

GST Boon For Flexi Staffing Industry

The input tax credit benefit under GST prompted companies to increase their hiring of temp employees such as sales and support staff.

Varuni Khosla & Sreeradha D Basu report



New Delhi/Kolkata: Nearly a year into its rollout, the Goods and Services Tax has proved to be a boon for the ₹33,000 crore flexi-staffing industry, with the introduction of input tax credits boosting jobs and growth.

The input tax credit benefit under GST prompted companies to increase their hiring of temp employees such as sales and support staff, resulting in an up to 60% annual growth for staffing firms such as TeamLease Services, Ikya Human Capital Solutions (a division of Qess Corp.), Randstad, Kelly Services, Adecco and Spectrum Talent Management.

Ecommerce, IT/ITeS, retail and FMCG are the sectors leading the charge in the flexi-staffing space since GST was rolled out on July 1 last year. Telecom, hospitality, manufacturing and banking, financial services and insurance companies are also increasing their outsourcing of staff.

At Ikya, growth was 37% this past year, compared with an average of 20%. "We feel that some of the growth this year has been due to the quick formalisation that's begun to happen and due to the reforms brought in by GST," said CEO Lohit Bhatia.

Ikya's year-end general staffing count reached an all-time high of 157,000-plus associates, with a net addition of about 43,000 people assigned to new and existing clients during the year.

The Indian contract-staffing industry grew 10% to ₹33,000 crore and employed almost 3 million temp staffers during 2017-18.

Input tax credit offered under GST is fundamentally restructuring the entire staffing business in India, said Rituparna Chakraborty, cofounder of TeamLease Services and president of the Indian Staffing Federation.

"Post-GST implementation, employers are preferring to engage more with organised staffing providers. The benefit of input credit has helped organised staffing players to be more competitive as compared to unorganised players," said Chakraborty. In the past year, TeamLease's business grew by 20%.

According to Chakraborty, employers prefer contractual engagements for administrative and support staff, sales and marketing, human resources and blue-collar roles.

In the pre-GST regime, some unorganised staffing units had a pricing advantage because they didn't charge service tax. Now, however, there is an incentive for customers to choose the services of tax-compliant staffing firms, which allows them to claim input tax credit.

Given the features of GST such as filing of returns, availing of input credits and invoice matching, staffing companies with a strong focus on compliance and robust internal processes are better positioned to meet the norms of the new tax regime.

According to TN Hari, head of human resources at online grocer BigBasket, the introduction of GST has totally changed the game on staffing services. Prior to GST, service tax was a deterrent, so cost-conscious companies tried to insource staff even though hiring it to a third party made strategic sense.

"After GST, one can set off the entire amount paid on outsourced staffing cost against the GST payable on the goods sold," said Hari. "We have stepped up the flexi-staffing model because it has suddenly become attractive. Some of our staffing woes have disappeared because of this. From 50-50, we have moved to 70-30 third-party to own rolls."

Previously, a retail store hiring temps could not claim anything on the service tax charged, said Spectrum Talent Management's director Vidur Gupta. Now, even with GST billed at 18%, the clients can claim it all back, he said.

Spectrum's contract staffing business grew 60% versus 40% the year before.

"Earlier, companies would prefer to hire these employees directly, but that is changing. Contract-staffing firms charge a monthly maintenance fee and so companies are finding it more profitable to go through them," said Gupta.

"The BFSI sector will be the next boom in the contract-staffing space," said Bhatia of Ikya.

At Randstad India, telecom, retail, consumer goods and durables, ecommerce, BFSI & ITeS are the key sectors driving growth.

"Logistics as a sector has seen a greater uptick in terms of availing staffing services, given the proliferation of ecommerce and hyper-local delivery companies to non-metro tier-1 and tier-2 cities," said managing director Paul Dupuis.

Adecco India is growing at about 15% post-GST in terms of flexi-staffing. "We now see a lot of growth on the IT side of the business.

Compared to last year, in 2018 we see a substantial increase of requirements and mandates towards flexi-staffing from the IT industry," said Mayank Patel, director of professional staffing at Adecco.

Kelly Services India posted double-digit growth over the year before.

"We did see a few clients who held back expansion at the start of GST because they were not sure of the impact it might have on their hiring decisions. In the long run, this will help the temp and contract staffing market," said managing director Thammaiah BN. "The government is also taking initiatives towards bringing in labour reforms and opening up more sectors for temp and contract staffing, which will create more growth and jobs."

Staffing firms TeamLease Services, Ikya Human Capital Solutions, Randstad, Kelly Services, Adecco and Spectrum Talent Management are reporting up to 60% growth in business since GST roll-out.

Impetus to Growth

The input tax credit benefit prompted client companies to increase their hiring of flexi-staff

It also resulted in increased business for providers

Ecommerce, IT/ITeS, retail and FMCG are driving growth

Telecom, hospitality, manufacturing and banking, financial services and insurance companies are also fuelling demand