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CHARTERED ACCOUNTANTS

# GST is a landmark reform that will change the way business is done in India.

"one of the biggest business reform as against tax reform"

**One Country | One Tax | One Market**

***"WITHOUT GST, INDIA WON'T HARNESS ITS OWN 'COMMON MARKET.' WE'VE BEEN IN BREXIT MODE WITHOUT KNOWING IT."***
*– INDIAN BUSINESS LEADER, ANAND MAHINDRA VIA TWITTER*

*Prime Minister **Narendra Modi** said the GST will "also be the best example of cooperative federalism" and "Together we will take India to new heights of progress".*

## Shashwat Tulsian, Partner

*"I am a Qualified Chartered Accountant, Lawyer and Company Secretary. As a result, I have a unique ability to manage multi-disciplinary projects and to navigate complex challenges. I have helped work on more than 5000 such projects for multinationals over the last few years."*

*GST is not just a change in tax regime but a business transformation. Introduction of GST will necessitate review and change of tax positions, supply chain, ERP system, business processes and accounting, among others. If GST is introduced from 1 April 2017, the industry has very limited time to undertake such changes.*

## Nisha Kulthia, Partner

*"I am a Qualified Chartered Accountant,Company Secretary. I like to think strategically and i'm driven to help businesses solving there financial and taxation needs. I also like to add value to research on economy and industry Analysis and its impact on business."*

*The new tax regime will streamline a multitude of complex, often-overlapping state and national taxes, significantly increasing predictability and transparency for foreign investors, particularly those engaged in intrastate commerce. The GST will create a common market for over 1.25 billion people.*


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# Background

- The GST has been in the making for more than a decade. Congress originally mooted GST in 2006 and a constitution amendment bill was introduced in Lok Sabha in March 2011 but it lapsed with the dissolution of the 15th Lok Sabha.
- The GST Bill was passed by the Lok Sabha in May 2015, but got stuck in the Rajya Sabha where BJP does not have a majority. The bill needs a nod from the two-thirds in both Houses of Parliament and will have to later ratified by 50 per cent of state legislatures.
- 3rd August 2016 became a historic day for economic reforms when Rajya Sabha passed the constitutional amendment bill to GST and paved the way for major taxation reforms. Almost all the political parties have broadly agreed.
- Initial target of introduction of this ambitious legislation was set for April 2010 and now it may see light of the day after 7 years.

## *Some of the causes of delay in the passing of the 2014 Bill and amendments made in the 2016 Bill*

| Causes | 2016 Bill | 2016 amendments |
|---|---|---|
| Entry Tax | An additional tax of 1% on supply of goods will be levied by the Centre on inter- State trade or commerce (clause 18) | Provision deleted |
| Dispute Resolution | GST Council may decide upon modalities to resolve disputes (clause 12) | GST Council shall establish a mechanism to adjudicate any disputes |
| Compensation to States | Parliament may by law provide for compensation to States for any loss of revenues up to 5 years | Parliament shall, by law provide for compensation to States for any loss |
| Cap | Demanded by opposition for 18% | Opposition agreed to forego the demand |

# WHAT'S NEXT?

- The passed bill with amendments will now go back to the lower house to be cleared.
- Parliament must pass legislation on the central GST bill as well as the integrated GST.
- All 29 states and two of the union territories will have to pass both these amendments and comprehensive state GST acts.
- The target date for implementation is April 2017, but will likely be extended due to expected political delays and deep debate on implementation guidelines.
- There exists a window of opportunity for the private sector to engage thoughtfully in dialogue on various sector priorities.

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# What is the GST?

GST is a '**destination-based**' tax, which means it's charged where goods are consumed, as opposed to where they are produced.
Because it shifts the power that several Indian states have had in imposing indirect taxes on the production and movement, a **centralised GST Council** has been set up that will decide which taxes will **fall in the purview of states** and which can be subsumed into the GST.

# WHY GST?

We have always heard that '**Business drives tax**, and not the other way round'. However, in the Indian context, **indirect taxes have driven businesses** to re-structure and model their supply chain, systems etc. owing to multiplicity of taxes and costs involved.

# Rate?

The exact tax rate has not yet been determined, but is likely to be 17-18%. A new Council, composed of the Union Finance Minister, Union Minister of State for Revenue, and State Finance Ministers, will recommend rates, levy period of additional tax, principles of supply, and special provisions.

# *What is GST Bill ?*

The full form of GST is Goods and Service tax. So, it is also called as Good and Service Tax bill. GST is a tax levied when consumer buys any good or service. There are three components of GST-

- Central GST (CGST) – it will be Levied by Centre
- State GST (SGST) – It will be levied by State
- Integrated GST (IGST) – It will be levied by Central Government on Intestate supply of Good and Services

# GST Network (GSTN) ?

A Special Purpose Vehicle (SPV) has been set up to provide shared IT infrastructure and services to the Central Government and state governments, tax payers and other stakeholders for implementation of GST.

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TAXI

Benefits which are expected from GST

- 1. Central and state taxes will be subsumed after introduction of GST and will bring uniformity in indirect taxation across the country.
- 2. Seamless credit of taxes paid in the entire supply chain will be available to producer of goods or provider of services in which will eliminate the cascading effect of taxes on inputs and therefore price of products is expected to reduce.
- 3. Compliance burden will be reduced in the long run as there will be one platform for filing of returns, payment of taxes and assessments.
- 4. Tax evasion will be easy to trace as all the records will be uploaded on single platform and thus cross verification of purchase claimed by one dealer Vs sale declared by other dealer will be easy to corroborate. This will increase transparency and will check the black money circuit.
- 5. Reduced costs to manufacturers will increase the competitiveness of our products in export market.

## GST CYCLE

- LEVY ON SUPPLY
- OF GOODS ORSERVICES
- IF INTER-STATE SUPPLY – PAY IGST
- IF INTRA-STATE SUPPLY – PAY CGST & SGST
- DUE AT THE TIME OF SUPPLY
- PAYABLE WITHIN THE PRESCRIBED PERIOD FROM END OF THE MONTH/QUARTER TO WHICH SUPPLY RELATES


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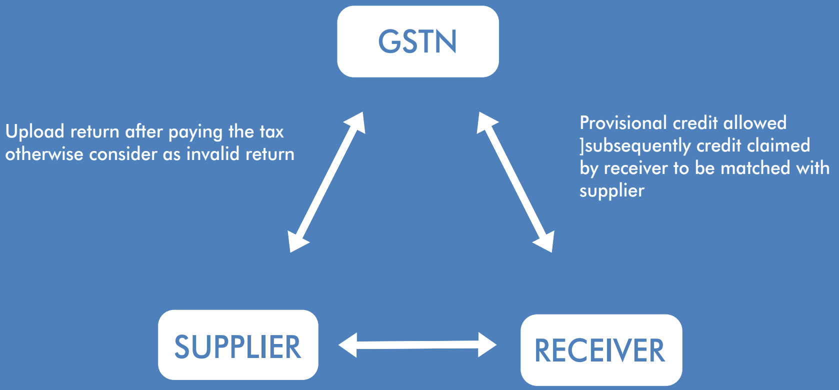
# GOODS AND SERVICE TAX NETWORK (SEC.28 & 29)




Receiver to pay interest on mis-match from date of availment and not utilization, refund only to the extent of tax & interest paid by supplier

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# TRANSITIONAL PROVISIONS

## UNUTILIZED CREDIT (SEC. 143, 144, 145 & 146)

Existing CENVAT & ITC balance

-Amount as per return ending immediately preceding appointed day to be eligible as CGST/SGST

Un -availed CENVAT on Capital goods

- Eligible as CGST

First time registration

Credit eligible on inputs held in stock or contained in semi-finished or finished goods

- Not allowed for purchases older than one year

## RETURN OF GOODS (SEC. 148 & 150)

In case of job-work period can be extended by two more months by competent authority

| | | |
|---|---|---|
| Exempted goods under earlier Law/Job-work | Returned within six months to any place of business | No tax payable by the supplier |
| | Retuned after six months to any place of business | Tax payable is liable under GST |

## SUBSEQUENT REVISIONS (SEC. 153)

Tax to be paid under GST and debit note to be issued within 30 days of revision

## BRANCH TRANSFERS (SEC. 162C)

ITC reversed before not entitled as credit

What about ITC on fuel –It's a question mark


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# Challenges that might come:

- Since the poor and the working classes spend a greater proportion of their income on essential consumption therefore, social protection measures are required to neutralize the effect of taxes on them. The exemption to small scale sector up to 1.5 cores is one such step proposed in this regard.

- Inflation might increase for a short span of time due to increase in tax rate which might further lead to tax evasion.

- In order to ensure successful implementation of GST, robust technology is the requirement.

- The items to be included under the purview of GST might be a reason of conflict among states as the needs and requirements of all states in India are different from each other. For example- the needs of states like Jharkhand and Bihar might significantly vary from those of Karnataka and Kerala.

- The present GST is way better than previous tax regimes and it would be unrealistic to expect a perfect GST. The reforms made in the indirect taxes are commendable and the government's decision of propelling GST would place India's economy at par with other mature economies of the world.


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## Current Tax Structure of India

**Taxes in India**

- **Indirect**
  - **Center**
    - Service Tax (rendering of service)
    - Exlse duty(manufacture of goods)
    - CST(Inter state sake)
    - **Custom duty(Impact of goods)**

      Next going to merge with GST
  - **State**
    - Vat (intra state sale)
    - Entry Tax
    - Luxury Tax
    - Electricity Duty
    - Tax on lottery
    - Excise on alcohal
    - Entertainment tax
    - Octroi
- **Direct**
  - **Center**
    - Income tax
    - Wealth tax

**Note:** Post GST most indirect would change into CGST (Central GST) or SGST,GST) expect custom duty

**LIMITATIONS OF CURRENT STRUCTURE**

Cascading effect
Varied concessions & exemptions
Lack of transparency
Multiple points of taxation
Lack of uniformity
Narrow base
Goods vs. Service dilemma


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# Subsuming of Existing Taxes

## Central **level**

a. Central Excise Duty,

b. Additional Excise Duty,

c. Service Tax,

d. Additional Customs Duty commonly known as Countervailing Duty, and

e. Special Additional Duty of Customs.

## State **level**

a. Subsuming of State Value Added Tax/Sales Tax,

b. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),

c. Octroi and Entry tax,

d. Purchase Tax,

e. Luxury tax, and

f. Taxes on lottery, betting and gambling.

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# Impact Analysis

*''The GST is expected to add two per cent to the country's GDP, besides making the movement of goods easier across states''*

## Impact On Different Sectors

| | Impact of Tax Rate | Inventory Managment | Logistics | For Organised Players | Overall impact |
|---|---|---|---|---|---|
| Cement | Positive | Positive | Positive | Positive | Positive |
| Consumer Durables | Positive | Positive | Positive | Positive | Positive |
| FMCG | Positive | Positive | Positive | Positive | Positive |
| Pharmaceuticals | Positive | Positive | Positive | Neutral | Positive |
| Automobile | Positive | Positive | Positive | Positive | Positive |
| Cap Goods | Positive | Neutral | Positive | Neutral | Positive |
| It/Ites | Positive | Neutral | Positive | Neutral | Positive |
| Media | Negative | Neutral | Neutral | Neutral | Negative |
| BSFI | Positive | Neutral | Neutral | Neutral | Positive |
| Textile | Negative | Positive | Positive | Positive | Neutral |
| Building/ Home Material | Positive | Positive | Positive | Positive | Neutral |
| Telecommunications | Neutral | Neutral | Negative | Neutral | Negative |
| Metals | Negative | Neutral | Positive | Neutral | Positive |
| Multiplex | Positive | Neutral | Neutral | Neutral | Positive |

Positive    Neutral    Negative

- Benefits of GST for the aggregate economy could be through easy compliance, uniform tax rates, removal of cascading taxes, easy administration and better control of leakages.
- In the long run, it will improve ease of doing business, enhance productivity & efficiency, increase competitiveness of domestic firms, lower cost of production as compared to imports and could lead to tangible benefits for consumers. However, the bill is not expected to have material impact on near-term aggregate earnings of the corporate world
- Implementation of GST can definitely be termed as a breakthrough reform for India's manufacturing sector. It will create a transformational shift from a complex, multi-layered and cascading indirect tax system to a single unified indirect tax system that permits tax set off across the value chain, both for goods and services.
- As ease of doing business improves, India's attractiveness as a preferred investment destination will naturally get a fillip, resulting in a further inflow of FDI. In the medium term this will usher in a cycle of higher sustainable growth amid stable inflation

**Total tax collection in India (direct & indirect), currently stands at Rs 14.6 lakh crore, of which almost 34 per cent comprises indirect taxes, with Rs 2.8 lakh crore coming from excise and Rs 2.1 lakh crore from service tax. With the implementation of the GST (Goods and Services Tax), the entire indirect tax system in India (excise, state-level VAT, service tax) is expected to evolve.**


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# Foreign and domestic investors alike will see significant changes

- **E-commerce:** A streamlined tax system across states will ease compliance and boost sales. However, e-commerce companies will be liable to collect taxes from suppliers on their platform, at the time of sale, which will increase their accounting burden and diminish working capital available to small sellers.

- **Capital Markets and Financial Services**: Markets have already reacted favorably. The SENSEX and Nifty indexes are expected to hit record highs as implementation rolls out. Most banking and financial services in India are subject to a service tax of 14.5% which is likely to increase to 18-20% with GST, increasing the cost to consumers.

- **Manufacturing**: Huge compliance cost reduction to companies doing business across multiple states. Manufactured goods are currently subject to excise duty, VAT, and a central sales tax, all of which will be subsumed under the GST. The indirect tax component will Likely decrease from 27-30% to 17-18% with GST, making these goods more affordable for consumers.

- **Food Processing:** Dramatic reduction in complexity to food & agriculture businesses with operations or shipping across multiple states in India (?). Companies that currently enjoy a tax exemption are unaffected, but those under a concessional tax bracket may face a higher tax burden.

- **Healthcare:** GST will remove the inverted duty structure that adversely affects domestic manufacturers, reducing the cost of inputs and boosting investment. However, GST might override certain tax exemptions that reduce cost of services for consumers.

- **Energy:** Expected impact is mixed. GST is likely to subsume multiple power sector taxes and thereby reduce the cost of greenfield projects as well as the per-unit retail tariff. However, the renewables sector may suffer if the myriad existing fiscal incentives for clean energy development are subsumed.

- **Retail:** Many foreign single-brand retailers have been awaiting this reform to enter the Indian market given its immense boost to ease of assembly, packaging, and distribution across the country. From apparel to electronics, retail margins will benefit from GST, including rent offsets and streamlining operating structures.


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# Not covered under the GST purview

1.Petroleum products

2. Entertainment and amusement tax levied and collected by panchayat /municipality/district council

3. Tax on alcohol/liquor consumption

4. Stamp duty, customs duty

5. Tax on consumption and sale of electricity

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