



Analysis of the GST Law: Is your business prepared for the change?

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GST rollout - timelines

GST Constitution amendment came into effect from *16 September 2016*

Constitution of GST Council

Further steps



Enactment of GST legislation by Centre and States

(expected by early December 2016)

Commencement of GST regime

(from April 1, 2017)

This leaves only three months to prepare for GST transition

Government geared for 1 April 2017 GST roll out

Detailed FAQs on the model GST law, vetted by officers of the Central and State Government, released on 21 September 2016

Deliberation on **Compensation formula** for revenue loss to states

Draft GST Rules approved by GST Council on 30 September 2016

Consensus on the GST rates achieved, NIL, 5%, 12%, 18% and 28% + Cess on demerit goods

Union Budget 2017 – preponed to 1 February 2017 in preparation for GST regime

GST Enrollment of existing taxpayers - GSTN Portal made operational on 8 November 2016

Amended Model GST draft law, sent to States for comments and released in public domain

What is changing - taxation structure fundamentals

Dual GST structure, with equal power to Centre and State to levy tax on all transactions

Single destination based consumption tax, subsuming multiple taxes

Common and consistent tax structure across India, ease of doing business

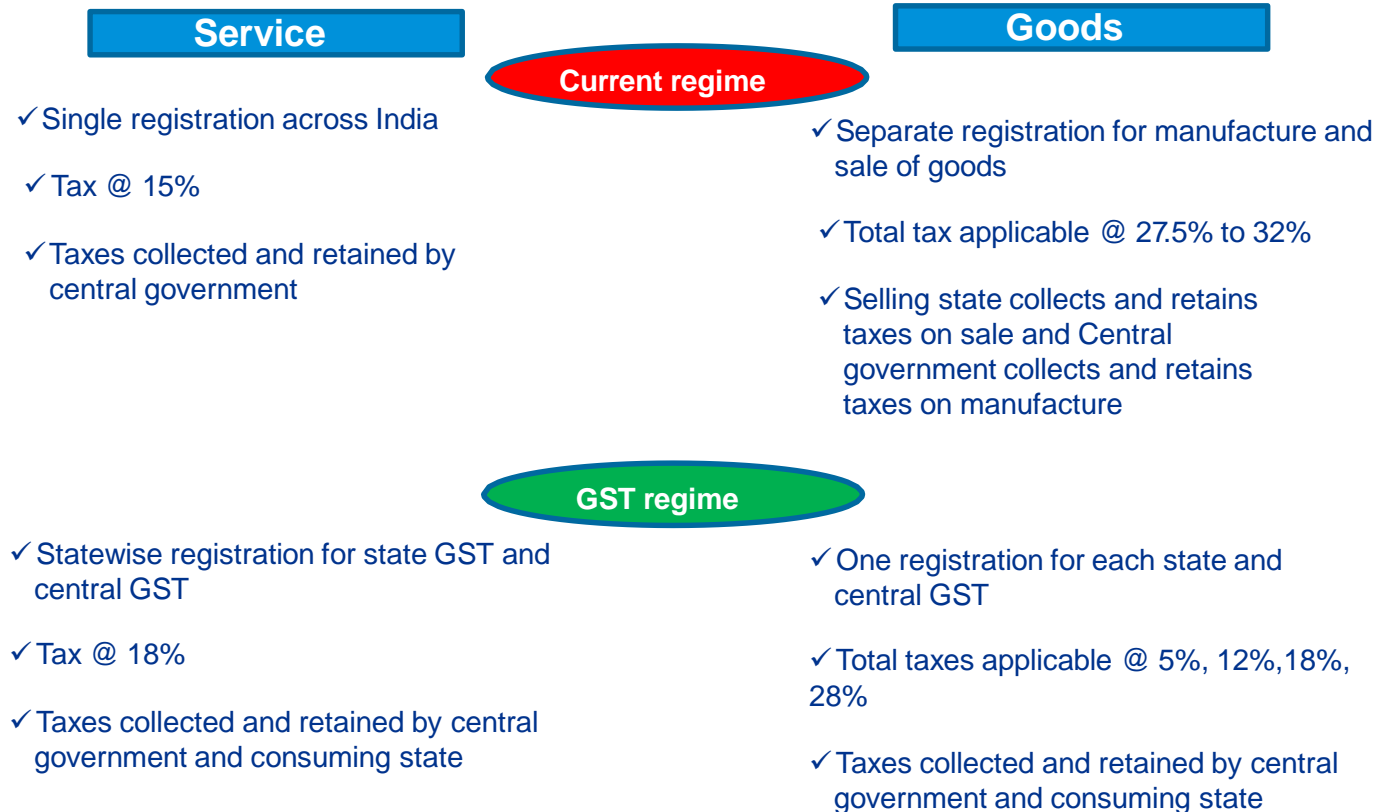
Proposed 'seamless' credit regime **eliminating cascading effect of tax**

Ease of compliance with online filing and eliminating physical interaction

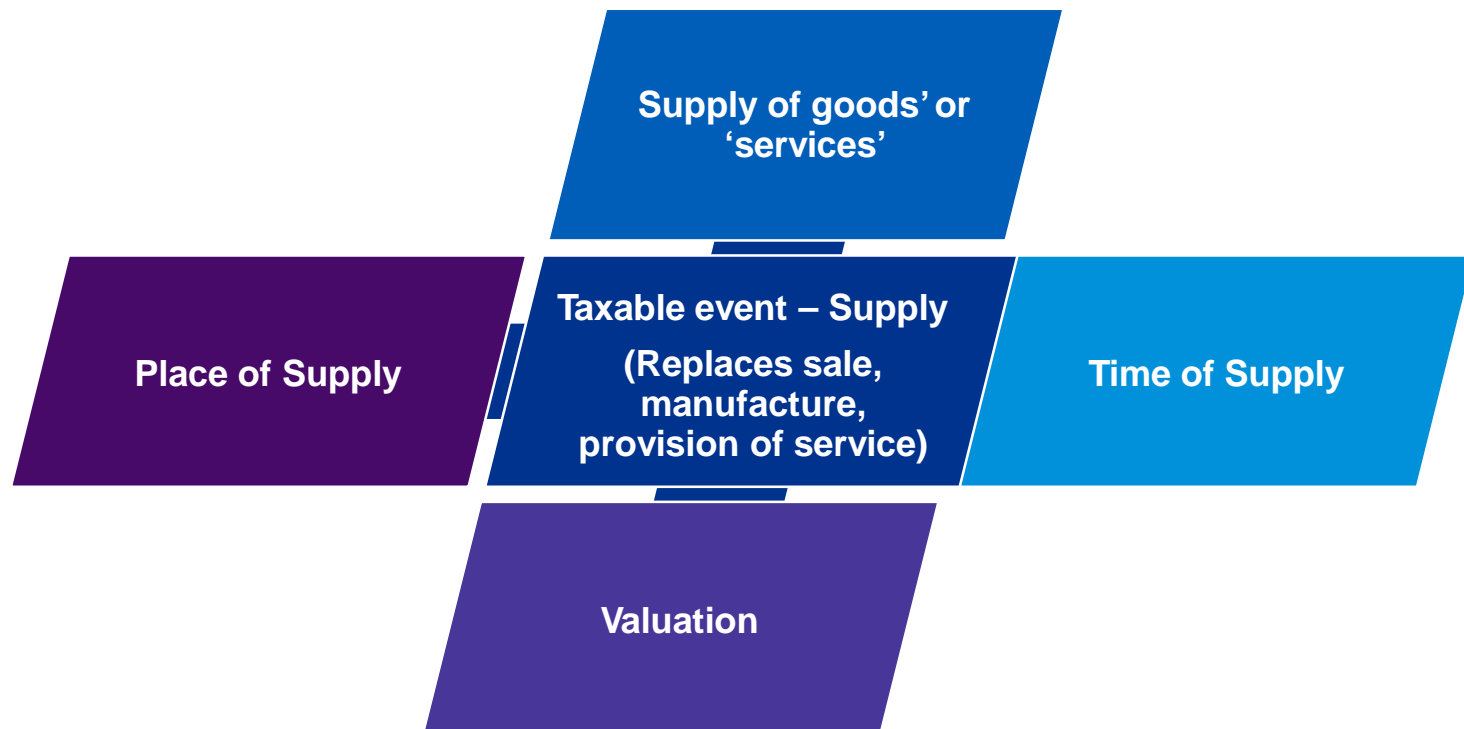
Business decisions based on **commercial parameters**, rather than tax considerations

Widening of tax base with integration of all taxes and interlinking of transactions

GST - What is changing



How does it impact -elements determining taxation



Supply

Services means anything other than goods

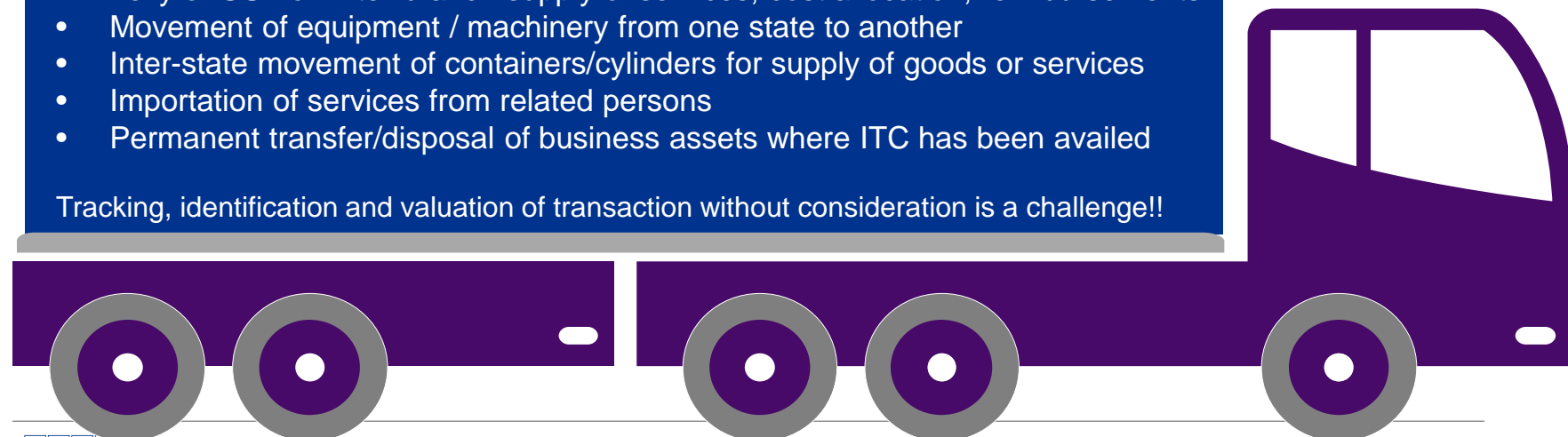
- Levy of GST on actionable claims, immovable property
- No levy of GST on securities



Free supply of goods/services to attract GST (between related/distinct persons)

- Levy of GST on inter-state stock transfer of goods
- Levy of GST on inter-branch supply of services, cost allocation, reimbursements
- Movement of equipment / machinery from one state to another
- Inter-state movement of containers/cylinders for supply of goods or services
- Importation of services from related persons
- Permanent transfer/disposal of business assets where ITC has been availed

Tracking, identification and valuation of transaction without consideration is a challenge!!



Place of Supply



Different place of supply for Import/Export and local freight/courier transactions:

- Place of performance
- Destination of goods
- Location of recipient
- Pick up location



Supply of hotel and convention/events – Place of event/ /Convention/ accommodation –

- Impact on B2B credit if not registered at such place



Place of supplier of services for

- Intermediary services
- Banking/financial services
- Hiring of means of transport

Negative impact on marketing support services



Separate place of supply rules where supplier or recipient of services is located outside India

- Difficulty in tracking and mapping differential place of supply

Classification



Composite Supply / Mixed Supply of services and/or goods

Freight, Terminal Handling Charges, Inland Haulage Charges

Packaged tour

Transportation/insurance along with supply of goods

Supply of variety of goods/services



Impact of classification on

Rate of tax

Place of supply

Time of supply

2 digit and 4 digit HSN code in invoice

Valuation

Invoice value need not necessarily be the transaction value – Several additions to be made

Subsidies provided by government excluded from the taxable value

Discounts to be allowed as deduction from taxable value –

- **If duly recorded in invoice**
- **Post supply discount if pre-agreed and proportionate credit reversed**



Valuation of stock transfer of goods and services

Whether GST is payable on the actual sale price to customer or at a landed cost

Interest or late fee or penalty for delayed payment

Input tax credit

Restriction on Input Tax Credit

- **Works contract services when supplied for construction of immovable property (other than plant and machinery)**
- **Goods or services received by a taxable person for construction of an immovable property, other than plant and machinery, even when used in the course or furtherance of business**
 - ✓ **Negative impact on construction of building, malls, commercial/office spaces, industrial construction**

Motor vehicles/other conveyances (except when used for specified purpose)

Goods/services used for personal consumption

Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples

Expenses incurred for use by employees such as food and beverage, outdoor catering, insurance

Denial of Input Tax Credit on default in payment of tax or non-compliance by supplier

Online matching of inward and outward supply for allowing credit

Credit needs to be reversed with interest if payment is not made to the supplier of services within 3 months

IT and compliance

State wise single GST return

State-wise registration for State GST and Central GST and rigorous return process

Change in tax master, vendor/customer master, item master etc.

Transitioning of customer/vendor in the GST regime

Reporting and matching of transactions between input and output

Reconciliation and closure with vendor and customer on mis-match reports

Denial of credit due to mis-match or variation in details

State wise annual return alongwith audited copy of annual accounts and reconciliation statements

Significant increase in compliance for service companies

Anti-Profiteering Measure

- **Authority to be constituted to ensure Anti-Profiteering**
- **Objective is to assess whether a reduction in price is commensurate with the benefits on account of lower GST rate and higher Input tax credit**

- **Provision aimed to control expected rise in inflation on account of GST**



Authorities to assess and levy penalty if price being charged has not been reduced

Maintaining records to substantiate reduction in price highly cumbersome

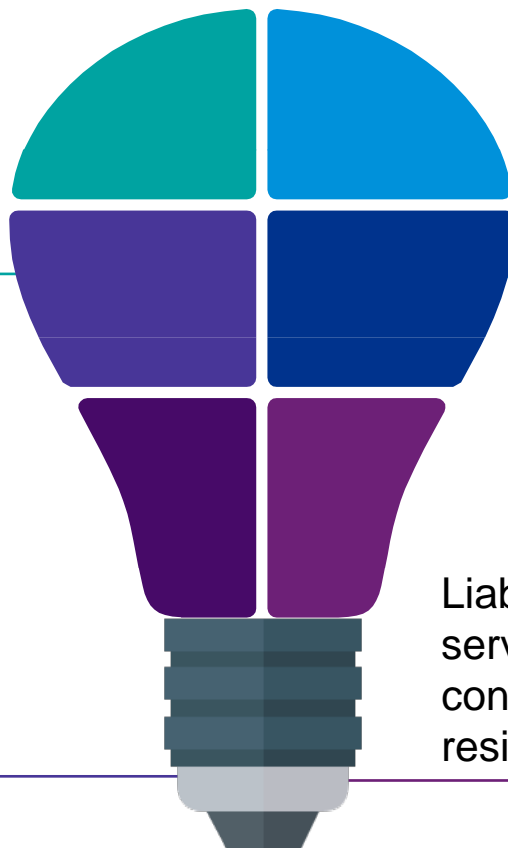
Electronic Commerce Operator

Electronic commerce operator liable to Collect tax at Source at the rate of 2% on net value of taxable supplies


Electronic commerce operator responsible to submit details of transactions effected on their portal

For specified categories of services, obligation on the electronic commerce operator to register and discharge GST

Liability to pay GST on digital services provided to unregistered consumers in India by a non-resident service provider



Impact on manufacturing/trading sector



Seamless tax credits and price competitiveness in domestic and export market



Opportunity to drive supply chain efficiencies

Network/warehousing optimization



Impact on price/margin


Impact of tax rate changes

Supplies to SEZ to be zero rated



No provision for credit of closing stock on transition date to a trading company

Impact on services sector




Compliance requirement multiplies for financial services sector

Ambiguity on inter-unit supply valuation




Tax on actionable claims - negative impact

Litigation around dual taxation resolved for IT sector

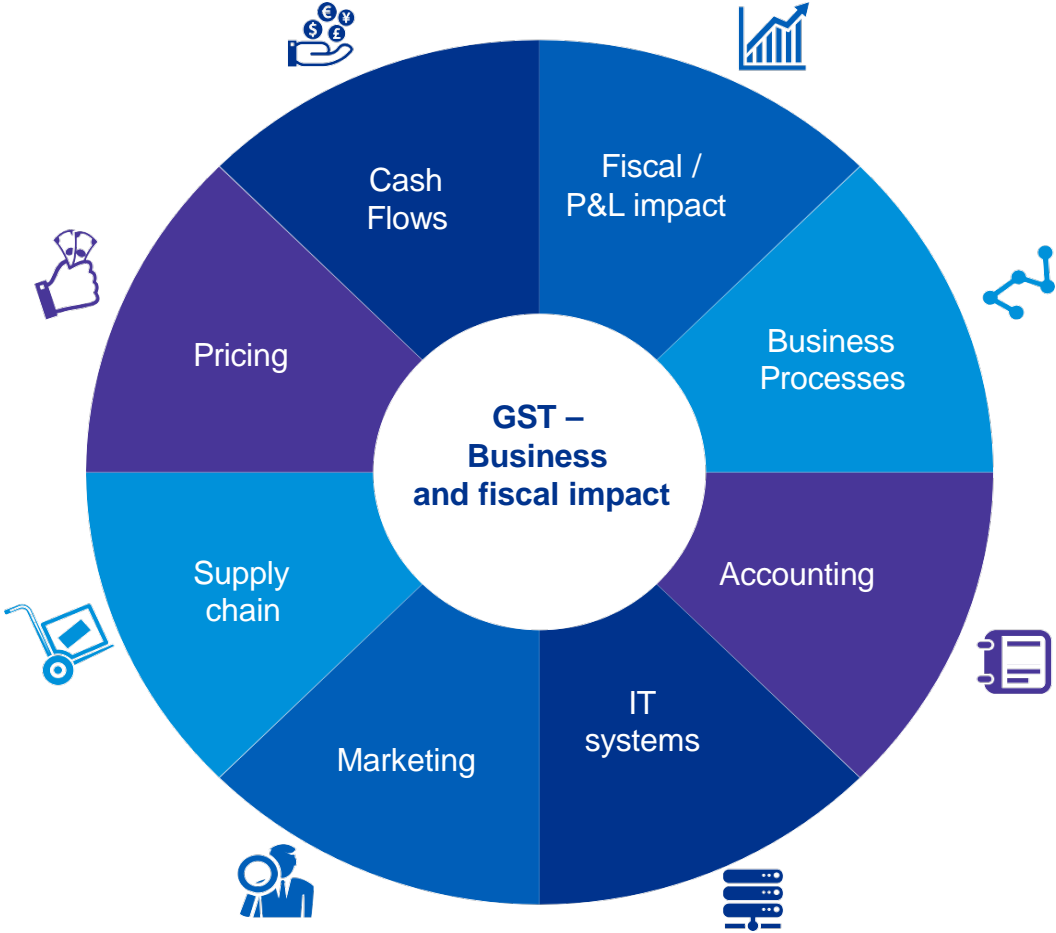


Entertainment tax along with service tax and VAT to get subsumed in GST – thereby reducing tax cost for Media and entertainment sector

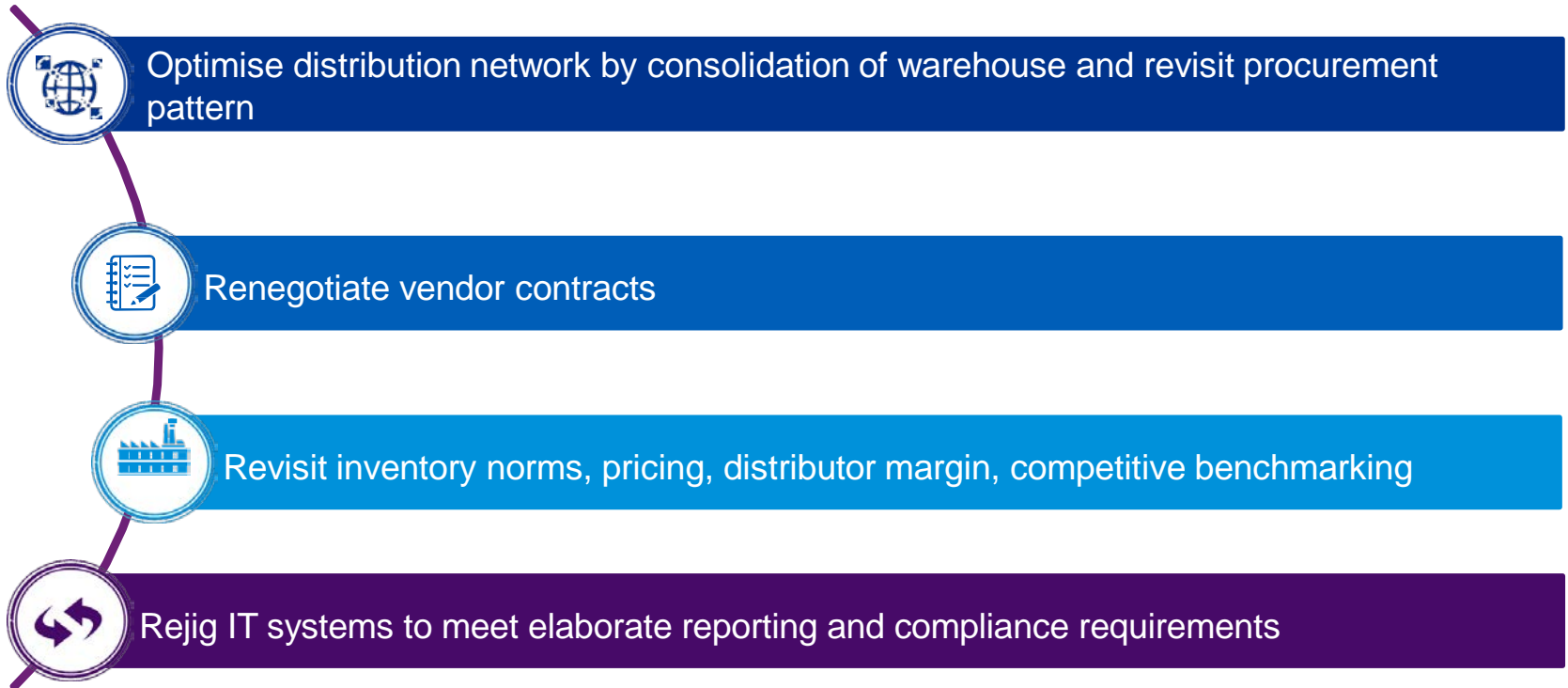


Possible cash flow impact due to conversion of exemption into cash refund scheme

Multi-dimensional impact on business



GST: A business transformation opportunity

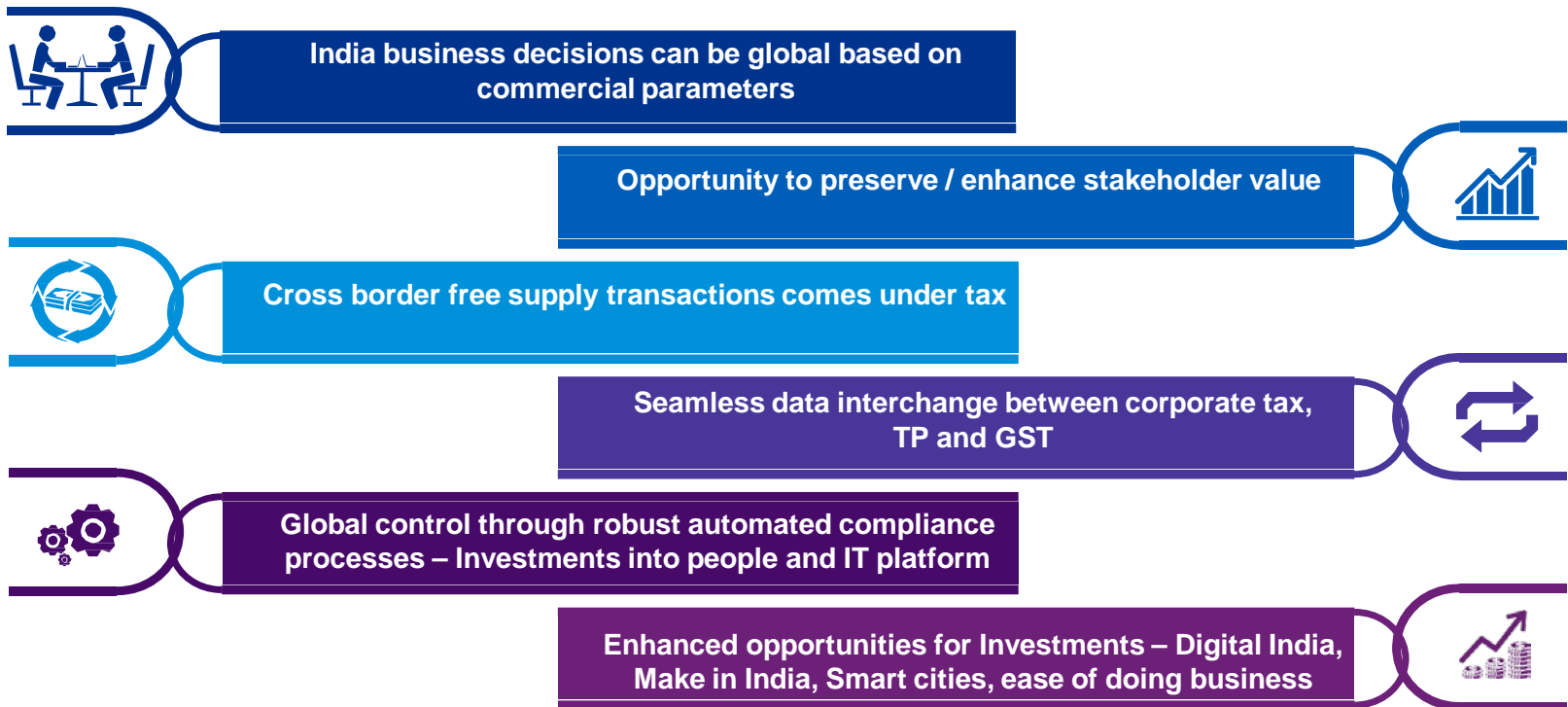


What do I need to do and how much time do I have?



Representation to government if the industry requires additional time to be GST ready

Need for a spotlight on India by overseas HQ





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