



## **Goods & Services Tax (GST)** Impact on Services & Infrastructure August 2016

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- GST impact on Service Sector
- GST impact on Infrastructure sector
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- Getting ready for GST regime
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# Global Perspective

# Global Perspective

## OECD VAT/GST guidelines comparison

### **Finally have a Model GST Law:**

- Radical changes proposed from current Indian Indirect Tax framework
- 190 pages of draft legislation for starters (and much more to come in the way of subsidiary laws and regulation, not to mention transition provisions)
- Should put this in context of many countries changing their Indirect Tax systems radically – China and Malaysia too in particular
- Also many countries introducing new Indirect Tax B2C and digital services rules – already in Korea and Japan in last year; to come in Australia, New Zealand, and other countries. Message: look at the proposed E-Commerce rules in the Model carefully
- The Ministry of Finance have confirmed that the Model GST should be in compliance with the OECD VAT/GST International Guidelines...

# Global Perspective

## OECD VAT/GST international guidelines

Destination principle Guideline 3.1				Core principles
General rules			Specific rules	
B2B	Customer location Guideline 3.2 [business location]		Evaluation Framework  E.g., on-the-spot supplies  Guideline 3.7	Location of immovable property Guideline 3.8
	Guideline 3.3 [business agreement]			
		Guideline 3.4 [multiple location entities]		
B2C	On spot	Place of performance Guideline 3.5		
	Other	Customer's usual residence Guideline 3.6		

**Destination principle**  
Transactions are subject to VAT in the jurisdiction of consumption

**Neutrality principle**  
VAT is a tax on final consumption that should be neutral for business

# Global Perspective

## Goods / Services in the VAT/GST OECD Rules

- Guidelines speak of “taxing rights” for tax authorities with reference to these rules, rather than establishment or registration rules specifically
- Different rules for goods vs. services – first crucial distinction is defining what is being supplied. Very brief guidance provided on what is a good compared to what is a service for VAT/GST
- **Goods** - place of supply rules for goods focus on the location of goods, regardless of establishment/presence of the supplier
- **Services** – B2B vs B2C distinction; for B2B tax in recipient’s hands; for B2C look at place of supply rules
- The most effective and efficient approach to ensure the appropriate collection of VAT on cross-border B2C supplies is to require the non-resident supplier to register and account for the VAT in the jurisdiction of taxation
- It is recommended that jurisdictions consider establishing a simplified registration and compliance regime to facilitate compliance for non-resident suppliers

# Global Perspective

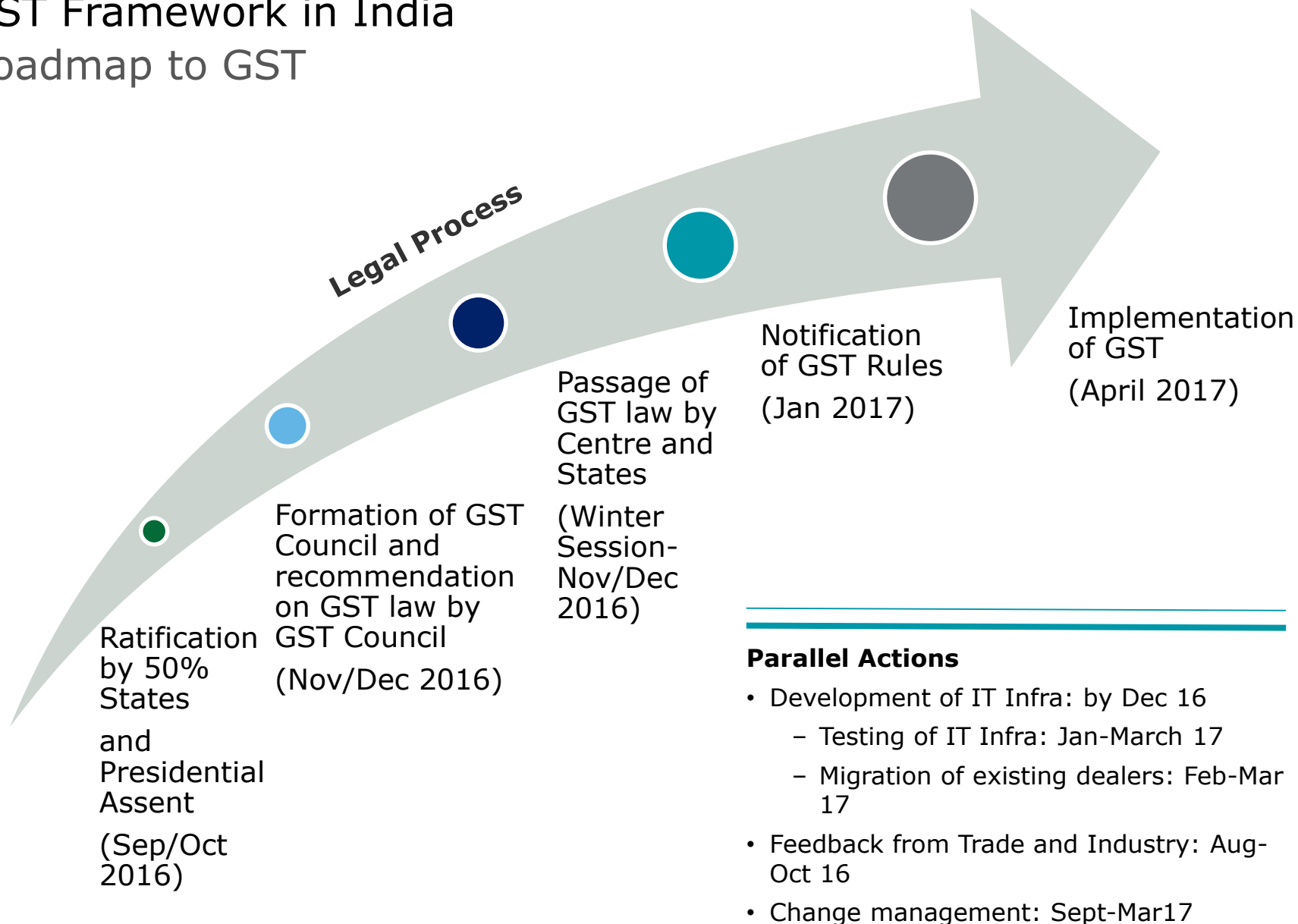
## Comparisons to the OECD VAT/GST framework

Overall the Model Law framework is consistent with the one laid out in the OECD VAT/GST Guidelines, but very different from the current Indirect Tax rules in India

- Comprehensive definition of supply for GST purposes
- Goods vs. services distinctions
- GST due at each stage of the economic process, on value added
- Allows for input tax deduction
- Place of supply rules – destination principle or final consumption rule
- B2B vs. B2C distinction
- For both goods and services – have permanent establishment/business establishment rules, plus rules that examine which establishment is most closely connected with a supply
- E-Commerce special rules

# GST Framework in India

## Roadmap to GST



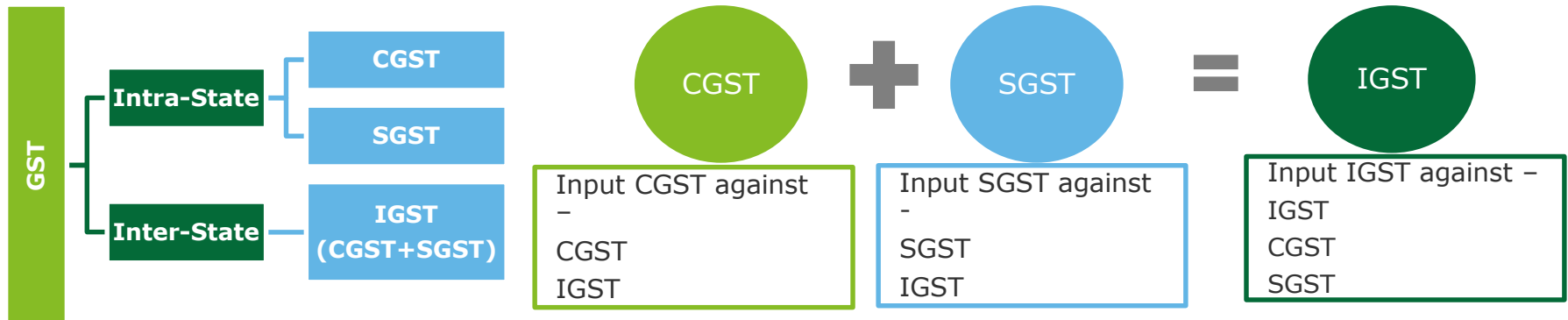


# GST Framework in India

## Dimensions of the proposed GST

What are the dimensions of significance?

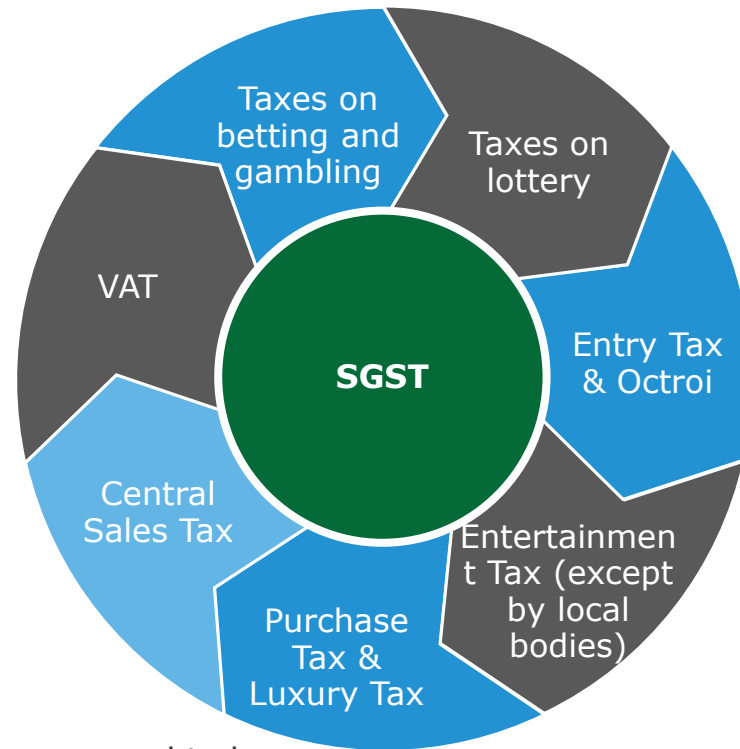
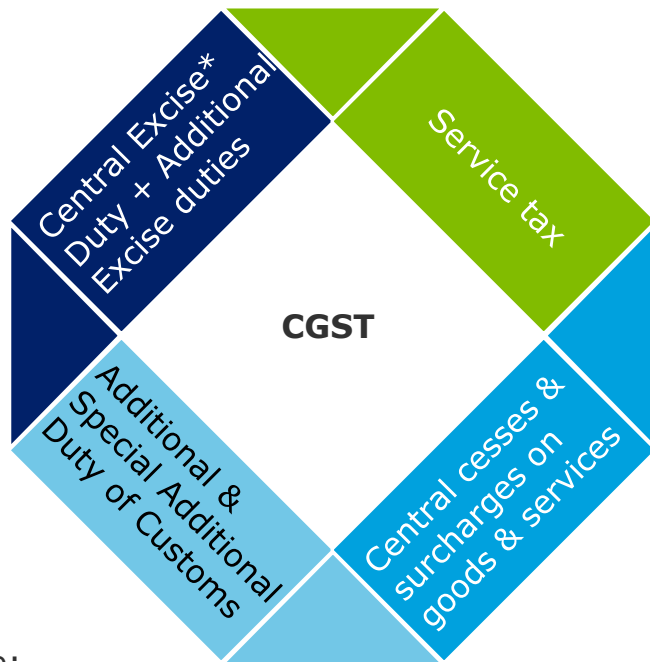
- **Dual GST:** Central GST (CGST) and State GST (SGST) to **operate concurrently** on supply of goods and services
- **Inter-State transactions** subject to **Integrated GST (IGST)** which will be **aggregate of CGST and SGST**
- **Taxable event of 'supply'** as against manufacture (excise), sales (VAT) and service (service tax)
- Existing **industrial incentives** to be continued by way of 'refund' mechanism
- **Cross utilization** of CGST and SGST credit will not be permitted except under IGST
- Exports and supplies to SEZ to be zero-rated
- **Imports would be subjected to IGST** on destination principle; SGST component of IGST to be appropriated by State where supplies get consumed



\* Threshold (for SGST and CGST) is yet to be agreed between Centre and States. Centre recommends a higher threshold of INR 2.5 mn.

# GST Framework in India

## 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 Framework in India

## Taxes to Remain

Basic Customs Duty

Taxes on liquors and petroleum products

Stamp duty

Excise duty on tobacco products

Toll tax

Property tax

Export duty

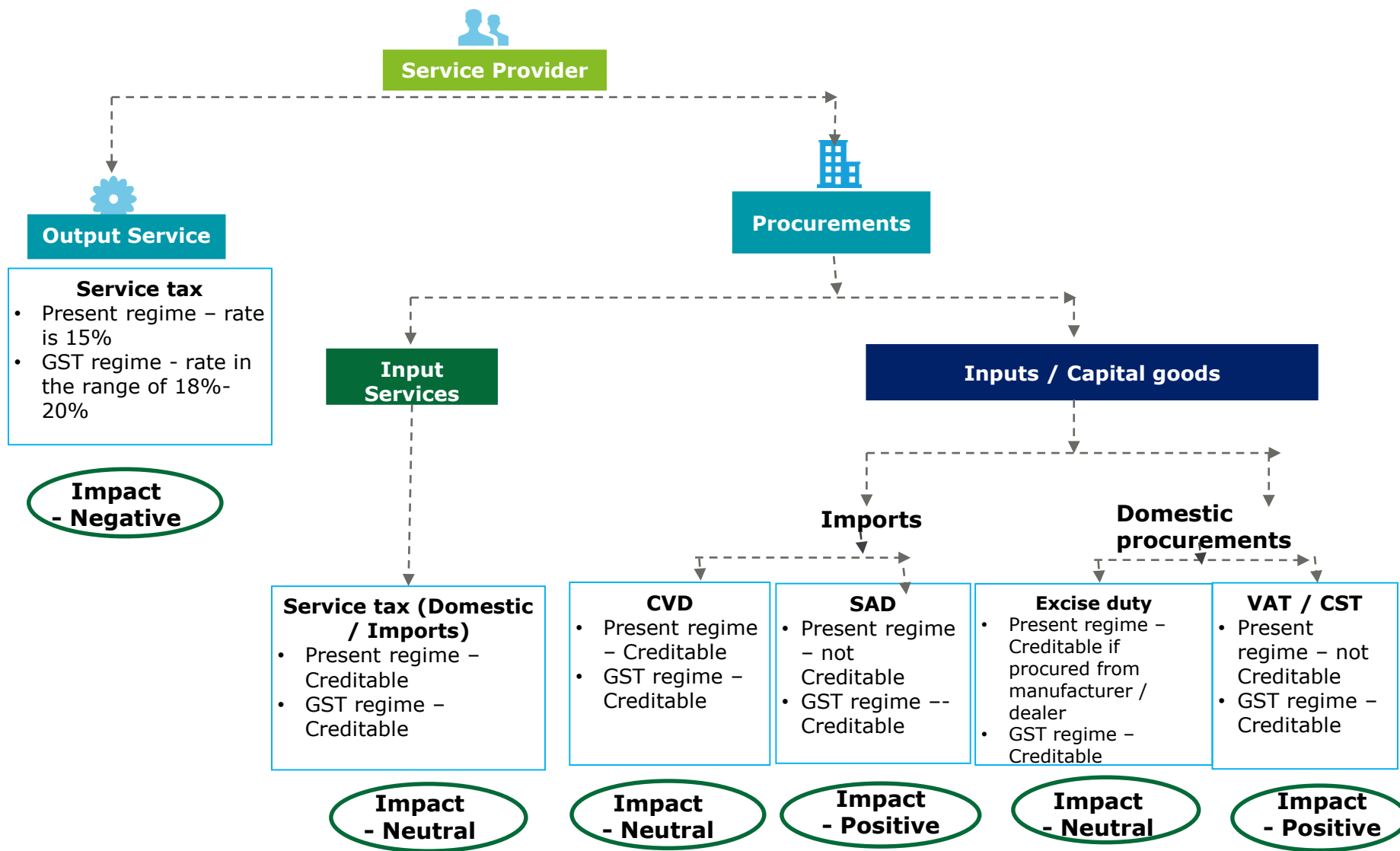
Environment tax

State Electricity Duty

# **GST impact on service sector**

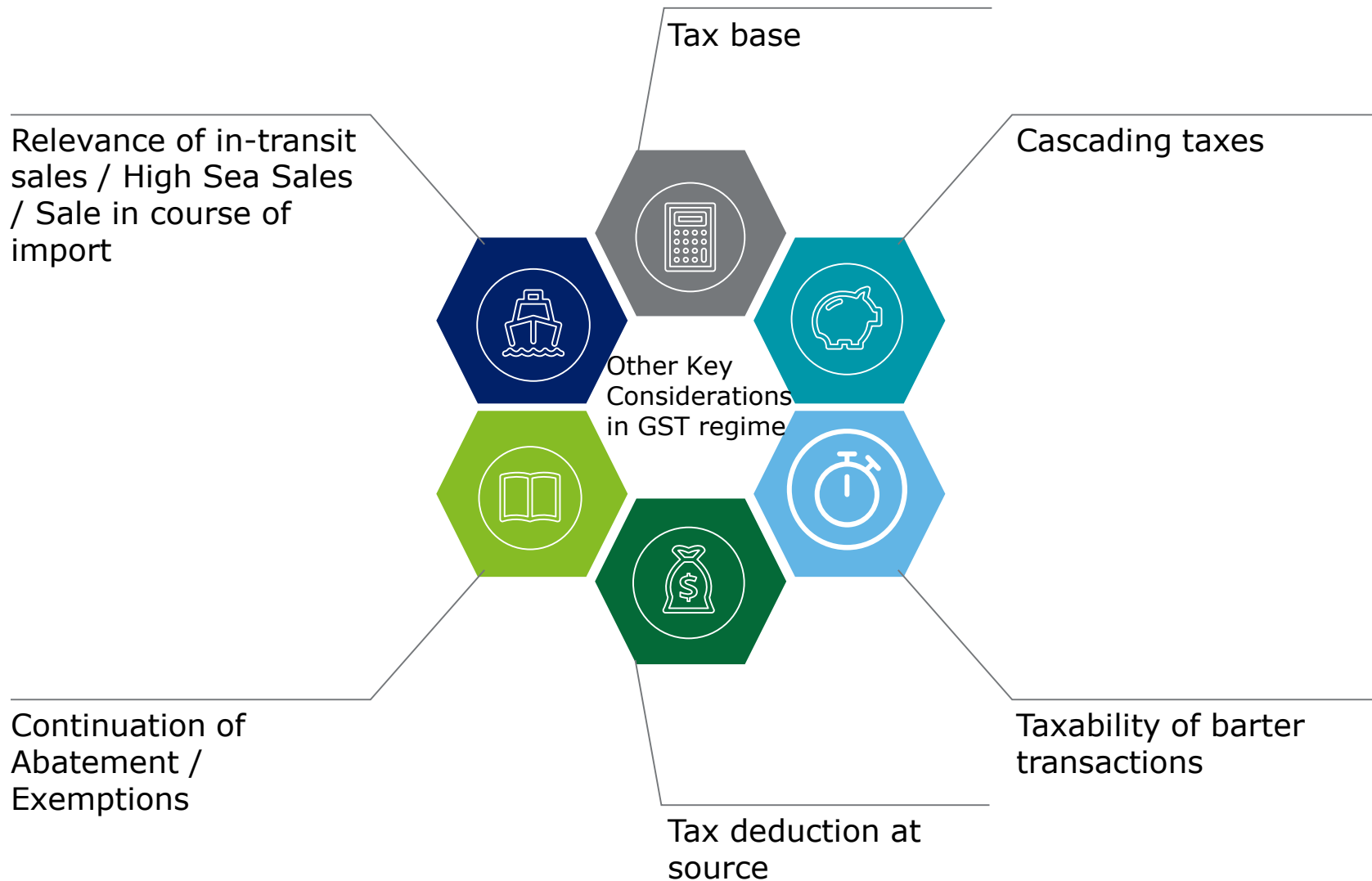
# GST impact on service sector

## Overview of GST impact



# GST impact on service sector

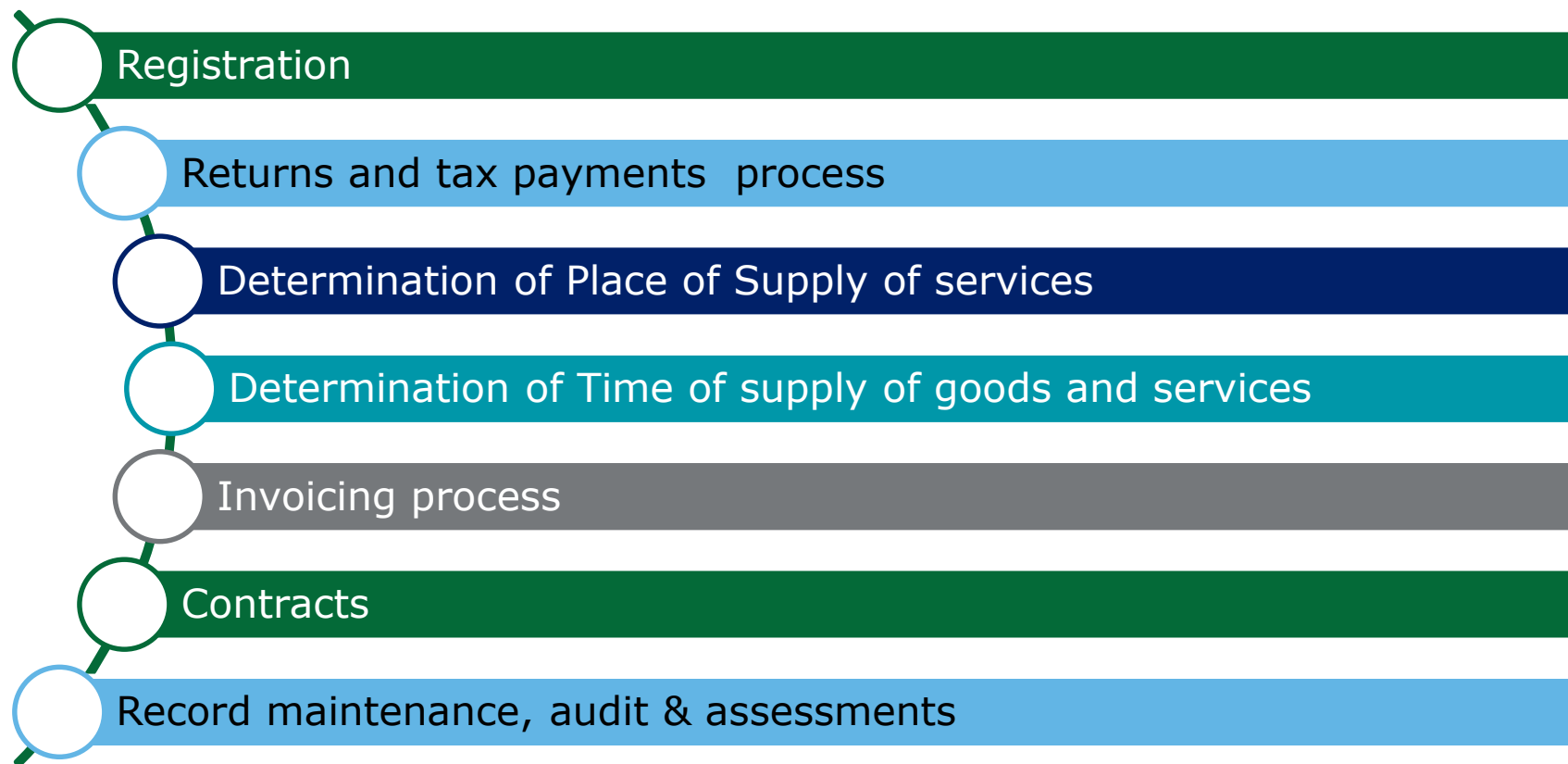
## Legal aspects and Considerations



# GST impact on service sector

## Compliance aspects and considerations

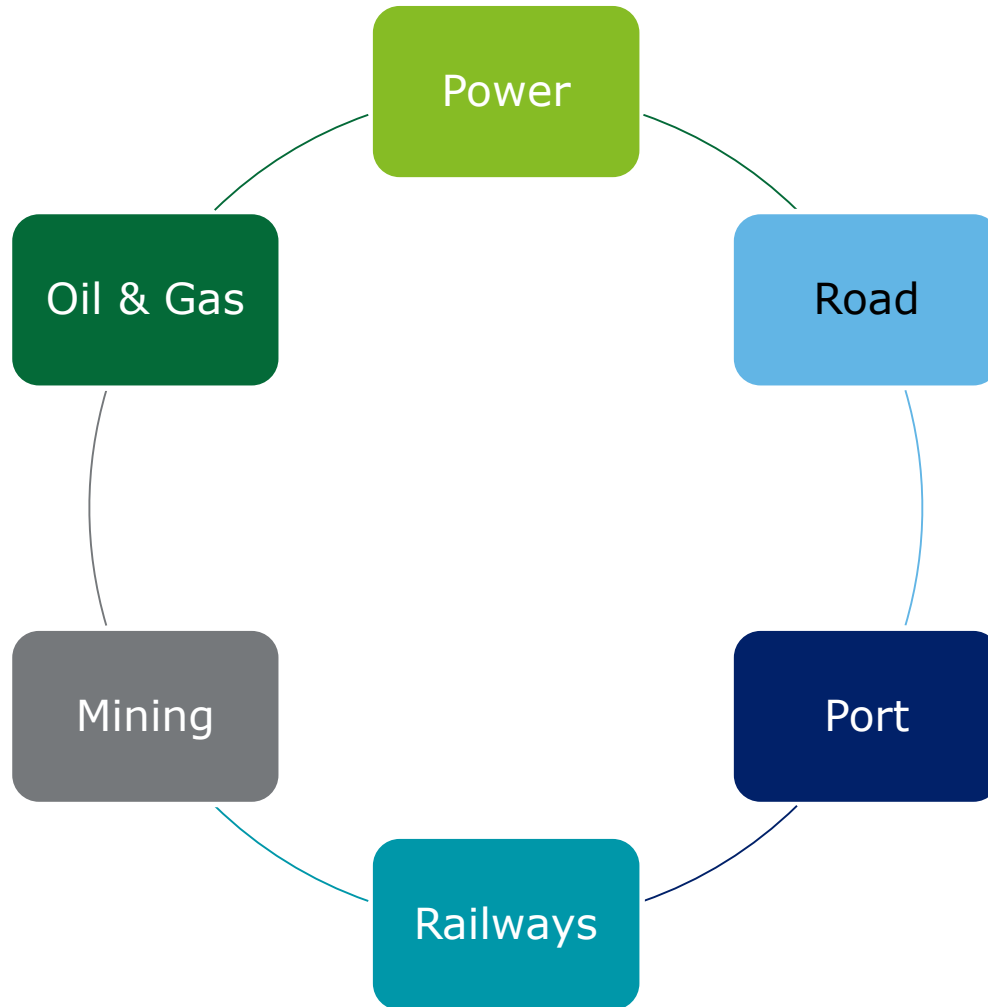
With services to be taxed by Centre and State government as against presently being taxed only by central government, the existing compliance processes, accounting and procedures would undergo significant change.



# **GST impact on Infrastructure sector**

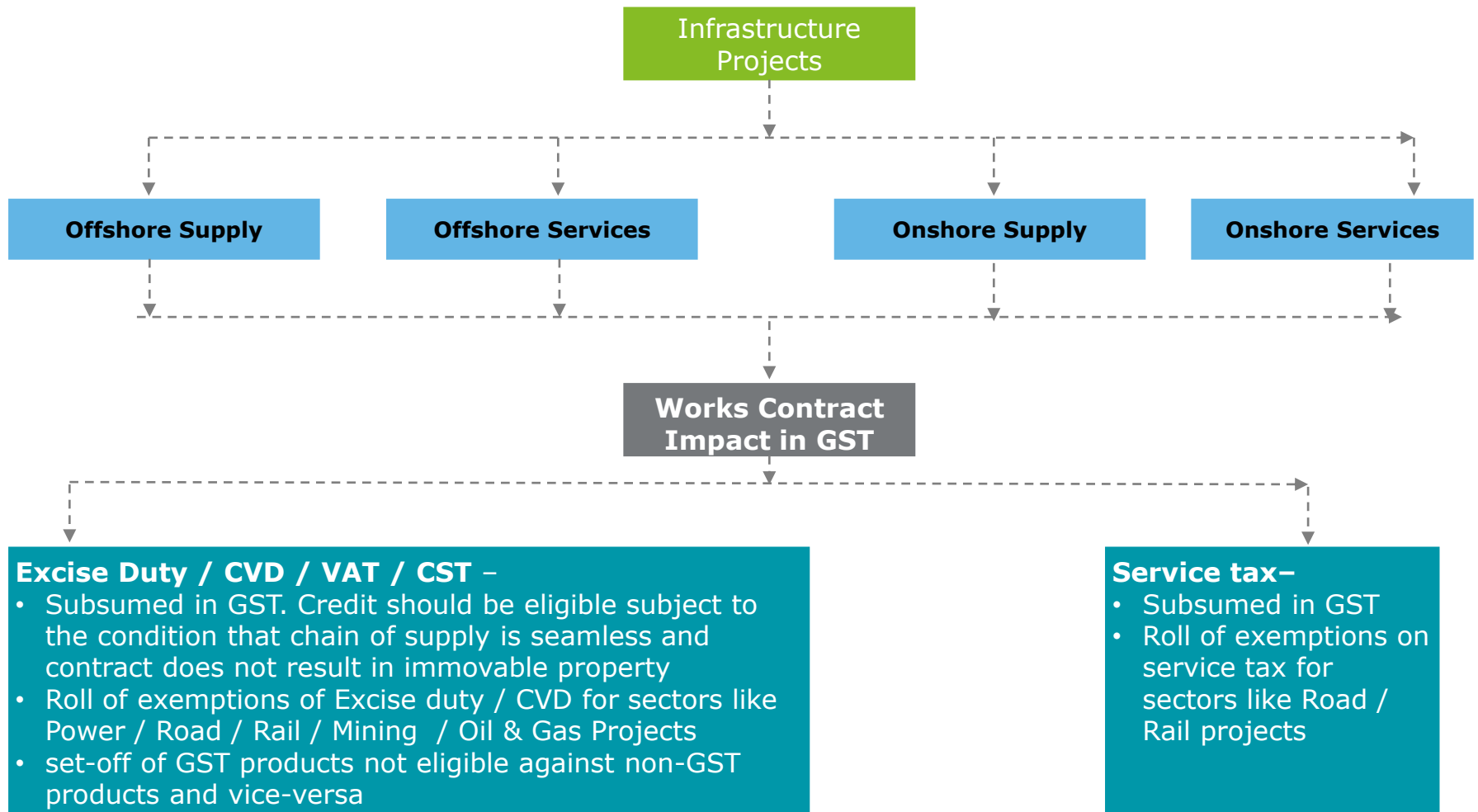


# Infrastructure sector



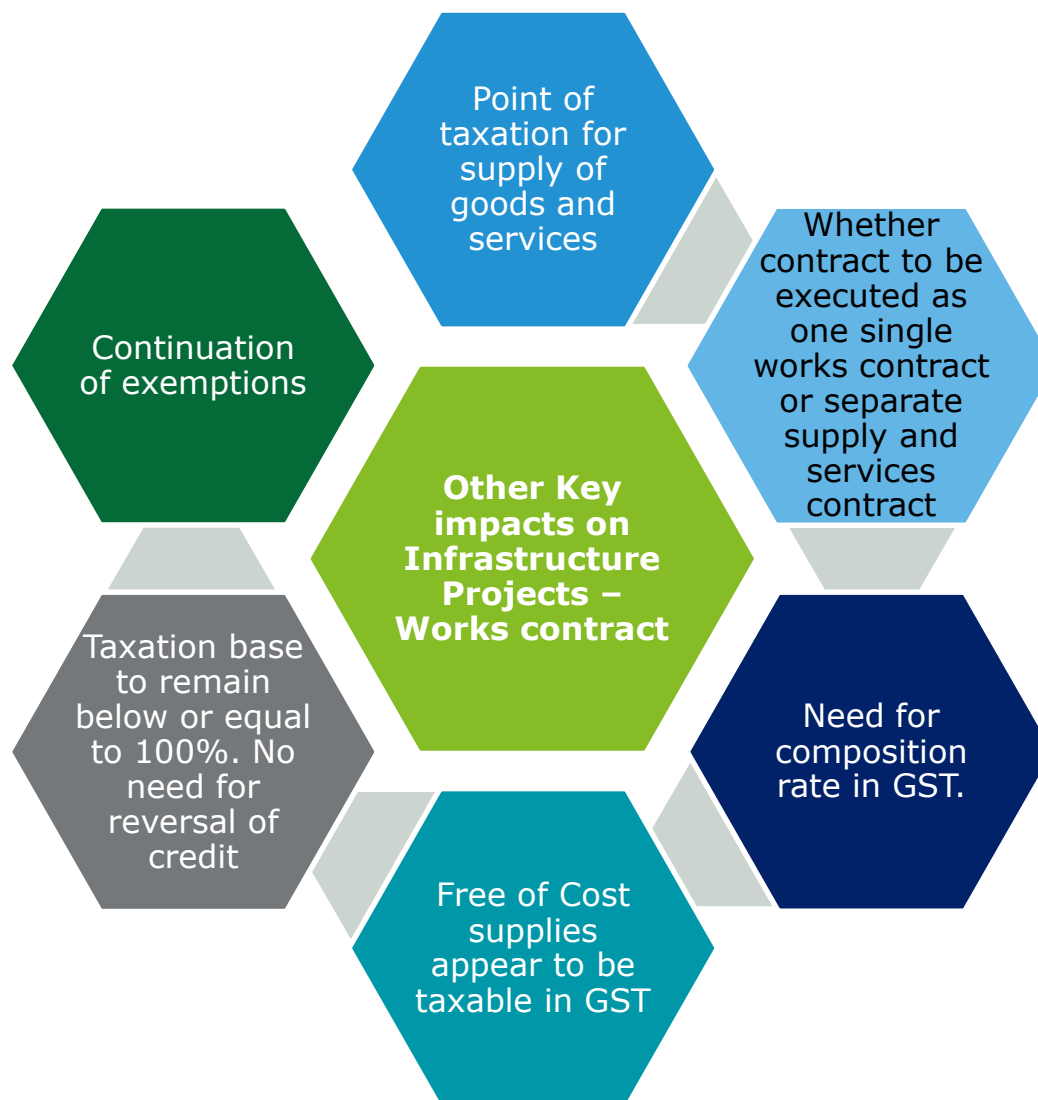
# GST impact on Infrastructure sector

## Overview of impact of GST on Works Contract



# GST impact on Infrastructure sector

## Legal aspects and Considerations



# GST impact on Infrastructure sector

## Sector-wise impact of GST

Sector	Impact on Setting up cost	Impact on Operating Cost
Power		
Renewable	●	●
Coal	●	●
Petroleum	●	●
Nuclear	●	●

- Negative
- Indifferent
- Positive

### Key Considerations

- Need to continue exemption on inputs / capital goods in GST

# GST impact on Infrastructure sector

## Sector-wise impact of GST

Sector	Impact on Setting up cost	Impact on Operating Cost
Road	●	●
Port	●	●
Railway	●	●
Mining	●	●

● Negative

● Indifferent







● Positive

### Key Considerations

- Need to continue exemption on inputs / capital goods / service tax in GST
- GST implication on transfer of mined products by Government to Contractors

# GST impact on Infrastructure sector

## Sector-wise impact of GST

Sector	Impact on Setting up cost	Impact on Operating Cost
Oil & Gas		
Upstream		
Downstream		
Distribution		

 Negative

 Indifferent

 Positive

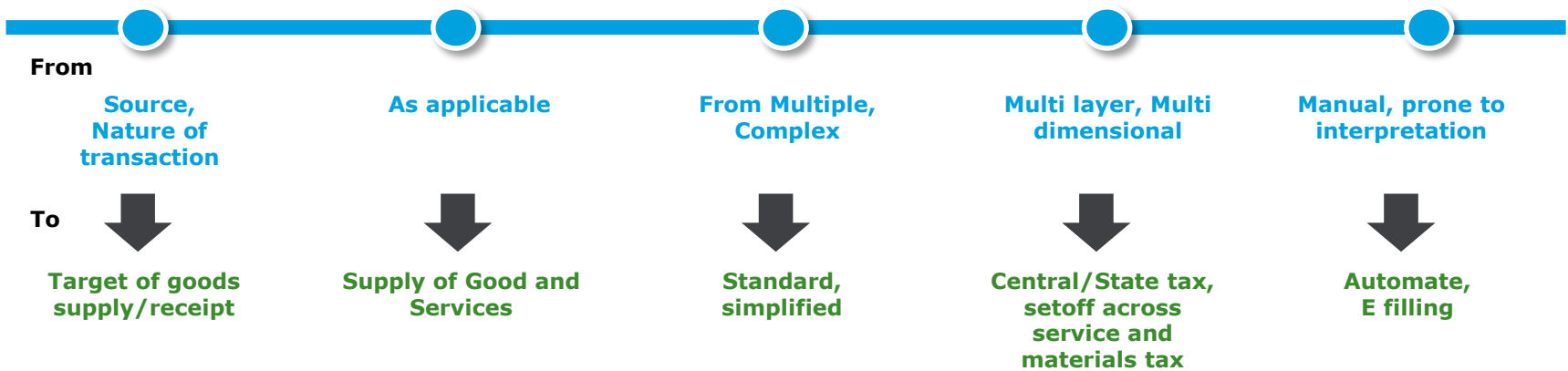
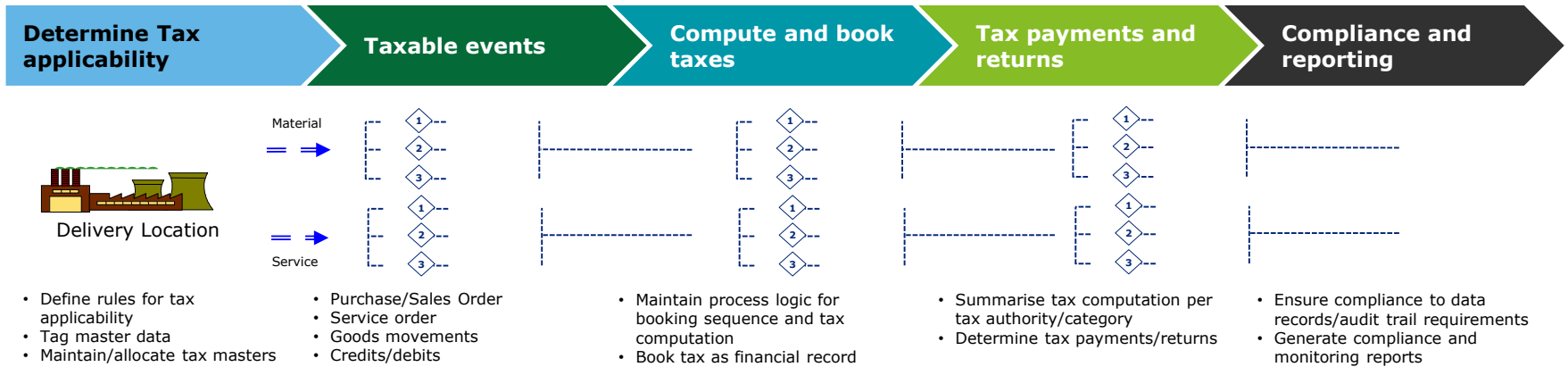
### Key Considerations

- Need to continue exemption on inputs / capital goods / service tax in GST
- No Set-off of tax paid non-GST products against GST products and vice-versa

# Technology alignment

# What may change

## Considerations for Business Processes / IT applications application changes



**Legends:**

Existing i.e. pre-GST

Proposed i.e. GST



# Technology alignment

## Key changes to IT systems design

GST impact analysis – Introduction of GST will entail changes to existing ERP systems and will impact in mainly two ways:

- Changes as a result of compliance requirements resulting from the new tax regime
- Changes as a result of leveraging transformational opportunities arising from the new regulations

	Process Modelling	Tax Configuration	Master Data	Forms & Statutory Reporting
Changes related to Compliance	<ul style="list-style-type: none"> <li>• Changes to ensure correct tax treatment of every transaction</li> <li>• All possible scenarios must be considered in the system design</li> <li>• Consideration of automation &amp; integration with tax authority portals and applications</li> </ul>	<ul style="list-style-type: none"> <li>• Changes to tax determination configurations</li> <li>• Changes to tax account mapping and account determination to support tax accounting</li> <li>• Changes to the basis of tax computation</li> </ul>	<ul style="list-style-type: none"> <li>• Changes to Chart of accounts, Tax codes, Tax account mapping</li> <li>• Changes to Supplier masters, Customer masters, Material masters to incorporate changed tax related data elements</li> </ul>	<ul style="list-style-type: none"> <li>• Changes to existing forms and Outputs</li> <li>• Changes to support tax reporting and e-filing including:               <ul style="list-style-type: none"> <li>– Invoice generation</li> <li>– Returns preparation</li> <li>– Tax accounting</li> <li>– Customs declarations</li> </ul> </li> </ul>
	Supply Chain Redesign	Org. Structure	Process Modelling	IT Infrastructure
Changes due to Transformation	<ul style="list-style-type: none"> <li>• Redesign supply chain network to maximize value</li> <li>• Potential changes to Manufacturing, Warehousing and Distribution footprint of companies</li> </ul>	<ul style="list-style-type: none"> <li>• Changes to Org. structure because of network redesign</li> <li>• Changes to system configurations</li> <li>• Changes to existing master data/Creation of new master data for the new org. structure</li> </ul>	<ul style="list-style-type: none"> <li>• Reevaluate existing business process model</li> <li>• All scenarios must be modelled in the system</li> <li>• Simplification of tax regime will call for focus on certain kind of transactions, e.g. stock transfers</li> </ul>	<ul style="list-style-type: none"> <li>• Reevaluate existing software handling tax</li> <li>• Evaluate impact when bolt-on systems are present</li> <li>• Changes to the security and authorization related data</li> </ul>

# Technology alignment

## Migration considerations

The transition to GST will be complex, and changes in IT systems together with data volume involved cannot be underestimated. We therefore advise that the migration be performed using a well defined cutover strategy. To ensure a smooth transition to the GST regime, clients should focus on risk mitigation and sustainability. 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 identifications ( exempt / non-exempt)
- Business partners exemption status
- Tax codes and condition records for taxes and pricing

### Transactions having migration impacts

#### Transactions

- Open purchase orders (partly delivered or no-delivery performed) changes in taxes
- Migration of long term rate and quantity contracts
- Migration of service contracts and annual maintenance contracts
- Open documents - Goods received but invoices not received
- Open Sales Orders and contracts
- Open customer quotations
- Goods delivered but not invoiced
- Debit notes and credit notes from customer and vendors

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
- Post implementation support
- Comprehensive cutover plan

# Getting ready for GST

# GST Implementation

## Broad areas of focus

Review of contracts	<ul style="list-style-type: none"><li>• Alignment of all major contract terms and tax clauses with GST</li><li>• Review existing contracts with project owners/ employers as well as vendors to analyse impact of change in taxability of works contract</li></ul>
Pricing	<ul style="list-style-type: none"><li>• Renegotiate (if any) the pricing with suppliers</li></ul>
Representations	<ul style="list-style-type: none"><li>• Making representation for lower rate of GST, continuation of exemptions</li></ul>
Compliance and documentation	<ul style="list-style-type: none"><li>• Maintaining detailed registers of supply and procurements, input credits</li><li>• Timely filing of monthly and annual returns</li></ul>
GST developments	<ul style="list-style-type: none"><li>• Tracking GST developments and creating awareness on GST</li></ul>
Impact on supply chain	<ul style="list-style-type: none"><li>• Mapping impact of GST on current supply chain and suggesting modifications from GST perspective</li></ul>
Impact on business and finance	<ul style="list-style-type: none"><li>• Identifying impact on financials, working capital, credit chain, concessions, and suggesting tax planning options</li></ul>
Post implementation compliances	<ul style="list-style-type: none"><li>• GST awareness trainings, review of compliances, creation of manuals and access to GST updates/resolution to queries</li></ul>
ERP Updation	<ul style="list-style-type: none"><li>• Changes to ERP modules, MIS reports, statutory compliance support, and ongoing trouble shooting support</li></ul>

# 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](mailto: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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