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

- Global Perspective
- GST framework in India
- GST impact on Service Sector
- GST impact on Infrastructure sector
- Technology alignment
- Getting ready for GST regime
- Q & A
Global Perspective
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

<table>
<thead>
<tr>
<th>Destination principle</th>
<th>Core principles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Guideline 3.1</strong></td>
<td><strong>Destination principle</strong></td>
</tr>
<tr>
<td>General rules</td>
<td>Transactions are subject to VAT in the jurisdiction of consumption</td>
</tr>
<tr>
<td>Specific rules</td>
<td><strong>Neutrality principle</strong></td>
</tr>
<tr>
<td></td>
<td>VAT is a tax on final consumption that should be neutral for business</td>
</tr>
</tbody>
</table>

### B2B

- **Customer location**
  - Guideline 3.2 [business location]
  - Guideline 3.3 [business agreement]
  - Guideline 3.4 [multiple location entities]

- **Evaluation Framework**
  - E.g., on-the-spot supplies

- **Location of immovable property**
  - Guideline 3.7

### B2C

- **On spot**
  - Place of performance
    - Guideline 3.5

- **Customer’s usual residence**
  - Guideline 3.6

- **Other**
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

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
  - Testing of IT Infra: Jan-March 17
  - Migration of existing dealers: Feb-Mar 17
- Feedback from Trade and Industry: Aug-Oct 16
- Change management: Sept-Mar 17
Dimensions of the proposed GST

- **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.*
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
Overview of GST impact on service sector

Service tax (Domestic / Imports)
- Present regime – Creditable
- GST regime – Creditable
- Impact - Neutral

CVD
- Present regime – Creditable
- GST regime – Creditable
- Impact - Neutral

SAD
- Present regime – Creditable if procured from manufacturer / dealer
- GST regime – Creditable
- Impact - Neutral

Excise duty
- Present regime – Creditable
- GST regime – Creditable
- Impact - Positive

VAT / CST
- Present regime – not Creditable
- GST regime – Creditable
- Impact - Positive

Impact - Negative
GST impact on service sector
Legal aspects and Considerations

- Taxability of barter transactions
- Continuation of Abatement / Exemptions
- Relevance of in-transit sales / High Sea Sales / Sale in course of import
- Tax deduction at source
- Tax base
- Cascading taxes
- Other Key Considerations in GST regime
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

- Power
- Oil & Gas
- Road
- Mining
- Port
- Railways
Overview of impact of GST on Works Contract

**Infrastructure Projects**

- **Offshore Supply**
- **Offshore Services**
- **Onshore Supply**
- **Onshore Services**

**Works Contract Impact in GST**

**Excise Duty / CVD / VAT / CST**

- Subsumed in GST. Credit should be eligible subject to the condition that chain of supply is seamless and contract does not result in immovable property.
- Roll of exemptions of Excise duty / CVD for sectors like Power / Road / Rail / Mining / Oil & Gas Projects.
- Set-off of GST products not eligible against non-GST products and vice-versa.

**Service tax**

- Subsumed in GST.
- Roll of exemptions on service tax for sectors like Road / Rail projects.
GST impact on Infrastructure sector
Legal aspects and Considerations

- **Point of taxation for supply of goods and services**
- **Whether contract to be executed as one single works contract or separate supply and services contract**
- **Continuation of exemptions**
- **Taxation base to remain below or equal to 100%. No need for reversal of credit**
- **Need for composition rate in GST**
- **Free of Cost supplies appear to be taxable in GST**

**Other Key impacts on Infrastructure Projects – Works contract**
# GST impact on Infrastructure sector

## Sector-wise impact of GST

<table>
<thead>
<tr>
<th>Sector</th>
<th>Impact on Setting up cost</th>
<th>Impact on Operating Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renewable</td>
<td><img src="negative.png" alt="Negative" /></td>
<td><img src="indifferent.png" alt="Indifferent" /></td>
</tr>
<tr>
<td>Coal</td>
<td><img src="negative.png" alt="Negative" /></td>
<td><img src="positive.png" alt="Positive" /></td>
</tr>
<tr>
<td>Petroleum</td>
<td><img src="negative.png" alt="Negative" /></td>
<td><img src="positive.png" alt="Positive" /></td>
</tr>
<tr>
<td>Nuclear</td>
<td><img src="negative.png" alt="Negative" /></td>
<td><img src="positive.png" alt="Positive" /></td>
</tr>
</tbody>
</table>

- **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

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<tbody>
<tr>
<td>Road</td>
<td><img src="#" alt="Green" /></td>
<td><img src="#" alt="Gray" /></td>
</tr>
<tr>
<td>Port</td>
<td><img src="#" alt="Green" /></td>
<td><img src="#" alt="Green" /></td>
</tr>
<tr>
<td>Railway</td>
<td><img src="#" alt="Green" /></td>
<td><img src="#" alt="Green" /></td>
</tr>
<tr>
<td>Mining</td>
<td><img src="#" alt="Red" /></td>
<td><img src="#" alt="Gray" /></td>
</tr>
</tbody>
</table>

- **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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Impact on Setting up cost</th>
<th>Impact on Operating Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil &amp; Gas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upstream</td>
<td><img src="image" alt="Negative" /></td>
<td><img src="image" alt="Negative" /></td>
</tr>
<tr>
<td>Downstream</td>
<td><img src="image" alt="Negative" /></td>
<td><img src="image" alt="Negative" /></td>
</tr>
<tr>
<td>Distribution</td>
<td><img src="image" alt="Indifferent" /></td>
<td><img src="image" alt="Indifferent" /></td>
</tr>
</tbody>
</table>

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

**Determine Tax applicability**

- Define rules for tax applicability
- Tag master data
- Maintain/allocate tax masters

**Taxable events**

- Purchase/Sales Order
- Service order
- Goods movements
- Credits/debits

**Compute and book taxes**

- Maintain process logic for booking sequence and tax computation
- Book tax as financial record

**Tax payments and returns**

- Summarise tax computation per tax authority/category
- Determine tax payments/returns

**Compliance and reporting**

- Ensure compliance to data records/audit trail requirements
- Generate compliance and monitoring reports

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**From**

**Source, Nature of transaction**

**As applicable**

**From Multiple, Complex**

**Multi layer, Multi dimensional**

**Manual, prone to interpretation**

**To**

**Target of goods supply/receipt**

**Supply of Good and Services**

**Standard, simplified**

**Central/State tax, setoff across service and materials tax**

**Automate, E filling**

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**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

<table>
<thead>
<tr>
<th>Changes related to Compliance</th>
<th>Process Modelling</th>
<th>Tax Configuration</th>
<th>Master Data</th>
<th>Forms &amp; Statutory Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes to ensure correct tax treatment of every transaction</td>
<td>Changes to ensure correct tax treatment of every transaction</td>
<td>Changes to tax determination configurations</td>
<td>Changes to Chart of accounts, Tax codes, Tax account mapping</td>
<td>Changes to existing forms and Outputs</td>
</tr>
<tr>
<td>All possible scenarios must be considered in the system design</td>
<td>Changes to tax account mapping and account determination to support tax accounting</td>
<td>Changes to Supplier masters, Customer masters, Material masters to incorporate changed tax related data elements</td>
<td>Changes to Supplier masters, Customer masters, Material masters to incorporate changed tax related data elements</td>
<td></td>
</tr>
<tr>
<td>Consideration of automation &amp; integration with tax authority portals and applications</td>
<td>Changes to the basis of tax computation</td>
<td></td>
<td></td>
<td>Changes to support tax reporting and e-filing including:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Changes due to Transformation</th>
<th>Supply Chain Redesign</th>
<th>Org. Structure</th>
<th>Process Modelling</th>
<th>IT Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redesign supply chain network to maximize value</td>
<td>Changes to Org. structure because of network redesign</td>
<td>Reevaluate existing business process model</td>
<td>Reevaluate existing software handling tax</td>
<td></td>
</tr>
<tr>
<td>Potential changes to Manufacturing, Warehousing and Distribution footprint of companies</td>
<td>Changes to system configurations</td>
<td>All scenarios must be modelled in the system</td>
<td>Evaluate impact when bolt-on systems are present</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Changes to existing master data/Creation of new master data for the new org. structure</td>
<td>Simplification of tax regime will call for focus on certain kind of transactions, e.g. stock transfers</td>
<td>Changes to the security and authorization related data</td>
<td></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Master Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>• GST registration details</td>
</tr>
<tr>
<td>- Suppliers</td>
</tr>
<tr>
<td>- Customers</td>
</tr>
<tr>
<td>- Legal entity</td>
</tr>
<tr>
<td>- Plants</td>
</tr>
<tr>
<td>- Depots</td>
</tr>
<tr>
<td>• Item master identifications (exempt / non-exempt)</td>
</tr>
<tr>
<td>• Business partners exemption status</td>
</tr>
<tr>
<td>• Tax codes and condition records for taxes and pricing</td>
</tr>
</tbody>
</table>

### Transactions having migration impacts

<table>
<thead>
<tr>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Open purchase orders (partly delivered or no-delivery performed) changes in taxes</td>
</tr>
<tr>
<td>• Migration of long term rate and quantity contracts</td>
</tr>
<tr>
<td>• Migration of service contracts and annual maintenance contracts</td>
</tr>
<tr>
<td>• Open documents - Goods received but invoices not received</td>
</tr>
<tr>
<td>• Open Sales Orders and contracts</td>
</tr>
<tr>
<td>• Open customer quotations</td>
</tr>
<tr>
<td>• Goods delivered but not invoiced</td>
</tr>
<tr>
<td>• Debit notes and credit notes from customer and vendors</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Area</th>
<th>Focus Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Review of contracts</strong></td>
<td>• Alignment of all major contract terms and tax clauses with GST</td>
</tr>
<tr>
<td></td>
<td>• Review existing contracts with project owners/employers as well as vendors to analyse impact of change in taxability of works contract</td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>• Renegotiate (if any) the pricing with suppliers</td>
</tr>
<tr>
<td><strong>Representations</strong></td>
<td>• Making representation for lower rate of GST, continuation of exemptions</td>
</tr>
<tr>
<td><strong>Compliance and documentation</strong></td>
<td>• Maintaining detailed registers of supply and procurements, input credits</td>
</tr>
<tr>
<td></td>
<td>• Timely filing of monthly and annual returns</td>
</tr>
<tr>
<td><strong>GST developments</strong></td>
<td>• Tracking GST developments and creating awareness on GST</td>
</tr>
<tr>
<td><strong>Impact on supply chain</strong></td>
<td>• Mapping impact of GST on current supply chain and suggesting modifications from GST perspective</td>
</tr>
<tr>
<td><strong>Impact on business and finance</strong></td>
<td>• Identifying impact on financials, working capital, credit chain, concessions, and suggesting tax planning options</td>
</tr>
<tr>
<td><strong>Post implementation compliances</strong></td>
<td>• GST awareness trainings, review of compliances, creation of manuals and access to GST updates/resolution to queries</td>
</tr>
<tr>
<td><strong>ERP Updation</strong></td>
<td>• Changes to ERP modules, MIS reports, statutory compliance support, and ongoing trouble shooting support</td>
</tr>
</tbody>
</table>
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
