



Goods & Service Tax (GST) in India – What next?

Been in the spanner-works for almost a decade, the slogan of “**One Nation One Tax**” will now no more be a fiction!

The Indian Parliament on the 8th of August, 2016 passed the most awaited 'Constitutional Amendment Bill' to introduce levy of GST in India. This bill will now be sent to the President of India for approval, after which majority State governments will have to get it approved in their respective assemblies.

With the passage of this bill, as part of India's federal structure, a GST law would be implemented concurrently by the Central government and respective State governments.

While there have been significant tax and regulatory reforms pushed by the Narendra Modi Government, GST has been identified as one of most important tax reforms post-independence. The Government continues to push forward in full steam, with the agenda of implementing GST in the next financial year (starting April 1, 2017).

In this article, we attempt to give our readers a basic overview of what GST entails, and how it impacts foreign organizations for their India plans and operations.

What exactly is GST?

Currently, In India, there are separate tax laws for export and import of goods (customs), manufacture (excise), inter-State (sales tax) as well as intra-state (VAT) sale of goods, and a separate levy on taxes on services (service tax). Besides these there are other local taxes such as entertainment tax, luxury tax, octroi, entry and purchase taxes etc. which are levied separately in respective States.

For a common market the GST would subsume most indirect taxes, except customs duty, into one. Graphic shows an indicative road map of the steps that lie ahead following the Rajya Sabha's nod to the Constitution Amendment Bill

Source: The Hindu

- 1 Changes made to the bill in Rajya Sabha will have to be approved again by the Lok Sabha (either in a special session, or the Winter session).
- 2 The Bill needs to be ratified by majority of the states (15/29) following this it will be sent to the President.
- 3 After the Presidential assent, a GST council representatives from the States and the Centre will be set up.
- 4 The council will help codify central GST and State GST laws which would be passed by Parliament and State assemblies.
- 5 GST Network, the IT backbone of GST, to facilitate online registration, tax payment and return filing would be introduced.
- 6 GST Network will create an online portal. The portal will begin migrating data on existing taxpayers under the current VAT/Service tax regimes.
- 7 All businesses will be given a GST identification number, a 15-digit code comprising their State code and ten character PAN.
- 8 The GST Network has already validated the PAN of 58 lakh businesses from the tax department.
- 9 Government is already enabling "master trainers", who would train accountants, lawyers and tax officers on the new systems.

GST proposes to subsume and combine all such taxes under one law. Few minor indirect taxes would continue under a separate levy, but all above taxes highlighted will now be levied as one tax – GST. This would have far reaching implications to doing business in India, especially in terms of:

- Removing cascading effects of taxation, as well as allowing for a better credit mechanism
- Introducing uniform tax rates around the country
- Streamlining tax compliance, administration and redressal
- Introducing technology in compliance systems through an integrated and joint GST network
- Streamlining prices and improving cash flows

What is the GST tax structure?

The Government has proposed that the GST rate should not be more than 18%, though this rate is still being negotiated and finalized between State governments and the Centre. Typically, this GST rate would be broken down into three components:

- **Central GST or CGST:** levied by the Centre (could be approx. 9%)
- **State GST or SGST:** levied by the States (could be approx. 9%)
- **Integrated GST or IGST:** levied as a combined tax in case of inter-state sales, roughly equal to CGST + SGST

Credit utilization of CGST and SGST on purchases of goods and services would be allowed against output CGST and SGST liabilities respectively. Cross-credits shall be only allowed in case of inter-state sales through a mechanism defined for IGST.

Key definitions have been defined in a GST 'model law' introduced by the Government, but organizations need to see how the final code would look like at the Centre and respective State levels.

How does GST impact your plans and operations for doing business in India?

While key rules and regulations for GST are still awaited, immediate impact in the short run for foreign organizations and institutions in India could be manifold:

- Transition plans from current tax systems to GST will have to be evaluated and implemented in a short period of time
- For organizations who already have established operations in India, an assessment of costs for migration to new systems, as well as calculations for tax savings / outflows will have to be undertaken
 - In the short run, procurement of services may get expensive as proposed GST rates are higher than current taxes on services. The actual cash impact may be different, depending on the utilization of available credits
 - In the short run, procurement of goods may get cheaper due to lower tax rates as well as a broader base for utilization of credits
 - For those institutions importing services from Indian vendors, tax rules are still unclear on exemption from

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GST for export of services from India. The Government would need to formulate 'place of provision' rules for which many key industries (including the IT sector, Higher-Ed and Not-for-profit sectors etc.) are keeping an eye out for, and concurrently lobbying with the Ministry and tax departments. It is possible that certain services may be taxed, leading to a higher cost for imports for head offices in the US, UK and rest of the world.

- In the long run, there will be definite improvements in terms of:
 - Standardized systems, integrated with technology, for improving ease of compliance in India
 - Costs, both in terms of procurement (due to lower and uniform taxes as well as a broader credit base for inputs), as well as compliance (due to reduction in compliance with separate laws)

What do I need to do next?

- (i) Watch out for more updates on laws / timelines proposed by the Government for implementation of GST
- (ii) Reach out to your India advisors to conduct an impact assessment once rules are finalized. Currently these rules are on fast track and are expected to be finalized in the next 3-4 months
- (iii) Understand from your India advisors how tax rates and compliances will impact your business and be ready for the new law to be in full force from April 1, 2017
- (iv) Ensure that all steps are taken during the transition phase to smoothly integrate GST with current systems