

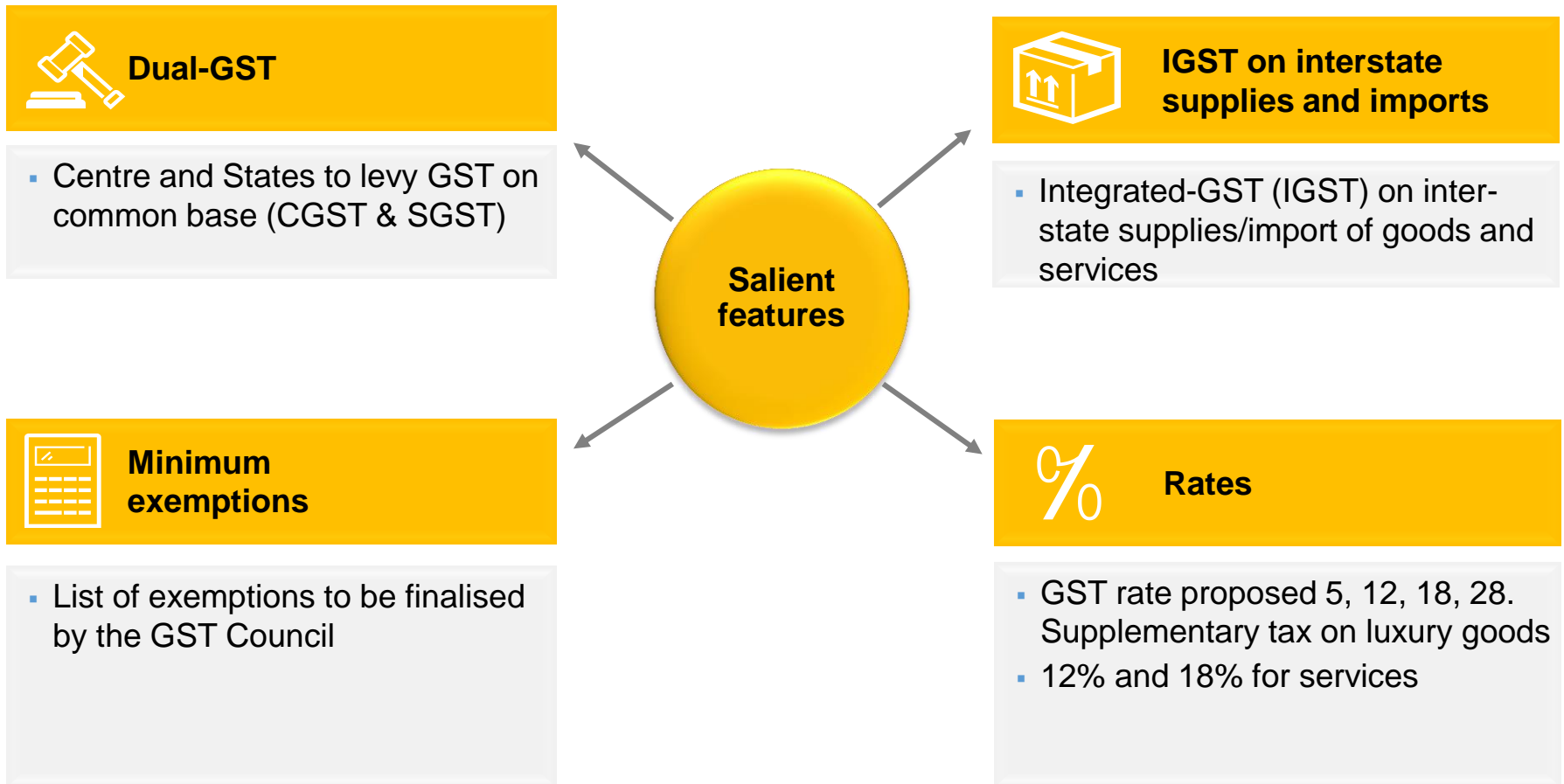
An aerial photograph of a city skyline at dusk. The sky is a mix of light blue and orange. In the foreground, there are several buildings, including a large, ornate, light-colored building on the left and a tall, modern glass skyscraper in the center. A yellow semi-transparent overlay covers the right side of the image, containing text.

# **Goods and Services Tax**

*Overview and Impact Analysis*

**CA Neeraj Menon**

# THE PROPOSED GST FRAMEWORK IN INDIA



***Legislations to be enacted: CGST, IGST and respective SGST/ UTGST***

# TAXES SUBSUMED

## Central Levies

### Current Indirect Taxes

Basic Customs  
Duty

Central Excise  
Duty

Service Tax

Special  
Additional duty

Additional duty  
of Customs

Central Sales  
Tax

### Under GST

Basic Customs  
Duty

Central /  
Integrated GST

Integrated GST

## State Levies

### Current Indirect Taxes

State VAT

Entry tax

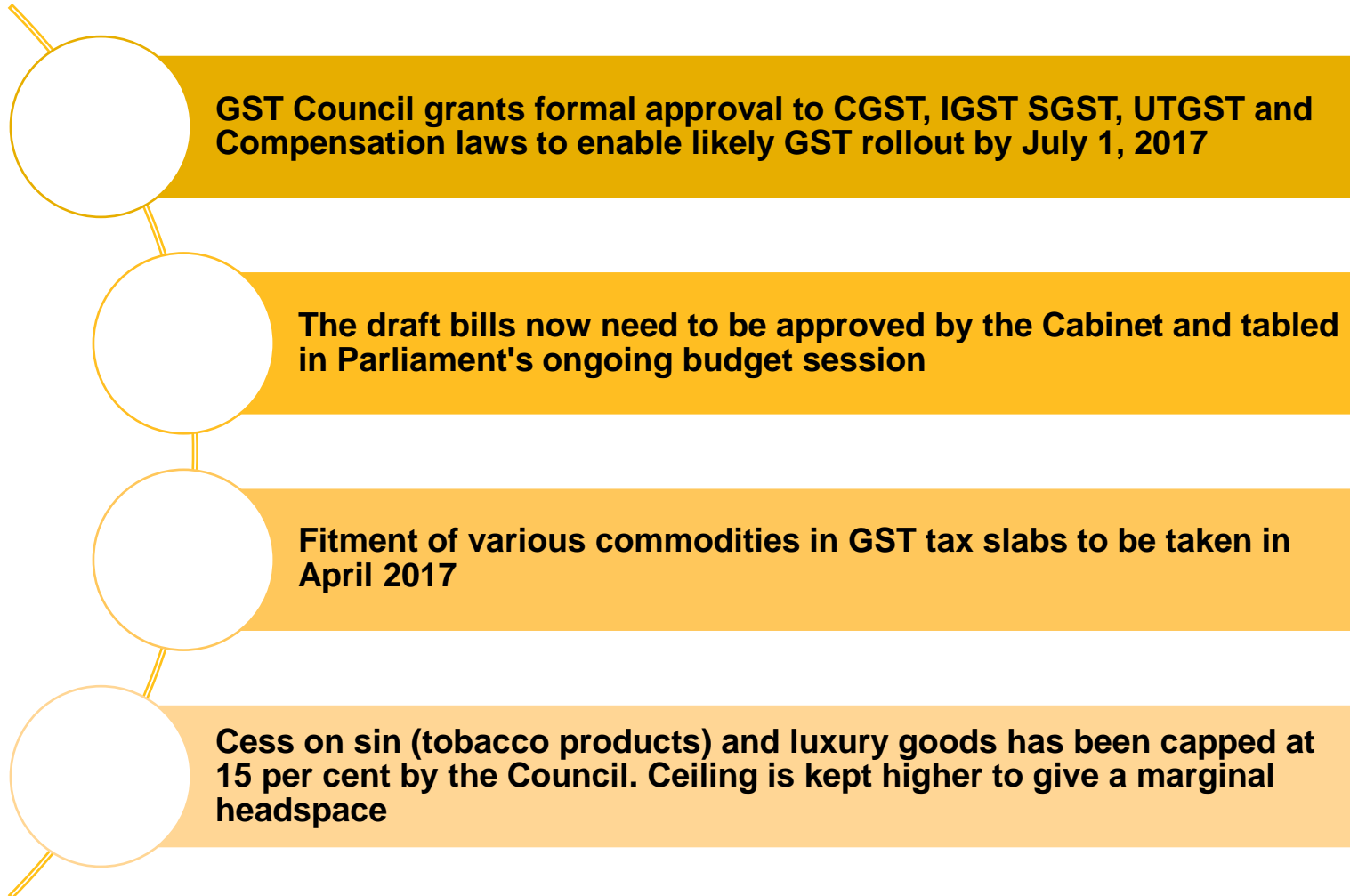
Luxury Tax

Entertainment Tax

### Under GST

State GST

# **GST Update: Government is working towards the July 2017 deadline for GST roll-out**



# Destination Based Consumption Tax: GST

## Taxable Event:

- ✗ Manufacturing of **Goods**
- ✗ Sale of Goods
- ✗ Point of Taxation of Service
- ✓ Supply of Goods and Services

### Intra-State Supply

- Central GST
- State GST

### Inter-State Supply

- IGST

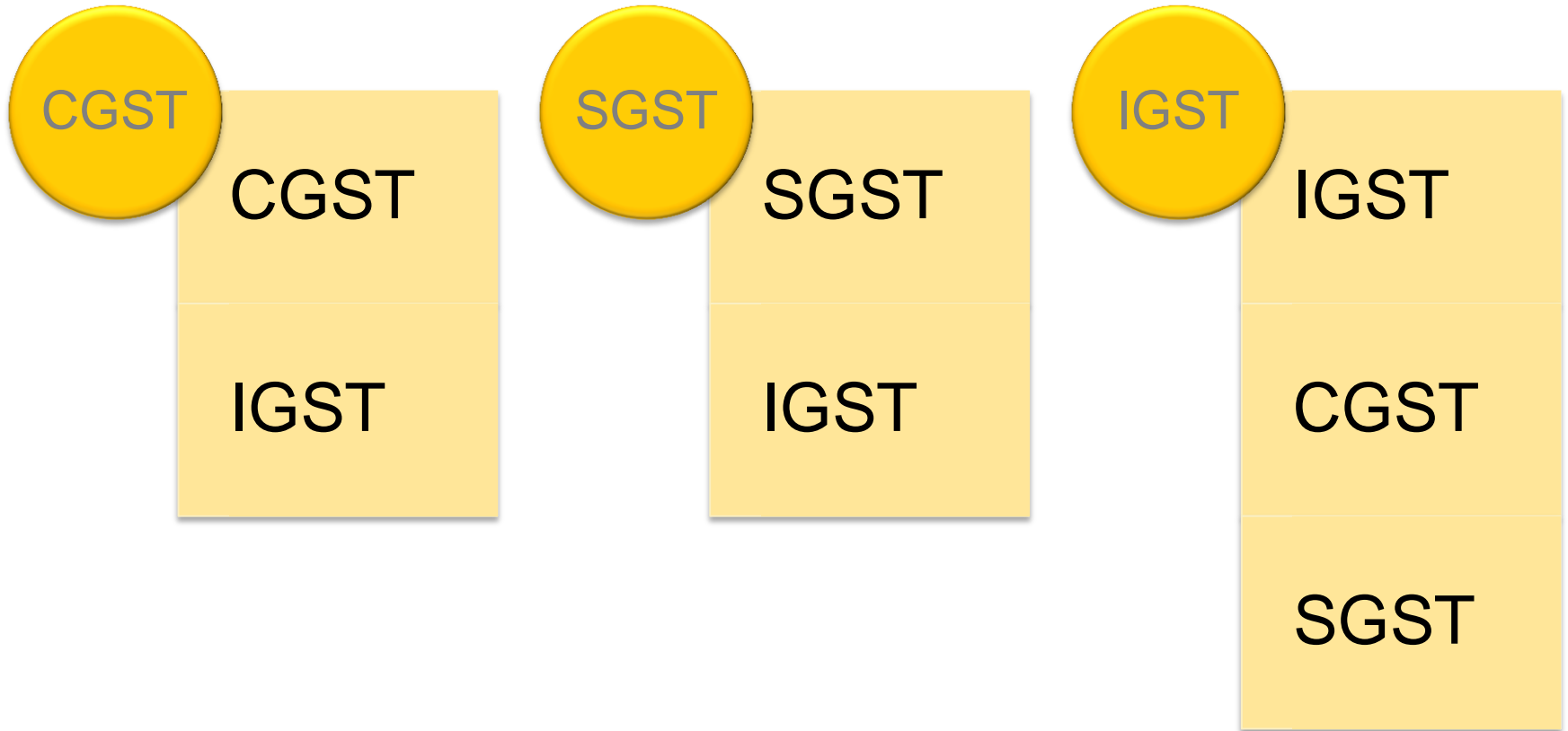
### Import

- Basic Customs Duty
- IGST (To replace CVD and SAD)

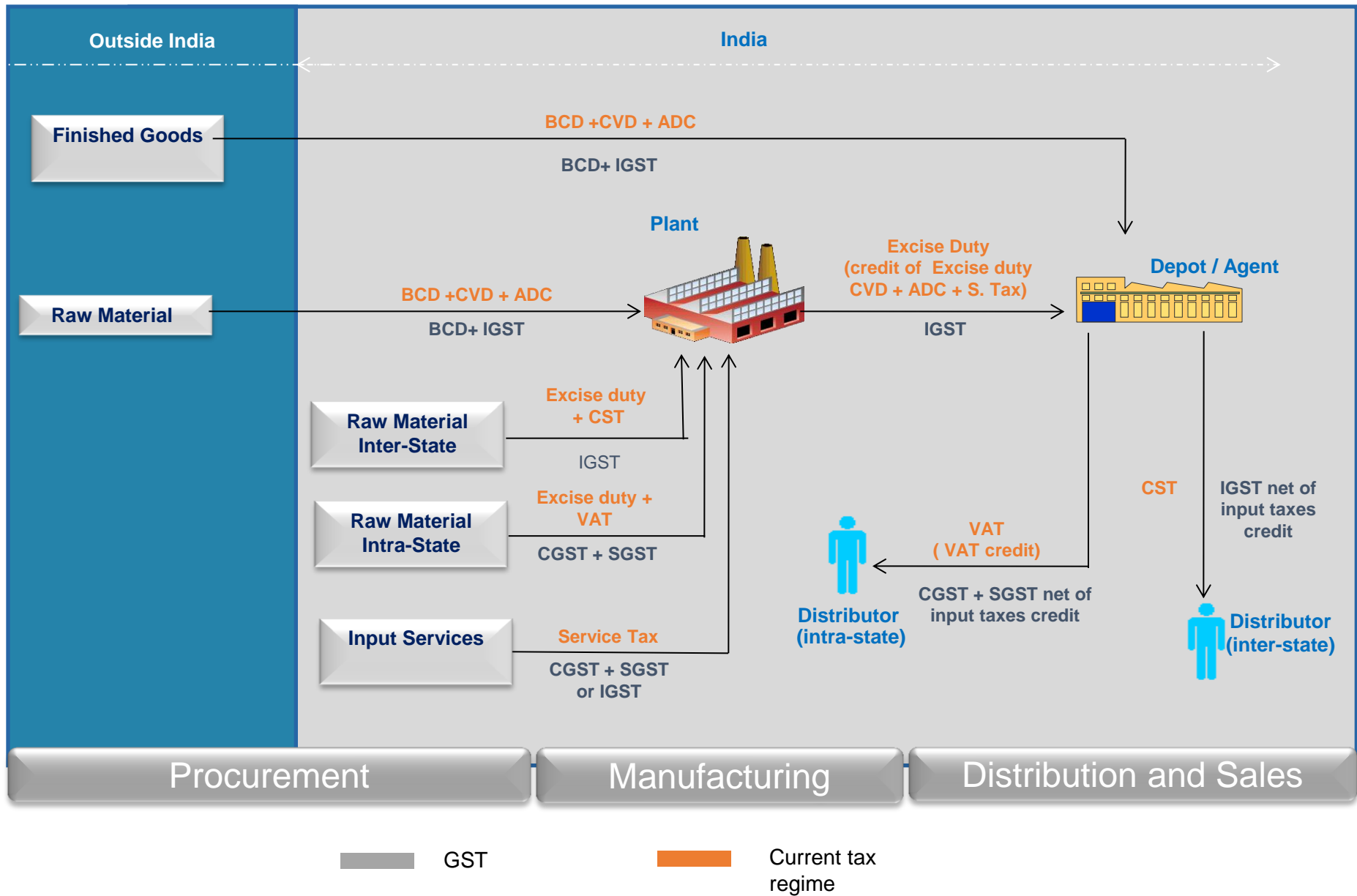
### Exports

- Zero rated

# Input Tax Credit Mechanism



# Supply Chain – A Layout



# GST - KEY IMPACT AREAS





# KEY IMPACT AREAS

## Sales

- ▶ Pricing: Reconsidering the price of the supplies considering the impact of GST on cost
- ▶ Discounts and Promotions: Assess impact on incentives/ discounts
- ▶ Costing: Lower tax cascading likely to benefit input cost structures which needs to be incorporated in the cost of goods sold
- ▶ Marketing and promotion: Review of marketing and promotion schemes considering GST impact

## Purchase

- ▶ Ordering: Requisite changes in the Purchase requisitions, Purchase order process
- ▶ Contract management: Contractual Agreement between parties to be re-considered. Also, need to incorporate changes in Purchase orders and in agreements
- ▶ Costing: Reconsider the price of the goods basis the likely benefit of input cost structures to the supplier
- ▶ Vendor Induction and education: Need to educate and/or conduct inductions for invoicing, tax rate, compliance structures etc.

# KEY IMPACT AREAS

## Valuation

- ▶ Valuation of Inter-unit transfers and cross service charges
- ▶ For valuation of related party transaction, concept of arm's length pricing introduced for the first time for supply of goods and services as against existing VAT laws and Service Tax law - May likely to continue
- ▶ Interest or late fee or penalty for delayed payment of any consideration for any supply will form part of value of supply

## Stock Transfers

- ▶ Companies having manufacturing plant in other State and warehouses in other States, requiring frequent stock transfers from factory to warehouses or from one warehouse to another
- ▶ Currently, on stock transfer on goods from factory, Excise duty is payable, however, no VAT/ CST is paid
- ▶ Further, Central Excise provides specific Valuation Rules to determine the value for the purpose of computation of Excise duty
- ▶ Under GST, firstly for inter-State stock transfer, IGST will be required to be paid; secondly, the valuation of stock transfer could be a challenge

# KEY IMPACT AREAS

## Input Tax Credit

- ▶ Every registered taxable person eligible and utilization of credit as follows:
  - ▶ CGST – CGST and IGST
  - ▶ SGST – SGST and IGST
  - ▶ IGST – IGST, CGST, SGST
- ▶ Eligible and non-eligible credits to be identified
- ▶ Input Service distributor (ISD) mechanism provided in GST law

## Transition credits

- ▶ As per the model GST law, during transition to GST, a registered taxable person shall be generally allowed to take credit of only such goods which were eligible for credit under both the regimes (other than exceptions now provided in revised law)
- ▶ In case of specified situations, excise duty/VAT paid on inputs lying in the stock would be allowed to be taken as credit under GST subject to the condition that benefit of such credit is being passed on to the customer.
- ▶ Credit of Services consumed but not paid in old regime subject to payment in 60 days from date of effect.
- ▶ The credit of goods in transit will be allowed upto period of 30 days from appointed date.
- ▶ Inventory levels throughout the supply chain would need to be optimized, given business requirements, especially at fiscal year end

# PREPAREDNESS FOR GST



# GST Impact Study - Preparedness

- ▶ Study of Financial Statement
- ▶ Study of Revised Model GST law & recent development on GST
- ▶ Determining period for GST impact analysis - Comparable should be available
- ▶ Assumptions to be taken such as Rate of Tax
  - ▶ What if scenario for different GST rate
- ▶ Key determining factors:
  - ▶ Treatment of Advances
  - ▶ Availability and eligibility of input credit
  - ▶ Cash flow impact
  - ▶ Place of supply Rules
  - ▶ Transitional credit
- ▶ Anti-profiteering clause and its impact

# GST Impact Study - Key findings

- ▶ Transaction mapping in present and proposed regime
- ▶ Financial impact - Cash Flow and cost of capital
- ▶ Impact on input credit - increase/ decrease in input credit
- ▶ GAP analysis of supply chain, IT, existing business processes etc.
- ▶ Key readiness tasks:
  - ▶ Migration to GST registration
  - ▶ Identification and compliance for transitional credit
  - ▶ Key vendor and customer training
  - ▶ Update IT system/ ERP
  - ▶ Strategy for issues such as goods in movement on appointed day
  - ▶ Handholding for first GST return



THANK YOU