

# Ready for GST

# Introduction

- Proposed to be effective from July 1, 2017
- Government issued Model GST Law
- The GST rate announced by Government are 5,12,18&28
- The provisional registration process already started and required to be done separately for each state where there is presence of business.

# Registration

1. Require to obtain separate registration in all state where company have facility or offices.
2. All the taxpayers registered under existing indirect taxes would automatically get temporary GST registration numbers, which would be issued on a final basis on the submission of prescribed information
3. Multiple registrations within one State to business verticals is allowed.
4. State wise PAN-based 15-digit Goods and Services Taxpayer Identification Number (GSTIN).
5. No threshold for inter-state dealers, Aggregators and E-Commerce Operators and persons under reverse Charge

# MODEL OF GST

- **SGST and CGST** for intrastate transaction : In the GST system, both Central and State taxes will be collected at the point of sale. Both components (the Central and State GST) will be charged on the manufacturing cost.
- **IGST for Interstate transaction:** 'IGST Model' will be in place for taxation of inter State transaction of Goods and Services. The scope of IGST Model is that center would levy IGST which would be CGST plus SGST on all inter State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.

# Output

- The concept of one customer one invoice will no longer be there. The invoicing will be done for each facility separately for both import and domestic.
- The **place of supply** of service is the location of receipt of service and not the registered office of the customer.
- For intra state invoice, there will be CGST & SGST
- For Inter state invoice, there will be only IGST.
- No GST on export invoices.

# Output

- Services to be disaggregated with separate invoices raised from different locations of Software or
- Raise single invoice, record multiple intra-company supplies, value these services, pay GST, and claim credit at every stage
- **Location of recipient person address on record or supplier location**

# VALUATION OF SUPPLY

## ➤ **Shall Include**

- • Amount paid by recipient instead of supplier and not included in price
  - • **Value of goods / services supplied by the recipient free of charge or at reduced cost**
  - • Royalties and License fees related to and as a condition to supply
  - • Taxes and duties other than GST
  - • Incidental costs/ expenses (such as commission, packing, royalties etc.)
  - • Subsidies linked to the supply
  - • **Reimbursable expenses incurred on behalf of the supplier**
  - Discount or incentive allowed after the supply
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- • **Shall not Include**
  - Post supply discount known before supply and linked to invoices
  - Any discount allowed before or at the time of supply as recorded in invoice

# TIME OF SUPPLY

a) When invoice is issued within prescribed time

➤ Date of invoice

➤ Date of receipt of payment

b) When invoice is not issued within time

Date of completion of service

Date of receipt of payment

c) When (a) and (b) does not apply

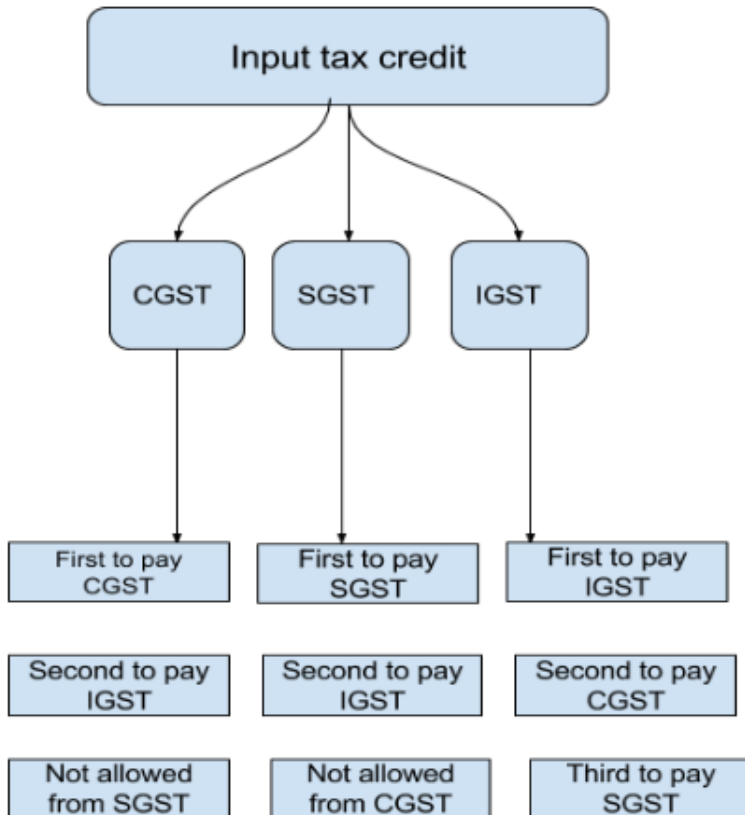
Date on receipt of services in recipient books of account



# Model of Sale



# Input Tax Credit.



IGST Input	CGST Input	SGST Input
ISGT Output	CGST Output	SGST Output
CGST Output	ISGT Output	ISGT Output
SGST Output		

# Input Tax Credit.

- The amount of input tax credit on account of IGST available in the electronic credit ledger shall first be utilized towards payment of IGST and the amount remaining, if any, may be utilized towards the payment of CGST and SGST, in that order.
- The amount of input tax credit on account of CGST available in the electronic credit ledger shall first be utilized towards payment of CGST and the amount remaining, if any, may be utilized towards the payment of IGST.
- The input tax credit on account of CGST shall not be utilized towards payment of SGST or vice-Versa
- The amount of input tax credit on account of SGST available in the electronic credit ledger shall first be utilized towards payment of SGST and the amount remaining, if any, may be utilized towards the payment of IGST.
- The input tax credit on account of SGST shall not be utilized towards payment of CGST.
- The balance in the cash or credit ledger after payment of tax, interest, penalty, fee or any other amount payable under the Act or the rules made there under may be refunded in accordance with the provisions of section 38 and the amount collected as CGST/SGST shall stand reduced to that extent

# Input Tax Credit

## **Time Limit**

Credit in respect of any invoice pertaining to a financial year cannot be taken after

**Filing of return for the month of September following the end of financial year to which such invoice pertains, or;**

**Filing of the relevant annual return, whichever is earlier**

# Input Tax Credit

- Proportionate ITC is available where supplies are used for taxable including zero rated and non-taxable supplies.
- Restrictions on input tax credits (similar to current regime)
  - no credit on inputs/ input services used for private or **personal consumption**, Motor vehicle.
- Some key current restrictions no longer there under GST – Rent a cab service.
- **Matching concept including additional conditions for GST credit availment**
- No Credit when goods were purchased from composite dealer.

# ITC Not Available

- After one year of issue of Tax Invoice
- Passenger Transport, Goods transport, Motor vehicle training
- Food & Beverages, Outdoor catering, Beauty treatment, health services, Cosmetic & Plastic Surgery, Club Membership, Health & Fitness Centres, LIC, Health Insurance, Travel benefit to employees on vacation, Goods used primarily for personal use or consumption of any employee.
- Goods and/or services acquired by the principal in the execution of works contract when such contract results in construction of immovable property, other than plant and machinery.
- Goods acquired by a principal, the property in which is not transferred (whether as goods or in some other form) to any other person, which are used in the construction of immovable property, other than plant and machinery.
- Goods and/or services on which tax has been paid under section 8
- Goods and/or services used for private or personal consumption, to the extent they are so consumed.

# ITC Not Available

- Where the registered taxable person has claimed depreciation on the tax component of the cost of capital goods under the provisions of the Income Tax Act, 1961, the input tax credit shall not be allowed on the said tax component.
- Notwithstanding anything contained in this section, but subject to the provisions of section 28, no registered taxable person shall be entitled to the credit of any input tax in respect of any supply of goods and/or services to him unless
  - (a) he is in possession of a tax invoice, debit note, supplementary invoice or such other taxpaying document as may be prescribed, issued by a supplier registered.
  - (b) he has received the goods and/or services;
- The tax charged in respect of such supply has been actually paid to the credit of the appropriate Government, either in cash or through utilization of input tax credit admissible in respect of the said supply; and he has furnished the return under section 27:
- Provided that where the goods against an invoice are received in lots or instalments then credit on last instalment

# HSN

*The subsumation should result in free flow of tax credit in intra and inter-State levels. The taxes, levies and fees that are not specifically related to supply of goods & services shall not be subsumed under GST.*

*HSN (Harmonised System of Nomenclature) code shall be used for classifying the goods under the GST regime. Taxpayers whose turnover is above Rs. 1.5 crores but below Rs. 5 crores shall use 2 digit code and the taxpayers whose turnover is Rs. 5 crores and above shall use 4 digit code. Taxpayers whose turnover is below Rs. 1.5 crores are not required to mention HSN Code in their invoices. Services will be classified as per the Services Accounting Code (SAC*



# Reverse Charge

- If purchases are from unregistered dealer then no ITC. Further dealer under composite scheme would pay tax under reverse charge
- The list of items on which reverse charge is applicable is yet to notified.

# Payment

- Electronically generated challan from GSTN Common Portal ;
- hassle free, anytime, anywhere mode of payment of tax;
- Convenience of making payment online;
- Logical tax collection data in electronic format;
- Faster remittance of tax revenue to the Government Account;
- Paperless transactions;
- Speedy Accounting and reporting;
- Electronic reconciliation of all receipts;
- Simplified procedure for banks;
- Warehousing of Digital Challan
- Net Banking by assessee or through Debit/Credit cards
- Over the Counter payment (OTC) through
- authorized banks up to Rs 10000/- only
- Payment through NEFT/RTGS from any bank
- No counter payments in departments

# Tax Return

Type of Return	Form	Period for filing return
Outward supplier	GSTR-1	10 <sup>th</sup> of next month
Inward supplier	GSTR-2	15 <sup>th</sup> of next month
All assesses except specified	GSTR-3	20 <sup>th</sup> of next month
Person paying tax	GSTR-7	10 <sup>th</sup> of next month
ISD	GSTR-6	13 <sup>th</sup> of next month
Composition dealer	GSTR-4	18 <sup>th</sup> of next month following end of quarter
Annual return	GSTR-8	31 <sup>st</sup> December following F.Y.
Final return	-	3 months from date of cancellation or order of cancellation whichever is later

# Inter movement of goods

- Levy of GST on all stock transfer made from one state to another.
- As per clause 15(4)(ii) of GST Law the value of supply of goods in a situation where the supplier and recipient are related would be required to be determined as per GST Valuation Rules.
- Since a stock transfer does not involve any consideration, though appears to be made taxable under GST
- One unit will charge IGST to Other unit. The other unit can take credit of the same.
- There is no tax when there are inter movement of goods in the same state.

# Miscellaneous

- **Prioritisation Rule for Payment** – taxes for the current period cannot be paid until the taxes/interest/late fee/penalty in relation to returns of previous tax periods have not been deposited
- Provisions have been made for demands and recovery, appeals and revision, refund, advance rulings, settlement of cases, offences, penalties, compliance rating, etc.
- All invoices should have HSN Code.
- *Suppliers shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act*

# Positive impact

- Removal of dual taxation of intangibles as “goods” and services”
- Input credit on purchase of goods.

# Negative impact

- No specific provision on benefits for supplies to SEZs, EOUs, etc.?
- IGST on stock transfer
- Blockage of fund in case SGST input is excess in one state
- Input exclude capital goods in case depreciation claimed on the same.
- Introduction of deemed supply and related party concept.
- There will be no more concept of centralised billing, registration and tax assessment.
- Loss of input tax credit if vendor is not tax compliant.

# Open Issues.

- How will self supplies of services be valued under GST?
- Which services and goods will be covered under reverse charge, TDS purpose?
- Can one construe Captive Consumption as Deemed Supply ?
- No time limit prescribed for Issuance of SCN
- Scope for litigation – Services used for personal benefit of employee or for business
- Is Slump sale covered under GST.
- Reverse charge on services received from foreign branch by HO.
- The reverse charge list yet to notified. Further same is applicable in case purchases made from unregistered dealers is also yet to be notified.
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# Function-wise impact

## Pricing

- Input cost structures improvement possibilities
- Review of margins
- Decision to pass on the benefits

## Taxation

- Alignment with business
- Tax computation and returns
- Transition issues – existing contracts, tax credits, registrations
- Increase in the number of returns to be filed

## Finance and Accounting

- Invoicing and accounting
- Use of multiple tax codes
- Budgeting and planning exercise

## ERP/ SAP

- Capturing taxes and credits
- New format of report.

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Thank You.