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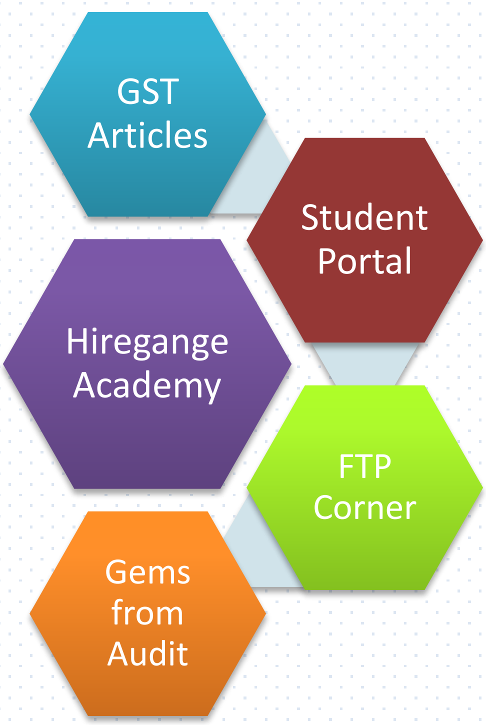
Going Beyond!!!

April 2017



Reach us at:
Hiregange Academy
#1010, 1st floor, 26th main,
(Above Corporation Bank)
4th 'T' Block, Jayanagar,
Bangalore 560 041
Mob. – 9620116163
gopi@hiregangeacademy.com
www.hiregangeacademy.com

Compendium

Indirect Tax Basket

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A light on

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How to do 'GST impact study' of a Small and Medium Enterprise

Background:

The implementation of GST would be a milestone for the Indian economy that is expected to cause overall growth in the long run, subject to few temporary adverse impact on portion of the industry say those who are currently enjoying the tax exemption benefits or service industries whose cost is expected to raise due to increase in rate of tax etc.

The industry has already initiated the cost benefit analysis that may result from GST implementation. At the same time, it would be a great opportunity for the professionals like Chartered Accountants (even other professionals) to provide value added services to their clients by way of conducting qualitative GST impact studies during Pre-implementation stage.

Purpose of conducting a GST impact study:

The name says it all. The assignment called 'GST impact study' would draw the attention of management on exactly how the GST would impact their particular. nature of business. Impact would certainly be there on each wing of their operation such as sales, procurement, finance and accounts, marketing and distribution etc, whereas, to what extent GST would impact each of such wings could be ascertained by conducting an impact study. The other benefits include:

- Inputs for strategic decisions – Pricing policy, place of operation, procurement decisions, business reconstruction etc.,
- Impact on cashflows/working capital and profitability,
- Smooth transition to GST – administrative convenience,
- Awareness on areas of positive and negative impacts.
- Awareness on immediate action points – accounting system, vendor management,
- Easy Procedural compliance – Registrations, returns, payment, refund etc
- Equipment of human resources ready for GST.

Prerequisites for conducting an Impact study:

Are we ready for GST? – before asking this question to clients, professionals! are we ready for GST!! GST impact study is crucial for any given undertaking as the decisions taken based on impact study report could make or break their business. Professionals must be ready before initiating such assignment in the following aspects:

In-depth understanding of relevant laws:

GST is replacing most of the indirect taxes and the provisions in GST would certainly different from our current understanding of existing laws. It is essential to study and understand the in and out of the model GST law (including IGST law) along with the draft rules and business processes, FAQs, formats, empowered committee report and other relevant publications with regard to GST.

In-depth understanding of the existing laws such as Central Excise, Service tax and relevant VAT laws would be necessary as the impact could not be accurately measured with misunderstanding of current provisions.

Defining the Scope of assignment:

The scope always defines the length and breadth of any assignment in professional like. The GST impact study shall be customised in such a manner that it suits the requirement of the given client.

The impact study shall meet the perspectives at various levels of management. The scope should enable the results that could yield strategic decision making inputs to top management and at the same time it shall also consider the transaction level impact, compliance manual and Standard operating procedure related aspects for middle and lower level management perspective.

Following could be the broad areas to be included in the scope:

- To create awareness on GST to management and staff
- Customised application of legal provisions of GST
- Providing course of actions to prevent negative impact
- Cenvat credit management – Not availed /ineligible / disputed etc
- Suggest impact on pricing – impact on costing and impact on customers
- Guidelines for working capital management – Favourable and adverse impact
- Agreement vetting, suggesting the possible changes regarding tax clauses etc.
- Customised checklist could be prepared considering the relevant aspects to be covered in any given impact study assignment.

Manner of Conducting an impact study:

Basically, it is not an audit. Hence approach in conducting the audit and GST impact study would be totally different. The intention is to measure the impact of relevant aspects of GST on respective business transactions.

Following aspects would improve the quality of the assignment:

- Obtain data from reliable source. More useful data provides better result
- Impact to be quantitative and practical to the extent possible
- Impact should be supported by recommendations and course of action.
- Assumptions made shall be relevant and reasonable.

The impact study is aimed to cover almost all the critical areas of all the business segments. Here we have listed such aspects to be covered preferably in the same order.

Detailed understanding of the operations: understand each line of operation in detail from the respective department heads and note down the flow of transaction for better analysis. Understanding should be complete in respect of sources of revenue, number of units and locations, current compliance under indirect tax, possible reconstructions, major procurements, job work details, details of imports & exports, major input services, costing details and other similar aspects which would have impact under GST. Broad understanding of the industry to which the entity belongs to, including industry margin, categories of customers and vendors, GAAP would provide better foundation for the impact study.

Scrutiny of financials: Once the operation side is understood, next step is to scrutinise the financials of the company including trial balance, statement of profit or loss and the balance sheet. The financials provide us the better picture of current status of compliance and the possible impact under GST. Related party transactions, major vendor details, major customers, receipts and payment in forex, profitability, direct and indirect sources of income etc could be identified which would play crucial role in reporting the impact of GST on each of such relevant item.

Impact on Revenue: One should dig the various sources of revenue carefully it has direct connection with the term supply. Understanding the current tax implication on each such source of income and the impact of GST there on shall be discussed in the impact study report. Classification of goods and services, the rate of GST, impact on pricing due to change in tax rate, exemptions, abatements and similar aspects shall be taken into consideration and quantify the impact for better analysis. Supplies made through e-commerce operators. Mixed and composite supplies, sale through agents and zero rated supplies shall need special attention.

Supplies without consideration: There could be some transactions such as stock transfers, internal consumption, personal usage, sending goods for job work, free samples, gifts and disposals where no consideration being received by the entity. However, these transactions would have diversified impact under GST regime.

Impact on procurement: Procurements are the major debit item in a trading account of a manufacturing enterprise. The sources of procurement (manufacturers/dealers/unregistered) and the rate of duty suffered, quantum of credit eligible, alternatives available shall be taken into consideration during impact study. The impact of GST on procurement play crucial role in costing, vendor selection and negotiation with existing vendors.

Impact on Expenditure: Major expenditures like manpower supply, AMC services, payment against IPRs, transportation etc may undergo different treatment under GST. The change in rate of tax would certainly has impact on working capital and then the input tax credit. The provisions relating to reverse charge mechanism and restriction of credit under current regime Vs GST would provide better picture.

Impact on Input tax credits: This is the area of value addition where in client 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.

Impact on Place of supply and Time of Supply: The place of supply and time of supply would be depending on the nature of goods and /or services dealt by the client. Currently these are called in different names under different laws and the events determining the place and time of removal/provision of service/sale are different under respective tax laws. The comparative analysis could be done for smooth implementation of procedural checks at the respective location at the appropriate time.

Impact on Valuation: The value at which currently taxes being paid and that of GST could be different as there is no MRP valuation and current excise valuation rules are not applicable to GST. Similarly, in case of services, free supply of materials, reimbursement of expenditure etcetera would influence the valuation. The change in method of valuation would result in change in amount of tax.

Transitional issues: Though the GST would be implemented soon, the path of change from existing regime to new regime would be crucial. The impact study shall address the issues of carry forward of credit, converting from regular/ composition schemes, from exemption to taxable supply, credits on stocks lying on appointed day, pending litigations, refund claims, sales returns, and many other issues which would crop up during the transition shall be addressed for smooth transition into GST.

Apart from the above, there are many other areas which needs attention like agreement vetting, relevance of warehouses outside state, impact of anti profiteering clause, FTP benefits, IT/ERP customisation, GST returns etc. The events which is neutral under both regime could be ignored like ineligible credits. Exempted activity under both current tax and GST.

Conclusion:

The GST impact study report shall be prepared considering all the possible areas where the attention of management is needed. The scale of impact study would differ from one entity to another depending on its size, volume and nature of operation. In-depth knowledge in subject and clear cut understanding of the client's business would yield fantastic result in order to provide optimum value addition along with protection from possible threats when the GST is implemented.

- CA Nagendra Hegde

Anti-Profiteering clause in GST law

GST bills have been passed by Loksabha as well as Rajyasabha. It is very likely that the law would get implemented from 1st July 2017 unless there is strong resistance from trade and others on account of time required for preparation. Mainly due to changes required in information technology systems. It is important for businessmen to understand the impact of GST on their business. Anti-profiteering clause is one important aspect which needs to be understood at this stage which could have impact on pricing structure.

Section 171 of CGST Bill 2017 enables the central government to constitute an authority to examine if input tax credit availed by any registered person or the reduction in tax rate have actually resulted in commensurate reduction in price of goods or services supplied. Even the transitional provisions in CGST bill requires the registered person to pass on the benefit of extra credits by way of reduction in prices. However, we need to wait and see how fast government can constitute authority to monitor this clause.

Anti-profiteering clause is not a new concept in GST as countries like Malaysia and Canada had this when GST was introduced there. This was mainly to reduce the impact of inflation on goods and services. It also led to litigations and difficulty in implementation. In fact, separate rules were made for implementation of anti-profiteering clause.

Even in India, this clause could pose lot of practical challenges. The prices of goods or services may see rise before implementation of GST to avoid any impact during transition to GST regime. Quantification of benefits to be passed on would be practically very difficult. Such a provision could have been avoided as India is a growing market with lot of competition. Businessmen would love to reduce the price of goods or services to increase their market share. In fact, many entities are operating in loss by offering goods or services at lesser than cost.

Proper guidelines need to be issued for implementation and monitoring of anti-profiteering clause. Otherwise, this clause could lead to increase in corruption as well where revenue department misuses it. Industry could also make representation to abolish the provision or issue guidelines wherein businessmen should have liberty to prove anti-profiteering on business verticals or division level and not on product level. He should not be harassed for earning profits, if any, due to other business factors.

We should also hope that this clause is made applicable only during transitional phase as intention could be to curb inflation during transition to GST law. Revenue Secretary Hasmukh Adhia also recently confirmed to this view and stated that only based on complaints action would be taken in this regard.

Conclusion: Professionals need to educate the businessmen about this danger and guide on steps to be taken to track additional credits or benefit of reduced tax rates. This requires detailed analysis of pricing pattern and factors considered. Government would not be empowered to question rise in price of goods or services on account of factors such as price of goods, demand from customers, increase in labour cost, change in policies etc. A detailed GST impact study could mitigate the future issues.

-CA Madhukar N Hiregange
and CA Mahadev R
This article has appeared in KSCAA website

ST – Notification

[Notification No.10/2017-ST dated 08.03.2017]

Withdrawal of exemption on various services provided to educational institutes other than pre-school and higher secondary school

Earlier vide notification no. 25/2012 ST dated 20.06.2012; CBEC has provided the exemption on various services provided to educational institutions, which are as under:

- Transportation of students, faculty and staff;
- Catering, including any mid-day meals scheme sponsored by the Government;
- Security or cleaning or house-keeping services performed in such educational institution;
- Services relating to admission to, conduct of examination by such institutes

However vide aforesaid notification; CBEC has restricted the exemption on aforementioned services and allowed the exemption only if such services are provided to an institute providing the services by way of pre-school educational and education up to higher secondary school or equivalent. Therefore, by virtue of restriction placed vide this notification, the exemption is now not applicable to education institutions above higher secondary which provides qualification recognised by any law and the institutions providing approved vocational education.

Short notes on FTP – part IV

EXPORTS FROM INDIA SCHEMES

The objective of schemes under this chapter is to provide rewards to exporters to offset infrastructural inefficiencies and associated costs involved and to provide exporters a level playing field

Two types of Exports from India Schemes:

- Merchandise Exports from India Scheme (MEIS).
- Service Exports from India Scheme (SEIS).

Duty Credit Scrips shall be granted as rewards under MEIS and SEIS.

The Duty Credit Scrips and goods imported / domestically procured against them shall be freely transferable.

Usage of Duty Scrips:

- Payment of Customs Duties for import of inputs or goods, including capital goods,
- Payment of excise duties on domestic procurement of inputs or goods, including capital goods,
- Payment of service tax on procurement of services,
- Payment of Customs Duty and fee as per paragraph 3.18 of this Policy.

Merchandise Exports from India Scheme (MEIS):

Objective of MEIS is to offset infrastructural inefficiencies and associated costs involved in export of goods/products, which are produced/manufactured in India, especially those having high export intensity, employment potential and thereby enhancing India's export competitiveness.

Entitlement:

- Exports of notified goods/products with ITC[HS] code, to notified markets as listed in Appendix 3B, shall be rewarded under MEIS.
- The basis of calculation of reward would be on realized FOB value of exports in free foreign exchange, or on FOB value of exports as given in the Shipping Bills in free foreign exchange, whichever is less, unless otherwise specified.
- Export of goods through courier or foreign post offices using e-Commerce, of FOB value up to Rs. 25000 per consignment shall be entitled for rewards under MEIS.
- If the value of exports using e-commerce platform is more than Rs 25000 per consignment then MEIS reward would be limited to FOB value of Rs.25000 only.

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Ineligible categories under MEIS:

- EOUs / EHTPs / BTPs/ STPs who are availing direct tax benefits / exemption.
- Supplies made from DTA units to SEZ units
- Export of imported goods covered under paragraph 2.46 of FTP;
- Exports through trans-shipment, meaning thereby exports that are originating in third country but trans-shipped through India;
- Deemed Exports;
- SEZ/EOU/EHTP/BPT/FTWZ products exported through DTA units;
- Items, which are restricted for export under Schedule-2 of Export Policy in ITC (HS), unless specifically notified in Appendix 3B.
- Service Export.
- Red sanders and beach sand.
- Export products which are subject to Minimum export price or export duty.
- Diamond Gold, Silver, Platinum, other precious metal in any form including plain and studded jewellery and other precious and semi-precious stones.
- Ores and concentrates of all types and in all formations.
- Cereals of all types.
- Sugar of all types and all forms, unless specifically notified in Appendix 3B.
- Crude / petroleum oil and crude / primary and base products of all types and all formulations.
- Export of milk and milk products, unless specifically notified in Appendix 3B.
- Export of Meat and Meat Products, unless specifically notified in Appendix 3B.
- Products wherein precious metal/diamond are used or Articles which are studded with precious stones.
- Exports made by units in FTWZ.
- Items, which are prohibited for export under Schedule-2 of Export Policy in ITC.

Service Exports from India Scheme (SEIS):

Objective of Service Exports from India Scheme (SEIS) is to encourage export of notified Services from India.

Eligibility: Service Providers of notified services, located in India, shall be rewarded under SEIS, subject to conditions prescribed therein.

- Such service provider should have minimum net free foreign exchange earnings of US$15,000 in preceding financial year to be eligible for Duty Credit Scrip.
- For Individual Service Providers and sole proprietorship, such

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- minimum net free foreign exchange earnings criteria would be US$10,000 in preceding financial year.
- Payment in Indian Rupees for service charges earned on specified services, shall be treated as receipt in deemed foreign exchange as per guidelines of Reserve Bank of India.
- Net Foreign exchange earnings for the scheme are defined as under:
- Net Foreign Exchange = Gross Earnings of Foreign Exchange minus Total expenses / payment / remittances of Foreign Exchange by the IEC holder, relating to service sector in the Financial year.
- If the IEC holder is a manufacturer of goods as well as service provider, then the foreign exchange earnings and Total expenses / payment / remittances shall be taken into account for service sector only.
- In order to claim reward under the scheme, Service provider shall have to have an active IEC at the time of rendering such services for which rewards are claimed.

Ineligible categories under SEIS:

- Foreign exchange remittances other than those earned for rendering of notified services would not be counted for entitlement.
- Following shall not be taken into account for calculation of entitlement under the scheme:

Foreign Exchange remittances:

- Raising of all types of foreign currency Loans;
- Export proceeds realization of clients;
- Issuance of Foreign Equity through ADRs / GDRs or other similar instruments;
- Issuance of foreign currency Bonds;
- Sale of securities and other financial instruments;
- Other receivables not connected with services rendered by financial institutions.
- Earned through contract/regular employment abroad
- Payments for services received from EEFC Account;
- Foreign exchange turnover by Healthcare Institutions like equity participation, donations etc.
- Foreign exchange turnover by Educational Institutions like equity participation, donations etc.
- Export turnover relating to services of units operating under EOU / EHTP / STPI / BTP Schemes or supplies of

-Continued

- services made to such units;
- Clubbing of turnover of services rendered by SEZ / EOU /EHTP / STPI / BTP units with turnover of DTA Service Providers;
- Exports of Goods.
- Foreign Exchange earnings for services provided by Airlines, Shipping lines service providers plying from any foreign country X to any foreign country Y routes not touching India at all.
- Service providers in Telecom Sector

Entitlement under SEIS:

Service Providers of eligible services shall be entitled to Duty Credit Scrip at notified rates (as given in Appendix 3D) on net foreign exchange earned.

- CA Nagendra Hegde

Gems from Audit

Computation under Rule 6 of CCR, 2004

Reversal on cenvat credit is a big task always, however many companies fall in this category and they need to abide the rules made there under. What is the value to be considered for computation? What all to be included in the value? Like such many question will arise.

Though Computation of rule 6 has been exaggerated earlier in this we thrown light on the value of trading turnover to be considered as exempted turnover.

Explanation I to the Rule 6 of CCR provides :

Value in case of trading – shall be the difference between

{Sale price – COGS} → **OR** ← 10% of COGS

↓

Whichever is more

Which also provides the above to be determined accordingly GAAP (Generally Accepted Accounting Principles) **without including the expenses towards their purchase.**

Hence for calculation of trading turnover expensed incurred towards the purchases should not be taken into consideration.

- CA Keshav Murthy D

1. Admit Card Intermediate (IPC) and Final May 2017

http://resource.cdn.icai.org/45068exam35064admitcard.pdf

2. Important Announcement on revised Effective Date/ Applicability of following Standards on Auditing

http://resource.cdn.icai.org/45050aasb010417.pdf

3. Supplementary Notification for CPT June 2017

http://resource.cdn.icai.org/44971exam34922.pdf

4. Announcement for Students of CA Course

http://www.icai.org/new_post.html?post_id=13409&c_id=343

5. GST to be made applicable from May, 2018 examination onwards for Intermediate (IPC) Course and Final Course

http://www.icai.org/new_post.html?post_id=13408&c_id=343

6. Corrigendum to Study Material, Practice Manual CA Final Paper 3- Advanced Auditing and Professional Ethics

http://resource.cdn.icai.org/45106bos35117.pdf

7. Date and Time Schedule for Webcast and Mock Test Papers for May' 2017 Examination

http://www.icai.org/new_post.html?post_id=13379&c_id=343

Upcoming Events

Mark your Calendar

Topics	Date and Venue	Link to Brochure
GST Certification Course Batch 6	**8th May 2017 to 14th May 2017 @ Hotel Sanman Gardenia, No. 2, Near Costa Coffee, Ashoka Pillar Circle, Jayanagar 2nd Block, Bengaluru- 560011.**	http://www.hiregangeacademy.com/event/GST-Certification-Course_Batch-6.pdf

List for Concluded Events

Topics	Concluded On:	Link to Download Background material
GST Certification Course Batch 4	13th January 2017	http://www.hiregangeacademy.com/event/Cert-Course-Final-GST-Material--Jan-2017-rn.pdf
Seminar on "Budget 2017 Analysis"	10th February 2017	http://www.hiregangeacademy.com/event/Collated-material_Budget_Feb-2017.pdf
GST Certification Course Batch 5	25th February 2017	http://www.hiregangeacademy.com/event/GST-Certification-Course-Batch-5.pdf

A Seminar on "GST Awareness for Public" was a Knowledge treat for all the delegates!!!

We thank all the delegates and the speakers for making the seminar a marvelous learning experience!

We are encouraged by our readers and the complements received. In our endeavour to improve our quality we request you to give two minutes time to give feedback.

-Thanking you,
Newsletter team

Write us at-
https://docs.google.com/a/hiregangeacademy.com/forms/d/1LprDBXql1Ld0rG7cn8p-dMW-_lhkQRPcZtN6bwSXrr0/edit?usp=drive_web