

*HSIL*

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## Approach to Goods and Services Tax

**November 2016**  
Strictly Private and Confidential





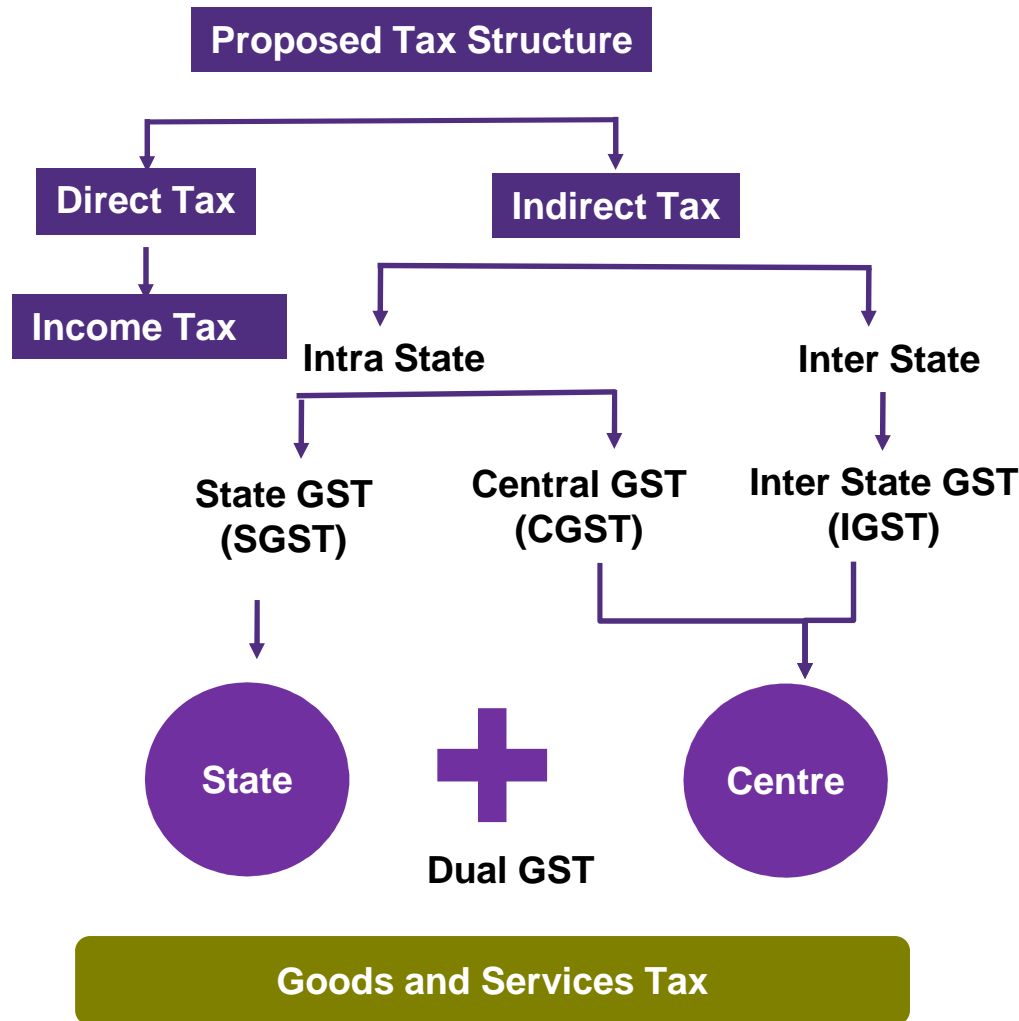
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# Brief Overview of GST



# Model GST: Proposed dual tax structure



Status	Taxes Subsumed
At Central Level	<ul style="list-style-type: none"> <li>Additional customs duties (CVD and SAD)</li> <li>Central Excise Duty</li> <li>Service Tax</li> <li>Special Excise duty (on medical and toiletries preparation)</li> <li>Various auxiliary cess &amp; levies???</li> </ul>
At State Level	<ul style="list-style-type: none"> <li>State-VAT</li> <li>Central Sales Tax</li> <li>Entry Tax</li> <li>Luxury Tax</li> <li>Entertainment Tax</li> <li>Purchase Tax</li> </ul>

### Sectors outside proposed GST :

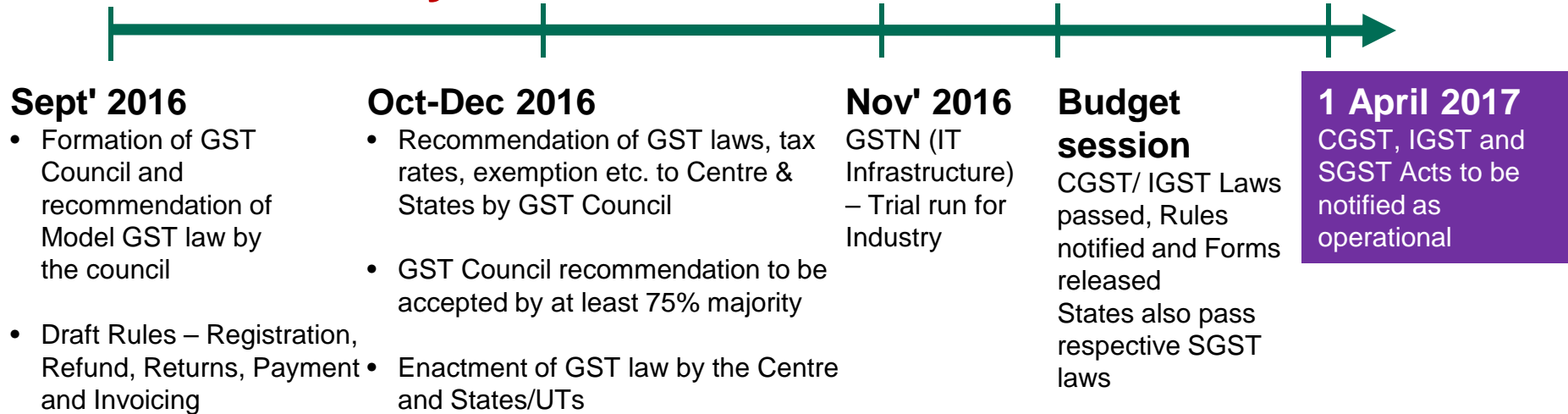
Petroleum, to be covered from future date;  
 Alcohol fit for human consumption;  
 Real Estate, leviable to state stamp duty;  
 Electricity, leviable to Electricity duty by States



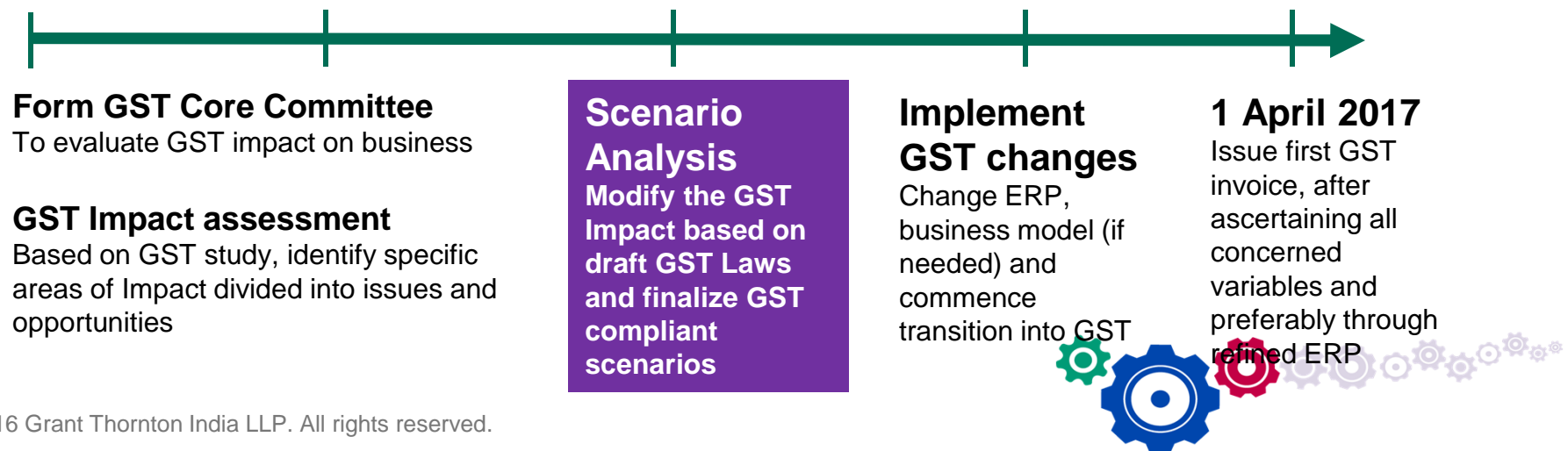
# Indicative timeline



## For GST Policymakers



## For HSIL



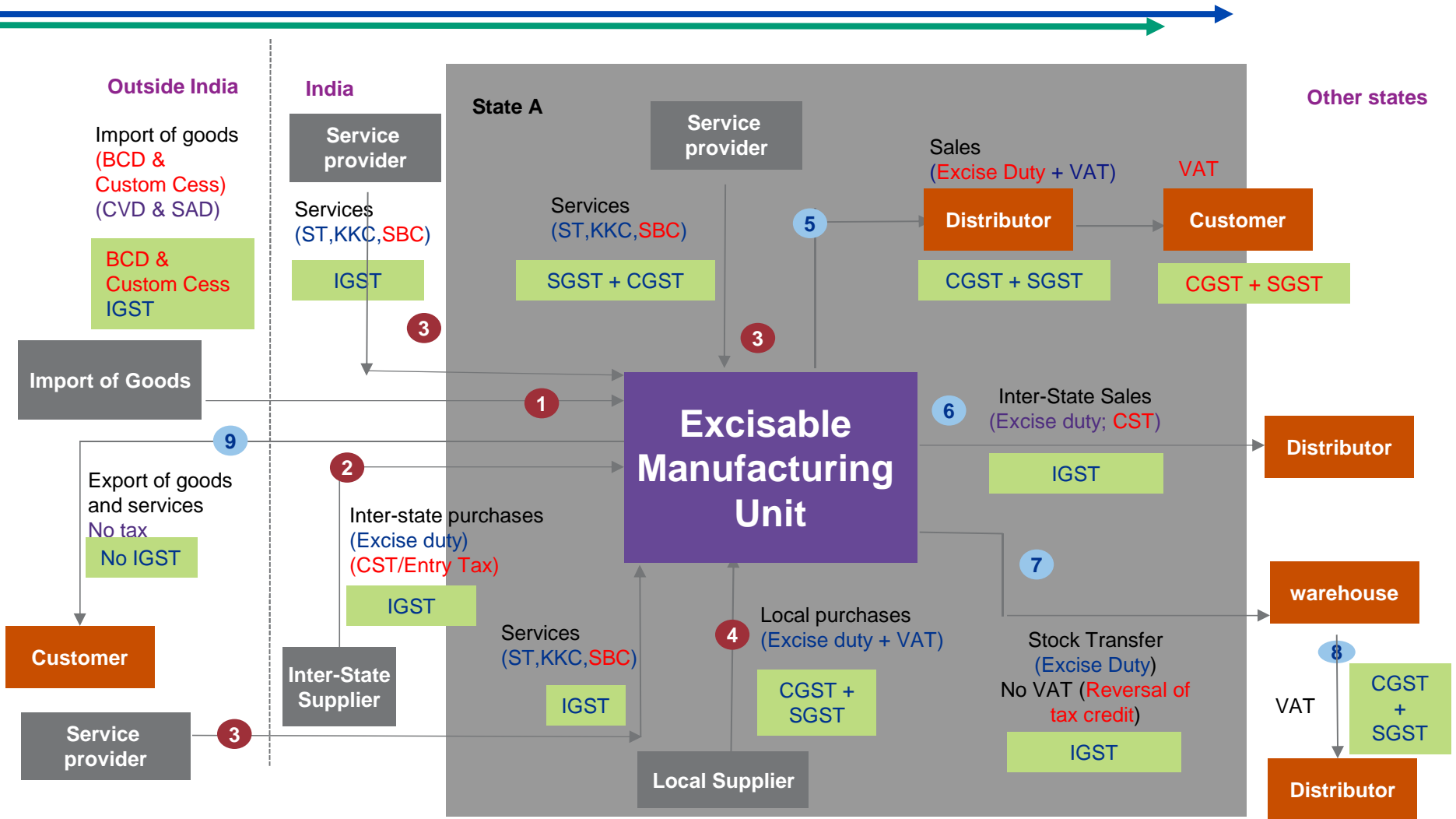
# Model GST: Key features

## Goods and Services Tax Act, 2016

- **Dual GST** CGST & SGST on all intra-state supplies of goods and/or services;
- **IGST** (CGST plus SGST) on all inter-state supplies of and imports (*BCD and customs cess to continue*)
- GST on **Supply** Single taxable event; **Transaction value** Single taxable base
  - **Time of supply** Point when liability to pay GST arises
  - **Place of Supply** Nature of supply whether inter-state or intra-state
- **Multiples tax rates** under discussion of 5%, 12%, 18%, 28% (plus cess on 5 sin-goods)
  - **Tax & reimburse approach** for existing area based exemptions/state incentives
- **State based registrations; Monthly compliances** - Tax payments, return, Inward & outward supplies
- **Seamless credit** on all procurements, whether local or inter-state, subject to certain restrictions:-
  - Construction / works contract resulting in **immovable property** - credit ineligible
  - **Employee related expenses** – credit ineligible
  - **Online matching of tax credits**; in case of mismatch - recipient to be denied GST credit
- **Manner of utilization of credit**
  - Cross adjustment between CGST & SGST not permissible
  - CGST/SGST utilization - CGST/SGST respectively and then IGST
  - IGST utilization - IGST, then CGST & then SGST



# GST : Excisable manufacturing unit

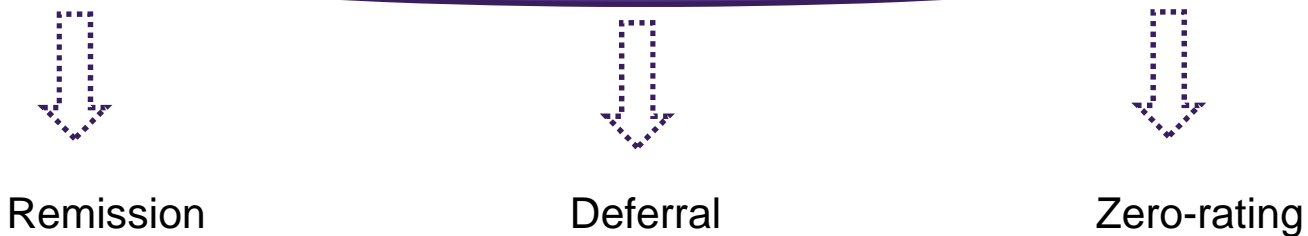


Red denotes non creditable taxes forming part of cost



# GST : Excise exempt unit

Taxes	Uttarakhand	
	Input	Output
Central Excise Duty	Taxable at applicable rates	Exempt
Value Added Tax (VAT)	Taxable at applicable rates	Taxable at applicable rates
Central Sales Tax (CST)	No concession	Reduced rate of 1% /1.5% subject to conditions



# GST : Key impact areas



## Impact on revenue and cash flows

- Tax rates
- Quantum & mode of exemption
- Job-worker
- Free supplies
- Warranty supplies
- Post sales discounts
- Pricing strategy



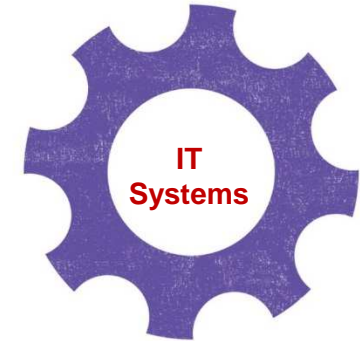
## Impact on procurements

- Inter/intra-state procurements
- Procurements from exempt units
- Tax credit restrictions
- Stock transfers
- Credit matching
- Freight Cost
- Input services cost



## Impact on compliances

- Registrations
- Place of supply
- Monthly filings
- ISD (Input service distributor)
- Transit Forms
- Invoice by Invoice matching



## Changes in IT systems

- Manner of payment of taxes
- Formats of invoices/records etc.
- Cross credits
- Factoring GST related data fields
- Logical modifications





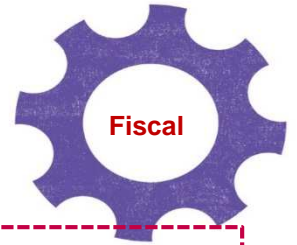
# GST : Possible rate structure

<i>Applicability</i>	<i>Present Excise duty</i>	<i>Present VAT Rate</i>	<i>Possible GST Rates</i>
50% of goods falling in <b>consumer inflation basket</b>	0%	0%	0%
Goods of <b>mass consumption</b> – generally exempt under either of VAT or Excise & leviable to lower rate under other	0%	5%	5%
	2-6%	0%	
Goods leviable to <b>concessional rates under both</b> Excise & VAT plus certain services	6%	5-6%	12%
Goods leviable to <b>concessional rate under either</b> of Excise or VAT and most services	6%	12.5%	18%*
	12.5%	5%	
White goods leviable to <b>standard rate under both</b> Excise & VAT	12.50%	12.50%	28%*
<b>Sin goods</b> namely Luxury Cars, Pan Masala, Aerated Beverages, Tobacco, Coal	18%-28%	12.50% - 20%	28% + Cess

**\*Need for immediate tax rate representation**



# GST : Impact on Business



## Provision under Model GST law

### Operations

- ✚ Effective tax cost should reduce;
- ✚ PAN India Common classification/tax rates
- ✚ No GST reversal for Exempt Vs Taxable operations
- ✚ Transitional credit provisions for units shifting from present exemption to tax under GST

### Credits

- ✚ Seamless credit across supply chain/distributors
- ✚ Full credit of IGST on import of goods (instead of CVD Cost & SAD refund)

### Compliances

- ✚ Online registrations, compliances etc.
- ✚ Standard Information formats across India
- ✚ All filings through single GST portal
- ✚ Reconciliations/Assessment reporting

### Operations

- ✗ GST on free supplies
- ✗ Higher freight cost due to exclusion of petroleum
- ✗ Concessional procurement for electricity
- ✗ Continuity of existing credit restrictions
- ✗ Additional credits to reduce exemption amount

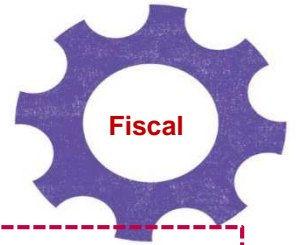
### Credits

- ✗ Denial of GST credit in case of non-payment of tax by supplier
- ✗ No specific provision for ISD transfer of goods

### Compliances

- ✗ Huge magnitude of filings and information; place of supply reporting must
- ✗ Additional compliances for exempt units
- ✗ Invoice by Invoice reporting;
- ✗ Transit forms to continue

# GST : Issues for Consideration



## Issues for consideration

### *Fiscal*

- Tax rates; mapping of existing tax costs
- GST on warranty supplies
- Pricing strategy; including discount
- Job-worker compliances
- Stock transfers valuation at Transaction Value
- GST on stock transfer of services
- GST adjustment on return from end consumers

### *Areas Based exemption*

- Exemption due on inter-state supply or sale?
- Refund documentation & timelines

### *Supply Chain*

- Warehousing/space requirements
- GST Impact on key inputs/suppliers
- Cash Flow impact – Change in tax points, increase in tax rates, refund vs exemption mode
- Consolidation of suppliers

### *Transitional issues*

- Credit of tax cost embedded in closing stock
- Clarity on transitional credit provisions e.g.
  - GST credit on goods in transit on transition date;
  - RCM tax paid/credit re-availed post transition date;
  - Utilization of pending cess balance;
- Transitional provisions for capital procurements made during exemption period

### *Information Technology*

- Identify and need for addition/ modification/ omission of certain data fields
- Changes in the in-built logic for computation of some data fields

### *Compliances*

- Compliance monitoring for GST credits
- Multiple State Credit pools; CGST & IGST pools

# Preparing for GST – Key parameters

Broad Impact Assessment	What-if/ Scenario analysis	Implementation Assistance	Transition Management
<ul style="list-style-type: none"> <li>Based on information in Public Domain and comparative GST structures in similar jurisdictions, develop specific "concept level" impact areas</li> <li>Shift impact areas into areas of opportunity and threats</li> <li>Identify whether need is felt for Representation to GST policymakers to minimize adverse impact areas</li> <li>Identify manner in which opportunities could be maximized</li> </ul>	<ul style="list-style-type: none"> <li>Using GT Technology Tool and based on draft GST Law (Act &amp; Rules), perform simulated calculations of potential GST impact on business (on "as-is" basis)</li> <li>Identify possible Scenarios under which above identified Opportunities/ Issues could be maximised or minimised, as the case may be</li> <li>Short-list realistic Scenarios that could be implemented for GST preparedness</li> </ul>	<ul style="list-style-type: none"> <li>Custom-design changes that need to occur in ERP, Internal Controls, Accounting</li> <li>Assist in making relevant changes in Supply Chain</li> <li>Review and suggest changes in documentation, processes and policies to meet GST requirements</li> <li>Plot manner in which the GST credits and liabilities can be auto-picked for compliances and tax pay-outs</li> </ul>	<ul style="list-style-type: none"> <li>GST registrations in all jurisdictions where required</li> <li>Assistance in meeting first cycle of GST compliances (invoice formats, returns, etc.)</li> <li>Assistance in transitioning tax credits and liabilities from legacy IDT systems to GST systems using Transition Rules</li> <li>Address special needs such as suggestions on State incentives, etc</li> </ul>

***“Given the multi-fold impact of GST; businesses will have to revisit the entire supply chain mechanism”***

# Contact us

To know more about Grant Thornton in India, please visit [www.grantthornton.in](http://www.grantthornton.in) or contact any of our offices as mentioned below:

## NEW DELHI

National Office  
Outer Circle  
L 41 Connaught Circus  
New Delhi 110 001  
T +91 11 4278 7070

## AHMEDABAD

BSQUARE Managed Offices,  
7th Floor, Shree Krishna Center,  
Nr. Mithakali Six Roads,  
Navrangpura,  
Ahmedabad 380009  
T +91 7600001620

## BENGALURU

"Wings", 1st floor  
16/1 Cambridge Road  
Ulsoor  
Bengaluru 560 008  
T +91 80 4243 0700

## CHANDIGARH

B-406A, 4th Floor  
L&T Elante Office Building  
Industrial Area Phase-I  
Chandigarh – 160002  
T +91 172 4338 000

## CHENNAI

Arihant Nitco Park, 6th floor  
No.90, Dr. Radhakrishnan Salai  
Mylapore  
Chennai 600 004  
T +91 44 4294 0000

## GURGAON

21st floor, DLF Square  
Jacaranda Marg  
DLF Phase II  
Gurgaon 122 002  
T +91 124 462 8000

## HYDERABAD

7th floor, Block III  
White House  
Kundan Bagh, Begumpet  
Hyderabad 500 016  
T +91 40 6630 8200

## KOCHI

7th Floor, Modayil Centre point,  
Warriam road junction,  
M.G.Road,  
Kochi 682 016  
T +91 484 40064541

## KOLKATA

10C Hungerford Street  
5th floor  
Kolkata 700 017  
T +91 33 4050 8000

## MUMBAI

16th floor, Tower II  
Indiabulls Finance Centre  
SB Marg, Elphinstone (W)  
Mumbai 400 013  
T +91 22 6626 2600

## MUMBAI

9th Floor, Classic Pentagon,  
Nr Bisleri factory,  
Western Express Highway,  
Andheri (E)  
Mumbai 400 099  
T +91 22 6176 7800

## NOIDA

Plot No. 19A, 7th Floor  
Sector – 16A,  
Noida – 201301  
T +91 120 7109001

## PUNE

401 Century Arcade  
Narang Baug Road  
Off Boat Club Road  
Pune 411 001  
T +91 20 4105 7000



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