry. GST is going to certainly benefit the latter industry, on the back of reduction in the tax rates from 27-32% currently to 18-20% post GST. This will further have a multiplier effect on the real estate segment.

6.2 Agriculture and food processing

If the GST rate is 18%, food prices may rise in the initial phase of GST but the proposed tax will bring in several benefits for the industry and consumers in terms of reduced logistics costs. Agricultural products will be able to reach more areas as trucks carrying perishable commodities will be able to cover longer distances without hindrance.

Many food products are eligible for concessional duties today and if the GST rate is higher than 10% we might see an increase in prices and sensitive items should be out of GST. Unless the
overall GST is below 10% for the food processing sector, it will lead to an increase in inflation and will not benefit farmers or consumers.

Also, there is still no clarity on whether the existing taxes, like mandi tax, will be merged with GST or not and it vary from state to state. So, we would like to know whether mandi tax will be there or not apart from GST. GST will bring within the tax net transactions such as trading in oilseeds, pulses and cereals, which, at the moment, are happening outside the tax structure.

However, there is confusion over whether there will be a flat rate of GST for both imported and domestic oil. Imported oil attracts a duty of 12.5%, it is not clear whether imported edible oil will be taxed at 17.5% and domestic oil at 5%. India imports around 14.5 million tonne of edible oil annually.

6.3 Warehousing

The Indian logistics industry was valued at an estimated US$ 130 billion in 2012-13. It has grown at a CAGR (Compound Annual Growth Rate) of over 16 per cent over the last five years. The industry comprises the following main segments:

- Freight and passenger transportation via road, rail, air and water
- Warehousing and cold-storage

The rapid growth in industries such as automobiles, pharmaceuticals, fast-moving consumer goods (FMCG) and retail has significantly increased the demand for movement of consumer and capital goods across the country, from entry ports to manufacturing or distribution locations or from manufacturers and distributors to consumers and exit ports.

With the growth of organized warehousing and an expected simplification of existing tax structure warehousing in India will witness a paradigm shift towards larger logistic park with the state with high facilities. Presently both the agriculture and service sector have been the key demand generator for warehouses sector in India.

GST would eliminate the existing penalties on interstate sales transactions and facilitate consolidation of vendors and suppliers. This will eliminate the need to have state wise warehouses to avoid CST and the associated paperwork, leading to elimination of one extra, redundant level of warehousing in the supply chain.

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Thus, GST will unleash a new era of developing logistics infrastructure and take investments to the next level. The regulatory reforms proposed in the GST present an opportunity to re-engineer logistics and transportation networks changing the current inefficient and longer supply chains with warehouses in almost every state based to efficient delivery and cost efficiency.

6.4 Automobiles

GST will be positive for the automotive sector primarily because of the efficiency and the removal of cascading that is expected with GST. And, to give you an example, in an automobile sector, a car is manufactured in a particular state and generally, 80 percent of these cars are sold to states outside the state of manufactures to dealers outside the state. So, today to straight away give you an example, the two percent Central Sales Tax (CST) that they pay will not be there tomorrow because hopefully origin tax is not there.

It is largely positive for demand, as it will lead to a 10-17 per cent fall in prices, assuming an 18 per cent GST rate. Margin benefits to accrue for tractors, as these can claim set-off against taxes paid on input. Organized battery and other spares would become more cost competitive and gain market share.

One of the facts that the car manufacturers and automobile manufacturers have to keep in mind is that these state incentives are based on the current value added tax (VAT) and CST that they pay. Tomorrow with CST going away, the states will have to make do these commitments of incentives on the basis of whatever they correct under the GST regime.

6.5 Fast Moving Consumer Goods (FMCG)

In FMCG sector, substantial savings can be generated by companies in logistics and distribution costs as GST will eliminate the need for multiple sales depots. Effective distribution cost for FMCG companies accounts to approximately 2 to 7% of their turnover. Currently FMCG companies pay approximately 24-25% tax inclusive of excise duty, VAT and entry tax. However, GST at 17-19% will yield in significant reduction in taxes. As any supply (say sale or stock transfer) would be treated taxable under GST, it may lead to increased requirement of working capital and cash flow to be effected till return claims gets settled. For manufacturers, who have established their units in areas having tax holidays or incentives (like Himachal, Uttaranchal, etc.), might not enjoy the same benefit post GST. FMCG distributors and retailers will be benefited as they will be able to set-off input credit from services (say transport, rent, etc.) against their GST liability, which is currently not possible. The key beneficiaries of GST are Hindustan Unilever, Colgate, GSK, Asian Paints. Petroleum, Liquor and Tobacco products are excluded from GST.
Suggestive Measures & Concluding Remarks

Suggestive Measures

- **GST Rates for Goods and Services** - It is suggested to fix the standard rate of GST at 18% with a slab of lower (2-4%) and median GST (12%) rates and gradually increase it over the next successive years, if required.

- **Threshold Amount**: Model GST Law put in public domain on June 14, 2016, has prescribed threshold of Rs. 10 Lakhs for all States other than North Eastern States including Sikkim and Rs. 9 Lakhs for North Eastern States including Sikkim, which was considered on being at a lower side – Now, the threshold limit for GST has now been fixed at Rs. 20 lakhs for all States except North Eastern States and hill States wherein the threshold limit will be Rs. 10 lakhs. – Still, it is advisable to increase it to Rs. 25 lakhs for provide relief to SME Sector.

- **Transaction Value**: will include, inter-alia, all taxes, duties, fees and charges levied under any statute other than the SGST Act or the CGST Act or the IGST Act, subsidies, discount or incentive that may be allowed after the supply has been effected - Inclusion of other taxes in transaction value will only increase costs by way of cascading of taxes. Inclusion of subsidies will increase the complexity of valuation and create an avenue for disputes and litigation.

As far as discounts post supply are concerned, it is standard practice across several industries to provide such discounts on the basis of quantity/volume sold or slabs of sale attained and so on. Whilst the practice is standard, the quantum or rate of discount is ascertainable only after completion of sales. Accordingly, to avoid increase in costs, all post supply discounts which are provided per standard practice at rates/quantum determined only after completion of supply should be excluded from the Transaction Value.

As per Rule 3(5) of the GST Valuation Rules where goods are transferred from one place of business to another place of business of the same person by way of stock transfer and in case of transfer of goods between “principal” and “agent”, whether or not situated in the same State, the value of supplies shall be as per the Transaction Value. It is submitted that the adoption of Transaction value in such cases will front-end the value of supplies and result in high blockage of funds since the tax will be paid basis the Transaction Value but the actual supply to a recipient of goods will happen only at a future date. Accordingly, it is suggested that in case of these types of transactions the valuation methodology like Costs + 10% may be adopted instead of Transaction Value.
Clear Valuation mechanism should be provided for taxation of FOC supplies.

- Grand fathering of exemption to continue for Units exempted from Excise in the States of Himachal Pradesh / Uttarakhand: Area based exemption provided by the Government in Himachal Pradesh and Uttarakhand has resulted in significant investments in these States despite the extreme logistical complexities inherent in these areas. The investments made in these regions have given a fillip to the local economy and increased employment opportunities – both direct and indirect. In order to sustain this position, encourage further investments in these areas and to provide existing units with a viable timeframe to optimise capacity utilisation, it is suggested that these exemptions should continue in the GST regime.

- Notional credit on account of excise suffered on stock lying with the VAT dealer to be allowed: The transition provisions provide that credit balances shown in return under the present regime can be carried forward under GST. In case of stocks lying with dealer which are procured on payment of excise duty and CST, such excise duty and CST is not admissible as credit under the present regime. Accordingly, it is suggested that the transition of such taxes/ duties included in the stocks lying with the dealer may be allowed. Otherwise, under the GST regime, such stocks would suffer tax again, i.e. excise duty and CST already paid, and CGST and SGST on supply to be paid after the appointed date.

- Seamless flow of GST credit should be allowed - as Model GST Law states that credit not available on Construction of Immovable Property, Employee related services, etc.

- No provisions dealing with supplies to SEZ. Consequential amendments needed in the SEZ Act.

- Adjudication of Disputes - No limitation period for issuance of show cause notice.

- Clarity and certainty required for summation of all surcharge & cesses in GST as recently decided by GST Council

- Definition of input service distributor enables distribution of credit of only input services by the ISD. The definition of ISD should be amended to enable the ISD to distribute credit of inputs as well.

- Refund under the GST regime should be automatic upon filing of return as is the case under Income Tax law
• Issues from Real-estate Sector –
  a) Input Tax Credit is not available for inputs/ input services utilised in the construction of immovable property. Tax paid on inputs/ input services would become a cost for the builders, etc.
  b) The Draft Legislation does not provide for the abatement of the value of land for levy of GST.
  c) Need clarity on the taxability of the development rights under the Draft GST Legislation.

• Petroleum Industry will operate under hybrid tax regime and inability to claim GST credit due to temporary non-inclusion of five petro products could shore up costs. Similar would be the fate of alcohol industry. Further, taxes paid on these products, kept out of GST, will be costs to the buyer of goods, chargeable under GST, which will results cascading of taxes post GST regime. Consequently, some thinking around zero rating or concessional taxation under existing law on the inputs for these industries is warranted.

**Concluding Remarks**

In a nutshell, GST will promote ease of doing businesses, help in reduction of transactions costs to businesses, boost manufacturing of goods and supply of services, increase price-cost margins of manufacturers, generate employment opportunities for the vast pool of young population with enhanced production possibility frontiers and push overall GDP growth of the economy in much higher trajectory. The need of the hour is to spread awareness at a larger scale about the implementation procedure and advantages of GST to every citizen of the country.

Hence, GST is also beneficial for consumers as there would be only one tax from the manufacturers and service providers to the consumer leading to transparency and efficiency. It will prevent leakages from the system and provide relief in terms of reduced tax burden on most of the commodities.
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Studies Undertaken by PHD Research Bureau

A: Thematic research reports

1. Comparative study on power situation in Northern and Central states of India (September 2011)
2. Economic Analysis of State (October 2011)
5. Emerging Trends in Exchange Rate Volatility (April 2012)
6. The Indian Direct Selling Industry Annual Survey 2010-11 (May 2012)
7. Global Economic Challenges: Implications for India (May 2012)
8. India Agronomics: An Agriculture Economy Update (August 2012)
9. Reforms to Push Growth on High Road (September 2012)
10. The Indian Direct Selling Industry Annual Survey 2011-12: Beating Slowdown (March 2013)
11. India- Africa Promise Diverse Opportunities (November 2013)
13. Annual survey of Indian Direct Selling Industry-2012-13 (December 2013)
14. Imperatives for Double Digit Growth (December 2013)
15. Women Safety in Delhi: Issues and Challenges to Employment (March 2014)
16. Emerging Contours in the MSME sector of Uttarakhand (April 2014)
17. Roadmap for New Government (May 2014)
18. Youth Economics (May 2014)
22. 100 Days of new Government (September 2014)
23. Make in India: Bolstering Manufacturing Sector (October 2014)
24. The Indian Direct Selling Industry Annual Survey 2013-14 (November 2014)
25. Participated in a survey to audit SEZs in India with CAG Office of India (November 2014)
26. Role of MSMEs in Make in India with reference to Ease of Doing Business in Ghaziabad (November 2014)
27. Exploring Prospects for Make in India and Made in India: A Study (January 2015)
28. SEZs in India: Criss-Cross Concerns (February 2015)
29. Socio-Economic Impact of Check Dams in Sikar District of Rajasthan (February 2015)
30. India - USA Economic Relations (February 2015)
31. Economy on the Eve of Union Budget 2015-16 (February 2015)
32. Budget Analysis (2015-16)
33. Druzhba-Dosti: India’s Trade Opportunities with Russia (April 2015)
34. Impact of Labour Reforms on Industry in Rajasthan: A survey study (July 2015)
35. Progress of Make in India (September 2015)
39. India’s Foreign Trade Policy Environment Past, Present and Future (December 2015)
40. Revisiting the emerging economic powers as drivers in promoting global economic growth (February 2016)
41. Bolstering MSMEs for Make in India with special focus on CSR (March 2016)
42. BREXIT impact on Indian Economy (July 2016)
43. India’s Exports Outlook (August 2016)

B: State profiles

44. Rajasthan: The State Profile (April 2011)
45. Uttarakhand: The State Profile (June 2011)
46. Punjab: The State Profile (November 2011)
47. J&K: The State Profile (December 2011)
48. Uttar Pradesh: The State Profile (December 2011)
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51. Madhya Pradesh: The State Profile (August 2012)
52. Resurgent Bihar (April 2013)
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