Goods and Services Tax
The Most Awaited Indirect Tax Reform
August 2016
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Setting the Context:
Current State and GST Impact
Goods and Services Tax (GST) in India

Current state of play

1. Expected to be implemented in April 2017

2. Bill passed by Rajya Sabha on August 3, 2016 with following amendments:
   - No levy of 1% additional inter-state supplies
   - 100% compensation to states for revenue loss in first five years
   - Broad consensus on dispute resolution between Centre and State

3. The Bill now needs to be ratified by more than half the States

4. Committee headed by the Chief Economic Adviser has recommended a standard Rate of 17-18%, the rate at which most products are likely to be taxed and a lower rate of 12% which will be applicable on essential products

5. Model GST Law comprising draft GST Act, 2016, IGST Act and GST Valuation Rules, 2016 is placed on website of Ministry of Finance. The draft business process for Registration, Payments, Refund and Returns under GST were already put up in public domain
Roadmap to GST

Legal Process

- Ratification by 50% States and Presidential Assent (Sep/Oct 2016)
- Formation of GST Council and recommendation on GST law by GST Council (Nov/Dec 2016)
- Passage of GST law by Centre and States (Winter Session-Nov/Dec 2016)
- Notification of GST Rules (Jan 2017)
- Implementation of GST (April 2017)

Parallel Actions
- Development of IT Infra: by Dec 16
- Feedback from Trade and Industry: Aug-Oct 16
- Testing of IT Infra: Jan-March 17
- Training of Tax Authorities: Aug-Dec 16
- Registration of existing dealers: Feb-March 17
- Workshops for trade and Industry: Jan-March 17
Key features of Proposed GST
Taxes to be subsumed in GST

Note:
1) Alcoholic beverages for human consumption are proposed to be kept out of the purview of GST
2) GST on petroleum products would be levied from a notified date recommended by the GST Council
3) *Includes Excise duty levied under Medicinal & Toilet Preparations (Excise Duties) Act, 1955
GST Model

Basic Features

- Taxation on destination based consumption principles
- Taxable event of ‘supply’ as against manufacture (excise), sales (VAT) and services (service tax)
- Dual GST (Central GST and State GST) to apply concurrently on supply of all goods and services
- Integrated GST (IGST) on inter-State transactions including stock transfers
- Exports zero rated; Imports subject to IGST
- Three rate structure for goods, standard rate 17~18%, concessional rate 12~14%, demerit rate 40%
- Concurrent credit chain as under:

  - Input CGST against - CGST, IGST
  - Input SGST against - SGST, IGST
  - Input IGST against - IGST, CGST, SGST

  CGST + SGST = IGST

  CGST ↔ SGST
GST

Impact on Business
GST Rates

Report on Revenue Neutral Rate and recommended GST rates

- **Standard rate**: 17-18%
- **Revenue neutral rate**: 15% - 15.5%
- **Rate on precious metals**: 2-6%
- **Lower rate**: 12%
- **Sin/demerit rate on luxury cars, aerated beverages, tobacco and tobacco products**: 40%
GST Model Law

Broad architecture

- State wise Registration and Compliances
- Intangibles, Actionable Claims, Works Contract, etc.
to be treated as service
- GST Revenue Neutral Rate – Yet to be prescribed
- Inter-State Input Tax Credits along with Concept of Input service distributor
- Free Supplies of Goods/Services i.e. supplies without consideration to be taxable
- Taxable supplies to include inter-state Branch Transfers
- Transitional Provisions on Cenvat Credit, pending litigation, registration certificate etc.
- Introduced Concept of Point of Taxation for goods as well as service
- Separate provisions for determining the place of supply of Goods/ services
Time of Supply
Goods

Time of supply - goods

Forward Charge

Earlier of

Cash flow concern on advance received from customer

Removal

Invoice

Receipt of payment

Receipt of goods per recipient

Reverse Charge

Earlier of

Receipt of goods

Payment made

Receipt of invoice

Debit in books
Place of Supply

**Goods**

- **Supply involves movement of goods – sale of goods**
  - Location where movement terminates for delivery to recipient

- **Where goods are delivered before or during movement of goods (bill to ship to)**
  - Principal place of business of person to whom goods are transferred - Direct and Channel sales

- **Supply does not involve movement of goods**
  - Location of goods at the time of delivery to recipient

- **Where goods installed or assembled at site**
  - Place of installation or assembly
Input Tax Credit

**Meaning**
Input Tax Credit refers to credit of IGST/CGST/SGST paid on supply of goods/services for use in course or furtherance of business.

**Time Limit to take credit**
Within **one year** from the date of invoice subject to earlier of:
- filing of **September return** following end of the financial year to which invoice relates or
- filing of relevant **annual return**

**Reversal requirements**
ITC available only to the extent used for business purposes (in case of partial supplies).
ITC available only to the extent used for taxable supplies (in case used for taxable/non-taxable/exempt supplies).

**Conditions for availing ITC**
Invoice/supplementary invoice/debit note from a registered supplier
Goods/services are received and taxes are paid to appropriate Government
Furnishing of return
Where goods are received in installments, then credit can be availed after receipt of last lot. Where inputs/capital goods sent on job work- received back within 180 days/2 years respectively, if not credit to be reversed.
Transitional Provisions

**Input tax Credit**
Closing balance of credit as per earlier law to be carried forward and allowed only when the credit is allowed under both earlier law and GST law.

**Price Revisions**
Any tax payable or tax reduction on account of price revisions upward/downward after the appointed date will be considered under GST.

**Existing Litigation**
Existing litigation would be assessed as per the provisions of the earlier law.

**Periodic Supply of Services**
GST is not payable if the supply of service has already been completed before the appointed date and tax has already been paid under earlier law.
GST Provisions

Key impact areas

**Taxability of free supplies**

• Complementary goods in the nature of “buy 2 get 1 free” or Goods supplied as free samples, constitutes as Free Supplies and is presently not taxable

• Under the proposed GST law, free supplies are liable to tax.

**Discount**

• Discounts are allowed to be deducted only when it is known at or before the time of supply

**Tax rate Impact on Goods**

• Concessional GST tax rate might be provided on essential goods/food items. The final impact can be assessed after the Tax Schedules are released.

**Tax rate Impact on Services**

• Service Tax rate is expected to increase in the range of 3% – 4% from current rate of 15% to achieve Revenue Neutral Rate
Potential Implications on Manufacturing & Consumer Business
## Potential Implications
### On Manufacturing & Consumer Business

<table>
<thead>
<tr>
<th>Issues</th>
<th>Manufacturing Business</th>
<th>Consumer Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cascading effect of the taxes- SGST &amp; CGST is chargeable on the base price</td>
<td>• Eliminates cascading</td>
<td>• Eliminates cascading</td>
</tr>
<tr>
<td>Discounts- to be shown on the invoices &amp; also be in line with trade practice</td>
<td>• Volume discounts &amp; periodical discounts needs re-visit based on varied practices in the industry</td>
<td>• Would impact the way the businesses market their products/merchandise</td>
</tr>
</tbody>
</table>
| Tax on receipt of advance- the receipt of advance is taxable, if such event occurs before the Date of Invoice, supply, entry of such supplies in the books of recipient | • Adverse cash flow impact  
• Reconciliation issues                                                              | • Adverse cash flow impact  
• Reconciliation issues                                                              |
| Area based exemptions and other specific benefits                                             | • Lack of clarity yet                                                                   | • Lack of clarity yet                                                                   |
### Potential Implication
#### On Manufacturing & Consumer Business

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<tr>
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<tr>
<td><strong>Valuation:</strong></td>
<td>• Freight is generally charged as reimbursement which is includable in the GST valuation</td>
<td>• Generally freight is part of the price, hence no significant impact</td>
</tr>
<tr>
<td>• Freight Charges</td>
<td>• GST replaces MRP based valuation with Transaction value concept</td>
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</tr>
<tr>
<td>• MRP based valuation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Stock transfer &amp; its valuation</strong></td>
<td>• Adverse cash flow position</td>
<td>• Subject to GST (adverse cash flow impact) &amp; significantly impacts the way businesses deal with stock movements</td>
</tr>
<tr>
<td><strong>Subsuming of Entry tax</strong></td>
<td>• Reduces:</td>
<td>• Reduces:</td>
</tr>
<tr>
<td></td>
<td>- Cost of procurement</td>
<td>- Cost to the consumer</td>
</tr>
<tr>
<td></td>
<td>- Compliance</td>
<td>- Compliance</td>
</tr>
<tr>
<td></td>
<td>- Time taken to deliver goods to purchasers</td>
<td>- Time taken to deliver the goods</td>
</tr>
<tr>
<td><strong>Input tax on input services</strong></td>
<td>• Input tax credit will be available for the manufacturers</td>
<td>• Input tax credit (ITC) will be available for the merchants/traders</td>
</tr>
<tr>
<td></td>
<td>• Input blocked items exists under the GST</td>
<td>• No cascading</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Input blocked items exists under the GST</td>
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</tbody>
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## Potential Implication

**On Manufacturing & Consumer Business**

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<tr>
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<th>Consumer Business</th>
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<tbody>
<tr>
<td>Availability of credit on CST transactions</td>
<td>• Could procure goods interstate without losing ITC</td>
<td>• Could procure goods interstate without losing ITC</td>
</tr>
<tr>
<td>Time limit for availment of credit-VAT- Time Limit of 6 months</td>
<td>• Additional time for ITC availment</td>
<td>• Additional time for ITC availment</td>
</tr>
<tr>
<td>Service- Time Limit of 1 year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registration- the entity has to obtain multi locational registration</td>
<td>• Significantly impacts those businesses which has wide supply chain footprint</td>
<td>• Significantly impacts in terms of compliance costs</td>
</tr>
<tr>
<td>Periodic Returns</td>
<td>• Number of return filings increases</td>
<td>• Number of return filings – increases significantly</td>
</tr>
<tr>
<td>Returns Reconciliation of details / dispatches</td>
<td>• Return details have to be reconciled by the supplier as well as the recipient</td>
<td>• Return details have to be reconciled by the supplier as well as the recipient</td>
</tr>
</tbody>
</table>
Optimizing the Supply chain in the context of GST
Characteristics of consumer business (CB) supply chains in India

**Procurement**
- Intra-state procurement preferred to inter state procurement
- Purchases from tax exempted units a key consideration
- Extended procurement chains (unknown sources beyond TIER1)

**Manufacturing**
- Reliance on external convertors/manufacturing partnerships
- Manufacturing in tax havens – independent of demand clusters
- Distributed manufacturing locations

**Distribution**
- Distribution network structured for realizing fiscal benefits
- Inter state branch /depot transfers
- High inventory levels driven by ease of stock transfers
- Extended distribution chain – multi-tier
Impact and implications of the GST on the CB supply chain

Impact Areas

- Implications on current manufacturing footprint
- Strategic planning for new capacities
- Impact on distribution from manufacturing footprint
- Supply side implications – Co-packers, 3rd parties and loan licensees

Core functions

- Impact on distribution – multi-channel
- Demand planning and management
- Inventory modelling
- Plant-product-market allocation
- Logistics and transportation
- Replacement and returns

Support functions

- Stakeholder training
- Knowledge transfer
- Supply side compliance model

Not an exhaustive list

Manufacturing & Operations

- Consolidation and impact on channel economics
- Pricing
- Sales organization
- Territories
- Governance and controls

Sales and Distribution

- Contract management
- Impact of billing practices
- Costing
- Cash flow impact

Finance

- S&OP
- Raw material to finished product
- Order to cash

Supply Chain

- Processes
- Human Resources
Technology Alignment
ERP Systems Impact

Compliance & Transformation perspectives

Forms / Layouts
- Tax Invoice
- Bill of Supply
- Invoice by Input Service Distributor
- Sales Order Form
- Purchase Order Form
- Debit Notes and credit notes

Chart of Accounts
- New G/L codes
- Account determination

Master Data
- Registration details and place of business
- Tax categories, Tax codes
- Access Sequences

Books of Accounts for each place of business
- Production or manufacture of goods
- Inward supply of goods / services
- Outward supply of goods / services
- Stock statements
- Details of input tax credit
- Details of output tax payable

Business Processes Impacted
- Registrations
- Sales and purchases of goods and services, Stock transfers, Debit notes, credit notes, reverse charge, input service distribution etc.
- Tax payments, Filing of e-returns
- Processes handled in peripheral systems (CRM, SRM, Dealers Management etc.)
The transition to GST will be complex, and changes in IT systems together with data volume involved cannot be underestimated. Key elements of migration are listed below:

**Master Data having migration impact**
- GST registration details
  - Suppliers
  - Customers
  - Legal entity
  - Plants
  - Depots
- Item master
- Business partners
- Tax codes and condition records for taxes and pricing

**Transactions having migration impacts**
- Open purchase transactions
- Migration of long term contracts, service and maintenance contracts
- Open sales transactions and contracts, open customer quotations
- Debit notes and credit notes

Transition to GST will require special emphasis on following key elements of migration plan from ERP system readiness perspective:
- End to end dress rehearsal
- Contingency plan
- Comprehensive cutover plan
- Post implementation support

Overall, project of such scale and complexity requires discipline of planning, organizing, and controlling work and resources. As such an effective project governance framework must be deployed.
Getting GST Ready – Approach & Methodology
## GST Implementation – Broad areas of focus

<table>
<thead>
<tr>
<th>Category</th>
<th>Focus Areas</th>
</tr>
</thead>
</table>
| Pricing                           | • Revisit the pricing strategies with the distributors  
• Renegotiate (if any) the pricing with suppliers                                         |
| Review of contracts               | • Alignment of all major contract terms and tax clauses with GST  
• Discounts terms to be specifically brought out in the contracts executed with distributors |
| Representations                   | • Making representation for lower rate of GST, taxability of promo products issued free                                               |
| Compliance and documentation      | • Maintaining detailed registers of supply and procurements, input credits  
• Timely filing of monthly and annual returns                                               |
| GST developments                  | • Tracking GST developments and creating awareness on GST                                                                                   |
| Impact on supply chain            | • Mapping impact of GST on current supply chain and suggesting modifications from GST perspective                                          |
| Impact on business and finance    | • Identifying impact on financials, working capital, credit chain, concessions, and suggesting tax planning options                          |
| Post implementation compliances   | • GST awareness trainings, review of compliances, creation of manuals and access to GST updates/resolution to queries                     |
| ERP Updation                      | • Changes to ERP modules, MIS reports, statutory compliance support, and ongoing trouble shooting support                                    |
Key steps for becoming ‘GST ready’

**GST Workshops** to:
- create awareness around GST structure, features and implications
- develop strategy

**Impact assessment study:**
- mapping taxes on current supply-chain under GST
- comparative analysis of tax implications under pre and post GST
- indicate possible alternatives to mitigate adverse tax implications

**Facilitate selection of alternatives** to:
- optimize the tax incidence
- retain business priorities

**Implementation support:**
- guidance on accounting, IT/ERP system
- re-designing of documentation and processes
- transitional provisions and zero-date compliance

**On-call advisory and compliance support** to:
- enable clients to concentrate on core business function
- minimize potential tax risks
Key takeaways

• Get started now if you have not already
• Do not dive in but assess where your business is, and plan accordingly
• Plan should be SMART – remember the end game is sustainable compliance in the longer term
• Transition planning – what do you need to do? What is key in each business or division?
• Systems changes and updates – always take time
• Many projects, few resources – planning for the GST implementation in your business, drawing experienced resources from Malaysia, China, across Asia Pacific and Europe / the Americas
• Final Point: how to protect your position and ensuring neutrality in the new GST? A core principle under the OECD VAT/GST International Guidelines
Questions

You can contact us at - ingstpmo@DELOITTE.com
