

# PARADIGM SHIFT IN BUSINESS

# GST

**1** COUNTRY  
TAX  
MARKET

# Road Map for GST Implementation by Lawmakers

**Constitution (122nd Amendment) Bill, 2014** Proposed Article 366(12A): “Goods & Services tax” means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. To be extended to crude, diesel, petrol, natural gas and ATF from a date to be notified on recommendation of the GST Council. Not yet extended to UT without Legislature.

## Legal Framework

01

- ✓ Constitution Amendment
- ✓ Ratification by 50% States
- ✓ Presidential Assent
- ✓ Notification in Official Gazette
- ✓ Formation of GST Council
- ✓ Model GST laws by GST Council
- Cabinet Approval for the CGST and IGST laws by Centre and for SGST laws by ALL states
- Passage of CGST and IGST laws in the Centre and passage of SGST laws in ALL states: Winter Session 2016
- Notification of GST Rules

## Training on GST Laws

03

- ✓ **Phase I:**  
Source Trainer's workshop (25 officers)
- ✓ **Phase II:**  
Master Trainer Sessions (350 officers) –**Aug'16**
- **Phase III:**  
Trainer Sessions (1000 officers)–**Oct'16**
- **Phase IV:**  
Last leg training sessions (60,000 officers): **Dec'16**  
Training on GST IT systems: To be held in similar pyramidal structure by GSTN: **Dec'16 –Mar'17**

## IT Infrastructure

1. Development of GST Frontend and Backend by GSTN: **Dec'16**
2. CBEC's Backend systems: **Nov'16**
3. Backend systems of Pr. CCA, Banks, RBI & State accounting authorities: **Nov'16**
4. Testing & integration: **Jan–Mar'17**

02

## Change Management

Outreach & sensitisation for Trade & Industry: Stakeholder consultation and outreach workshops to be organised across the country **Mar'17**

04

Roll Out  
of GST  
1<sup>st</sup>  
Apr'17

## What Are the Taxes Under GST?

### Central & State Taxes to be subsumed in GST

#### Central Taxes

- Excise Duty (ED)
- Central Sales Tax (CST)
- Additional Duties of Excise
- Additional Duties of Customs (CVD & SAD)
- Service Tax (ST)
- Surcharges & Cesses

#### State Taxes

- State VAT / Sales Tax
- Entertainment Tax
- Taxes on Lottery, Betting & Gambling
- Luxury Tax
- Octroi & Local Body Tax
- Purchase Tax / Entry Tax
- Surcharges & Cesses

**Central  
Goods &  
Services Tax  
(CGST)**

**State  
Goods &  
Services Tax  
(SGST)**

**Integrated  
Goods &  
Services Tax  
(IGST)**

## What Is GST ? How Is It Different ??

### GST is...

- **Comprehensive indirect tax** on manufacture, sale and consumption of goods and services through out India.
- **Value added tax** levied and collected at each stage of sale or purchase of goods or services.
- GST-registered businesses to claim **tax credit** to the value of GST paid on purchase of goods or services as part of normal commercial activity.
- Exports would be zero-rated & imports would be levied the same taxes as domestic goods & services adhering to the **destination principle**.
- The Cabinet has set up a Special Purpose Vehicle (SPV) namely **Goods and Services Tax Network (GSTN)** to provide IT infrastructure and services to various stakeholders including the Centre and the States.





## Two Pillars of GST – Time & Place of Supply ..

### Time of Supply

**Model Law** – Section 12 (Goods) and Section 13 (Services) of the CGST Act

**Relevance** – Liability to pay CGST/SGST shall arise at the time of supply as determined under provisions of CGST Act

#### Time of Supply will be earliest of following:

- i. Date of issuance of **invoice or the last date on which he is required, under section 28, to issue the invoice with respect to the supply**
- ii. Date of **receipt** of payment by supplier

#### Specific Scenarios

- i. **Continuous Supply of Goods:** Date of issuance of invoice or receipt of payment, whichever is earlier
- ii. **Continuous Supply of Services:** Earliest of due date of payment, payment date, invoice date or completion date
- iii. **Sale of Goods on Approval:** Earliest of when sale becomes known or 6 months from removal
- iv. **Sale of Services on Approval:** Earliest of when supply of services ceases or completion date

### Place of Supply

(Destination instead of Origin)

**Model Law** – Section 5 (Goods) and Section 6 (Services) of the IGST Act

**Relevance** – For determining the applicability of CGST/SGST Acts, it is imperative to refer IGST Act for determining the place of supply (**Intra-state** if place of supply of goods / services and location of recipient in same state and if not than **Inter-state**)

#### Place of Supply will be:

- i. **Movable Goods:** Movement of goods terminates for delivery
- ii. **Transfer of Documents of Title to the Goods:** Principle place of business of recipient
- iii. **Immovable Goods:** Location of goods
- iv. **Installation / Assembly:** Place of installation / assembly
- v. **Services:** Location of the service recipient

#### Specific Scenarios

- i. **Transportation of Goods, Mails or Couriers:** Location of service recipient
- ii. **Services in Relation to Immovable Property:** Location of immovable property
- iii. **Insurance Services:** Location of service recipient
- iv. **Financial Services (including Banking or Stock Broking):** Location of the service receiver as per record of provider or location of the supplier of services

# How the Tax Structure Will Change Under GST Regime??

## INPUT



Import



Domestic (Intra/Inter-State)



Services



Manufacturing

## OUTPUT

Goods OR Services



Intra-State



Inter-State



Export

### Current regime of taxes:

IMPORT	DOMESTIC	SERVICES	CREDIT / REFUND	INTRA-STATE	INTER-STATE	EXPORT
<b>1.</b> BCD+ CESS <b>2.</b> CVD + CESS <b>3.</b> SAD	Intra-State <b>4.</b> (ED+ CESS) + (VAT + CESS#) Inter-State <b>5.</b> (ED+ CESS) + (CST) <b>6.</b> Entry Tax	<b>7.</b> Service Tax+ SBC + KKC	<ul style="list-style-type: none"> <li>• <b>No Credit</b> for BCD, CST and SBC</li> <li>• <b>Conditional Credit</b> for ED, VAT, CVD, SAD, Service Tax, KKC and CESS</li> </ul>	Goods <b>8.</b> ED + CESS <b>9.</b> VAT + CESS Services <b>10.</b> Service Tax + SBC + KKC	<b>11.</b> Excise Duty + CESS <b>12.</b> CST	<b>13.</b> No Tax

### GST regime of taxes:

<b>1.</b> BCD* + CESS* <b>2 &amp; 3.</b> (IGST)	<b>4, 5 &amp; 6.</b> (CGST + SGST) / IGST	<b>7.</b> (CGST + SGST) / IGST	<ul style="list-style-type: none"> <li>• <b>Credit of CGST</b> on inputs against CGST &amp; IGST</li> <li>• <b>Credit of SGST</b> on inputs against SGST &amp; IGST</li> <li>• <b>Credit of IGST</b> against IGST, CGST or SGST</li> <li>• <b>No Credit of CGST</b> against SGST &amp; vice versa</li> </ul>	<b>8, 9 &amp; 10.</b> (CGST + SGST)	<b>11 &amp; 12.</b> IGST	<b>13.</b> No Tax
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## Other Salient Features & Points to Ponder....



### Points To Ponder...

- 1 MRP based valuation
- 2 Specific rate of duty
- 3 Notional interest on advance/deposit
- 4 Price-cum-duty
- 5 Valuation of promotional items – Buy 1 Get 1 !
- 6 Valuation of composite supply
- 7 Barter/ Exchange-Valuation
- 8 Free samples
- 9 Job work valuation
- 10 Inter plant movement
- 11 Captive consumption and Transaction value: Rule 4 or Rule 8

## What Will be the Impact of the Change??

GST's key impact areas are...

<b>Business Process</b>	<b>Costing &amp; Product Pricing</b>	<b>Structuring of Business Transactions</b>
<b>Supply Chain</b>	<b>Accounting</b>	<b>ERP Systems</b>
<b>Consolidation of Operating Locations</b>	<b>Transition Strategy</b>	<b>Compliance</b>
<b>Existing Contracts with Stakeholders</b>	<b>Pending Disputes</b>	<b>Marketing Strategy</b>

“Great step towards transformation...”

– Prime Minister  
Narendra D. Modi

“GST will be the biggest benefit for Indian growth and it will help cut down transaction costs...”

– Chief Economist and Senior Vice- President, World Bank  
Kushik Basu

“GST is expected to play a transformative role in the way our economy functions.”

– Finance Minister  
Arun Jaitley

“GST implementation will make India one market...”

– Chairman and Managing Director of Reliance Industries Limited  
Mukesh Ambani

“**Team RAMA** marks implementation of GST as not just a change in tax regime, it's a transformation in the way business is conducted in India.

As concurred by all stakeholders, implementation of GST is going to have a multi-fold impact on the growth of business in India.”



## Few Instances of Critical Impact on Business ...

Business Strategy & Operations	Transition & Compliances	Processes & IT Systems
<p><b>Re-determination of the cost</b> of products and products pricing due to change in the taxes and credits thereof</p> <p><b>Re-alignment of the distribution strategy</b> considering one tax based on destination rather than tax disparity in dispatch from different locations</p> <p><b>Evalaution of procurement strategy</b> as Inter-State procurement could prove viable opening up opportunities to consolidate suppliers/vendors</p> <p><b>Planning for adjustments in cash flow</b> &amp; inventory costs as GST would be paid at sale/supply rather than at the time of removal of good</p>	<p><b>Decision on transition strategy</b> best suitable in terms of stock levels, credits or refunds status at the time of transition</p> <p><b>Documentation to assume significance</b> under self credit mechanism, hence plan for maintenance of invoices, credit registers, purchase records etc. at Centre / State level</p> <p><b>Evaluation of compliance requirements</b> and build required infrastruture, like registrations required under GST, returns to be filed for credits and alignment with government processes</p> <p><b>Study of the existing business contracts</b> and suitable changes as per the compliance requirements</p>	<p>No ERP systems offers a plug and play solution for GST, hence there is a need to find out the <b>impact areas and suitable changes in ERP</b></p> <p><b>Modification of business processes</b> like billing local vis-à-vis inter-state and re-defining of underlying controls in the process</p> <p><b>Changes in Chart of Accounts (COA)</b> to maintain specific CGST/ SGST / IGST ledgers and balances and re-defining accounting policies to take effect of the change in tax structure</p> <p><b>Change in formats</b> of invoices, debit/ credit notes, challans, orders, reports etc</p>

## What Steps Are Required to Transform from Existing to GST Regime??



## How Team RAMA is Positioned ??

- 1 Team RAMA has been extensively working on the GST policy developments and studying its impact on various aspects of business.
- 2 In this context, RAMA has put together a dedicated team of professionals to assist businesses transition to the GST regime in an integrated manner (BTG Team).
- 3 Gained in-depth understanding on indirect tax laws and its impact on various business transactions through specific reviews on indirect taxes and EXIM operations across industries.
- 4 Sound understanding of business strategy and associated risks along with the ability to challenge and strengthen the control environment.
- 5 Equipped with functional and technical knowledge of multiple ERPs (specifically Navision and AX, being Certified Implementation Partner of Microsoft) provides an edge in identifying and implementing changes required in ERP systems.
- 6 BTG Team's 4As approach being the key differentiator in helping to preserve value through a robust implementation methodology for the impacted functions, backed by efficient programme and change management principles.

### Composition of RAMA's Business Transformation to GST (BTG) Team



**Objective Transition to GST**

## BTG Team's 4As Approach of Transition to GST...

### ASSESS

- Assessing impacts on various business verticals
- Analyse 'what if' scenarios
- Revalidation post final law
- Decide Final operating model
- Discussing with senior management on strategic aspects
- Finalise plan for implementation

### 4As

### ACQUAINT

- Acquainting business team on way forward
- Tax team on changes impacting compliance framework
- Business partners to explain the changes in the prices, discount structures and promotional schemes

### ADOPT

- Adopting target operating model & enhancing processes
- Testing IT systems, updating masters and migration
- Implementing processes to manage impact on cash flow
- Navigate through cut off/transitional issues like pre-GST stock of goods and pre-GST credit.
- Revising tax compliance set up
- Evaluating pending litigations and validity in the pre-GST

### ANNOUNCE

- Announcing the redefined business process
- Identifying the training and skill enhancement requirements
- Conduction training and GST Implementation Programme

## How Team RAMA Can Assist in the Process of Transformation ??

### **I** Impact Assessment & Analysis (Dip-stick or Detailed)

1. Impact on business functions & operations
2. Quantification of impact on pricing, incentives, profitability, top- line and cash flows etc.
3. Impact of GST on current value chain elements
4. Proposing realignment of business model to help better capture the additional value (if any)
5. Reviewing ERP system for compatibility
6. Revalidating impact after passing GST legislation
7. Developing a complete Impact Assessment and Suggested Implementation Plan

### **II** Implementation (People, Process & Systems)

1. Based on the Impact Analysis, execution of plans in the impacted areas
2. Conducting Changes in Existing Systems (ERP) & Processes
3. Representation Assistance (through consultants)
4. Training Customised to Requirements
5. Implementation & Post Implementation Assistance
6. Compliance Assistance /Complete Outsourcing
7. Program and Stakeholder Management

**I + II**

**End-to-end Assistance in Transition  
to GST Regime**



“ GST an important reform for economy, has impact on varied aspects of the business operations, like, pricing, supply chain optimization, IT, accounting, & tax compliance systems. In past Indirect taxes in India have driven businesses to restructure supply chain and systems owing to multiplicity of taxes and costs. With GST seeing the light of the day, the way India does business will change, forever. ”



**CA Ram Agarwal -**  
Founder Partner



**CA Kapil Bansal -** Partner  
GST Developments  
& Knowledge Paper



**CA Arifa Gumani -** Director  
Leading RAMA's BTG Team

Ram Agarwal & Associates (RAMA), a Chartered Accountant firm, having its Head Office at Mumbai, carries a quality professional experience of varied services. Partners, Directors and Senior Professionals have in-depth combined experience of more than 50 years in delivering high quality professional services acknowledged by the clients.

RAMA offers services in the areas of Internal Audits, Management Audits, Business Process Review, Specific Reviews on Indirects Taxes and EXIM Operations , SOP, ICFR, Fixed Assets Review, Production Facility – Efficiency Audits, Audit of Retail Locations, Pre-payment Audits and Corporate Fraud Investigations including Forensic Audits and Whistle Blower Management.

RAMA also works on “Greenfield” ERP Implementations, Corporate Finance & Business Advisory.



**CA Narayan R. Pasari -**  
Independent Director,  
{Hon. Advisor to RAMA}

**Ram Agarwal & Associates**  
CHARTERED ACCOUNTANTS

**Ram Agarwal & Associates**

Crystal Plaza, Link Road, Opposite Infiniti Mall, Andheri West, Mumbai-400 053, Maharashtra - India

**P:** + 91 22 4016 0591

**E:** info@rama.co.in

**Delhi Branch Office:**

Gem BUbusiness Center, 104, 1st Floor, Building No. 86, Nehru Place, New Delhi – 110019.

**P:** + 91 11 4170 4234

**Associate Offices:**

Bengaluru | Hyderabad | Kochi | Pune | Nagpur | Ahmedabad | Surat | Jaipur | Udaipur | Chandigarh | Ludhiana | Indore | Raipur | Guwahati



For expert assistance, please contact:

**CA Ram Agarwal**

E - ram@rama.co.in

P - +91 93240 22233

**CA Kapil Bansal**

E - kapil@rama.co.in

P - +91 97693 63338

[www.rama.co.in](http://www.rama.co.in)

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