PARADIGM SHIFT IN BUSINESS

GST

COUNTRY TAX MARKET

www.rama.co.in
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.

Road Map for GST Implementation by Lawmakers

Legal Framework
- 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
- 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

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

Source: Revenue Secretary’s presentation on next steps required about GST after passage of Constitution Amendment Bill (Dated 4th August, 2016)
What Are the Taxes Under GST?

Central & State Taxes to be subsumed in GST

<table>
<thead>
<tr>
<th>Central Taxes</th>
<th>State Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Excise Duty (ED)</td>
<td>• State VAT / Sales Tax</td>
</tr>
<tr>
<td>• Central Sales Tax (CST)</td>
<td>• Entertainment Tax</td>
</tr>
<tr>
<td>• Additional Duties of Excise</td>
<td>• Taxes on Lottery, Betting &amp; Gambling</td>
</tr>
<tr>
<td>• Additional Duties of Customs (CVD &amp; SAD)</td>
<td>• Luxury Tax</td>
</tr>
<tr>
<td>• Service Tax (ST)</td>
<td>• Octroi &amp; Local Body Tax</td>
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<tr>
<td>• Surcharges &amp; Cesses</td>
<td>• Purchase Tax / Entry Tax</td>
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<td>• Surcharges &amp; Cesses</td>
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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 throughout 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.

**Uniformity of Tax Rates & Structures**
GST would make doing business in the country tax neutral, irrespective of choice of place of doing business.

**Place of Supply**
- **Destination based**

**Transaction Value**
Price actually paid or payable for the supply of goods and/or services.

**Time of Supply**
- **Goods** – Date invoice or payment, whichever is earlier
- **Services** – Date of invoice or payment whichever is earlier

**Exemptions**
Either be withdrawn or be converted into refund.

**Removal of Cascading**
Seamless tax-credits throughout the value-chain would ensure that there is minimal cascading of taxes.

**Tax Credits**
Credit of CGST and SGST will be allowed for offset for against CGST and SGST respectively and IGST.

**End of Overlapping / Double Tax**
- Restaurant services
- Software development vs. Manpower supply
- Works Contract services
- Transfer and Leasing of Immovable Property

**Multiplicity of Tax**
GST to subsume most current indirect taxes To be replaced by CGST, SGST & IGST

**Difference in Key Concepts are …**

- **Comprehensive indirect tax** on manufacture, sale and consumption of goods and services throughout India.
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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**

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?

<table>
<thead>
<tr>
<th>INPUT</th>
<th>OUTPUT</th>
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<tbody>
<tr>
<td>Goods OR Services</td>
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</table>

### Current regime of taxes:

<table>
<thead>
<tr>
<th>IMPORT</th>
<th>DOMESTIC</th>
<th>SERVICES</th>
<th>CREDIT / REFUND</th>
<th>INTRA-STATE</th>
<th>INTER-STATE</th>
<th>EXPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. CVD + CESS</td>
<td>Inter-State</td>
<td></td>
<td><strong>Conditional Credit</strong> for ED, VAT, CVD, SAD, Service Tax, KKC and CESS</td>
<td></td>
<td>12. CST</td>
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<td>3. SAD</td>
<td>Inter-State</td>
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<td></td>
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<tr>
<td>4. (ED+ CESS) + (VAT + CESS*)</td>
<td>Inter-State</td>
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<tr>
<td>5. (ED+ CESS) + (CST)</td>
<td>Inter-State</td>
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<tr>
<td>6. Entry Tax</td>
<td>Inter-State</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>7. Service Tax+ SBC + KKC</td>
<td>Services</td>
<td></td>
<td><strong>Credit of CGST</strong> on inputs against CGST &amp; IGST</td>
<td>8, 9 &amp; 10. (CGST + SGST) / IGST</td>
<td>11 &amp; 12. IGST</td>
<td></td>
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<td></td>
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<td></td>
<td><strong>Credit of SGST</strong> on inputs against SGST &amp; IGST</td>
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<td></td>
<td></td>
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<td><strong>Credit of IGST</strong> against IGST, CGST or SGST</td>
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<td></td>
<td></td>
<td><strong>No Credit of CGST</strong> against SGST &amp; vice versa</td>
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### GST regime of taxes:

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<th>EXPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. BCD* + CESS*</td>
<td>4, 5 &amp; 6. (CGST + SGST) / IGST</td>
<td>7. (CGST + SGST) /IGST</td>
<td><strong>Credit of CGST</strong> on inputs against CGST &amp; IGST</td>
<td>Goods</td>
<td>11 &amp; 12. IGST</td>
<td>13. No Tax</td>
</tr>
<tr>
<td>2 &amp; 3. (IGST)</td>
<td>4, 5 &amp; 6. (CGST + SGST) / IGST</td>
<td></td>
<td><strong>Credit of SGST</strong> on inputs against SGST &amp; IGST</td>
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<td></td>
<td></td>
<td></td>
<td><strong>Credit of IGST</strong> against IGST, CGST or SGST</td>
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Other Salient Features & Points to Ponder….

Salient Features

01
No need to determine that the process amounts to manufacturing for levy of taxes. Hence, traders registered as importer, first/second stage dealer or non-registered trader will be required to pay GST as well.

02
All depots needs to be registered as seemless credit is available. Unlike in current scheme wherein excise registration is not taken if the credit is not required to be passed on.

03
Supply (without consideration) includes permanent transfer / disposal or temporary application of business assets, for personal use, by taxable person to any other person in course of furtherance of business.

04
GST may be levied on the sale of newspapers & advertisements giving the government access to substantial incremental revenues.

05
The time of supply for specific transactions like sale on approval basis, will be when it becomes known that the supply has taken place or, 6 months from date of removal, whichever is earlier.

06
There will be no need to bifurcate the value of goods and services when in a transaction both goods and services are supplied like works contract, outdoor catering, tax will be levied on entire value.

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?

**Great step towards transformation...**
- Prime Minister Narendra D. Modi

**GST is expected to play a transformative role in the way our economy functions.**
- Finance Minister Arun Jaitley

**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

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.

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**GST's key impact areas are...**

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

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"GST implementation will make India one market..."  
- Chairman and Managing Director of Reliance Industries Limited Mukesh Ambani
### Business Strategy & Operations

- **Re-determination of the cost** of products and products pricing due to change in the taxes and credits thereof
- **Re-alignment of the distribution strategy** considering one tax based on destination rather than tax disparity in dispatch from different locations
- **Evaluation of procurement strategy** as Inter-State procurement could prove viable opening up opportunities to consolidate suppliers/vendors
- **Planning for adjustments in cash flow** & inventory costs as GST would be paid at sale/supply rather than at the time of removal of good

### Transition & Compliances

- **Decision on transition strategy** best suitable in terms of stock levels, credits or refunds status at the time of transition
- **Documentation to assume significance** under self credit mechanism, hence plan for maintenance of invoices, credit registers, purchase records etc. at Centre / State level
- **Evaluation of compliance requirements** and build required infrastructure, like registrations required under GST, returns to be filed for credits and alignment with government processes
- **Study of the existing business contracts** and suitable changes as per the compliance requirements

### Processes & IT Systems

- No ERP systems offers a plug and play solution for GST, hence there is a need to find out the **impact areas and suitable changes in ERP**
- **Modification of business processes** like billing local vis-à-vis inter-state and re-defining of underlying controls in the process
- **Changes in Chart of Accounts (COA)** to maintain specific CGST/ SGST / IGST ledgers and balances and re-defining accounting policies to take effect of the change in tax structure
- **Change in formats** of invoices, debit/credit notes, challans, orders, reports etc
What Steps Are Required to Transform from Existing to GST Regime??

01 Identify important business areas / operations and understand key impact

02 Prepare different scenarios for the design and application of GST

03 Closely monitor developments around GST to track policy developments and update prepared scenarios

04 Discuss & design the implementation solutions for areas requiring change and contingency measures for adversely impacted areas, if any

05 Adequate knowledge sharing / training required for Team / Employees

The companies need to understand the GST policy development, its implications to scenario planning and preparing a transition road map.
How Team RAMA is Positioned??

Team RAMA has been extensively working on the GST policy developments and studying its impact on various aspects of business.

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).

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.

Sound understanding of business strategy and associated risks along with the ability to challenge and strengthen the control environment.

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.

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

- Business Consultants
- Process Champions & ERP Consultants
- Subject Matter Experts - IDT

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

**ACQUAINT**
- Accountant 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?

**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

**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

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

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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.