

Kumar Rajagopalan
CEO

2 March 2010

Union Budget 2010 – 2011 – Plead from the Retail Sector

Honourable Finance Minister,

It is my pleasure to write to you from the Retailers Association of India (RAI)!

Sir, we welcome your statement in the Union Budget 2010 – 2011, about the need to take a firm view on opening up of the retail sector to check the rampant price rise, which is in line with the Hon'ble Prime Minister's recent statement. We now eagerly await the policy framework for the same.

Sir, we would like to reiterate that Competitive Modern Retail has the capacity to check rampant price rise. Modern retailers deal directly with farmers thus reducing the number of intermediaries. This will help check the rampant price rise on food items Also modern retailers can help in restructuring supply chain to reduce wastage. Modern Retail also contributes significantly to the Government exchequer through augmented taxation revenues.

Sir, I am writing to you to express a serious concern of the retail sector with regard to the service tax on renting of immovable property.

The retail sector which is the largest employer in the country, second only to agriculture is only now showing signs of recovery after the global downturn. The Service tax on rent if made applicable from retrospective effect will render the entire retail business unviable since the brunt of this will be passed on by the property owners to the retailers. This in turn will force the retailers to look at pricing of products at the consumer level which is not prudent in the current inflationary economic situation.

World over the Service Tax on rentals is not applicable in most countries which do not have a GST regime in place.

The cost of occupation in India is the largest cost for retailers today and is estimated at 8-12% of the turnover depending on the format. This is in sharp contrast to the rentals world-over where it is varies from 3-5%. This will increase significantly with the applicability of the service tax on rentals. The best retailers in the country make a net profit margin of about 2%, The impact of the service tax on rentals will be to the tune of 0.8-1.3% of the turnover. This will be a huge burden to retailers, rendering many businesses completely unviable, if the service tax on rentals was to be applicable with retrospective effect.

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As per the current tax structure, set off of VAT paid is not allowed for payment of service tax liability and hence the retail sector is at a disadvantage as the retail sector has significant VAT credits.

The taxable service excludes the hotel industry from the applicability of the Service Tax on rentals (under sub-clause (zzzz) of section 65 (105)) We would urge you to kindly consider the retail stores / retail business also for this exclusion.

Alternatively, we would like to humbly request that the service tax on rentals may be made applicable after the GST regime so that retailers can avail of the set-off of service tax paid against the VAT liability on sale of goods, etc.

Sir, the key members of RAI are keen to meet up with you soon to discuss this personally.

I shall be grateful if your kind office can indicate a time for the meeting.

Thanking you,

Yours sincerely,



Kumar Rajagopalan

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CC : **Dr Manmohan Singh**
Honourable Prime Minister
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