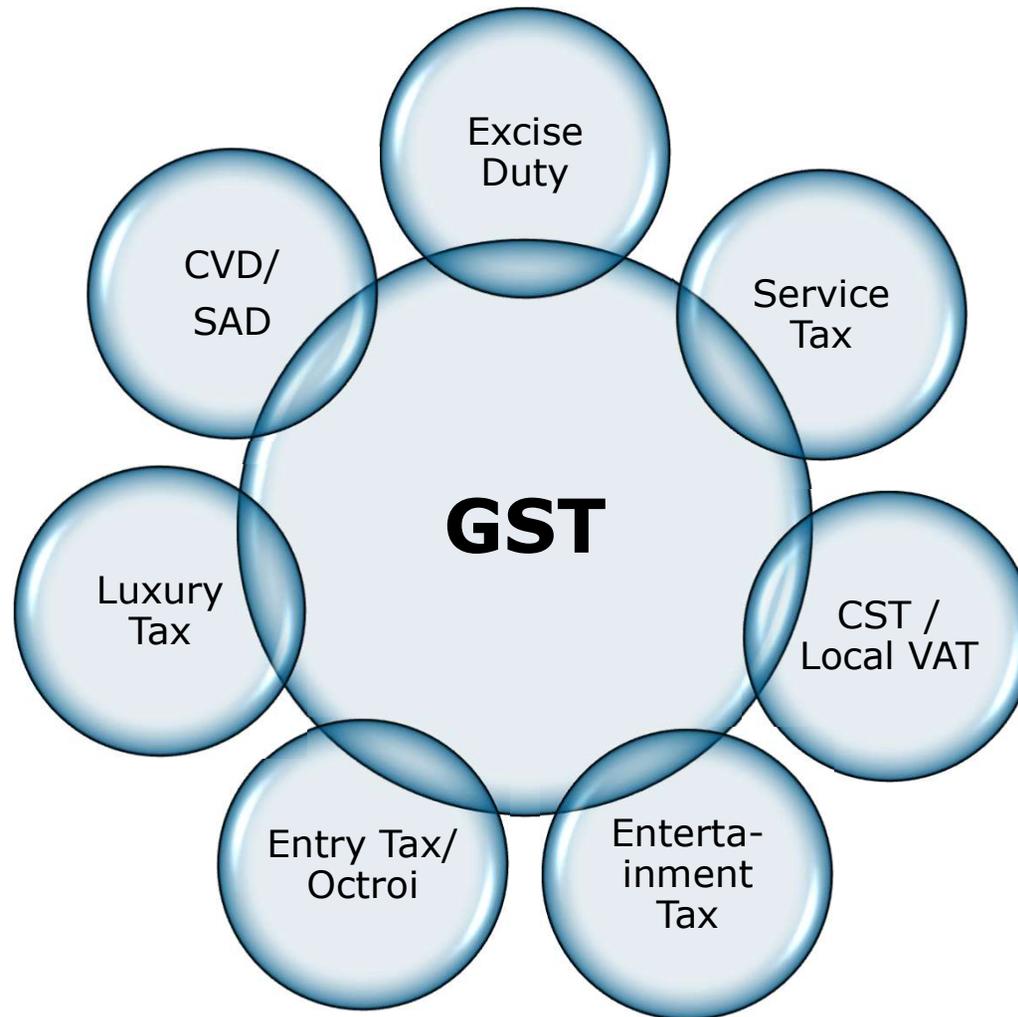


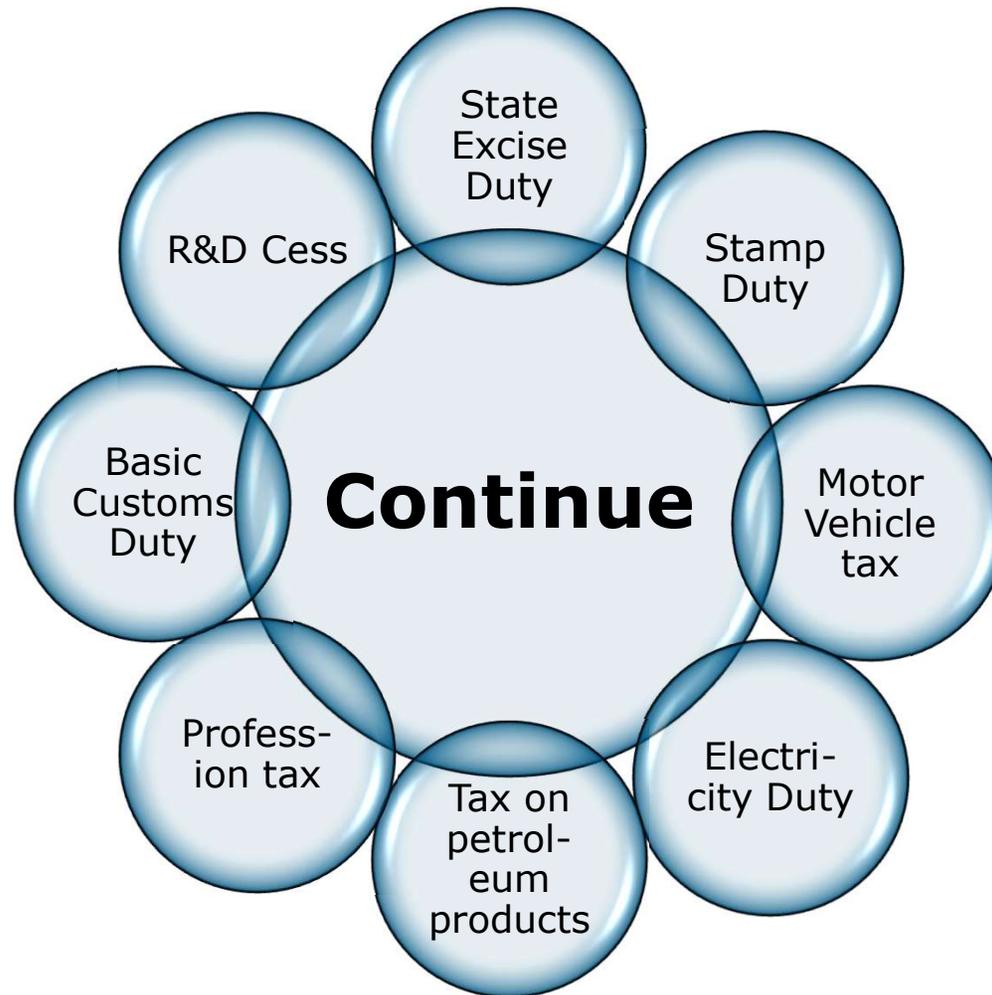
CONCEPT

- Draft model law released on June 14, 2016 for public opinion, comprising of:
 - **GST Act, 2016** covering both Central law (CGST) and State law (SGST) dealing with **intra-state** supply of goods and/or services
 - **Integrated GST Act, 2016** (IGST) dealing with **inter-state** supply of goods and/or services
- **Destination based** tax – consumption based States to generate more revenue
- **Applicable** to both supply of goods and supply of services instead of existing separate laws
- Draft IGST law provides for **determination of place of supply** of goods and services

LAWS TO BE SUBSUMED



NOT LIKELY TO BE SUBSUMED



EXPECTATIONS V. PROPOSED LAW

EXPECTATIONS	WHAT MAY HAPPEN
Simplicity in law	Rehash of existing laws
Unified rate across India	May happen
Ease of compliances	To some extent
Centralized registration	Not happening
Full coverage of goods and services	Not happening
Easier documentations viz. road permits, C forms etc	To a large extent
Increase in taxpayer base	Yes
Ambiguities in existing laws	To some extent
Lower GST rate	Not yet known

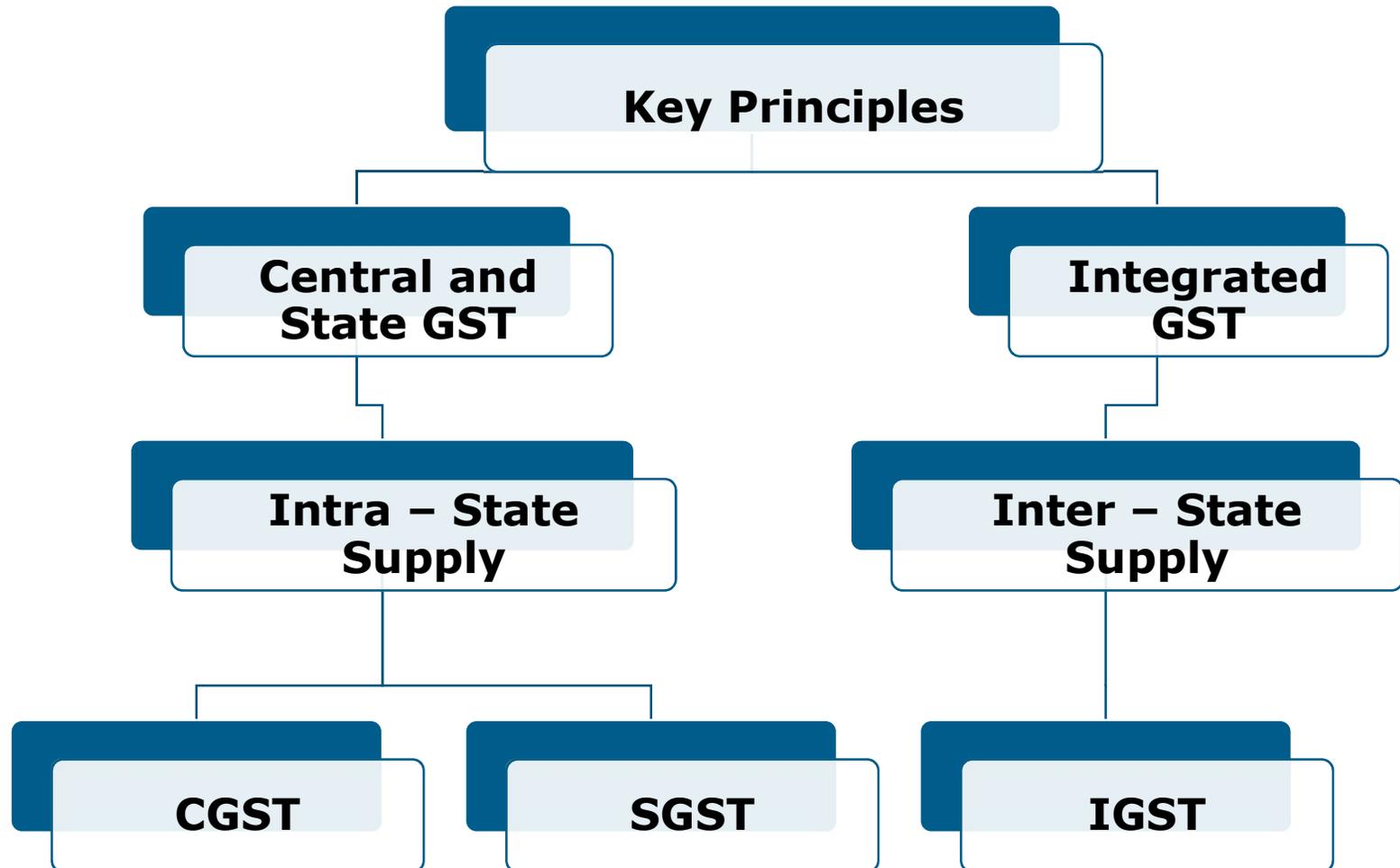
KEY DIFFERENTIATORS FROM PRESENT LAW

PRESENT LAWS	UNDER PROPOSED GST
Centralized registration for service provider	State-wise registration required
No concept of registration of business verticals	Optional registration allowed
Free supply of goods not taxed	Will be taxed
Specified transactions without consideration not under ambit of tax	Covered under definition of "supply"
Import of services for personal use not covered	Covered under definition of "supply"
Inter-branch transfers not taxed	May be taxed under IGST
CST/VAT set-off against Excise/Service tax not permitted	Permitted
No reverse charge on goods	Will be on specified "supplies";

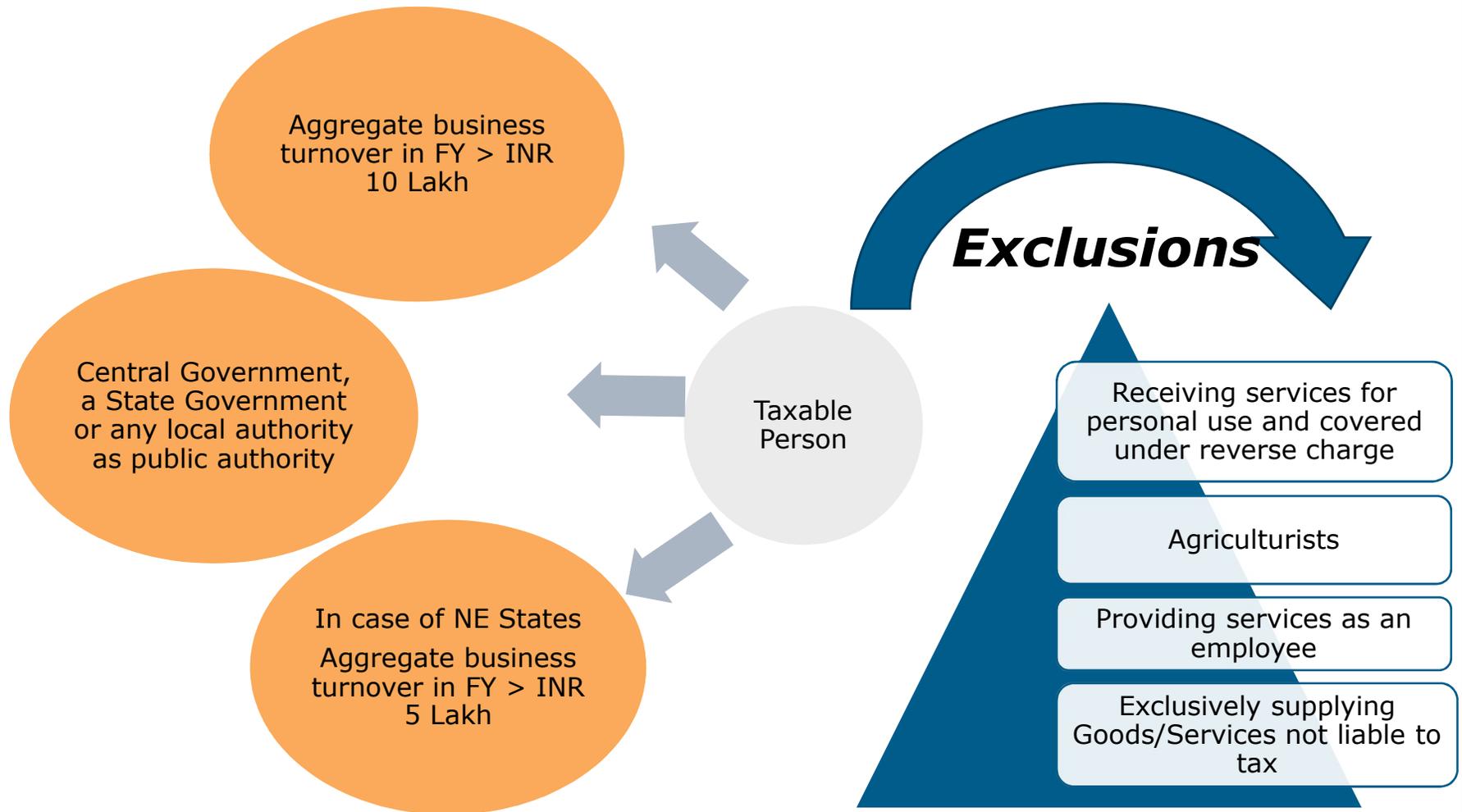
KEY DIFFERENTIATORS FROM PRESENT LAW

PRESENT LAWS	UNDER PROPOSED GST
No time limit for taking input credit by manufacturers	Time limit of 1 year
High threshold for manufacturers	Uniform threshold to increase tax payer base
Tax on goods on transfer of title	Tax on "time of supply"
No time limit for issuance of credit/debit notes	Time limit as may be prescribed
No specific provisions for e-commerce operators	Specific Chapter on e-commerce operators, including responsibility for TCS
No TDS provisions	TDS as may be prescribed for specified persons on specified transactions
No concept of "casual suppliers" or "non-resident suppliers" for service providers	Covered

KEY FRAMEWORK OF PROPOSED LAW



TAXABLE PERSON



REGISTRATION

REQUIRED	NOT REQUIRED
Aggregate turnover > 9 lakhs; for North Eastern States > 4 lakhs (<i>separate for each State</i>)	Dealing exclusively in exempted supplies

- Existing tax payers to be migrated under new law
- Voluntary registration permitted; also for business verticals in same State
- PAN mandatory for Registration; to be filed within 30 days when registration becomes due
- **Aggregate turnover** includes all supplies whether taxable or not and includes exempt supplies and exports made on own account or as an agent or otherwise on behalf of his principals
- For job worker, aggregate turnover does not include goods supplied after job work

COMPULSORY REGISTRATION

- *Other persons may be covered for compulsory registration vide notification*
- *For casual and non-resident taxable persons, registration for 90 days with advance payment of tax estimated*

Compulsory Registration
(irrespective of aggregate turnover)

Inter-State taxable supply of goods/services

Casual Taxable Person

Under Reverse Charge

Input Service Distributors

Non Resident Taxable Person

Supply goods/services on behalf of other registered persons

Required to deduct TDS

E-Commerce Operator

Aggregators supplying services under own brand name

Supply goods/services other than branded services through E-Commerce operator

WHAT IS SUPPLY

- **Supply** – inclusive definition covering supply of goods and/or services such as:
 - Sale, transfer, **barter**, exchange, license, rental, lease, disposal for a consideration made in the **course or furtherance of business**
 - **import** of services even **without consideration** and for **other than business**
 - Specified supply made **without consideration**:
 - *Permanent transfer/disposal of business assets*
 - *Temporary application of business assets to non-business use*
 - *Services put to non-business use*
 - *Assets retained after de-registration*
 - *Supplies by taxable person to taxable or non-taxable person in the course or furtherance of business*

Excluding supply by registered taxable person to a job worker

VALUE OF TAXABLE SUPPLY

- Draft GST Valuation (Determination of Value of Supply of Goods and Services) Rules, 2016 provides various methods
- For tax purposes, value shall be **transaction value** provided **parties are not related** and **price is the sole consideration**
- Trade discount recorded in invoice prior to supply not to be included in transaction value

VALUE OF TAXABLE SUPPLY

- **Inclusive meaning** has been assigned to the term “transaction value” and includes:
 - Amount paid by recipient but payable by supplier
 - FOC supplies or supplies at reduced costs
 - Royalty and license fee payable as a condition of supply
 - Taxes levied under any other law
 - Subsidies linked to supply
 - Reimbursable expenses in relation to supply
 - Discount/incentive allowed after supply
 - Any expenses charged before the supply

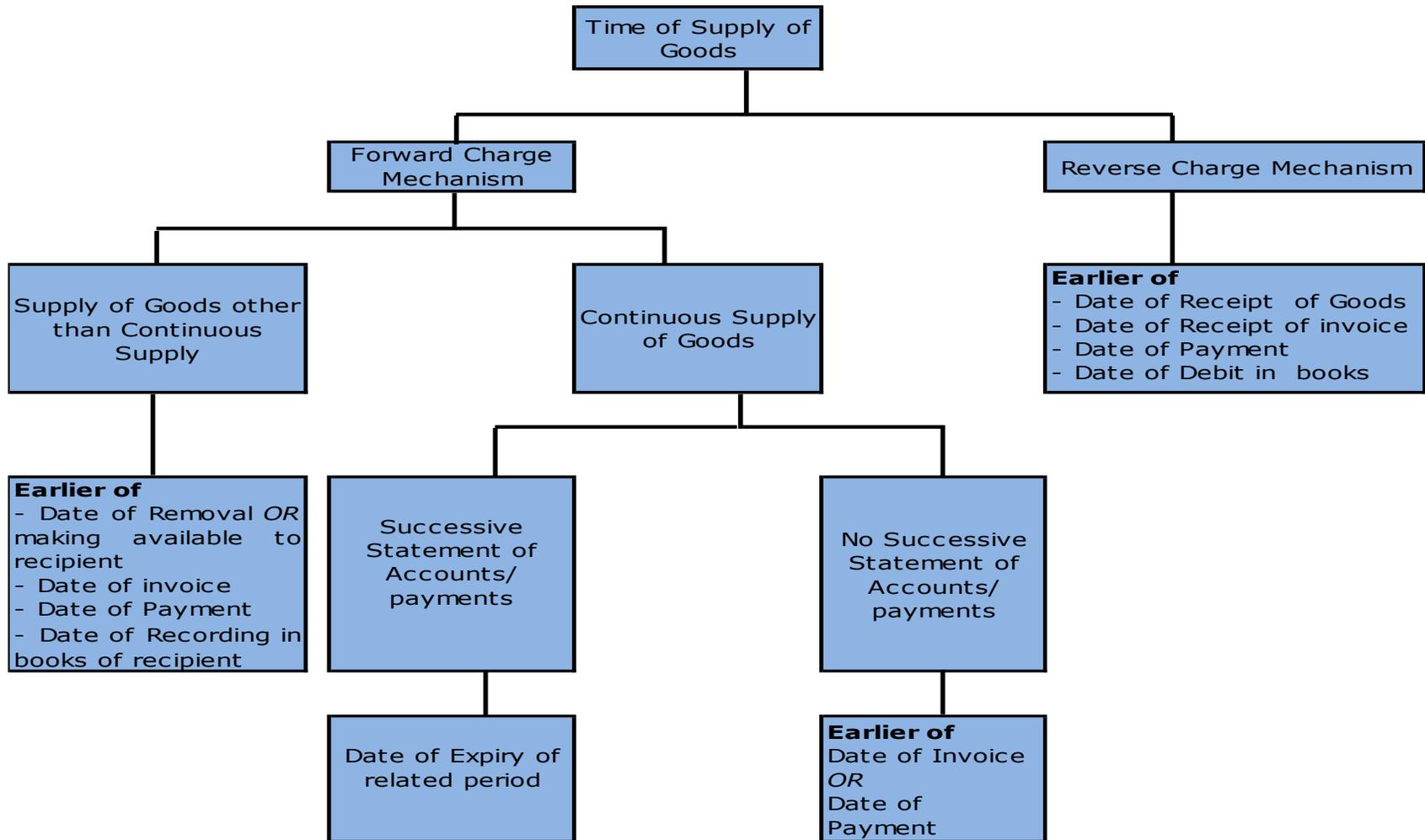
VALUE OF TAXABLE SUPPLY

- **If value cannot be so determined**, then where:
 - Consideration is not fully or partly money,
 - Parties are related
 - Reason to doubt the value declared
 - Business transactions undertaken by pure agent, money changer, insurer, air travel agent, distributor or selling agent of lottery

then the Rules lay down various methods for valuation:

- Comparison method
- Computed Value method
- Residual method

TIME OF SUPPLY OF GOODS



TIME OF SUPPLY OF GOODS



In case of goods sent on approval or sale or return basis, when it is not known whether supply will take place or not, the time of supply of goods shall be earlier of:

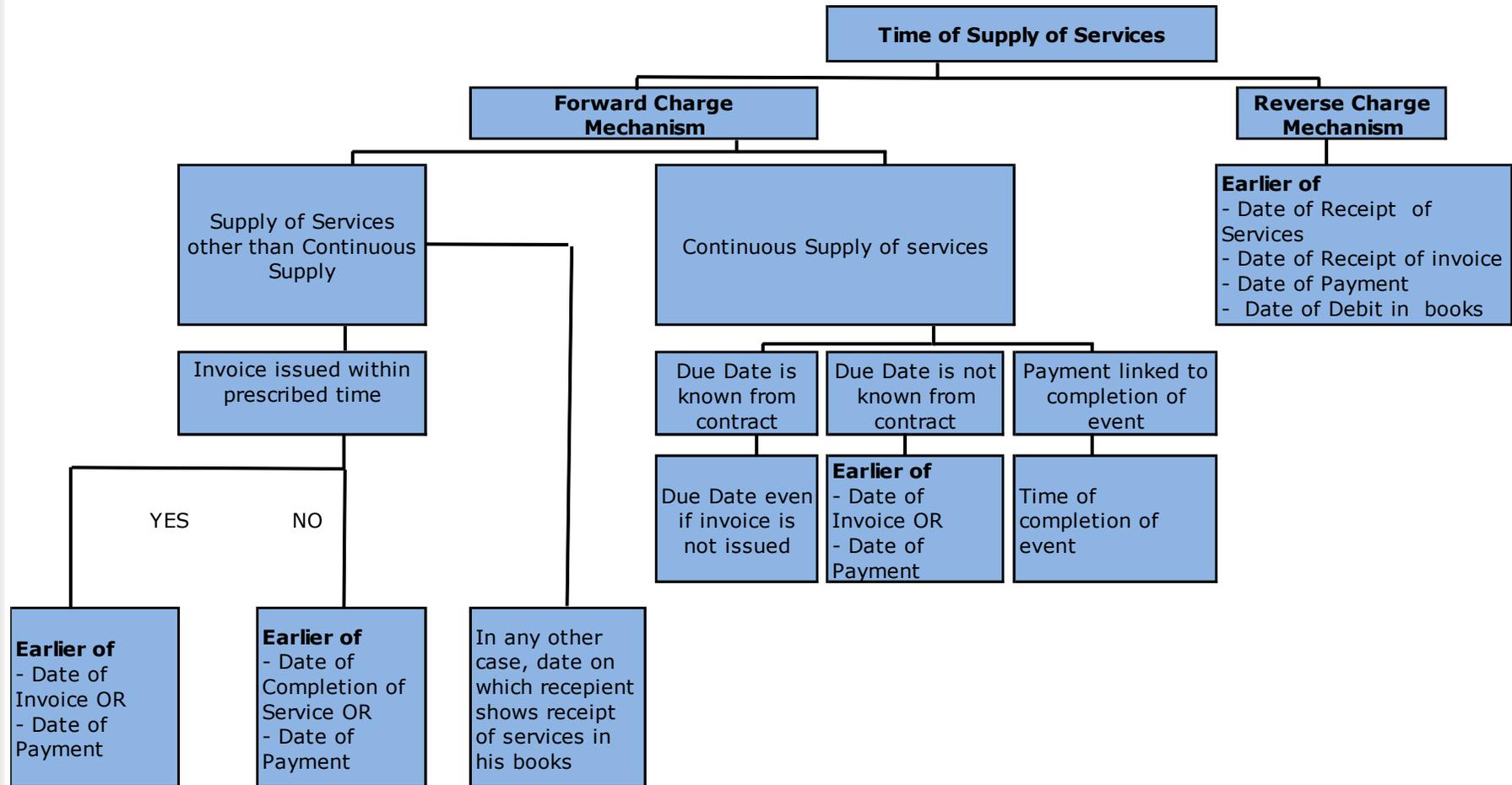
- Date when it is known that supply has taken place; or
- 6 months from the date of removal



In case time of supply is not determinable from above rules, the time of supply shall be:

- Due date of periodical return, in case where such returns are to be filed; or
- In other cases, the date when tax is paid

TIME OF SUPPLY OF SERVICES



TIME OF SUPPLY OF SERVICES

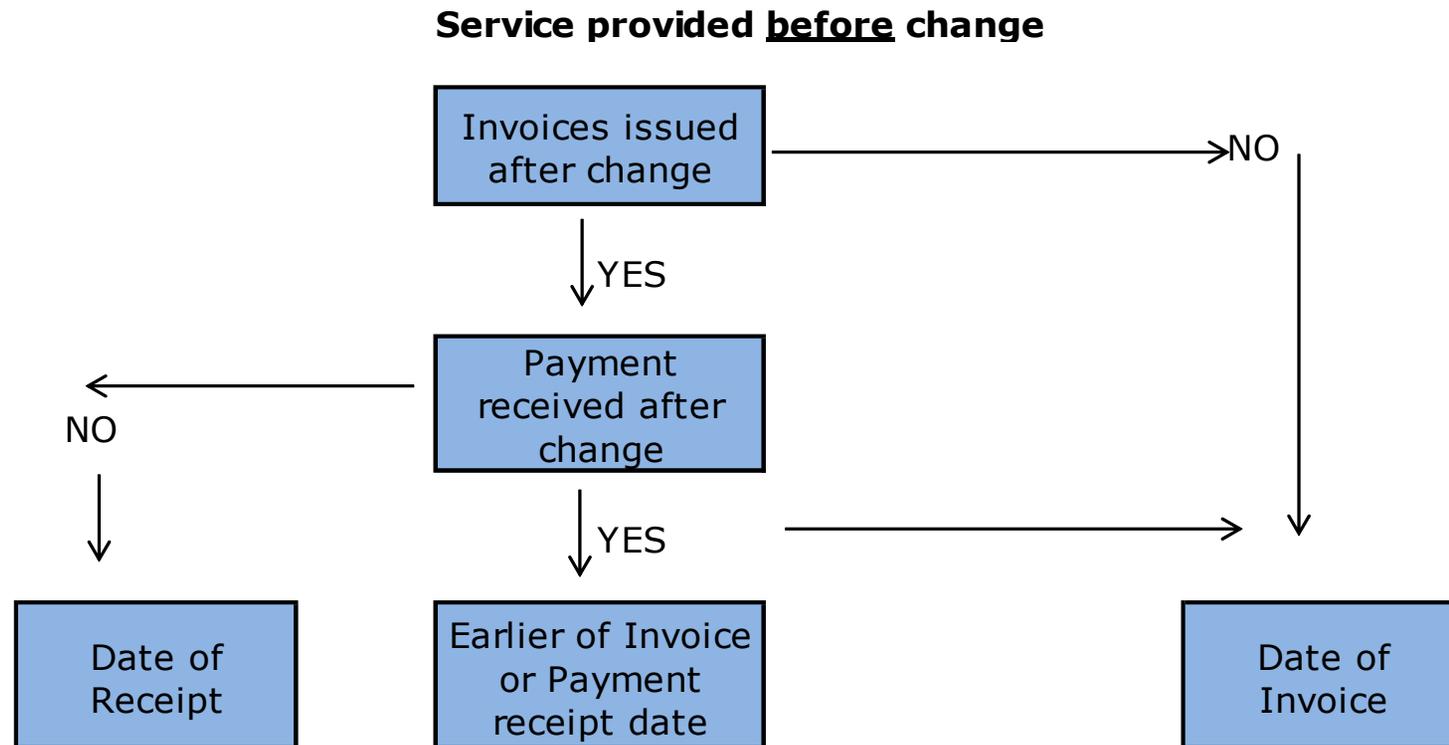


- If supply ceases before completion, then the time when supply ceases.

- In case time of supply is not determinable from above rules, the time of supply shall be:
 - ❖ Due date of periodical return, in case where such returns are to be filed; OR
 - ❖ In other cases, the date when tax is paid

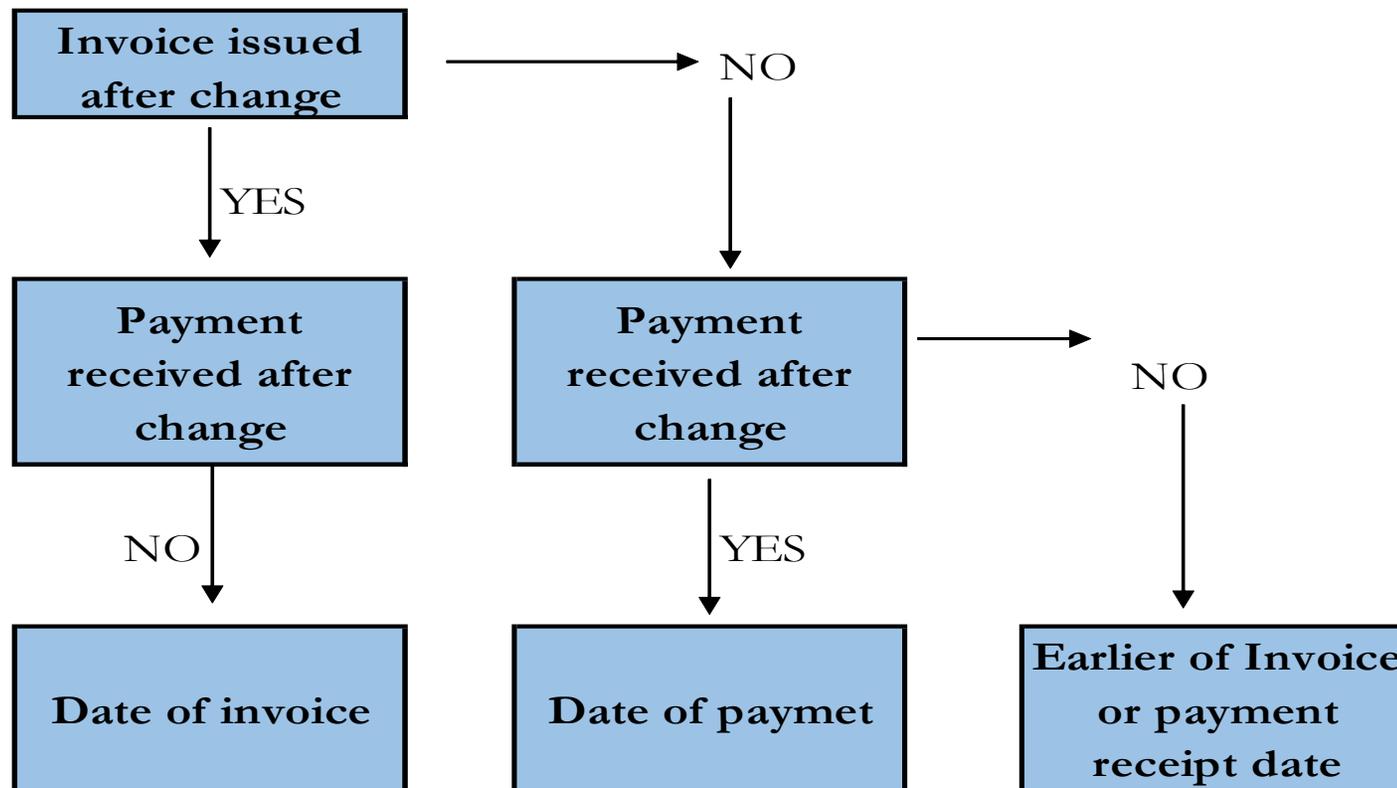
CHANGE IN EFFECTIVE RATE OF TAX

In case of change in effective rate of tax **in respect of services**, the determination of applicable rate shall be done as under:



CHANGE IN EFFECTIVE RATE OF TAX

Services provided after change



INPUT TAX CREDIT

Liability of IGST can be set off against

IGST / CGST / SGST

Liability of CGST can be set off against

IGST / CGST

Liability of SGST can be set off against

IGST / SGST

INPUT TAX CREDIT

- Input credit to be transferred to the **electronic cash ledger** of such person
- Credit permitted for **inputs held in stock, semi-finished and finished goods** from the date liable for registration
- Entitlement of credit against a particular invoice **shall lapse on the expiry** of one year from date of invoice
- Tax credit permitted only to the extent **inputs are used for business purposes**
- In case of both taxable and non-taxable supplies, credit attributable to taxable supply only shall be admissible

EXCLUSIONS - INPUT TAX CREDIT

- Motor vehicles except when supplied in usual course of business or used for providing specified taxable services *viz. transportation of passengers or goods, training on motor driving skills*
- Supplies to employees for their personal use in relation to food and beverages, health services, club membership, life and health insurance, travel benefits etc.
- Goods and/or services used by principal in execution of works contract for construction of immovable property except plant and machinery

EXCLUSIONS FOR INPUT TAX CREDIT

- Goods used by principal in construction of immovable property, other than plant and machinery, if property in goods is not transferred whether as goods or otherwise
- Supplies from a person paying tax under composition scheme
- Supplies used for private or personal purposes
- If depreciation is claimed under tax laws, on tax component of such depreciation of cost of capital goods

INPUT TAX CREDIT - CONDITIONS FOR AVAILMENT

- A valid document for availing credit like tax invoice, debit note or supplementary invoice
- Actual receipt of goods and/or services
- Payment of tax charged on such goods and/or services
- Furnishing of prescribed return
- In case of goods against invoice are received in lots, credit shall be admissible only upon receipt of last lot

INPUT TAX CREDIT - JOB WORK

- Credit may be taken on inputs sent to a job worker if such inputs are received back within 180 days; for capital goods sent to job worker, within 2 years
- In case inputs or capital goods are not received back within time allowed, such credit taken shall be paid along with interest
- Tax and interest paid can be claimed back on the receipt of inputs or capital goods

COMPOSITION LEVY

- Tax allowed to be paid under composition scheme at a composite rate not less than 1%
- Composition scheme not to apply in cases where turnover exceeds INR 50 lakhs or inter-state supplies are made
- Person opting for composition scheme shall not collect tax from recipient of supply made by him
- No input tax credit shall be admissible in case composition scheme is opted for

TAX DEDUCTION AT SOURCE (TDS)

- In case of specified persons and specified transactions of supply as notified and **if contract value exceeds INR 10 lakhs**
- TDS at 1% payable to Government within 10 days from end of month
- Certificate to be furnished within 5 days from the payment of tax to Government
- Delayed furnishing of certificate to attract late fee of INR 100 per day but limited to INR 5000
- Delayed payment of TDS to attract penal interest

DUE DATES FOR FILING RETURN

RETURN	PERIODICITY	DUE DATE
Inward Supplies	Monthly	15th of following month
Outward Supplies	Monthly	10th of following month
Monthly return	Monthly	20th of following month
Persons under Composition Levy	Quarterly	18 th of the month following the quarter
Persons under TDS / TCS	Monthly	10 th of following month
ISD	Monthly	13 th of following month
Annual Return	Annually	Dec 31 following end of FY
Final return	Once	Within 3 months of cancellation of registration

- Previous return must be filed before current return
- If tax due at the time of filing, no input credit allowed; also return invalid
- Annual return not required for ISD, TDS cases
- No returns prescribed yet for Casual / Non-resident persons

REFUNDS

- Refund of unutilized credit only permitted:
 - In case of exports; or
 - Input tax rate is more than output tax rate
- Application for refund to be filed within 2 years from the **relevant date**
- Refund claim less than INR 5 lakhs - no documentary evidence required to be submitted
- Order of refund to be made within 90 days from the receipt of complete application for refund
- 80 per cent refund to be granted provisionally; 20 per cent after verification

ELECTRONIC COMMERCE

- Special provisions relating to e-commerce operators and aggregators
- Tax collection provisions requiring collection of tax at source (TCS) from the amount payable to supplier
- TCS, at notified rate, to be paid within 10 days from close of month
- Prescribed return for TCS to be filed within 10 days from close of month

TRANSITIONAL PROVISIONS

Separate transitional provisions have been provided in relation to:

- Migration of existing tax payers to GST
- Input tax credit carried forward in the return
- Un-availed CENVAT on capital goods not carried forward in return
- Credit of eligible duties and taxes in respect of input held in stock
- Other transitional provisions

MISCELLANEOUS PROVISIONS

Separate provisions have been provided for:

- Compliance ratings
- Assessments
- Audits
- Demand and recovery
- Offences and penalties
- Search and seizure
- Prosecution
- Appeals and advance rulings etc.

SIMULATION – MANUFACTURER TO DEALER

LOCAL SALE					
PRESENT SCENARIO:			GST SCENARIO:		
Particulars	Rate %	Manufacturer selling to Dealer	Particulars	Rate %	Manufacturer selling to Dealer
Cost		100.00	Cost		100.00
Add : Profit margin	20%	20.00	Add : Profit margin	20%	20.00
Value for Excise		120.00	Value for GST		120.00
Excise duty	12.5%	15.00	CGST	10%	12.00
Value for VAT		135.00	SGST	10%	12.00
VAT	12.5%	16.88			
Invoice Value		151.88	Invoice Value		144.00
Excise duty liability		15.00	CGST liability		12.00
VAT liability		16.88	SGST liability		12.00
Total tax liability		31.88	Total tax liability		24.00

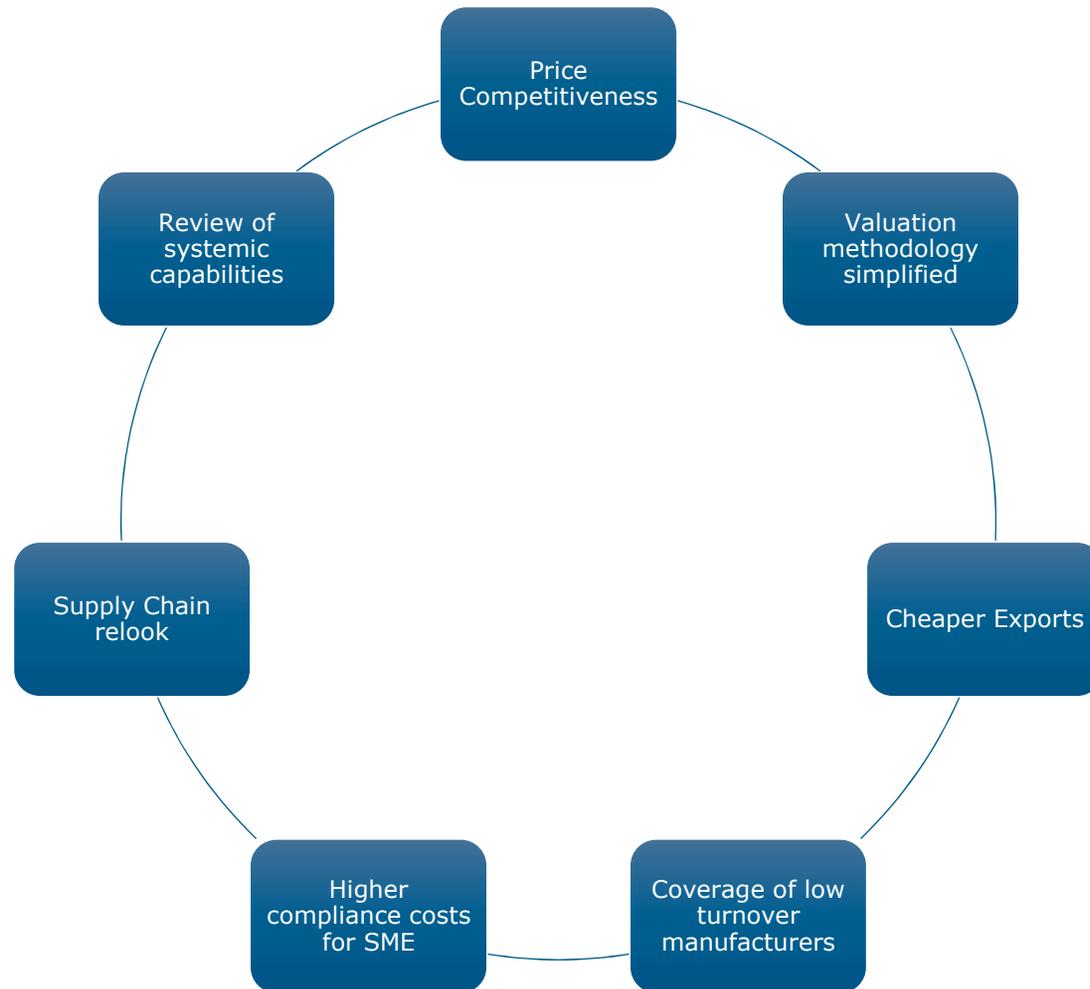
SIMULATION – DEALER TO RETAILER

LOCAL SALE					
PRESENT SCENARIO:			GST SCENARIO:		
Particulars	Rate %	Dealer selling to Retailer	Particulars	Rate %	Dealer selling to Retailer
Cost		135.00	Cost		120.00
Add : Profit margin	20%	27.00	Add : Profit margin	20%	24.00
Value for VAT		162.00	Value for GST		144.00
VAT	12.5%	20.25	CGST	10%	14.40
			SGST	10%	14.40
Invoice Value		182.25	Invoice Value		172.80
VAT liability		20.25	CGST liability		14.40
Less: input credit of VAT		(16.88)	Less: input credit of CGST		(12.00)
Net VAT liability		3.38	Net CGST liability		2.40
			SGST liability		14.40
			Less: input credit of SGST		(12.00)
			Net SGST liability		2.40
Total tax liability		3.38	Total tax liability		4.80

SIMULATION – RETAILER TO END-CONSUMER

LOCAL SALE					
PRESENT SCENARIO:			GST SCENARIO:		
Particulars	Rate %	Retailer selling to end-Consumer	Particulars	Rate %	Retailer selling to end-Consumer
Cost		162.00	Cost		144.00
Add : Profit margin	20%	32.40	Add : Profit margin	20%	28.80
Value for VAT		194.40	Value for GST		172.80
VAT	12.5%	24.30	CGST	10%	17.28
			SGST	10%	17.28
Invoice Value		218.70	Invoice Value		207.36
VAT liability		24.30	CGST liability		17.28
Less: input credit of VAT		(20.25)	Less: input credit of CGST		(14.40)
Net VAT liability		4.05	Net CGST liability		2.88
			SGST liability		17.28
			Less: input credit of SGST		(14.40)
			Net SGST liability		2.88
Total tax liability		4.05	Total tax liability		5.76
Aggregate tax paid		39.30	Aggregate tax paid		34.56

IMPACT ON MANUFACTURERS



PREPAREDNESS FOR NEW LAW

- Identify areas impacted by new law, including transitional provisions
- Accounting systems capabilities
- Positive/negative impact due to new input tax credit system – assess price reductions in entire value chain
- Understand the GST Network (GSTN) with regard to registration, payments and filing of returns
- Identification of risk of non-compliance under GST
- Supply chain re-engineering to identify cheapest and fastest way of fulfilling consumer demand as goods and services will move in an unified common market