GST Impact Assessment – A necessity?

Prelude: -

We are on the wink of biggest tax reform since independence with an enormous change in entire Indirect Taxation effecting businesses across India. It will be going to change demographics of each state with the increased consumption in GST, the destination state is going to get the tax. This can be achieved by attracting more industries, by developing tourist destinations, developing and providing better infrastructure to industry and public at large so that there is more consumption in the state. There will be sea change in the way business is conducted today and how the things will shape up in GST regime. There will be activity level changes.

People other than finance and accounts field will think that why should we be bothered? eh…!!! GST is a tax after all, what is the impact on me? Here we will try to discuss major impacts, the GST is going to have on different business processes.

Major Impacts on Purchase function: -

S.No.	Particulars	Current provisions of Central Excise	Current Provisions of State VAT	Provisions under GST Regime
1.	Scope of Credit	Credit is available only on goods used in or in relation to manufacture. One to One correlation was to be maintained	Credit of goods used in manufacture was available.	Credit is available; be it used for manufacture or not, like office equipment, stationery etc. subject to the condition that it is used in the furtherance of business.
2.	Interstate Purchase	Credit of Excise paid on interstate purchase was available.	Credit of CST paid on interstate purchases was not available.	Credit of GST paid on any purchase for use in furtherance of Business (including interstate) is available.
3.	Advance Payment	Tax is not charged on advance payment made for purchases	Tax is not charged on advance payment made on purchase.	Tax is payable on Advance payment for purchase of goods or services.

4.	Credit Matching	Matching of credit with sellers' sale is not required. No penalty on buyer if seller does not pay the tax.	Matching of credit with sellers' sale is required. However, in most of the States credit was allowed based on verification of Invoice.	Complete matching is required. If tax is not paid by the seller then the tax credit will not be available to the buyer.
5.	Tax Compliant Supplier	Seller's tax compliant status was not required to be checked for buyer. As it had no bearing on him. He was just required to ensure proper documentation in terms of possession of proper Invoice.	Seller's tax compliant status is not very necessary. There was no official mechanism available to check the compliance by the seller/supplier.	It will be very necessary for the buyer to check beforehand about vendor being tax compliant. Government has come up with GST rating mechanism where it will be easy to find out the status of supplier.
6.	Invoice time limit	There was no time limit to receive the Invoice to avail the credit.	The Invoice should be received within the same quarter in some states. In some states within same year.	In GST, the Invoice should be received before 30th September after the end of FY to avail the credit.

So, Supply chain people need to understand the changes brought in by GST and act accordingly., Moreover they should plan their purchases to obtain maximum benefit, like as mentioned below::-

a) All India ((Except State of Jammu & Kashmir) will be a single market now and there will not be any tax like CST which will be non-creditable. Accordingly, they can search for new vendors from different states and reduce the costs.
b) They can think delaying purchasing the office equipments and other non cenvatable purchases to post GST regime in order to take the credit.
c) Assess the potential vendors with non-compliant record and restrict purchases from them.

Major Impacts on Sales Function :-

S.No.	Particulars	Current provisions of Central Excise	Current Provisions of State VAT	Provisions under GST Regime
1.	Branch / Agent Sale	Sale to agents or branches is taxable since tax is levied on removal of goods from place of manufacture.	Tax is not levied on transfer of goods to agent or branches wherever they are made other than by way of sale.	Tax will be levied on supply to agents, Interstate Branch transfer and transfer to different vertical within same state but having different registration.

2.	Advance Payment	Tax liability does not arise on Advance Payment.	Tax liability does not arise on advance payment.	Tax liability will arise on advance receipts/payment.
3.	Place of Supply/sale	Place of sale was not required to be checked.	Place of sale was required to be checked to identify whether CST or VAT is to be charged.	Place of supply is to be checked to identify Whether CGST and SGST or IGST is to be charged, considering place of supply provisions.
4.	Reverse Charge	No tax payable under reverse charge on goods procured.	Generally No tax payable under reverse charge, however, in some states purchase tax is levied on purchase from unregistered person	Tax will be payable under Reverse charge on all purchases made from unregistered dealers and on other goods as notified.
5.	Penalty for late payment	Penal Interest, late fee and penalty charged for delayed payment of consideration is not included in valuation.	Interest, late fee and penalty charged for delayed payment of consideration is not included in valuation.	Interest, late fee and penalty charged for delayed payment of consideration is to be included in valuation for the purpose of calculation of tax.
6.	Anti-Profiteering clause	No anti profiteering measure to ensure pass on of credit of tax to final consumer.	No anti profiteering measure to ensure pass on of credit of tax to final consumer.	Anti-profiteering measure is introduced to ensure that credit is passed on to the final consumer.
7.	Consumption/ Destination based tax	Tax is levied by the Central Government on origin based principal.	Tax is levied by states on origin based principal.	Tax is levied by centre and states concurrently on destination based consumption principal. Thus, final tax accrues in the hands of state where goods/services are consumed.

Now, whole of India (Except State of Jammu & Kashmir) is a market for the marketing team without any state borders where they:-

a) Can explore newer markets beyond the boundaries of a state.
b) Need to check for their distribution network, warehousing mechanism etc. to reduce costs and achieve the synergies of India as a market.
c) Need to check for pricing of goods and services to cater anti profiteering.
d) Need to check their sales strategies in the wake of place of supply provisions.

Major Impacts on Accounting and compliance function:-

	Current Excise, Service Tax and VAT	Proposed GST
1.	Separate compliances were needed under each law.	No separate compliance of Indirect Taxes laws. Only GST laws to be complied.
2.	No separate excise audit was required, however VAT audit was required in some states.	GST Audit is required to be conducted by a Chartered Accountant or Cost Accountant for each registration having turnover above the turnover limit of Rs. 1 Crore.
3.	Statutory forms were required under VAT and statutory registers under excise were also required to be maintained	No statutory forms or statutory registers are required to be maintained. Books can also be maintained in electronic form.
4.	Various manual compliances are required under existing laws.	Most of the compliances are online on GST portal.
5.	Way bill were not required in case of intrastate transportation. Only Inter-state transportation warranted such way bill when the consignment value was over a specific value.	Now eWay bill is required in case of any transportation of goods when the consignment value is over Rs.50,000/- irrespective of whether the goods are moved within or outside state.
6.	Material could be sent over challan without Invoice.	Invoice is to be raised in all cases at the time of removal of goods except in certain specified circumstances.

Apart from the above major changes, there are various new things/changes which will have bearing on the way the businesses are running now-a-days. Few more precautions and measures are required to be taken care of:-

1. All the existing contracts need to be looked into to ensure that Indirect tax clause is taking care of GST, as GST is going to impact costs in case of all contracts specially construction costs. It is going to immensely impact the contracts where tax is inclusive in the contract price.
2. Inventory accounting to be strengthened so that there is no issue in taking input tax credit which is based on receipt of goods or services only.
3. Records are to be kept at each registered place of business be it electronically or in hard format.
4. Payment mechanism to be aligned as per law otherwise there might be issues in case of Input credits.
5. Billing patterns, formats and time lines need to be realigned in view of the provisions of GST.
6. Maintenance of running accounts and payment settlement to be looked at to ensure the adjustment of payment at invoice level.
7. Place of business and supply of goods or services from there to be strictly looked into taking into consideration the registration provisions so that places where registration is required to be obtained could be minimised and unnecessary compliance burden could be ruled out.
8. Identification of Multiple Business Verticals and a careful analysis is required, looking at the provisions of the law that where it would be beneficial to take separate registrations of such verticals.
9. Distributions Channels are required to be reset looking at Place of Supply and Input Tax credit provisions so that there is no extra tax burden and No spill over of Input tax credit.

Conclude:-

Though GST is a new law but business processes are old, time tested and designed as per existing laws to get the maximum benefit. Each business process has its own function and bearing on the tax liability of a business. These needs to change in a way that makes a business insulated from the heat and cold showers of GST. If a business is unable to adapt and cope up with these changing horizons then survival will be difficult and it is the fight for survival of the fittest. So, everyone should take a critical look at each and every business process, keeping GST law in consideration and make necessary changes to get the best out of GST.

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- Indirect Taxes Committee