Goods and Services Tax

How to advice client in Pre GST:

Reconciliation, Review, GST Input

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Pre-GST advice

Reconciliation	• Inward supplies • Outward supplies • Input tax credit • GST liabilities
Review	• Business model • Record-keeping • Documents
GST Inputs	• Operation models • Vendor locations, compliance • Compliance req.

General

- Taxable event – supply
- Single administration face
- Composite supply, mixed supply
- Compliance rating
- Valuation, anti-profiteering measure
- No industry-based composition
- Supply to be goods or services
- No revision of returns
- ITC - Matching of every outward supply with inward supply

Supply

Inclusive definition

- Goods or services or both
- Sale, transfer, barter, exchange, licence, rental, lease or disposal
- Made or agreed to be made
- Consideration – ***money or otherwise***
- In the course or furtherance of business

Other supplies

- Import of services for a consideration
- Schedule I – supplies without consideration
- Schedule II – supplies specified as supply of goods or supply of services

Composite/ mixed supply

Composite supply

- Consists of 2/more taxable supplies
  - Goods or services or both, or any combination
  - Only one supply is a principal supply – predominant element, while others are all ancillary
- Naturally bundled
- Supplied in the ordinary course of business
- Supplied in conjunction with each other

Mixed supply

- 2/more individual supplies
  - Goods or services or both, or any combination
- Supplied for a single price
- **NOT** amounting to composite supply
- Supplied in conjunction with each other

Valuation

Transaction value

- Only if price is the sole consideration, received wholly in money
- Supplier and recipient are not 'related person' – defined under GST
- **Inclusions:** Taxes other than GST, costs incurred by recipient on behalf of supplier, incidental expenses until delivery, interest or late fee, non-government subsidies directly linked to price
- **Exclusions**: Discount in invoice, discounts established through agreements, government-subsidies, subsidies not linked to the price

Valuation rules – where transaction value cannot be accepted

- Related persons, distinct persons
- Principal-agent
- Pure agent
- Cost + 10%
- Residuary method

Matching

Real time matching

- GSTR-1 of supplier with GSTR-2 of recipient
- GSTR-2 details to auto-populate based on supplier's GSTR-1
- Modifications made in GSTR-2 to be accepted/ rejected
- No alterations possible in GSTR-3
- Any rectifications – only through succeeding months' GSTR-3

Mismatches

- Duplication of claims by recipient
- Excess credit claimed by recipient than paid by supplier
- IGST matches with customs
- Mismatches notified to both supplier and recipient
- If no correction made, addition to output tax liability of recipient in the next month, and interest payable – refunded post rectification by supplier

Others

Single administrative face

- Tax on supply of goods (manufacturing/ trading), services
- Single return, single assessment for all supplies in a tax period

Compliance rating

- Score given by Government
- Based on compliance record
- Possible restriction of input tax credits

Anti-profiteering measure

- Benefit on a/c of introducing GST - passed on

Supply to be goods or services

- Time of supply, place of supply, tax rates
- Schedule II, power of Govt. to notify, composite & mixed supply

No industry-based composition

Preliminary evaluation

Sl	CURRENT	GOING FORWARD
1	• Understand business model	• Key areas for strategic decision making
2	• Identify the goods or services or both, and the classes	• Applicable rates of tax under GST • Greenfield supplies – e.g. stock transfers
3	• Map all existing indirect taxes subsuming into GST	• Transition of existing taxes as credits for GST
4	• Existing/ prospective operational locations • Nature of operations at each location	• Assess req. of additional registrations/ consolidation • Explore the option of business verticals

Preliminary evaluation

Sl	CURRENT	GOING FORWARD
5	• Review of documentation - levels of maintenance	• Changes required in documents - invoices, accounts, records
6	• Identify existing compliance requirements	• IT changes required • Human resources - training existing employees, hiring new staff, engaging consultants
7	• Taxable event, tax payable	• Taxable event, type of GST payable
8	• Credits available/ claimed under the existing laws	• Credits available/ restricted under GST

Preliminary evaluation

Sl	CURRENT	GOING FORWARD
9	• Pricing methodology	• Revision of prices: Impact of credits, anti-profiteering measure
10	• Understand promotion models	• Impact on promotional offers due to composite/ mixed supply
11	• Understanding of competitors' pricing	• Impact of valuation
12	• Cross charge	• Impact due to separate registrations – distinct persons
13	• Tax rates, exemptions, abatements	• Impact of changes

Key study areas for reconciliation, review and GST inputs

Area-wise study

Area	Key discussion points
Cash flow	▪ Time of supply in case of advances ▪ Stock transfers ▪ Principal-agency relationship
Credits	▪ Reconciliation requirements for accounting and returns ▪ Reading mismatch reports generated on GST portal
Promotions	▪ Whether continuation feasible or new models required? ▪ Factors to be considered for determining the promotion model

Area-wise study

Area	Key discussion points
Valuation	▪ Transaction value ▪ Open market value ▪ Cost + 10% ▪ Residuary
Vendor analysis	▪ Credit availability on inter-State supplies ▪ Choosing compliant vendors ▪ RCM in case of unregistered persons ▪ Vendor trainings
Documentation	▪ Tax invoice details ▪ Document in other cases ▪ Book-keeping – detailing ▪ Contractual clauses

Area-wise highlights

Area	Key discussion points
Returns	▪ GSTR-1, GSTR-2, GSTR-3 ▪ GSTR-6, GSTR-7, GSTR-8 ▪ GSTR-9
Matching of details	▪ GSTR-3, GST MIS-1 & GST MIS-2
Utilisation of credits	▪ IGST – IGST, CGST, SGST/ UTGST ▪ CGST – CGST, IGST ▪ SGST – SGST, IGST ▪ UTGST – UTGST, IGST
Key factor for returns	*Acceptance/ rejecting/ modification of details in GSTR-2 depends on reconciliation*

Outward supplies

Sale	Transfer	Barter, exchange
Rent, lease, license	Disposal	Free samples, gifts, stolen, lost, destroyed?
- Stock transfer - Job work - Purchase return	- High sea sales - Exports - SEZ sales	Related persons, employees, distinct persons

Outward supplies

Existing

- Sale – liable to VAT
- Transfer – may be VAT/ service tax
- Provision of service – service tax
- Manufacture – excise
- Import of goods – customs, CVD, SAD
- Import of service – service tax

New additions

- Barter
- Exchange

Outward supplies

Supply <u>**without consideration**</u>

- Permanent transfer or **disposal of business assets**
  - If credit availed
- **Supply between related persons/ distinct persons***
  - Goods or services or both
  - If made in the course or furtherance of business
  - Related person – defined; distinct person – same PAN GST registrations
  - ***Exception***: Gifts to employees up to Rs.50,000 in a FY
- **Principal-agent** supplies
- Agent-principal supplies
- **Service from a related person/ own establishment** outside India
  - If the service qualifies as an **import**
  - If made in the course or furtherance of business

Outward supplies

Supply between <u>related persons/ distinct persons</u>

- GST requires separate registration in every State from which taxable supplies are made
- Two registrations belonging to one PAN – distinct persons
- Transaction of stock transfer is not for a price – subject to valuation
  - **Rule 2:** Value of supply of goods or services or both between distinct or related persons, other than through an agent:
    - **Open Market Value (MV)**
    - If MV NA = **Value of like kind and quality**
    - If MV NA = **Cost + 10% of the cost of production/ acquisition**
    - If MVNA = **Reasonable means, consistent with law**
- Recipient registration can claim credit of the taxes paid

Outward supplies

Goods sent for **job work**

- Inputs & capital goods can be sent to job worker
- They can be directly sent to job worker's premises
- Input tax credit available even if goods directly sent
- Inputs sent to be returned/ directly supplied within 1 year
- Direct supplies from job workers' premises counted in turnover of principal
- Capital goods to be returned within 3 years
  - Not applicable to moulds and dies, jigs and fixtures, or tools
- Job workers' premises to be declared as additional place of business for effecting direct supplies, if job worker not registered

Outward supplies

If goods supplied are **returned** to the supplier:

- Tax invoice had been issued for the supply
- Credit note (CN) can be issued by supplier
- Details of CN to be declared by supplier in his return
  - GSTR-1 of the month during which CN was issued
  - Latest by Sept. of the FY following the FY in which the original tax invoice was issued
- Benefit of tax adjustment by was of reduction in output tax liability
  - No benefit if incidence passed on
  - No benefit unless recipient also accepts the CN details in his GSTR-2, thereby reducing his input tax credit

Thank you!

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