



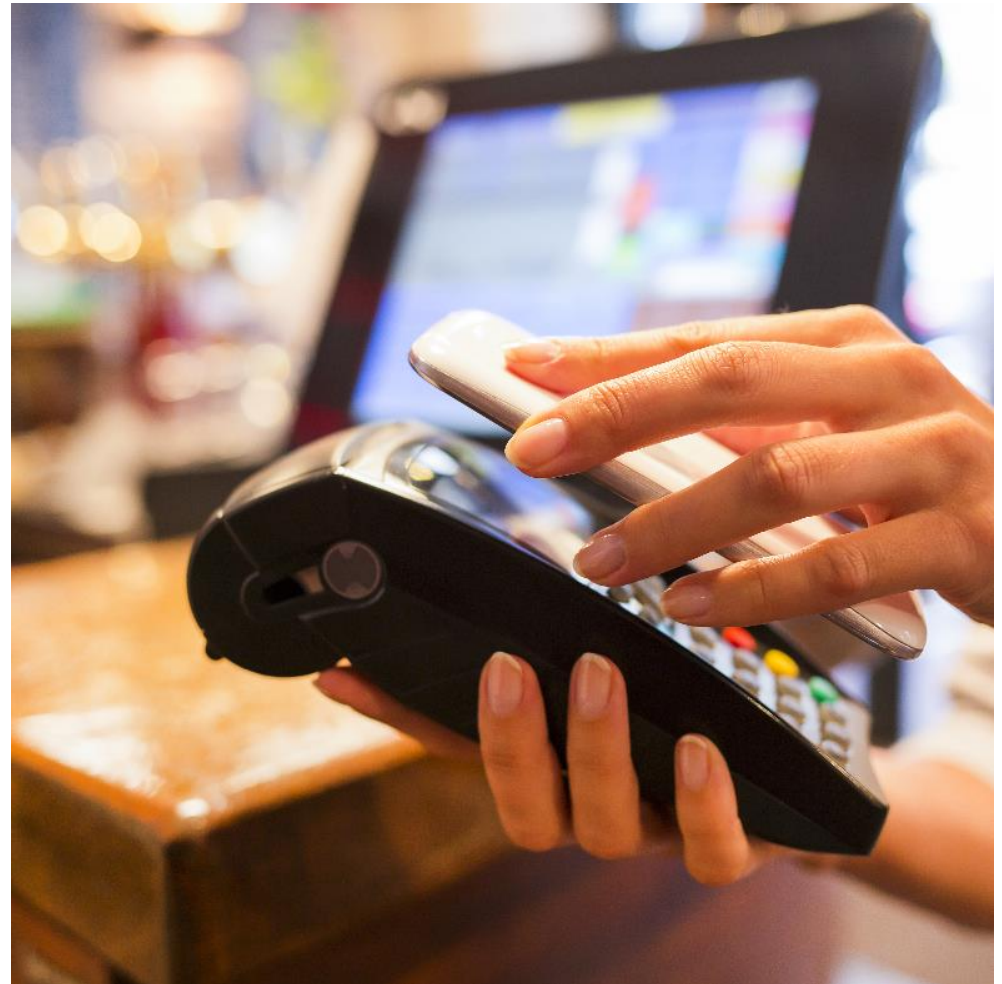
Goods and Services Tax

The Most Awaited Indirect Tax Reform

August 2016

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- Setting the Context : Current State and GST Impact
- Key Features of Proposed GST
- GST - Impact on Business
- Impact on Manufacturing & Consumer Business
- Optimizing the Supply Chain in the context of GST
- Technology Alignment
- Getting ready for the GST Regime
- Q & A



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

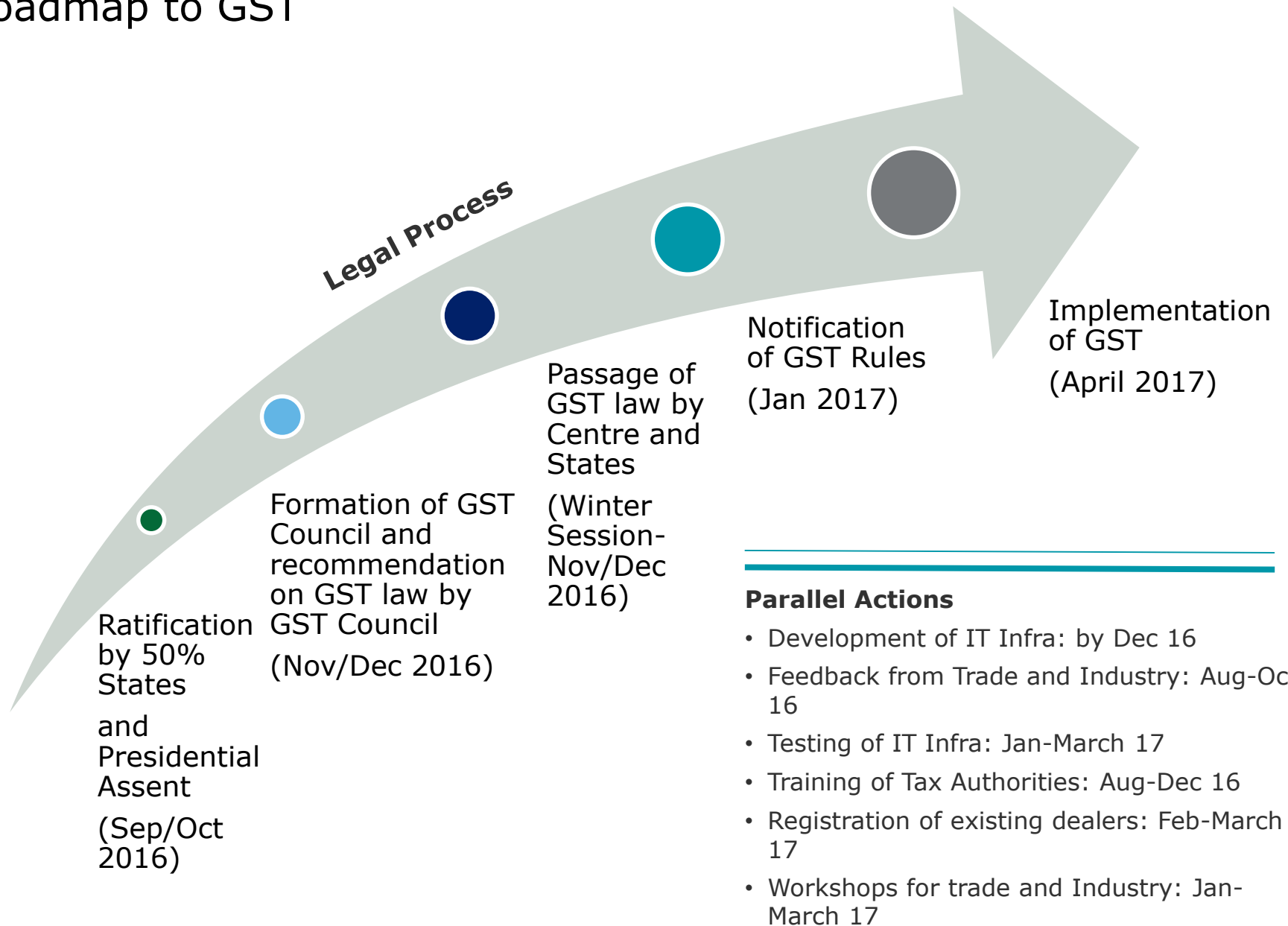


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Model GST Law comprising draft GST Act, 2016, IGST Act and GST Valuation Rules, 2016 is placed on website of Ministry of Finance. The draft business process for Registration, Payments, Refund and Returns under GST were already put up in public domain

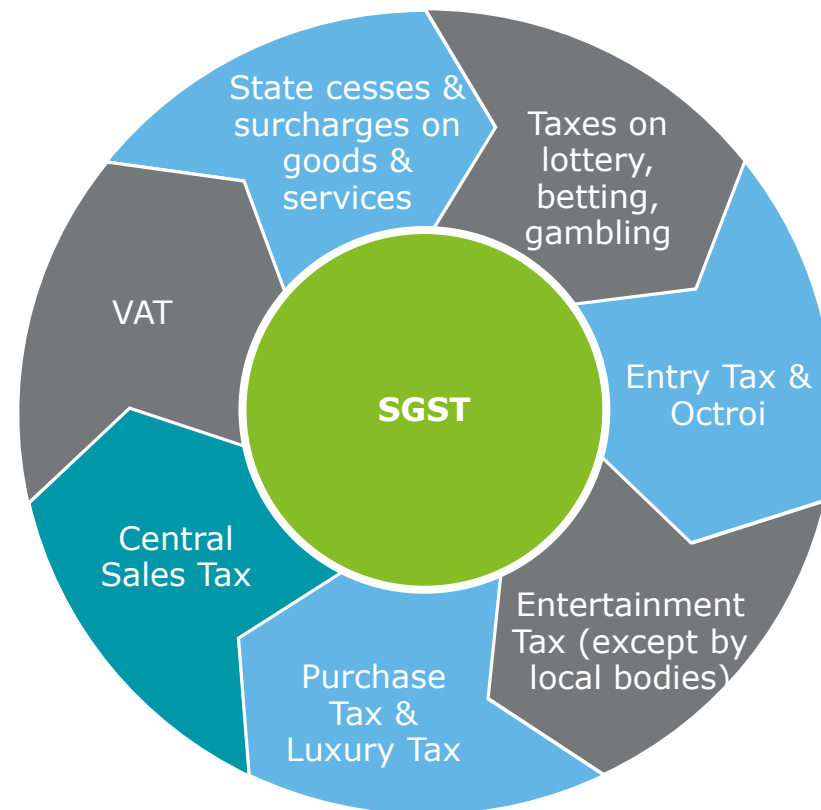
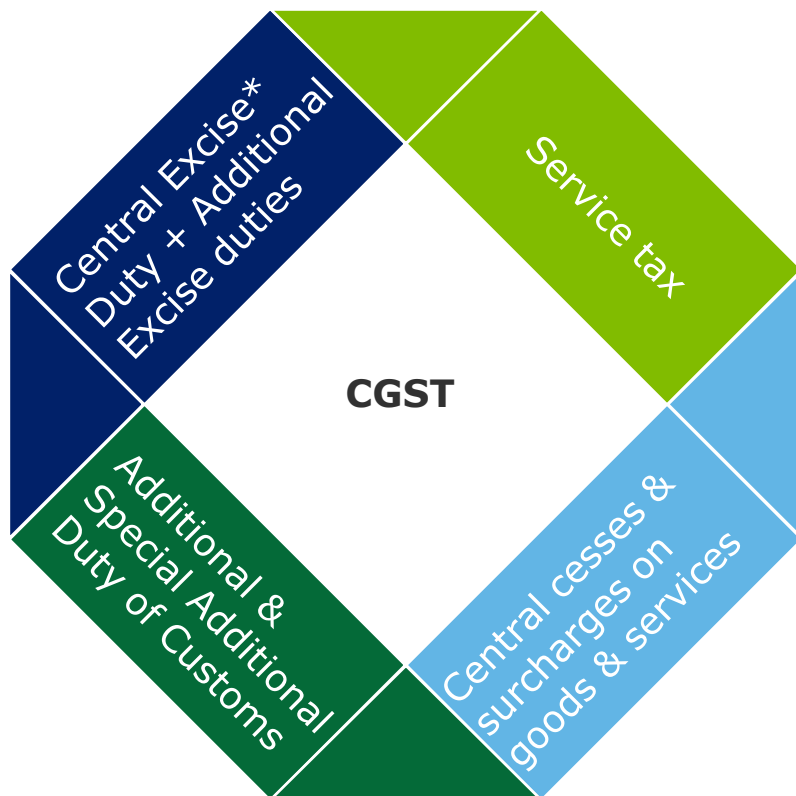


Roadmap to GST



Key features of Proposed GST

Taxes to be subsumed in GST



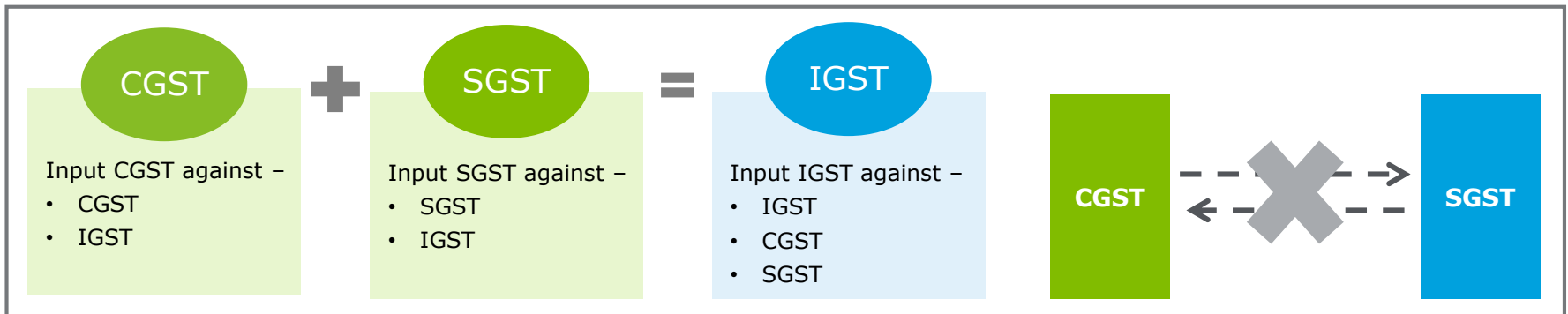
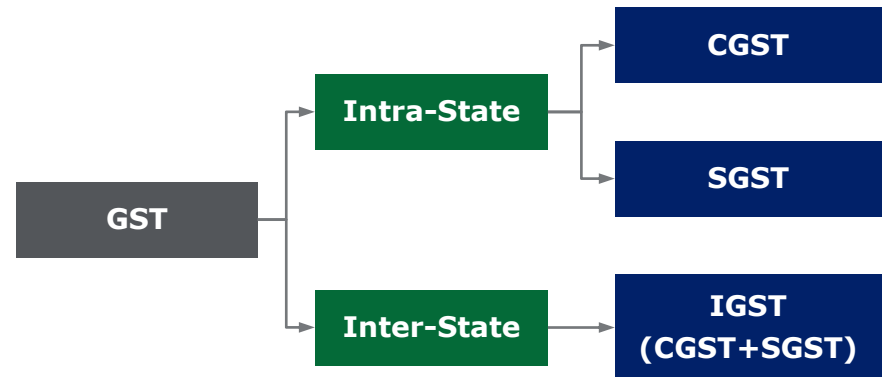
Note:

- 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:

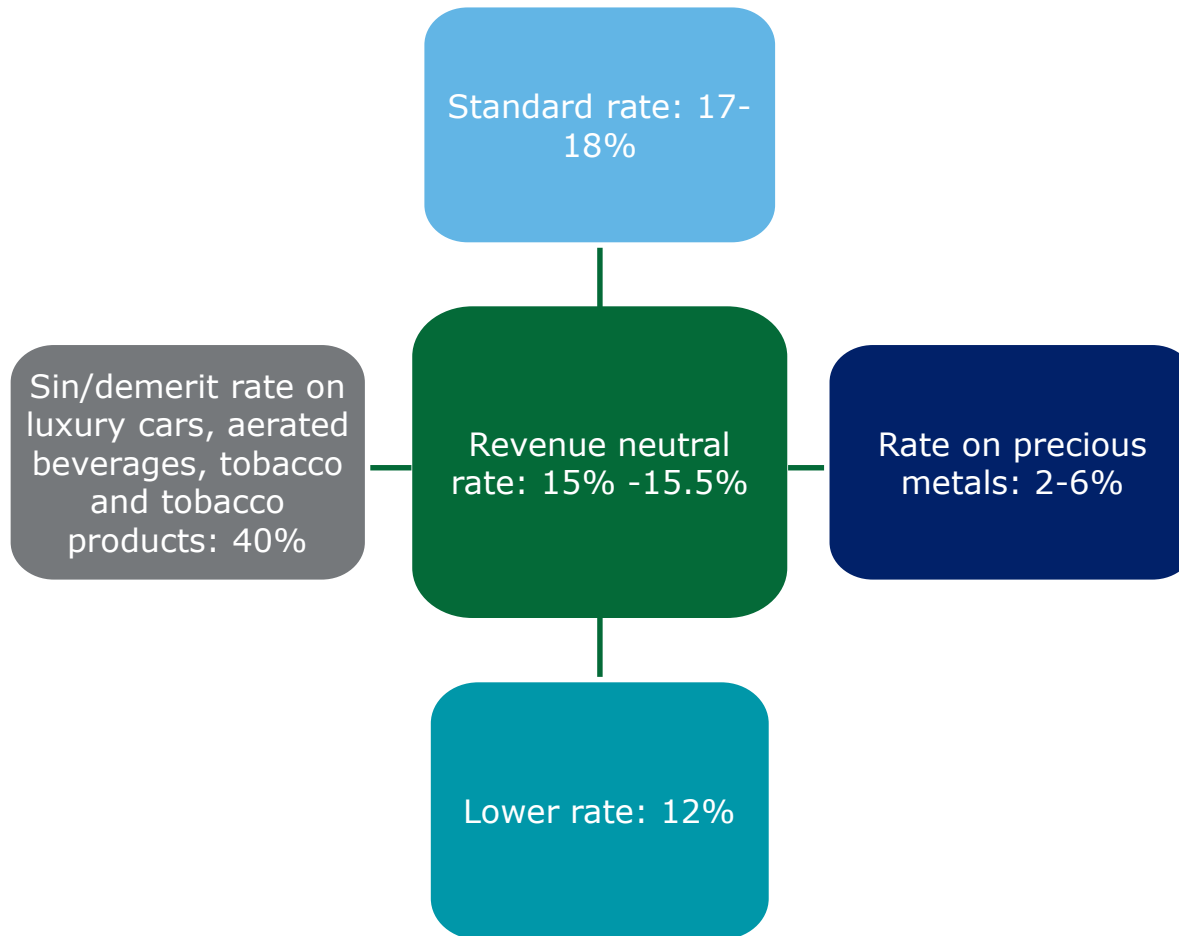


GST

Impact on Business

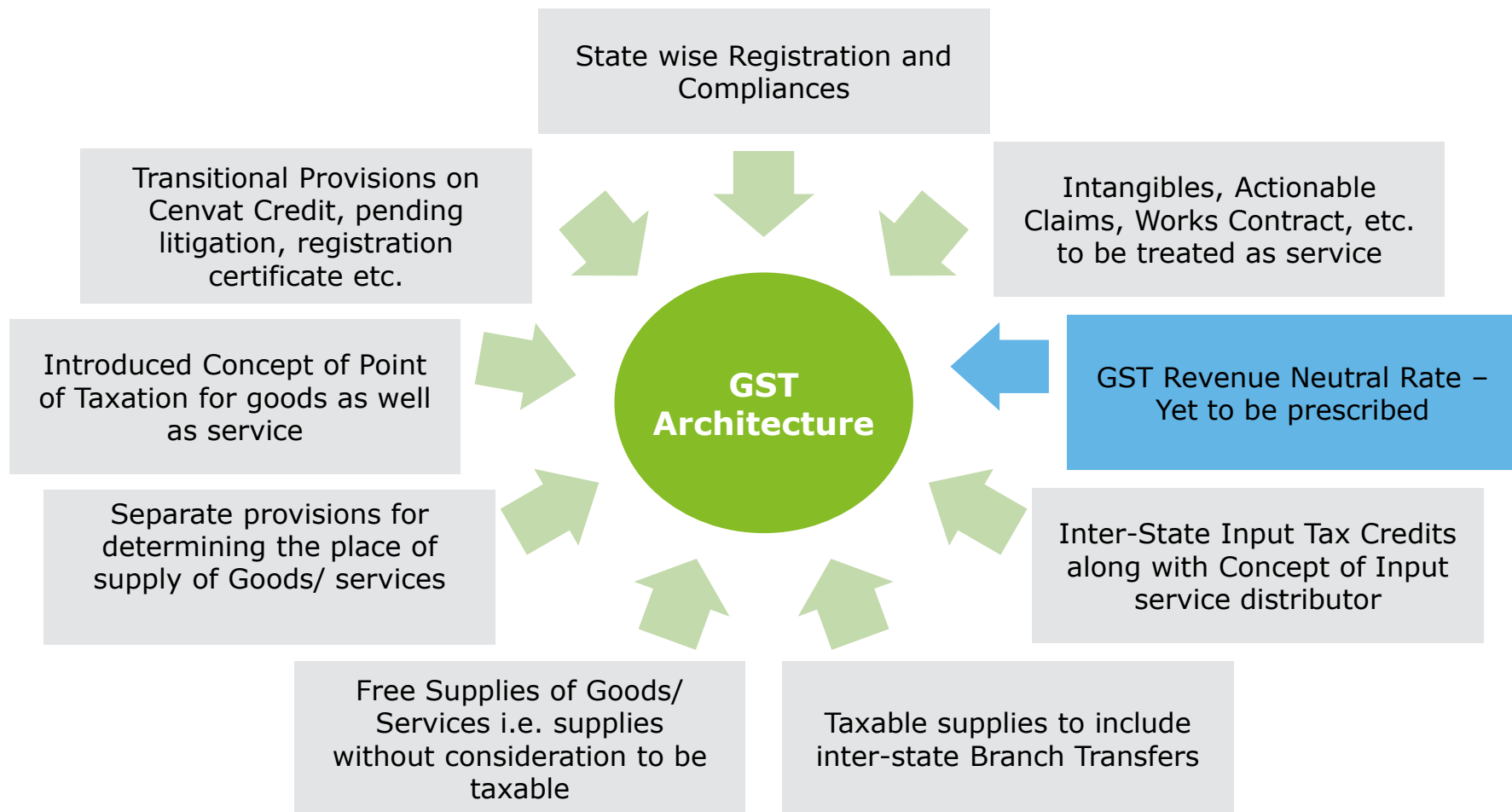
GST Rates

Report on Revenue Neutral Rate and recommended GST rates

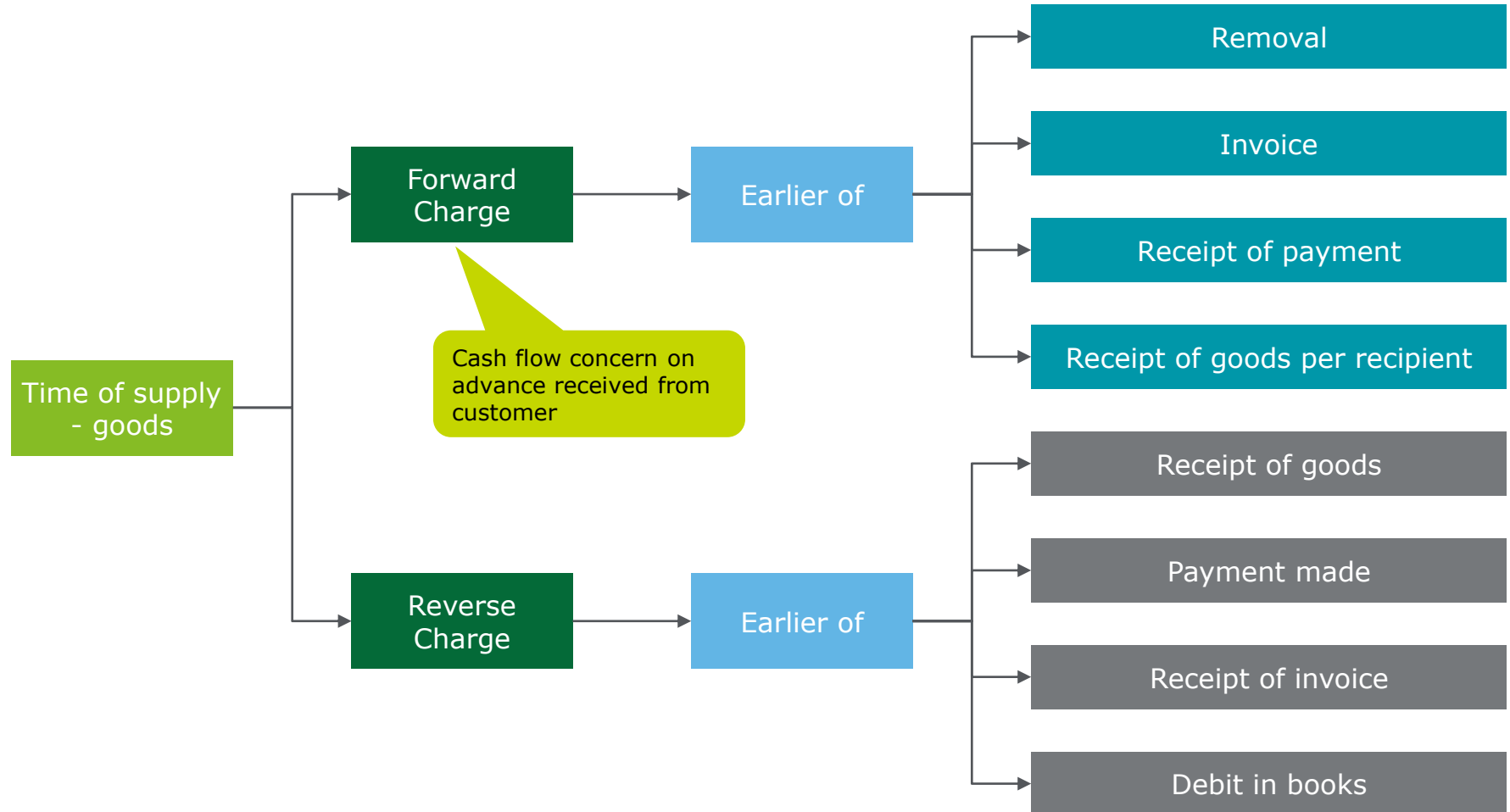


GST Model Law

Broad architecture



Time of Supply Goods



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



Reversal requirements

ITC available only to the extent used for business purposes (in case of partial supplies)

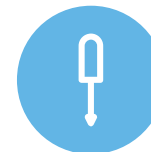
ITC available only to the extent used for taxable supplies (in case used for taxable/non-taxable/exempt supplies)



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**

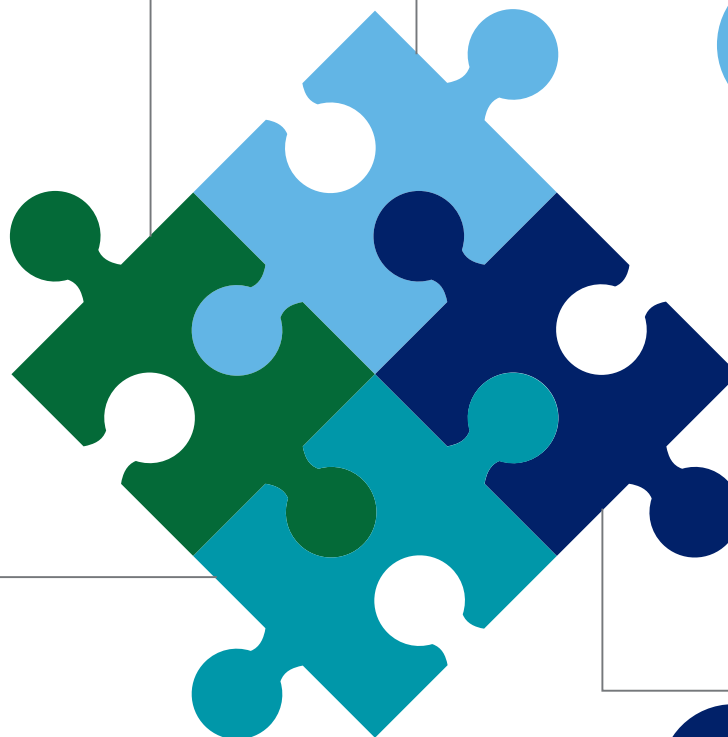


Conditions for availing ITC

Invoice/supplementary invoice/debit note from a registered supplier
Goods/services are received and taxes are paid to appropriate Government

Furnishing of return

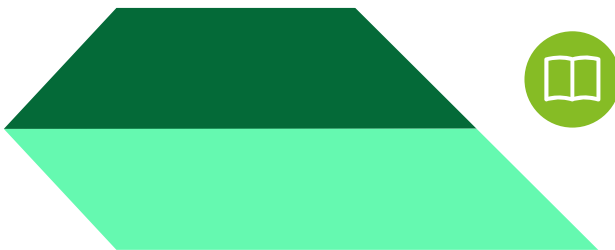
Where goods are received in installments, then credit can be availed after receipt of last lot.
Where inputs/capital goods sent on job work- received back within 180 days/2 years respectively, if not credit to be reversed.



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

Issues	Manufacturing Business	Consumer Business
Cascading effect of the taxes- SGST & CGST is chargeable on the base price	<ul style="list-style-type: none"> Eliminates cascading 	<ul style="list-style-type: none"> Eliminates cascading
Discounts- to be shown on the invoices & also be in line with trade practice	<ul style="list-style-type: none"> Volume discounts & periodical discounts needs re-visit based on varied practices in the industry 	<ul style="list-style-type: none"> Would impact the way the businesses market their products/merchandise
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	<ul style="list-style-type: none"> Adverse cash flow impact Reconciliation issues 	<ul style="list-style-type: none"> Adverse cash flow impact Reconciliation issues
Area based exemptions and other specific benefits	<ul style="list-style-type: none"> Lack of clarity yet 	<ul style="list-style-type: none"> Lack of clarity yet

Potential Implication

On Manufacturing & Consumer Business

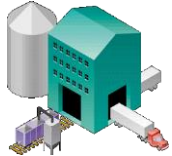
Issues	Manufacturing Business	Consumer Business
Valuation: <ul style="list-style-type: none"> • Freight Charges • MRP based valuation 	<ul style="list-style-type: none"> • Freight is generally charged as reimbursement which is includable in the GST valuation • GST replaces MRP based valuation with Transaction value concept 	<ul style="list-style-type: none"> • Generally freight is part of the price, hence no significant impact • GST replaces MRP based valuation with Transaction value concept
Stock transfer & its valuation	<ul style="list-style-type: none"> • Adverse cash flow position 	<ul style="list-style-type: none"> • Subject to GST (adverse cash flow impact) & significantly impacts the way businesses deal with stock movements
Subsuming of Entry tax	<ul style="list-style-type: none"> • Reduces : <ul style="list-style-type: none"> – Cost of procurement – Compliance – Time taken to deliver goods to purchasers 	<ul style="list-style-type: none"> • Reduces : <ul style="list-style-type: none"> – Cost to the consumer – Compliance – Time taken to deliver the goods
Input tax on input services	<ul style="list-style-type: none"> • Input tax credit will be available for the manufacturers • Input blocked items exists under the GST 	<ul style="list-style-type: none"> • Input tax credit (ITC) will be available for the merchants/traders • No cascading • Input blocked items exists under the GST

Potential Implication On Manufacturing & Consumer Business

Issues	Manufacturing Business	Consumer Business
Availability of credit on CST transactions	<ul style="list-style-type: none"> • Could procure goods interstate without losing ITC 	<ul style="list-style-type: none"> • Could procure goods interstate without losing ITC
Time limit for availment of credit- VAT- Time Limit of 6 months Service- Time Limit of 1 year	<ul style="list-style-type: none"> • Additional time for ITC availment 	<ul style="list-style-type: none"> • Additional time for ITC availment
Registration- the entity has to obtain multi locational registration	<ul style="list-style-type: none"> • Significantly impacts those businesses which has wide supply chain foot print 	<ul style="list-style-type: none"> • Significantly impacts in terms of compliance costs
Periodic Returns	<ul style="list-style-type: none"> • Number of return filings increases 	<ul style="list-style-type: none"> • Number of return filings – increases significantly
Returns Reconciliation of details / dispatches	<ul style="list-style-type: none"> • Return details have to be reconciled by the supplier as well as the recipient 	<ul style="list-style-type: none"> • Return details have to be reconciled by the supplier as well as the recipient

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

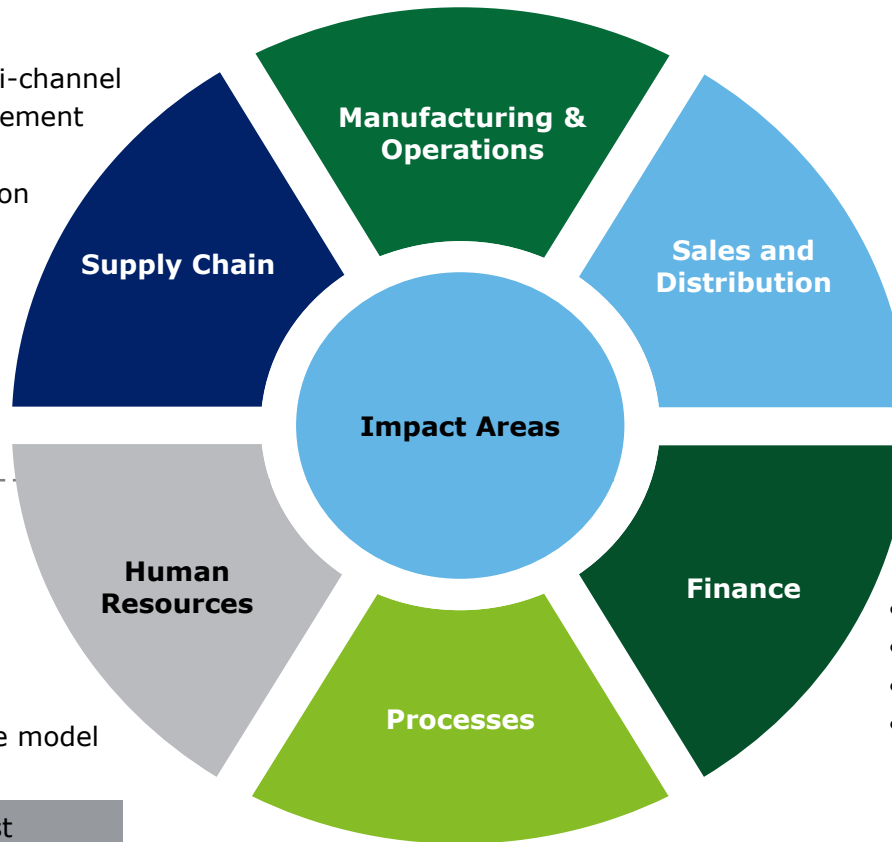
Impact and implications of the GST on the CB supply chain

- 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

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

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

Core functions



Support functions

- Stakeholder training
- Knowledge transfer
- Supply side compliance model

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

Not an exhaustive list

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

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

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

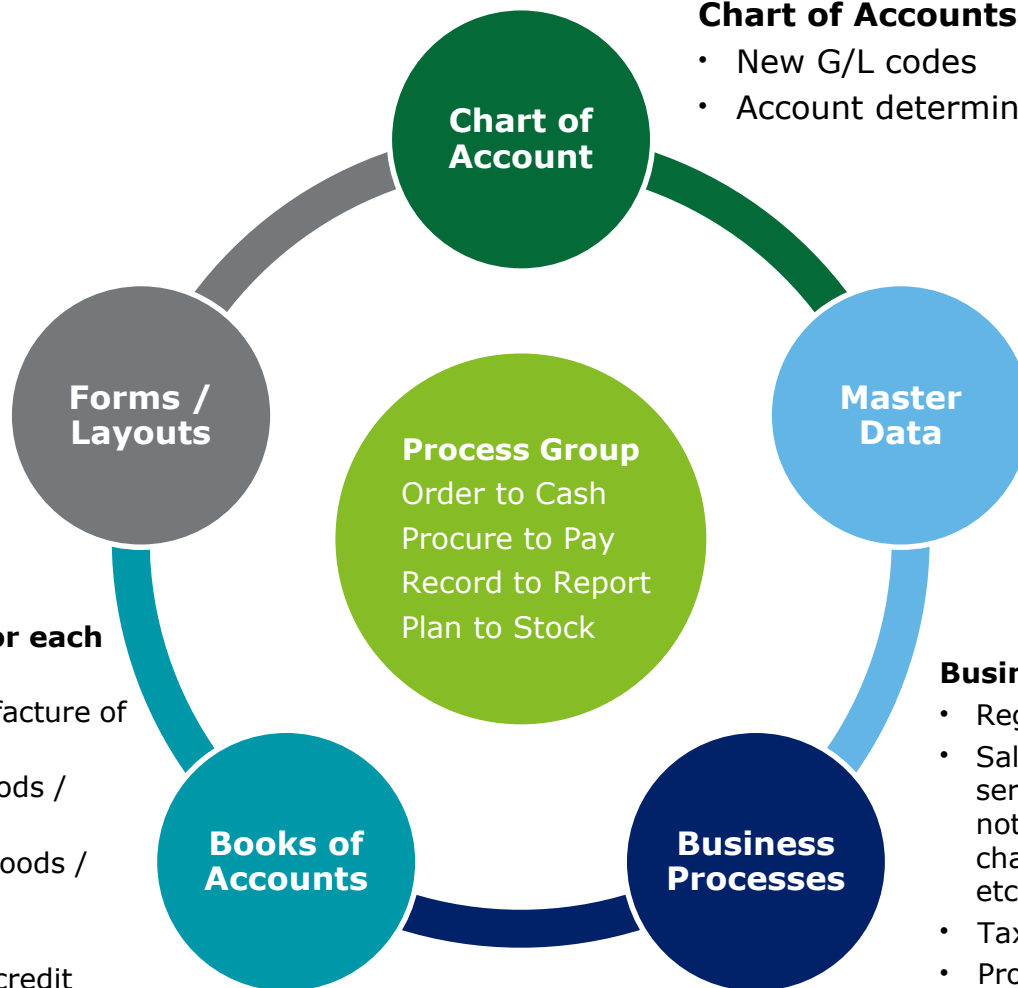


Chart of Accounts

- New G/L codes
- Account determination

Master Data

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

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.)

ERP Systems Impact

Migration considerations

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

Master Data

- 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

Transactions

- 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

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



For more details visit - <http://www2.deloitte.com/in/en/pages/tax/articles/goods-and-services-tax.html>



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