

Hiregange Academy

Empowering Knowledge & employability

A Seminar on *Budget 2017 Analysis*

Contact: Hiregange Academy

TV Gopinath

Mob No: +91 9620116163

Ph No. 080-26536404

Web: www.hiregangeacademy.com

E-mail id: gopi@hiregangeacademy.com

Foreword

All eyes on Union Budget 2017-18, expectations are high after demonetization. It continues to aim and achieve, decline in inflation, growth in industrial & agricultural sector.

2017-18 may witness establishment of sturdier bridges between the determinants of micro economic and macro economic growth, the benefits of which would be relished by every section of society, irrespective of its size or nature.

*To understand the changes in Direct and Indirect Taxes and its implications Hiregange Academy is organizing seminar on **Budget Analysis 2017** to guide Manufacturer Traders, Service Providers, Exporters, Importers, Professionals and Entrepreneurs, Students and GST updates.*

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 – Aug 2015
- Understanding Service Tax Concepts – Aug 2016
- 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
- FAQs on Service Tax
- Central Excise Implication on Job Work

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.
- 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 – gopi@hiregangeacademy.com

Snapshot of Schedule

Start Time	Duration (in min)	Topic	Suggested Speaker
9.45	15	Registration and Welcome address	
10.00	45	Economic Survey	CA Mathew Abraham
10.45	15	Tea Break	
11.00	120	Implication of changes under Income Tax on business and individuals	CA Venkatesh D R
01.00	60	Lunch Break	
02.00	60	Implication of changes under Indirect Taxes	CA Rajesh Kumar TR
03.00	60	GST Updates- GST Impact on Business	CA Madhukar N Hiregange
04.00	15	Tea Break	
04.15	45	Continued GST Updates- GST Impact on Business	CA Madhukar N Hiregange
05.00	15	Interactive session	

Upcoming Events:

I	Certification course on GST 5th batch	20th to 25th February, 2017
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Economic Survey 2016-17

- GST is historical policy development and will create a common Indian Market, improve tax compliance and governance, and Boost investment and growth
- It is a bold new experiment in the governance of India's cooperative federalism
- Revenue collection will take some time to reach its potential due to many complications in transition to GST from administrative and technology perspective
- Fiscal gains from implementing GST will take time to be fully realized
- The focus on ensuring that rates on essentials kept low and on luxuries kept sufficiently high with insufficient concern for the implied consequences for efficiency and simplification
- Follow up actions are required to minimise the costs in terms of further tax reforms by way of including land and real estate into the GST, reducing tax rate and stamp duties
- Over the medium run, the implementation of GST, follow-up to demonetization and other structural reform measures should take the trend rate of growth of the economy to the 8-10 percent range that India needs
- GST will be providing so much more data on individual transactions, greater information sharing between the direct and indirect tax departments at the centre, along with coordination with the states, could lead to greater compliance through non-punitive means, not just in relation to indirect but also direct tax collections
- GST provides an excellent opportunity to avoid the discrimination in apparel where clothing is produced using man-made fibres and footwear against the production of non-leather based footwear by way of rationalisation of domestic indirect taxes.
- GST induced tax rationalisation would add considerably to the job creation potential of the clothing and footwear sectors.
- GST may show internal integration achievement of India based on GSTN-invoice level data on interstate movement of goods

Union Budget

- The efforts for passage of Constitutional Amendment Bill and progress for its implementation were lauded.
- The actions taken towards implementation of GST were mentioned, as follows:
 - Tireless efforts by officials of States and CBEC to give finishing touch to Model GST Law and Rules
 - Formation of GST Council
 - Discussion and development taken place in 9 meetings of GST Council
 - Scheduled preparation of IT system for GST
- Government to initiate extensive reach-out efforts to trade & industry w.e.f. 1.4.2017 to make them aware of new taxation system
- The resolution of Government to implement GST at the earliest without mentioning the target date reiterated

Implication of changes under Indirect Taxes

Service Tax:

1. Extension of the exemption to non-residential courses by IIM:

Presently the exemption was provided for services by way of the **residential** post-graduation programme, which has been extended to **any** two-year full time post-graduation education programme in management for the post graduate diploma in management top which the admission is made on the basis of common admission test conducted by IIM

Effective date – 02.02.2017

(Refer Notification No. 7/2017-ST dated 02.02.2017)

2. Exemption to Air transport at RCS Airport:

Exemption has been provided when the service is provided to Government by way of transport of passengers by air for those who are embarking from or terminating at a Regional Connectivity Scheme Airport upto 1 year from the date of its commencement of operations

Effective date: 02.02.2017

(Refer Notification No. 7/2017-ST dated 02.02.2017)

3. Army Insurance exempted:

Exemption has been granted to services of life insurance business provided or agreed to be provided by the Army, Naval and Air Force Group Insurance Funds to members of the Army, Navy and Air Force, respectively, under the Group Insurance Schemes of the Central Government.

Effective date: 02.02.2017 for exemption and the date of the president ascent for the past.

(Refer Notification No. 7/2017-ST dated 02.02.2017 & clause 127 of the Finance Bill 2017)

4. Manufacturing activity moved from Negative list exemption:

The activity of any process amounting to manufacture or production of goods was covered under the negative list, which has been removed from the negative list and has bought in as an exemption notification. No immediate effect of such amendment.

Effective date: Enactment of the Finance Act 2017

(Refer Notification No. 7/2017-ST dated 02.02.2017)

5. Changes in Advance Ruling

- The Authority of Advance Ruling shall have meaning as assigned in the Section 122(d) of the Customs Act, 1962
- The filing fee has been enhanced from Rs. 2,500/- to Rs. 10,000/-
- The due date for pronouncing the ruling has been enhanced from 90 days to 6 Months
- All pending application shall be transferred to new authority

6. Change in valuation rules

The value of land shall not be part of the taxable value for the purpose of levying service tax under the actual deduction method for works contract under Rule 2A (1) of the Service Tax (Determination of Value) Rules, 2006, in case the same has not been opted then, the taxable value shall be as under with such condition for the different period

Period	Value	Condition
01.07.2010 to 30.06.2012	25%	CENVAT on inputs, input service and capital goods has not been availed.
01.07.2012 to 28.02.2013	25%	
01.03.2013 to 07.05.2013	30%	For commercial or residential having more than 2000sft of carpet area and more than 1Crore in value
	25%	Others
08.05.2013 to 31.03.2016	30%	For commercial or residential having more than 2000sft of carpet area or more than 1Crore in value
	25%	Others
01.04.2016onwards	30%	

Note: Retrospective amendment to overcome the judgment of Delhi HC in case of “Suresh Bansal” where court had held that no service tax is payable on construction of residential complex as there is no valuation mechanism under the Finance Act or Valuation Rules

7. Retrospective exemption for the upfront fee

Section 104 has been proposed to give a retrospective exemption for the period from the 1st day of June, 2007 and ending with the 21st day of September, 2016

on the one time upfront amount (premium, salami, cost, price, development charge or by whatever name called) in respect of taxable service provided or agreed to be provided by a State Government industrial development corporation or undertaking to industrial units by way of grant of long term lease of thirty years or more of industrial plots.

The service tax already paid would be eligible for the refund against a claim which has to be made within 6 months from the date of receipt of the president assent to the Finance Act 2017

Central Excise:**1. Increase in duty on Cigarettes**

The additional duty of excise on non-filter and filter cigarettes of sub-heading 2402 20 is being increased. There is no change in the Basic Excise Duty leviable under the First Schedule to the Central Excise Tariff Act, 1985 and the NCCD leviable under Seventh Schedule to the Finance Act, 2001. The changes in additional duty of excise rates on cigarettes are summarized below.

Tariff Item	Description	Additional Duty of Excise(Rs. per 1000 sticks)	
		Existing Rate	New Rate
2402 20 10	Non-filter not exceeding 65mm	215	311
2402 20 20	Non-filter exceeding 65mm but not exceeding 70mm	370	541
2402 20 30	Filter not exceeding 65mm	215	311
2402 20 40	Filter exceeding 65mm but not exceeding 70mm	260	386
2402 20 50	Filter exceeding 70mm but not exceeding 75mm	370	541
2402 20 90	Other	560	811

2. Increase in duty on other tobacco products

Basic Excise Duty on other tobacco products falling under heading 2402 is being increased as under:

Tariff Item	Description	Basic Excise Duty rate	
		From (per thousand WEH)	To(per thousand WEH)
2402 10 10	Cigar and cheroots	12.5% or Rs.3755	12.5% or Rs.4006
2402 10 20	Cigarillos	12.5% or Rs.3755	12.5% or Rs.4006
2402 90 10	Cigarettes of tobacco substitutes	Rs. 3755	Rs. 4006

2402 90 20	Cigarillos of tobacco substitutes	12.5% or Rs.3755	12.5% or Rs.4006
2402 90 90	Others of tobacco substitutes	12.5% or Rs.3755	12.5% or Rs.4006

3. Increase in duty on Bidis

Excise duty rate on Handmade Paper rolled biris and Machine made Paper rolled biris [both falling under tariff item 2403 19 29] is being increased from Rs. 21 per thousand to Rs. 28 per thousand and from Rs. 21 per thousand to Rs. 78 per thousand respectively.

However, there is no change in basic excise duty rate on other goods falling under tariff item 2403 19 29, which will continue to be Rs.21 per thousand.

Notification No. 12/2012 -Central Excise dated 17.03.2012 as amended by notification No.6/2017-Central Excise dated 02.02.2017 [S.No.48 and new S.Nos.48A and 48B].

4. Increase in Health cess

The additional duty of excise levied under the Seventh Schedule to the Finance Act, 2005 [commonly known as health cess] on jarda scented tobacco, gutkha and chewing tobacco is being increased from 6% to 12%.

Clause 146 of the Finance Bill, 2017 and notification No. 6/2005-Central Excise, dated the 1st March, 2005 as amended by notification No.3/2017Central Excise dated 02.02.2017 [S.Nos.13, 15 and 20 are being omitted].

5. Additional excise duty on pan masala

Further, the effective rate of additional duty of excise levied on pan masala and unmanufactured tobacco, is being increased from 6% to 9% and 4.2% to 8.3% respectively. Notification No. 6/2005-Central Excise, dated the 1st March, 2005 as amended by notification No.3/2017 CE dated 02.02.2017 [S.Nos.1 and 2].

Commodity	CETH	Present Health Cess (%)	Proposed Health Cess (%)
Pan Masala	2106 90 20	6	9
Gutkha	2403 99 90	6	12

Unmanufactured Tobacco	2401	4.2	8.3
Chewing Tobacco	2403 99 10	6	12
Zarda Scented Tobacco	2403 99 30	6	12

6. Increase in duty on Tobacco

The excise duty payable per machine per month under the Compounded Levy Scheme applicable to Chewing tobacco and unmanufactured tobacco packing machines (Capacity Determination and Collection of Duty) Rules, 2010 and Pan Masala Packing Machines (Capacity Determination And Collection of Duty) Rules, 2008 as amended by notification No.2/2017-Central Excise (N.T.), dated 02.02.2017 is increased.

7. Concessional duty on goods falling under 3101

Goods falling under heading 3101 will attract Nil Central Excise duty. Notification No.12/2012-Central Excise dated 17.03.2012 [S.No.128, which prescribed a concessional excise duty of 1% subject to certain conditions] as amended by notification No.6/2017-Central Excise dated the 2nd February, 2017.

8. Catalyst and resin

Excise duty is being exempted on Catalyst [3815 90 00] and Resin [3909 40 90] for use in the manufacture of cast components of Wind Operated Electricity Generator subject to actual user condition will be valid till 30th June, 2017 [new S. Nos. 145 B and 145C].

9. Membrane sheet

Excise duty on Membrane Sheet and Tricot / Shaper, falling under tariff item 3921 19 00, for use in the manufacture of Reverse Osmosis (RO) membrane for household type filters is being reduced from 12.5% to 6% subject to actual user condition will be valid till 30th June 2017 [new S. No. 148AAA].

10. Solar tempered glass

Withdrawn on solar tempered glass for use in the manufacture of (a) solar photovoltaic cells or modules, (b) solar power generating equipment or systems, (c)

flat plate solar collectors, or (d) solar photovoltaic module and panel for water pumping and other applications, [under S. No 187 C and List 8 of S. No. 332 A of Notification No. 12/2012- Central Excise dated 17th March, 2012] and 6% concessional excise duty is being imposed on solar tempered glass, subject to actual user condition. This 6% concessional excise duty will be valid till 30th June, 2017.

11.RM for Solar tempered glass

Duty is being reduced from 12.5% to 6% on parts/raw material for use in the manufacture of solar tempered glass, for use in (a) solar photovoltaic cells or modules; (b) solar power generating equipment or systems, (c) flat plate solar collectors, or (d) solar photovoltaic module and panel for water pumping and other applications, subject to actual user condition. This 6% concessional excise duty will be valid till 30th June, 2017.

12.Scrap/ waste of precious materials

Nil excise duty, on waste and scrap of precious metals or metals clad with precious metals, arising in course of manufacture of goods, is being made subject to condition that no credit of input or input services or capital goods has been availed by manufacturers of such goods. S. No. 195 of Notification No. 12/2012-Central Excise dated 17.03.2012

13.Strips, wires, sheets etc.

Nil excise duty, on strips, wires, sheets, plates and foils of silver, is being made subject to condition that no credit of input or input services or capital goods has been availed by manufacturers of such goods. S. No. 196 of Notification No. 12/2012-Central Excise dated 17.03.2012.

14.Articles of silver jewellery

Nil excise duty, on articles of silver jewellery, other than those studded with diamond, ruby, emerald or sapphire, is being made subject to condition that no credit of input or input services or capital goods has been availed by manufacturers of such goods. S. No. 199 (III) of Notification No. 12/2012-Central Excise dated 17.03.2012.

15. Silver coins

Nil excise duty, on Silver coins of purity 99.9% above, bearing a brand name, is being made subject to condition that no credit of input or input services or capital goods has been availed by manufacturers of such goods. S. No. 200 (III) of Notification No. 12/2012-Central Excise dated 17.03.2012.

16. Micro ATMs

Excise duty is being exempted on Micro ATMs as per standards version 1.5.1, fingerprint reader / scanner, and Iris Scanner. Further, excise duty is also being exempted on parts and components for manufacture of these devices, subject to actual user condition. This exemption from excise duty will be valid till 30th June, 2017. Notification No. 12/2012- C E, dated 17th March, 2012 [new S. No. 256C]

17. Miniaturised POS card reader

Excise duty is being exempted on miniaturised POS card reader for mPOS (other than Mobile phone or Tablet Computer). Further, excise duty is also being exempted on parts and components of miniaturised POS card reader for use in the manufacture of miniaturised POS card reader for mPOS (other than Mobile phone or Tablet Computer), subject to actual user condition. This exemption from excise duty will be valid till 30th June, 2017. Notification No. 12/2012- Central Excise, dated 17th March, 2012[new S. No. 256C].

18. Point of sale devices

Point of Sale [POS] devices and all goods for manufacture of POS devices subject to actual user condition were exempted from central excise / CVD Vide Notification No.35/2016Central Excise, dated 28th November, 2016. These exemptions which are valid till 31st March 2017 are being extended up to 30.06.2017.

19. Motor Vehicles

Excise duty on Motor Vehicles falling under tariff items 8702 90 21, 8702 90 22, 8702 90 28 and 8702 90 29 is being reduced from 27% to 12.5% retrospectively from 1st January, 2017.

Note - Vide S.No.277A of notification No.12/2012-Central Excise, dated 17.03.2012, these goods already attract excise duty of 12.5%.

20. Initial set up for generation of power

6% concessional excise duty is being prescribed for all items of machinery, including, instruments, apparatus and appliances, transmission equipment and auxiliary equipment (including those required for testing and quality control) and components/parts, required for initial setting up of fuel cell based system for generation of power or for demonstration purposes subject to certain conditions. The concessional excise duty will be valid till 30th June, 2017. Notification No.5/2017- Central Excise dated 2nd February, 2017.

21. LED Lights

6% concessional excise duty, currently applicable to LED (Light Emitting Diode) driver and MCPCB (Metal Core Printed Circuit Board) for use in the manufacture of LED lights and fixtures or LED lamps [S. No. 321A of Notification No. 12/2012- Central Excise dated 17th March, 2012 refers], is being extended to all parts for use in the manufacture of LED lights or fixtures including LED Lamps subject to actual user condition. The concessional excise duty will be valid till 30th June, 2017. S.No.321A of Notification No. 12/2012- Central Excise, dated 17th March, 2012.

22. Time limit fixed for remission application

The authority to whom application is made for remission of duty under Rule 21 of CER is required to decide on the application within 3 months from the date of its receipt.

It may, on sufficient cause being shown, be further increased by next higher authority. But such extension shall not be allowed beyond six months.

(Notification No. 5/2017-CE (NT))

23. Clarification on applicability of section 5A in respect of inputs imported or exported by EOU

Section 5A of the Excise Act provides that unless specifically provided in a notification, no exemption therein shall apply to excisable goods which are produced or manufactured by an Export Oriented Units (“EOU”) and cleared to the Domestic Tariff Area (“DTA”). It has been clarified that non-applicability of exemptions under notifications issued under Section 5A is only in respect of

excisable goods produced or manufactured by an EOU and cleared to DTA and not in respect of inputs/raw materials procured by them domestically and utilised for production/manufacture of goods which are cleared by them to DTA. Thus, EOU will also be eligible to import or procure raw materials/inputs at other concessional/Nil rate of Basic Customs Duty (“BCD”), Excise duty/Additional Duty of Custom (“CVD”) or Special Additional Duty (“SAD”), as the case may be, provided they fulfill all conditions. .for being eligible to such concessional or Nil duty. For these purposes, if an EOU is already registered with the jurisdictional Central Excise Authority, it will not be required to take any fresh registration under the Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2016 or the Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable and Other Goods) Rules, 2016, as the case may be. Further, there will be no need for an EOU to separately comply with the Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2016 for availing the CVD exemption, if the procedure under the Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rule, 2016 is followed by it for availing exemption / concession from BCD on imports of inputs/raw materials

Cenvat Credit:

Along with the Budget 2017-18 proposals in order to rationalise taxation system, certain changes are undertaken in the provisions of CENVAT Credit Rules, 2004. The following changes are brought out in the CENVAT Credit Rules, 2004.

Rule 6 (3D) (e) not applicable to banking and financial company including non-banking financial institution

A proviso has been inserted after Rule 6(3D) (e) of Cenvat credit Rules that Rule 6 (3D) (e) is not applicable to a banking company and a financial institution including a non-banking financial company, who are engaged in providing services by way of extending deposits, loans or advances. The value of service of extending the deposits, loans or advance where consideration by way of interest or discount would be considered for purpose of Rule 6. The impact is that there would be credit reversal for interest/discount income in case of banking company and a financial institution

including a non-banking financial company, who are engaged in providing services by way of extending deposits, loans or advances

Position earlier to Budget 2017

Earlier in case of reversal of credit under Rule 6, interest/discount income would not be considered as exempted turnover as there was specific exclusion for the interest income received on extending loans or advances. Accordingly value did not include the value of service by way of extending the deposit, loans or advance in so far as consideration is represented by way of interest or discount. Thus, there would not be any credit reversal under Rule 6(3) of Cenvat credit rules for interest income.

Effective date: 02.02.2017

[Refer Notification No 04/2017-CE (NT)]

Transfer of Cenvat credit on shifting, sale, merger, etc. of the factory

A Sub-rule (4) is inserted in rule 10 of CENVAT credit Rules, 2004 to provide time limit of 3 months for approval of requests regarding transfer of CENVAT credit on shifting, sale, merger, etc. of the factory. Further such time period could be extendable for 6 months by Principal Commissioner or Commissioner of CE if sufficient cause is shown and for reason which is recorded in writing.

Note:

Rule 10 of Cenvat credit rules provides for transfer of Cenvat credit when the manufacturer or output service provider shifts his factory to another site on account of change in ownership or on sale, merger, amalgamation, lease or transfer to a Joint venture with specific provision for transfer of liability of such factory.

Effective date: 02.02.2017

[Refer Notification 04/2017-CE (NT)]

Amendment in the Customs Act, 1962

1. Amendment in the definitions in section 2:

Section 2 has been amended to:

- Insert clause (3A) to define a beneficial owner as any person on whose behalf the goods are being imported or exported or who exercises effective control over the goods being imported or exported;

- Include Foreign Post Office and International Courier Terminal is included in the definition of a Customs Station in clause (13);
- Omit certain words are omitted in clause (13) to align with the proposed omission of Section 82;
- Provide that the existing definition of exporter in clause (20) includes the beneficial owner;
- Provide that the existing definition of importer in clause (26) includes the beneficial owner;
- Insert clause (30B) so as to define passenger name record information;
- Define Foreign Post Office and International Courier Terminal.

2. Board to notify Foreign Post Offices and International Courier Terminals: (Sec 7)
Section 7 of the Customs Act containing provisions regarding appointment of customs ports, airports etc. has been amended to empower the Board to notify Foreign Post Offices and International Courier Terminals.

3. Rationalisation of documents for self-assessment of duty

Section 17 has been amended to rationalize the requirement of documents for verification of self assessment

4. Unjust enrichment conditions relaxed: (section 27)

Sub-section (2) of section 27 has been amended so as to keep outside the ambit of unjust enrichment, the refund of duty paid in excess by the importer before an order permitting clearance of goods for home consumption is made, where-

- (i) such excess payment is evident from the bill of entry in the case of self assessed bill of entry or
- (ii) the duty actually payable is reflected in the reassessed bill of entry in the case of reassessment

5. Information to be delivered by person-in-charge of conveyance:

A new Section 30A has been introduced so as to make it obligatory on the person-in-charge of a conveyance that enters India from any place outside India or any other person as may be specified by the Central Government by notification in the Official Gazette, to deliver to the proper officer the passenger and crew arrival

manifest before arrival in the case of an aircraft or a vessel and upon arrival in the case of a vehicle; and passenger name record information of arriving passengers in such form, containing such particulars, in such manner and within such time as may be prescribed.

The said section also intends to provide for imposition of a penalty not exceeding Rs. 50,000/- as may be prescribed, in the case of delay in delivering the information.

Similar conditions have been imposed on person-in-charge of conveyance that departs from India to a place outside India by inserting new section 41A.

6. Bill of entry to be filed before end of next day of arrival of vessel or aircraft

Sub-section (3) of Section 46 has been substituted so as to make it mandatory to file the bill of entry before the end of the next day following the day (excluding holidays) on which the vessel or aircraft or vehicle carrying the goods arrives at a customs station at which such goods are to be cleared for home consumption or warehousing. If not filed, there would be imposition of such charges for late presentation of the bill of entry as may be prescribed.

7. Manner of payment of duty and interest

Sub-section (2) of Section 47 has been amended so as to provide the manner of payment of duty and interest thereon in the case of self-assessed bills of entry or, as the case may be, assessed, reassessed or provisionally assessed bills of entry.

8. Temporary storage facility extended to goods entered for warehousing:

Section 49 has been amended to provide for permission by proper officer for temporary storage of goods, not exceeding 30 days, when entered for warehousing in India. Earlier, the provision was applicable only in case of goods imported for home consumption. Further, the reference to private warehouse has been omitted.

9. Label or declaration accompanying goods treated as entry omitted

Section 82 relating to label or declaration accompanying goods to be treated as entry is being omitted. Corresponding reference to label or declaration in section 69 has been omitted.

10. Form and manner of entry in case of import/export by post

Section 84 has been amended to empower the Board to make regulations to provide for the form and manner in which an entry may be made in respect of goods imported or to be exported by post

11. Power to make regulations for specifying the details of manifest:

Section 157 has been amended so as to empower Board to make regulations for specifying the form, particulars, manner and time of providing the passenger and crew manifest for arrival and departure and passenger name record information and penalty in the case of delay in delivering the information.

Amendment in the Customs Tariff Act, 1975

12. Chapter 20

Basic Customs duty rate on import of Cashew nut, roasted, salted or roasted and salted [20081910] is being increased from 30% to 45% by increasing the tariff rate from 30% to 45% with immediate effect.

13. Chapter 26

The Second Schedule (Export Tariff) to the Customs Tariff Act, 1975 is being amended to prescribe a tariff rate of export duty of 30% for all goods falling under tariff item 2606 00 90, namely, 'Other aluminium ores and concentrates' with immediate effect. However, Export duty is being imposed at an effective rate of 15% on 'Other aluminium ores, including laterite' falling under tariff item 2606 00 90 and on goods other than the said goods falling under tariff item 2606 00 90 (concentrates) will continue to attract Nil export duty.

14. Chapter 27

Basic Customs Duty on Liquefied Natural Gas (LNG) falling under tariff item 2711 11 00 is being reduced from 5% to 2.5%.

15. Chapter 28

Concessional 5% Basic Custom Duty is being extended to Clay 2 Powder (Alumax) [2818 20 90], for use in ceramic substrate for catalytic convertors, subject to actual user condition.

16. Chapter 29

- (a) Basic Customs Duty on o-Xylene [2902 41 00] is being reduced from 2.5% to Nil.
- (b) Basic Customs Duty on 2-Ethyl Anthraquinone [2914 69 90] for use in manufacture of Hydrogen Peroxide, is being reduced from 7.5% to 2.5%, subject to actual user condition.
- (c) Further, the concessional 2.5% BCD on Anthraquinone [2914 61 00] prescribed in Budget 2015-16, is being restricted to Anthraquinone [2914 61 00] for use in manufacture of Hydrogen Peroxide, subject to actual user condition.
- (d) Basic Customs Duty on Purified Terephthalic Acid (PTA), Medium Quality Terephthalic Acid (MTA) and Qualified Terephthalic Acid (QTA), falling under tariff item 2917 36 00, is being rationalized at 5%.

17. Chapter 32

Basic Customs Duty on Wattle extract [3201 20 00] and Myrobalan fruit extract [3201 90 20] is being reduced from 7.5% to 2.5%.

18. Chapter 34

Basic Custom Duty on Vinyl Polyethylene Glycol falling under tariff item 3404 20 00 for use in manufacture of Poly Carboxylate Ether is being reduced from 10% to 7.5%, subject to actual user condition.

19. Chapter 38 & 39

- (a) Basic Custom Duty (BCD) is being reduced from 7.5% to 5% on Catalyst [3815 90 00] and Resin [3909 40 90] for use in the manufacture of cast components of Wind Operated Electricity Generator [WOEG], subject to actual user condition.
- (b) SAD is being exempted on Catalyst [3815 90 00] and Resin [3909 40 90] for use in the manufacture of cast components of WOEG, subject to actual user condition. Exemption from SAD will be valid till 30th June, 2017.

20. Chapter 54

Basic Customs Duty on Nylon Monofilament yarn falling under Customs Tariff Item 5404 19 90 for use in Monofilament long line systems for tuna fishing is being reduced from 7.5% to 5%, subject to certain conditions.

21. Chapter 70

Basic Customs Duty (BCD) is being reduced from 5% to Nil on solar tempered glass or solar tempered (anti-reflective coated) glass for manufacture of Solar cells/panels/modules, subject to actual user condition.

22. Chapter 71

CVD exemption [under S.No.324 of notification No.12/2012-Customs, dated 17.03.2012] on silver medallions and coins having silver content not below 99.9%, other semi-manufactured forms of silver or articles of silver is being withdrawn. Simultaneously, articles of silver are being excluded from the scope of CVD exemption.

23. Chapter 72

- (a) Basic Customs duty on Hot Rolled Coils falling under heading 7208 for use in the manufacture of welded tubes and pipes falling under heading 7305 or 7306 is being reduced from 12.5% to 10%, subject to actual user condition.
- (b) Basic Customs duty on Magnesium Oxide (MgO) coated cold rolled steel coils falling under tariff item 7225 19 90 for use in the manufacture of cold rolled grain oriented steel (CRGO) falling under 7225 11 00 is being reduced to 5%, subject to actual user condition.
- (c) Exemption from Basic Customs duty (BCD) on Co-polymer coated MS tape/ stainless steel tape for manufacture of telecommunication grade optical fibres or optical fibre cables is being withdrawn.
- (d) Simultaneously, 10% concessional BCD is being prescribed on Co-polymer coated MS tape/stainless steel tape for manufacture of telecommunication grade optical fibres or optical fibre cables, subject to actual user condition.

24. Chapter 75

Basic Customs duty on Nickel and articles thereof is being reduced from 2.5% to Nil. S. No.337 of Notification No. 12/2012-Customs dated 17th March, 2012 as amended by Notification No.6/2017-Customs, dated 2nd February, 2017 refers.

25. Chapter 84 & 85

- (a) Basic Customs duty on Reverse Osmosis (RO) membrane element for household type filters falling under tariff item 8421 99 00 is being increased from 7.5% to 10%. Clause 109 (a) of Finance Bill, 2017 refers. However, all other goods falling under tariff item 8421 99 00 will, continue to attract BCD at 7.5%.
- (b) Concessional Basic Customs duty of 2.5% is being extended to Ball Screws [8483 40 00], Linear Motion Guides [8466 93 90] and CNC Systems [8537 10 00] for use in the manufacture of all types of CNC machine tools falling under headings 8456 to 8463, subject to actual user condition.
- (c) Populated PCBs of mobile phones are being excluded from the purview of Nil SAD under S. No. 1 of Notification No. 21/2012-Customs [which exempts SAD on items, which are exempt from BCD and CVD]. Simultaneously, 2% concessional SAD is being prescribed on populated PCBs for use in manufacture of mobile phones, subject to actual user condition. The concessional SAD will be valid till 30th June, 2017.
- (d) Basic Custom Duty (BCD), CVD (by way of excise duty exemption) and consequently SAD are being exempted on Micro ATMs as per standards version 1.5.1, fingerprint reader / scanner, and Iris Scanner. Further, BCD, CVD (by way of excise duty exemption) and consequently SAD are also being exempted on parts and components for manufacture of these devices, subject to actual user condition.
- (e) Basic Custom Duty (BCD), CVD (by way of excise duty exemption) and consequently SAD are being exempted on miniaturised POS card reader for POS (other than Mobile phone or Tablet Computer). Further BCD, CVD (by way of excise duty exemption) and consequently SAD are also being exempted on parts and components for manufacture of miniaturised POS card reader for POS [other than Mobile phone or Tablet Computer], subject to actual user condition.

26. Chapter 98

Goods imported through postal parcels, packets and letters, of CIF value not more than onethousand rupees per consignment are being exempted from BCD, CVD and consequently from SAD. S. No. 519 of Notification No. 12/2012-Customs dated 17.03.2012 as amended by Notification No.6/2017-Customs dated 02.02.2017 refers.

Miscellaneous:

- i. Condition No.40A [S.No.357A] of notification No.12/2012-Customs dated 17.03.2012 is being amended so as to allow the goods imported for petroleum or coal bed methane operations by availing of the benefit of the exemption, which are no longer required for the said purpose, to be disposed of on payment of applicable customs duties, on the depreciated value calculated as per straight line method (subject to depreciated value not being less than 30% of the original value) of such goods. Further, it is also clarified that this relaxation shall, mutatis mutandis, apply for domestically manufactured goods supplied against International Competitive Bidding at Nil excise duty under notification No.12/2012- Central Excise, dated 17.03.2012 [S.No.336, Condition No.41]. It is also clarified that goods allowed to be cleared on payment of duty under this provision include unused, surplus, condemned and obsolete items.
- ii. The exemption limit for duty free imports [exempted from BCD, CVD, and SAD] of Buckles; 'D' rings; eyes; rivets; studs; etc. imported by a manufacturer of leather footwear or synthetic footwear or other leather products for exports by that manufacturer is being increased from 3% of the FOB value of goods exported during the preceding financial year to 5% of the FOB value of goods exported during the preceding financial year.
- iii. 5% concessional basic custom duty (BCD) is being prescribed on all parts for use in the manufacture of LED lights or fixtures including LED Lamps, subject to actual user condition.
- iv. 5% concessional BCD is also being prescribed on imports of inputs for use in the manufacture of LED (Light Emitting Diode) driver or MCPCB (Metal Core Printed Circuit Board) for LED lights and fixtures or LED Lamps, subject to actual user condition.

- v. Basic Customs Duty (BCD) is being reduced from 10%/7.5% to 5% on all items of machinery, including, instruments, apparatus and appliances, transmission equipment and auxiliary equipment (including those required for testing and quality control) and components, required for initial setting up of fuel cell based system for generation of power or for demonstration purposes subject to certain conditions.
- vi. Basic Customs Duty (BCD) is being reduced from 10%/7.5% to 5% on all items of machinery, including, instruments, apparatus and appliances, transmission equipment and auxiliary equipment (including those required for testing and quality control) and components, required for balance of systems operating on biogas or bio-methane or byproduct hydrogen subject to certain conditions.

GST Updates- GST Impact on Business

Introduction:

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

The international best tax practices would include: to ease out the complications and cumbersome confusing compliances under different indirect taxation laws and different statutory authorities. The thought process was started to consolidate number of taxes in to one system of taxation uniformly across the country in late 1970s.

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.

Impact of GST on manufacturer, trader, service provider:

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. GST levied on supply. There will be no distinction between goods and services for the purpose of imposition of tax. In this segment it covers:

- Impact on Manufacturer
- Impact on Service provider
- Impact on Traders

Impact of GST on Manufacturers

Manufacturing sector has been given prime importance by the present Central Government and 'Make in India' program is one example for this. It is no wonder that such schemes along with GST could bring India on the world map as hub for manufacturing. According to few reports, India is among the top ten manufacturing countries in the world and presently the sector contributes around 10% of our Indian GDP. The new proposed GST law which could replace the present indirect tax laws from 1st April 2017 could have huge positive impact on manufacturing sector in India.

The important functions which would have impact on manufacturing sector under GST are as follows:

1. Sales and Services
2. Purchase
3. Finance and Accounts

1. Sales and Services

Following are the important aspects to be considered to understand the impact of GST on Sales and Services.

a. Reduction in price of most categories of goods for customers – Standard rate

Most of the goods manufactured and sold by manufacturer in India would be liable for Central Excise duty at around 12.5% along with VAT at standard rate of around 15%. The total tax is around 28% on sale of goods. If we add, other costs such as entry tax, CST restriction etc, the cost would be even high in present taxation system. Adding credit restriction, CST purchases etc, the tax cost would be around 30% to 32%.

In GST regime, the final tax payable could be around 18% thereby reducing the tax burden on customers by around 12%. This would put the manufacturer in better position to negotiate the price after considering the tax factor. Marketing team could make use of the reduced tax burden for fixing the price in better manner. This could be understood with following example:

Particular	Present indirect taxes	GST regime
Basic price of goods	1,000	1,000
Excise duty 12.5%	125	-
Sub-total for VAT	1,125	1,000
VAT @ 15%	169	-
GST at 18% (CGST+SGST/IGST)	-	180
Final price for customers	1,294	1,180

From the above example, we could understand that there is a reduction in final price of goods by Rs. 114 in GST regime. Even if certain portion of Rs. 114 is negotiated with the customer and added to basic price, the manufacturer could increase the profit.

b. Increase in price of few classes of goods for customers –earlier under Concessional rate

From the earlier example, we understood how the final price of goods would get reduced in GST regime. However, this may not be true in case of all goods. There are certain goods like corrugated boxes, packing materials which are manufactured by small scale industries who are claiming SSI exemption upto Rs 150 Lakhs pa, where no excise duty is being paid, thereby avoiding excise duty on value addition. Further these goods are eligible for concessional / lower rate of VAT of around 5% in most States in India.

This scenario would arise even in case of goods which are eligible for concessional excise duty levy of say 6% and VAT of around 5 to 6%. In these cases, the final price of goods would get increased to the customers as they could end up paying 18% GST. Impact would be high especially when customers are final consumers. It may be noted that in the initial years these goods may also be merit rated at 12%. In such a scenario, it would be very critical for manufacturers to plan for GST impact on sale at the earliest by ensuring that their procurement is also tax efficient.

The impact on goods which are enjoying concessional excise duty and VAT rate could be understood with following example:

Particular	Present indirect taxes	GST regime
Basic price of goods	1,000	1,000
Excise duty 6%	60	-
Sub-total for VAT	1,060	1,000
VAT @ 5%	53	-
GST at 18% (CGST+SGST/IGST)	-	180
Final price for	1,113	1,180

customers		
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From the above example, we could understand that there is an increase in final price by Rs. 67 in GST regime. With proper planning, the cost of purchases needs to be reduced to subsume the additional cost of Rs.67.

c. Change in price of goods – Excise duty / VAT exempted

There are goods like agricultural implements, solar energy goods which are presently exempted from excise duty and VAT. There are other goods which are exempted from excise duty but liable for VAT or otherwise. In these scenarios, the tax burden under present indirect tax system would be 0% to 6%. Even if we consider the merit rate of GST of 12% on such goods, the tax rate would be around 10% resulting in increase in price of goods for the customers. This would definitely pinch the final customers and could create resistance in buying goods.

However, in GST regime, the exemption may not continue for most goods which are presently enjoying some kind of exemptions either under VAT / Excise provisions. Therefore, the manufacturers would be liable for payment of GST with merit rate of 12% with benefit of full credit of GST paid on inputs and input services.

d. Reduction in procurement costs to manufacturers:

The reduction in GST rates for most goods from present 30-32% to 12-18% range would in turn reduce the costs of procurements of materials to the manufacturers substantially. This could be understood with following example:

Let's say, Agricultural tillers which are exempted from excise duty are manufactured. The tax structure of purchases could be as under:

Particular	Present indirect taxes on exempted tillers	GST regime
Basic price of inputs	1,000	1,000
Excise duty 12.5%	125	-

VAT @ 5% on Rs.1,125	56.25	-
GST @ 18%[CGST+SGST/IGST]	-	180
Total taxes paid	181.25	180
Eligible credits	56.25	180
Cost of materials	1,000+125 1,125233.	= 1,000

From this example, we understood that the cost of materials with seamless credit is going to reduce in GST regime. In addition to this, there would be credits on input services which would further reduce the cost of sales.

With proper planning of credits and cost involved, final price of goods has to be revised to ensure that benefits of reduction in costs are passed on to customers and the customers are not burdened with more taxes. This is more so in case of B2C supplies where the end customer cannot avail credit of taxes paid on supplies of goods.

Even in case of VAT composite tax dealers who would be taxable in future under normal scheme of taxation under GST, the impact could be similar.

Explained in detail in next segment on purchase and expenditure.

e. Increase in cost of services for final consumers

In GST regime, the cost of pure services for final consumers would definitely increase as the rate of tax would be around 18% as against present service tax rate of 15%.

However, considering the fact that there would be seamless credit in GST regime, the manufacturers who are also service providers would be eligible to claim the credit of taxes paid on inputs-goods/input services which are used. Such benefit of reduction in actual outflow of taxes due to input tax credit should be passed on by the suppliers to customers.

f. Discount schemes to be relooked into

There could be various types of discounts such as cash discount, trade discount, seasonal discounts etc. Under present indirect tax laws, the discounts allowed to customers would be eligible for deduction mainly:

- a) When allowed as a regular practice or it is in terms of agreement entered.

- b) When the discounts are **disclosed on the invoice**.

*Note: The provision is taken from Karnataka VAT provisions.

There have been decisions allowing deduction of post removal discounts only when the discounts are linked to specific invoices through which goods are cleared.

However, in GST regime (Section 15- Value of taxable supply), discounts allowed at the time of supply would be eligible for deduction. However, the post supply deduction would be allowed for deduction only when:

- a) Discount is established as per the agreement and is known at or before the time of supply
- b) Discounts are specifically **linked to relevant invoices**: From the interpretation, we could understand that it is not compulsory to disclose the discount amount on the invoice in GST regime. Therefore, the discounts would be allowed even if discounts can be linked to specific invoices. In this regard, proper planning is required in framing the discount policy in such a way that the same could be linked to invoices.
- c) Input tax credit has been reversed by the recipient of the supply as is attributable to the discount on the basis of document issued by the supplier

g. Decision on continuation of multiple depots / sales offices / branches

Most manufacturers have set up sales offices / depots / branches which could be on account of tax planning, catering to regional market etc. In some cases it may have been due to Just In Time (JIT) concept adopted by the customers. The tax planning could have been made considering levy of CST, different rate of VAT in various states for same products. For example, agricultural tillers are exempted from VAT in states like Tamil Nadu, Orissa. In states like Karnataka and Andhra, the tillers are liable for VAT at 5.5%. As a better tax planning, all tillers could be procured in Tamil Nadu or Orissa and sold directly to customers of all states to avoid tax. It may be noted that even CST would be exempted on sales made from Tamil Nadu in this scenario.

In case of GST, SGST rates could vary in range of 1-2% in different states. There would be levy of GST on all supplies including stock transfers to branches / depots / sales offices.

IGST would be levied on interstate supplies in first instance. Credit of IGST paid on stock transfer would be available to the branch/depot.

Savings on account of eligibility of credit of tax paid on interstate supplies. Presently, CST paid credit is ineligible. Due to this depots may be done away with and costs of depots set up/storing/handling may come down as well. Savings by way of set off of the input tax credit on IGST+economies of supply chain could be passed on to customers.

Considering these factors, decision has to be taken to continue / discontinue such additional place of business. The other factors to be considered in decision making are as follows:

- a) Cash flow involved on account of GST levy on stock transfers
- b) Transportation cost involved in sending goods to depots and sale there from.
- c) Administrative cost like rent, office maintenance staff etc. for additional places.
- d) Cost of compliance in each location under GST like payment of taxes, filing returns.

h. Arrangement with dealers / consignment agents

In case of entities which have appointed dealers / consignment agents, there is a need to relook at the agreement clauses. Under the present laws, the goods could be transferred without payment of any taxes. However, in GST regime, the supplies including transfers would be liable for GST.

Schedule I lists out the matters to be treated as supply even if made without consideration which includes supply of goods by –

- a) By a principal to his agent where the agent undertakes to supply such goods on behalf of the principal, or
- b) By an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.

Such dealers / consignment agents would be treated as separate taxable persons for GST purpose. However, the taxes paid on inward supplies would be

eligible as credit for such dealers or agents. For initial period, the cash flow would be high for the manufacturers on account of such transfers. Considering all these changes, there is a need to educate dealers / agents.

i. Cheaper exports and impact on Form H purchases

Even under present tax regime, most of indirect taxes paid like excise duty, VAT, service tax in relation to export of goods is eligible for either exemption or refund. The exemptions / refund are resulting in cheaper exporters. In GST regime, manufacturers could expect even cheaper exports due to following factors:

- a) Taxes like CST paid on procurements would not be a cost in GST as all taxes paid on procurements are either eligible for credit or refund.
- b) There would be no levy of entry tax.
- c) Number of forms and compliance expenses involved presently, like obtaining exemption certificate from excise department, filing multiple refund applications would get reduced.
- d) Faster refunds are expected under GST as compared to present refund schemes. Present schemes are dead slow and expensive as it involves satisfaction of VAT officers / service tax officers / Excise officers.

Sales / marketing officers could consider these factors for the purpose of pricing of goods. Cheaper goods would make exports even more competitive.

j. Tax savings due to various other factors

As already explained earlier, there would be savings in cost of materials on account of non-cascading effect of taxes in GST as compared to present indirect taxation. Following factors to be considered by sales / marketing in fixing / negotiating the final price of goods:

- a) Seamless credit on all purchases / services procured reducing cost of production.
- b) Savings on account of non reversal of VAT credit in case of interstate stock transfers.
- c) Savings on account of non requirement to pay entry tax.

k. Proper tax clauses in sale agreement / contract

There is a need to provide clause in sale agreement / contract considering the GST factor. This would be more relevant in case of open purchase orders from customers. Contracts / agreements / orders entered before introduction of GST could include the clauses stating that 'In addition to price, taxes applicable such as excise duty / VAT / CST / Service tax and **GST as the case may be** to be collected extra'.

If any contracts have been entered which are inclusive of taxes, then special care has to be taken to safeguard the interest of the business as the GST rate would be around 18%. Ignorance of the tax clause could end up with additional cost to business.

1. Training of marketing / sales officers

After going through all the above points and the GST law which is new, training of marketing / sales officers would be crucial in any business environment. With better knowledge of proposed GST, marketing / sales team would be in good position to deal with prospective customers.

When the sales team knows the GST rates and the net tax costs after set off of input tax credit, they could look at reducing the price offered to customers.

Example: If Sales team of A Ltd knows that GST rate is 18%, instead of present rate of 12.5% (excise duty) and 14.5% (VAT) on goods manufactured and removed by A Ltd, then with respect to reduction on rate after adjusting input tax credit, say 5-6%, may be reduced from price of goods sold by Sales team of A Ltd.

This could make the supplies more competitive leading to bagging more orders.

2. Purchase and Expenditure**a. Increase in initial cash outflow**

The standard rate of 18% GST on goods and services would have an impact (negative & positive) on the initial cash outflow. Let us understand the impact from below example with standard rates:

Goods

Present IDT		GST	
Value	100	Value	100
ED 12.5%	12.5	CGST 10%	10
VAT 14.5%	16.31	SGST 10%	10
Total	128.12	Total	120

Services			
Present IDT		GST	
Value	100	Value	100
ST @ 15%	15	CGST 10%	10
-	-	SGST 10%	10
Total	115	Total	120

From above example, we could understand that cash outflow would reduce in case of purchase of goods and increase in case of procurement of services. In case of goods which are presently enjoying the benefit of concessional rate of tax wherein overall tax rate is less than 10-12%, the cash outflow could increase. There could also be a scenario where presently goods are exempted but would be taxable in GST regime leading to extra cash outflow.

As credit of duty paid can be availed, the cash outflow would be effectively lesser in case of B2B transactions. However, in case of B2C transactions, the customer has to bear the tax burden under GST.

Proper planning for purchases by procurement dept is essential considering various factors. Few of them could be as follows:

- a) Requirement of revision of EOQ levels based on cash flow impact and orders on hand if any.
- b) Negotiation of price with vendors due to reduction in cost of supplies of goods for manufacturing sector.
- c) Revision in purchase / procurement budgets.
- d) Ensure purchases made from vendors who have proven track record of paying taxes on time to ensure there is no disallowance of input tax credit availed on procurements.

b. Reduction in Cost of material purchased

Almost 60% to 70% of total production cost would comprise of material cost in many manufacturing business. Most of the manufacturers procure required inputs either from manufacturers or dealers located within state or outside state. There could be reduction in cost of materials in GST due to following points discussed:

CST payment

When excisable goods are procured, there would be levy of sales tax even on the excise duty amount leading to cascading effect. If the sales tax is in form of VAT, then there is an option of input credit. However, when CST is paid, the same would be ineligible for credit increasing the cost of materials procured.

Under GST, there would be no concept of CST, instead IGST would be paid on inter-state supplies. The credit of IGST paid shall be allowed as credit thereby reducing the tax burden.

Entry tax payment

In case of few states like Karnataka, Orissa, West Bengal, there is a levy of entry tax on specified goods entered into the state. In Karnataka, the entry tax rate is 2% on machineries and its parts. On petroleum products, the levy is 5% on purchase price. The entry tax paid is not eligible for input setoff as well. This levy is increasing the cost of materials procured.

In GST regime, abolition of entry tax would result in decrease in cost of procurement.

Procurement from non-excise dealers

In case of goods procured from dealers other than first / second stage dealer, buyer can avail only VAT credit. Dealer would have procured goods from manufacturers / imported on payment of duties. If the dealers are not registered under excise and not passing on the benefit of taxes paid, then the same would add to purchase cost.

In GST, this scenario would not arise as dealers would be eligible to take all credits. Earlier dealers who were not registered as dealers under central excise were passing on the costs of taxes on imports[mean rates as follows-

BCD10%+Customs cess 3%+12.5%CVD+4%SAD= say 29.5%] and/or domestic procurements(mean rate-12.5%Excise duty) and collecting and paying output VAT after setting off input VAT.

In GST, they can get the credit of tax paid on imports-IGST could be say total 18%[BCD cost say 10% would still continue] and domestic procurements-CGST+SGST say 18% and paying net output GST tax. The savings due to set off ranging from 19.5% on import and 12.5% could be passed on to customer.

This would reduce procurement cost to manufacturers who purchased from non-excise dealers in past.

Purchaser can take GST credit based on dealer invoice.

This will reduce the effective cash outflows and effective purchase cost of inputs

c. Eligibility of credit on interstate purchases

Goods purchased from manufacturers or dealers from other states are liable to CST at the rate of 2% with C form or equal to local VAT rate. In present IDT system, the CST paid is not eligible for credit.

In GST, the supply of goods and or services in the course of interstate trade or commerce is liable for IGST. The amount paid by the purchaser towards IGST can be claimed as input credit. This would reduce the procurement cost for manufacturers.

d. Tax levy on purchases / procurement from unregistered dealers

On goods procured from unregistered persons, there is a need to pay VAT in all the states which would be eligible as credit provided the goods are used in relation to saleable goods.

In GST regime, number of unregistered dealers would get reduced substantially due to lower exemption limit. There could be a GST payable under reverse charge by recipient on procurement of specified goods. Also there could be GST payable under reverse charge by recipient on procurement of specified services in GST regime. Credit of GST paid under reverse charge could be available to the recipient of such goods and or services.

e. Procurements from composition dealers to be avoided

Under the present VAT regime, the tax paid on purchase of goods from composition dealers would not be eligible for input credit. In most states, the composition VAT cannot be collected from the buyers. In such a scenario, the cost of procurement of goods would increase to the buyer of goods.

Even in GST regime, the composition scheme would continue with a minimum tax of 1%. The tax cannot be collected by the seller and therefore, there is no question of credit for the buyer of goods. However, due to ineligibility of credit on purchases, the cost of sales for composition dealer would increase. There is a need to reduce / completely avoid procuring goods from composition dealers in GST regime. However, this decision should be taken considering other factors such price of goods, necessity of goods etc.

f. Screening of suppliers

The credit of excise duty and VAT (though questioned in few states) paid on purchases would be eligible as credit if goods are received and put to use in business. Generally, it is not the responsibility of the buyers to ensure tax payment by the suppliers to the Government. To this, there are exceptions in states like Delhi and Tamil Nadu where the credit of VAT would not be eligible for the buyer of goods unless the taxes are paid by the seller to the Government.

However, in GST regime, the credit would be eligible for the buyers only if the suppliers have paid their taxes properly which is applicable to all the states. The concept of matching credits has been introduced. Any default in tax payment by the suppliers would make the buyers ineligible for credits. Therefore, screening of suppliers would be critical. Black listed dealers / suppliers should be avoided. Dealers who do not issue proper invoices should also be avoided by the manufacturers.

g. Procurements from high GST rating vendors

Vendor Compliance Rating Score is an important criterion for vendor selection. Every company who is willing to purchase goods, can at the time of getting quotation, can also see the vendor rating and purchase the goods.

Purchase done from highly rated vendor, will assist the recipient in

- Filing of timely returns by vendor - In time supply (GSTR-1) upload by supplier, on which auto credit will be reflected in recipient GSTR-2 to avail such credit.
- Ease of business
- Timely payment of taxes by vendor under GST

h. Planning of purchases during transitional phase

In transitional phase, there would be a need for good planning to ensure that maximum credit benefit is availed. The important factors to be considered are as follows:

- a) Timing of purchase** – Manufacturers need to plan the time of purchase during transition phase considering the credit eligibility. For example, interstate purchases which suffer 2% CST could be delayed as CST is not eligible as credit. Similarly, entry tax impact could also be considered especially in case of machineries imported or procured from other states. Procurements after GST introduction would not be leviable to entry tax. Goods ineligible for credits under GST could be procured in GST regime with lesser tax.
- b) Purchase from unorganized dealers** – Purchases from unorganized dealers should be reduced. Dealers who are not regular in their tax payments, black listed dealers, dealers who do not issue proper invoices should be strictly avoided.
- c) Vendors with multiple locations** – It is necessary to ascertain if vendors could supply the goods from locations within the state instead of locations outside the state to avoid payment of CST which is ineligible in present regime and payment of IGST in GST regime though credit eligible, it could affect the cash flow. For this purpose, the transportation cost should also be factored in.
- d) Contracts / agreements to be revised – All the contracts including purchase orders** would have to undergo amendment to include GST clause.

e) Negotiation of price –Ensure passing on of savings in reduction in taxes due to reduced GST on several categories of supplies of goods and or services.Prices agreed as per the contracts should be renegotiated as the cost of manufacturing could be reduced for the suppliers.

f) Increase in cash outflow on services -Planning

Presently, the services procured are liable for ST of 15% including cess. In GST regime, the rate of GST could be around 18% resulting in extra cash outflow. Proper planning is required to procure and clear the payment for the services. The payment for services which are ineligible for credit in GST regime should be cleared first to reduce the cash outflow.

i. Requirement of credit distribution

In case of common services like statutory audit services, consultancy services received, the credit of service tax paid needs to be distributed to respective units under the present tax regime. Even under GST, the situation would continue. However, distribution of credits, compliance with legal requirement could take substantial time. Therefore, with proper planning, the vendors to be instructed to issue separate bills if possible. The place of supply would also be critical in GST regime. Any mistake in place of supply in the invoice could result in denial of credit for the manufacturers/service providers.

3. Finance and Accounts

Understanding the business is important. Through websites, audit reports. IFC process flow could be important source of information to understand the business. SOP could be of great use. The following issues could be of much importance:

- Accounting entries for IDT compliance
- Planning of cash flow impact
- Make aware of GST implementation cost
- Impact due to requirement of multiple returns
- Impact on budgets – Sales & Purchases

- Impact in investment in securities
- Need for training vendors / suppliers
- Requirement of compliance under TDS / TCS provisions
- Revision of SOP
- System of accounting for purchase returns / sales returns
- Steps to be taken for issue / collection of Form under GST
- Training for staff under GST
- Hiring of additional staff if compliance is increasing
- Status of pending litigations and action to be taken
- Changes in formats and reports such as tax invoice, BOS etc.

Other 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. Reduce Corruption:** Due to online filing of returns and statements, and consequent reduced interaction with dept, the corruption faced by the manufacturers would substantially reduce over a period of time.
- d. 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.
- e. 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 are seeking to administer the Central GST of dealers having gross turnover of less than Rs. 1.5 crores.

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.

Impact of GST 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

E1/2: 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 GSTN number of transferor and transferee is same.

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:

The major areas of impact of GST on service providers are under:**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%. 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 appointed 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 credit
- 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 such constraints would recede over period, leading to increase in export of services.

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. In the present scenario the service provided without consideration i.e, free service is not taxable. Even all **reimbursable expenditure** collected by service provider could be taxable as it is nothing but supply.

Levy and Collection of CGST/SGST

Section 8 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 rates notified by Central/State Government in this behalf, but not exceeding 14%, on recommendation of Council 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 9 of CGST Act provides for not less than 1% of the turnover during the year whose aggregate turnover in preceding financial year does not exceed Rs. 50 Lacs as composition scheme. This scheme is not available to supplier of services.

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.

Credit of SGST shall first be utilized towards payment of SGST 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 could 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 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 9 and 10 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.

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 23)

- 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.
- 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**.

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 the scheme of 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 credit.

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

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➤ **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 credit 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 in respect of the related party transactions.

Other 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.

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 12.50% for central excise, Service tax, along with residuary rate of VAT at 12.5-14.5% brings the overall rate to 25%-30%. When the tax rates are increased it could lead to tax evasion as well. But, post GST, it is likely to be in the range of 5%-12%-18%; a net gain of almost 6%-10%. Most of the dealers and consumers would experience the change in tax rates, either significantly or marginally.
- 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) Nearly Seamless 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 credit 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) Credit 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 credit 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 could 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.