

GST HEADLINES

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**Cos Rush to Merge Arms for Better Efficiency
under GST**

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The Economic Times

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PREPARING FOR NEW REGIME Experts say subsidiaries created to avail of excise duty incentives will be irrelevant, and mergers will help reduce compliance work

Various companies are rushing to merge their subsidiaries with themselves ahead of the implementation of Goods and Services Tax (GST) to reduce tax, operational and administrative costs and to eliminate multiple legal entities. At least 100 companies, such as Asian Paints, Sun Pharma, L&T, BPCL, Sundaram Finance, Religare Enterprises and Arvind, have announced the merger of their subsidiaries with the parent in the last three months.

Many of the companies had created multiple units in the past to save on taxes but such incentives will cease to exist under GST.

“With the implementation of GST, all the tax planning and tax savings structure would be invalid and those subsidiaries which were created for availing the excise duty incentives will be irrelevant,” said Sachin Menon, head indirect tax, KPMG. “GST would also curb scope of various tax evasion practices such as creation of multiple entities to enjoy high exemption thresholds.”

Engineering-to-software conglomerate L&T, while merging its subsidiary Spectrum Infotech with itself, said that the proposed amalgamation will result in administrative and operations rationalisation, organisational efficiencies, reduction in overheads, personnel costs, compliance cost and other administrative expenses.

Sun Pharma has proposed to merge four of its subsidiaries - Sun Pharma Medisales, Ranbaxy Drugs, Gufic Pharma and Vidyut Investment - with itself.

“When all the cascading effects of CENVAT and Service Tax would be removed with a continuous chain of setoff from the producer's point to the retailer's point under GST regime, merger of subsidiaries in any form would only help to reduce the number of compliances to be made, keeping the GST kitty of the government tax neutral,” said Nishit Dhruva, managing partner, MDP & Partners (Advocates & Solicitors).

Under GST, all transactions done within group entities are liable to pay taxes as per various valuation methodologies, said tax experts.

“Under GST, in the event of related party transactions like sale or transfer of business or products or assets within subsidiaries, the transaction shall be treated as supply even when these are transferred without consideration, and the business is liable to pay GST,” said Raman Singla, partner indirect tax & GST, Devalya Advisory LLP. “Also, for multi-subsidiaries, there are many other problems like various state jurisdictions to separately assess transactions which make companies' work cumbersome.”

Religare Enterprises recently merged 11 fully-owned subsidiaries with itself citing organisation streamlining.

Link: <http://epaperbeta.timesofindia.com/Article.aspx?eid=31816&articlexml=Cos-Rush-to-Merge-Arms-for-Better-Efficiency-16022017012037>

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