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DPNC Insight  
Gearing Up for GST

# GEARING UP FOR GST

## WHAT IS GST?

GST is a comprehensive value added tax on goods and services. It is multi-point indirect tax levied and collected on value addition at each stage of sale/ purchase of goods and services based on input tax credit method without state boundaries. It is a destination based consumption tax levied at every stage of production-distribution chain. It provides seamless credit of input tax across entire supply chain.

## STRUCTURE OF GST IN INDIA

Aligned with the principle of cooperative federalism enshrined in our Constitution, GST model is proposed to be a dual structure to be levied and collected by both the Union and the States. The tax to be administered and collected by the Central Government would be termed Central Goods and Services Tax (CGST). The tax to be administered and collected by the State Governments would be termed State Goods and Services Tax (SGST). The inter-state supply of goods and services would be governed by Integrated Goods and Services Tax (IGST) to be administered by the Central Government. This dual GST model would be implemented and governed by one CGST / IGST statute applicable across the country and an individual SGST statute for each state. However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification, etc. would be uniform across all statutes. This implies that the Centre and the States would have concurrent jurisdiction over the entire value chain.

To provide seamless credit of input tax across entire supply chain, taxes paid on input goods / services against CGST and SGST shall be allowed as input tax credit

(ITC) against output tax liabilities under CGST and SGST, respectively. Cross utilization of ITC between CGST and SGST shall not be allowed except in the case of inter-state supply of goods and / or services. Input IGST shall be set off against output IGST, CGST, SGST, in that specific order. Imports into India will be liable to tax under IGST, whereas exports will be zero-rated.

## **THE 122<sup>ND</sup> CONSTITUTIONAL AMENDMENT BILL, 2014**

The GST bill basically seeks to amend the Constitution to empower both the Centre and the States to levy GST. The proposed GST would subsume various central (Excise Duty, Additional Excise Duty, Service Tax, Countervailing or Additional Customs Duty, Special Additional Duty of Customs, etc.), as well as state-level indirect taxes (VAT/Sales Tax, Purchase Tax, Entertainment Tax, Luxury Tax, Octroi, Entry Tax, etc).

The 122<sup>nd</sup> Constitutional Amendment Bill, 2014 was finally passed in the Rajya Sabha on 3<sup>rd</sup> August, 2016. It paved way for what is popularly referred to as the concept of “one nation, one tax.”

The next steps include ratification of the Bill by the state assemblies; assent by the President of India; formation of GST Council; passing of CGST, IGST, SGST laws by the Centre and the States, respectively. While this all would require some time, Finance Minister Shri Arun Jaitley is optimistic about getting it in place by April 1<sup>st</sup>, 2017 or mid 2017.

## **SOME GST BENEFITS TO THE ECONOMY**

- Create one common / single Indian market.
- By providing seamless credit of input tax across entire supply chain, it will remove the cascading effects of tax, thereby reducing the cost of indigenous

goods and services and making them more competitive in the international market

- Simplified tax structure, rates and procedures across the country will lead to reduced compliance and administration cost.
- It aims to bring about harmonization and uniformity in the indirect tax regime.
- Considered as a progressive system of taxation, it will bring Indian taxation system at par with system existent in developed countries
- Widened tax base through promoting voluntary compliance.

## **GST RATE**

As per the report of the chief economic advisor, a revenue neutral rate at 15-15.5% and a standard GST rate (to be applied on all goods and services) at 17-18% have been recommended. The GST rate shall be prescribed by the GST Council constituted within 60 days of the enactment of the Constitutional Amendment Bill, 2014. At present, no GST rate has been finalised as GST Council is yet to be formed. However, going forward it is being proposed to keep the rate between 12-20%.

## **TRANSITION TO GST**

As we finally prepare for GST coming into force, we will need to gear up for the following:

For smooth transition to GST, businesses need to adopt a structured and integrated approach. Dissemination of information is the first step towards creating awareness about GST and understanding the provisions thereunder.

## **I. GST IMPACT AREAS**

- a) Indirect Tax Impact Assessment
- b) Supply Chain
- c) Accounting and Reporting
- d) I.T upgradation
- e) Compliances
- f) Management and Training

## **II. TRANSITION TO GST**

- a) Creating knowledge-base about the provisions of GST, GST structure, mode of operation, implications.
- b) Industry specific issues to be addressed.
- c) Designing supply chain models to take the benefit of GST provisions in respect to subsuming of current indirect taxes, e.g. CST / Octroi etc.
- d) Changes to be made in accounting systems, book keeping, documentation incorporating new registration details.
- e) IT Infrastructure for capturing data, reporting, compliance under GST
- f) Map the transactions to ensure input credit optimization.
- g) Review costs / expenses from the perspective of procurement / distribution.
- h) Goods lying with the consignment agent.
- i) Review cross-border transactions and impact on costs due to GST.
- j) Assessing Working Capital needs based on GST liabilities.
- k) Switch over to / from composition scheme
- l) Pending refunds / litigations
- m) Specific provisions relating to transition from the existing indirect tax laws to the new GST provisions would involve:
  - Computing the incremental tax impact on the existing supply chain

- Making a list of creditable and non-creditable taxes
- Recoverable taxes
- Carrying forward of available / un-utilised CENVAT credit.

Transition needs planning and can only be done by engaging the concerned employees, conducting extensive training sessions, providing detailed compliance manuals and practical action points.

### III. **IMPLEMENTATION**

- a) Automatic registration of existing tax payers on a provisional basis.
- b) New registration in case of different business verticals, more than one place of providing services.
- c) Carry forward of unutilized credits – reviewing it vis-à-vis admissibility in the current GST law.
- d) Availment of credit on stocks (Input /Input Services /Finished Goods) available on the day preceding the date of implementation of GST on account of new registrations.
- e) Upgrading the IT Systems to make them in sync with GST.
- f) Revising tax clauses in long term contracts.
- g) Structuring procurement policies to get cost optimization.
- h) Reviewing warehousing facilities in light of new provisions.
- i) Reviewing contracts with vendors supplying inputs/Input Services.
- j) Registration as Input Service Distributor.

The economic impact of GST is expected to include lower price of capital goods, improved resource allocation, improved competitiveness leading to higher total productivity and a boost to the economy.

#### **IV. PLANNING / ACTIONS**

##### **GST Impact on Costs**

- Additional Tax
- Cross Credit Availability
- Impact on Working Capital
- Multiple Tax Reductions

##### **Supply Chain Management**

- Additional Tax
- Multiple Registration
- Human Resource for Decentralized Registrations / Assessments
- Capacity Building
- Working Capital Blockage
- Compliance Cost
- Handling Line Item Data
- Multiple registration, Returns
- Reconciliation

##### **Managing Finance**

- MIS
- Branch Transfer /Consignment Sale
- Credits lying at Multiple Registration
- Purchase by Export / Exempted Units

## **Compliances**

- Multiple Return for each registration
- Separate Assessment
- Multi – authority
- Implementation
- Transition to GST

We need to gear up swiftly to meet the requirements of transition to GST - the biggest reform in the field of taxes in the country.

Prime Minister Shri Narendra Modi has said that the passage of the enabling legislation for GST marked a major step towards "freeing India from tax terrorism" and in helping curb black money and corruption and in making "the consumer, the king."

The Prime minister also projected GST as a social-economic leveler."In our country there is a disparity between developed and undeveloped states. GST will help the underdeveloped states in a big way." Maintaining that "the optimum use of men, machine, money, material and minute (time), will maximize India's growth", he said, "GST will provide a great platform" towards that and will "bring credibility to the federal standards".

## **DISCLAIMER**

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