Telecom sector is geared up for seamless GST

The industry lauds the government for bringing one of the most iconic reforms in India since Independence. Needless to say, GST is also unique because it brings the 'one nation one tax' credits alive and is expected to positively transform business across verticals.

With an achievement of a billion subscribers, telecom is a key contributor to the Indian economy, to the tune of 6.5 per cent of India’s GDP. Apart from other far-reaching benefits including communications and allied welfare, employment, revenue generation and overall economic growth it is also a key emergency as well as an essential service, connecting citizens with each other and the world at large.

Cumulative FDI inflows into the sector were as much as ₹92,700 crore as of March 2016. In terms of employment, the sector contributes directly to 22 lakh and indirectly to over 18 lakh jobs.

The sector has empowered over a billion citizens and has one of the lowest tariffs in the world. The industry that has invested over ₹9.2 lakh crore in setting up world class mobile networks in the past 20 years is going through one of its most disruptive phases. The sector is reeling under a debt burden of ₹4.5 lakh crore. The telecom sector is in dire financial straits with a meagre one per cent return on investments and many operators even making negative returns on their investments. It is an unhealthy trend for the overall economy and policy of the country, severely debilitating investment.

Right after the GST rates were announced, the telecom sector had submitted to the government that adequate consideration must be given to the current financial health of the sector. It is vital that telecom, as a service and infrastructure, be considered of national importance, from a financial point of view and for all practical and taxation purposes as well. While telecom is an essential service, it does not receive the benefits and is saddled with extremely high levies and taxes.

Besides impacting the financial health of the telecom sector, the high GST rate will also harm the implementation of flagship government programmes such as Digital India, Skill India, Smart Cities etc. This additional burden will also result in stunted growth of the telecom sector, which aims to provide a nation-wide coverage and last mile telecom connectivity for all. For the industry to innovate on technology, keep its offerings competitive and expand infrastructure for a pan-India rollout to actualise Digital India it need to invest another two lakh crore in the next three to five years.

Also, it would be competent if the industry if the cost of setting up the required infrastructure was taken into consideration, which is essential for providing the next generation technology-based services. Interestingly, the model GST law in November 2016 specifically allowed credit on mobile towers. However, under the CGST Bill, telecom towers have been excluded from the definition of "plant and machinery". Restrictions on credit of telecom tower could result in substantial tax cascading effect and will further worsen the financial health of telecom sector, which is already saddled with debt of ₹4.5 lakh crore.

The telecom sector pays around 30 per cent of its revenue in taxes and other levies, including spectrum usage charge and licence fees. Despite this, tariffs have been going in the opposite direction of inflation. The success of the Prime Minister’s Digital India programme, for a fully connected and digitally empowered India, now seems to be in jeopardy. For most citizens, first access to the Internet is through their mobile phone. Therefore, the move to raise GST rates to 18 per cent will increase the tax burden on the consumer and lead to a hike in price.

Even with all the above difficulties in place, the sector is gearing up for seamless implementation of GST. The sector has worked diligently for the past several months to ensure that the subscribers and the government do not face any difficulty.

Finally, the need of the hour is a stable, predictable, responsive policy which facilitates innovation and investment addressing the financial woes of the sector.