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India's New Goods and Services Tax

As a certified advisor, Deloitte's tax analytics solutions facilitate GST compliance

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Introduction

India is undergoing a tax transformation with the introduction of Goods and Services Tax (GST). Sufficient details are now available to enable taxpayers and their advisors to put the mechanisms in place to enable compliance. In developing the new tax regime India has learned from the best practices and pitfalls of other countries and federal systems including Canada, the EU, Australia, and Malaysia to create a new system.

India's initiative is a response to the complexities of the country's historic approach to tax in which both the states and the federal government have levied taxes at a variety of rates. This has given rise to complexity, double taxation, and economic inefficiency while many smaller businesses have stayed outside or only partially within the tax system. The new system creates a unified tax base on which both the federal and state taxes will apply. It provides for cooperation between state and federal authorities so that taxpayers can comply via a single portal with GST revenues flowing to the concerned authorities according to the taxpayer's location and transaction profile. The implementation strategy for GST is based on an ambitious goal for the full digitalization of tax compliance. Recognizing the importance of a robust ICT backbone to achieve this, the federal and state governments have cooperated to create the GST Network (GSTN)—a special purpose company to set up the common portal and run the associated services.

The system works in a similar way to VAT in the business to business context, whereby GST on invoices from suppliers is deductible/refundable as an input tax. However, India's approach seeks to create an ecosystem in which all participants in the supply chain have an interest in each other's compliance, since a supplier's failure to account for output tax will result in the corresponding input tax deduction or refund being denied. With the system up and running, the Indian tax authorities will use analytics to apply a compliance rating to each taxpayer and this rating will determine the intensity with which a company is subject to tax audit. As the ratings will be published they are likely to be used by procurement departments for supplier selection—a high rating being indicative of good compliance quality which reduces the risk that input GST refunds will be withheld or deductions denied.

Given the significant challenges presented by the new system and the wide variety of taxpayers who will need to comply, the ecosystem provides for a number of third party service or "GST Suvidha" Providers (GSPs) to help taxpayers carry out their GST Compliance Process.

Every month taxpayers will upload their sales invoices via the GSTN portal, and the GST credit for the purchaser will be equivalent to the tax on the supplies that have been reported. Given the significant challenges presented by the new system and the wide variety of taxpayers who will need to comply, the ecosystem provides for a number of third party service or "GST Suvidha" Providers (GSPs) to help taxpayers carry out their GST Compliance Process.

Deloitte India is one of the first GSPs to be certified

The government's own examples of the types of assistance to be provided by GSPs include converting sales and purchase data into a GST compliant format and integrating the taxpayer's ERP package(s) with the GST system. While it is not mandatory, the government is recommending that large taxpayers and those present in multiple locations upload via a GSP rather than directly to GSTN to assist with the compliance and provide associated value added services.

Shortly after filing, the GSTN will run analytics on the filed data to reconcile input GST as included in a company's return against output GST filed by the relevant vendors. Where anomalies are identified the input tax deduction or refund will be denied until the two sets of data can be reconciled. This has the potential to present taxpayers with a significant cash-flow disadvantage, and some large businesses are offering to invest in helping the outer reaches of their supply chains to become compliant to help manage the risk of payment delays.

The first independent GSPs have been certified and Deloitte India is one of only two Big Four firms to be included. Recognizing the scale of what the Indian business community is being expected to deliver under the new GST system, Deloitte India has developed a number of technology-driven tax solutions to facilitate the compliance and reporting effort:

The **GST Impact Analyzer** helps organizations to understand the impact of GST on their financial KPIs.
Data analytics are run on transaction level data to analyze how key financial parameters will change once GST has been introduced and scenario planning to help businesses to plan. The outputs from GST Impact Analyzer will help companies identify changes that may be required so that the financial and tax consequences of GST can be optimized.

Deloitte India technology solutions to facilitate compliance

GST Bolt-on is Deloitte India's application programming interface (API) offering that works as an interface with existing IT/ERP systems to confirm GST compliance without the need for the system to be modified or upgraded. GST Bolt-on aggregates and consolidates data from a company's various systems so that all inward and outward supplies can be reported in line with the regulations. With the data all in one place it is possible to run analytics on both the transaction level and on summaries of data subsets such as by business unit, vendor or customer. As the data is available online it can be retrieved at any time. In addition to aggregation the tool also renders transactions GST compliance-ready and can assign GST-compliant invoice numbers and perform data checks so that high quality data is being reported. During this validation process discrepancies are noted and coded so that they can be sent to the right team for corrective action.

GST Bolt-on++ enables users to register for GST, upload inward and outward supply information, validate and submit GST data, generate mismatch reports and send them for corrective action, manage GST payments, store, view and download GST-related information and submit refund applications.

Just as the government is running "train the trainers" sessions so that both local tax offices and companies can be trained in the new system, Deloitte India has developed **GST e Learning** to equip clients with the requisite skills to become and remain GST compliant.

While the introduction of GST presents a significant challenge for the Indian business community including the advisors and software providers who service it, it also presents an excellent opportunity to refine business models and systems to both become GST compliant and benefit from tax data analytics insights that can be derived from high quality data aggregated in one place.

Contacts

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