Preparedness under GST – Self Assessment

The Central Government was rigid enough to roll out GST as it was committed with effective from 01st of July 2017 without appreciating the inputs for extension from various political forces and the representations by the trade bodies. Industry has no choice left but to understand and comply with the new and dynamic Indirect Tax provisions with the available resources and the expert knowledge.

GST being new born baby, needs much care and ministration in its implementation so as to migrate from the existing law to a new tax regime without badly disturbing the operations of an enterprise. In this article, let us try to address the crucial aspect which one should have addressed in implementation of GST by this time for self-performance appraisal. The unaddressed issues would need immediate attention to avoid further threat due to non-compliance.

Impact Analysis and Pricing Decisions: In order to prepare for GST, the first and for most thing that an enterprise could have done is to make a detailed impact assessment of its operations and financials. This is to understand how exactly the GST would impact their particular nature of business. Impact would certainly be there on each wing of their operation such as sales, exports, removals to SEZs, branch transfers, free supplies, and samples, procurement, finance and accounts, marketing and distribution, warehouse requirement etc. To what extent the GST would impact each of such wings could be ascertained by conducting an impact study. It also covers analysing various other aspects like Time of Supply and Place of Supply in each categories of supply and the decisions of business restructuring to optimise the benefits under GST.

Further, the product wise costing to be revised based on impact due to GST say due to availability of additional credits which were cost under earlier regime (CST/ST for traders/SBC and more), increased administrative cost, price reduction by vendors etc. The impact of antiprofiteering clause needs to be addressed so as to justify the pricing decision. Events which is neutral under both regime could be ignored like ineligible credits. Exempted activity under both current tax and GST.

Migration/ New Registration:

The first Transitional job was to get migrated into GST and obtain provisional GSTIN along with ARN. The taxable persons registered under earlier tax laws like Central Excise, Service Tax, State VAT Acts were provided with provisional ID and password to get enrolled into GST. Provisional GST identification number would be provided on successful submission of Application. To initiate any transaction under GST, the GSTIN would be necessary and hence becomes initial and most crucial part of Transition.

The persons not registered under earlier tax laws due to any reason would have to register under GST if they liable to do so. Say for example service providers having Centralised registrations for different branches all over the country now needs to have different registration under GST for each state. The traders/manufactures/service providers dealing in exempted goods/services which became taxable under GST etc are required to obtain new registration and comply. New registration would also need to be applied online by uploading prescribed documents.

Classification, Rate and Exemptions:

Once registration is obtained, the goods and services being dealt by way of outward supply or inward supply to be classified based on the tariff notification issued in this regard. The classification could make huge difference in terms of rate, exemption and availment of Input Tax Credit. Classification under GST is linked to The Customs Tariff Act 1975 read with Rules of Interpretation and Explanatory notes issued on HSN. Wrong classification not only leads to wrong payment of tax but also impact the eligibility of Input Tax Credit especially when unconditional exemption is not availed.

Each business entity needs to identify the proper classification and HSN for each of the categories of goods and services, finalise the rate of tax and capture the same in their ERP system for sound compliance. Even the small items like stationeries, printing materials, nuts, bolts, jigs etc needs to be classified with HSN so as to comply with reverse charge mechanism.

Valuation under GST: The Valuation under GST is mainly adopted from Customs and Central Excise provisions. It is important to analyse the method of valuation to be adopted on each categories of supply for discharging the GST liability. For example, Transaction Value needs to be adopted for normal sales to unrelated parties, in case of related parties, the prescribed valuation methods to be adopted like open market value, cost plus 10%, price of similar /like kind and quality goods, in the manner prescribed in Valuation rules. Value of free materials supplied by customers, expenditure incurred by recipient, exchange of goods, consideration in kind etc are also additional factors in determining a value of supply.

Tax Invoice and other documents:

The primary document under GST is a Tax invoice. Taxable supply without a tax invoice is illegal subject to exceptions. Various cases where tax invoices shall be issued, time limit to issue a tax invoice, manner of issuing a tax invoice etc needs to be carefully examined for each case. Sec 31 read with chapter VI of the CGST Rules, provides for the provisions on Tax invoice and other relevant documents to be maintained under GST.

Other documents include bill of supply, receipt vouchers, refund vouchers, payment voucher, credit notes and debit notes, delivery challans etc. When to issue these documents, how to issue, in what manner these documents to be issued are to be understood clearly and to be complied regularly.

ERP Customisation:

The system applications used for the accounting and operational activities are to be customised to meet the requirement under GST. Though the software service providers have been trying to make the necessary changes in the system, the GST practicing professionals have a major role in providing the proper inputs and requirement to such application providers. The requirement includes necessary ledgers, accounting entries, MIS reports, returns requirement, invoice and other document formats, cross check mechanism and suitable changes in way of doing business. Better the ERP system easy the compliance.

Accounting Entries and Books of accounts:

GST would change the mechanism of accounting to certain extent. Generation of invoice in case of stock transfers, payment of tax on receipt of advances, reversal of credits to the extent of exempt and non-taxable supplies, issue of receipt/refund vouchers etc needs to be addressed carefully. The list of new ledgers to be created for raising CGST, SGST/UTGST, IGST tax liability, availment of ITC on CGST, SGST, IGST and to discharge liability under RCM and accordingly availing ITC on GST paid under RCM needs to be accounted through separate ledger accounts for reporting purpose.

Input Tax Credits:

This is the area of value addition where any enterprise gets the benefits in cash equivalents. Missed out credit in past, ineligible credit availed, lost credit, purchase from unregistered dealers, unnecessary reversals, accumulated balance of credit, wrong utilisation, lapses in system adopted w.r.t Cenvat, restricted credits and similar aspects shall be addressed carefully. Undoubtedly, the shoulder of Cenvat credit under GST is going to be broader as the taxes currently not available as credit would be available under GST. It is recommended to list out all such possible additional credit available under GST say credit on materials procured by service provider, interstate purchases etc would help the assessee to restructure his costing and working capital policies.

It is equally important to analyse the status of input service distributors, conditions, and applicability under GST with change in other provisions relating to registrations and input tax credit.

Transitional Credits:

Though the GST is already rolled out the path of change from existing regime to new regime for next six months would be crucial. The assessee needs to take care of carry forward of credit from earlier Central Excise /Service Tax/ VAT regime, Impact on credits due to converting from regular/ composition schemes, from exemption to taxable supply and the credits on stocks lying on appointed day with a proper excise/VAT invoice. The deemed credit could be availed by the trader subject to certain conditions when the Excise duty paid invoice is not available. The time limit to file TRAN -1 / TRAN – 2 needs to be kept in mind and the details to be furnished in such transitional forms to made ready at the earliest to lose out the credit carry forward benefit.

Other Transitional Issues:

Pending litigations, refund claims, sales returns, sale made on approval basis, stocks held with job workers, agents or any other third party, point of taxation of services already provided, advances received, increase/decrease in pre-agreed price, credit note/debit note transactions, surrender of registrations and many other issues which would crop up during the transition needs to be addressed with proper documentations as provided in GST law.

Vendor and Customer master:

The vendor and customer master needs to be prepared by each entity which would include, full name, address and GSTIN of the party, address of branches, State code, nature of goods supplied/services rendered, HSN code, rate, exemptions, etc to be captured in the system for invoicing, accounting and reporting purposes.

Agreement Modification:

It would be crucial to amend the existing agreements entered pre-GST regime with reference to the tax clauses, the advance receipt/payment, GST compliance by the other party, reimbursement of expenditure, free supplies, other than monetary consideration if any, nature of tax and exemptions etc. The terms of agreement matter in most of the cases to determine the taxability and the impact. Hence, contractual terms need to be drafted after considering such various aspects under GST.

Intimations and undertakings:

The success of GST compliance is based on the level of procedural compliance done by the assessee. There are numerous intimations and submissions to be made under the provisions of GST law. Though the submissions are required to be done online through GSTN portal, till the portal is ready to accept the online application, certain forms to be submitted offline say LUT/Bond needs to be submitted before making the exports/SEZ sales under GST. It is suggested to list out various forms including replies to notices, transitional forms, returns and payment forms, ITC forms, job work intimations etc to be submitted on time to time and keep track of due date to avoid late filing or miss out of certain benefits attached to it.

Ready-ness for filing Returns:

Returns cannot be filed in one shot under GST. Outward supplies, inward supplies and payment to be done on stage wise within the given due dates. It would be ideal if the supplier keeps uploading the outward invoices on regular basis without waiting for the last date and also reach out to the vendors to comply with the same. The reports to be generated from ERP to be finalised to file the returns in time. The URD purchases, details of advances, supplies to registered and unregistered customers, Nil rated/exempted / Non-GST supplies, exports and SEZ sales, ISD, job works, TDS and TCS details, various forms issued in a month, HSN summary to be bifurcated and make it ready to upload in the given formats.

Issues with lack of clarity:

GST law is in place. However, many grey areas in the application of law and the industry is unable to reach consensus on certain issues. RCM on employee reimbursements, ITC on motor vehicle related services, employee benefits valuation, reversal of ITC due to interest income, practical difficulties in issuing payment vouchers, free supplies by customers, applicability of pure agent concept, legality of cum tax benefit are few of the examples for areas which needs more clarity in the law. Each assessee needs to identify such areas in their respective business and could apply for advance ruling if it fits the requirement. Expert opinion may be sought to get right solutions on doubtful issues.

Conclusion:

The list of to dos would continue. It varies from business to business and from person to person. How well we have done so far is the question that needs to be answered by the management in each organisation. Struggle is there at the initial phase but thorough understanding of the law and continuous monitoring would help to put the system in place. Professional have tremendous role to play in successful and smooth implementation of GST. Being in initial stage, we still have opportunity to do the un done or to rectify the wrong done things so that it would not cost a hefty amount in future. Compliance is the best remedy to litigation.

This article is written for ACAE for publishing in its Special Souvenir on Annual Conference 2017 - Kolkata.

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