Common themes in GST across China and India: What you should know
The Dbriefs Indirect Tax series
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26 February 2019
Agenda

- Goods and Service Tax (GST)
- Value Added Tax (VAT)
- Common themes
- Case studies
- Prospects for future
- Questions and answers
Goods and Service Tax (GST)
India
Overview of GST
Journey so far

July 2017
- Nation-wide roll out
- Nation-wide introduction of GST
- 36 States and Union territories introduced GST

Aug 2017
- Compliances re-defined
- New summarized return form (GSTR 3B) introduced

Oct/Nov 2017
- GST on supplies from unregistered suppliers suspended
- GST rates rationalization

July 2018
- Key amendments in law
- Rates rationalization
- New return formats proposed
- Stringent credit conditions

Sep 2018
- Tax Collection at Source provisions introduced with effect from 1 Oct 2018

Jan 2019
- Further simplification of GST rates and GST returns
- Increase in tax base
- IT system changes
- Centralized Appellate Authority for Advance Rulings
Business impact

Challenges

• Business and performance
  – Technology and IT-readiness
  – Multiple registration requirements

• IT system and process
  – ERP changes
  – Government deferred requirement of the matching concept

• Internal finance/tax/legal management
  – Invoicing
  – Tax planning consideration
  – Legal compliance

• Ambiguity of mechanism
  – Lack of clear rules and guidelines for mechanism of calculation
  – Unclear, if prices are to be reassessed at an entity, product, or SKU level

• Advance Rulings
  – Contradictory decisions passed by tax authorities of different states through Advance Rulings

• Changes in compliance procedures
  – Frequent revision in filing dates
  – Frequent changes in rate structure
Business impact

Avenues

- Robust IT system and GST return simplification
- Expansion of the threshold for composition scheme
- Widening scope of input tax credit
- Supply of services to qualify as exports, even if payments are received in Indian Rupees, where permitted by the RBI
- Industry recommendations considered for revision of tax rates
Value Added Tax (VAT)

China
Overview of China VAT reform

Jan 2012
Shanghai

May 2016
Expand to all industries nationwide

July 2017
VAT rate is reduced (i.e., 13% to 11%)

May 2018
VAT rates are further reduced (i.e., 17% to 16%; 11% to 10%)

Now
Further simplification of VAT rates

? 2019
VAT legislation

? 2020
What will happen in future?

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1. Business challenge
   - Pricing policy
   - Merger/acquisition plan
   - Operation and management

2. Compliance challenge
   - Business and performance
     - Performance review
     - Counterparty management
     - Data analysis
   - Internal finance/tax/legal management
     - Invoicing
     - Taxation management
     - Tax planning consideration
     - Legal compliance
   - IT system and process
     - IT system adjustment
     - Internal control process adjustment

3. Appropriate treatments on transactions
   - VAT calculation
     - Multiple VAT rates
     - Deemed sales
     - Mixed sales/concurrent sales
     - Input VAT deduction and transferred out
   - VAT compliance
     - Centralized declaration
     - Invoice management
     - Qualification of general taxpayer
   - VAT planning
     - Cross-border services
     - Tax-relief
Business impact
Opportunities

**Tax cut**

- Significant tax reduction of over RMB2,000 billion as a result of the VAT reform in the past 5 years
- But how much a particular company can get varies, depending on
  - Industries
  - Bargaining power
  - Financial and tax management/control capabilities
  - Abilities to utilize the available tax incentives
Polling question 1

Whether changes in GST/VAT resulted in supply chain efficiencies in your organization?

• Significantly
• Moderately
• Did not affect
• Don’t know/not applicable
Common themes
India and China
Common themes - India
Frequent changes

**33 GST council meetings**

- 200+ central tax notifications*
- 90+ integrated tax notifications
- 85+ central tax circulars and orders
- 3+ integrated tax circulars and orders

Formation of more than 12 committees to examine specific issues and provide suggestions to the GST Council

* Equivalent notifications for each of the 36 states and union territories
Common themes - China
Frequent changes

New rules and clarifications being issued after the VAT reform was completed

- 43 regulations were released during the past six months after the announcement of No. 36
- 47 regulations were released from 1 January to 31 December 2018

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Common themes - China
Compliance oriented

**Tax bureau**

- Require taxpayers to properly handle tax compliance matters, including VAT invoicing and VAT reporting
- Enhance the risk management and control at the back side

**Taxpayers**

- Need to disclose more information as the VAT returns are getting more complicated with more detailed information to be filled out
- Need to enhance input VAT management, especially to avoid potential risks and losses for receiving fake VAT invoices

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Common themes - India
Compliance oriented

E-way bill norms to be made more stringent - taxpayers cannot generate e-way bill if they do not file GST returns for two consecutive tax periods

Maintenance of separate accounts across different states problematic

Continuous effort from the government to make return filing system simple

Additional costs in hiring experts/professionals for assistance in GST compliance

Reconciliation between vendors’ sales data and the buyers purchases data by tax authorities (GSTR 3B v. GSTR 2A)
Common themes - India
Revenue centric behaviour of tax authorities

- GST evasion led to IT raids across print and media industry
- Retrospective changes resulting into increased tax cost
- Tax positions taken via Advance Rulings are increasingly against the taxpayer

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### Common themes - China
Enhanced controls by tax authorities

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<th>Tax control and inspection</th>
<th>Our observation and insights</th>
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</table>
| **Big data and technology tool** | • Golden Tax System upgraded to Phase III, which links up all taxes and all VAT invoices nationally  
• Technology approach: big data analysis in terms of selecting audit targets and risk areas |
| **Tax bureau’s audit focus** | • Fraud of export tax refund  
• Fake VAT invoices  
• Inspection on key tax accounts |
| **New changes** | • The state and local tax bureaus were combined in 2018 and the tax collection and management approaches have been changed |
What does the tax bureau have?

- All VAT invoice information (sales and purchase)
- All import VAT information
- All tax returns information (indirect tax, direct tax, individual income tax, etc.)
- Financial statements (e.g., B&S and P&L)

What does the tax bureau do with these data?

Compare and reconcile the data from different sources and from different angles in order to identify potential noncompliant issues

- Fake VAT invoice (i.e., without valid underlying transactions) over the whole supply chain
- Significantly reduced VAT burden
- VAT burden rate compared with the margin rate of the company
- Benchmarking the company’s VAT burden with the industry number
- Inconsistency in terms of revenue amongst VAT invoiced amount, VAT returns, EIT returns, P&L
- Export growth rate vs. manufacturing cost growth rate
Common themes - India
360 degree tax profiling of taxpayer

- GST network to detect the cases of mismatch
  - Non-filing of returns
  - Invoicing differences
  - Eligibility of credits

- Used for persona based analysis, predictive analysis, fraud and anomaly detection, statistical scoring, 360 degree view of taxpayers, circular trading, and network analysis

- Technology enabled assessment/scrutiny

- Technology to keep track of those suppliers who are moving goods (using Way Bills) without filing returns
Polling question 2

Whether filings under the GST/VAT has led to simplification?

• Large scale simplifications
• Moderate simplifications
• Increased compliances
• Don’t know/not applicable
Case studies

India and China
Case studies: revenue centric approach by tax authorities
India – case 1

Indian company A —> Back office administrative and accounting support services —> Overseas parent

Decision
• Back office services - nature of arranging and facilitating of supply of goods or services - qualify as intermediary services

Implication
• GST vis-à-vis Service tax - resulted in varied interpretations on scope of ‘intermediary services’ and thereby taxability of back office services
• Although back office services would not qualify as intermediary services, marketing support services, may be viewed as arranging/facilitating supply between the overseas client and their customer

Way forward
• Customer agreements to be revisited to review the services being provided
• Reviewing the transaction structure and contracts to ensure that the same does not negate the export position adopted by the company/ies

Vservglobal Private Limited – Maharashtra
Advance Ruling

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The evolvement of VAT rules for international freight forwarders

- International freight forwarders were taxed on a **gross** income basis, instead of the net income basis under the old business tax regime.
- VAT exemption treatment, but only applied to the 1st tier freight forwarders.

The tax burden was increased after the reform.

Unfair to the 2nd tier and lower tiers freight forwarders.

Resolved the problem.

The lobbying results are reiterated in the prevailing VAT rules.

**Caishui (2013) No.106**

**Caishui (2016) No.36**

**SAT Bulletin (2014) No.42**
Case sharing

- Based on big data, cross check amongst the monthly VAT returns, export VAT refund returns, and customs declaration information
- Any inconsistency being identified may result into an inspection or audit
Case studies: frequent changes
China – case 3

Background and questions
• Company A is a manufacturing company and engaged in producing and sales of its own products
• On 1 May 2018, the VAT rate applicable to the company’s products was reduced from 17% to 16%. What should the company do to deal with this VAT rate change?

Our observations and suggestions
This 1% rate cut is not merely a finance/tax thing, but also has impacts from business perspective

• Finance/tax side
  – Financial/tax impact analysis
  – VAT rate change in the ERP system
  – VAT invoicing issue, especially for the transition period
  – Amendments on internal control procedures

• Business side
  – Pricing policy change
  – Amendment on contract terms
  – Negotiation with customers and vendors on the proposed changes on pricing, invoicing and contractual terms because of this rate change
Case studies: frequent changes
India – case 2

Decision
• Supply of the PV module of the solar power plant not naturally bundled with the supply of the remaining components of the solar power plant

Implication
• Solar power generating systems and parts for their manufacture taxable at concessional rate of 5%
• General apprehension in the solar industry as to whether such a contract would qualify as a “works contract” or as a “composite supply” or “individual supply of goods and services”
• Adverse Ruling to result in increase in cost of setting-up of solar power plants

Way forward
• Government to recommend that solar power generating system and parts thereof will attract 5 percent GST and for EPC contracts, it is assumed that 70 percent of the cost will be at 5 percent

Giriraj Renewables Private LTD– Karnataka
Advance Ruling
Polling question 3

Whether GST/VAT filings increasing the IT spend, thereby increasing the compliance cost of the organization?

- Substantially
- Moderately
- Low spend
- Don’t know/not applicable
Imminent developments

India and China
Imminent developments

India

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<td>Government looking at having only two tax slabs</td>
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<td><strong>Increased tax base</strong></td>
<td>Broaden tax base to petroleum products</td>
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<td><strong>Further refinement of returns</strong></td>
<td>Simplification of periodical returns (monthly and annual returns)</td>
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<td><strong>Refund mechanism</strong></td>
<td>Robust refund mechanism to process the refunds without lesser human intervention</td>
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<td><strong>Technology and GST</strong></td>
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<td>Emergence of State specific cess in national GST</td>
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## Imminent developments

### China

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<td><strong>Reduce the bands of VAT rates</strong></td>
<td>It is the direction to reduce the VAT rates from three bands (i.e., 16%, 10%, and 6%) to two bands</td>
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<td><strong>Refund the excessive input VAT credit balance</strong></td>
<td>It is expected that the government may consider refunding the excessive input VAT credit balance to companies in a wider range this year</td>
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<tr>
<td><strong>Further refine VAT rules</strong></td>
<td>SAT/MOF are working on VAT treatments on financial services (such as the input VAT creditability of interest), possibly followed by construction and real estate sectors. No significant changes are expected for lifestyle sector</td>
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<tr>
<td><strong>Further develop technology in tax management</strong></td>
<td>The tax authorities are more and more relying on technology and data mining to identify the potential risk areas and audit targets. E-invoicing?</td>
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<td><strong>VAT legislation</strong></td>
<td>Expected in 2020?</td>
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Questions and answers
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Inbound investment, e-commerce, and e-invoicing rules in Vietnam: A clear view of the recent developments

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