

Goods and Service Tax In India

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Agenda

- Current state of play

- Dual GST model in India

- Key focus areas
 - Supply chain
 - Indirect tax management function
 - Pricing
 - IT systems

- Way forward

Current state of play

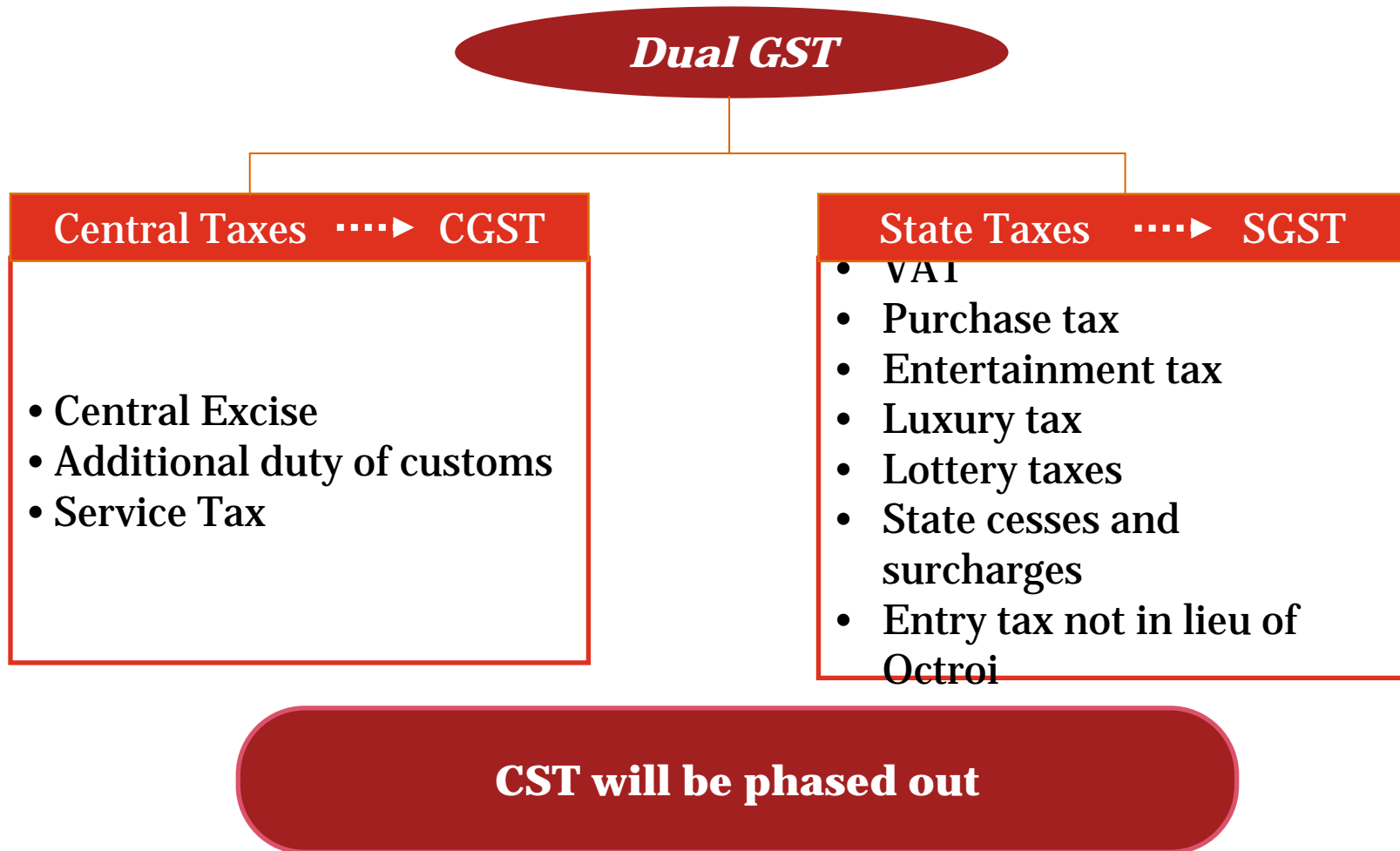
GST – Current state of play

- Draft Constitutional Amendment bill being introduced in the Budget session of Parliament
- FM indicates that GST may be implemented from April 2012
- Opposition from some States on certain aspects of the GST
- Ongoing meetings between the Centre and the States
- Compensation mechanisms and procedures being put in
- EC meetings scheduled every month

70:30 probability of introduction of GST by April 2012

Dual GST model in India

Taxes proposed to be subsumed in dual GST



Proposed GST rates



Goods

Services

Existing Rate: 20-22%

Existing Rate: 10%

Year	Standard*	Concessional*
Y1	20 % [10+10]	12% [6+6]
Y2	18 % [9+9]	12% [6+6]
Y3	16 % [8+8]	16 % [8+8]

Year	Standard*
Y1	16 % [8+8]
Y2	16 % [8+8]
Y3	16 % [8+8]

* Proposed by the Central Finance Minister on 21 July 2010, yet to be agreed by the States

Rate convergence @16 % across goods and services in Y3

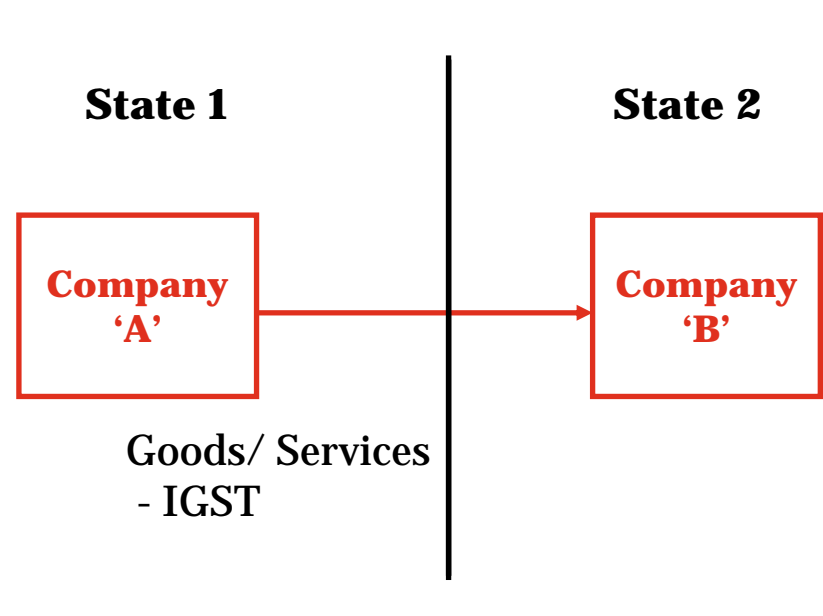
Proposed GST – Transactions within a State

- Both CGST and SGST to apply on supply of goods and/or services
- Both taxes to operate in parallel
- Cross-utilization of credits between CGST and SGST not permitted



Proposed GST – Transactions between States

- IGST mechanism – aggregate of Central and State GST
- All Inter State supplies of goods and services to be charged to IGST
- Full offsets of input IGST, CGST and SGST available
- Output IGST available as offset in State 2



Illustrative computation of dual GST – Standard Rates

	Present	GST regime 2012-13	2014-15
<u>Factory to Depot</u>			
Base Price	100	100	100
Excise Duty @10%	10		
State VAT/CST (Nil against Form F)			
Central GST @10% (on 100)		10	8
State GST @10% (on 100)		10	8
Total	110.00	120	116
<u>Depot to Dealers</u>			
Wholesale Price (assuming value addition 10)	120.00	130	126
State VAT @ 12.5% (taking VAT rate as 12.5%)	15.00		
Central GST @10% (on value add of 10)		1	.8
State GST @10% (on value add of 10)		1	.8
Dealers price	135.00	132	127.6
<u>Dealers to customers</u>			
Retail Sales Price (assuming value add of 10)	145.00	142	137.6
State VAT @12.5% (on value add of 10)	1.25		
Central GST @ 10% (on value add of 10)		1	.8
State GST @ 10% (on value add of 10)		1	.8
Cumulative tax price	146.25	144	139.2
Total Taxes	26.25	24	19.2

Proposed Dual GST Model in India

Compliance

- Allotment of a PAN-based taxpayer identification number with 13/15 digits
- Uniform procedure for collection of both CGST, SGST & IGST to be prescribed in the respective legislations
- Single tax invoice for charging and collecting both taxes
- Submission of periodical returns, in common format, to both Centre and States

GST to have wide ranging impact

Illustrative impact across the sectors

FMCG & Pharma

- Consolidation of manufacturing operations
- Cash flow implications due to refund mechanism in tax holiday zones

Automotive

- Differential tax structures for cars
- Consolidation of dealer network and centralised warehousing
- Treatment of exemptions and incentives granted by Central Government and various State Governments

Telecom

- Removal of dual taxation
- Significant increase in rate – from 10 % to 16%
- Availability of input tax credits on telecom infrastructure

GST to have wide ranging impact

Illustrative impact across the sectors



Infrastructure

- Pruning of various concessions and exemptions
- Increase in input costs due to increase in tax rates

GST to have wide ranging impact

Sectors excluded from the purview of GST

Petroleum Products

Alcohol

Power

Key focus areas

Key focus areas

Supply chain

Indirect tax management function

IT systems

Supply chain re-engineering

Impact and to-dos

- Stocking points will get decided by the center of gravity of demand cutting across many states as opposed to fiscal considerations
- Possibility of lowering cost of operations due to:
 - Compression of the supply chain
 - Unfettered credit throughout the supply chain
- Uniformity in Sourcing Decisions – Centralization
- Planning for reduced cash flow impact on stock transfers
- Impact on working capital flow – exemptions to be replaced with refund mechanism

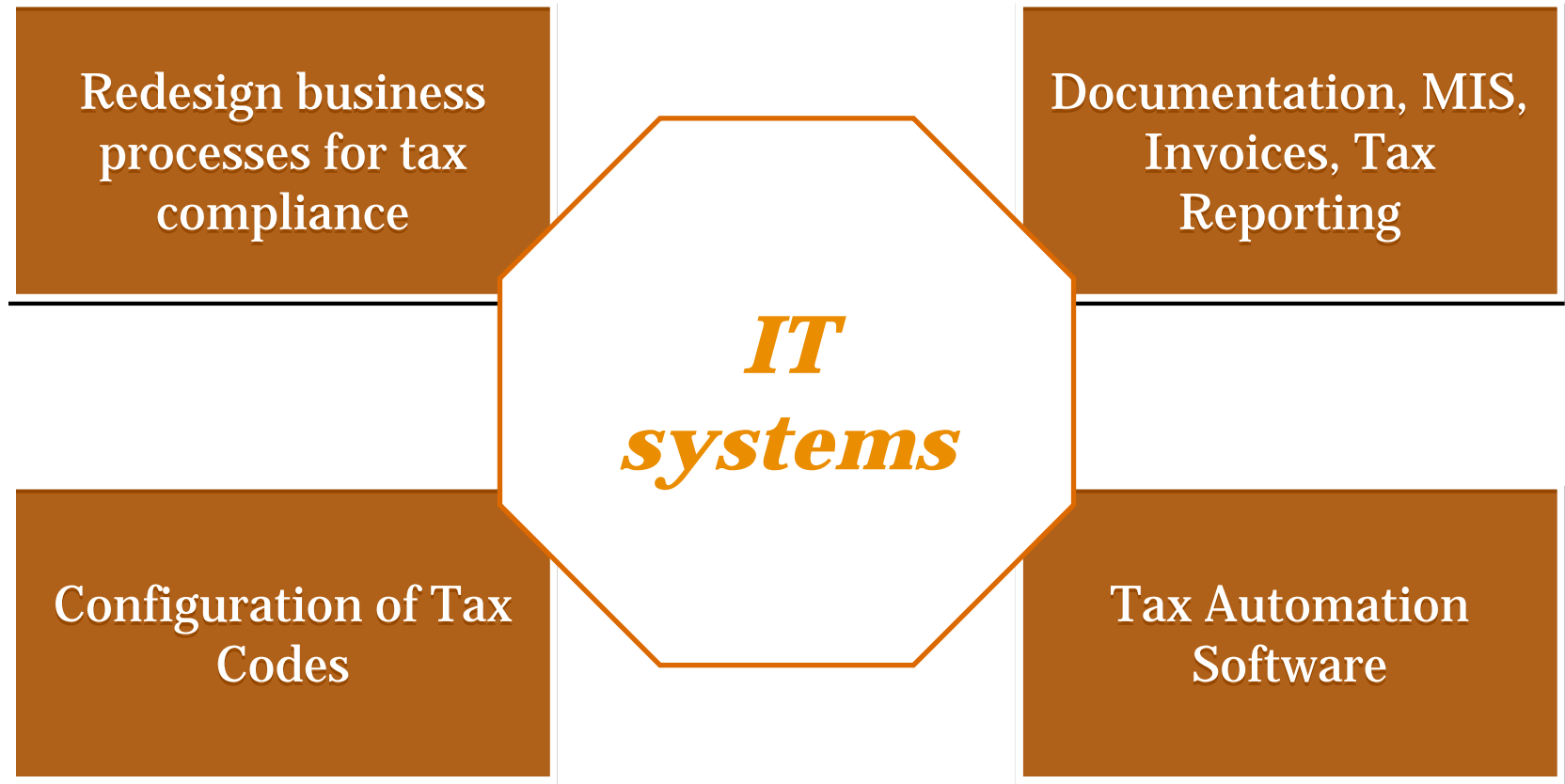
Indirect tax management function

Need to re-design

- GST would lead to a centralization of the indirect tax function
- Focus on strategy, processes and technology to manage indirect taxes
- Greater stake in 'accurate reporting' due to significant input tax credits as compared to the present scenario
- Tax administration to use IT enabled platform & processes e.g. tax data warehouse, online tracking of inter-state movements, information exchange etc

IT Systems

Need to realign



Way forward

Way forward

- Make representations to the Government to ensure that all issues pertaining to GST implementation are addressed
- Form a cross functional team and undertake GST impact assessment study
- Identify areas in business models/supply chains/processes which need to be re-engineered
- Identify requirements of reconfiguration of IT systems, modification in documentation, MIS and accounting
- Identify training needs both internal as well as external
- Get ready for a smooth transition to the new tax regime

GST is a game changer, pro-activeness will help the companies win !

Discussions