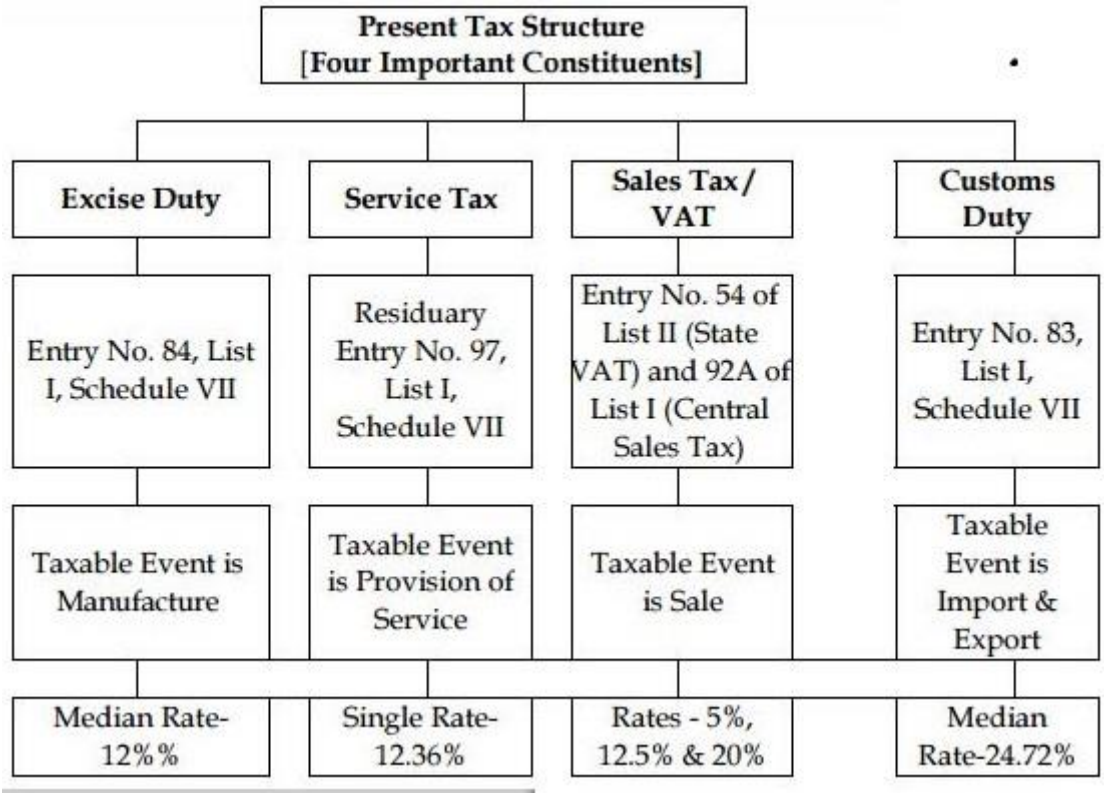
Indirect Tax Structure in India

India currently has a dual system of taxation of goods and services, which is quite different from dual GST. Taxes on goods are described as "VAT" at both Central and State level. It has adopted value added tax principle with input tax credit mechanism for taxation of goods and services, respectively, with limited cross-levy set-off. The present tax structure can best be described by the following chart:



SHORTCOMINGS IN THE PRESENT STRUCTURE AND NEED OF GST

1. **Tax Cascading:** The most significant contributing factor to tax cascading is the partial coverage by Central and State taxes. The exempt sectors are not allowed to claim any credit for the Cenvat or the Service Tax paid on their inputs.

2. **Levy of Excise Duty on manufacturing point:** The CENVAT is levied on goods manufactured or produced in India. Limiting the tax to the point of manufacturing is a severe impediment to an efficient and neutral application of tax. Taxable event at manufacturing point itself forms a narrow base. For example, valuation as per excise valuation rules of a product, whose consumer price is Rs. 100/-, is, say, Rs. 70/-. In such a case, excise duty as per the present provisions is payable only on Rs.70/-, and not on Rs.100/-.
3. **Complexity in determining the nature of transaction** – Sale vs. Service
4. **Inability of States to levy tax on services:** With no powers to levy tax on incomes or the fastest growing components of consumer expenditures, the States have to rely almost exclusively on compliance improvements or rate increases for any buoyancy in their own-source revenues.
5. **Lack of Uniformity in Provisions and Rates**
6. **Fixation of situs** – Local Sale vs. Central Sale
7. **Interpretational Issues:** whether an activity is sale or works contract; sale or service, is not free from doubt in many cases.
8. **Narrow Base**
9. **Complexities in Administration**

Source: gstindia.com

Understanding GST

What is GST?

Goods and Services Tax (GST) is a value-added tax at each stage of the supply of goods and services precisely on the amount of value addition achieved. It seeks to eliminate inefficiencies in the tax system that result in 'tax on tax', known as cascading of taxes. GST is a destination-based tax on consumption, as per which the state's share of taxes on inter-state commerce goes to the one that is home to the final consumer, rather than to the exporting state. GST has two equal components of central and state GST.

GST rates: GST rates on goods and services have been broadly classified into four tax rates: 5 per cent, 12 per cent, 18 per cent and 28 per cent. Some goods and services would be exempt. Precious metals like gold will attract a separate tax rate of 3 per cent. A cess will be levied over the peak rate of 28 per cent on specified luxury and sin goods. Under GST, businesses are required to file returns each month. But the government has let companies file late returns for the first two months so that they can adapt to a new online filing system.

CGST, SGST, IGST

The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States (including Union territories with legislature) would be called State GST (SGST). An Integrated GST (IGST) would be levied on inter-State supply (including stock transfers) of

goods or services. This would be collected by the Centre. Import of goods would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties. Exports will be treated as zero-rated supplies which means no tax will be payable on exports of goods or services. However, exporters can claim input tax credit.

Stocks in transition

On stocks unsold before GST rollout, manufacturers and retailers have been allowed to carry forward input tax credit for 90 days. On such goods they can claim as much as 60 per cent of the input tax credit on stocks lying unsold up to June 30.

What is input tax credit?

To make sure that tax is levied only on the amount of value addition at each stage of the supply chain, credit for the taxes paid at the previous stage is granted. For example, a garment manufacturer gets credit for the taxes paid on the materials purchased while computing the final indirect tax liability on his product that is collected from the consumer. Similarly, a service provider, say, a telecom company, gets credits for the taxes paid on the goods and services used in his business.

Who is liable to pay GST?

Businesses and traders with annual sales above Rs20 lakh are liable to pay GST. The threshold for paying GST is Rs10 lakh in the case of North Eastern and special category states. GST is applicable on inter-state trade irrespective of this threshold.

What are the existing taxes subsumed into GST?

Taxes on production such as central excise duty and additional excise duty, import duties such as additional customs duty known as countervailing duty and special additional customs duty, service tax, central cesses and surcharges, state taxes like value-added tax (VAT), central sales tax on inter-state trade of goods, luxury tax, entertainment tax except those levied by local bodies, taxes on advertisements, taxes on betting and gambling and state cesses and surcharges on supply of goods and services are subsumed into GST. Basic customs duty, which includes the tariff barrier on imports, is not part of GST.

What are the benefits of GST?

GST brings transparency on the taxes levied on the supply of goods and services. At present, when an item is purchased, the common man sees only the state taxes on the product label, not the various embedded tax components. GST will improve the ease of doing business as entry barriers along state borders will be dismantled. The new indirect tax system is expected to improve tax compliance, boost revenue receipts of central and state governments and accelerate GDP growth rate by an estimated 1.5-2 percentage points. Elimination of cascading of taxes will result in reduced tax burden on many items.

What are the products not part of GST?

Crude oil, diesel, petrol, natural gas and jet fuel are temporarily kept out of GST. The GST Council, the federal indirect tax body of state finance ministers chaired by the Union finance minister, will decide when to bring these items into GST. Liquor is kept out of GST as a

constitutional provision and hence it would require an amendment to Constitution if it is to be brought into GST net.

What is integrated GST or IGST?

IGST is the tax on inter-state supply of goods and services with central and state GST components.

How are imports treated?

Imports are treated as inter-state supplies and will attract IGST. Exports do not attract any tax. Taxes paid on raw materials and services used in export of goods and services are refunded to the business.

What is the anti-profiteering mechanism?

To prevent the possibility of prices going up and to make sure that the reduced tax burden on products and services are passed on to consumers, the government has introduced an anti-profiteering clause in the GST law. The anti-profiteering authority to be set up will act on complaints of profiteering and direct a profiteering supplier to cut price, return the benefit of reduced tax burden to the buyer with 18% interest, or recover such amount if the buyer cannot be identified or doesn't make a claim. A profiteering business could lose its GST registration, too.

How are decisions taken at the GST Council?

No decision can be taken in the Council without the concurrence of both the Union and the state governments. Decisions will be taken by a 75% majority of the weighted votes of members present and voting. The Union government's vote has a weightage of one-third of the votes cast, while all states together will have a weightage of two-thirds of the votes cast.

Administrative control

To ensure single interface, all administrative control of 90 per cent of taxpayers having turnover below Rs. 1.5 crore would vest with state tax administration while 10 per cent with the central tax administration. Further, all administrative control over taxpayers having turnover above Rs. 1.5 crore will be divided equally between central and state tax administrations. States will be compensated for any revenue loss from GST implementation for five years.

Source: Live Mint, ndtv.com

GST – Last Minute Check List

GET REGISTERED FOR GST

Under GST laws, entities supplying taxable products and services need to be registered in all the states from which these will be supplied. An entity already registered in a state under any existing law should be migrated to the GST regime. Unregistered entities will have to get registered in the specific states from which supplies are made. The window for this is likely to open from June 25 for a month or so.

GEAR UP IT SYSTEMS TO ISSUE INVOICES FROM DAY 1

IT systems will need to be readied, and all the requisite changes made, to issue invoices from the first day of the GST regime. Invoice formats will have to be amended as soon as possible. Moreover, according to GSTIN requirements, customer related data as well as tax codes and conditions (used to compute tax on every transaction) will need to be updated in IT systems and configured to generate reports required for GST.

TRAIN YOUR TEAM AND STAKEHOLDERS

It is imperative that all employees and supply chain partners, such as vendors, distributors and C&F agents, are trained well on amendments in the law. And since the GST law envisages seamless passing of credit of taxes only on suppliers' compliance with its requirements, it is imperative that all stakeholders are appropriately educated on compliance-related requirements.

FINALISE YOUR TAX POSITIONS

Supply of goods or services will attract tax in the GST regime. Credit provisions will also see changes. In addition, if a company is registered in different states it will be treated as a distinct entity for levy of GST. Therefore, considering the quantum of changes, each transaction undertaken by a company will have to be identified separately, irrespective of whether GST will be applicable for it or not, in order to determine the tax treatment of the transaction. After the mandatory tax treatment is determined, the transaction will need to be configured in the entity's IT system.

REVISIT AND UPGRADE YOUR BUSINESS PROCESSES

From taxation being imposed on the manufacture or sale of goods and provision of services under the present system, it will move to GST being levied on supply of goods and services. In addition, there are various other procedural amendments, such as self-invoicing in the case of purchases made from unregistered vendors, reversal of credit in the case of non-payment of consideration for goods, etc. Such amendments in the law will necessitate significant changes in various business processes and it will be necessary for entities to assess the impact of these and change the processes, wherever required.

AMEND YOUR CONTRACTS WITH VENDORS AND CUSTOMERS

Under the existing indirect tax regime, a correlation between the location of receipt of input services and for receipt of invoices for such services at any location in India is not required. In the GST regime, since the credit pool for every state will need to be maintained separately, it will be necessary to ensure that an invoice for input services is received at the place where credit of such services is eligible. This will need an analysis of procurements of services and amendment of contracts with service providers, where required. Similarly, contractual terms

with customers will have to be reassessed and revised, if needed.

DETERMINE YOUR PRODUCT PRICING EARLY

At present, the margins of supply chain partners such as distributors and retailers are computed on the assumption that they are only liable to pay VAT on their sale price. Going forward, supply chain partners will also be required to pay GST on their sale price, and accordingly, their margins will need to be recomputed due to the changes in tax rates and availability of credits. And in addition to revised margins for supply chain partners, the impact on tax credits and movement in the tax rate along with the anti-profiteering provisions under GST will require companies to reset the prices of goods or services supplied by them. Therefore, they will need to determine the overall impact of the new taxation regime on their businesses before taking any decisions on pricing.

CLAIM CREDIT FOR TAXES IN TIME

The GST law provides for carry-forward of accumulated tax credit as well as for claiming credit of various taxes paid on stock in hand (which cannot be claimed at present), subject to fulfilment of the prescribed conditions. Furthermore, for carry forward of their VAT credit balance, taxpayers will have to submit their sales tax declaration forms or certificates in Form C, Form F, Form H, etc., as applicable, wherever they have claimed exemption or a concessional rate of CST on such sales. But relevant declaration forms or certificates have not been submitted to the authorities till now. So there is an urgent need to accelerate submission of these forms — sooner rather than later!

Source: Economic Times

A brief to do list for GST implementation

1. Get detailed working for Closing Stock for the period 31.3.2017 / 30.6.2017 before GST Implementation date .
2. Allocate your closing stock into quantative mode.
3. Get the A/c Statement from your Suppliers / Creditors for the year ended 31/3/2017 & compare them with your books.
4. Rectify Mismatch Reports of Purchases, if it exist.
5. Revise your VAT Returns if point no.4 applies to you.
6. Make strict follow-up to Collect all the C forms/H Form/ I forms .
7. Get your Books Finalise for FY 2016-17 at the earliest.
8. Make a separate file of those items which are shown in your Unsold stock as on 30.6.2017 e.g. Purchase Bills/ Bill of Entry/ Excise Paying Documents etc.
9. Stock ageing be made to ascertain if any stock is more than 1year old. If yes then dispose it off immediately or sell it to your sister concern against Tax Invoice locally.
10. Classify stock – tax rate wise, purchased locally to get ITC into SGST.
11. Classify stock purchased on invoices bearing – Duty Payment & non duty payments to get ITC transferred to CGST.
12. Inform your GSTIN / ARN to all your suppliers of Goods & Services.
13. Obtain GSTIN of all Suppliers & Buyers.
14. Apply for migration in all states if you have centralised registration under Service Tax.
15. Train your accountants for GST accounting and returns formats.
16. Make Chart of HSN CODES & GST Rates on your goods & services to be purchased & Sold.
17. Check whether any stock of one year old is lying with you.
18. Analyse P & L and see which expenses are liable to RCM.
19. Make sure your GST migration from VAT/Service Tax is complete
20. Engage GST8 Consultant on professional basis.

21. Train staff to prepare tax invoice, advance receipts, self invoice etc etc from June 2017 itself
22. If you are in ERP which is compatible with GST, realign your General Ledger for easy reconciliation for Tax Return and GST annual return
23. Make sure that all documents especially credit and debit note is serially numbered.