RACING TO THE FINISHING LINE

India Progresses Towards GST Implementation

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PROGRESS ACHIEVED IN 2016

14th June
First Draft of Model GST Law released

03rd August
Constitution (One Hundred and Twenty-Second) Amendment passed in RS

08th August
LS adopts amendments to GST Constitutional Amendment Bill

12th August
Assam becomes first state to ratify GST Constitutional Amendment Bill

01st September
Odisha becomes 16th State to ratify GST constitutional Bill

08th September
Presidential assent received CAB

12th September
Union Cabinet approves process, formation of and functioning of GST council under

16th September
Notifications of Provisions of Constitution (One Hundred and First) Act, 2016

26th September
Draft Rules, Formats, on Invoice, Payments and Refunds released

30th September
GST council approves Draft Rules & Forms on Invoice Payments and Refunds

08th November
GST site www.gst.gov.in launched

26th November
Revised Model GST Law released

PROGRESS ACHIEVED IN 2017

The multiple meetings of the GST council have finalized all issues.

The IT Infrastructure required for roll out is also on right schedule.

Cess on aerated drinks and luxury cars capped at 15% in addition to the rate of GST

Cess on cigarettes capped at 290% in addition to the rate of GST

The GST bills were discussed and passed in Lok sabha on 29th March

The GST Council approved eight Rules for GST on 31st March

The GST bills were discussed and passed in Rajyasabha on 06th April

Lok Sabha passed amendments to Custom and Excise laws to make them GST compliant on 7th April

The GST system's beta version will be tested in May '17 to accommodate the GST compliance

The Council has clarified classification of goods in rate slabs. Also, rates for services

Industry awareness cells are carrying out programs to educate the business

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INTERNATIONAL LEARNING ON GST & TAX RATES

INTERNATIONAL EXPERIENCE ON INTRODUCTION OF GST

	Australia	New Zealand	Canada
Financial Year	July to June	July to June	April to March
Year of Introduction	July 2000	October 1986	January 1991
Price Changes	Short Run – Up Long Run – No increase	Short Run – Up Long Run – No increase	Short Run – Up Long Run – No increase
Revenue Effect	Revenue exceeded expectations	Revenue exceeded expectations	Revenue exceeded expectations
Timing of Introduction	Introduced during sustained economic growth period	Introduced at the end of recession, subsequent upswing	Introduced in midst of major recession

Source: Tom Bolton and Brian Dollery (2004)

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GLOBAL TRENDS : AVERAGE VAT RATES

Region	Average Standard Rate
Worldwide	16.4%
Asia Pacific	9.88%
European Union	19.4%
Africa	15.95%
South America	16%

Highest Rate: 27% - Argentina, Hungary

Lowest Rate: 5% - Nigeria, Canada

BASIC PROPOSED STRUCTURE OF DUAL GST IN INDIA

APPLICABILITY OF GST

Taxable Event

- ✗ Manufacturing of Goods
- ✗ Sale of Goods
- ✗ Point of Taxation of Service
- ✓ Supply of Goods and Services

Intra-State Supply	• Central GST • State GST
Inter-State Supply	• IGST
Import	• Basic Customs Duty • IGST (To replace CVD and SAD)
Export	• Zero rated

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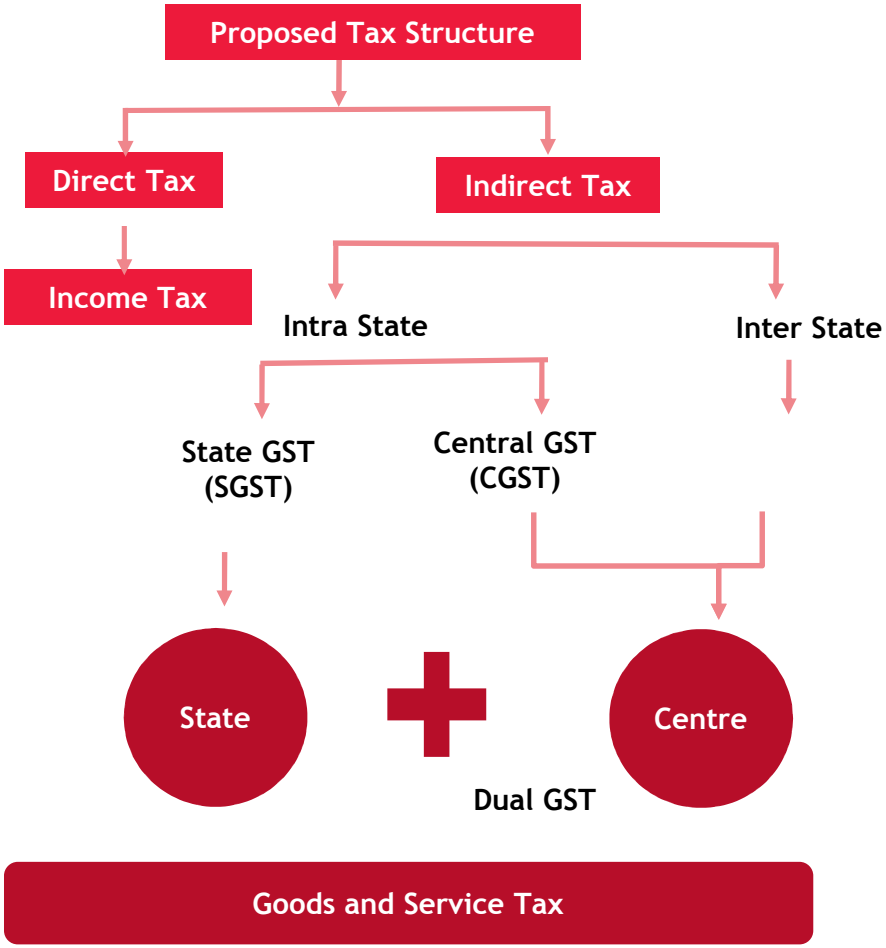
PROPOSED STRUCTURE



Status	Taxes Subsumed
At Central Level	• Additional customs duties (CVD and SAD) • Central Excise Duty • Service Tax • Special Excise duty (on medical and toiletries preparation) • Various auxiliary cess & levies
At State Level	• State-VAT • Central Sales Tax • Entry Tax • Luxury Tax • Entertainment Tax • Purchase Tax

Sectors outside proposed GST :
Petroleum, to be covered from future date
Alcohol fit for human consumption
Real Estate, leviable to state stamp duty

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BASIC STRUCTURE OF GST : AN OUTLINE

- Dual GST Model Proposed
- To be a consumption based tax rather than the hitherto origination based tax
- Dual GST will comprise
  - The Central GST and the State GST
  - Central GST and State GST, in themselves, would comprise both the goods tax and the services tax
  - Both taxes to operate in parallel and to apply on every transaction
  - In Union Territories instead of SGST, UTGST Act will be applicable.

Central Taxes ····▶ CGST

- Central Excise
- Various additional excise duties
- Additional duty of Customs (CVD)
- Special Additional duty of Customs (SAD)
- Service Tax
- Surcharges and Cess
- Central Sales Tax

State Taxes ····▶ SGST

- VAT
- Purchase tax
- Entertainment tax
- Luxury tax
- Lottery taxes
- State cesses and surcharges
- Entry tax and Octroi

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BASIC STRUCTURE OF GST : SUMMARY

Excise Duty	-	Manufacturing of Goods
VAT / CST	-	Sale of Goods
Service Tax	-	Provision of Services

Intra-state Supply of Goods and Services
- Central GST
- State/UT GST

Inter-state Supply of Goods and Services
- IGST

Imports
- Basic Custom Duty
- IGST (in place of CVD and SAD)

Exports
- Zero Rated

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TAXES SUBSUMED

Although the nomenclature and machinery under indirect taxes is being overhauled, even GST impinges administratively on the registered person and financially on the consumer.

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CREDIT CHAIN UNDER GST

To be offset in same order	Central GST Credit	State/UT GST Credit	Integrated GST Credit
1.	Central GST Liability	State/UT GST Liability	Integrated GST Liability
2.	Integrated GST Liability	Integrated GST Liability	Central GST Liability
3.	_	_	State/UT GST Liability

Separate CGST and IGST Credit Chains to be maintained for each State individually. Cross Utilisation CGST Credit against SGST Liability and vice versa not allowed.

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GST ON INTRA STATE SUPPLIES OF GOODS/ SERVICES : CGST & SGST MODEL

Karnataka

Invoice

Value	100
CGST (9%)	09
KA SGST (9%)	09
IGST (18%)	NIL

	118

Dealer

Final Consumer

Karnataka

Invoice

Value	150
CGST (9%)	13.5
KA SGST (9%)	13.5

	177

Output GST liability

Output CGST Liability	13.5	Output SGST Liability	13.5
Utilization of CGST Credit	(09)	Utilization of SGST Credits	(09)
Net CGST liability	4.5	Net KA SGST Liability	4.5

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GST ON INTER STATE SUPPLIES OF GOODS/ SERVICES : IGST MODEL

Karnataka

Invoice

Value	100
CGST (9%)	Nil
KA SGST (9%)	Nil
IGST (18%)	18

	118

Delhi

Dealer → Final Consumer

Invoice

Value	150
CGST (9%)	13.5
Delhi SGST (9%)	13.5

	177

<u>Output GST liability</u>

Output CGST Liability	13.5	Output SGST Liability	13.5
Utilization of IGST Credits	(13.5)	Utilization of balance IGST Credits	(5)
Net CGST liability	0	Net Delhi SGST to be paid	8.5

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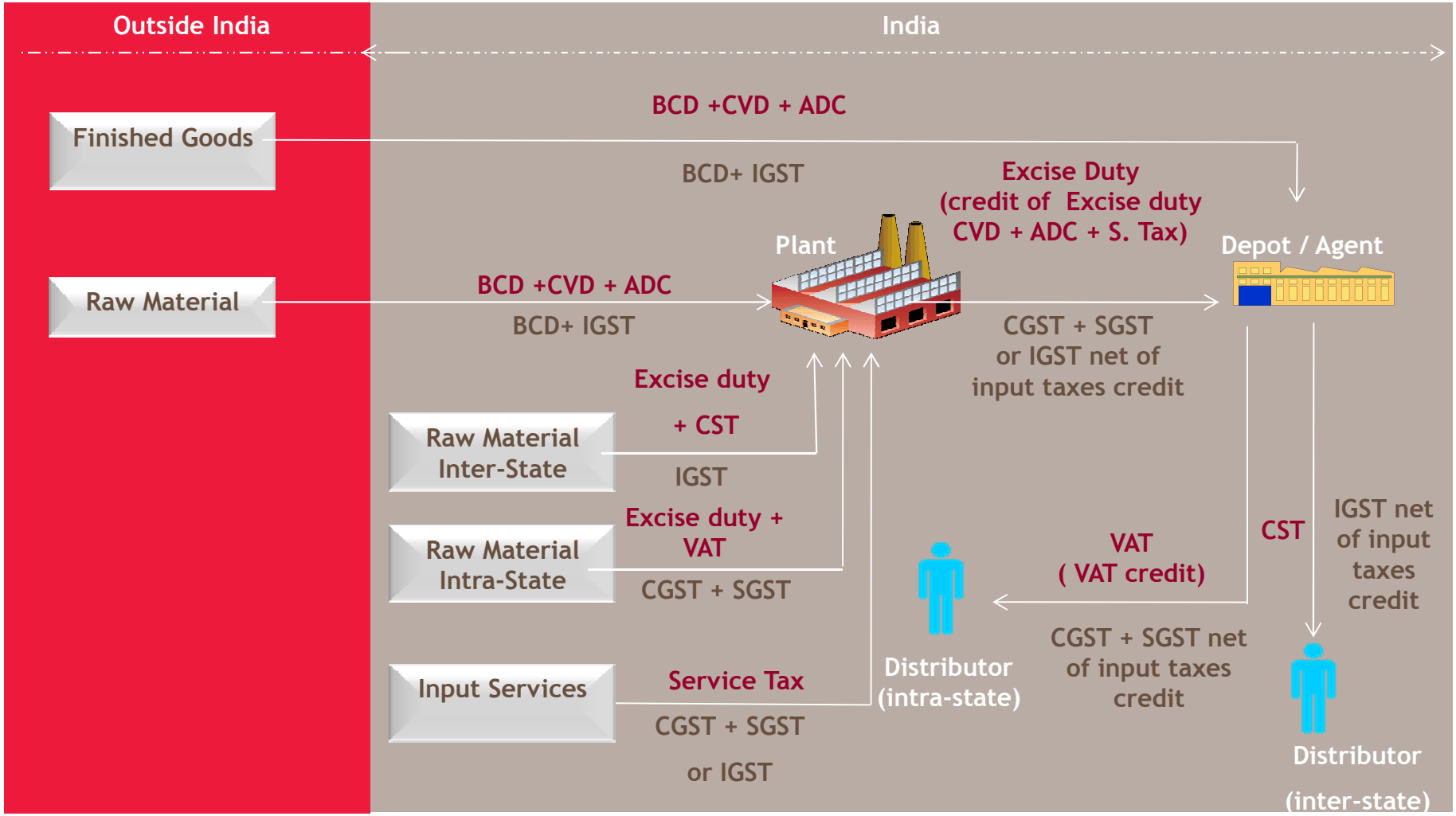
SUPPLY CHAIN LAYOUT



Current tax regime
GST regime

RATES UNDER THE GST LAWS

PROPOSED RATE STRUCTURE

81% of the goods falls within the rate of 18%

Rate	Nature of Services
Exempt	• Education • Healthcare • *Current exemptions is expected to be carried as such*
5%	• Transportation • Aircraft leasing • Rent a cab
12%	• Restaurant • Temporary transfer • Chit fund
18% (It would be the standard rate for services, with most of the services covered)	• Telecom Services • Banking Services • Financial Services • Aviation Sector • Restaurant Services • DTH Services

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INDICATIVE IMPACT : RATE OF TAX

Impact of change in rate of tax		
Nature of Supply	Present (Generic rate)	Expected
Services	**Effective rate of tax - 15%**	**Effective rate of tax - 18%**
Goods (Standard)	**Effective rate of tax - 28.81%** Central Excise - 12.5% Value Added tax -14.5%	**Effective rate of tax - 28%**
Goods (Concessional)	**Effective rate of tax - 18.68%** Central Excise - 12.5% Value Added tax - 5.5%	**Effective rate of tax - 18%**
Goods (MRP)	**Effective rate of tax - 24.52%** Central Excise - 12.5% (assumed abatement of 30%) Value Added tax - 14.5%	**Effective rate of tax - 28%**

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TRANSITIONAL PROVISIONS

Transitional provisions - CGST & SGST

Migration of existing taxpayers to GST

- Every person already registered under the existing acts and having a valid PAN shall be issued a registration certificate.
- Such registration would be on provisional basis.
- Post submission of relevant documents, final registration would be granted.
- If a person was not liable for registration and an application has been filed that he is not liable for registration, it shall be deemed that registration have not been issued.
- More than 60 lakh taxpayers enrolled on GST Portal between 8th November 2016 and 30th April 2017. The Enrolment process has closed with effect from 1st May 2017.
- The enrolment window will reopen on 1st of June 2017 for taxpayers who could not enrol themselves as well as for those who enrolled but did not sign the enrolment form.

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Transitional provisions - CGST

Amount of CENVAT credit carried forward to be allowed as input tax credit

- Registered person shall be entitled the amount of CENVAT Credit c/f
- Credit to Electronic Ledger
- Relating to the period ending with the day immediately preceding the appointed day

Provided:

- The amount must be declared in the returns filed
- Furnish all the returns required under the existing law for the period of six months immediately preceding the appointed date
- The amount must be admissible as input credit in GST
- The amount is not for goods manufactured & cleared under exemption
- Every registered person entitled to take credit of input tax shall, within sixty days of the appointed day, submit an application electronically in FORM GST TRAN- 1, duly signed, on the Common Portal

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Transitional provisions - SGST

Amount of input VAT/Entry tax credit carried forward

- Registered person shall be entitled the amount of input VAT/ Entry tax Credit
- Credit to Electronic Ledger
- Relating to the period ending with the day immediately preceding the appointed day

Provided:

- The amount must be declared in the returns filed
- Furnish all the returns required under the existing law for the period of six months immediately preceding the appointed date
- The amount must be admissible as input credit in GST
- The amount is not for goods manufactured & cleared under exemption
- **Restrict the credit attributable to CST transactions such as Sales against C form, F form, I form, E1/E2 form etc., if the forms are not submitted within 3 months - *Mechanism???***

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Transitional provisions - CGST & SGST

Unavailed CENVAT credit / input VAT credit on Capital Goods not carried forward

Registered person shall be entitled to the unavailed CENVAT Credit / VAT credit on Capital Goods not carried forward

- Credit to Electronic Ledger
- Relating to the period ending with the day immediately preceding appointed day
- Unavailed CG credit (i.e. 50%)
- The amount must be admissible as input credit under earlier law
- The amount must be admissible as input credit under GST Laws
- Unavailed Credit = Aggregate amount of credit – credit already availed (in respect to capital goods)
- File FORM GST TRAN- 1 giving the actual breakups of credit taken and to be carried forward

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Transitional provisions - CGST & SGST

Credit of eligible duties and taxes on inputs held in stock as on appointed day

For those not liable to be registered under existing laws; those manufacturing exempted goods; those providing Works Contract services under Notification No. 26/2012; those providing exempted services; I & II Stage Dealer; Importer;

- ✓ He must use or intended to use such inputs/goods for taxable supplies
- ✓ He must be eligible for credit under GST Laws
- ✓ He must possess the invoice/document and such invoice/document shall not be older than 12 months
- ✓ The supplier of services is not eligible for any abatement under GST Laws
- ✓ He must pass on the benefit of credit by reduced prices
- ✓ **In case of non-possession of invoice -** Credit shall be allowed at the rate of 40% of the taxes applicable on supply of such goods after the appointed date and shall be credited after the taxes payable on such supply has been paid

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Transitional provisions - CGST & SGST

CENVAT credit / VAT credit of inputs held in stock as on appointed day

For those manufacturing taxable & exempted goods; those engaged in provision of taxable & exempted services – Taxable under GST

- Entitled in the electronic credit ledger

✓ The amount of CENVAT credit / VAT credit carried forward in the returns

✓ Also, CENVAT credit / VAT credit in respect of inputs held in semi-finished and finished goods held in stock on the appointed day, relating to such exempted goods or services

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Transitional provisions - CGST & SGST

Credit of duties / taxes of inputs and input services during transit

- Credit of Duties/Taxes
- Credit to Electronic Ledger
- Inputs/ Input services received after appointed date
- Duty/tax has been paid before the appointed date
- Duty/tax paying document must be recorded in the BOA within 30 days from the appointed date
- Period of thirty days may, on sufficient cause, be extended by the Commissioner for a further period not exceeding thirty days
- Must furnish a statement showing such details

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Transitional provisions - CGST & SGST

Credit of duties/taxes on inputs held in stock for switching from composition scheme

- Existing Composition tax payer can take the credit of inputs to Electronic Ledger

✓ He must use or intended to use for taxable supplies

✓ He shall not opt for Composition under GST Laws

✓ He must be eligible for input tax credit on inputs under GST Laws

✓ He must possess the invoice/document and such invoice/document shall not be older than 12 months

Credit by an Input Service Distributor

✓ Any services received prior to the appointed day by an Input Service Distributor

✓ shall be eligible for distribution as credit under GST Laws

✓ even if the invoices relating to such services are received on or after the appointed day

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Transitional provisions - CGST & SGST

CENVAT credit / VAT input c/f in a return allowed, subject to conditions.

- Registered person having centralised registration shall be entitled the amount of Credit c/f in the return
- Credit to Electronic Ledger
- Relating to the period ending with the day immediately preceding appointed day

Provided:

- Must furnish within three months of the appointed day
- Credit has been reduced from that claimed earlier and is either an original return or a revised return
- The amount must be admissible as input credit in GST Laws
- Credit may be transferred to any of the registered persons having the same PAN for which centralized registration was obtained

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Transitional provisions - CGST

CENVAT credit reclaimed, subject to conditions.

- CENVAT Credit availed for the input services provided
- Has been reversed due to non-payment of the consideration within a period of 3 months
- such credit can be reclaimed

Subject to the condition:

- Registered person has made the payment of the consideration
- For such supply of services
- Within a period of 3 months from the appointed day

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Transitional provisions - CGST & SGST

Return of inputs/ semi-finished goods sent for job-work

Inputs

- ✓ Removed **from factory** prior to the appointed date
- ✓ Such goods shall be returned within 6 months from the appointed date, no tax shall be payable
- ✓ Both job worker and principal manufacturer disclose the stock details

Semi-finished goods

- ✓ Such goods shall be returned within 6 months from the appointed date
- ✓ Both job worker and principal manufacturer disclose the stock details
- ✓ Principal manufacturer can supply directly - locally with GST or export without GST
- ✓ ***Within sixty days of the appointed day, submit an application electronically in FORM GST TRAN-1, specifying therein, the stock or, as the case may be, capital goods held by principal at the place/places of business of his agents/branch, separately agent-wise/branch-wise***

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Transitional provisions - CGST & SGST

Return of finished goods removed for carrying out certain processes

- Return of finished goods on or after the appointed day

✓ Such goods shall be returned within 6 months from the appointed date

✓ The person can supply directly - locally with GST or export without GST

✓ Period of 6 months may be extended for sufficient cause for a further period not exceeding two months

✓ Both job worker and principal manufacturer shall disclose the stock details

✓ ***File FORM GST TRAN-1***

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Transitional provisions - CGST & SGST

Return of any goods where the duty has been paid

- Goods on which duty has been paid at the time of removal
- Return of such goods on or after the appointed day
- The registered person shall be eligible for refund of the duty paid
- Such goods shall be returned within 6 months from the appointed date
- The return of such goods shall be deemed to be a supply

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Transitional provisions - CGST & SGST

Supplementary invoices for revision of prices

Increase in price

- ✓ Pursuant to a contract prior to the appointed date
- ✓ Supplementary invoice/debit note to be issued within 30 days of price revision
- ✓ It increases the tax liability under GST

Decrease in price

- ✓ Pursuant to a contract prior to the appointed date
- ✓ Supplementary invoice/credit note to be issued within 30 days of price revision
- ✓ It decreases the tax liability under GST if and only if **the recipient has reduced his input credit**

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Transitional provisions - CGST & SGST

Other various provisions

- Refund applications filed prior to the appointed date, would be disposed under the earlier laws.
- If the input tax amount is shown as carried forward, then no refund.
- Refund applications filed after to the appointed date in connection to refund under earlier laws, would be disposed under the earlier laws only.
- Every appeal, revision, review of input credit would be disposed under earlier law.
- If any amount becomes due, then arrear of tax under GST and no input tax credit.
- If any amount becomes refundable, then refund sanction under earlier laws.
- Returns revised post GST – either arrear of tax under GST or refund under earlier laws.
- Long term construction contracts/ works contracts <=> All the goods and/or services supplied on or after the appointed day in pursuance of a contract entered into prior to the appointed day shall be liable to GST.

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Transitional provisions - CGST & SGST

Other various provisions

- If the consideration is received before and taxes/duties are paid before the appointed date, then no GST even if the supply is made post appointed date.

- Input Service Distributor (ISD) is eligible for distribution of credit on input services received prior to appointed date even if the invoices are received after the appointed date.

- Agent shall be entitled to the credit on goods (both normal and Capital Goods) belonging to the principal subject to-

  - Agent is a registered taxable person;
  - Both agent and the principal declare the details of goods;
  - the invoices for such goods had been issued not earlier than 12 months prior to the appointed day; and
  - Principal shall not avail the input tax credit of such goods.

- Input tax restricted for branch transfers not eligible for input credit under GST.

- Goods sent on approval basis – Sent not earlier than 6 months and received back within 6 months from appointed date – then no GST.

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