



**GST
Presentation
APRIL 15, 2016**

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GST around the Globe



GST around the globe

- France was the first country to adopt GST in 1954
- There are two types of GST systems; unified and dual. Most of the countries have a unified GST system. Brazil and Canada follow a dual system where GST is levied by both, the Union as well as the State governments
- Currently, there are 160 countries in the world that have implemented VAT / GST. Number of countries based on region are stated in the table
- Highest rates are in Hungary (27%) and Gambia (40%)

No.	Region	No. of Countries
1	ASEAN	7
2	Asia	19
3	Europe	53
4	Oceania	7
5	Africa	44
6	South America	11
7	Caribbean, Central & North America	19

Source: "Countries implementing VAT or GST"
http://gst.customs.gov.my/en/gst/Pages/gst_ci.aspx

GST in India



GST Journey in India

Feb 2008 - Hon'ble Finance Minister ("FM") announced introduction of GST from 01.04.10

April 2008 - Empowered committee finalized views over GST and submitted report titled "A model and roadmap for Goods and Services Tax (GST) in India"

Feb 2010 - Mentioned in the speech of then FM - GST to be introduced in April 2011

March 2012 - drafting of model legislation for Centre and State GST in concert with States under progress

The Constitution 122th amendment bill passed by Lok Sabha for levy of GST pending approval in the Rajya Sabha

2008

2010

2012

2015

2009

2011

2013

2016

July 2009- FM announced commitment to introduce GST from 01.04.10

Nov 2009 - First discussion paper released by EC

Dec 2009 - Task force constituted by EC released its report

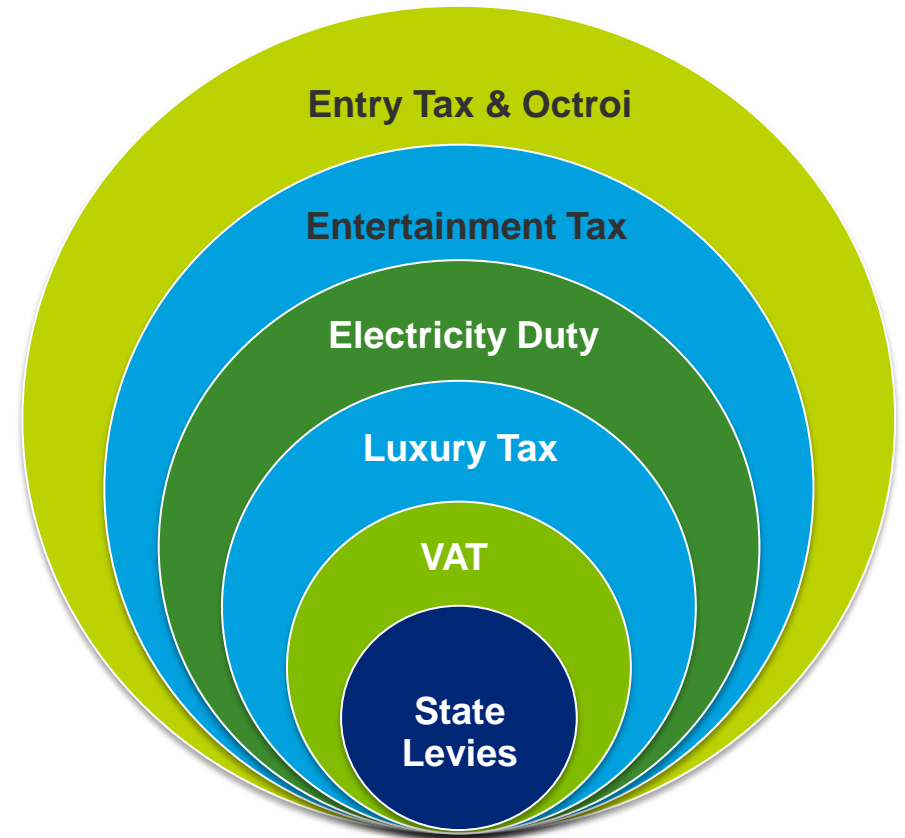
March 2011 - The Constitution 115th amendment bill introduced in Lok Sabha for levy of GST on all goods or services except for the specified goods

Four Committees constituted by the Empowered Committee of State Finance Ministers (EC) to deal with various aspects of work relating to the introduction of GST

Proposed date for introduction of GST?

Existing Indirect Taxes in India

Various Taxes



Shortcomings in the Present Structure and Need of GST

Tax Cascading:

- Manner of levy of Central and State taxes creates cascading effect
- No set-off of State VAT against Central levies such as service tax, excise duty etc. and vice versa
- No set-off of CST levied on inter-state sales

Complexity in determining the nature of transaction – Sale vs. Service:

- Centre and State powers of taxation limited by Constitution
- Certain transactions such as sale of software taxed as both, goods & service
- Difficulty in splitting a composite transaction into 'sale of goods' portion and 'services portion'
- Taxation base in works contract more than 100% in certain cases

Lack of uniformity in provisions and rates:

- Inconsistency in definition of concepts, rates, classification of goods, computation etc.
- Interpretational issues

Complexities in tax administration lead to increase in compliance costs

Advantages of GST (Expected)

- Abolition of multiple types of taxes on goods and services
- Reduces effective rates of tax to one or two floor rates
- Reduces compliance cost and increases voluntary compliance
- Removes cascading effect of taxation and also distortion in the economy
- Enhances manufacturing and distribution efficiency, reduces cost of production of goods and services, increases demand and production of goods and services
- Gives competitive edge in international market
- Lays rest to the need for distinction between goods and services
- Reduces distortions by completely switching to the destination principle
- Facilitates investment decisions being made on purely economic concerns, independent of tax considerations
- Expected to spur growth

The GST implementation increased Canadian GDP by 1.4 percent. In India, a similar kind of positive impact is expected.

Improvements in Tax Structure and Administration

Over the past several years, significant progress has been made to improve the indirect tax structure, broaden the base and rationalize the rates to pave way for GST

Replacement of single-point State sales taxes by the VAT in all of the States and Union Territories

Reduction in the central sales tax rate from 4% to 2%, as a part of a complete phase out of the tax

Substantial expansion of service tax base by introduction of negative list regime of service tax

Introduction of Place of Provision of Services, Rules 2012

Electronic registration, payment and filing of VAT returns

The background of the slide is a close-up, macro photograph of numerous blue-tinted bubbles. The bubbles are of various sizes and are clustered together, creating a complex, textured pattern. The lighting is bright, causing the bubbles to reflect light and appear glossy. The overall color palette is a range of blues, from light cyan to deep, dark blue.

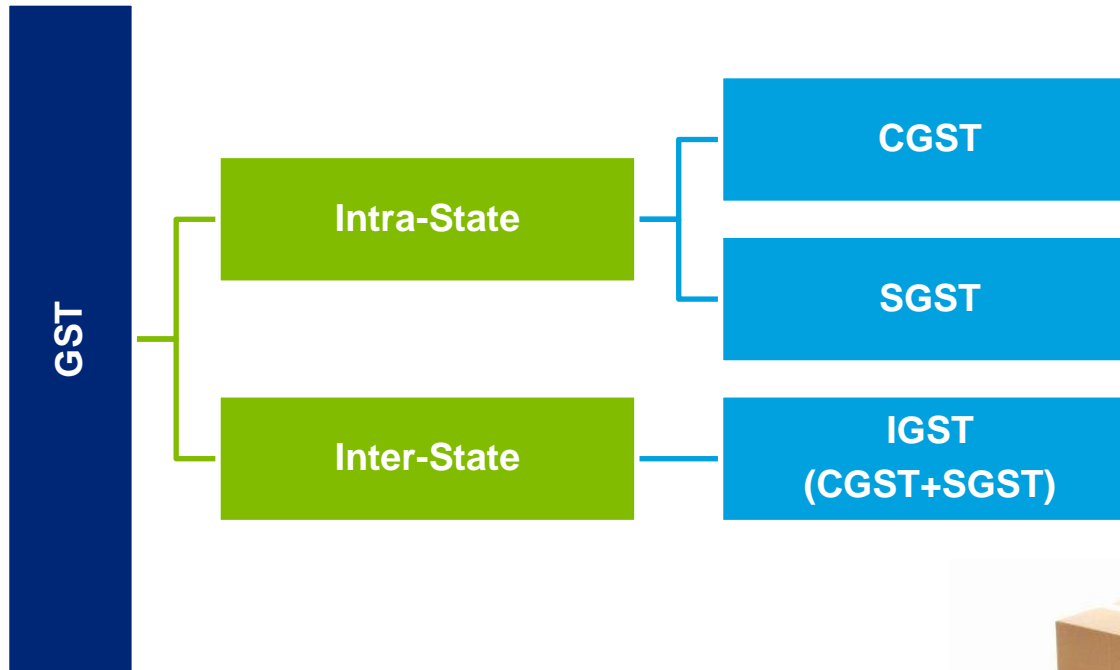
GST Overview

Birds eye view of GST

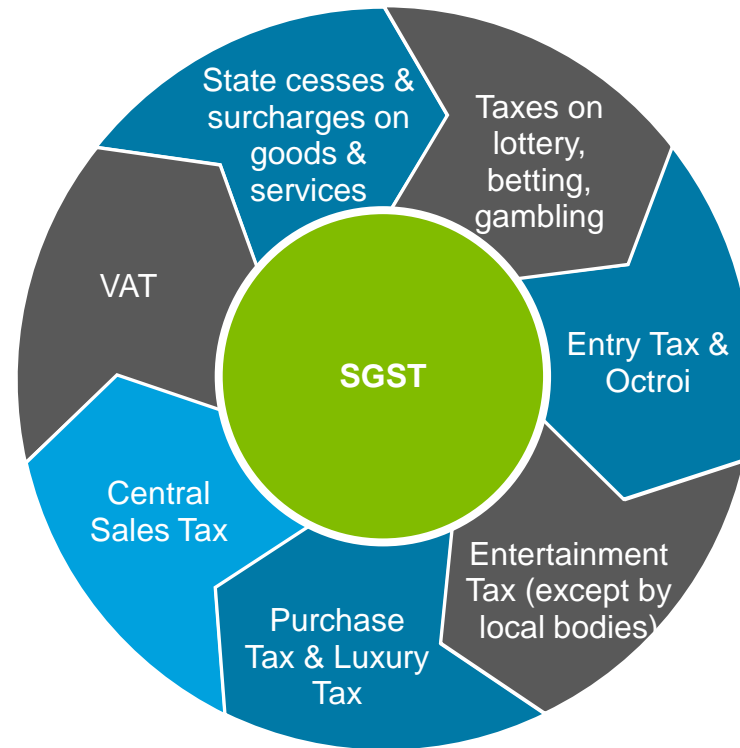
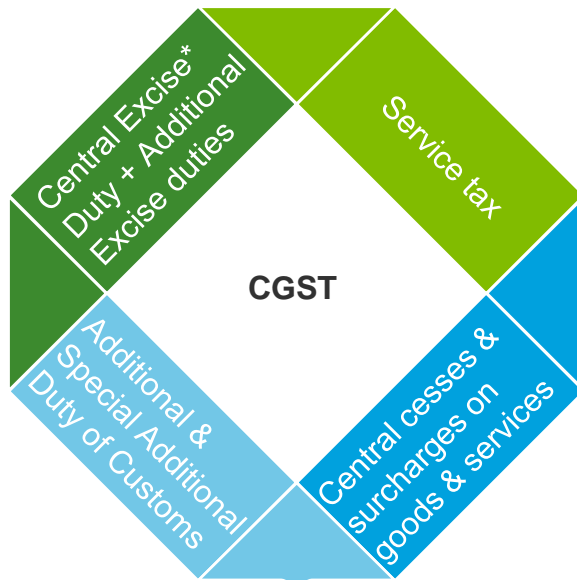
- GST – a destination based consumption tax on goods and services
- Both, Centre and State to levy taxes on goods and services
- GST expected to replace the existing tax structure which is plagued with multiplicity of Central and State taxes
- GST considered a progressive system of taxation; will bring Indian taxation system in parity with the system existent in the developed countries
- Seamless credit across entire supply chain and across all the States / Union Territories

“GST is a progressive step in the direction of tax reforms”

Proposed GST Model



Taxes to be subsumed in GST



Note:

- 1) Alcoholic beverages for human consumption are proposed to be kept out of the purview of GST
- 2) GST on petroleum products would be levied from a notified date recommended by the GST Council
- 3) * Includes Excise duty levied under Medicinal & Toilet Preparations (Excise Duties) Act, 1955

Illustration of GST

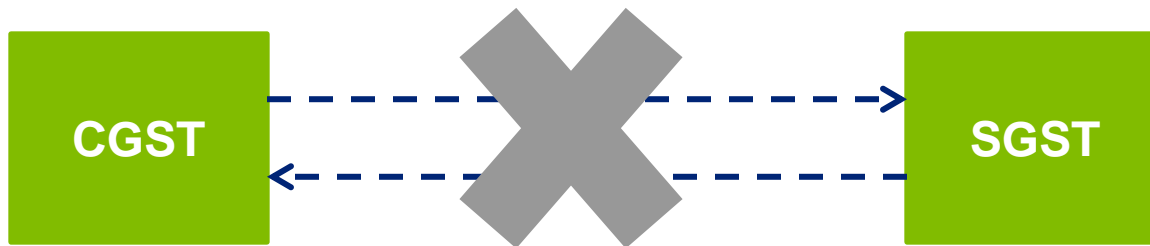
Assumptions: (1) Rate of Excise Duty- 12.5%; (2) VAT Rate- 12.5%; (3) CGST- 8% (12.77% - NIPF); (4) SGST Rate- 12% (13.99% - NIPF); (5) Profit Margin- `10,000/- fixed (before tax)

Particulars	Under VAT	Under GST (Intra State)	Under GST (Inter State)	Under GST (NIPF rates)
Cost of production	90,000	90,000	90,000	90,000
Add: Profit Margin	10,000	10,000	10,000	10,000
Producers Basic Price	1,00,000	1,00,000	1,00,000	1,00,000
Add: Central Excise Duty @ 12.5%	12,500	-	-	-
Add: VAT @ 12.5% on 1,12,500/-	14,062	-	-	-
Add: CGST @ 8% / 12.77% (NIPF rate)	-	8,000	-	12,770
Add: SGST @ 12% / 13.99% (NIPF rate)	-	12,000	-	13,990
Add: IGST @ 20% + 1% Additional tax			21,000	
Sale Price	1,26,562	1,20,000	1,21,000	1,26,760

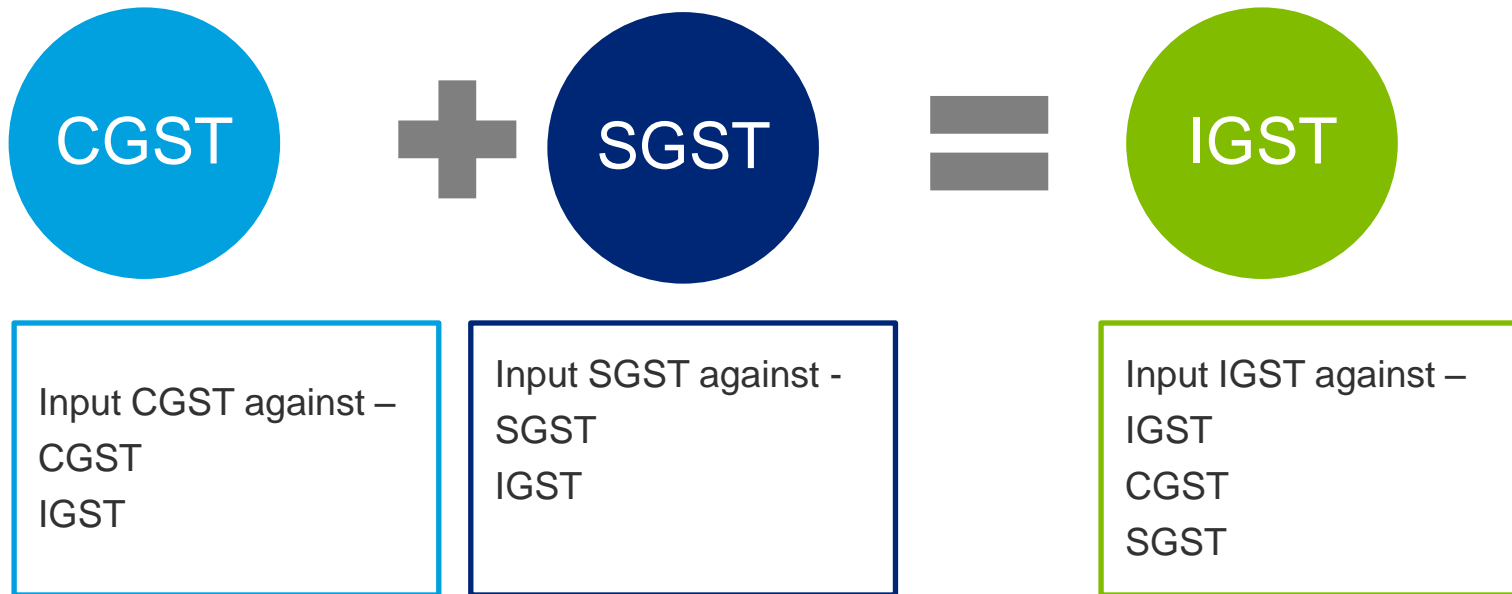
GST Set off Chain

Set-off methodology

- Central GST and State GST are expected to be treated separately
- The credit availed of Central GST paid on goods and services received is expected to be utilized only against the payment of Central GST
- The same principle could apply for the set off of State GST
- Cross utilization of input tax credit between the Central GST and the State GST would not be allowed



GST Credit Mechanism



The Constitution (122nd Amendment) Bill, 2014



The Constitution (122nd Amendment) Bill, 2014

Objections of States

Why the delay in Constitution Amendment:

- **States not in favour of Petroleum, Petroleum Products and Alcohol to be within the ambit of GST**
 - **Reportedly, the States at present collect more than 50% of the State VAT from Petroleum and Petroleum Products & alcohol for human consumption**
- **Subsumation of 'Entry Tax including Octroi' in GST is opposed**
 - **The apprehension is about the loss of revenue if these were included in the GST**
- The States demanded more fiscal autonomy by way of power to vary the State GST rates
- GST being a destination based tax, supplier (origin) States feared loss of revenue to the consuming States
- Existence of trust deficit between Centre and the States with respect to compensation for loss of revenue
- Differences on constitution of dispute settlement authority & powers of the GST Council

The Constitution (122nd Amendment) Bill, 2014

Significant Amendments

Relevant Definitions:

Article 366(12) [No change]

- “Goods” includes all materials, commodities and articles

Article 366(26A)

- “Services” means anything other than goods

Article 366(26B)

- ‘State’ for the purpose of Article 246A, 268, 269, 269A and 279A would also include Union territories with legislature

Article 366(12A)

- GST means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption

The Constitution (122nd Amendment) Bill, 2014

Significant Amendments

- The bill proposes to **dispense** with the concept of **Goods of Special Importance**
- Presently, certain restrictions are placed on the powers of States in regard to tax on such goods
- Article 246A has been proposed to be inserted which would empower the Parliament and State Legislatures to make laws with respect to GST imposed by the Union or such States
- This Article enables the Centre and State to simultaneously levy taxes on supply of goods and services
- Parliament has been conferred the exclusive power to make laws with respect to GST in case of inter-state supply of goods or services or both
- This Article will become applicable to GST on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel (hereinafter referred to as “petroleum products”) from the date recommended by the GST Council

The Constitution (122nd Amendment) Bill, 2014

Significant Amendments

- Article 269A(1) has been proposed to be inserted which provides for levy and collection of GST on inter-state supply of goods and services (known as “Integrated GST” or “IGST”) by the Government of India
- Import of goods or services or both (from outside India), would be deemed to be supply in the course of inter-state trade or commerce
- Article 269A(2) empowers the Parliament to formulate the principles for determining:
 - The place of supply; and
 - When a supply of goods, or services or both, takes place in the course of inter-state trade or commerce
- Article 270(1A) has been inserted to provide for distribution between the Union and the States of CGST collected by the Centre
- The amended Article 286 would forbid the State from imposing tax on the supply of goods or services or both where such supply takes place:
 - Outside the State; or
 - In the course of import of goods or services or both, into or export of the goods or services or both, out of the territory of India

The Constitution (122nd Amendment) Bill, 2014

Significant Amendments

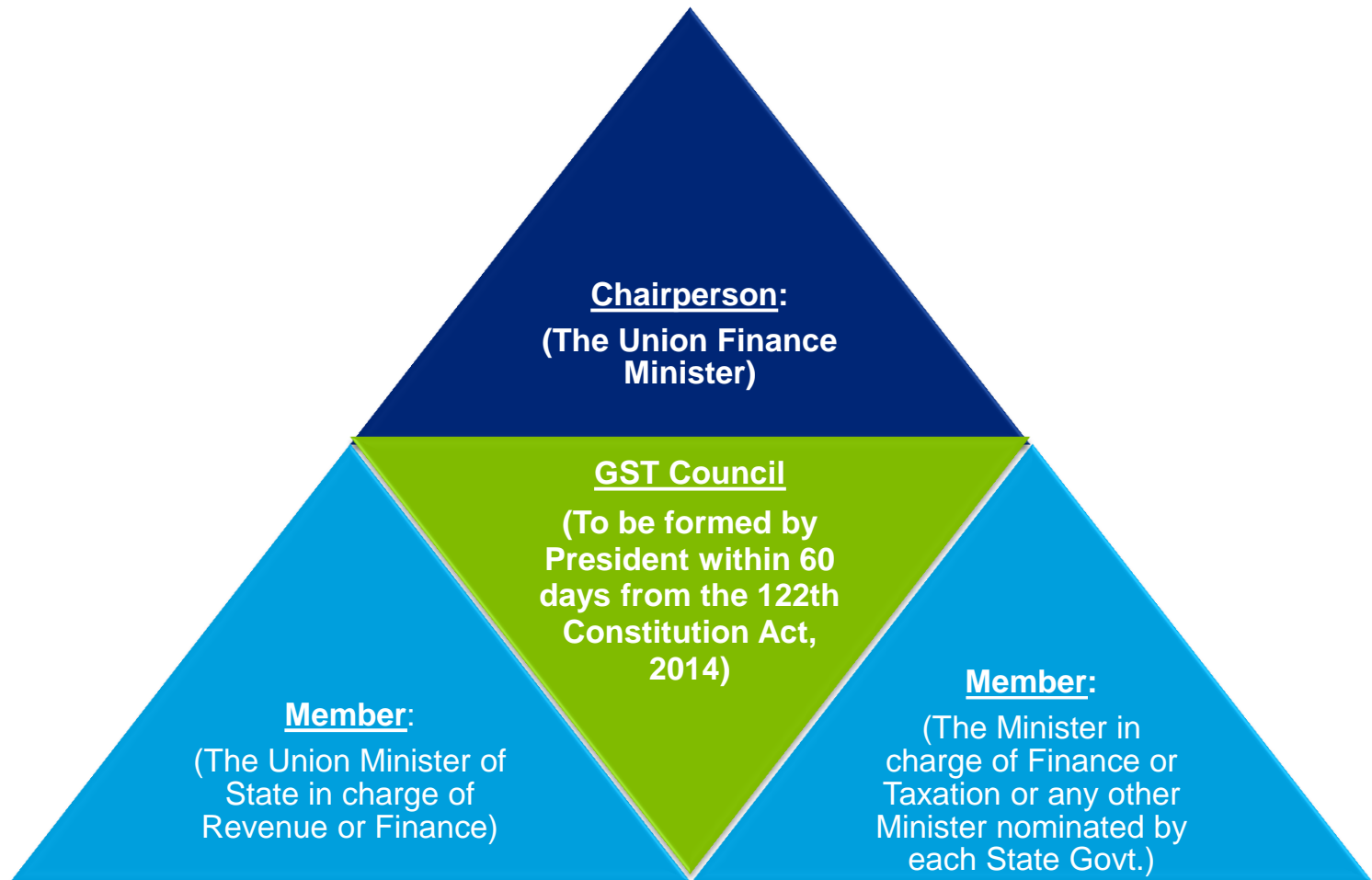
Formulation of GST Council – Article 279A(1)

- The President shall form the Goods and Service Tax Council within 60 days from the date of commencement of the Constitution (122nd Amendment) Act, 2014
- Every decision of the Goods and Service Tax Council will be required to be taken at a meeting, by a majority of not less than three-fourths of the weighted votes of the members present and voting
- The vote of the Central Government shall have a weightage of one-third of the total votes cast
- The votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast in that meeting

The Constitution (122nd Amendment) Bill, 2014

Significant Amendments

Members and formation of GST Council



Roles & Responsibilities of GST Council

The GST Council shall make recommendations to the Union and the States on:

- The taxes, cesses and surcharge levied by the Union, the States and the local bodies which may be subsumed in GST;
- The goods and services that may be subjected to, or exempted from GST;
- Model goods and service tax law, principles of levy, apportionment of IGST and the principles that govern the place of supply;
- The threshold limit of turnover below which goods and services may be exempted from GST;
- The rate including floor rate with bands of GST;
- Any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;
- Special provisions with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and
- Any other matter relating to GST, as the Council may decide

Additional features of GST

Additional tax on inter-state trade in goods

- To compensate the manufacturing or origin States, Centre would levy (and assign to origin States) an **additional one percent of tax over and above the IGST** on supply of goods in the course of inter-state transactions **for a period of two years**
- The GST Council may recommend to extend the above period of levy
- This additional tax would be **origin based**, and not destination based
- As per Finance Ministry press note, credit of this additional tax would not be available
- Power to exempt goods from levy of such tax shall be with the Government of India
- Principles to determine the place of origin from where supply of goods takes place in the course of inter-state trade will be formulated by the Parliament

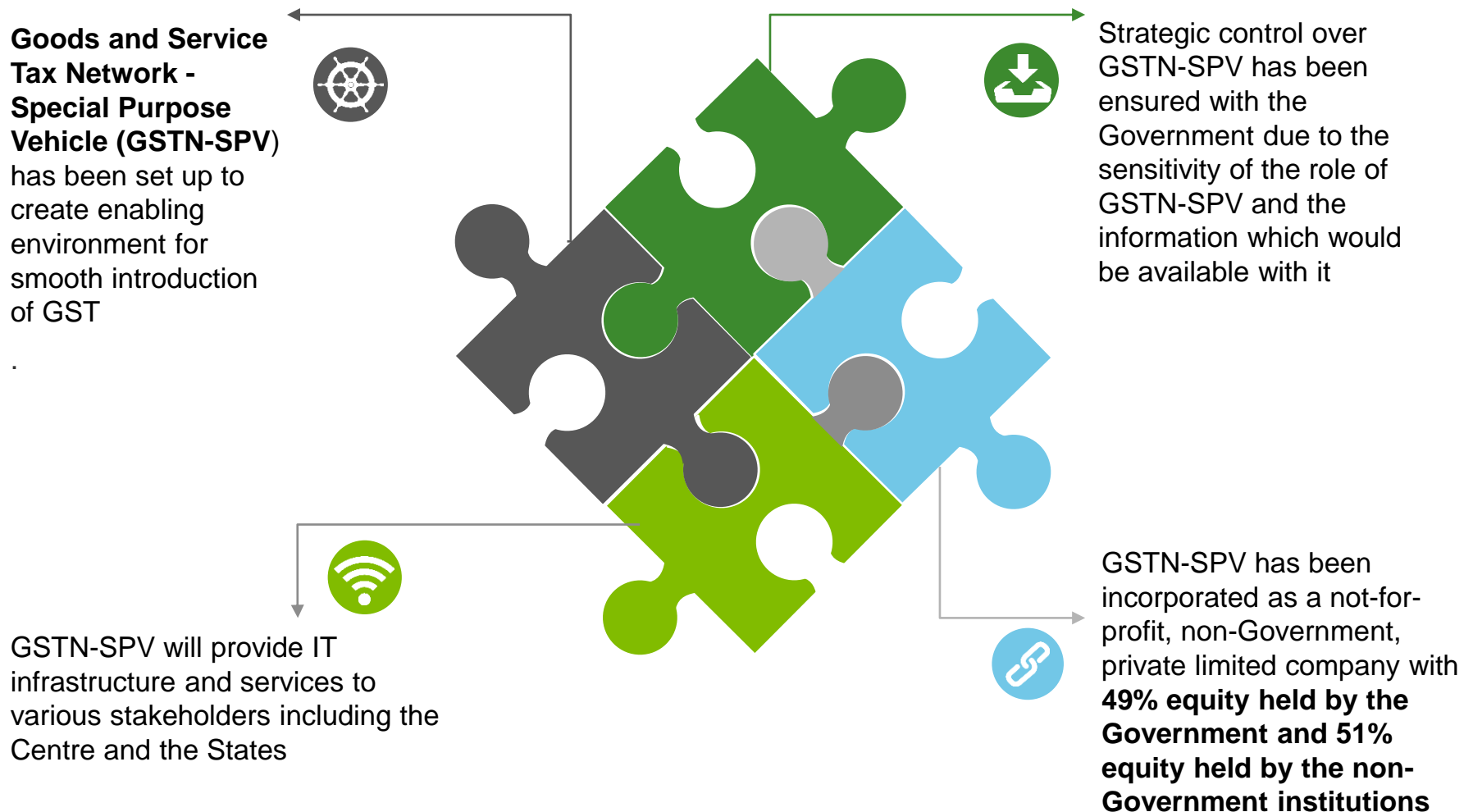
“GST with CST... is this what Government intends?”

IT- Infrastructure under GST



IT- Infrastructure under GST

Formation of GSTN-SPV



IT- Infrastructure under GST

Roles & Responsibilities of GSTN-SPV

- GSTN-SPV would render the following services-
 - provide common PAN-based registration, enable returns filing and payments processing for all States on a shared platform;
 - ensure integration of the common GST Portal with the existing tax administration systems of the Central / State Governments and other stake holders;
 - build efficient and convenient interfaces with tax payers to increase tax compliance;
 - carry out research, study best practices and provide training to the stakeholders;
- GSTN-SPV would earn its revenue by levying user charges on tax payers and tax authorities for availing its services



Potential Implications



Potential Implications

Manufacturing Sector

Sr. No.	Issue	Present scenario	GST scenario
1	Inputs purchased inter-state	<ul style="list-style-type: none"> Inputs are purchased inter-state at a concessional rate of 2% (CST) No set-off is available of CST paid CST becomes a cost 	<ul style="list-style-type: none"> Set-off of IGST paid should be available Additional tax of 1% to become cost
2	Capital goods purchased inter-state	<ul style="list-style-type: none"> There are restrictions on availability of ITC on purchase of capital goods in various States Manufacturers overcome ITC restrictions by carrying out inter-state purchase of capital goods at concessional rate of duty 	<ul style="list-style-type: none"> ITC restrictions on purchase of capital goods may not continue If ITC restrictions are not imposed, manufacturer's choice between intra-state and inter-state purchase could be influenced by 1% additional tax
3	Distribution	<ul style="list-style-type: none"> Manufacturers / dealers align their supply chain to tax considerations and establish multiple stocking points in distribution network 	<ul style="list-style-type: none"> Retention for stock transfers being absent vs. working capital impact of IGST to be factored The distribution framework would require a revisit – 2% CST vs. 1% Additional tax

Potential Implications

Service Sector

Sr. No.	Issue	Present scenario	GST scenario
1	Goods vs. Service	<ul style="list-style-type: none"> The distinction between goods and services becomes important as Centre can tax only services and States can tax only sale of goods Taxation of works contract is very complex 	<ul style="list-style-type: none"> Taxation of works contract is expected to become simpler provided goods and services carry same rate of tax
2	Taxation base	<ul style="list-style-type: none"> In case of certain works contracts (AMC contract), the aggregate of taxation base for the purpose of VAT and service tax exceeds 100 per cent 	<ul style="list-style-type: none"> The taxation base is expected to remain below or equal to 100% of transaction value
3	Tax on Tax	<ul style="list-style-type: none"> VAT on service tax? - AMC, Software 	<ul style="list-style-type: none"> CGST and SGST are expected to be levied only on the supply value of goods / services
4	Excise duty	<ul style="list-style-type: none"> Excise duty is levied if a new commodity comes into existence in the process of executing a works contract 	<ul style="list-style-type: none"> The taxable event would change from “manufacture” to “supply” thereby eliminating the need of a separate incidence of tax

Potential Implications

Service Sector

Sr. No.	Issue	Present scenario	GST scenario
5	Inclusion of value of land in transaction value	<ul style="list-style-type: none"> The value of land is excluded from the transaction value for the purposes of VAT and service tax 	<ul style="list-style-type: none"> There is no clarity on inclusion of land for valuation under GST
6	Credit of taxes paid on raw materials pertaining to construction industry	<ul style="list-style-type: none"> Credit of inputs and input services used for construction of a building / civil structure is not allowed; however, tax is levied on abated value 	<ul style="list-style-type: none"> Restriction of credit on inputs & input services not necessary if supply of immovable property is within the purview of GST

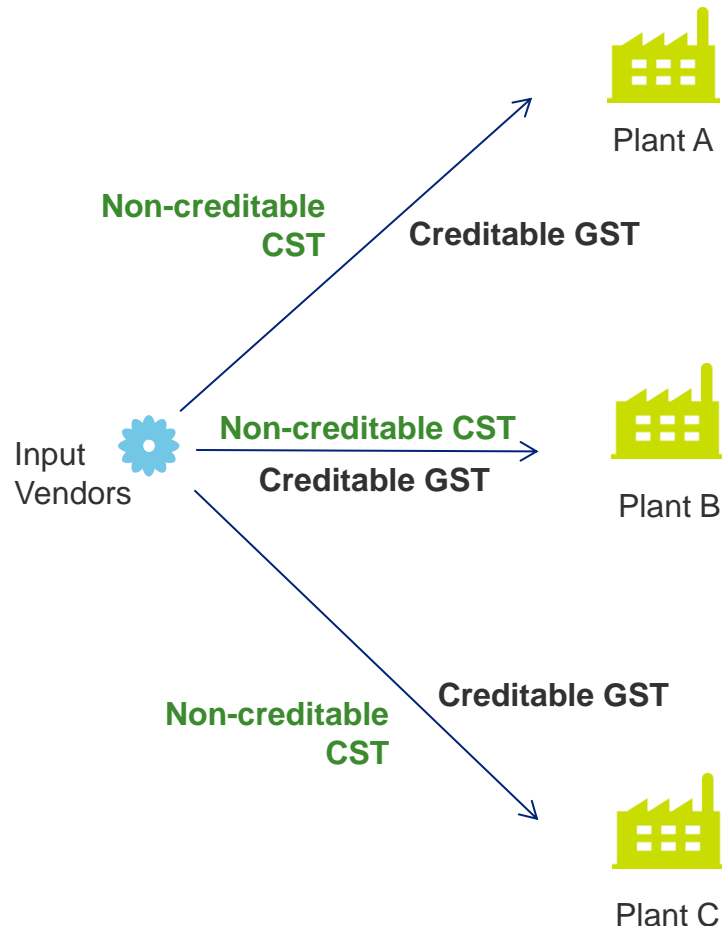
Potential Implications

Traders

Sr. No.	Issue	Present scenario	GST scenario
1	Loss of CENVAT credit/VAT	<ul style="list-style-type: none">• Cross utilization of CENVAT credit is not available	<ul style="list-style-type: none">• The traders can cross utilize the GST credits.
2	Determining the location for Warehousing	<ul style="list-style-type: none">• The location is determined based on the preferred location for sale	<ul style="list-style-type: none">• Unified taxation regime would make the warehousing less relevant

Potential Implications

Reduces the tax credit loss on - inter-state purchases



Particulars	Manufactured Goods	
	Present	GST
Input	1000	1000
Excise @ 12.5%	125	-
GST @ 20% + 1% Addl. Tax	-	210
Eligible credit	-125	-200
CST @ 2%	22.5	-
Eligible credit	Nil	-
Effective cost	1022.5	1010

Notes:

1. Value of input is assumed at Rs. 1000
2. GST is assumed @ 20%

Legends:

Text in **dark green**: Existing i.e. pre-GST

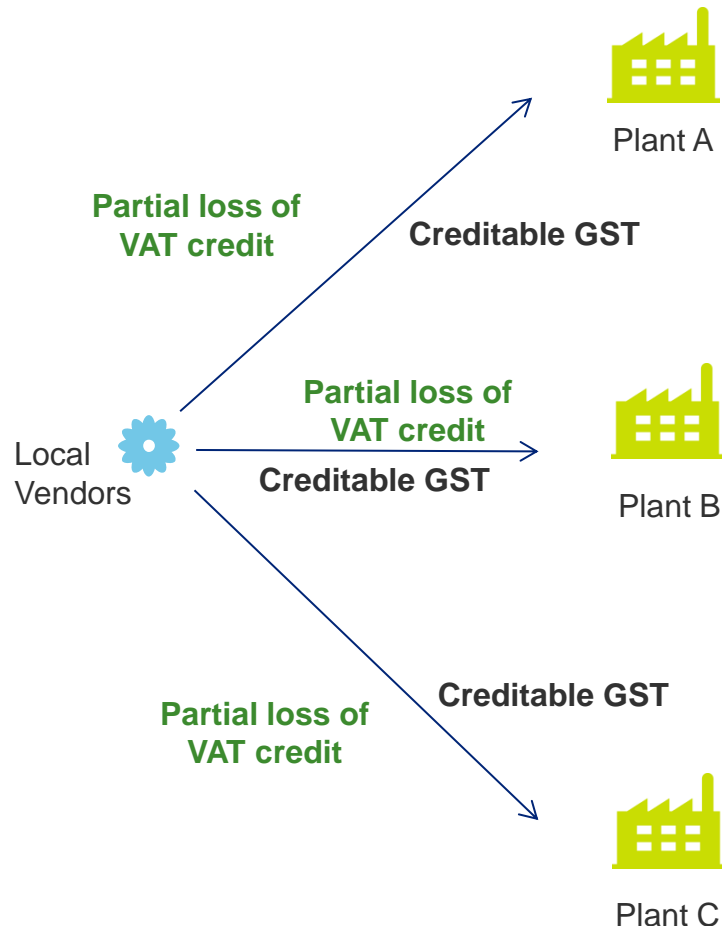
Text in **gray**: Proposed i.e. GST

Legend for movement of goods

→ Intra-state purchase

Potential Implications

Eliminates the tax credit loss on intra-state purchases (on inter-state stock transfer)



Particulars	Manufactured Goods	
	Present	GST
Input	1000	1000
Excise @ 12.5%	125	-
GST @ 20% + 1% Addl. Tax	-	210
Eligible credit	-125	-200
VAT @ 14.5%	163	-
Eligible credit	118	-
Effective cost	1045	1010

Notes:

1. Value of input is assumed at Rs. 1000
2. GST is assumed @ 20%
3. Stock transfer is assumed to be 100% of the inventory
4. Assuming input tax credit to the extent of 4% is to be reversed in case the manufactured goods are stock transferred outside the state

Legends:

Text in **dark green**: Existing i.e. pre-GST

Text in **gray**: Proposed i.e. GST

Legend for movement of goods

→ Intra-state purchase

Potential Implications

Trading business to benefit

Customs duty (except basic custom duty)

Service tax on services procured



Particulars	Import of goods	
	Present	GST
Value of Import (A)	1000	1000
BCD @ 10% on (A) = (B)	100	100
CVD @ 12.5% on (A+B) = (C)	137	-
Edu. Cess @ 3% on (B+C) = (D)	7	-
SAD @ 4% on (A+B+C+D) = (E)	50	-
GST @ 20%	-	200
Eligible credit / refund	-50	-200
Effective Cost	1244	1100

Particulars	Import of services	
	Present	GST
Value of Services	1000	1000
Service Tax @ 14%	140	-
GST @ 20%	-	200
Eligible credit	Nil	-200
Effective Cost	1140	1000

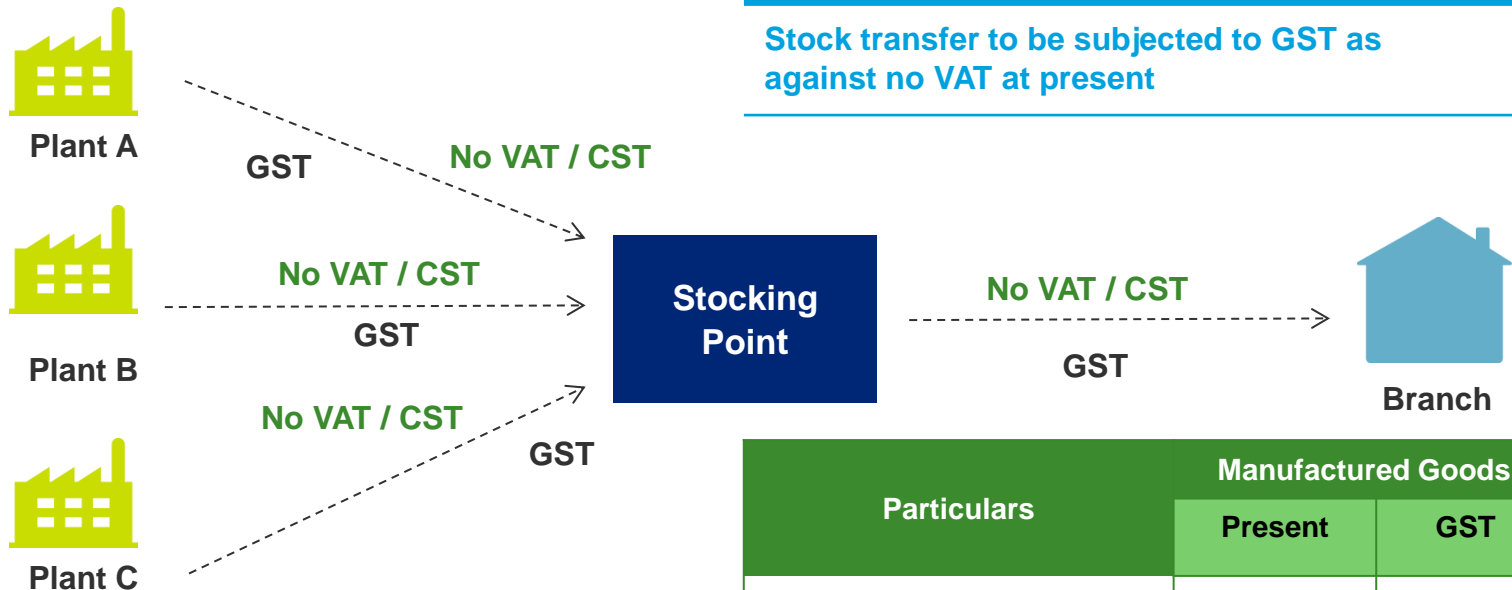
Notes (for both the tables):

1. Value of import and services is assumed at Rs. 1000
2. GST is assumed @ 20%
3. SAD is considered as refundable on the traded products on the basis of customs notification 102/2007 dated September 14, 2007

- **Eliminates double taxation** (VAT & service tax) say royalty on transfer of right to use IPRs
- Possible **reduction in existing tax component** represented in cost of goods sold
- Brings opportunity to **dismantle the State-wise branch model** unless business case

Potential Implications

Change in working capital requirement of manufacturers



Stock transfer to be subjected to GST as against no VAT at present

Particulars	Manufactured Goods	
	Present	GST
Output	1000	1000
Excise @ 12.5% on Mfg.	125	-
GST @ 20% on Transfer	-	200
CST / VAT on Transfer	-	-
Stock transfer value	1125	1200
Increase in working capital req		75

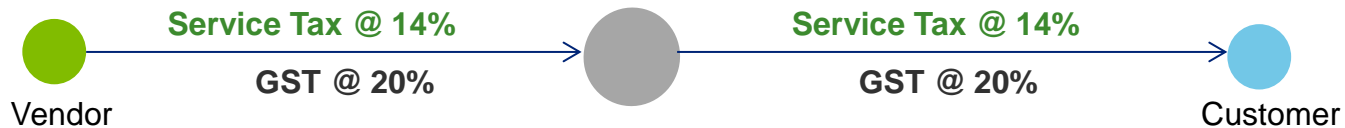
Notes:

1. Value of output is assumed at Rs. 1000
2. GST is assumed @ 20%

Potential Implications

Change in working capital requirement of service providers

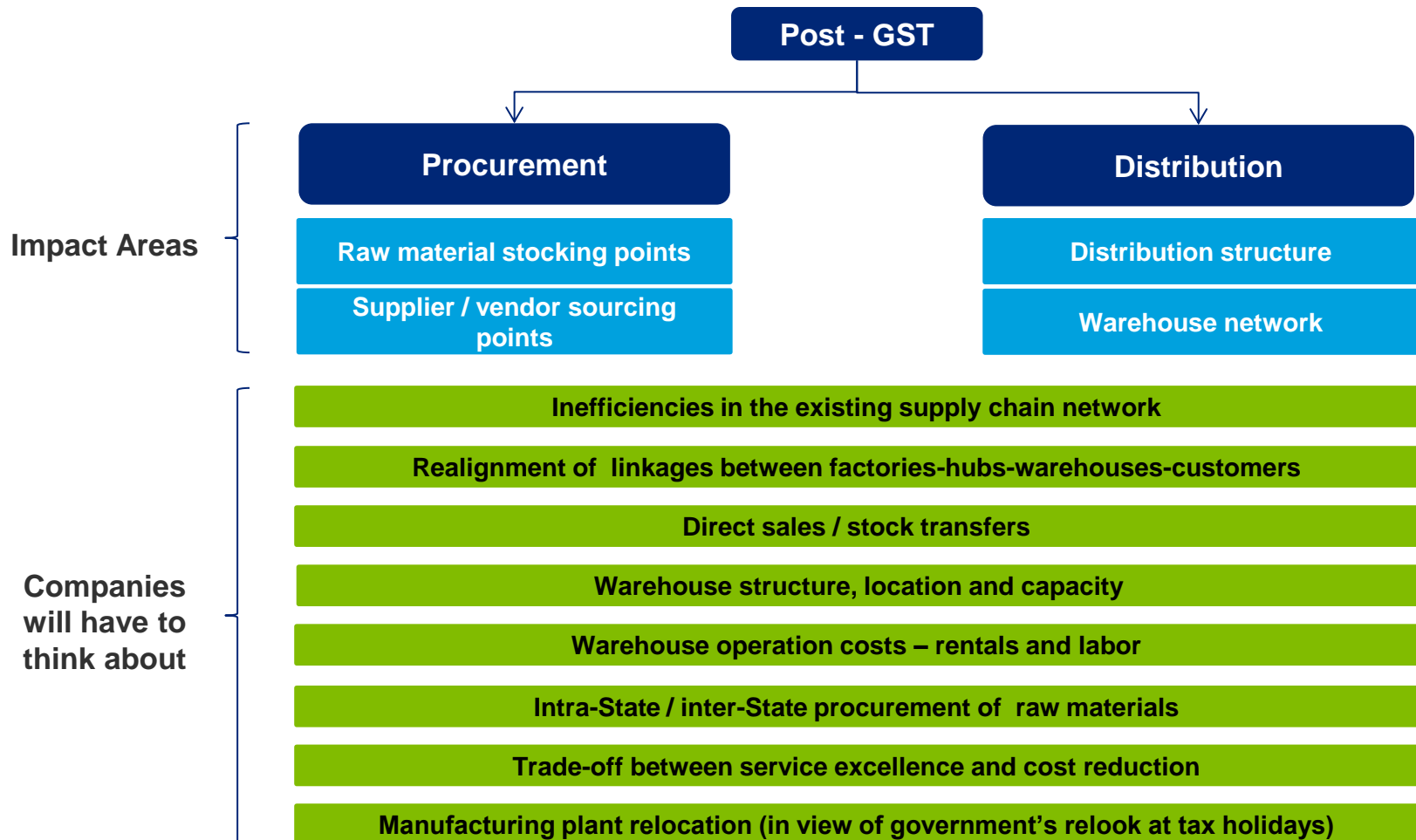
Higher service tax rate of 20% as compared to existing 14%



Centralized Registration????

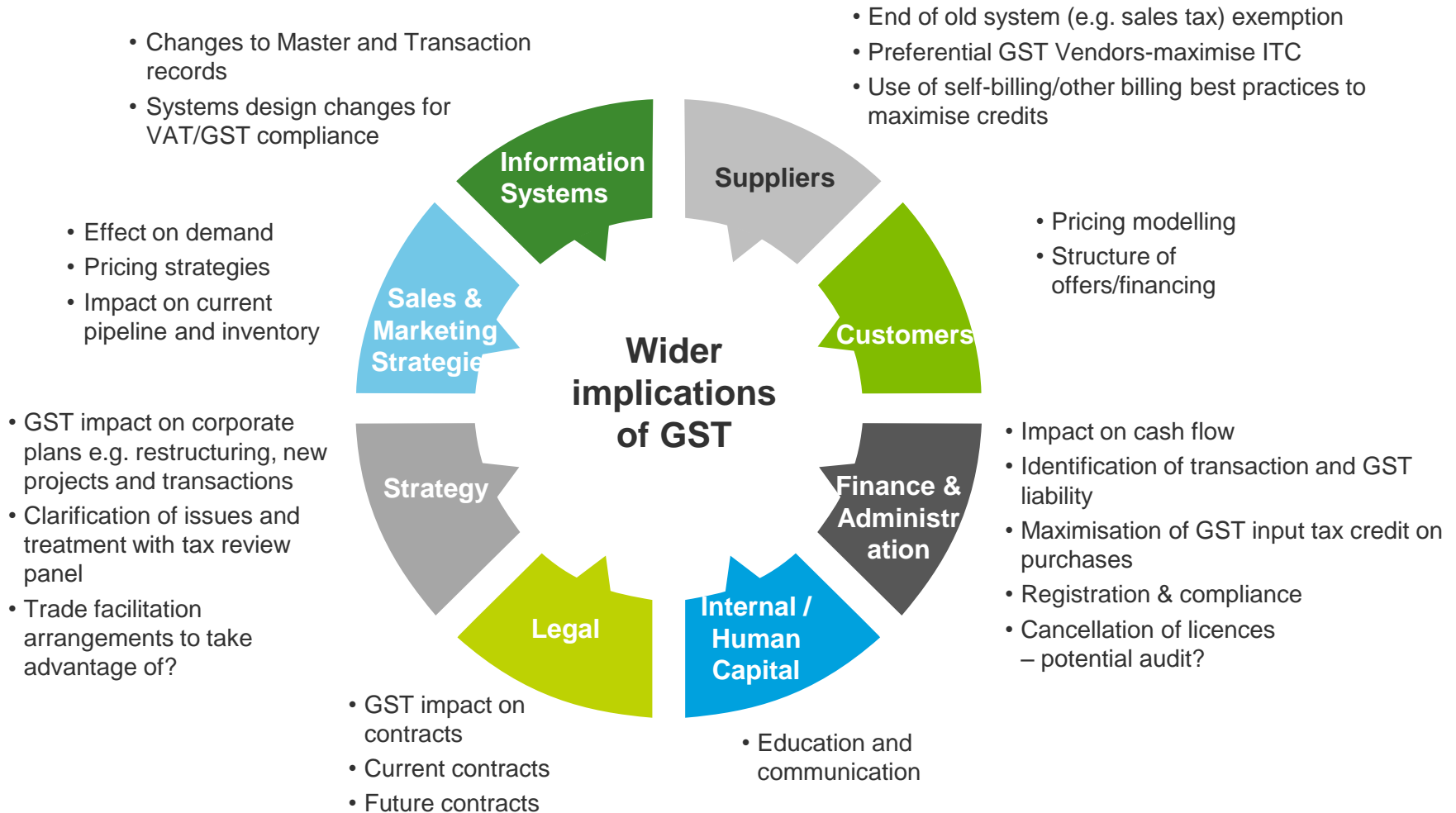
Post GST Supply Chain Scenario – Need to review & optimize key parameters

Post-GST, there will be a need for rationalization of network models which were created to avoid CST



Potential Implications

On over all business



Thank you



Glossary

GST – Goods and Service Tax

CVD – Countervailing Duty

SAD – Special Additional Duty

CST – Central Sales Tax

SGST – State Goods and Service Tax

CGST – Central Goods and Service Tax

IGST - Integrated Goods and Service Tax

ITC - Input Tax Credit

NIPF – National Institute of Public Finance & Policy

GST Council – Goods and Service Tax Council

GSTN-SPV – Goods and Service Tax Network – Special Purpose Vehicle