

The background of the slide features a blurred image of a calculator on the left and a spreadsheet with various numbers and text on the right. A large, solid blue rectangle is centered over the image, containing the main text.

GST

Goods and Services Tax

Synopsis | Promise | Transition

DISCUSSION AGENDA

- Synopsis of GST – Why the Noise?
- Promise of GST
 - One Nation One Tax
 - Seamless Credit Flow
 - Easy Compliances
 - One Jurisdiction
- GST Impact Case Study
- How can we help

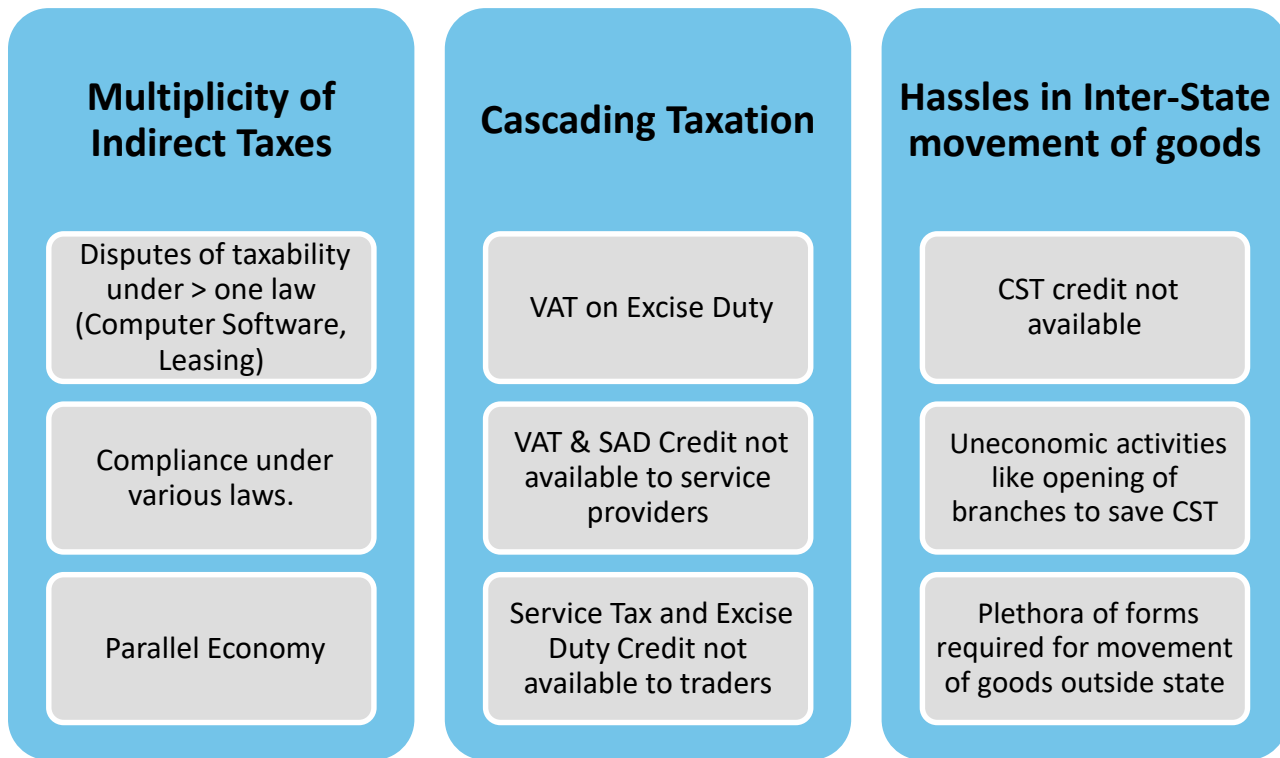
GOODS AND SERVICE TAX

- Synopsis of GST – Why the Noise?



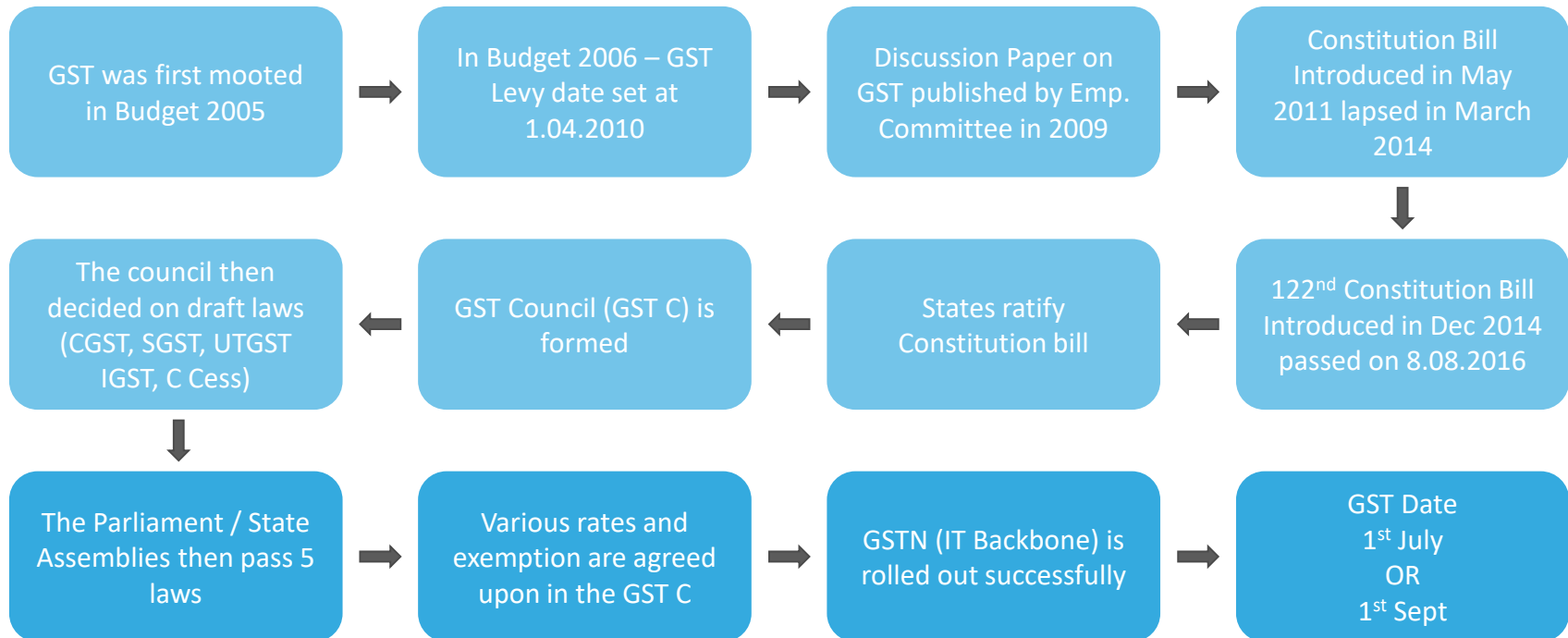
— SYNOPSIS

Challenges of Current Indirect Tax System...



— SYNOPSIS

Legislative Journey so far and pending steps...



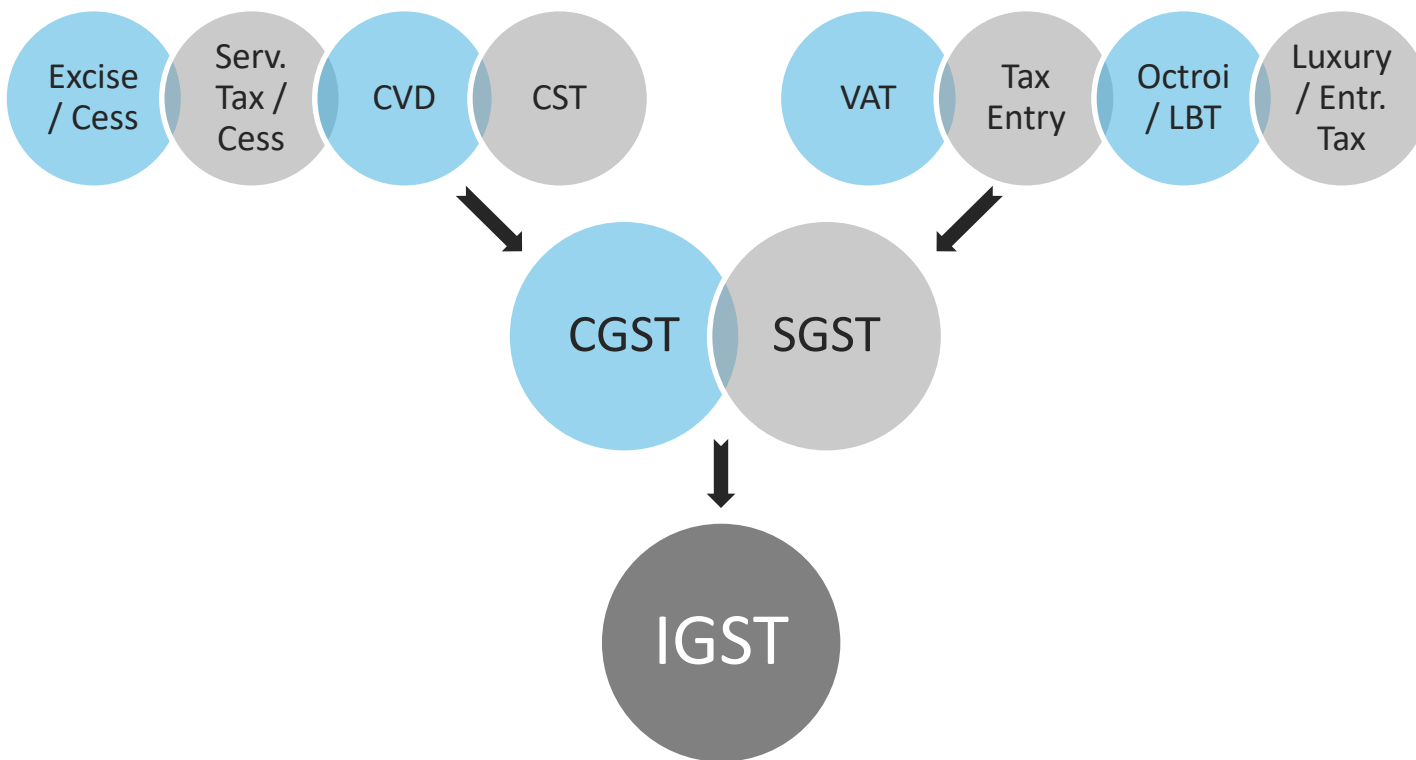
International Experience of GST

- Over 160 countries have implemented GST

Questions	New Zealand	Canada (Dual)	Thailand	Australia
Year of Introduction	1986	1991	1992	2000
Model of GST	Single	Dual	Single	Single
Standard GST Rate	15%	5 - 15%	7%	10%
GDP Growth	Yes	No	No	No
Did inflation fall	Yes	Yes	Yes	Yes
Did the tax to GDP ratio increase	Yes	Yes	Yes	Yes
Did Ruling Party got re-elected post GST	No	No	No	No

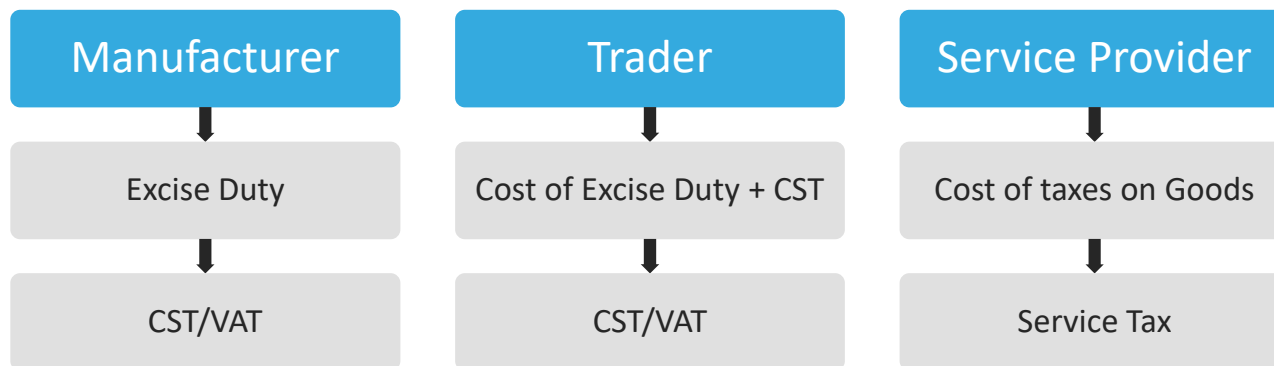
— SYNOPSIS

Taxes Subsumed under GST



— SYNOPSIS

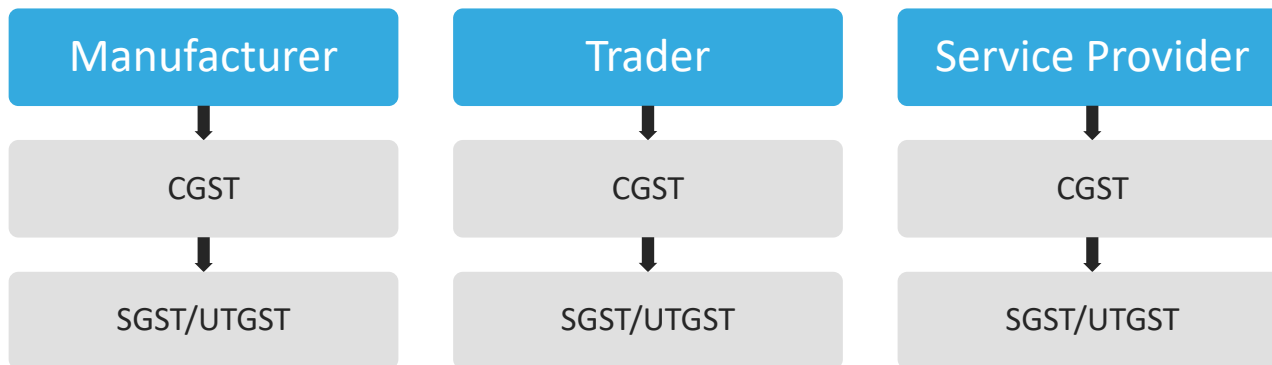
Existing Structure Prevailing Today



CST = Central Sales Tax
Requirement of number of Forms

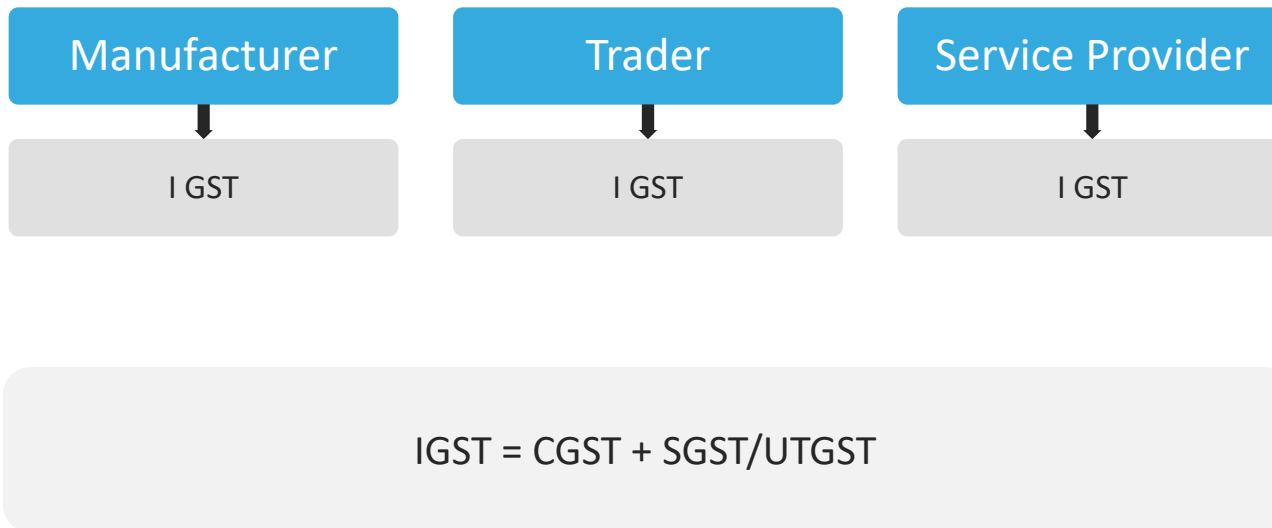
— SYNOPSIS

Proposed Structure in GST for Sale within State



— SYNOPSIS

Proposed Structure in GST for Sale outside State



— SYNOPSIS

Understanding GST Impact – An Example

Particulars	Current Scenario	GST (18%)
Base Price of Goods (Manufacturer)	1 00 000	1 00 000
Add: Excise / CGST	12 500	9 000
Add: VAT / SGST	16 875	9 000
Total Sale Value	1 29 375	1 18 000
Less : Input Tax Credit	16 875	18 000
Landed Cost (Distributor / Dealer)	1 12 500	1 00 000
Value Addition (Distributor / Dealer)	10 000	10 000
Basic Sale Value	1 22 500	1 10 000
Add: VAT / SGST	18 375	19 800
Cost to end Consumer	1 40 875	1 29 800
Differential Savings due to Tax		11 075
Percentile saving on manufacturer's price		11.07%

GOODS AND SERVICE TAX

- One Nation One Tax?



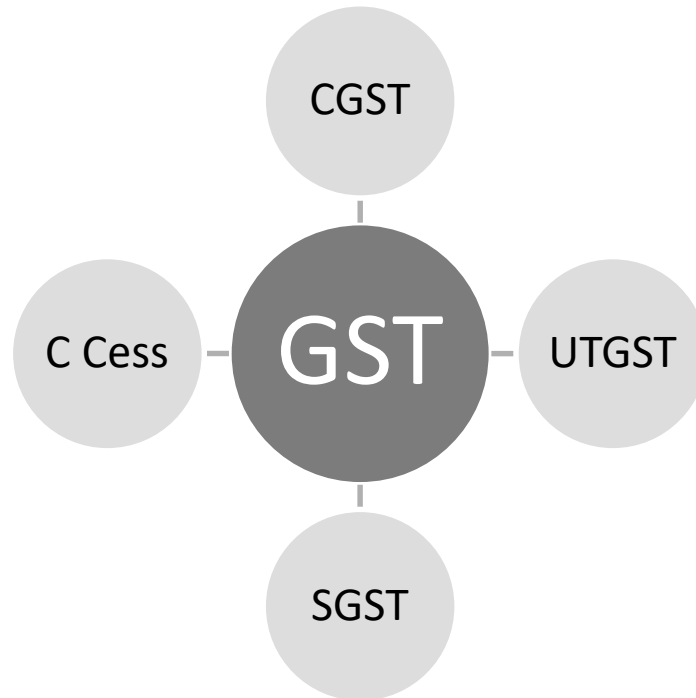
— ONE NATION ONE TAX ?

Will GST apply to whole of India?

- CGST and IGST Act shall apply in the whole of India except in the State of Jammu and Kashmir
- J&K Minister participated in all GST Council meetings?
- Excise duty was applicable in J&K from 1986 then why no CGST ?
- CST Act was applicable to J&K from 1956 then why no IGST ?

— ONE NATION ONE TAX ?

Rate Structure



— ONE NATION ONE TAX ?

GST Rate Tiers...

Rate	Goods & Services
Zero Rated	Essential Goods and services like food items, medicines, government services Export of goods and services, supplies made to SEZ, Notified Institutions
Merit Rate – 5%	Precious Metal and items which are being tax at 3 to 9% right now
Median Rate – 12%	Some goods and services which are exempted right now like real estate and may be government funded infrastructure projects
Standard Rate – 18%	Majority of Services and Goods being taxed at lower rate of VAT will be bracketed under this slab
Higher Rate – 28%	Many goods which are taxed at full excise rate of 12.5% and highest VAT rate of 15% will be bracketed under this slab
Compensation Cess – 15%	Cess will be leviable over and above the higher rate of 28% (totalling to 43%) on items like Aerated Beverages, Luxury cars and other such de-merit goods (Services)

— ONE NATION ONE TAX ?

Taxes to Remain

- **Property Tax**
- **Stamp Duty**
- Custom Duty
- Professional Tax
- Tax on Alcohol
- Tax on Petroleum Products
- Tax on Electricity
- Municipalities/Panchayats will retain right to levy taxes

— CONCEPT OF SUPPLY

Supply with consideration



GST shall apply on Supply

1. Supply of Goods or Services by

• Sale	• Transfer
• Barter	• Exchange
• License	• Rental
• Lease	• Disposal
- done in the course of furtherance of business
2. Importation of Service for personal use
3. Permanent sale of business
4. Temporary use of business assets for private purposes

— CONCEPT OF SUPPLY

Supply without Consideration



GST shall also apply on

1. Supplies of goods or services to related persons
2. Gifts given by employer to employee value of which is above Rs. 50000
3. Inter branch supplies (located in 2 different states/Uts/countries)
4. Permanent transfer or disposal of business assets if credit of such assets is availed

— DEFINITIONS

Definition of Goods and Service

Goods

- Means every kind of movable property other than money and securities

Service

- Means **anything** other than goods, money and securities

— DEFINITIONS

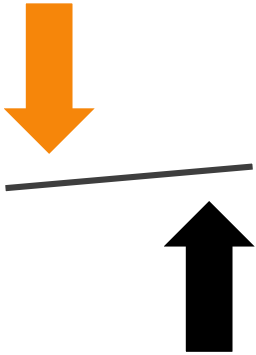
Definition of Works Contract

Works Contract

- Means a contract for construction, repair, maintenance, renovation, etc of any immovable property wherein transfer of property in goods is involved

— RCM (NET WIDENED)

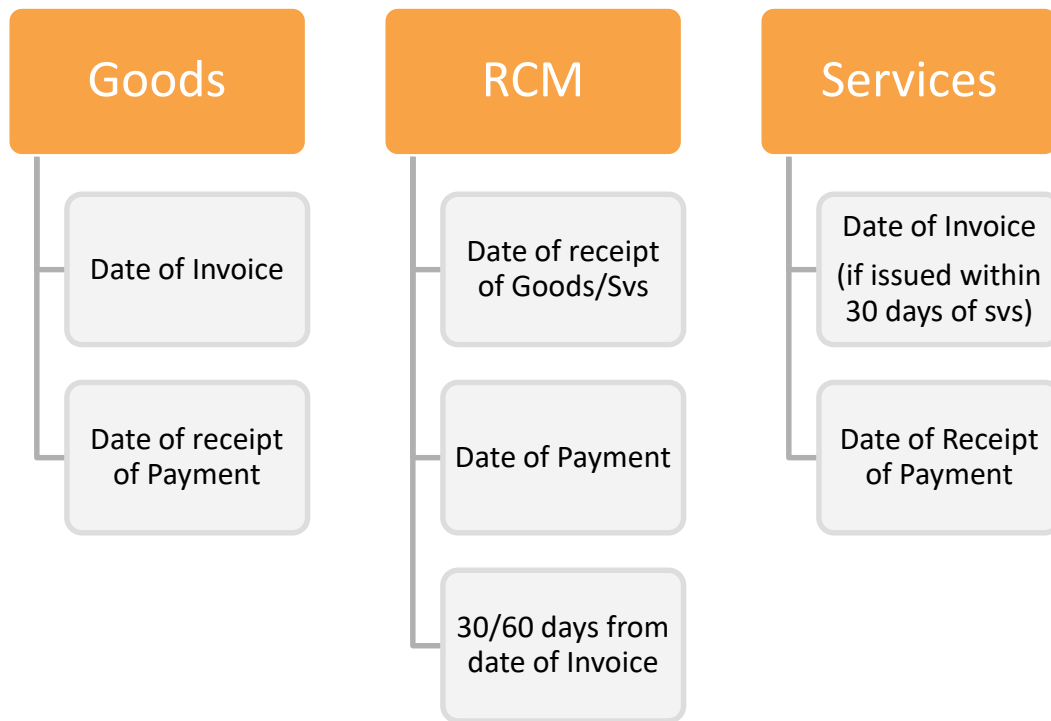
Tax to be paid by Recipient in following cases



- Supply of taxable goods or services by unregistered person to a registered person
- Some goods and services shall be specifically notified for RCM

— TIME OF SUPPLY

When to Pay Tax

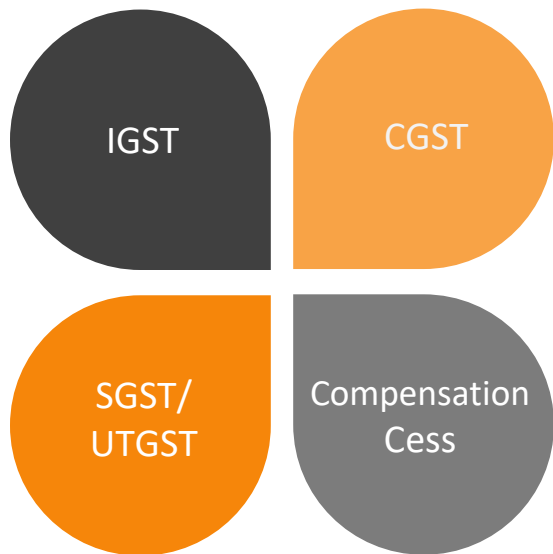


Whichever is earlier

— PLACE OF SUPPLY

Why so many taxes under GST

In fact there are only 4 taxes



All have a different but necessary role in our federal polity.

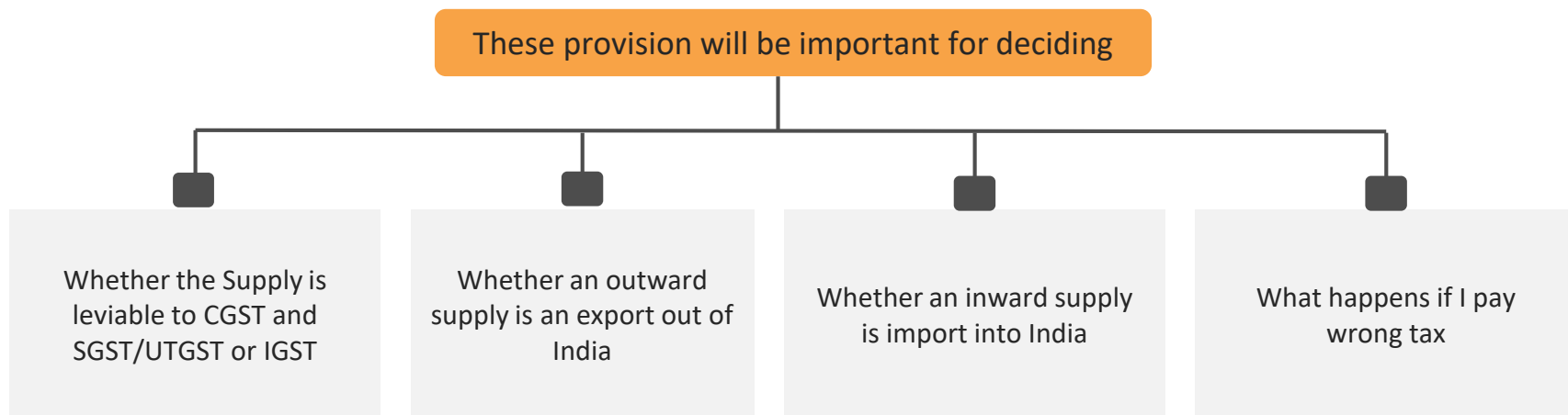
Different set of taxes will apply in different set of transactions:

1. Intra-State Sales – CGST + SGST/UTGST + C. Cess
2. Inter State Sales – IGST + C. Cess

Issue is not these 4 taxes, but difficulty lies in the process through which one needs to decide whether a given transaction is a intra state sale or inter state sale

— PLACE OF SUPPLY

Importance of these provisions



— CASE STUDIES

CS 1 – ‘Ship to Bill to’ transactions

Transaction is as under:

- a. ABC located in Ahmedabad is a manufacturer of computers.
- b. XYZ located in Ahmedabad purchases 100 computers for Rs. 10,000/- each from ABC.
- c. XYZ instructs ABC to
 - Ship 50 computers to PQR located in Chennai and
 - Ship 50 computers to JKL located in Delhi.

Lets ascertain taxability for all 100 computers

- From the View point of ABC
- From the View point of XYZ



— CASE STUDIES

CS 2 - Services on Commission Basis

ABC located in Ahmedabad is a Consultant who advises students for foreign education. Based on his advice student selects a particular college. Consultant doesn't charge any fee from Students as college pays a fee to the him. ABC sends 10 students to Punjab and receives Rs. 1 Lac as fees and sends 10 student to Australia and receives 25000 A\$.

What would be the GST liability for ABC

- On 1 lac received from Pondicherry
- On 25k A\$ received from Australia



— CASE STUDIES

CS 3 – Tour Operator Services

Tour Operator ABC located in Ahmedabad books a hotel room in Shimla for a client based in Surat. Cost of room to the tour operator is Rs. 10000 which it sells to the client at Rs. 11000.

Questions:

1. Which tax shall Shimla hotel charge on its invoice to the tour operator?
2. Which tax shall the tour operator apply on its invoice to the client?
3. Will the tour operator get credit of tax charged by hotel?

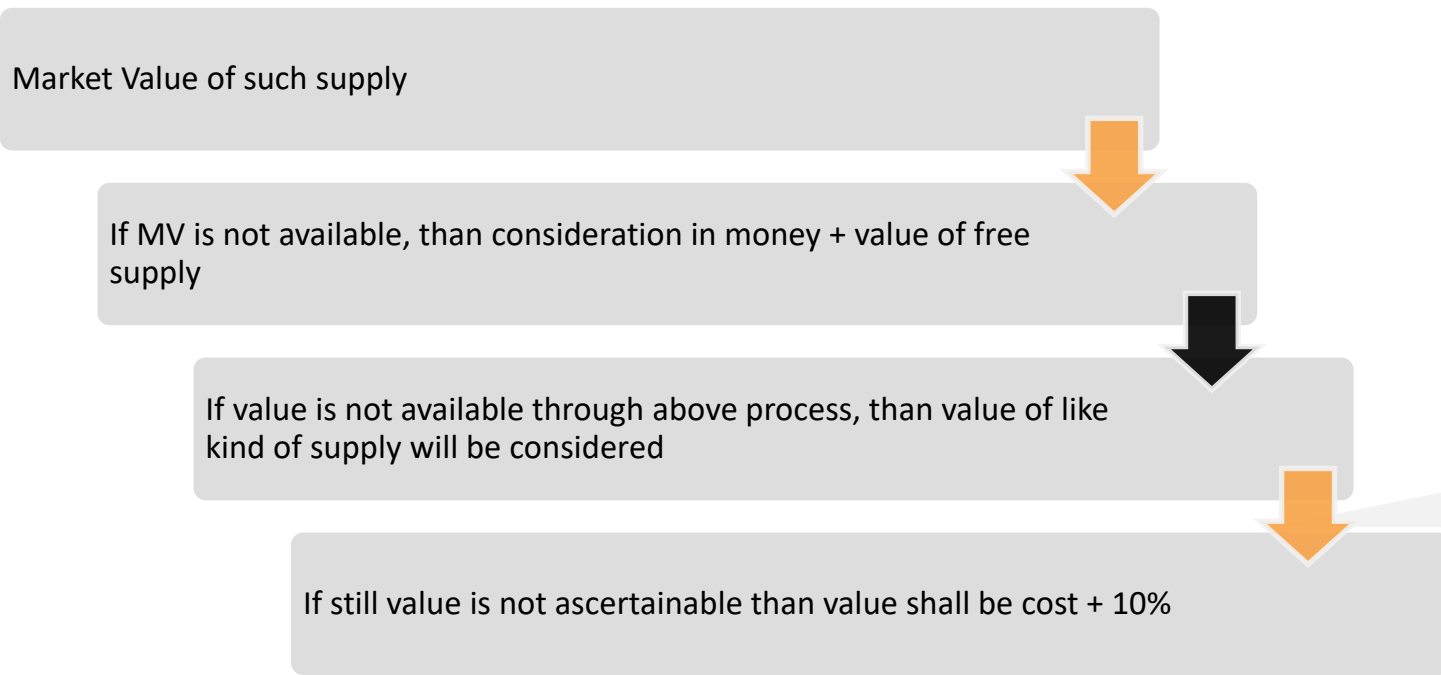


What Value would be taxable

- Shall be the “Transaction Value” - if the parties are not related and Price is the sole consideration for the supply
- Value of Goods or Services shall include:
 - Value of free or discounted supply of goods / services by recipient
 - Value of royalty, license fee or subsidies linked to the supply
 - Reimbursements
 - Taxes and duties other than GST
 - Discounts given post supply
- MRP based valuation mechanism might become irrelevant

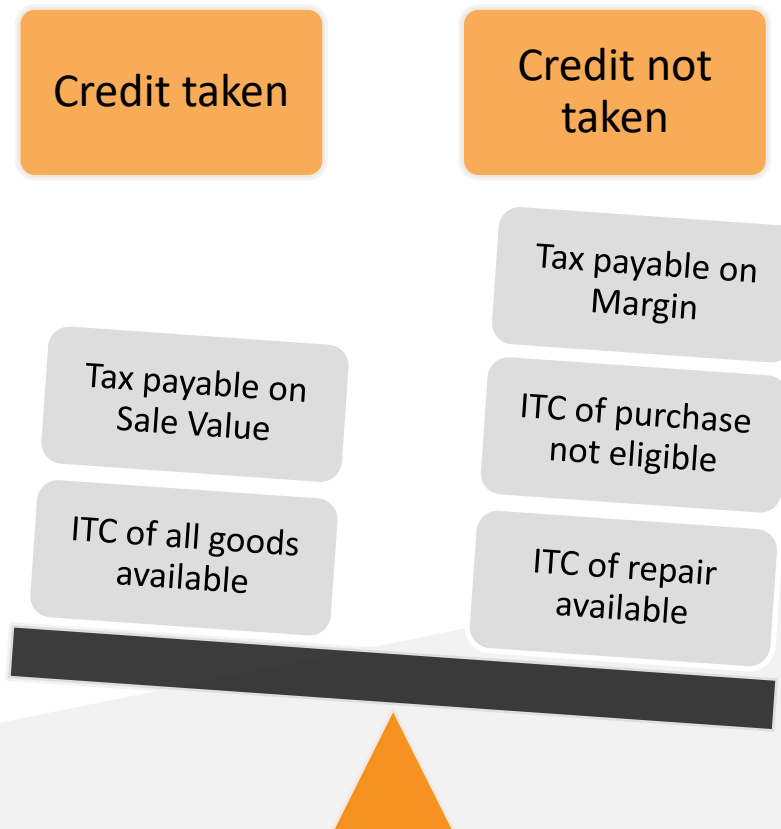
— VALUATION

Where Consideration is in Cash + Kind



— VALUATION

Where Supply is of Second Hand Goods



— VALUATION



Before Supply

Treatment of Discount

Discounts offered **before** or **at the time of supply** of goods will be deducted from value if it is shown in Invoice of **such supply**

Discounts offered **after** supply will be allowed if:

- Discount is established as per pre supply agreement
- Linked to relevant invoices
- ITC pertaining to the discount has been reversed by the Recipient

After Supply

— MAKE OR IMPORT?

Make in India versus Import into India

- This is going to be one of the most important decisions that a company will have to take before GST kicks in

Particulars	Make in India	Import
Base Price of Goods (Including profit)	1 00 000	1 00 000
Add: N.A. / BCD + Cess	0	8 000
Add: GST / IGST	18 000	19 440
Total Sale Value	1 18 000	1 27 440
Less : Input Tax Credit	18 000	19 440
Landed Cost (Distributor / Dealer)	1 00 000	1 08 000
Value Addition (Distributor / Dealer)	10 000	10 000
Basic Sale Value	1 10 000	1 18 000
Add: GST	19 800	21 240
Cost to end Consumer	1 29 800	1 39 240
Differential Tax outflow		9 440
Importing will become beneficial, if import price is lesser by just 8%		

— ONE NATION ONE TAX ?

Seamless Movement of Goods ???



- Inter State Trade would be taxable under IGST
- Branch Transfer is about 50% of Inter State trade on which as of now CST is not payable. Under new regime IGST would be payable, which will block huge amounts of working capital
- Significant amount of time and fuel is lost on borders due to idling Trucks
- Border Checkpost will remain there in the same shape and size as they exist now.
- GSTN is developing a special software which will be placed on Check-posts so that movement of goods can be tracked on real time basis
- Many States have issued fresh tenders to make new high tech check posts equipped with latest methods and x-ray machines.
- Problem was never the systems, it was always the personnel sitting on these posts which created the delays.

GOODS AND SERVICE TAX

- Seamless Credit Flow?



Definition of Some Terms

Capital Goods

- Goods which are capitalized in the books of accounts and used in business

Input (Goods)

- Goods other than capital goods used in business

Input Service

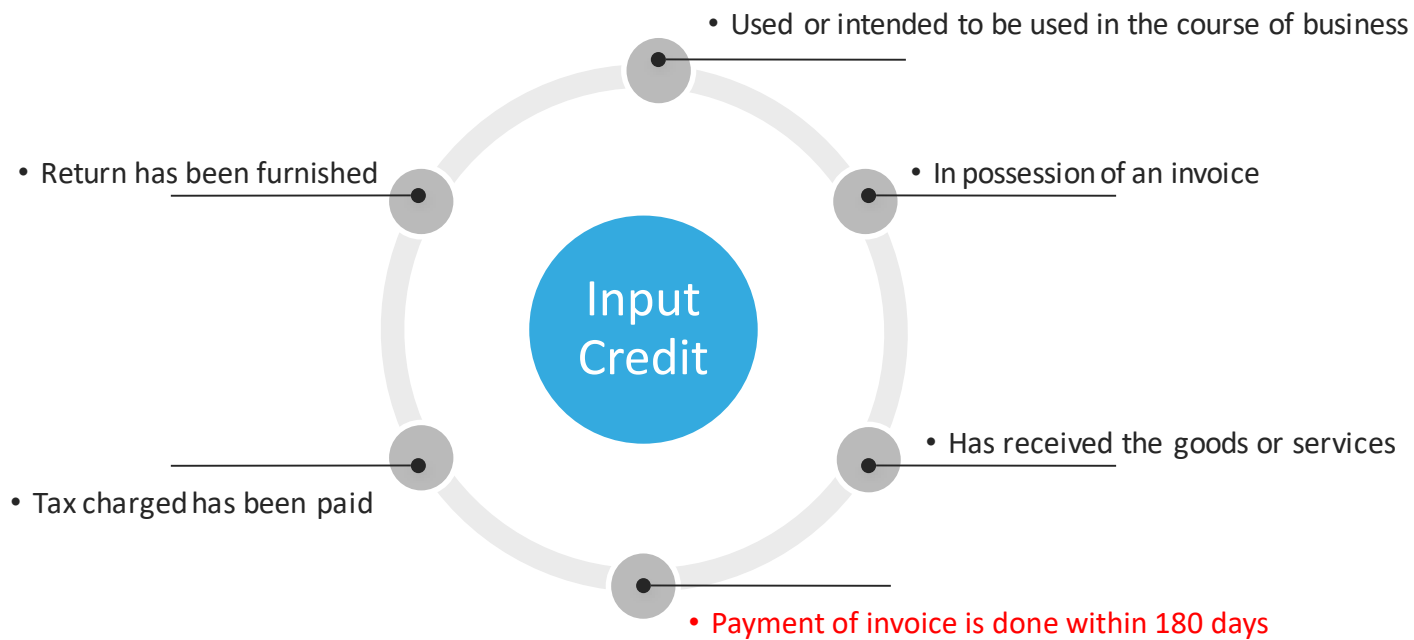
- Service used for doing business;

Definition of Some Terms

Plant and Machinery

- Means equipment fixed to earth that are used for business but excludes—
 - Land & Building
 - Telecommunication Towers
 - Pipelines laid outside the factory premises

Credit Eligibility



Credit Eligibility



- Every **Registered Taxable** person shall be eligible to take ITC
- ITC of goods which are supplied in lots or installments will be available to recipient only when the **LAST** lot of the goods is delivered to him
- ITC shall have to be reversed if payment of **Value + Tax** is not released to the supplier within 180 days of the date of Invoice.
- ITC of Capital Goods shall be allowed only if depreciation is not claimed on such tax portion
- ITC will be available for maximum 1 year from the date of the Invoice

Apportionment of credit

- ITC pertaining to Zero rated supplies like exports or SEZ's will be available
- ITC will have to be reversed on proportionate basis if taxable as well as non taxable business is done
- ITC of Rent a Cab and Insurance services will be allowed only to same category service providers



Blocked credits

Following Specific ITC will not be available

- Motor vehicle except if
 - they itself are being supplied, or
 - they are used for transportation of passengers or goods
 - they are used in driving school
- Restaurant, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery
- Membership of Club, health and fitness centre
- Rent-a-cab and Insurance except where these are obligatory for an employer to provide to its employees under any law
- Travel benefits extended to employees on vacation such as leave or home travel concession



Blocked credits

Following Specific ITC will not be available

- ITC on expenses incurred for construction of an immovable property
 - However ITC for Plant & Machinery shall be available
- Works Contract Credit will not be available [to real estate companies](#)
- Goods or services used for personal/private consumption
- Goods lost, stolen, destroyed, written off or disposed of by way of gift or free Samples
- Any tax paid by supplier to due departmental intervention

Credit Utilisation Mechanism

- Order of Credit Utilization shall be as under



- Cross utilization of Credit of CGST and SGST shall not be allowed
- SGST includes UTGST

Credit Utilisation - Example

	CGST	IGST	SGST	Total
Input	10000	30000	10000	50000
Output	25000	10000	25000	60000
Net Liability	???	???	???	10000 ???

Credit Utilisation

Tax Heads	CGST		IGST		SGST	
	Output	Input	Output	Input	Output	Input
As per Returns	25000	10000	10000	30000	25000	10000
a) IGST – IGST			-10000	-10000		
b) CGST – CGST & SGST – SGST	-10000	-10000			-10000	-10000
Balance	15000	0	0	20000	15000	0
a) IGST – CGST & IGST - SGST	-15000	0	0	-20000	-5000	0
Balance	0	0	0	0	10000	0

ITC of Compensation Cess

- Credit of C Cess can be utilized to pay Output C Cess liability only

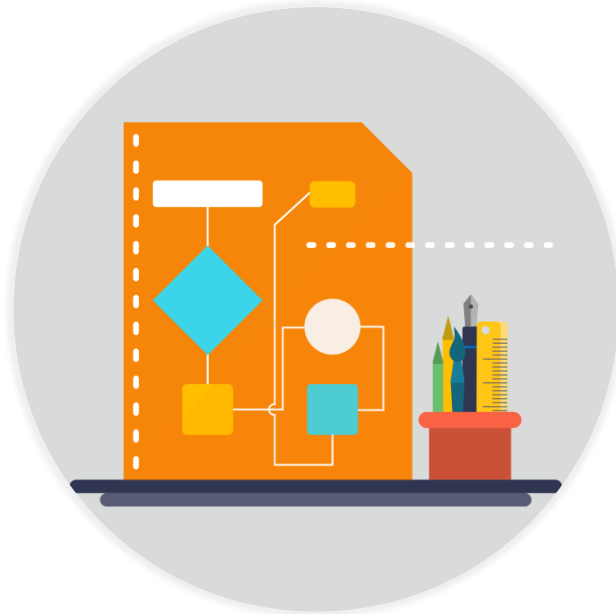
Anti Profiteering Measure



- Any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way of commensurate reduction in prices.
- The Central Government will appoint an Authority, to examine
 - whether input tax credits availed by any person or
 - reduction in the price on account of any reduction in the tax rate
 - have actually resulted in a commensurate reduction in the price of goods or services supplied by him.
- The Authority shall exercise such powers, as may be prescribed

GOODS AND SERVICE TAX

- Easy Compliances



Compliances - Returns

- **Late Fees :**
 - for monthly/quarterly Return Rs.1,000/- per day but maximum Rs.5,000/-
 - for Annual Return Rs.100/- per day but maximum 0.25% of aggregate turnover
- Filing of return would be done only through online mode although offline utility for generation and preparation of returns would be provided. The returns prepared in offline mode would have to be uploaded on GSTN Portal
- Returns should be filed after payment due tax
- Returns can also be filed without payment of tax but the same shall not be considered as valid returns and would not be taken into consideration for matching of Invoice and giving credits to respective stake holders in GST Network

Mandatory Compliances and Audit

- Books of accounts for a particular year will have to be maintained for 6 years
- Every registered person having a turnover above a prescribed limit will have to get his accounts audited by a Chartered Accountant or Cost Accountant
- **Audited Annual Accounts, Reconciliation Statement as well as such other documents as may be prescribed**

TDS and TCS

- Following persons will be required to deduct TDS @ 1% :
 - Government
 - Local Authority
 - Government agencies
 - Specified persons (as notified)if value of goods or services supplied to them exceeds Rs.2.50 lacs
- Deduction is not required if the Supplier and Recipient are registered in two different States
- Credit of TDS will be available to the Supplier subject to furnishing and payment of TDS by deductor (Just as 26AS in Income Tax)
- **TDS Certificate must be given to supplier within 5 days of depositing of TDS. In case of non compliance a penalty of Rs.100/- per day upto a maximum Rs.5000/- will be charged**
- **TCS will be applicable on goods and services availed through E-Commerce portals**

GOODS AND SERVICE TAX

- One Jurisdiction



— ONE JURISDICTION

Who will administer GST

- GST will be administered jointly (and severally) by both Central as well as State Governments
- Existing administrative apparatus of Excise and Service Tax Department will be converted into Central GST offices and State VAT department will be converted in the State GST offices.
- GST Council has decided to divide the assessee base as under:
 - Assesseees having turnover BELOW 1.50 Cr will be divided between States and Centre in the ratio of 9 : 1.
 - Assesseees having turnover ABOVE 1.50 Cr will be divided between States and Centre in the ratio of 1 : 1.
- Proposal is doing rounds that Assesseees may be rotated between centre and state every few years
- Both departments will reserve the right to search premises of any assessee
- Every Person shall be assigned a GST Compliance Score based on its compliance history. This score will be open to public.
- For pre GST matters both departments will create 'Legacy Commissionerates' which will handle past issues

— ONE JURISDICTION

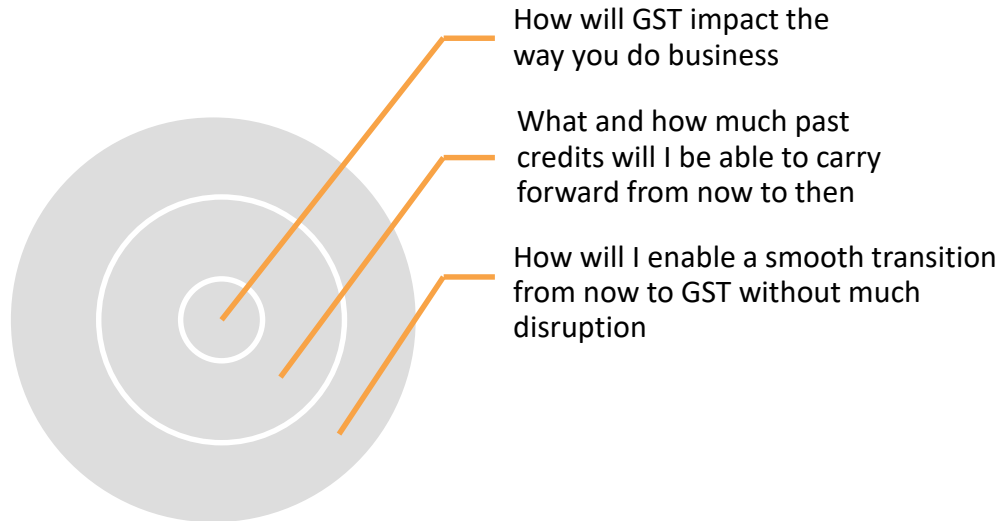
GST Network (GSTN) - SPV

- SPV has been set up to make effective and efficient IT Infrastructure for implementation of GST. **It's a Private Company.**
- Provide common Registration, Return and Payment platform to the Tax payers.
- Assist Tax authorities in improving Indirect Tax compliances and transparency of Tax Administration system.
- Develop Tax Payer Profiling Utility (TPU) for better GST Administration
- Provide efficient Backend Services to the Tax Departments of the Central and State Governments on request
- Carry out research, study best practises and provide Training and Consultancy to the Tax authorities and other stakeholders.
- Partner with other agencies for creating an efficient and user-friendly GST Eco-system
- It will enable macro & micro level sharing of taxes between Centre and State

GOODS AND SERVICE TAX

■ Transition Strategy

Three questions that must raise their heads:



— TRANSITION

How Exactly will GST impact the way you do business

- GST will change the entire character of your business
- Earlier rightly or wrongly taxation drove many business decisions. Under GST it would be a mixed bag. Many decisions would be purely based on business reasons and some other would depend on GST
- Many businesses will face a much higher tax impact than earlier
 - Jewelry
 - Real Estate
 - Infrastructure
 - Textiles
- Many B2C businesses will have to face public ire due to visibility of higher taxes
 - Hospitality & Restaurants
 - Pharmaceuticals
 - Garments
 - Passenger Vehicles

— TRANSITION

Carry forward of Past ITC

Elaborate provisions have been incorporated in GST law for carry forward of past ITC

There is also provision for claiming those past ITC which are not available today but can be claimed under GST with or without duty paid invoices

CENVAT balance carried forward in last return filed in earlier law will be allowed to be taken as credit under GST in some cases

— TRANSITION – Case Study

Trader

1. A trader has a stock of 10 crores worth of goods on 30th June 2017. Indirect Taxes included therein is are as under:
 - State VAT – 50 Lacs
 - Entry Tax – 1 Cr.
 - Excise (he has excise Invoices) – 50 Lacs
 - Excise (he doesn't have excise Invoices) – 75 Lacs

20% of his stock is older then 1 year

Questions:

- a. Which credits will the trader be eligible to take on 1st July?
- b. What if he calculates this scenario 3 months in advance Say in April 2017, would that make any difference?

— TRANSITION – Case Study

Trader

Amt In Lacs

Head	Value	VAT	Entry Tax	Excise (inv)	Excise (no inv)	Total Tax
Stock in Hand	1000					
Stock 1		50			75	125
Stock 2			100	50		150
Sub-Total	1000	50	100	50	75	275
Less: Older than 1 yr	200					
Stock 1		10			15	25
Stock 2			20	10		30
Sub-Total	200	10	20	10	15	55
Eligible Stock	800	40	80	40	60	220
ITC available in GST		40	80	40	24	194

— TRANSITION – Case Study

Real Estate

A builder has an ongoing mega real estate project. On 30th June, 2017 he has WIP of Rs. 25 Cr and Stock of Steel, Cement and other materials – 10 Cr in his books

						Amt In Lacs
Stock Details	Value	VAT	Excise (Inv)	Excise (no inv)	Serv tax	Total Tax
Work in Prog.						
Cement & Steel	1600	150	100	100		350
Other goods	400	50	25	25		100
Works Contract Svs	500				30	30
Sub-Total	2500	200	125	125	30	480
Raw Material in Stock						
Cement & Steel	800	70	50	50	0	170
Other goods	200	30	15	25	0	70
Sub-Total	1000	110	65	75	0	240
Credit Bal in Jun 17					100	100
Grand Total	3500	300	190	200	130	820

— TRANSITION – Case Study

Real Estate – One Possible View

- ITC on stock lying in balance as well as of WIP will not be available to a real estate player
- Credit of Input Services lying unused on 30th June 2017 will have to be written off
- Going forward no ITC will be available under GST
- In cases where tax is paid on advances received but billing/demand note is raised in GST period – GST will have to be paid on the entire value and credit of taxes paid on advances will be available as credit

— TRANSITION

Steps before GST kicks in

- Evaluate exact flow of transaction starting from procurement to production to supply chain to payment cycle fulfillment
- Review of existing / proposed long to medium term contracts – whether they are GST compliant
- Major Capex decisions should be reviewed
- Each transaction field will have to be mapped with existing structure and then steps required to make it GST ready
- IT and Accounting systems will have to be enhanced and made GST ready so that they can switch onto GST from day one
- Companies will have to invest into Training of staff to make them GST aware
- Study costing patterns
- Logistics including product warehousing policies will have to be re-structured
- Status update on pending assessments / audit / scrutiny under existing statutes
- Analysis of indirect tax amnesty schemes

— TRANSITION

Steps a month before GST Date

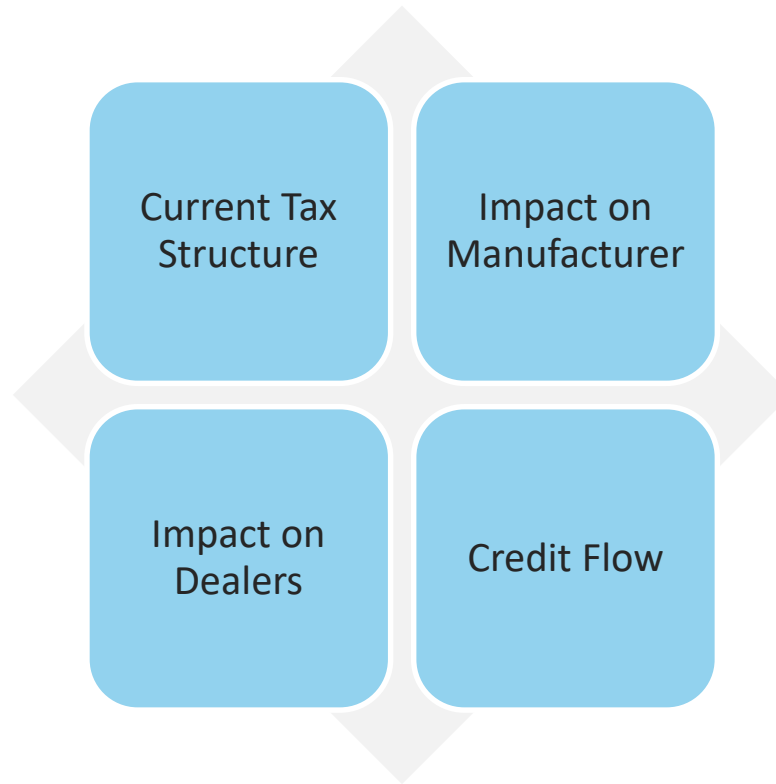
- Review implementation of all steps taken earlier.
- Start following GST developments on day to day basis
- **Calculate the CENVAT credit flow in procurements across product lines so that credit transition is smooth on GST date**
- **Tax Impact on transactions which are already in pipeline**
- IT and Accounting systems should be rolled out and live transaction tests should be conducted
- Dealers/Distributors/major customers must be made aware of new pricing and tax and related policies well in advance
- Procurement channel partners should be kept in loop

— TRANSITION

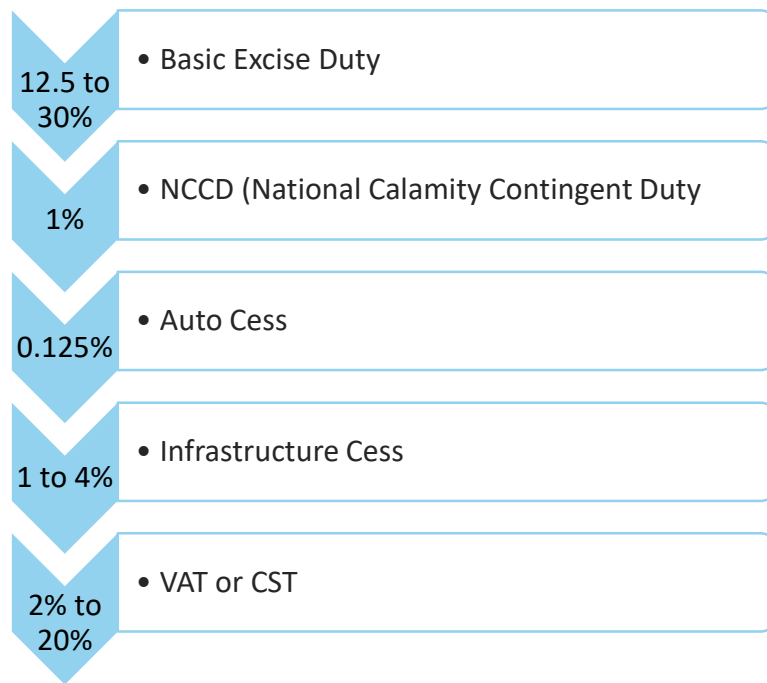
Post Implementation Care

- Registration transition requirements across all states are met
- Keep proper check on IT and accounting systems with a view that legacy issues do not creep in and GST is being properly managed
- Credits under GST are duly availed
- Procurement vendors are fully compliant with respect to availed input tax credits
- Documentation flow is happening as planned
- Relevant compliances are being duly met
- Staff is duly trained in all aspects related to GST

IMPACT ON AUTO DEALERS



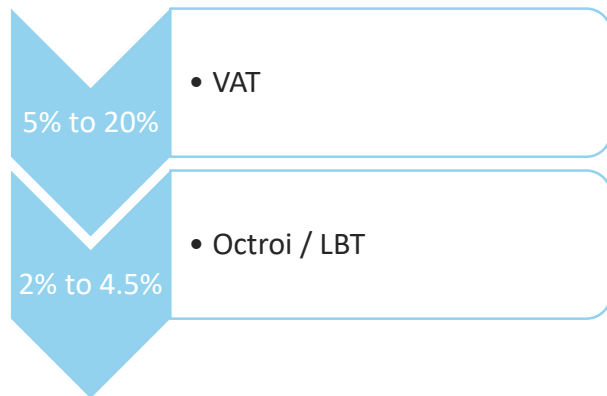
Current Tax Structure - Manufacturer



Impact ranges from 17% to 35% of non creditable tax.

Adding VAT takes it upto 55% – depends on type of car

Current Tax Structure - Dealer



- Impact on consumer is very high as he is not eligible for any input credits of motor vehicle except in a few business and that too is very limited
- Credit of VAT charged by the Manufacturer is available as credit
- However if manufacturer is located outside the dealer state, CST charged by him becomes a cost.

Impact on Sector



Positive Impact

All duties & cesses go away – some of these cess and duties are eligible for ITC

Tax rates on all goods & services will be same across India.

Will be replaced with 2 taxes – CGST and SGST or IGST in case of interstate sales

Commercial feasibility & logistics will be sole decision points



Negative Impact

As the non cenvatable component goes down it will force the government to levy a higher GST **with cess**

Where a dealer doesn't have excise invoice, he will be eligible only for 40% worth of credit paid

Impact on Sale Price of a Luxury we all want

High End Luxury Car					
Head	Current scenario		GST (43%)		Head
	Tax Rate	Value	Tax Rate	Value	
Basic Car Value		70 00 000		70 00 000	Basic Car Value
Basic Excise Duty	27%	18 90 000	28%	19 60 000	IGST
Auto Cess	0.125%	8 750	15%	10 50 000	Compensation Cess
NCCD	1%	70 000	0%		
Infra. Cess	4%	2 80 000	0%		
Total Duty	32%	22 48 750	43%	30 10 000	Total GST
CST	2%	1 84 975			
Total Car Cost		94 33 725		1 00 10 000	Total Car Cost
Total Tax Cost	35%	24 33 725	43%	30 10 000	Total Tax Cost
Landed Cost		94 33 725		70 00 000	
Dealer Margin		5 00 000		5 00 000	
Basic Sale Value		99 33 725		75 00 000	
VAT	20%	19 86 745	43%	32 25 000	GST (CGST+SGST+C Cess)
Price to Consumer		1 19 20 470		1 07 25 000	
Total Tax Cost (Value)		44 20 470		11 95 470	Reduction in Price
Total Tax Cost (%age)		63%		17%	Percentile Reduction

Some questions that need answers

- Manufacturers need to clarify pricing policies well in advance
- Will the dealers be eligible to take credit of excise duty components on the stocks lying on 30th June 2017. This is essential because entire stock will be taxable under GST
- If yes, major car manufacturers don't give excise invoices – dealers will have to convince such manufacturers to give excise dealer invoices as credit will be available if documents are in place.
- In case excise invoices are not in place, dealers will be eligible to take credit at a prescribed rate

— HOW CAN WE HELP . . .

GST Impact Study & Transition

- Mapping existing scenario and GST impact assessment
- Re-modelling of Business Structures
- Restructuring of IT and Accounting system
- Recommend processes to make business GST ready
- Designing documentation frameworks
- Review and structure Capex and material procurement processes
- Training services

GST Advisory and Support

- Tax Planning
- Review of GST implementation model
- Provide advisory on real time basis
- Compliance handling
- Handling issues with department/s
- Litigation handling

GST PROMISE ?



QUESTIONS



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