

Hiregange Academy

Empowering Knowledge & employability

Impact of GST on Service Sector
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Contact: Hiregange Academy

TV Gopinath

Mob No: +91 9620116163

Ph No. 080-26536404

Web: www.hiregangeacademy.com

E-mail id: gopi@hiregangeacademy.com

ABOUT HIREGANGE ACADEMY

This world is a competitive place where sustenance is the key. Qualification is the first stage to a career. Hard work, confidence and more so, 'attitude' is the key to success. Knowledge as a concept is only of potential value. The application, execution and implementation of knowledge is where the power lies. Many graduates, inspite of being qualified are unemployed or under employed. Those in jobs are underutilized or do not work to their potential.

Hiregange Academy- 'A knowledge and employability initiative' is in the quest to support the job aspirants. More specifically to enable them gain self-confidence, enhancing their knowledge in the field of commerce and upgrading their skill sets essential to be "job ready". For those pursuing professional courses facilitate in making them "complete professionals".

It is a small step taken mainly towards bridging the gap between the industry and the job aspirants. The knowledge inputs, guidance, specific training and solutions to common problems, real life case studies and some technology exposure would ensure enhanced employability of the youth. It would enhance the quality of those already employed. For the industry, "the right resources for the right job" can be achieved.

The Academy aims to provide a win-win-win situation for the job seekers, employers and employees while being a contributor to the nation at large.

Academy was started on 19th July 2014. It is supported by its knowledge partners of Hiregange and Associates, Chartered Accountants, Bangalore and Hyderabad.

The methodology of achieving this would be through: online publications of booklets, free e- books, and specific job oriented training in class rooms (also uploaded on YouTube for viewing by all) at present. Services to CA students/ staff, Colleges and Industry are also being provided. Monthly newsletter presently focused on Indirect Taxes to interested persons to spread the latest information is another initiative

Publications of Books and Booklets

The objective is to provide easy to read short aids for officers in the industry, practitioners and students at large.

- ✓ To get free downloads of the books published,
Click the below link: www.hiregangeacademy.com
- ✓ Hard copies of the book are also available for sale at our Hiregange Academy office at nominal prices.

Books Available as on date,

- Understanding Central Excise
- Understanding Service Tax Concepts
- Tips to draft effective opinions
- Beneficial Schemes under FTP 2009-14
- Due diligence under Indirect Tax
- Cost control in IDT
- Reverse Charge & Joint charge mechanism
- Job work under Central Excise and Service Tax

Our Services

- ✓ Course on practical theoretical knowledge to enable students to be job ready.
- ✓ Short term courses for graduates, under graduates in Commerce field.
- ✓ Similar courses for existing employees for industry and trade.
- ✓ Basic and advance level courses for professionals like Chartered Accountants, Company Secretariat, Actuarial, Advocates etc.
- ✓ Courses for trade association and professional institutions in the area of taxation.
- ✓ Industry specific training programme in Indirect taxes and Foreign Trade policy.
- ✓ Maintaining list of job ready employable person's database by Jan 2016
- ✓ Other training and skill development courses as may be necessary.

T V Gopinath
Managing Partner
Hiregange Academy
#1010, 1st Floor, 26th Main (Above Corporation Bank,
4th 'T' Block, Jayanagar, Bangalore - 560 041
For further information, write to - admin@hiregangeacademy.com

Bird eye view of Goods and Services Tax (GST) in India

Introduction:

Presently under the existing taxation system for indirect taxes, number of indirect taxes are being levied and collected both from Central Government and State Governments on different activities undertaken.

Taking a cue from international best tax practices, and to ease out the complications and compliances under different indirect taxation laws and different statutory authorities, thought process was started to consolidate number of taxes in to one system of taxation uniformly across the country.

In that direction reforms were thought of many times and partial reforms were being undertaken in the respective taxation laws. The move towards introduction of Goods and Services Tax (GST) was made by the then Finance Minister Mr. P. Chidambaram in 2007-08 budget to introduce GST from 2010.

Though lot of effort went into it, towards latter part of 2016, we are still in the first technical step in the implementation process i.e. amendment of Constitution of India.

This article discusses the proposed model for expected GST as is mooted by the GST Constitution Amendment Bill and proposed GST law released for public comments.

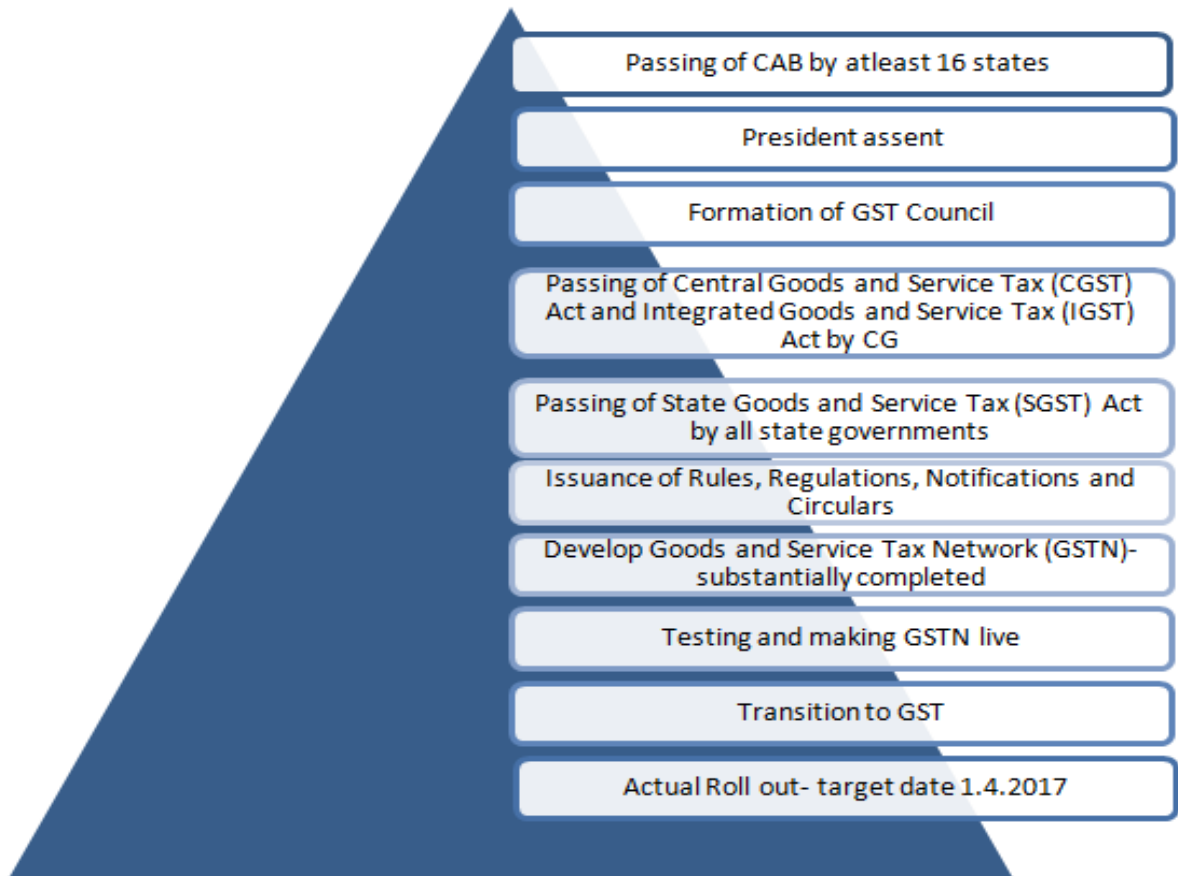
Passing of GST by Rajya Sabha

Long pending 122nd Constitutional Amendment Bill (CAB) was passed in Rajya Sabha on 3rd August 2016 further approval on 8th August by Lok Sabha on the changes made in the bill, giving way for concurrent jurisdiction for both Centre and State to tax under the GST regime.

GST is unified indirect taxes, with cross sectional credit. Existing taxes Central Excise, Service Tax & VAT etc. would be subsumed to be one GST. Under present regime, VAT credit cannot be used for payment of central excise/service tax and *vice versa*, however in GST regime there would be the levy of GST on all transactions and hence ensuring a smooth credit flow.

Introduction of GST would change the way business is done. It would throw host of opportunities and challenges for the business and it becomes imperative for them to gear up themselves for adapting the change.

Further Stages in rolling out of GST



Present Taxes:

Presently State Government are levying and/or collecting taxes such as sales tax called as VAT, entry tax, Entertainment Tax, Luxury Tax etc. Similarly Union Government is levying and collecting taxes such as Central Excise Duty, Service Tax, Additional Customs Duty and various types of cesses in the nature of Excise duties. Among them the major types of taxes on business transactions can be tabulated as follows:

Tax	Levied on -	Collected by -
State VAT	Sales or purchases effected within the State	Respective State Governments
Central Sales Tax (CST)	Sales or purchases effected in interstate trade or commerce	State Government from where sales are done.
State Excise	Manufacture of Alcoholic beverages in the state	State Government where manufacture happens.
Central Excise	Manufacture of Excisable Goods In India.	Union government
Service Tax	Providing of taxable service in taxable territory (India excluding J & K)	Union government
Additional Customs Duties	On goods imported into India.	Union government

Proposed GST Model:

Now 122nd Constitution Amendment Bill, 2014 is passed in the parliament containing proposed changes in the Constitution related to GST implementation. The highlight of the changes considering, GST model is expected to be as follows:

a) There will be three types of Tax as follows:

Type of Tax	Leviable on	Levied by
SGST	Supply of Goods, or of services, or both within the state.	Respective SG
CGST	Supply of Goods, or of services, or both within the state.	CG
IGST	Supply of Goods, or of services, or both in the course of interstate trade or commerce.	CG

b) In other words going by the types of transactions –

Type of Transaction	Type of Tax	Levied by
Supply of Goods, or of services, or both within the state (Same transaction will suffer both types of tax)	SGST	Respective SG
	CGST	CG

Supply of goods, or of services, or both in course of interstate trade or commerce	IGST	CG
Supply of goods, or of services, or both in course of Import into the territory of India	IGST	CG

c) There will be mechanism between the State Government and Central Government for distribution of the IGST collected by Centre as per the recommendation by GST council (constitutional body to be created after amendment to constitution). From the business entity perspective this may not have direct implications.

d) Subsumed in GST:

Central tax/levies	State taxes / levies
<ul style="list-style-type: none"> ▪ Central Excise Duty ▪ Additional Excise Duties ▪ Excise Duty levied under Medicinal & Toiletries Preparation Act ▪ Service Tax ▪ Additional Customs Duty - CVD ▪ SAD of Customs – 4% (SAD) ▪ CST (Administered by states) ▪ Surcharges ▪ Cesses 	<ul style="list-style-type: none"> ▪ VAT/Sales tax ▪ Entertainment tax ▪ Luxury tax ▪ Taxes on lottery, betting & gambling ▪ State Cesses & Surcharges in so far as they relate to supply of goods and services ▪ Entry tax

e) The proposed levy of GST will be based on **supply of** goods, or of services, or both. This will replace the concept of manufacture and removal of goods; sale of goods; and provision of service by the concept of **'Supply'** of goods and/or services.

Ambit of 'supply'

The taxable event under GST is supply of goods and/or services. The term 'supply' includes all forms of supply, such as sale, transfer, barter, exchange, license, rental, lease or disposal made in the course of business. Further also it includes importation of service with or without consideration. Transactions between principal and agents are deemed to be supplies.

'Supply' also includes specified transactions such as permanent transfer of business assets, temporary application of business assets to a non-business use, services put to non-business use, assets retained after deregistration, and supply of goods/services by a taxable person to another taxable or non-taxable person in the course of business. However, supply of goods to a job worker would not be treated as supply.

It is specified that, inter alia, sale of under construction properties, temporary transfer of intellectual property rights, works contracts (including transfer of property in goods involved in execution of works contracts), transfer of right to use any goods and development, upgradation, customization etc., of software would be supply of service.

GST related to Specific Products:

Though GST is to consolidate tax code on all products considering various political aspects of our country, certain specific products are dealt separately. The highlights of the same are as follows:

- a) Manufacture of alcoholic beverages for human consumption are kept out of GST. State Excise duty would continued to be levied by the respective state Government.
- b) On the other hand on Tobacco and Tobacco products Central Government would continue to levy Central Excise Duty (or under some other name) in addition to GST.
- c) Levy of GST on Petroleum products are postponed till that time the GST council recommends for its inclusion in GST. Till then States would continue to levy Sales tax and Centre would continue to levy Central Excise duty. The products are as follows :-
 - i. Crude petroleum;
 - ii. Diesel;
 - iii. Petrol;
 - iv. Natural gas; and
 - v. Aviation turbine fuel

Set off / Adjustment/ Credit:

Main objective of the GST scheme is to avoid double taxation and cascading effect of different taxes levied by states and centre. Therefore it becomes essential that set off / adjustment / credit of all taxes paid on both goods and services which are received is available to be used against the liability to be paid on goods and services supplied.

However as is put across in the model GST law, such seamless credit set off/adjustment/credit does not seem to be fully envisaged. Detailing and restrictions are to some extent given in model GST law and others are to be set out in Rules to be framed in this regard. As per the present understanding it is proposed to be in following manner broadly.

Type of Tax Paid	Tax can be adjusted against
SGST	Adjusted against SGST and surplus if any adjusted towards IGST
CGST	Adjusted against CGST and surplus if any adjusted towards IGST
IGST	Adjusted against IGST, CGST and SGST in the same order.

Enactment of Laws Governing GST:

As per the proposed scheme law for levy of CGST and IGST will be formulated by Parliament for levy and collection of CGST and IGST respectively. The tax also will be levied and collected by the Central Government. There will be common enactment for entire country. However from administration perspective the CGST or IGST credits of the states is said to be maintained separately registration wise (which will be one per state unless a person opts to have more than one registration if he has separate business vertical).

As regards to levy of SGST each state is going to enact law for the respective states based on the model law formulated by GST council. The levy and collection will be by the respective state legislation. Unless the states follow the model law in its true spirit, it may create disparities in the laws of different states, leading to different treatment of tax in different states.

Rate of GST and threshold exemption limit:

One of the essential aspects of GST is rate of GST. As per the present status, this is not yet finalized and has to be decided in GST Council by the voting system as is set out in the proposed amendments in the constitution.

However with the public debate, it is expected that the rate (both SGST & CGST together or IGST, as the case may be) to be in following manner-

- General Rate - between 18% and 20%.
- Concessional Rate – around 12%
- Precious Metals – between 2% to 6%

As regards to threshold exemption limit, as per the model GST law it is stated to be 10 Lakhs on all India basis. Industry feels that the said basic threshold is too low and it cannot work for various reasons.

Composition Scheme:

For the person who has taxable turnover **equal or less than fifty lakhs** is proposed to be given a Composition scheme wherein the composition tax rate as is fixed based on the recommendation of GST Council will have to be paid instead of regular rate of tax. The rate is expected to be between 1% and 4%.

The scheme will be subject to conditions which the law will provide for the same.

As per the proposed model GST law, taxable person who effects any inter-state supplies of goods and /or services is not entitled for composition scheme. Further it is said that a person having business in different places and separately registered all of them should opt for composition scheme. In other words a person cannot be in composition in one registration and outside in another registration. A taxable person who pays tax under composition levy shall not collect any tax from the recipient on supplies made by him nor shall he be entitled to any credit. However industry representation is being made to remove those conditions to enable the survival of small business man without breaking the chain of credit.

Registration:

Registration has to be obtained state-wise and not on all India basis. However within a state if there is separate business vertical option is given to register the same separately. The taxability is determined based on registration treating them as separate entity for supply of goods/services. Separate registration will be accorded by State Government and Central Government in each state, with mutual co-ordination among them.

Records and Returns:

The records though to be maintained as per the needs of the business, since GST is going to be technology based, all the transactions relating to GST is required to be uploaded into GST portal on periodical basis.

Further also there is requirement of matching of credits to the supplier's output tax to get the benefit of credit, otherwise of which the credit will be denied. Further also it is proposed that the credit will not be permissible unless the vendor deposits appropriate taxes into Government Exchequer. This will add difficulties in business since they have to ensure compliance of their vendor to get the benefit of credit.

Job work transactions

The principal has the option to send taxable goods without payment of GST to a job worker and bring it back, after processing, to any of his own place of business, for supplying such goods on payment of GST or export it. The principal also has the option to directly supply final products to end customers on payment of GST or export from the premises of job worker itself, subject to fulfilment of applicable conditions. GST credit is allowed in case of direct receipt of inputs or capital goods by the job worker, subject to receipt of goods back by the principal within specified period.

Impact of GST on Trade, manufacture, service:

The GST law in India would be a Dual GST. The Central Government and the State Governments will levy GST concurrently on a common base value. All goods and services, except for a few, would be brought into the GST base. There will be no

distinction between goods and services for the purpose of imposition of tax.

- Impact on Traders
- Impact on Manufacturer
- Impact on Service provider
- Impact on consumers
- Impact on Central Government
- Impact on State Government

1) **Impact on Traders:**

- a) **Tax on value addition:** The impact of tax on the wholesaler or retailer would be limited to the value addition. The tax paid at earlier stages (except SGST of other states) would be available as set off for payment of GST on supplies. Therefore traders would prefer to buy/receive supplies with invoice.
- b) **Reduce cascading:** Cost of products and services would reduce due to the cascading effect of tax being reduced.
- c) **SGST levy:** SGST would be levied on the local supply of goods within State. IGST (comprised of CGST and SGST) would be levied on interstate supply of goods. CST Act could be abolished in course of time and as a preliminary step the rate of CST could be brought down to 1%. Form C would be abolished under GST law.
- d) **No subsequent sale or sale in transit under the CST Act against Forms E-1/2:** This exemption as per section 6(2) of the CST Act may not be continued under GST levy.
- e) **Stock transfers:** Presently, stock transfer is done without charging CST against Form F. Under GST law, stock transfers from one State to other to one's branch or consignment agent might be treated as inter-State sale and tax levied thereon.
- f) **Stock transfers to branches/consignment agents within the State:** Under GST, these transfers could also be levied to tax, unless the BIN number of transferor and transferee is same.

2) Impact on Manufacturers

- a) **Competitive in market:** There would be a saving in taxes due to less or no restrictions in taking setoff of taxes paid at various stages of manufactures reducing the cost of goods sold. This would make them more competitive both in domestic and international markets.
- b) **Valuation of the supply of goods:** At present, excise duty is paid on the event of manufacture of excisable goods and VAT on the sale of goods. VAT/CST is computed on sale price+ excise duty paid. With the shift of taxable event from manufacture to supply of goods, the valuation of goods could be simplified. Under GST, actual value received as a consideration for the supply of goods would be subject to GST.
- c) **Cheaper exports:** The exports would be cheaper as taxes paid at earlier stages could be refunded to higher extent. [credit restrictions can lead to tax sticking]
- d) **Corruption:** The corruption faced by the manufacturers would substantially reduce over a period of time.
- e) **Transaction costs:** The transaction costs of compliance could reduce due to widespread computerization and online filling and filing of forms/payment of taxes and returns. However the huge need to upload all transactions may lead to the compliance cost for medium sector to rise and for small sector it may not be bearable.
- f) **Manufacturers under administration of State VAT officials:** Manufacturers having a value of clearances of less than Rs 150 Lakhs are exempted under present Excise law. The States could administer the Central GST of dealers having gross turnover of less than Rs. 1.5 crores.

3) Impact on Service Providers

- a) **Present destination based to consumption based levy:** Presently, service tax is levied at origin and is a destination based levy, the burden of which is borne by the end customer. Under GST, they would be taxed at the place of consumption.
- b) **Service tax-SGST levied by States:** Under GST law, the service tax would be levied not just by Centre but also by the States who would be empowered to levy SGST by amendment to the Constitution of India.

- c) **Taxes received by consuming State:** If services are rendered from one State to another, then tax would ultimately go to the consuming State.

4) **Impact on the Consumers:**

- a) **Reduction in price:** Generally the purchase price would reduce as tax content of most products would come down. But if a product has evaded tax completely then it may find increase. Further those items which are now taxable where tax rate earlier was zero may be more expensive as exemption and zero rated list of items may come down in the GST regime.
- b) **Transparency:** The tax paid would be clearly mentioned in the invoice given to the customer.
- c) **Options to customer:** There would be free trade and commerce between states and throughout the country which would provide more options to the consumer.

5) **Central Government:**

- a) **Increased collection of CGST and IGST:** The collection of taxes-CGST and IGST would increase when more and more assesses register and pay taxes due to simplified tax laws under GST regime.
- b) **Loss of CST revenues:** The CST which would be reduced to 1% and then gradually removed (may be within 2 years of GST implementation). **This maybe dropped in the final law.**
- c) **Refunds under GST:** The refunds which under Central excise and service tax law take long time in coming, could come faster.
- d) **Reduce corruption:** When the laws are simplified, then the chances of multiple interpretations would reduce, leading to fall in disputes and consequent litigation. Also the automation of the payments/returns filing and other compliances could mean that the interaction between the assessee and the department officers would come down to minimum. This would reduce corruption and increase ethics gradually.
- e) **Compensation for loss of revenues to States:** The compensation of loss of tax revenues to the States on account of implementation of GST would be an outgo.

6) State Government

- a) **Proliferation of computerization leading to fall in transaction costs:** Due to increase in computerization due to GSTN, the tax administration would be easier and cost of collection would be reduced.

7) Impact on the country

- a) **Increased FDI:** The Foreign Direct Investments may flow in an increased manner once GST is implemented as tax laws are one of the reasons foreign Cos are wary of coming to India in addition to high corruption levels.
- b) **Growth in overall revenues:** It is estimated that India could get revenues \$15 billion pa by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. Over period the dilution of the principles may see that only part of this is accruing actually.
- c) **Single point taxation:** Uniformity in tax laws leading to single point taxation for supply of goods or services all over India. This increases the tax compliance and more assesses come into tax net.
- d) **Simplified tax laws:** This reduces litigation and waste of time of the judiciary and the assessee due to frivolous proceedings at various levels of adjudication and appellate authorities. Present model GST law appears to be much worse and an amalgam of the bad parts of VAT/ ST/ CE.
- e) **Increase in exports and employment-** GST could also bring raise in employment, promotion of exports and consequently a significant boost in overall economic growth and factors of production-land labour and capital.

8) Overall Impact

- a) **Change in law and procedure:** Since it is a major indirect tax reform in India, there would be new legislations and procedures. The entire indirect tax code will be a new one.
- b) **Change in tax-rates:** The standard rate of 12% for central excise, Service tax, along with residuary rate of VAT at 12.5-14.5% brings the overall rate to 25%-30%. But, post GST, it is likely to be in the range of 22%-27%; a net gain of

almost 6%-10%. Most of the dealers and consumers would experience the change in tax rates, either significantly or marginally. When the tax rates are increased it could lead to tax evasion as well.

- c) **GST based on HSN:** The central excise tariff based classification would no longer be applicable. It will reduce the interpretational issues in respect of class of commodities.
- d) **Availment of tax credit:** GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base. At present no cross credits are available across central excise/service tax to local VAT/sales tax. Under the GST law, the input tax credit (ITC) (set off) would be given for Central GST against CGST and the States will give input tax credit (ITC) SGST to SGST. Cross-utilization of credit between Central GST and State GST will not be allowed.
- e) **Credits availment based on vendors invoices:** The credit of excise duty paid is available based on the excise invoice raised by manufacturer or service provider. The credit is available under the Service Tax law when the payment of invoice is made within 3 months of invoice date. In respect of joint charge and reverse charge, based on receipt of payment basis on basis of payment challans of the assessee. Under State VAT law, it is allowable on the basis of tax invoice. Under GST the credits could be availed based on the invoices of vendors under CGST and SGST. But the onus may shift onto the assessee to ensure that the amount of the CGST/SGST has been deposited to the respective Government treasury by the vendor. **This is not a legal provision and would be challenged.**
- f) **Avoidance of Double Taxation:** Presently, several transactions suffer VAT as well as Service Tax such as in case of works contract or licensing of software. This could be resolved in GST by redefining what is goods and service.
- g) **Changes in the Accounting Software:** Dealers and service providers need to modify/replace the accounting and taxation software. Though initially there could be investment costs, costs of training in GST of people at each level starting from junior/mid to higher level managerial staff, management group/stakeholders.

- h) **Training:** Comprehensive training will be required to the staff members of the business community, both at senior level and also at junior level. Further, the scope of such training should be extended to the marketing personnel, apart from accountants and legal department.
- i) **Competent Professionals:** There are specialized consultants for Excise Duty, Service Tax and VAT. With the GST, only a single consultant maybe required who can handle all GST matters. Compliance for the SME may necessitate competent tax preparers who are semi qualified.
- j) **Amending existing contracts:** Assessee has to put a clause to collect CGST and SGST extra as applicable in respect of existing contracts.

Conclusion:

In addition to the aspects covered above, the GST law also covers provisions on levy of interest, penalty, remission, audit, assessment, inspection as well as regular as well as alternate dispute resolution mechanisms.

The implementation of GST is expected to be from April 2017. More important, from the businessman and consumer perspective, this change is going to have substantial impact on the business as well as cost to consumers depending upon the structure of the business and location of business and consumer. Therefore it becomes essential to re-look into structure the business and location depending upon the assessment of implication of GST on each type of transactions. The impact analysis and planning for restructuring can be done only after the rates are finalized.

Background Material on Impact of GST on service sector

GST is not just a tax reform but it is a business reform. It shall change the way in which business processes are performed and the way in which the business transactions are undertaken. Although, GST will bring with it, both positive and negative aspects. However, the organizations that will plan its business processes better in a manner to best suit the needs of the GST regime, then such organization will have competitive edge over others. Therefore, it is of due importance that business house proactively re-structure its business processes and optimize its tax position to reduce the negative impact of the changing tax environment. So far as service sector is concerned, below is the brief of the impact that the GST is going to have on the service sector:

GST Rate

The service sector at present is taxed at the rate of 15% including Swatch Bharat and Krishi Kalyan Cess (KKC). The GST rate is likely to be higher widely speculated at 18-22%. This means that there will be an impact on the services which will become costlier by the differential tax amount from the current levels. All the continuing / ongoing contracts have to suffer the increased rate in respect of work completed after effective date.

International competitiveness

Competitiveness of India's exports has increased over time but gets partially impeded due to certain domestic constraints. One of such constraining factors refers to inefficient indirect tax regime. The following factors may affect the India's International competitiveness;

- Cascading tax
- not getting full offsets by way of credits
- origin based taxation
- Delay in refunds etc.

With the introduction of GST which is going to be consumption based destination taxation, seamless credit objective and simple payment, return and refund procedures etc.

Supply

The present taxable events under different laws are no where relevant and only one event i.e. 'supply' needs to be tracked. Supply defined in an inclusive manner. Tax is on supply of service therefore even the supply is made without consideration is taxable. In the present scenario the service provided without consideration i.e, free service is not taxable. Even all **reimbursable expenditure** collected by service provider will be taxable as it is nothing but supply.

Levy and Collection of CGST/SGST

Section 7 sets out that Central/State Goods and Services Tax (CGST/SGST) shall be levied on all intra-State supplies of goods and/or services at the rate specified in the Schedule . . . to this Act and collected in such manner as may be prescribed. Hence two levies on same service i.e. SGST and CGST, instead of only one tax i.e. service tax in the present law.

Section 8 of CGST Act provides for not less than 1% of the turnover during the year whose taxable turnover in a financial year does not exceed Rs. 50 Lacs as composition scheme. Further it will break the CENVAT credit chain for service provider if they obtain goods from composition scheme dealer.

Input tax credit

The main objective of GST law is to give seamless credit by not putting restrictions. Service providers are eligible for **credit of VAT portion** on his purchases hitherto not eligible. The model law sets out that every registered taxable person who carries on any business at any place in India/State, shall be entitled to take credit of input tax admissible to him which shall be credited to the electronic credit ledger of such person.

The amount of credit of IGST available in the electronic credit ledger shall first be utilized towards payment of IGST, CGST and SGST, in that order. The amount of credit of CGST shall first be utilized towards payment of CGST and the amount remaining, if any, towards the payment of IGST. The input tax credit on account of CGST shall not be utilized towards payment of SGST.

There is no segregation between manufacture, services and trading for utilization of credit.

IGST

Service provider has to pay the IGST on interstate supplies. It would apply even for services between head office and branch vice versa if they are situated in different states. This could be one of the draconian provision under GST. Recommendation in this regard is highly preferred.

Further import of services shall be liable to IGST under reverse charge mechanism. Supply includes import of services whether or not for consideration whether or not in the course or furtherance of business.

Time of Supply

This will be helpful for determining the time of supply of goods and / or services under GST law. The time of supply will be earliest of four events. The provisions of time of supply under GST are more or less similar to present POT Rules, 2011. However these are going to be further more cumbersome.

Place of Supply

Section 6 of IGST Act provides the provisions of place of supply, which are similar to erstwhile place of provision rules, 2012. These are useful to determine the place where the services are deemed to be supplied. Determining the place of supply under GST is going to be very cumbersome.

Reduction in cost

With the introduction of GST the cost of procurement of services is going to be reduced due to no cascading of taxes and reduced prices by the vendors. Ex. Work's contract service suppliers are going to be the biggest beneficiary in this regard. Works contract - huge impact if not under merit rate.

Transaction value

GST shall be payable on transaction value of supply of goods and / or services. Transactions with related parties/ group companies' needs to be properly valued – Valuation issues may creep in this regard. Wherever transaction value fails value shall

be determined by using **GST Valuation (Determination of the Value of Supply of Goods and Services) Rules, 2016.**

No Disputes around Sale v/s Service

Currently service providers are facing difficulty in identifying what is service and what is a good and getting notice from both service tax and VAT /CST departments. Assessee paying service tax are getting notices from VAT / CST department and the assessee who are paying VAT /CST are getting notices from service tax department. With the introduction of one single GST on supply of goods and /or services including Schedule II, GST is also likely to put an end to the double taxation of services like software etc. which are treated as goods and services both.

Registration

Registration needs to be taken by person liable to pay tax (section 19)

- There would be separate categories of registrations for different taxable persons viz., normal taxpayer, taxpayer under compounding scheme, casual dealers, nonresident supplier, input service distributor and unique ID for UN bodies/ governmental authorities and PSUs.
- Registration would be PAN based.
- An entity having a single PAN but effecting supplies from multiple States would be required to take registration in each of the States from where the supply is being made.
- Separate registrations may be taken for different business verticals within the same State. This would be optional and not mandatory.

Returns

Every registered dealer is required to file return for the prescribed tax period. A Return needs to be filed even if there is no business activity (i.e. Nil Return) during the said tax period of return; Government entities / PSUs, etc. not dealing in GST supplies or persons exclusively dealing in exempted / Nil rated / non – GST goods or services

would neither be required to obtain registration nor required to file returns under the GST law.

- Filing of returns would only be through **online mode**. Facility of offline generation and preparation of returns will also be available. The returns prepared in the offline mode will have to be uploaded.
- 2 returns currently vis-à-vis 37 returns in a year in GST
- There will be **a common e-return** for CGST, SGST, IGST and Additional Tax.
- A registered Tax Payer shall file GST Return at GST Common Portal either by **himself** or through his **authorised representative**;
- There would be **no revision of Returns**. Changes to be done in subsequent Returns

Assessments, audits and demands

“Assessment” means determination of tax liability under this Act and includes self-assessment, re-assessment, provisional assessment, summary assessment and best judgment assessment – clause 2(12) of GST Model Law, 2016.

Hence separate assessments, audits and demands existed under erstwhile different acts are going to go and only one assessment, one audit and one demand notice under GST law would come into force. The tax administration would have powers to audit and re-assess the taxpayers on a selective basis.

The Commissioner of CGST/Commissioner of SGST or any officer authorised by him, by way of a general or a specific order, may undertake audit of the business transactions of any taxable person for such period, at such frequency and in such manner as may be prescribed. Special audit by Chartered/Cost Accountant can be ordered if the officer is of the opinion with prior approval of commissioner.

Managing procurement vendors

As prices are expected to come down in GST regime, every customer would like to procure goods/services at a cheaper price. In this aspect, Purchase department of an organization has to be more proactive to manage their procurements/ suppliers better and to crack a better deal from their vendors. GST is nothing but an opportunity for the purchase department to enhance their vendors list and negotiate, this aspect is being discussed below in detail as under:

- **Vendor masters updation, Tax master updation**

Once GST is implemented, the first and foremost important task is to update the vendor masters and tax masters with the additional information based on the structural changes and the tax changes performed by each businesses in the GST regime.

➤ **Vendor Performance/ compliance**

It is very important that every supplier has to comply with GST, as the concept of compliance rating in the GST regime will be playing a crucial role. It not only defines the compliance status of the business but also has an impact on the business, either positive or negative. Suppose if compliance rating is low on scale either because of delay in payment of taxes or invoices etc, then the customer would think twice before transacting a business with such vendors.

Further, an important aspect in GST is that tax credit to the purchaser is linked with that of tax payment of such taxes by the vendor. Unless, the vendor pays the taxes on supply of the goods/ services, the customer will not be entitled to take credit of such supplies. If supplier has not remitted taxes, then GST becomes cost to buyer and in turn, price of his supply would substantially goes up which would affect the market.

Further, if there is any delay on account of vendor in remitting taxes, then the buyer can take credit of taxes only after discharge of taxes by supplier. Till then, buyer has to wait for the payment by supplier. This becomes a big challenge to the business to follow up with the supplier for taking credits.

Therefore, procurement department needs to assess their current vendors and the un-organised/ non-compliance oriented vendors must be trimmed down.

➤ **Identifying multiple new vendors**

As GST is an united indirect tax and since it will change the entire dynamics of the businesses, therefore prices of almost all the businesses will undergo a change. Therefore, it gives an opportunity to the businesses consider entire nation as a common market and enhance the geographical purchase horizon and get the quotes multiple new vendors. Therefore, against the current practice of obtaining 3 or 4 quotations, business can identify multiple new vendors and get revised quotations to obtain for a better and cheaper price at same quality in the GST regime.

➤ **Conducting vendor education programmes for un-organized vendors**

Since GST involves compliance from both the supplier and the buyer, procurements from un-organized vendors is a bit challenge to the business as the credits may be lost. In such cases, vendor education programmes needs to be conducted for un-organized vendors to bring awareness about GST. Such programmes shall ultimately fetch results for the customers in the long run.

➤ **Pricing of procurements from related parties**

Although, transaction value with the related party vendors will be acceptable in the GST regime. However, department officers have been given adequate powers to reject the transaction value if there is an iota of doubt on the truth or accuracy of the value adopted or if the value is not kept at the arms length. Therefore, each supplier has to review the current pricing of transactions with the related parties and make suitable changes, if any to comply with GST. Otherwise, GST officers may litigate into the valuation I respect of the related party transactions.

Other Aspects

Documentation

- As one of the criteria for allowing the credit under GST would be proper documentation on the basis of which credit is availed under earlier law.
- Ensuring this exercise before stepping into GST regime will safeguard the credits that are getting transformed from current regime to the GST regime.
- System must be properly planned in such a way that proper invoices are obtained wherever necessary during the transitional phase so as to enable the entity in safeguarding the credits.
- It is pertinent to note that the credits that are lying in the closing balance in the periodical returns filed will only be allowed to be taken as credit in the GST regime. Ensuring that proper reconciliations between books, returns and computations are accomplished to make sure no credits are missed out.
- It is the foremost exercise that need to be in operative for smooth transition of credits into GST regime.

