Goods and Services Tax
Technology, Media, Telecom and Financial Services
August 2016
Agenda

- GST framework
- Valuation
- Place of supply rules
- Impact on TMT
- Impact on FS
- Transitional provisions
- Challenges in GST implementation
- Process & Technology alignment
- Ready, Get Set, Go: what should you do next?
- Questions and Answers
GST framework
GST framework in India

- 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
- 1% additional tax proposal withdrawn
- Imports subject to IGST; Exports zero-rated

- Expected to neutralize tax driven decision making
- Offers opportunities to address new markets and access supply bases which were earlier constrained
- GSTN – a common portal to be set-up for GST implementation and compliance
## Existing indirect tax structure versus Model GST Law

### Key differences

<table>
<thead>
<tr>
<th>Existing indirect tax structure</th>
<th>Versus</th>
<th>Model GST Law</th>
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</thead>
<tbody>
<tr>
<td>Multiple levies based on various activities – Central Excise on manufacture, Service Tax on provision of service, VAT on sale, etc.</td>
<td>Levy on “Supply” of goods and services; Subsume most of current indirect taxes into a Single GST levy</td>
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<tr>
<td>Place of Provision of Services Rules, 2012 to determine place of provision of services</td>
<td>Place of Supply Rules prescribed for both goods and services</td>
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</tr>
<tr>
<td>Valuation Rules differ across legislations both at Center and State levels including MRP based valuation</td>
<td>Transaction value to be adopted; Model Law silent on MRP based valuation</td>
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<tr>
<td>Different rate of tax on goods and services</td>
<td>Uniform rate of tax on goods and services</td>
<td></td>
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<tr>
<td>Restriction on cross utilization of credits</td>
<td>Seamless cross-utilization of credits allowed</td>
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<tr>
<td>Separate registration under each law</td>
<td>PAN based all-India registration</td>
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<tr>
<td>Cap on number of times a return can be revised as well as comparatively lesser time limit</td>
<td>No cap on number of times a return can be revised and a substantial broader time limit prescribed for filing revised forms / returns</td>
<td></td>
</tr>
<tr>
<td>Reverse charge provisions for services</td>
<td>Reverse charge provisions for both goods and services</td>
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</table>
Valuation
Valuation

• **Transaction value**
  – Supplier and recipient are not related
  – Price is the sole consideration

• **Transaction value will include**
  – Expenses incurred by service receiver for which provider was liable
  – Free supplies
  – Royalty and license fees
  – *Any tax, duties, fees* and charges other than SGST, CGST, and IGST
  – Incidental expenses such as commission, packing
  – *Subsidies* linked to supply
  – Reimbursable expenditure
  – *Discount* after the supply has been affected
Place of supply rules
Place of supply of goods and services

- In present Indirect Tax regime, there is no concept called place of supply of goods and the place of supply rules pertain to service tax.
- However, in case of VAT / CST, the principles determining situs of sale is prescribed in Chapter II of Central Sales Tax Act, 1956.
- The major principle for determining situs of sale is the location of sale that occasions the movement of goods.
- In case of Service Tax, the principles determining the place of provision of service is prescribed in Place of Provision of Service Rules, 2012.
- The residual or general principle is that the location of recipient of service is contemplated as place of provision of service.
- Whereas separate rules have been prescribed for separate services wherein different places of provision of service are defined.
Technology, Media and Telecom (TMT)
## Common potential implications in TMT sector

### Present regime and draft GST legislation

<table>
<thead>
<tr>
<th>Present scenario</th>
<th>Issue</th>
<th>GST scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralised registration facility available under service tax laws</td>
<td><strong>Registration</strong></td>
<td>Multiple registrations - to be obtained in each state of operation</td>
</tr>
<tr>
<td>Service providers file 2 half yearly and 2 annual returns</td>
<td><strong>Compliances</strong></td>
<td>Multiple returns - separate return for outward and inward supplies for each state – on a monthly basis</td>
</tr>
<tr>
<td>Service tax rate of 15%</td>
<td><strong>Rate of Tax</strong></td>
<td>GST rate is expected around 18%</td>
</tr>
</tbody>
</table>
| Refund of unutilised CENVAT credit available on exports | **Export and refund** | Exports to be zero rated  
| Time limit for filing of refund is 1 year | | Mechanism for refund of unutilized credit to continue  
| | | Time limit for filing of refund - 2 years |
| Various restrictions on credit of inputs and input services | **Input Tax Credit** | Credit of IGST on import of goods available to service provider  
| ADC credit not allowed to service providers | | Credit of IGST available on inter-state procurement of goods  
| | | Credit of GST on input services eligible to traders |
## Common potential implications in TMT sector

### Present regime and draft GST legislation

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<tr>
<td><strong>Input service distributor (ISD)</strong></td>
<td>• ISD could transfer credit to other locations</td>
<td><strong>Input service distributor (ISD)</strong></td>
</tr>
</tbody>
</table>
| **AMC contracts** | • Dual levy of service tax and VAT on AMC contracts | **AMC contracts** | • AMC likely to be considered as services  
• No dual taxes |
| **Trading of goods** | • Goods imported for trading attract BCD, CVD, ADC and Customs Cess (on BCD and CVD component)  
• Proportionate reversal of credit in relation to trading activity | **Trading of goods** | • BCD to continue. CVD and ADC to subsume. Customs cess likely to be levied on BCD component only  
• Proportionate reversal of credit (owing to trading activity) may not be required |
| **Inter-branch transfers** | • Inter-branch transfers, services to self not liable to tax | **Inter-branch transfers** | • Inter-branch transfers, services to self likely to attract GST |
Potential implications in telecom sector

<table>
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<tr>
<th>Issue</th>
<th>Present scenario</th>
<th>GST scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sim Cards / Recharge Coupons</td>
<td>• SIM cards/ recharge coupons taxable in the hands of telecom service provider&lt;br&gt; • Distributors and selling agents exempt</td>
<td>• Point of taxation likely to trigger at every point of supply&lt;br&gt; • Exemptions to be pruned</td>
</tr>
<tr>
<td>Place of supply</td>
<td>• Default rule – location of service recipient</td>
<td>• Fixed lines/ antennae – location of installation&lt;br&gt; • Postpaid telecom &amp; internet – billing address of receiver&lt;br&gt; • Prepaid telecom &amp; internet - location where pre-payment is received or prepaid vouchers are sold or location of receiver on records in case of electronic payments</td>
</tr>
<tr>
<td>Services rendered to J&amp;K</td>
<td>• Services provided in J&amp;K are exempt &amp; credit reversal is required</td>
<td>• GST council to recommend on special provisions for taxation in J&amp;K</td>
</tr>
<tr>
<td>Input tax credit</td>
<td>• Restrictions on credit of inputs and input services used in towers / sheds</td>
<td>• Specific restriction on input tax credit of goods/ services used for construction of immovable property</td>
</tr>
<tr>
<td>Value Added Service (VAS)</td>
<td>• Dual levy of service tax and entertainment tax on VAS</td>
<td>• Dual levy on VAS replaced by GST</td>
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### Potential implications in media, entertainment and technology

<table>
<thead>
<tr>
<th>Issue</th>
<th>Present scenario</th>
<th>GST scenario</th>
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<tbody>
<tr>
<td><strong>Media and Entertainment</strong></td>
<td></td>
<td></td>
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<tr>
<td>Entertainment tax</td>
<td>• Applicable on film tickets, cable operators, DTH operators, multiplex</td>
<td>• Entertainment tax to be subsumed</td>
</tr>
<tr>
<td>Copyright</td>
<td>• Dual levy of service tax and VAT</td>
<td>• Dual levy replaced by GST</td>
</tr>
</tbody>
</table>
| Advertisement service        | • Service tax paid on advertisement services provided across India available as credit at central level | • Payment of taxes as per Place of supply Rules  
• Credit eligibility to be analysed on a state-wise basis |
| Print Media                  | • No tax on sale of newspaper  
• Service tax exemption to advertisement services in print media i.e. newspapers and books | • No clarity on continuity of exemption on sale of newspapers and advertisement services in print media i.e. newspapers and books under GST |
| **Technology**               |                                                                                  |                                                                               |
| Taxability of software       | • License to use software suffers double taxation i.e. VAT and service tax      | • Software being intangibles to qualify as services  
• However, likely to qualify as goods, if sold on a media, such as CD, USB etc. |
| Intermediary, online database| • Place of provision of services - location of service provider                 | • No separate provision in Place of supply rules  
• Likely to fall under default rule |
| R&D cess on import of technology | • R&D cess payable on import of technology  
• Credit available as set off | • Adjustment of R&D cess ought to continue under GST regime in case R&D cess continues to be applicable |
Electronic commerce

- Electronic commerce shall mean
  - Supply or receipt of goods and / or services
  - Transmitting of funds or data
  - Over an electronic network by using any of the applications that rely on internet
  - Whether or not payment is conducted online and whether or not the ultimate delivery of the goods / services is done by the operator

- Electronic commerce operator shall include
  - Every person who, directly or indirectly, owns, operates or manages an electronic platform
  - Engaged in facilitating the supply of any goods and/or services or in providing any information or any other services incidental to or in connection there with
  - But shall not include persons engaged in supply of such goods and/or services on their own behalf

**E-commerce operator to collect tax from the amount paid or payable to supplier at the rate to be notified**

**Issue – Whether aggregators would qualify as electronic commerce operators?**
Model GST Law and relevance for financial services
<table>
<thead>
<tr>
<th>Provision</th>
<th>Relevance for FS</th>
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<tbody>
<tr>
<td><strong>Input Tax Credit</strong></td>
<td>• No specific provisions for FS industry</td>
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<tr>
<td></td>
<td>• Similar to existing provisions –</td>
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<td></td>
<td>• Credit of tax charged by supplier can be availed only when it has been</td>
</tr>
<tr>
<td></td>
<td>actually paid to the credit of the appropriate government</td>
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<tr>
<td><strong>Returns</strong></td>
<td>• Monthly returns by 20(^{th}) of following month</td>
</tr>
<tr>
<td></td>
<td>• Details of outward supplies to be furnished by 10(^{th}) of following month</td>
</tr>
<tr>
<td></td>
<td>• Details of inward supplies to be furnished by 15(^{th}) of following month</td>
</tr>
<tr>
<td></td>
<td>• TDS Return by 10(^{th}) of following month</td>
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<tr>
<td></td>
<td>• Annual Return by 31 December of following year</td>
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<tr>
<td><strong>Transitional provisions</strong></td>
<td>• Provisional registration</td>
</tr>
<tr>
<td></td>
<td>• Carry forward of eligible credit balances</td>
</tr>
<tr>
<td></td>
<td>• Progressive/ periodic supply of goods and services not taxable under GST Law</td>
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<td></td>
<td>• Proceedings of appeal, revision, under the earlier law shall be disposed of</td>
</tr>
<tr>
<td></td>
<td>in accordance with the earlier law</td>
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<tr>
<td><strong>Other relevant provisions</strong></td>
<td>• Input Service Distributor concept to continue</td>
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<td></td>
<td>• GST Compliance Rating</td>
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Impact areas
Banking

• Place of Supply – B-to-B and B-to-C (usual place of residence of Account holder)
• Time of Supply
• Service tax implications on digitization and commoditization of services
• Sale of repossessed assets and used/obsolete fixed assets
• Input tax credit restrictions and cascading effect of taxes
• Valuation of services (e.g. free supplies, assets used for non-business purpose, etc.)
•Registrations and compliances
Insurance

- Place of Supply (location of the insured)
- Time of Supply
- Sharing of the Tax burden between Insurance Companies and Agents
- Taxability of reimbursement of the training or travel expenditures (commission to agents)
- Availability of input tax credit on re-insurance services
- Taxability of re-imbursement of expense under Co-insurance
- Service provided in the state of Jammu and Kashmir
- Registrations and compliances
Real Estate

- Construction regarded as deemed supply of service under GST
- Reduction in multiple levies and double taxation
- Long term contracts
- Restriction on availment of input tax credit could continue
- Valuation of supplies – presently divergent State Laws
- Taxation of Transferable Development Rights
- Time of supply of services (generally being continuous supply)
- Increased compliances in terms of registrations and returns
Transitional provisions
Transitional provisions

**Carry forward of tax credits**

- Eligible to carry forward tax credits available as per tax returns

**Unavailed credit including those on capital goods**

- Eligible but unavailed credit including those on Capital Goods will be allowed subject to certain conditions

**Amount payable in the event of a taxable person switching over to composition scheme**

- As on cut off date, switching over to the composition scheme in GST legislation, taxable person would be required to pay an amount equivalent to credit in respect of inputs. The balance credit, if any, shall lapse

**Treatment of long term construction / works contract**

- The goods and/or services supplied on or after the appointed day in pursuance of long term contract will be liable to proposed GST
Challenges in GST implementation
Challenges in GST implementation

• Time constraint
• Transitioning of existing policies to GST
• Obtaining state wise registration and compliance thereof
• IT system configurations
• Transfer of Credits
• Long term Vendor contracts
• In-house team composition and manpower limitations
• Repricing of supplies considering seamless credits
Process & 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**
- Source, Nature of transaction
- As applicable
- From Multiple, Complex
- Multi layer, Multi dimensional
- Manual, prone to interpretation

**Compute and book taxes**
- Payment Location
- Service

**Tax payments and returns**
- Material
- Service
- Delivery Location

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

Legends:
Existing i.e. pre-GST
Proposed i.e. GST
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Systems Impact
Compliance & Migration 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

**Process Group**
Order to Cash
Procure to Pay
Record to Report
Plan to Stock

**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, Debit notes, credit notes, etc.
- Tax payments, Filing of e-returns
- Processes handled in peripheral systems (CRM, SRM, Dealers Management etc.)
Ready, Get Set, Go: What to do Next?
GST implementation essentials
Completeness key – GST touches everything!

- Changes to master and transaction records
- System design changes for VAT/GST compliance
- Sourcing from incentive area vendors
- Best prices for invoicing to maximise tax credits

- Effect on demand
- Pricing strategies
- Impact on current pipeline and inventory
- Pricing modelling
- Structure of offers/financing

- GST impact on corporate plans
- Impact on cash flow
- Identification of GST liability on transaction
- Compliances
- Cancellation of registration - potential audit?

- GST impact on contracts
- Training and communication

Proactive approach
Impact analysis - Fine tuning operations & implementation support – Post implementation support
Key messages

• 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
