

Procurement Planning / Vendor Management under GST

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Proper procurement planning and vendor management is going to be key during GST regime especially during transition phase and upto sometimes post migration. There after there may be need to have continuous relook at professionalism of vendor base and the need to reconsider alternative source of procurement so that the overall cost of procurement is optimised.

Few important aspects in procurement planning and vendor management could be as follows:

- 1. Procurement from registered vendors:** The cascading effect of taxes is going to come down significantly in GST owing to cross sectional credit admissibility. This requires that the vendor must be registered so that the tax paid by him on his procurement is not added to the cost of goods/services and passed on to the company resulting in reduction of cost to that extent.
- 2. Purchase from unregistered vendor- likelihood of tax on purchases:** It is learnt that purchase of goods/services from unregistered dealers could attract the levy of GST in the hand of recipient resulting in increased compliance burden.
- 3. Purchase from taxable person under composition scheme:** There could be a situation where the vendor is registered under composition scheme and not charging GST. On the face of invoice, it could appear that the prices are lower but it may not be necessary considering the fact that tax paid on his procurement become integral part of the cost of his product/service and not passed on the company. Hence, all B2B purchase should be made from vendor registered under normal scheme.
- 4. Timely registration of vendor during migration to GST:** There is provision that all existing registered assessee under VAT, CST, Excise, Service Tax or other taxes being subsumed in GST would be allowed automatic registration under GST on provisional basis valid for 6 months. Final registration would be granted on furnishing necessary details. But it is always preferable to insist the vendor to migrate/obtain registration under GST in advance to avoid the following problems:
 - a. The vendor master of ERP could be updated timely.
 - b. In case the vendor is not allowed to registration owing to deficiency in documentations/any other reasons, the credit taken during the period tax charged by him under provisional registration could be questioned. (though provision is not clear till date as to what would happen under this circumstances)
 - c. There is no need of having reconciliation/updation of records on vendor obtaining normal registration post provisional number.
- 5. Realignment of source of vendor:** The factors determining selection of vendors, in past, were largely driven based on indirect tax impact due to many restriction/non-allowability of credits. However, these considerations may not be determining factors in GST while making vendor selection. Important criteria under GST for vendor selection could be as follows:
 - a. The cost of product/service being offered
 - b. The quality of product/services being offered

- c. The professionalism of vendor in doing the business
- d. Compliance level (registration, timely raising of invoices, timely payment of taxes and filing of returns etc.) followed by vendors under GST
- e. Proximity of source of procurement to the place of its usage in case the product/service is critical to the product/services being supplied by company.
- f. Cost of transportation

This indicates that the tax consideration may not be dominant after GST. Hence, existing vendors selected based on the tax consideration may require relook in GST.

- 6. Change in procurement/inventory policy:** The policy followed by company may require relook in GST especially the policy followed as to inventory holding *viz a viz* Just in Time (JIT) Purchase considering the fact that accumulation of stock in large quantity could entail blockages of huge working capital. Most of the businesses would prefer to go for JIT purchase in GST with minimum stock in hand.
- 7. Centralised vs decentralised contract:** The decision to go for centralised or decentralised contract for procurement especially in case of service contracts is going to be very critical considering that the services provided by vendor to multiple offices located in different states of the same company under single contract could involve the complexities of deemed supply among various offices of the recipient.
- i.e.** A company awards contract for advertisement to a media agency for undertaking advertisement of multiple products/services of the company across the country for lumpsum consideration. The invoice is required to be issued to contracting office of the service recipient which is not registered as ISD. As the service is enjoyed by various offices of the recipient located across different states, it could be considered as deemed supply by contracting office to all other offices and liable to GST within multiple offices of the same company.
- 8. Amendment of existing contracts with vendors:** There may be need to amend existing contracts with vendors in light of GST.
- 9. Evaluation of cost of goods/services procured with existing vendors:** It is commonly understood that the cost of goods/services are likely to come down in medium term post GST implementation though there could be some rise in the initial period. This depends on various factors i.e. existing rate of tax *viz a viz* tax rate under GST, exemptions, availability of higher credits, interest cost on differential cash flow etc. This requires in-depth assessment of the cost of procurement from different sources/vendors. Following could be broad guiding factors:
- a. Wherever the cost of goods/services is likely to come down, the negotiation should be made with vendors to pass on the benefit. There may be clause in the agreement to re-evaluate cost at periodical interval.
 - b. If the impact of GST is likely to be negative on some of the products/services, long term contract should be entered into with vendor with specific condition of not allowing price variation during the tenure of the contract.

- 10. Timely payment of taxes by vendor under GST:** Credit would be allowed under GST provided the vendor has paid full tax to government. If the credit is availed by recipient but supplier has not paid tax to the government, it would be added to the tax liability of recipient who needs to pay it along with interest. This requires proper monitoring as to whether vendor has paid tax to the government. If the vendor base is from unorganised sector, this could pose significant challenge for recipient resulting in negative impact on working capital and frequent instances requiring reversal of credit/payment of interest. This necessitates proper monitoring system to be put in place for vendors especially unorganised vendors.
- 11. Filing of timely returns by vendors:** Similar to payment of tax, filing of return by vendor is mandatory for allowing credit to the recipient. Hence, proper control/monitoring mechanism must be established to ensure that returns are filed timely by vendors.
- 12. Practice of making advance to vendors:** GST is payable at the time of supply of goods/services. Receiving advance is also one of the criterion for determining time of supply. Hence, the vendor needs to pay GST at the time of advance. Credit is admissible to recipient at the time of receipt of goods/services. This could result in situations where GST is payable at the time of making payment to vendor but credit is admissible at the time of receipt of goods/services. This could result in timing differences between cash outflow (of taxes) and taking credits. Hence, practice of making advances to vendors may require to be looked into.
- 13. Identification of place of supply of procurement:** Place of supply of goods/service needs to be ascertained to determine applicable taxes (IGST or CGST & SGST). Wrong determination of place of supply could lead to charging and payment of wrong taxes. The Model GST Law, in such cases, provides for paying correct taxes and claiming the refund of tax paid wrongly. Such cases could result in blockage of credits at the end of recipient also. Hence, the recipient is required to determine the place of supply of all procurements properly so that the tax charged by vendor is correct and there is no blockage of credits in their hand.
- 14. Discounting policy:** There could be need to redesign the discounting policy as the Model GST Law requires the discount/incentive to be linked to original invoice. If not linked, the deduction from transaction value may not be allowed and liability to pay tax arises.
- 15. Vendor Compliance Rating Score- an important criterion for vendor selection:** One of the important criterion for vendor selection could be their compliance rating score in GST.
- 16. E-Procurement:** There may need to explore the alternative ways of selection of vendors and one of such ways could be to make e-procurement so that the cost competitiveness could be ensured.
- 17. GST ready of vendors:** It is equally important that all the vendors of the company get the impact of GST assessment done on their business and proper processes and

procedures put in place so that all negative consequences, as discussed above at many places, could be avoided.

Conclusion: Above highlights critical points in vendor selection and procurement planning under GST so that the entity is able to take all possible benefits and safeguarded against any unwarranted outcomes. There could be few other important aspects similar to such based on nature of actual composition of vendor base of the company.

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