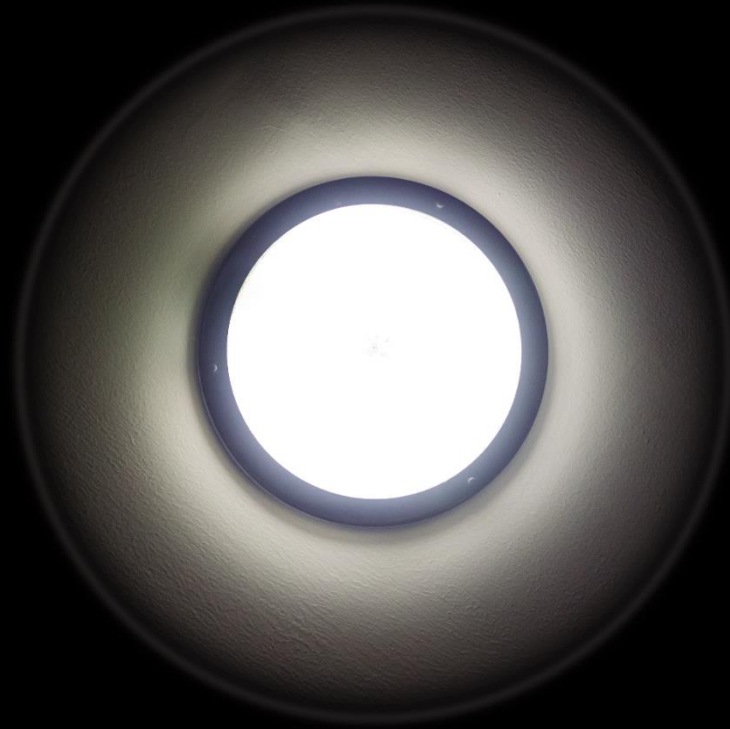


**Deloitte
Haskins & Sells LLP**



Goods and Services Tax (GST) - Indirect Tax Reform

July 2017

Contents

- GST Overview
- Key Concepts of GST
- Key Impact of GST



GST – Overview



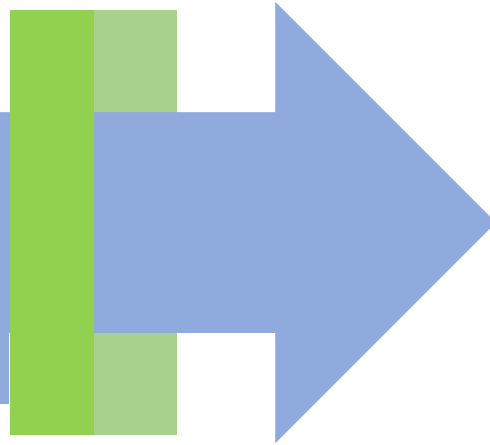
Goods and Service Tax - Broad Contours

- **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

Customs

Import duties...
Basic Customs Duty & other import duties (except CVD and SAD)

Electricity Duty

Electricity duty ...
GST charged to power producers to be a cost

Petroleum products

Petroleum products ...
GST charged to upstream and downstream petroleum companies to be a cost

Real Estate

Immovable property ...
Stamp duty to continue on immovable property transactions ... GST to be a cost

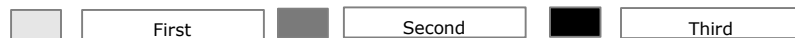
Credit mechanism under GST

- 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

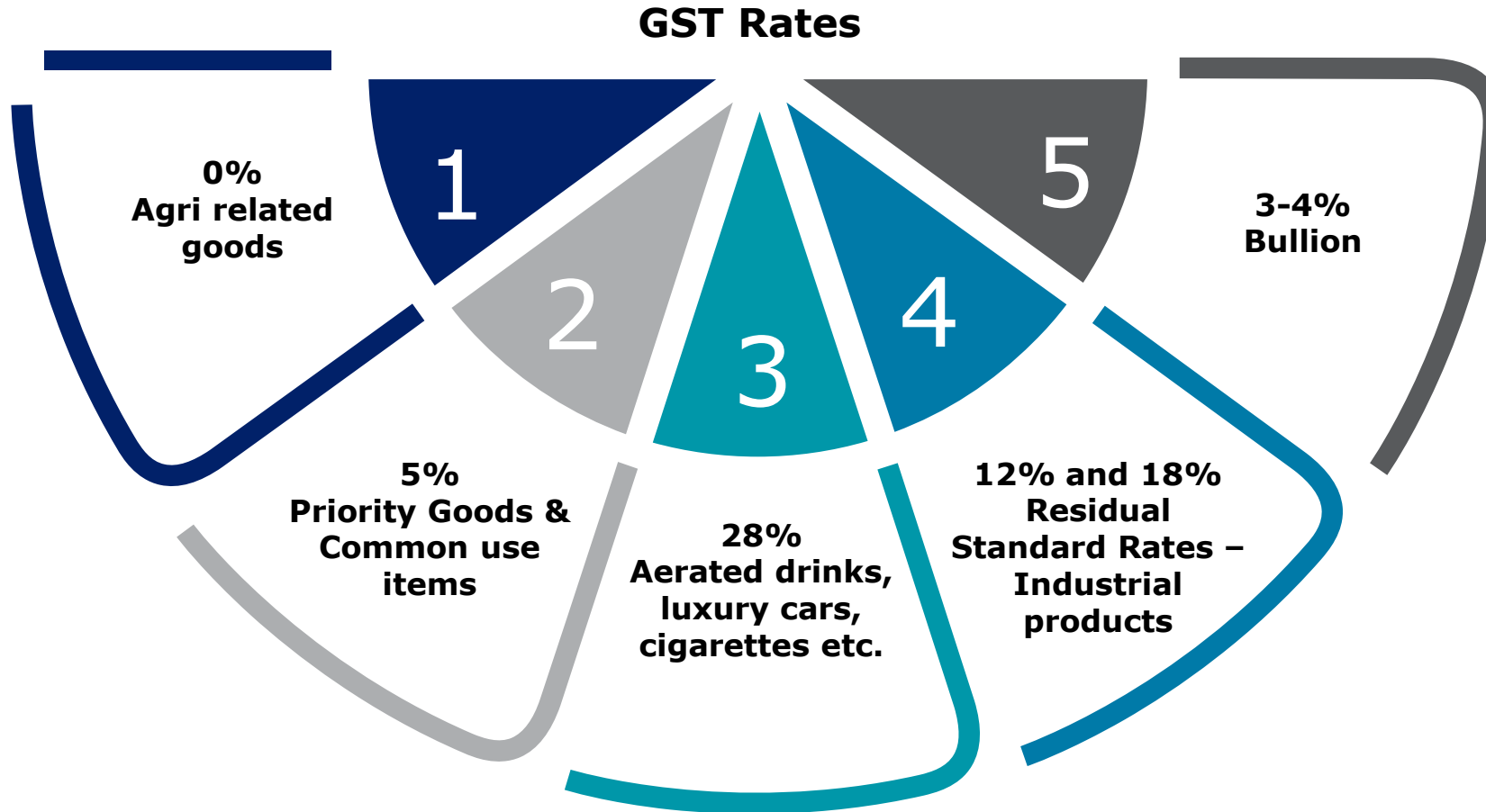
Order for utilisation of credits and payment of taxes

S. No.	Input tax	Credit against output tax		
		CGST	SGST	IGST
1	CGST	✓	X	✓
2	SGST	X	✓	✓
3	IGST	✓	✓	✓

Order for credit set-off

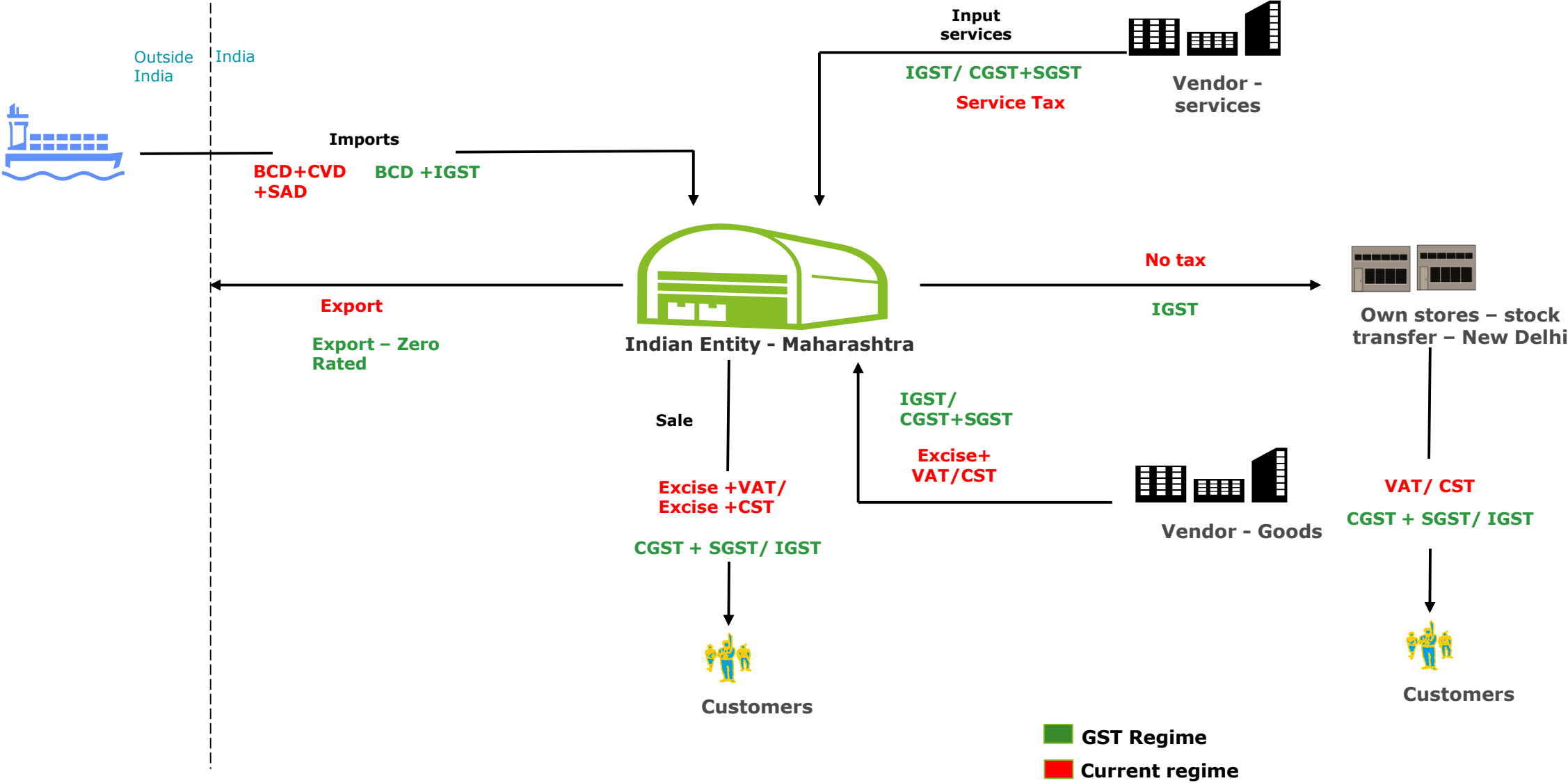


GST Rates



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



Key Concepts - GST



Scope of supply

Supply	Schedule I	Schedule II	Schedule III	Supply to Employees
<p>Supply is defined wide enough to cover every transaction including barter/ exchange of goods and / or services</p> <p>Import of services has also been prescribed as supply</p>	<p>Specified activities to be treated as supply without consideration.</p> <p>Example:</p> <ul style="list-style-type: none">• 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	<p>Schedule clarifies matters to be treated as either a supply of goods or supply of services</p> <p>Example: Supply of goods- Transfer of business asset, transfer of title in goods, etc.</p> <p>Supply of services- Transfer of goods without transfer of title, renting, jobwork, temporary trf of IPR etc.</p>	<p>Specific activities which shall be treated neither as supply of goods nor a supply of services.</p> <p>Ex- Services by employee to employer, sale of land and building</p>	<p>Supplies by employer to employee would be covered within the term 'supply'</p> <p>(Except gifts up-to INR 50,000 in a Financial Year)</p> <p>Services provided by employee to employer would continue to be outside tax net.</p>

Taxation of Mixed and Composite Supply

Tax liability in case of composite and mixed supplies

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 principal supply



a **mixed supply** comprising two or more individual supplies at a single price shall be treated as supply of that particular supply which attracts the **highest rate of tax**



Time of Supply - Existing vs GST

GOODS

EXISTING

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

GST

Earliest of:

- Date of invoice or last date of issuance of invoice
- Date of receipt of payment

(Discussion in subsequent slides)

SERVICES

EXISTING

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

GST

Earliest of :

- Date of invoice^
- Date of receipt of payment

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

(Discussion in subsequent slides)

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

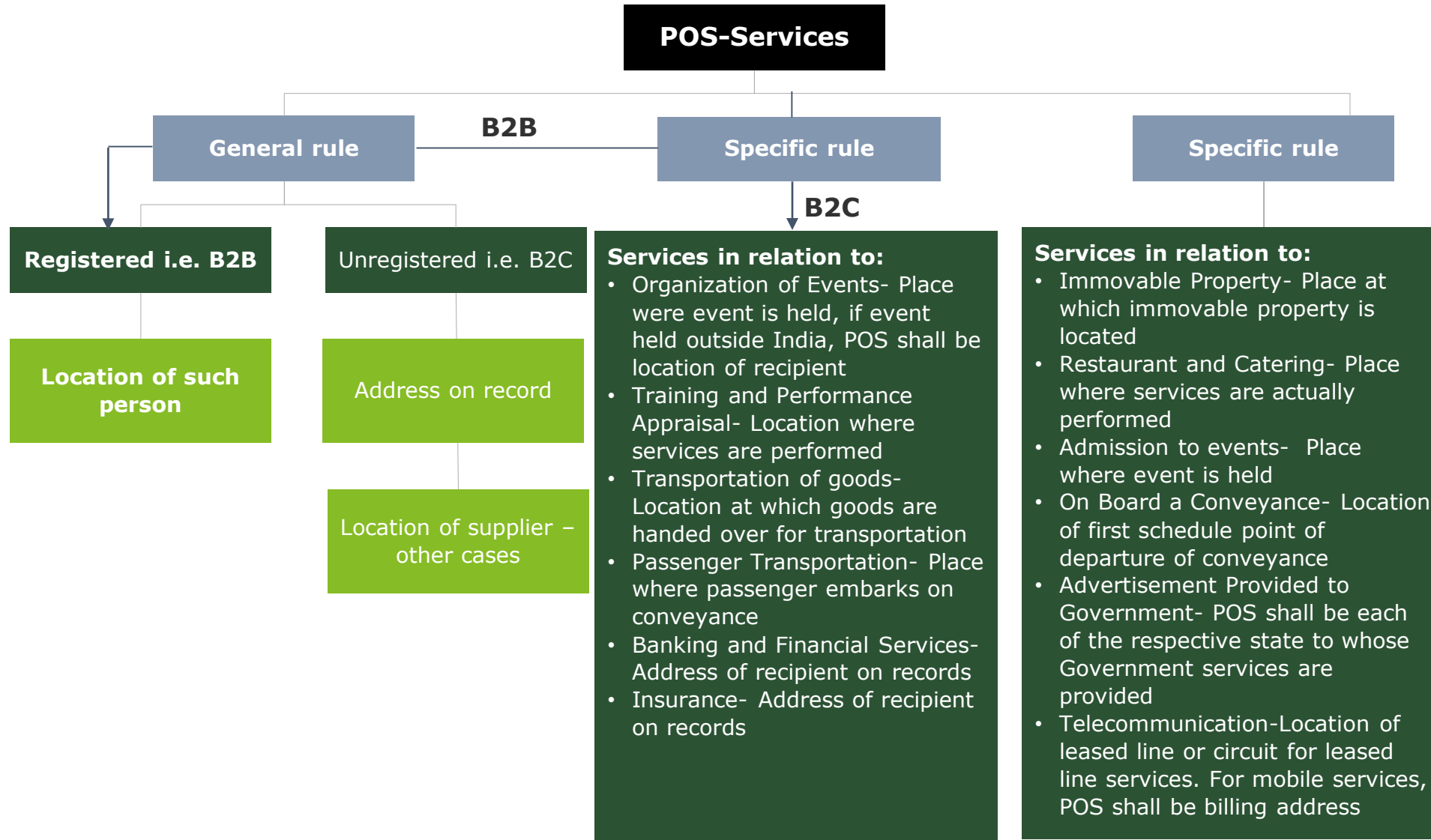
Ex.- Sale of assets on "As Is Where Is" basis in the State of Maharashtra. In this case , POS shall be Maharashtra

Where goods are installed or assembled at site

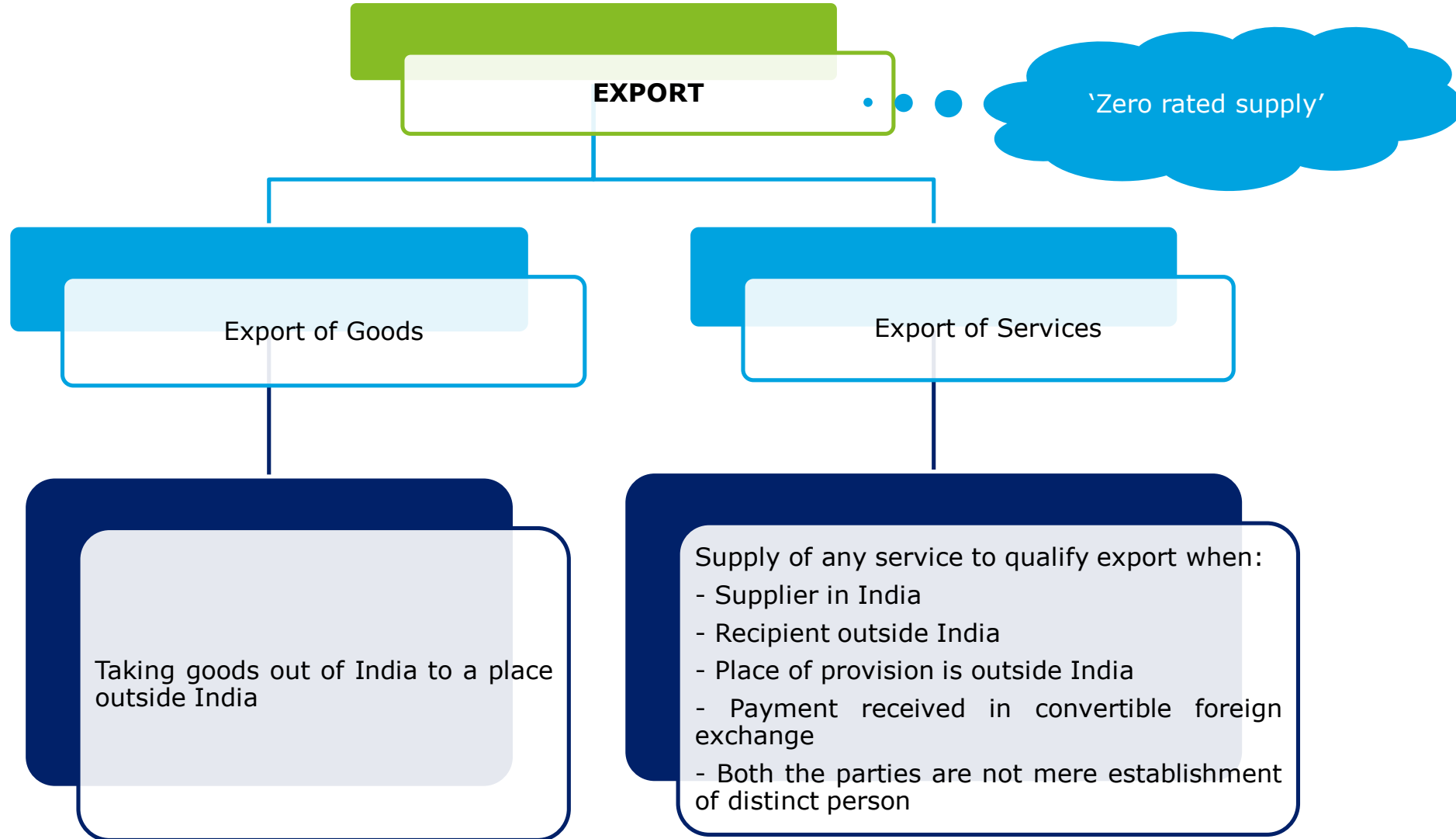
Place of installation or assembly

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



Definition of 'Export'



Key Export Related aspects

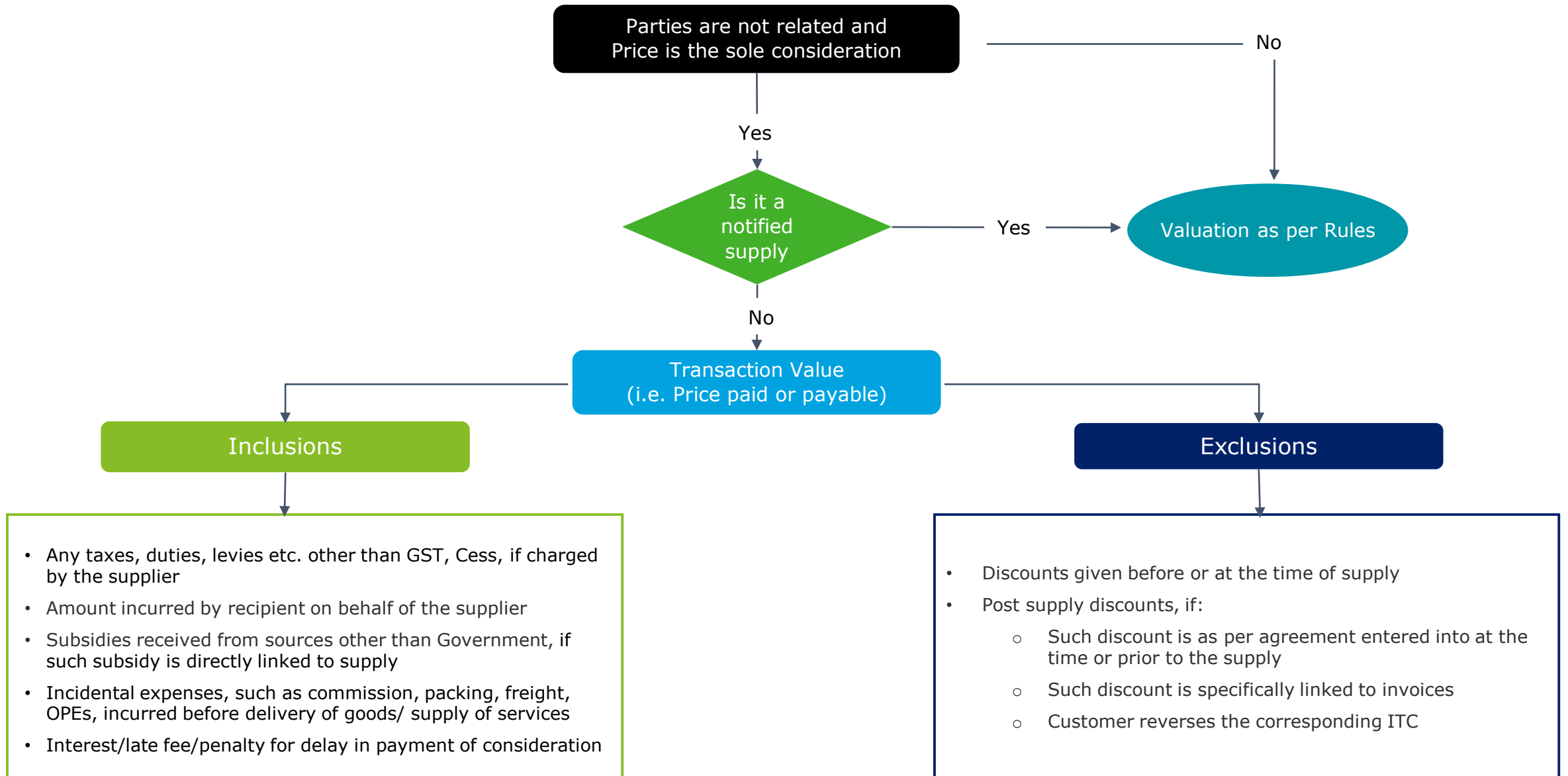
Place of Supply

- ✓ 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

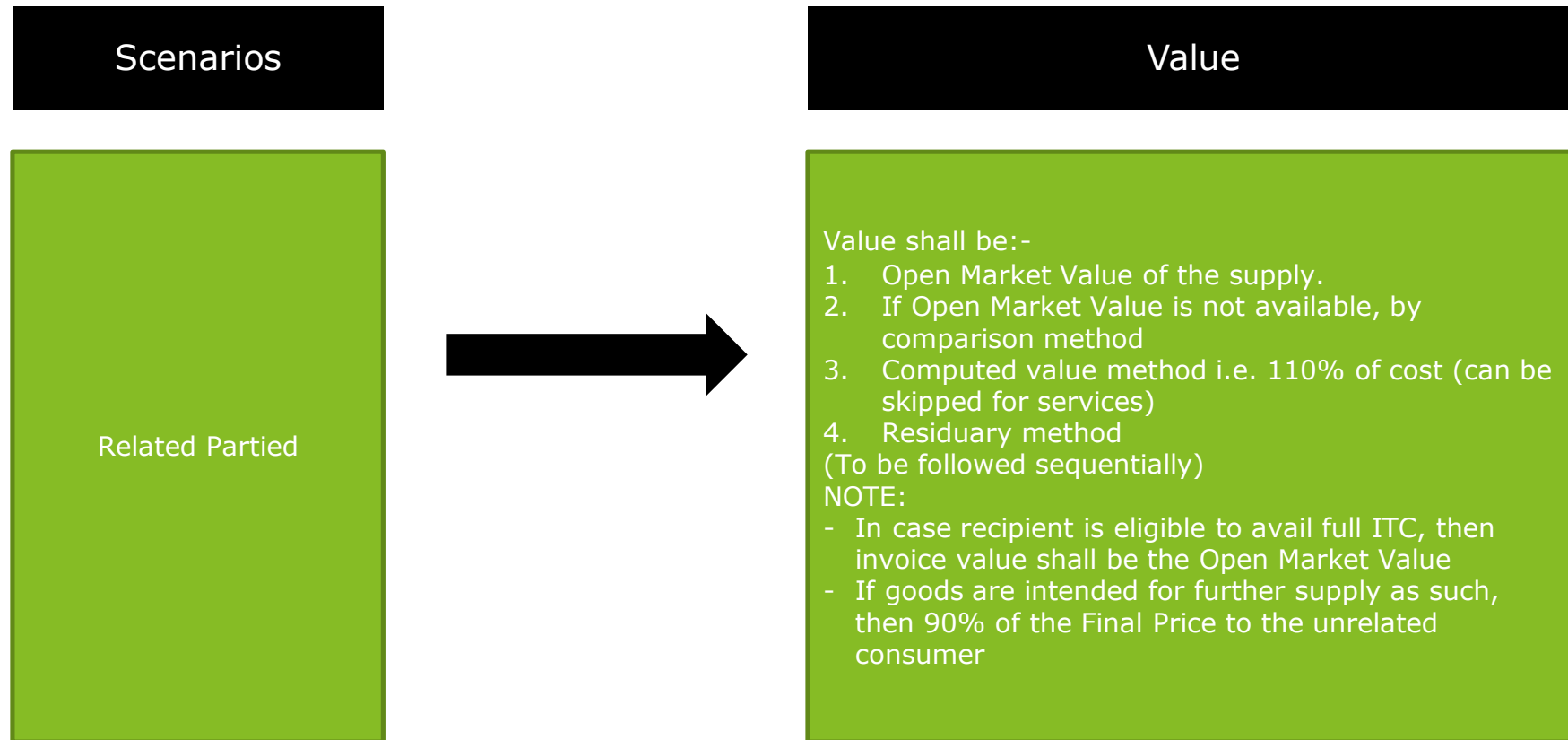
Nature of Supply

- ✓ 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



Valuation Rules - Where parties involved are related persons



Input Tax Credits under GST

Heading	Description
Meaning	<ul style="list-style-type: none">• 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	<p>Last date for taking credit shall be earlier of</p> <ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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

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

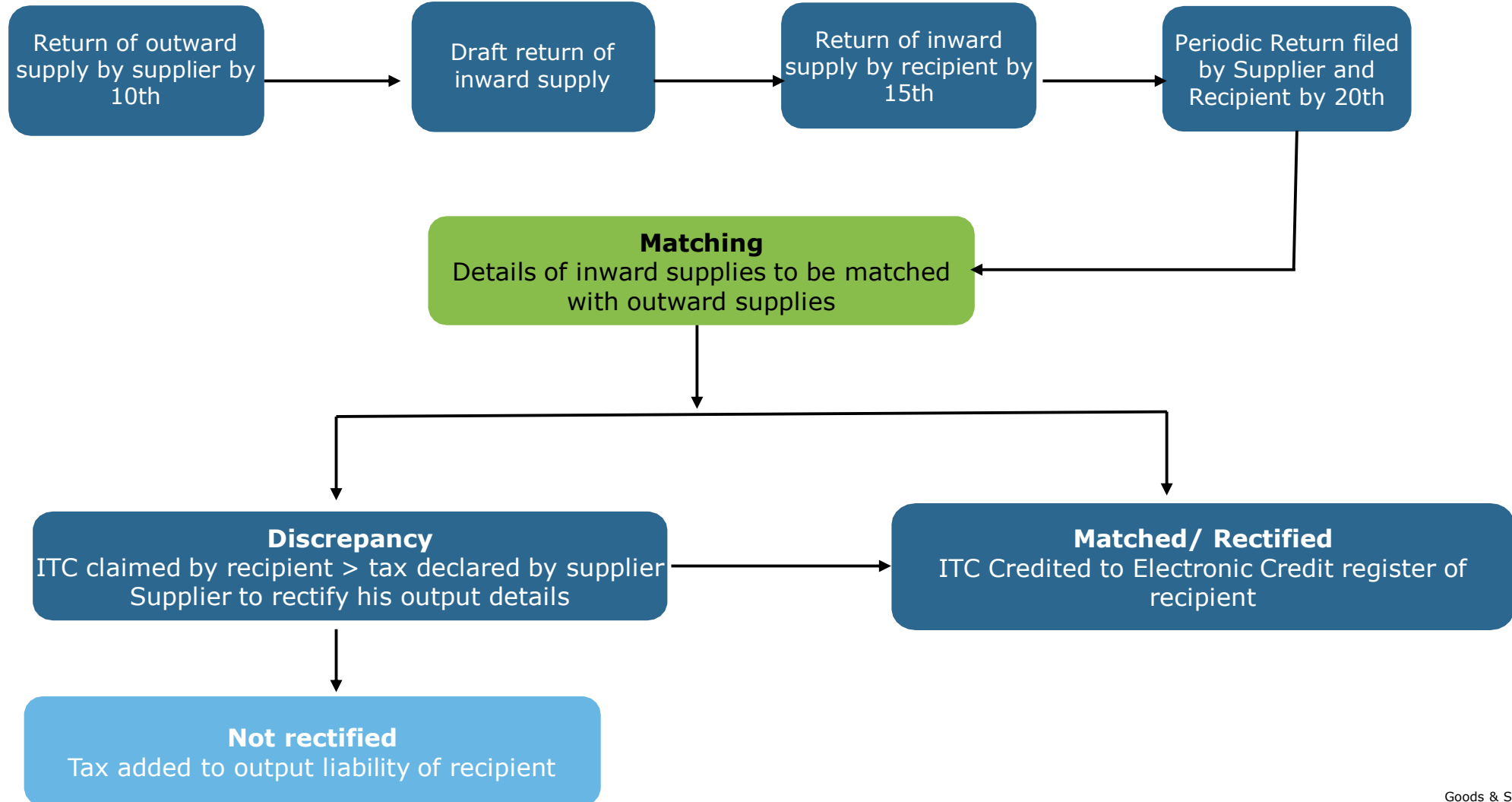
Input Tax Credit: Blocked credit

Goods/Services not eligible for ITC	Exceptions
 Motor vehicles and other conveyances	When used for making taxable supplies of such vehicles or conveyances, transportation of passengers/goods, imparting training
 Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery	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
 Membership of a club, fitness center, travel benefits to employees such as leave or home travel concession	Not Applicable
 Rent-a-cab, life insurance and health insurance	a) Services are obligatory for an employer to provide to its employees under any law b) Same as exception in row 2

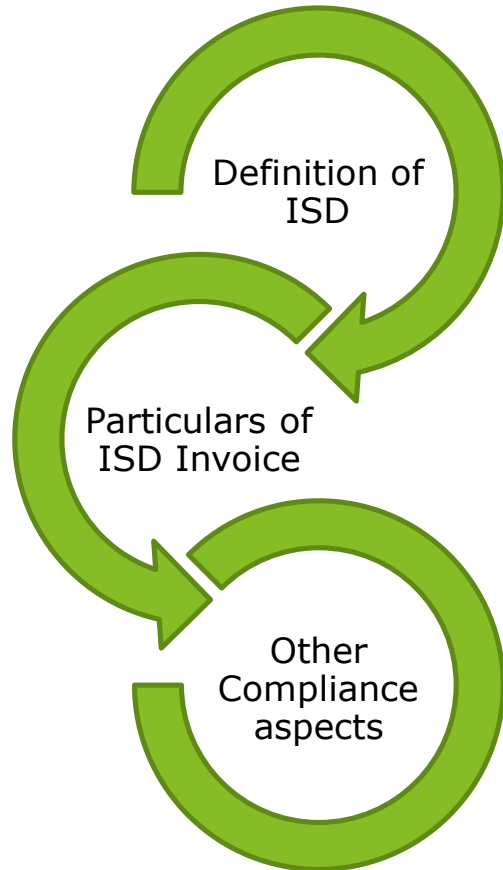
Input Tax Credit: Blocked credit

Goods/Services not eligible for ITC	Exceptions
 <p>Works contract services for construction of an immovable property (other than plant and machinery)</p>	Where it is an input service for further supply of works contract service
 <p>Goods or services used for construction of an immovable property (other than plant or machinery) on own account</p>	Not Applicable
 <p>Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples</p>	Not Applicable
 <p>Tax paid in cases of fraud, willful misstatement etc., detention/seizure, confiscation etc.</p>	Not Applicable

New Concept - Credit Matching



Input Service Distributor (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

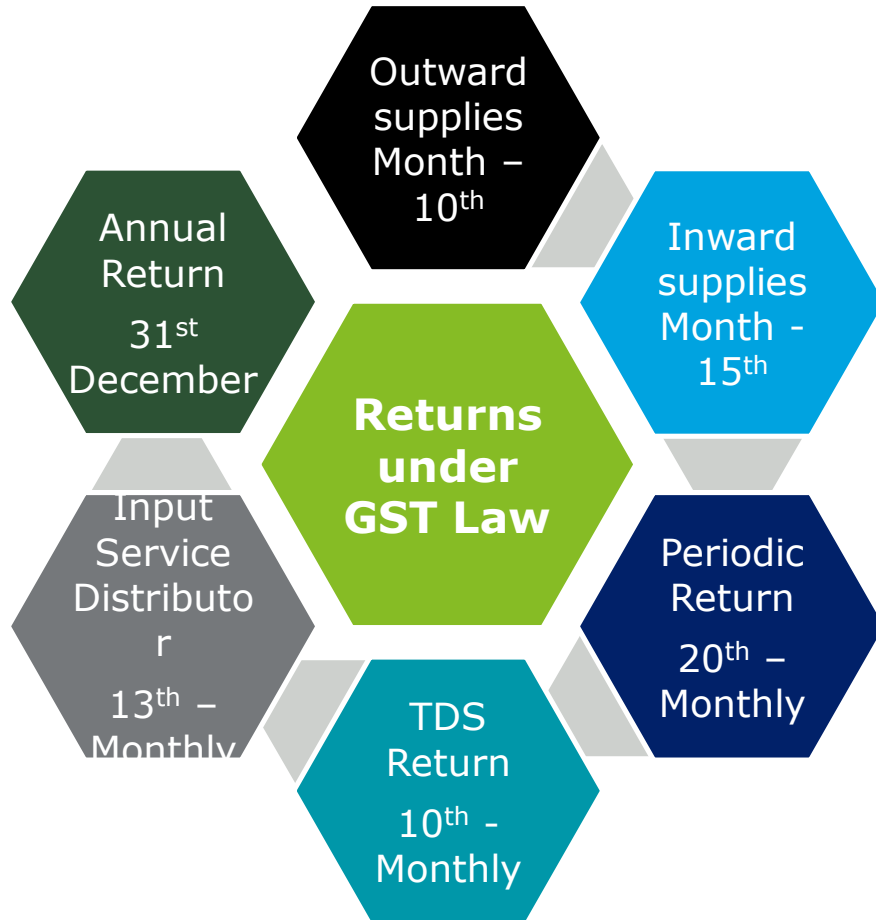
ISD invoice shall contain the following particulars:

- 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

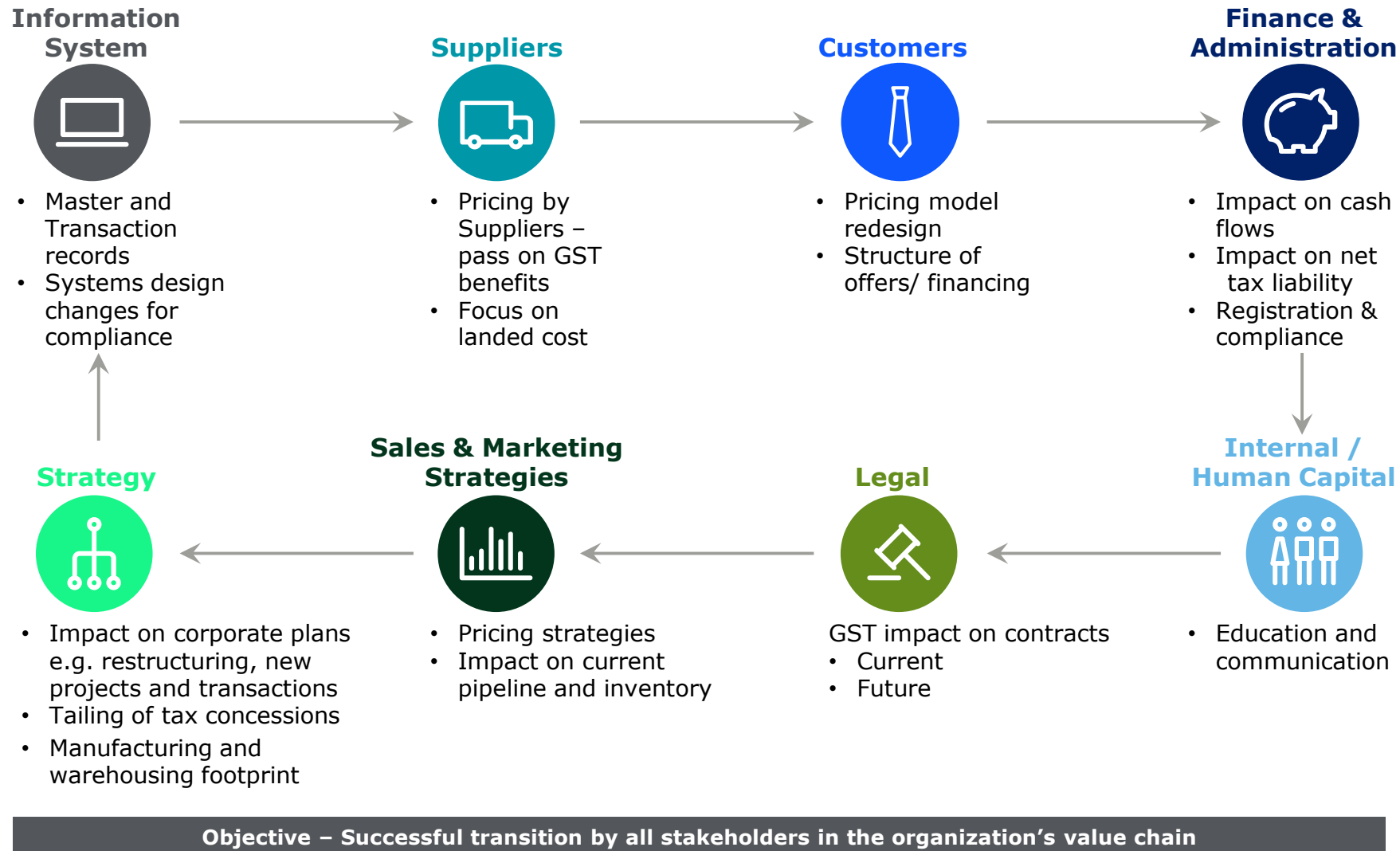


- No revision of return. Error/ omission can be rectified in the period in which discovered
- Rectification possible till September of the following financial year.
- Return filed without payment of tax to be treated as invalid and no ITC allowed
- Similar periodicity for all taxable persons, whereas, 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



Key Impact Areas

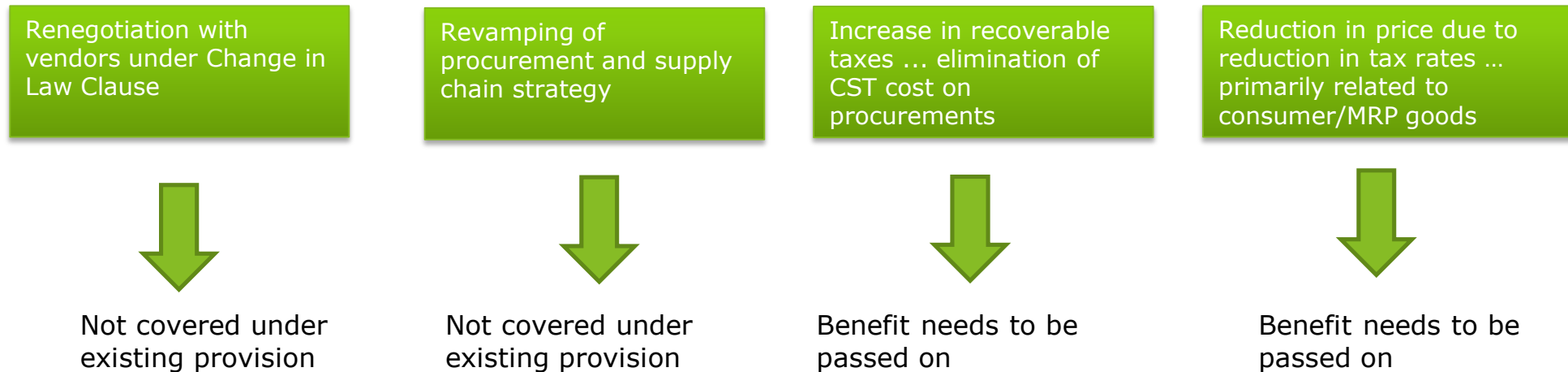
Particulars	Present regime	GST Regime	Impact
MRP based valuation	<ul style="list-style-type: none"> • Import CVD payable on certain % of MRP 	<ul style="list-style-type: none"> • IGST payable on CIF price. MRP based valuation eliminated 	
Input Tax credit	<ul style="list-style-type: none"> • No credit of CVD, CST and Service tax to traders • No credit of CST to Service provider and manufacturer 	<ul style="list-style-type: none"> • Seamless credits available 	
Sales return	<ul style="list-style-type: none"> • Adjustment in tax liability allowed only if goods are returned within 6 months 	<ul style="list-style-type: none"> • Adjustment allowed up to Sep 30 of following year 	
Stock transfers	<ul style="list-style-type: none"> • No tax payable against submission of Statutory forms 	<ul style="list-style-type: none"> • GST applicable on stock transfers ... working capital impact 	
Tax on receipt of advance	<ul style="list-style-type: none"> • Currently applicable only in case of services 	<ul style="list-style-type: none"> • GST applicable on receipt of advance (for both goods and services) 	
Concessional forms	<ul style="list-style-type: none"> • Currently Form C to be collected from customers. CST exposure if forms not received 	<ul style="list-style-type: none"> • No concessional forms under GST 	

Key Impact Areas

Particulars	Present regime	GST Regime	Impact
Procurement from unregistered vendor	<ul style="list-style-type: none"> No implication 	<ul style="list-style-type: none"> Self assessment and compliance requirement 	
Credit Mis-match Concept	<ul style="list-style-type: none"> Limited applicability and accountability 	<ul style="list-style-type: none"> Stringent procedure prescribed with increased accountability on purchaser 	
Compliance Decentralized	<ul style="list-style-type: none"> State VAT registration Service tax registration Separate compliance for Federal and State taxes 	<ul style="list-style-type: none"> Compliance at State wise level only – common for federal and state 	
ERP and allied IT platforms	-	<ul style="list-style-type: none"> Changes to be made for being GST compliant with State wise accounting 	

Anti-profiteering measure

Potential savings under GST ...



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

