Goods and Services Tax (GST) - Indirect Tax Reform

July 2017
Contents

- GST Overview
- Key Concepts of GST
- Key Impact of GST
GST – Overview
Goods and Service Tax - Broad Contours

- **Consumption** based tax on **supply** of goods and services
- **Dual Structure** – both Centre (CGST), State (SGST) and Union Territory (UTGST) to levy tax on a common base of goods & services
- **Integrated GST (IGST)** to be levied on inter-state transactions of goods & services
- **CGST and SGST** to be levied on intra-state transactions of goods & services
- **Coverage & Levy** – CGST, SGST, UTGST and IGST would be applicable to all supplies of goods and services
- **Taxes to be subsumed** – Excise duty, Service tax, VAT & CST, Works contract tax, Additional duties of Customs (Import VAT), Entry tax, Octroi and other state taxes
- **Exclusions from GST** – Basic Custom Duty, Export Duty, Toll Taxes, Property Tax, Stamp Duty, Electricity Duty, Petroleum products, Alcoholic Liquor for Human Consumption, Oil and Gas
- **Time of Supply** - Separately provided for goods and services. Similar basis for services as in current regime
- **Place of Supply Rules** - Separate for goods and services. Default for services continues to be location of service recipient
- **Input Tax Credit Mechanism:**
  - Free flow of credit
  - CENVAT credit to become CGST credit
  - Input VAT credit to become SGST credit
Taxes to be Subsumed

What’s In ...

- Excise Duty
- Service tax, Cesses
- VAT & CST, Works contract tax
- CVD & SAD (Import VAT)
- Entry tax, Octroi, other State taxes

Dual GST:
- CGST (Centre)
- SGST (State)
- IGST (Inter-state)

GST is a tax on Supply with common tax laws across India ... a fundamental shift from existing tax regime

What’s Out

<table>
<thead>
<tr>
<th>Customs</th>
<th>Electricity Duty</th>
<th>Petroleum products</th>
<th>Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import duties...</td>
<td>Electricity duty ...</td>
<td>Petroleum products ...</td>
<td>Immovable property ...</td>
</tr>
<tr>
<td>Basic Customs Duty &amp; other import duties (except CVD and SAD)</td>
<td>GST charged to power producers to be a cost</td>
<td>GST charged to upstream and downstream petroleum companies to be a cost</td>
<td>Stamp duty to continue on immovable property transactions ... GST to be a cost</td>
</tr>
</tbody>
</table>
Credit mechanism under GST

- Credit base widened in comparison to present regime
- Concept of ISD prescribed for transfer of credit pertaining to input services to other locations
- Conditions for availing credit prescribed such as receipt of service, mandatory payment of tax to government etc.
- Order of utilization of credit prescribed (refer table below)
  - CGST cannot be utilized against SGST
  - SGST cannot be utilized against CGST

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Input tax</th>
<th>CGST</th>
<th>SGST</th>
<th>IGST</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CGST</td>
<td>✓</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>SGST</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>IGST</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Order for utilisation of credits and payment of taxes

- CGST cannot be utilized against SGST
- SGST cannot be utilized against CGST

Order for credit set-off

- First
- Second
- Third
GST Rates

GST Council has agreed to keep the upper band of the rate in the law at 20 percent which may lead to a peak GST as high as 40 percent (20 percent central and 20 percent state). Peak rate of cess on demerit goods kept at 15 percent.
GST Impact on Business operations - Procurement and Distribution

Outside India

India

Imports

BCD + CVD + SAD

BCD + IGST

Export

Export - Zero Rated

Indian Entity - Maharashtra

Input services

IGST / CGST + SGST

Service Tax

Vendor - services

No tax

IGST

Export

Export - Zero Rated

Indian Entity - Maharashtra

Sale

Excise + VAT / Excise + CST

CGST + SGST / IGST

Vendor - Goods

VAT / CST

CGST + SGST / IGST

Customers

Customers

Own stores - stock transfer – New Delhi

Indian Entity - Maharashtra

Sale

Excise + VAT / Excise + CST

CGST + SGST / IGST

Vendor - Goods

VAT / CST

CGST + SGST / IGST

Customers

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Key Concepts - GST
### Scope of supply

**Supply**

Supply is defined wide enough to cover every transaction including **barter/ exchange of goods and / or services**

Import of services has also been prescribed as supply

**Schedule I**

Specified activities to be treated as **supply without consideration**.

**Example:**

- Supply between related/distinct persons
- Supply between principal and agent
- Permanent transfer/disposal of business assets if ITC has been availed
- Import of services from related person

**Schedule II**

Schedule clarifies matters to be treated as either a supply of goods or supply of services

**Example:**

Supply of goods-
- Transfer of business asset, transfer of title in goods, etc.

Supply of services-
- Transfer of goods without transfer of title, renting, jobwork, temporary trf of IPR etc.

**Schedule III**

Specific activities which shall be treated neither as supply of goods nor a supply of services.

Ex- Services by employee to employer, sale of land and building

**Supply to Employees**

Supplies by employer to employee would be covered within the term ‘supply’

(Except gifts up-to INR 50,000 in a Financial Year)

Services provided by employee to employer would continue to be outside tax net.
Taxation of Mixed and Composite Supply

A **composite supply** comprising two or more supplies that are naturally bundled, one of which is a principal supply, shall be treated as a **supply of such principal supply**: and tax shall be paid according to the principal supply.

A **mixed supply** comprising two or more individual supplies at a single price shall be treated as a supply of that particular supply which attracts the **highest rate of tax**.
Time of Supply - Existing vs GST

**Central Excise**
- Excise Duty levied on Manufacturing
- Liability to pay arises at the time of removal from factory

**VAT and CST**
- Transfer of property in goods from seller to buyer

<table>
<thead>
<tr>
<th>GOODS</th>
<th>SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXISTING</strong></td>
<td><strong>EXISTING</strong></td>
</tr>
<tr>
<td><strong>GST</strong></td>
<td><strong>GST</strong></td>
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</table>

**Earliest of:**
- Date of invoice or last date of issuance of invoice
- Date of receipt of payment

(Discussion in subsequent slides)

**Earliest of:**
- Date of invoice*
- Date of receipt of payment

*If invoice is not issued within the stipulated time, then date of completion of service

(Discussion in subsequent slides)

^If invoice is not issued within the stipulated time, then date of provision of service
Place of Supply: Goods

Direct Supplies

Place where movement of goods terminates for delivery i.e. Ship to address

Ex.- Supplier from Karnataka supplies goods to recipient at Haryana. Here, place of supply will be Haryana i.e. where movement of goods terminates for delivery to the recipient

Where goods are delivered on the instructions of a third person (i.e. Bill To – Ship To transactions)

Principal place of business of third person i.e. Bill To Address

Ex.- Supplier A from Karnataka supplies goods to recipient C at Delhi at the instruction of B in Maharashtra. The goods are delivered by supplier A to C directly i.e. Bill to B and ship to C. In this case the place of supply between A to B shall be the location of B i.e. Maharashtra and between B to C shall be location of C i.e. Delhi
Place of Supply: Goods

Where supply does not involve movement of goods: Location of goods at the time of delivery to recipient

**Ex:** Sale of assets on “As Is Where Is” basis in the State of Maharashtra. In this case, POS shall be Maharashtra

Where goods are installed or assembled at site: Place of installation or assembly

**Ex:** In case of contract for installation of work stations, place of supply shall be the place at which work stations are installed
Place of Supply: Services

**POS-Services**

**General rule**
- Registered i.e. B2B
  - Location of such person
- Unregistered i.e. B2C
  - Address on record
  - Location of supplier – other cases

**Specific rule**
- B2B
- B2C

**Services in relation to:**
- **Registered i.e. B2B**
  - Immovable Property- Place at which immovable property is located
  - Restaurant and Catering - Place where services are actually performed
  - Admission to events - Place where event is held
  - On Board a Conveyance - Location of first schedule point of departure of conveyance
  - Advertisement Provided to Government - POS shall be each of the respective state to whose Government services are provided
  - Telecommunication - Location of leased line or circuit for leased line services. For mobile services, POS shall be billing address

- **Unregistered i.e. B2C**
  - Organization of Events - Place where event is held, if event held outside India, POS shall be location of recipient
  - Training and Performance Appraisal - Location where services are performed
  - Transportation of goods - Location at which goods are handed over for transportation
  - Passenger Transportation - Place where passenger embarks on conveyance
  - Banking and Financial Services - Address of recipient on records
  - Insurance - Address of recipient on records
Definition of ‘Export’

- **Export of Goods**: Taking goods out of India to a place outside India.
- **Export of Services**: Supply of any service to qualify export when:
  - Supplier in India
  - Recipient outside India
  - Place of provision is outside India
  - Payment received in convertible foreign exchange
  - Both the parties are not mere establishment of distinct person

‘Zero rated supply’
Key Export Related aspects

**Place of Supply**
- Export of Goods – place of supply of goods exported from India to be location outside India
- Export of Services – place of supply of services exported from India shall be location of recipient of services
  - Exception - services (like renting of premise, etc.) where the place of supply can be different from location of recipient of services

**Nature of Supply**
- Export of goods or services to be considered as inter-state supply.
- Export to qualify for ‘zero rated supply’ with credit of input tax available.
- On Zero rated supply, the following two options of refund are available:
  - On payment of IGST and claim refund of such IGST paid
  - Without payment of IGST and claim refund of unutilized input tax credit
Valuation: General Rule

**Inclusions**

- Any taxes, duties, levies etc. other than GST, Cess, if charged by the supplier
- Amount incurred by recipient on behalf of the supplier
- Subsidies received from sources other than Government, if such subsidy is directly linked to supply
- Incidental expenses, such as commission, packing, freight, OPEs, incurred before delivery of goods/ supply of services
- Interest/late fee/penalty for delay in payment of consideration

**Exclusions**

- Discounts given before or at the time of supply
- Post supply discounts, if:
  - Such discount is as per agreement entered into at the time or prior to the supply
  - Such discount is specifically linked to invoices
  - Customer reverses the corresponding ITC

**Transaction Value (i.e. Price paid or payable)**

**Parties are not related and Price is the sole consideration**

- **Yes**
  - **Is it a notified supply**
    - **Yes**
      - Valuation as per Rules
    - **No**

- **No**
Valuation Rules - Where parties involved are related persons

Value shall be:-
1. Open Market Value of the supply.
2. If Open Market Value is not available, by comparison method
3. Computed value method i.e. 110% of cost (can be skipped for services)
4. Residuary method
   (To be followed sequentially)

NOTE:
- In case recipient is eligible to avail full ITC, then invoice value shall be the Open Market Value
- If goods are intended for further supply as such, then 90% of the Final Price to the unrelated consumer
## Input Tax Credits under GST

<table>
<thead>
<tr>
<th>Heading</th>
<th>Description</th>
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| **Meaning**                     | • Capital goods means goods, the value of which is capitalized in the books of account  
                                 | • Input means any goods other than capital good  
                                 | • Input Service means any service (subject to exclusions) used or intended to be used in the course or furtherance of business  |
| **Time Limit to take credit**   | Last date for taking credit shall be earlier of  
                                 | • filing of September return following end of the financial year (i.e., April to March) to which invoice relates  
                                 | or  
                                 | • filing of relevant annual return  |
| **Document requirement**        | • an invoice issued by the supplier under section 31  
                                 | • a debit note issued by a supplier under section 34  
                                 | • a bill of entry  
                                 | • an invoice issued by recipient in respect of supplies by unregistered dealers  
                                 | • a document issued by an Input Service Distributor under rule 7(1) of Invoice rules  |
| **Beneficial credit provisions under GST** | • Scope of capital goods widened. Additional credit will be available vis-à-vis current regime. Credit available in one go, in year of purchase  
                                 | • No need to reverse ITC on account of stock transfers  
                                 | • Credit on taxes paid on input service will be available in respect of trading activities  |
### Conditions for availing credit

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| **01** |  - Possession of a **tax invoice** or such other tax paying documents  
- **has received the goods or services or both.**  
- has furnished the return | **04** | Recipient must pay to the supplier the amount towards the value of supply along with tax payable within a period of **180 days (6 months)** from the date of issue of invoice by the supplier*. |
| **02** | Supplier has **actually paid the tax charged to the Government** either in cash or through credit | **05** | If the dealer has claimed **depreciation** on the GST charged on capital goods **under income tax**, input tax credit of such tax portion shall not be allowed |
| **03** | Where the goods are received in lots or instalments, credit shall be available upon receipt of the last lot or instalment. |   |   |

*Reversal when payment not made to vendor*
1. Where payment to supplier is not made within 6 months, credit availed shall be added to output tax liability and interest shall apply
2. Credit can be re-availed on payment to supplier subsequently
Goods & Services not eligible for ITC

- Motor vehicles and other conveyances
- Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery
- Membership of a club, fitness center, travel benefits to employees such as leave or home travel concession
- Rent-a-cab, life insurance and health insurance

Exceptions

- When used for making taxable supplies of such vehicles or conveyances, transportation of passengers/goods, imparting training
- Where an inward supply of a particular category is used for making an outward taxable supply of the same category or as an element of a taxable composite or mixed supply
- Not Applicable
- a) Services are obligatory for an employer to provide to its employees under any law
   b) Same as exception in row 2
Input Tax Credit: Blocked credit

**Goods/Services not eligible for ITC**
- Works contract services for construction of an immovable property (other than plant and machinery)
- Goods or services used for construction of an immovable property (other than plant or machinery) on own account
- Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples
- Tax paid in cases of fraud, willful misstatement etc., detention/seizure, confiscation etc.

**Exceptions**
- Where it is an input service for further supply of works contract service
- Not Applicable
- Not Applicable
- Not Applicable
New Concept - Credit Matching

Return of outward supply by supplier by 10th

Draft return of inward supply

Return of inward supply by recipient by 15th

Periodic Return filed by Supplier and Recipient by 20th

Matching
Details of inward supplies to be matched with outward supplies

Discrepancy
ITC claimed by recipient > tax declared by supplier
Supplier to rectify his output details

Matched/Rectified
ITC Credited to Electronic Credit register of recipient

Not rectified
Tax added to output liability of recipient
Input Service Distributor (ISD)

**Definition of ISD**

Input Service Distributor means an office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services and distributes credit of GST paid on the said services to a supplier who has the same PAN.

**ISD invoice shall contain the following particulars:**

- Name, address and GSTIN of ISD
- A consecutive serial number,
- Date of issue
- Name, address and GSTIN of
- Signature ISD/his authorized representative

**Other Compliance aspects**

- ISD shall furnish monthly return within 13 days after the end of such month.
- Credit shall be distributed in the same month and details to be furnished in Form GSTR-6.
Compliances - Returns under GST Regime

- No revision of return. Error/ omission can be rectified in the period in which discovered.
- Rectification possible till September of the following financial year.
- Return filed without payment of tax to be treated as invalid and no ITC allowed.
- Similar periodicity for all taxable persons, whereas, currently turnover wise return period provided in various VAT statutes.
- Reconciliation statement to be furnished along with the statutory audited report and annual return.
- GST compliance rating to be assigned to every person to be placed in public domain.
- Notified taxable persons to file information return.
Key Impact - GST
GST impacts all functions of an Organization

**Objective** – Successful transition by all stakeholders in the organization’s value chain

**Information System**
- Master and Transaction records
- Systems design changes for compliance

**Suppliers**
- Pricing by Suppliers – pass on GST benefits
- Focus on landed cost

**Customers**
- Pricing model redesign
- Structure of offers/financing

**Finance & Administration**
- Impact on cash flows
- Impact on net tax liability
- Registration & compliance

**Strategy**
- Impact on corporate plans e.g. restructuring, new projects and transactions
- Tailing of tax concessions
- Manufacturing and warehousing footprint

**Sales & Marketing Strategies**
- Pricing strategies
- Impact on current pipeline and inventory

**Legal**
- GST impact on contracts
  - Current
  - Future

**Internal / Human Capital**
- Education and communication
## Key Impact Areas

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Present regime</th>
<th>GST Regime</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>MRP based valuation</td>
<td>• Import CVD payable on certain % of MRP</td>
<td>• IGST payable on CIF price. MRP based valuation eliminated</td>
<td>↑</td>
</tr>
<tr>
<td>Input Tax credit</td>
<td>• No credit of CVD, CST and Service tax to traders</td>
<td>• Seamless credits available</td>
<td>↑</td>
</tr>
<tr>
<td>Sales return</td>
<td>• Adjustment in tax liability allowed only if goods are returned within 6 months</td>
<td>• Adjustment allowed up to Sep 30 of following year</td>
<td>↑</td>
</tr>
<tr>
<td>Stock transfers</td>
<td>• No tax payable against submission of Statutory forms</td>
<td>• GST applicable on stock transfers ... working capital impact</td>
<td>↓</td>
</tr>
<tr>
<td>Tax on receipt of advance</td>
<td>• Currently applicable only in case of services</td>
<td>• GST applicable on receipt of advance (for both goods and services)</td>
<td>↓</td>
</tr>
<tr>
<td>Concessional forms</td>
<td>• Currently Form C to be collected from customers. CST exposure if forms not received</td>
<td>• No concessional forms under GST</td>
<td>↑</td>
</tr>
</tbody>
</table>
## Key Impact Areas

<table>
<thead>
<tr>
<th>Particulars</th>
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<th>GST Regime</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement from unregistered vendor</td>
<td>• No implication</td>
<td>• Self assessment and compliance requirement</td>
<td></td>
</tr>
<tr>
<td>Credit Mis-match Concept</td>
<td>• Limited applicability and accountability</td>
<td>• Stringent procedure prescribed with increased accountability on purchaser</td>
<td></td>
</tr>
<tr>
<td>Compliance Decentralized</td>
<td>• State VAT registration</td>
<td>• Compliance at State wise level only – common for federal and state</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Service tax registration</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Separate compliance for Federal and State taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERP and allied IT platforms</td>
<td></td>
<td>• Changes to be made for being GST compliant with State wise accounting</td>
<td></td>
</tr>
</tbody>
</table>
Potential savings under GST ...

- **Renegotiation with vendors under Change in Law Clause**
  - Not covered under existing provision

- **Revamping of procurement and supply chain strategy**
  - Not covered under existing provision

- **Increase in recoverable taxes ... elimination of CST cost on procurements**
  - Benefit needs to be passed on

- **Reduction in price due to reduction in tax rates ... primarily related to consumer/MRP goods**
  - Benefit needs to be passed on

**What businesses need to do ...**

- Identify potential savings under the above buckets
- Maintain product level costing information to the extent possible
- Identify savings on direct and indirect expenses
- Validation from third party recommended

*Methodology still to be prescribed to determine where ITC availed by an registered person or the reduction in the tax rate have actually resulted in a commensurate reduction in the price of the goods or services or both*
CENVAT Credit – Closing stock

✓ An entity would be eligible to claim credit of non-recoverable taxes (namely Excise duty) paid in respect of goods lying in stock as on 1 July 2017, subject to the following key conditions:

  ▪ Possession of tax invoice or duty paying document
  ▪ Inputs tax credit is eligible under GST law
  ▪ Goods are used to make taxable supplies i.e. are subject to GST
  ▪ Such invoice was issued not earlier than July 1, 2016

✓ If the entity is not in possession of an invoice or other documents evidencing payment of central excise duty on goods lying in stock, it may opt for presumptive basis in the following manner:

  ▪ To the extent of 60% of CGST in case the rate of CGST is 9% or more. Else the credit will be available at the rate of 40% of CGST.
  ▪ To the extent of 30% of IGST in case the rate of IGST is 18% or more. Else the credit will be available at the rate of 20% of IGST.

✓ The stock needs to be clearly identifiable

✓ The above scheme would only be applicable till 31 December 2017
Questions
Thank You