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Goods & Services Tax

Industry insights

Impact on the Retail Industry

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Foreword

Retail business in India is a key pillar of the economy, accounting for about 10% of GDP. The Indian retail market is estimated to be more than US$ 600 billion and one of the top five retail markets in the world by economic value.

The imminent implementation of Goods & Services Tax (GST) is expected to result in greater transparency, an improved flow of credit, and reduced trade barriers from a tax perspective.

The timely release and revision of draft GST model law, GST rules and documentation templates reflect the government's commitment and keenness to implement the GST law in India in 2017.

It is also widely agreed that GST will usher in a series of changes to how businesses will operate and the Retail Industry will be no exception.

This thought piece highlights some of the key areas impacted and a number of changes that the industry will need to imbibe over the coming months to ensure that GST is effectively implemented.

I think that the passage of the Goods and Services Tax is seen as a very favorable development by Retailers headquartered in India and by global Retailers considering expansion into India. The move is seen as business friendly and a step towards making it easier to do business in India.

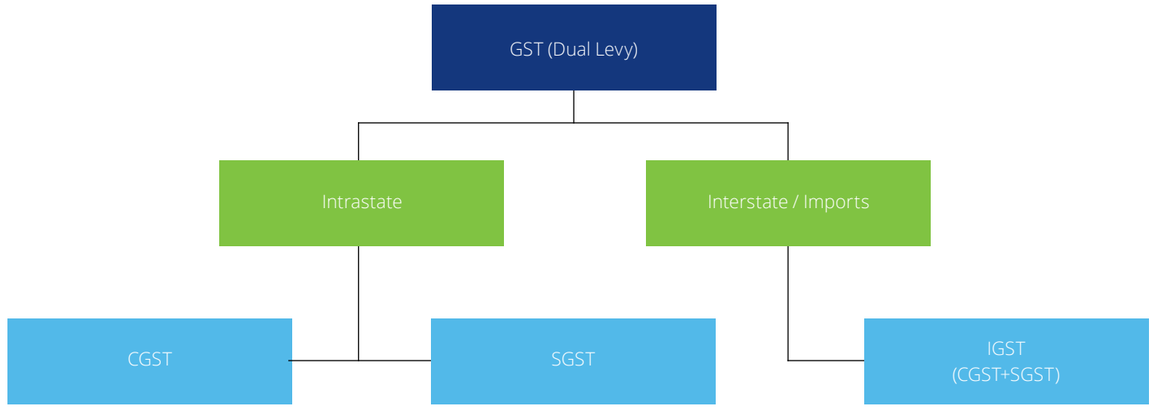
– Nancy Millett, Consumer & Industrial Products, Deloitte Global Tax Leader

Overview of GST

GST is a tax on value addition at each stage of supply of goods and services. The overarching purpose of the staged collection process of GST is to ensure that the businesses shall not bear the burden of taxes and enable the flow through of taxes to the final consumers.

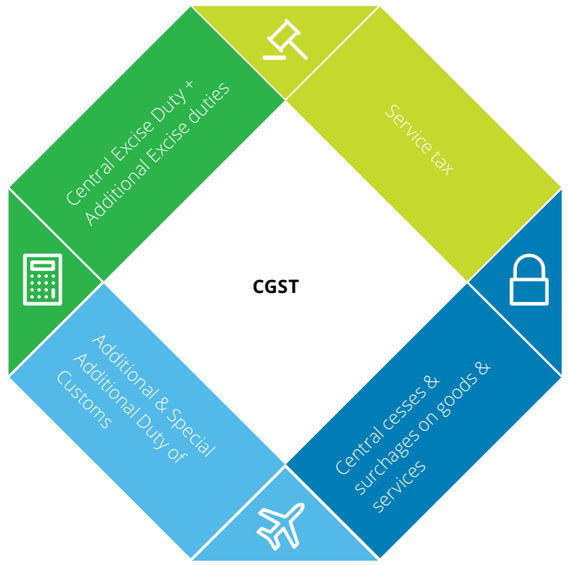
Framework of GST

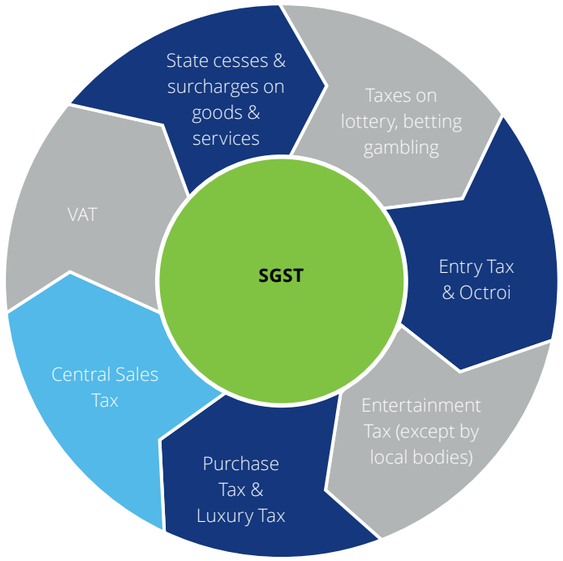
- Taxation on destination-based consumption principles i.e., tax would accrue to the jurisdiction where goods and services are finally consumed.
- A uniform and single taxable event of 'supply' would replace multiple taxable events such as manufacturing (excise), sales (VAT), and services (service tax) as prevalent under the current regime.
- Every intra-state transaction of supply of goods and services would be liable to Central GST (CGST) and State GST (SGST) concurrently.
- Inter-state transactions including stock transfers and imports will become liable to Integrated GST (IGST).



Dual GST structure

- Exports will continue to be zero rated and exporters will be eligible to claim refund of GST paid on procurements or GST, if any, paid on exports.
- Various central and state taxes, which are levied currently, are proposed to be subsumed under the GST. Major indirect taxes subsumed include excise duty, service tax, customs duty (other than basic custom duty), VAT/sales tax, entry tax, octroi, etc.
- The impact of cascading taxes will be reduced significantly as credit flow through across entire supply chain and across all the States / Union Territories.





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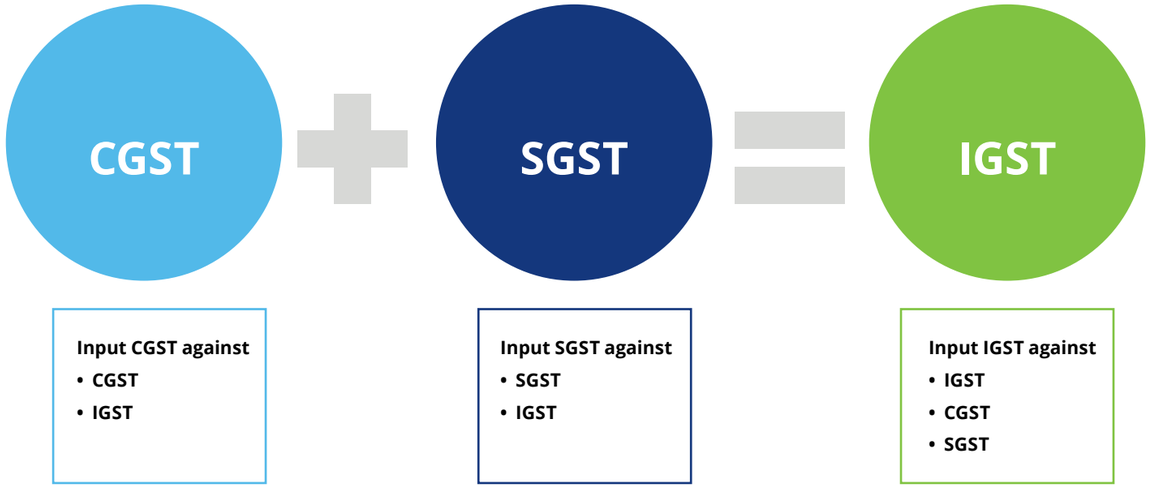
Set off mechanism of credit of CGST, SGST, and IGST

The dual GST to be introduced will be a state-specific levy where the credit will accrue to the registered tax payer at the place of supply and will be required to be accounted separately as CGST, SGST, or IGST.

- IGST credit can be utilized against IGST, CGST and SGST liability on supply.
- CGST credit can be utilized against CGST and IGST whereas SGST can be utilized against SGST and IGST.
- Cross utilization of CGST and SGST is restricted.



Key areas of focus from a strategic decision-making perspective

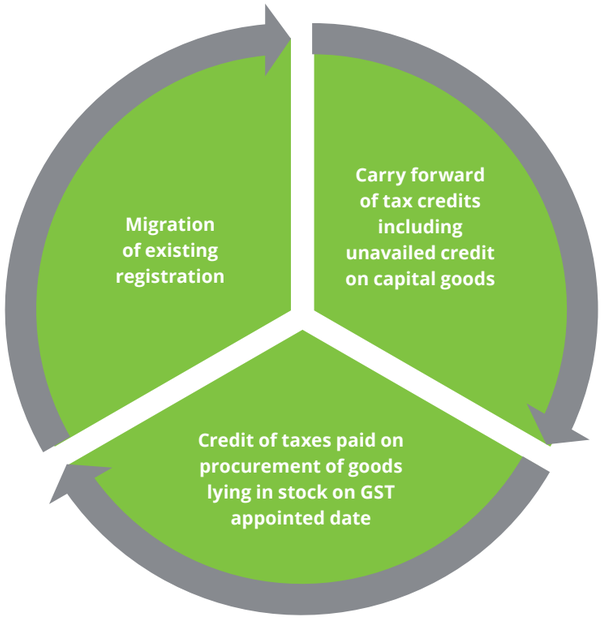
As the industry inches towards GST, there is an urgent need to re-evaluate the key strategic decisions that will be impacted on implementation of GST.

Impact on Retail Margins	• Retailers should consider the following while determining impact on margins: – The four-tier GST rate structure may vary the tax burden compared to taxes levied under current regime. – Retailers will see an increase in input tax credit of taxes paid on procurement of goods and services as taxes such as excise duty, CST, octroi, LBT, service tax, which were non-recoverable will be subsumed in GST and whole of the GST paid on procurement of goods and services will be available as input credit for adjustment against GST liability on sale of goods. • Retailers will have to negotiate margins based on consideration of output tax liability and increase of input tax credit.
Sourcing of goods	• GST brings elimination of tax barriers for procurement of goods on an inter-state basis. Similarly, GST will also reduce non-recoverable import duties on procurement of goods from outside India. • Retailers have an opportunity to re-evaluate sourcing pattern of goods and may try to benefit from tax neutrality and economies of scale by centralizing procurement from best vendors, irrespective of their locations. • Also, Retailers may have to negotiate/ discuss the pricing policy of its suppliers in view of enhanced credits that may be available to suppliers in GST regime.

The introduction of the anti-profiteering concept mandating passing on the benefits to the consumer also requires the strategies to be aligned to the philosophy espoused.

Key areas of focus from a transitional perspective

Transitional provisions enable the continuity of the benefit secured by the business under the current regime while moving to the GST regime.



1. **Migration of existing registration**

   - Typically, Retailers are registered with respective state-specific VAT authorities, with excise authorities as first/second stage dealers and with service tax authorities when engaged in provision of services.
   - Retailers will have to comply with state-specific procedural requirements to be automatically migrated and for obtaining provisional GST registration. This is to be obtained within the timelines notified and Retailers will be required to submit prescribed documents within six months for obtaining final GST registration.

2. **Carry forward of tax credits including unavailed credit on capital goods**

   - Retailers will be eligible to carry forward tax credits of VAT, Entry Tax, and CENVAT Credit as claimed in tax returns for the period up to GST transition date, within 90 days from the appointed date.

   - Retailers have a responsibility to collect declaration (in 'Form-C' / 'Form-F') within three months of the GST implementation date for inter-state sales made at concessional rate and tax free inter-state stock transfer. In case declaration is received after three months of GST implementation date, Retailers will be required to file a refund claim for VAT paid on purchase of goods which are sold or stock transferred on an inter-state basis.
   - Retailers need to put the system in place to ensure that eligible credits are correctly carried forward in the GST regime and balance credit on capital goods is availed.

3. **Credit of taxes paid on procurement of goods lying in stock on GST transition date**

   - Retailers will be eligible to claim credit of non-recoverable taxes (namely excise duty, CVD, service Tax) paid in respect of goods lying in stock as on GST transition date, subject to the following key conditions:
     - Goods lying in stock would be used for making taxable supplies under GST
     - The retailer has a vendor invoice / other prescribed document (not dated prior to one year before the GST implementation date) evidencing payment of tax in respect of goods lying in stock.
     - The Retailers pass on the benefit of such credit by way of reduced prices to customers.
   - Currently, many Retailers do not account non-recoverable taxes separately in books. Further, vendors not registered under excise law also do not indicate taxes such as excise duty on the invoices issued for procurement of goods. With a view to maximize credit on closing stock, Retailers need to put in place a system wherein it is ensured that vendors are separately disclosing all the taxes recovered from Retailers on vendor invoices as well as all taxes are separately captured in books of accounts. This will enable claim of non-recoverable taxes on goods lying in stock. Retailers need to plan and ensure this well before GST transition date so that there is no issue on the appointed date with respect to credit of non-recoverable taxes.
   - Also, invoicing as well as returns under GST would be on the basis of HSN of a particular product. Hence, it would be essential to obtain the HSN from the vendors before GST implementation date itself with respect to the goods purchased from them. This would enable the Retailers to be compliant with HSN related invoicing from the GST implementation date even on items in stock as on that date.
   - Retailers may have an option to claim presumptive basis credit in a situation where it is not in possession of an invoice or other documents evidencing payment of taxes on goods lying in stock. Typically, a retailer will not have an invoice evidencing payment of taxes on goods lying in stores which are stock transferred from warehouses.
   - Retailers have been entrusted with an obligation to ensure that the benefit of credit on closing stock is passed on to the ultimate customers. Retailers will have to deliberate on the mechanism to ensure that the benefit of input tax credit on closing stock is passed on to the customers especially for goods on which MRP is affixed. -

Key areas of focus from a supply perspective

The implementation of GST will improve the competitiveness of the business. The multiplicity of taxes will be done away and the simplified tax structure will be in place. The various transactions undertaken by the Retailers will be governed by the specific provisions of GST.

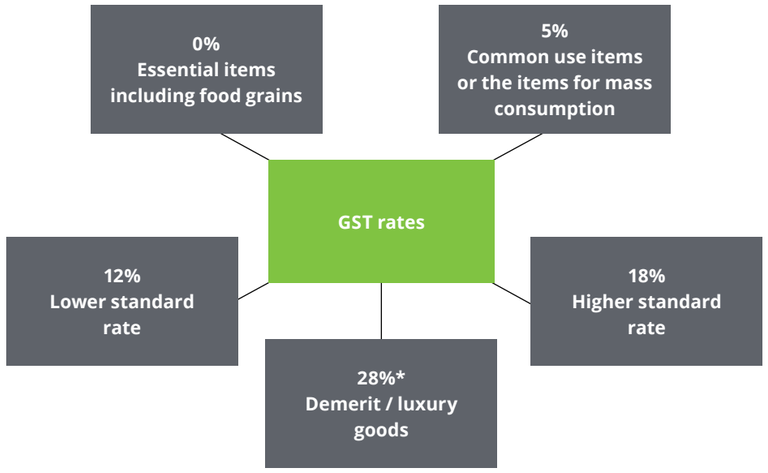
1. GST rates for consumer goods

- Retailers currently pay different rates of taxes for consumer goods. Several sectors such as agri-products, garments industry enjoy exemptions / concessional tax rates in excise & VAT and hence, industry is expecting lower GST rate for these products.
- The GST council has agreed to a four tier GST rate structure as follows :
  - Essential items : 0%
  - Common use or mass consumption items : 5%
  - Lower standard rate : 12%
  - Higher standard rate : 18%
  - Demerit / luxury goods : 28%

The GST council has proposed to cap IGST rate at 28% and CGST and SGST @ 14% each. An additional cess shall also be charged on the demerit/ luxury goods.

- Industry is keenly awaiting clarity on applicability of GST rate to different category of consumer goods based on rate structure agreed by GST Council. Industry is of the view that a concessional rate for essential goods and standard rate of 12% or 18% for other consumer goods can spur growth in the industry. Likewise, applicability of higher GST rate (say 28%) on FMCG / consumer durables could be inflationary.

> "With an increased focus on compliance and with a strategic refresh on consumer promotion schemes, the Retail Industry can benefit from the advent of GST."
>
> **Prashant Deshpande, Indirect Tax Leader, Deloitte India**



2. Promotional schemes

- Retailers, especially lifestyle stores and hypermarkets offer various promotional schemes as a part of their marketing strategy to entice consumers to buy more from their stores. These industry players need to re-visit the tax treatment of various promotional schemes offered to customers. We have briefly discussed the tax treatment for some major sales promotion offers made by Retailers to end consumers below:

Nature of Scheme	GST Treatment
Discount (including Buy 2 Get 1 free, End of season sale and cash back offers)	No dissimilarity from the current practices and Retailers may continue to pay GST on the discounted price charged to consumers where the discount is declared upfront on the invoice
Combo Offers (Mixed Supply)	Retailers sell a set of products in package form for a single discounted price. For such sales, Retailers need to pay GST on the entire package price based on highest GST rate applicable to any particular item in the package
Gift Vouchers and loyalty points	Typically, gift vouchers / loyalty points can be used by customers to buy any product available in stores. Retailers need to revisit the tax treatment for gift vouchers and loyalty points as there is varying treatment under GST if vouchers and loyalty points can be used to buy a product which is identifiable at the time of issuance of vouchers or any products as per customers choice at the time of redemption

- Retailers need to analyse the impact of GST on existing promotional schemes and to evaluate necessity for modifying or introducing new promotional schemes.

3. Post supply discounts

- Retail Industry is a highly competitive industry and the pricing decisions are often affected by the competitive market structure. Given this, MRP of products is often marked down by suppliers to sell products at lower price during seasonal offer period. Similarly, suppliers also offer post supply cash discounts or volume discounts to Retailers post supply of goods.
- Presently, Retailers faces challenge as there are state-specific provisions for discounts owing to which Retailers at times prefer not to claim deduction on account of such discounts.
- Under GST, vendors will be allowed for post supply discounts on account of price markdown or volume discounts provided such discounts are informed in advance can be linked to invoices and corresponding reduction of input tax credit is demonstrated. Retailers will have to devise a strategy to counter the claim of suppliers for reduction of input tax credit claimed.

4. GST adjustment on account of goods return

- Retailers can issue credit note and adjust their GST liability to the extent of GST component in credit notes issued for sales return. The period for adjustment on account of goods return is from minimum of 6 months to a maximum of 18 months (for instance, retailer can issue credit notes up to September 18 for return of goods sold in FY17-18).
- Retailers need to evaluate impact of this provision on goods return policy.

5. Time limit for approval of goods sent on Sale or Return (SOR) basis

- Typically, Retailers pay VAT liability on SOR transactions only after receipt of approval from the buyer, subject to adequate documentation and agreements of such arrangements.
- Retailers will be required to pay GST on date of approval from buyer or post completion of 6 months from date of supply of goods. Such treatment is at variance with the revenue recognition principle for accounting and hence, the industry will have to maintain multiple records in different formats as per requirements.

Key areas of focus from a procurement perspective

The cascading of taxes is a major issue for the Retailers industry and the restrictions on availment of credit adds to the cost of procurement of goods and services.

GST has redesigned the input tax credit regulations and attempts to do away the anomaly of input tax credit mechanism.

Seamless flow of credit under GST i.e., tax credit earlier lost will now be available under GST

- Retailers incur a huge amount of cost on account of non-recoverable taxes such as excise duty, CST, CVD, Octroi / LBT, service tax, paid on procurement of goods and services.
- Non-recoverable taxes adds to the cost of Retailers.
- The above taxes are subsumed under GST and Retailers shall be eligible to claim credit of the entire GST paid on procurement of goods and services for taxable business purposes.

Inter-state stock transfers & Valuation

- Retail Industry makes tax free inter-state stock movement of goods between warehouses / stores located in different States by way of issuance of Form F.
- Under GST, Retailers would be required to discharge tax on the inter-state stock transfers leading to additional working capital requirement depending on GST rate, valuation and availability of credit for utilization at the transferree State.
- The industry is keenly awaiting clarity on the mechanism to be adopted for valuation of interstate stock transfers to estimate the impact on their businesses.

Requirement of forms done away

- Retail Industry makes tax free inter-state movement of goods and pay concessional CST on inter-state subject to timely issuance and maintenance of forms.
- Under GST, inter-state sale at concessional rate / tax free movement and the requirement to issue 'Forms' is done away with.
- There would be requirement to discharge tax on inter-state movement of goods and the GST charged on it would be available as credit through the entire value chain. This will reduce burden of issuing forms and reconciliation of records though there will be an administrative burden to issue invoice, make payment and undertake other compliances.

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Key areas of focus from a compliance perspective

With the replacement of multiple tax structures with one tax, i.e., GST, the compliance for Retail Industry is expected to be condensed. Similarly, the complexity of various laws has been done away with the uniformity of single GST law. However, the introduction of GST has brought in some unique compliance requirements such as matching concept for claiming input tax credit, detailed invoice format.

1

Continuation of border check posts

- In view of destination based principle of credit mechanism, the border check posts and associated documentation may survive.
- Retailers need to strengthen compliance mechanism to ensure that these hurdles do not impede the movement of goods

2

Matching of credit with the supplier

- Retailers need to ensure that input tax credit claimed by them match with output tax paid by the vendors. In case of any mismatch, Retailers would be required to reverse input tax credit if is not rectified within a period of two months
- Retailers can re-avail the reversed credit post rectification of mismatch within prescribed timelimit. Necessary checks and balances to ensure minimum leakage of tax credit is essential.
- Retailers need to develop a SOP for availment of input tax credit and also to ensure timely compliance by vendors

3

Requirement to issue tax invoice in the prescribed format

- Retailers may be required to issue a tax invoice in prescribed format indicating details such as HSN classification of goods.
- Introduction of detailed invoice requirement for lifestyle retail stores and hypermarkets is challenging as they deal numerous products and customers.
- Retailers have been given an exemption to capture detailed customer information of invoices for supply below INR 50,000/-. Retailers are also seeking relaxation to exempt the requirement to mention HSN classification on invoice and affixing physical or digital signature on invoices

Way Forward

The road ahead for GST implementation would be critical but not onerous. Retail sector companies would be required to evaluate significant steps in implementation of GST including repricing of products based on market expectations, designing the supply chain and procurement pattern to be most cost-efficient.

The Retail Industry stands to benefit with the introduction of GST; however, it would depend on rate of GST applicable to each category of goods. Further, overall reduction of tax cost due to availability of taxes earlier lost should have a positive effect on the industry; however, lack of clarity on certain ambiguous issues such as rate applicable to a product, valuation of stock transfers. is accounting for a lukewarm response to GST from the Retail Industry.

Given the nature of the retail sector and the varied nature of transactions undertaken, companies will need to structure and adapt their systems to the requirements of the new tax regime. There will be an increased emphasis on processing the requisite information in the desired manner using tax technology to automate the tax reporting and compliance process.

There is no doubt in coming to a conclusion that the GST reform has made every consumer facing business to revisit their financial model. This has resulted in planning strategies with specific reference to supply chain mechanism, technology platform and cash impact on account of change in effective rates. On an overall basis, the outlook post GST is promising to be positive for the consumer business industry.

– Anil Talreja, Consumer Business leader, Deloitte India

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