ESSENTIAL FACTS ON INDIA GOODS AND SERVICES TAX (GST)

Goods and Services tax (GST) has been identified as one of most important tax reforms post-independence. It is a tax trigger, which will lead to business transformation for all major industries. It will be rolled out on 1st July 2017.

THE HISTORY OF GST

- The GST Bills have been passed by the Parliament in August 2017
- The GST Council consisting of representatives from the Centre as well as the states, after being constituted, met on twelve occasions to discuss various issues including dual control, GST laws, exemptions, thresholds, rate structure, compensation cess etc. and reached consensus on the same. Council has also recommended four-tier GST rate structure and the thresholds.
- Subsequent to the passage of GST Bills in the Parliament, states will take up State GST Bills for clearance in the respective state legislative assemblies.
- The revised draft of the Model GST law, which was released in the public domain in November 2016, has been split into CGST, SGST and UTGST Bills apart from IGST Bill. The draft of the Model GST Law underwent further changes before being introduced in the Parliament.
- The list of exemption, classification of goods and service, and machinery provisions including valuation and other rules are yet to be notified.
- As per the office order issued by the Central Board of Excise and Customs, the Government has set up ten working groups to sort out sectoral issues faced by trade and industry to ensure smooth transition to GST. Sectors include banking, telecom, IT and ITES, financial, textile, oil and gas, gems and jewellery, transport and logistics, and MSMEs.
- Meanwhile, Centre and States have already begun the enrolment process for migrating existing taxpayers to the proposed tax regime through GST common portal.

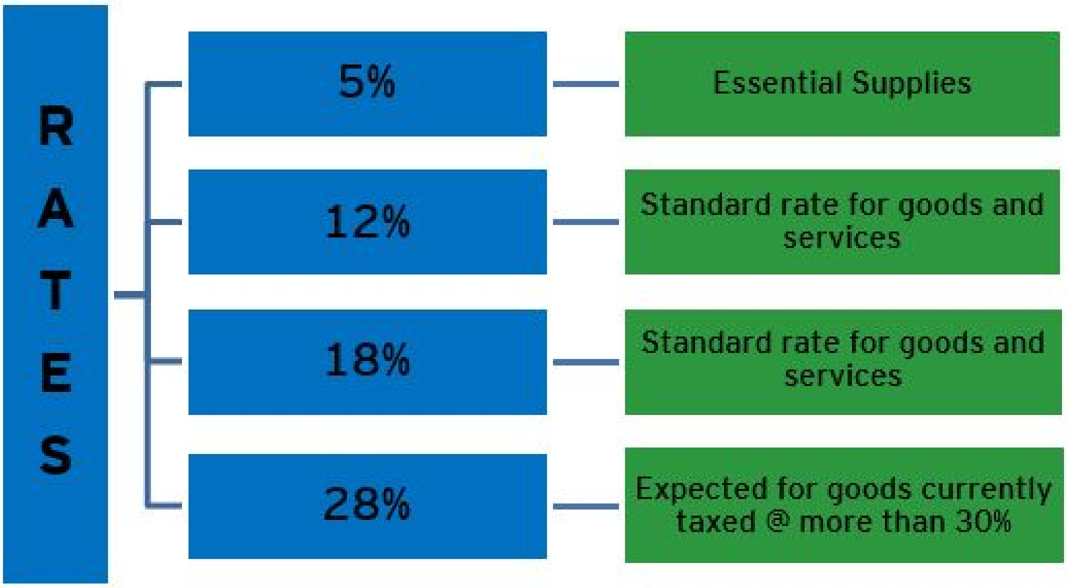
UNDERSTANDING GST:

GST is a destination-based tax that will replace the current Central taxes and duties such as Excise Duty, Service Tax, Countervailing Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery, betting and gambling, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies).

It will be a dual levy with State/Union territory GST and Central GST. Moreover, inter–state supplies would attract an Integrated GST, which would be the sum total of CGST and SGST/UTGST.

Petroleum products, i.e., petroleum crude, high speed diesel, motor spirit, aviation turbine fuel, natural gas will be brought under the ambit of GST from such date as may be notified by the Government on recommendation of the Council. Alcohol for human consumption has been kept outside the purview of GST.

Consensus between Central and state governments has been reached on four-tier rate structure as follows:



A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The proposed GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing. It will also stimulate the need to relook at internal organization and IT systems.

With its proposed implementation from 1 July 2017 gaining intensity, it is critical for companies, which have business operations in India to understand the broad contours and framework of the proposed GST law, likely impact of the new levy on their business and start taking appropriate steps to meet its requirement and be GST ready.

BENEFITS OF GST:

The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficiency
- The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.
- GST would replace most indirect taxes currently in place such as:

Central Taxes	State Taxes
Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] Service tax Additional Customs Duty (CVD) Special Additional Duty of Customs (SAD) Central Sales Tax (levied by the Centre and collected by the States) Central surcharges and cesses (relating to supply of goods and services)	Value Added Tax Octroi and Entry Tax Purchase Tax Luxury Tax Taxes on lottery, betting & gambling State cesses and surcharges Entertainment tax (other than the tax levied by the local bodies) Central Sales Tax (levied by the Centre and collected by the States)

KEY REQUIREMENTS OF THE COMPANIES:

- Understand key areas of impact in their business.
- Prepare different scenarios for the design and application of GST.
- Continually track policy development regarding GST and update prepared scenarios.
- Identify any areas of adverse impact and prepare contingency measures.
- Identify issues and concerns needing representations to the authorities and develop a strategy for effective advocacy.