



Common themes in GST across China and India: What you should know

The Dbriefs Indirect Tax series

M.S. Mani / K Baskar / Candy Tang
26 February 2019

Agenda

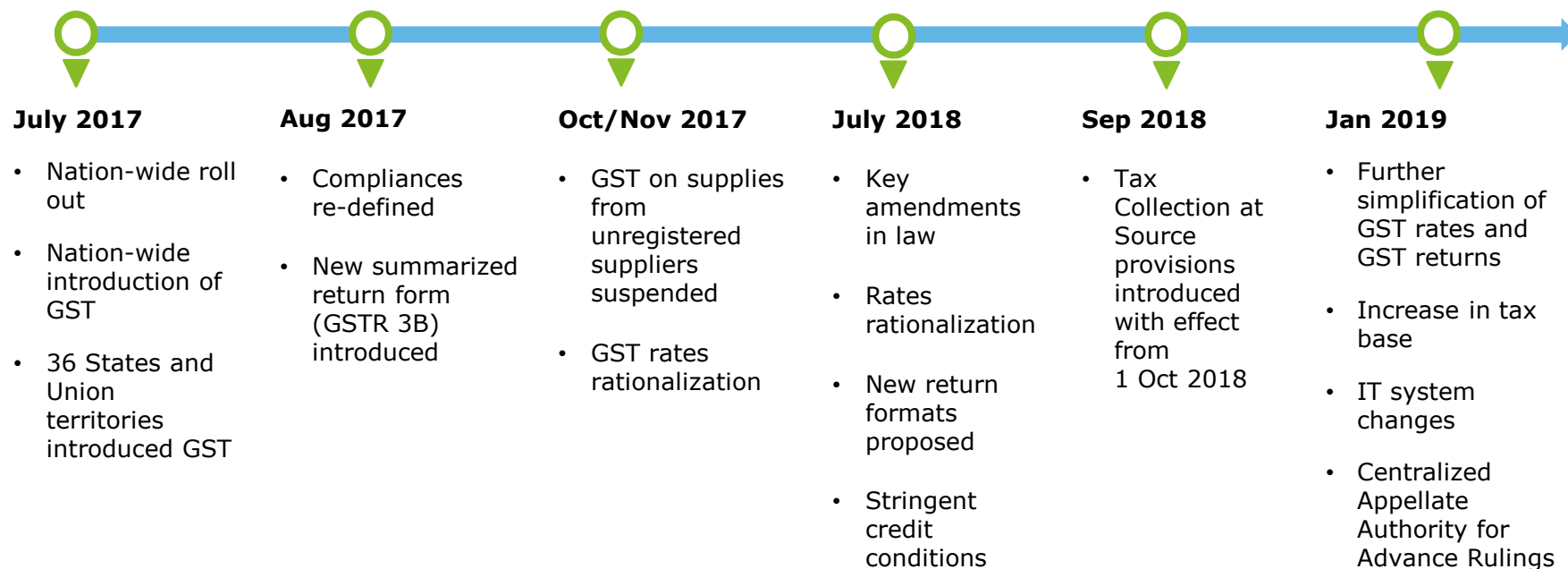
- Goods and Service Tax (GST)
- Value Added Tax (VAT)
- Common themes
- Case studies
- Prospects for future
- Questions and answers

Goods and Service Tax (GST)

India

Overview of GST

Journey so far



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

- **Changes in compliance procedures**

- Frequent revision in filing dates
- Frequent changes in rate structure

Anti-profitereing

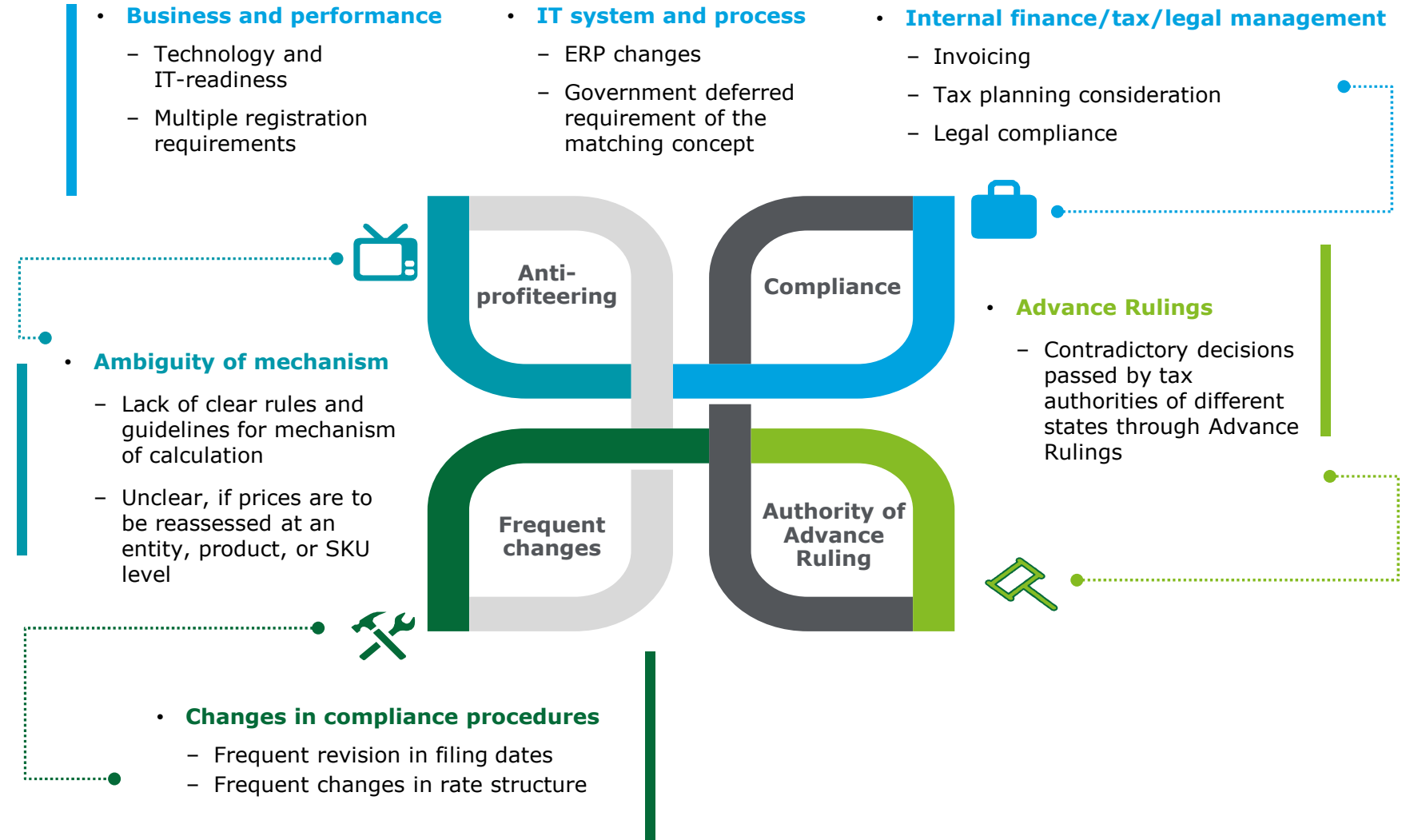
Compliance

Frequent changes

Authority of Advance Ruling

- **Advance Rulings**

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



Business impact

Avenues

Robust IT system and
GST return simplification

Expansion of the
threshold for
composition scheme

Widening scope of input
tax credit

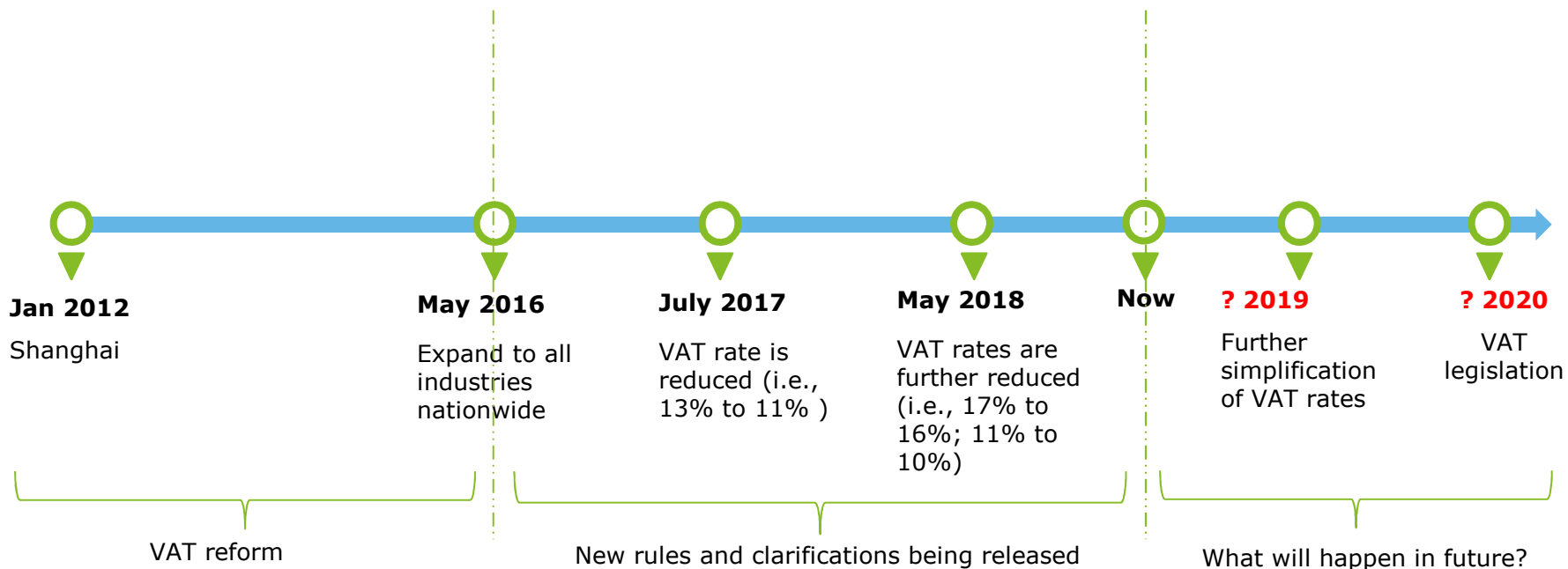
Supply of services to
qualify as exports, even
if payments are received
in Indian Rupees, where
permitted by the RBI

Industry
recommendations
considered for revision of
tax rates

Value Added Tax (VAT)

China

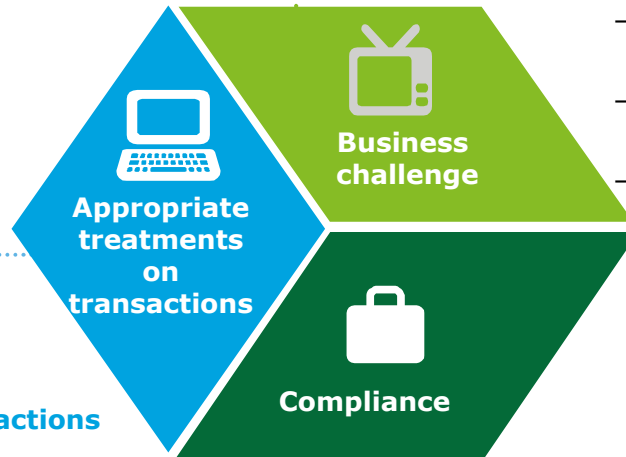
Overview of China VAT reform



Business impact Challenges

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

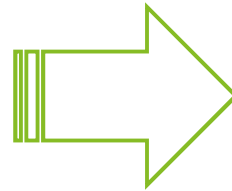
Common themes

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**

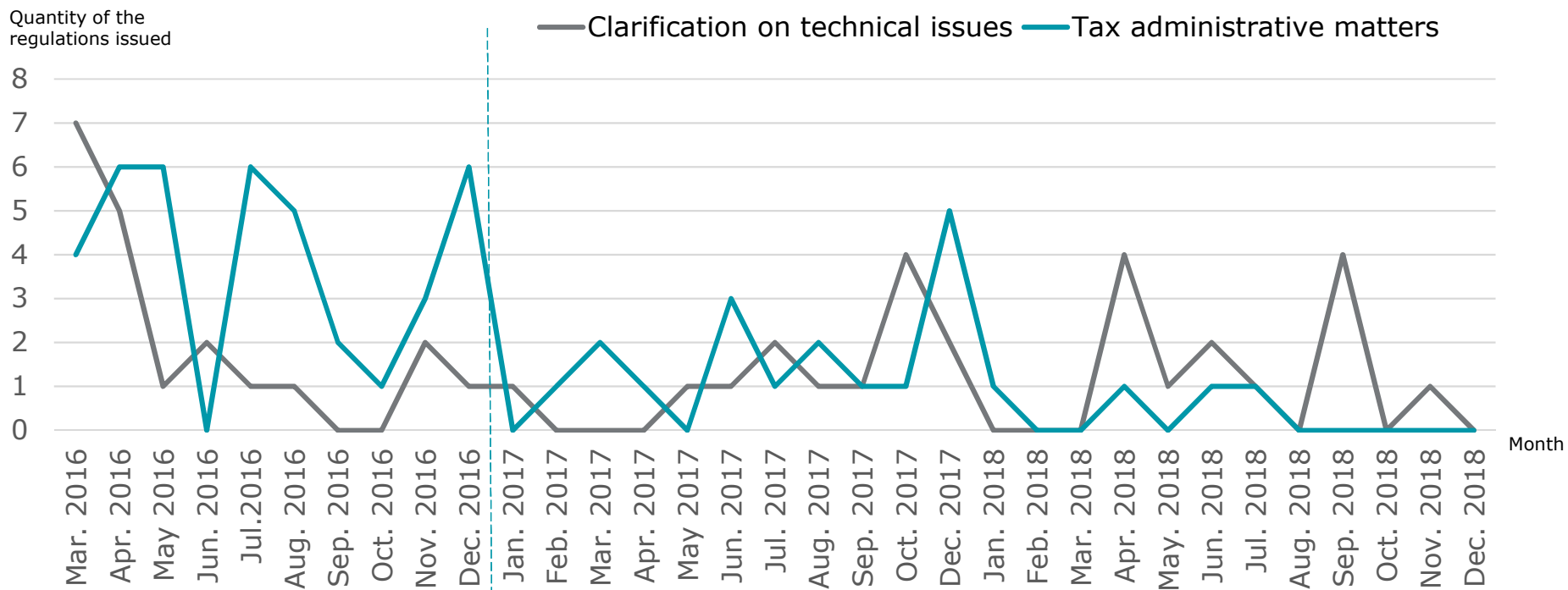
Formation of more than 12 committees to examine specific issues and provide suggestions to the GST Council

* 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

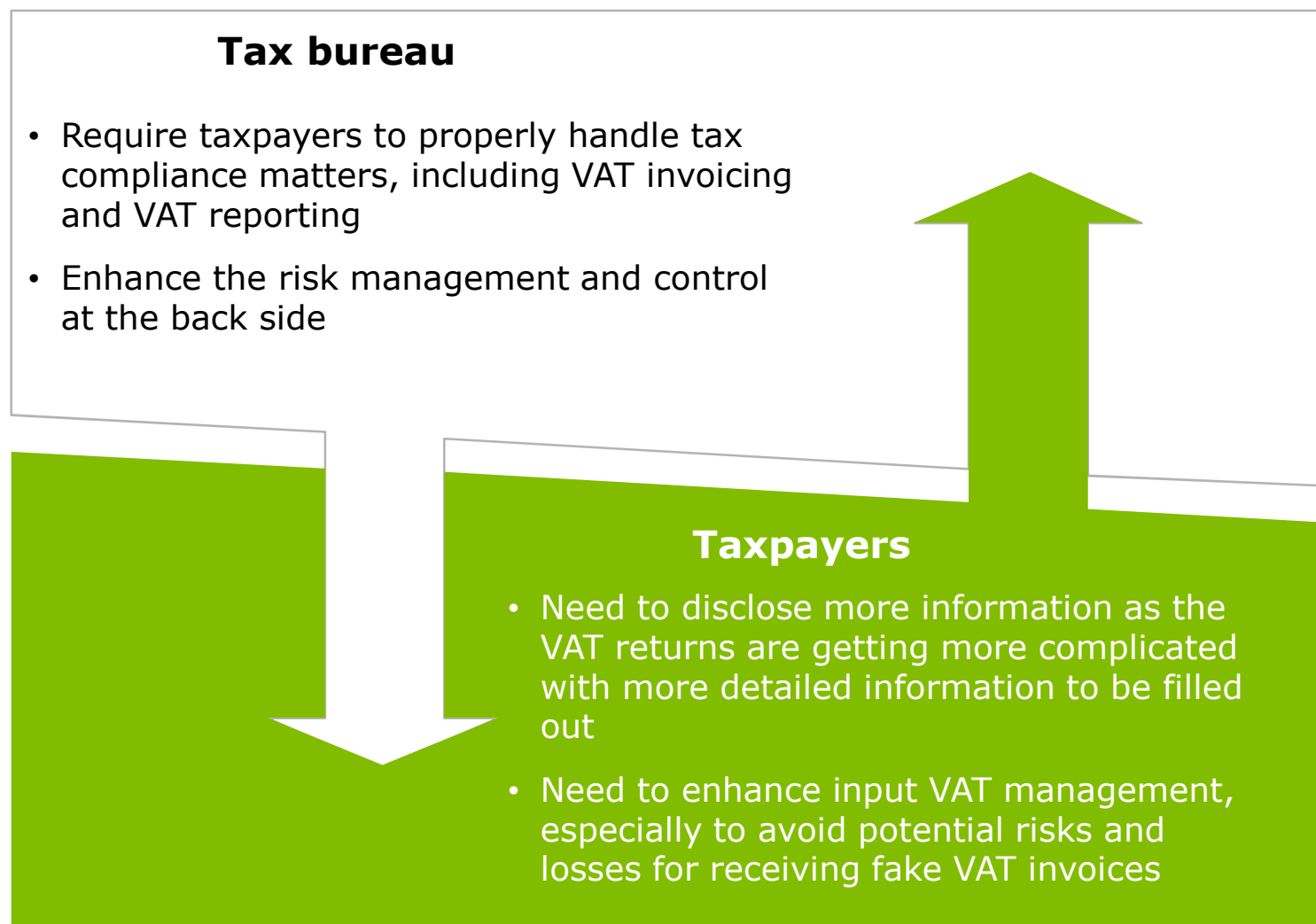


43 regulations were released during the past six months after the announcement of No. 36

47 regulations were released from 1 January to 31 December 2018

Common themes - China

Compliance oriented



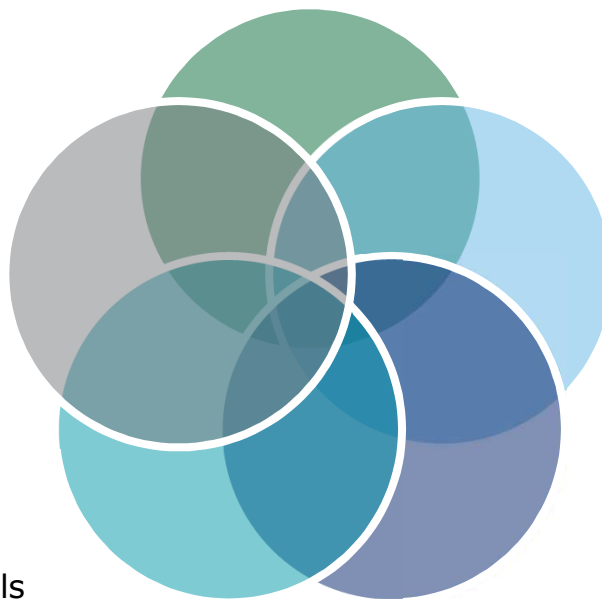
Common themes - India

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

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

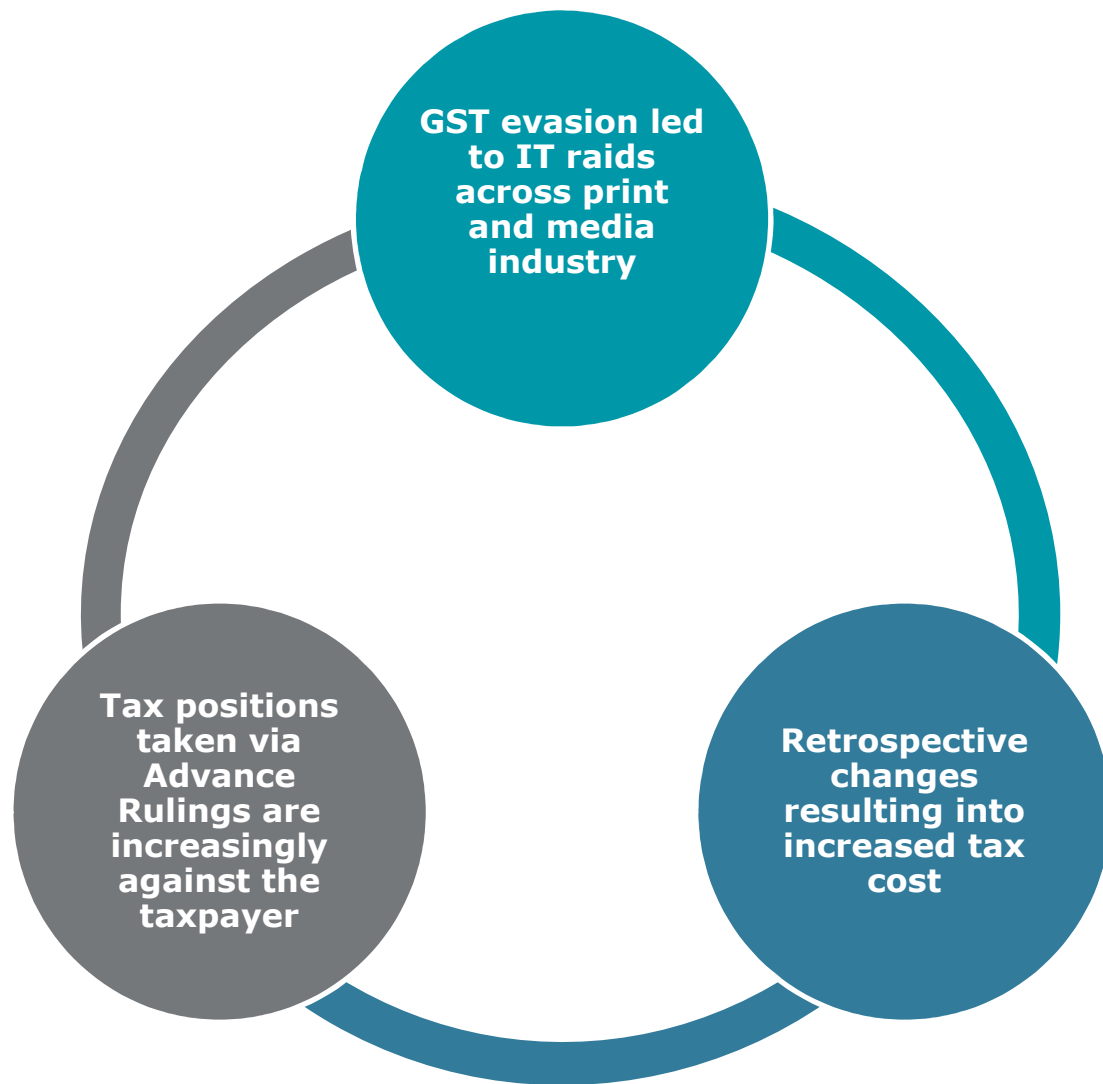


Continuous effort from the government to make return filing system simple

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



Common themes - China

Enhanced controls by tax authorities

Tax control and inspection		Our observation and insights
	Big data and technology tool	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Fraud of export tax refund• Fake VAT invoices• Inspection on key tax accounts
	New changes	<ul style="list-style-type: none">• The state and local tax bureaus were combined in 2018 and the tax collection and management approaches have been changed

Common themes - China

Data mining

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)



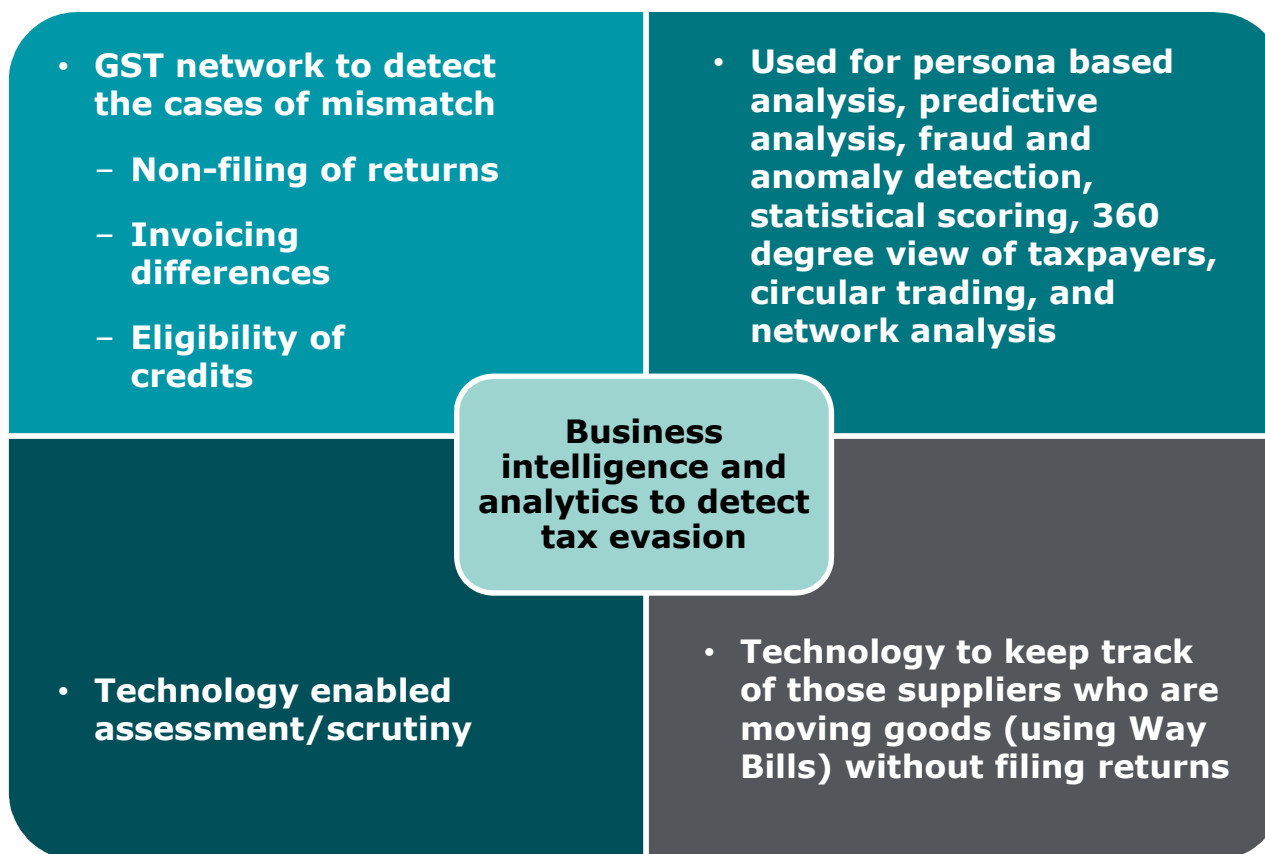
What does the tax bureau do with these data?

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



Polling question 2

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

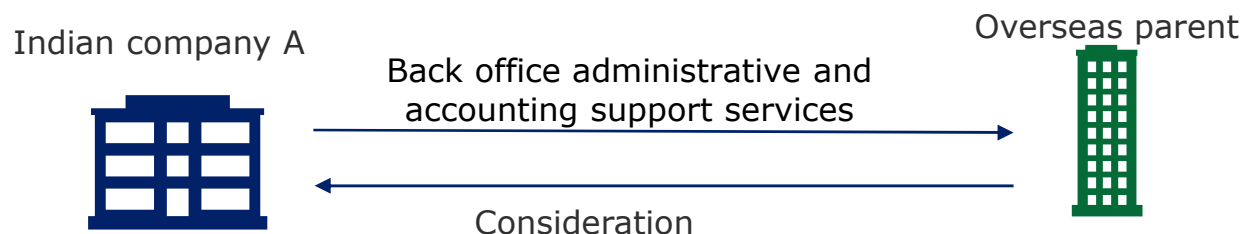
- Large scale simplifications
- Moderate simplifications
- Increased compliances
- Don't know/not applicable

Case studies

India and China

Case studies: revenue centric approach by tax authorities

India – case 1



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

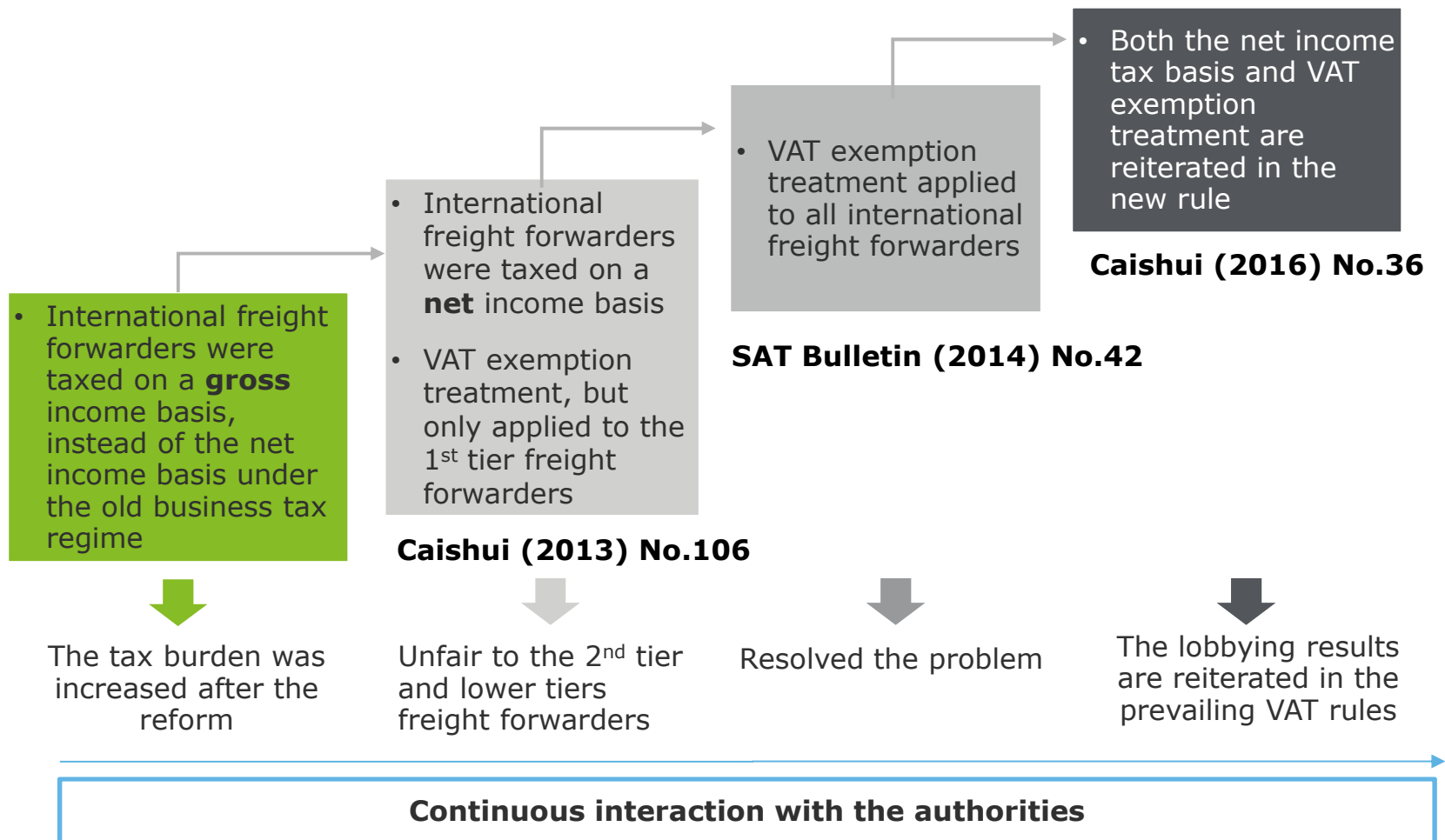
- Customer agreements to be revisited to review the services being provided
- Reviewing the transaction structure and contracts to ensure that the same does not negate the export position adopted by the company/ies

Vservglobal Private Limited – Maharashtra Advance Ruling

Case studies: interaction with the authorities

China – case 1

The evolution of VAT rules for international freight forwarders



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**

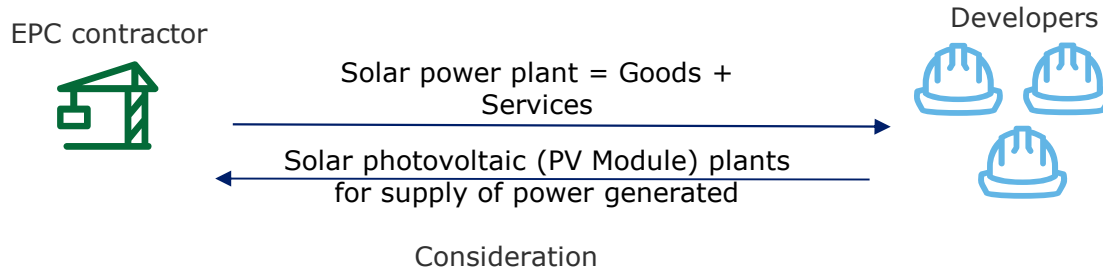
- Financial/tax impact analysis
- VAT rate change in the ERP system
- VAT invoicing issue, especially for the transition period
- Amendments on internal control procedures

• **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

	Reduce the slabs of GST rates	<ul style="list-style-type: none"> • Government looking at having only two tax slabs
	Increased tax base	<ul style="list-style-type: none"> • Broaden tax base to petroleum products
	Further refinement of returns	<ul style="list-style-type: none"> • Simplification of periodical returns (monthly and annual returns)
	Refund mechanism	<ul style="list-style-type: none"> • Robust refund mechanism to process the refunds without lesser human intervention
	Advance Rulings	<ul style="list-style-type: none"> • Creation of centralized appellate authority for Advance Rulings
	Technology and GST	<ul style="list-style-type: none"> • Dependence on technology to increase in future
	Data profiling	<ul style="list-style-type: none"> • Linking of GST data with the other databases as available with the Revenue authorities
	GST compliance rating	<ul style="list-style-type: none"> • Emergence of a compliance rating system
	State specific Cess	<ul style="list-style-type: none"> • Emergence of State specific cess in national GST

Imminent developments

China

	Reduce the bands of VAT rates	<ul style="list-style-type: none">• It is the direction to reduce the VAT rates from three bands (i.e., 16%, 10%, and 6%) to two bands
	Refund the excessive input VAT credit balance	<ul style="list-style-type: none">• It is expected that the government may consider refunding the excessive input VAT credit balance to companies in a wider range this year
	Further refine VAT rules	<ul style="list-style-type: none">• 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
	Further develop technology in tax management	<ul style="list-style-type: none">• The tax authorities are more and more relying on technology and data mining to identify the potential risk areas and audit targets• E-invoicing?
	VAT legislation	<ul style="list-style-type: none">• Expected in 2020?

Questions and answers

Thanks for joining today's webcast.

You may watch the archive on PC or mobile devices via iTunes, RSS, YouTube.

Eligible viewers may now download CPE certificates. Click the CPE icon at the bottom of your screen.



Join us 28 February at 2:00 PM HKT
(GMT+8) as our Indirect Tax series
presents:

**Inbound investment, e-commerce,
and e-invoicing rules in Vietnam:
A clear view of the recent
developments**

For more information, visit
www.deloitte.com/ap/dbriefs

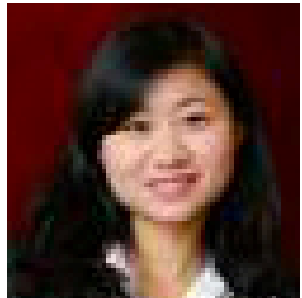
Contact information



M.S. Mani
Tax Partner
Deloitte Mumbai, India
msmani@deloitte.com



K Baskar
Tax Partner
Deloitte Bangalore, India
kbaskar@deloitte.com



Candy Tang
Tax Director
Deloitte Shanghai, China
catang@deloitte.com.cn

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2019. For information, contact Deloitte Touche Tohmatsu Limited.