GST - Challenges & Opportunities

R Ganesh  on 01 September 2011

CHANGING PHASE OF INDIRECT TAXES - CHALLENGES AND OPPORTUNITIES

In the era of the major reform and development taking place in our country, India, the tax reforms is and has been the key to have the change of track in the economic growth of the country. The various stake holders for these happenings are keenly awaiting the tax reforms namely, the introduction of Goods and Services Tax "GST". This phase of transition poses challenges for the stake holders viz., Government both Centre and States, the various industries involved in the mining and manufacturing and the now fast tracked service industry.

To bring in place a unified indirect tax that enables a standardized pricing of the product and services without any cascading effect of all the indirect taxes, the GST is the answer that is much awaited. GST is a well designed value added tax on all goods and services eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-through, and the tax essentially sticks on final consumption within the taxing jurisdiction.

GST comprises of the following elements:

1. It should be a dual levy concurrently by the Centre and States, but independently to promote cooperative federalism.

2. Both the Central Goods and Services Tax (CGST) and the State Goods and Services Tax (SGST) should be levied on a common and identical base.

3. The Centre and the States should adopt a consumption-type GST, that is, there should be no distinction between raw materials and capital goods in allowing input tax credit.
4. The tax base should comprehensively extend over all goods and services up to the final consumer point.

5. There should be no classification between goods and services in law so as to ensure that there is no classification of dispute.

6. The GST should be structured on the destination principle. As a result, the tax base will shift from production to consumption whereby imports will be liable to both CGST and SGST and exports should be relieved of the burden of goods and service tax by zero rating.

7. The computation of the CGST and SGST liability should be based on the invoice credit method i.e. allow credit for tax paid on all intermediate goods or services on the basis of invoices issued by the supplier. This will facilitate elimination of the cascading effect at various stages of production and distribution.

8. The CGST and SGST should be credited to the accounts of the Centre and the States separately. Since the CGST and SGST are to be treated separately, taxes paid against the CGST should be allowed to be taken as input tax credit (ITC) for the CGST and could be utilized against the payment of CGST. The same principle will be applicable for the SGST. Cross utilization of ITC between the CGST and SGST should not be allowed.

9. Full and immediate input credit should be allowed for tax paid (both CGST and SGST) on all purchases of capital goods (including GST on capital goods) in the year in which the capital goods are acquired. Similarly, any kind of transfer of the capital goods at a later stage should also attract GST liability like all other goods and services.

10. The consignment sales and branch transfers across States should be subject to treatment in the same manner as if it was an inter-state transaction in the nature of sale between two independent dealers.

To put straight in a simplified note, before a final product and service in put in place, there are various stages and value addition in the production of the manufactured goods and also need professional service coming within the ambit of service tax. As the tax is on an ad valorem basis, the costing of the value addition at each stage has to be derived in a professional and standardized manner based on the technology, size of operation and the price of the basic raw material. This standardized working of the value addition at each stage before it passes on to the next level of value addition in the chain of operations is to be done in a professionalized manner so that consistency and uniformity is maintained. The industry forums like the CII, FICCI and professional bodies like Chartered Accountants, Cost Accountants are gearing up to get the derived advantage of the GST Regime.

The Government would want that there are no revenue leakages in the GST regime. The need is therefore to have the enabling agents who can ensure that all these are done in the correct manner. Here lies the opportunity for the Finance Professionals to rise and be the change Manager.

**GST - ROLE AND SCOPE FOR FINANCE PROFESSIONALS**

GST implementation will lead to immense scope for FINANCE PROFESSIONALS who with expert knowledge about manufacturing, costing and pricing can play an important role once GST is implemented. For Industry:
1. with their good knowledge on manufacturing, costing and pricing can educate the suppliers/vendors about GST and ensure input tax credit is availed correctly.

2. Help in arriving at the cost of the product correctly by considering/availing input tax credit as per the provisions of GST.

3. with their expert knowledge on manufacture can ensure tax compliance, monthly returns, e-filing, availing of credit and payment of taxes.

4. can ensure tax planning and interpretation of the Act correctly and educating the various departments like strategic sourcing, payables, supply chain management, marketing etc.

5. There will be dual structure for GST, there will be levy by the Central Government known as CGST and levy by the State Government known as SGST. CST rate at present is 2% against Form C and CST will be phased out once GST is implemented and there will be another levy on stock transfers and consignment transfers known as IGST. The set-off against these CGST, SGST and IGST will be a complex model which is not clearly spelt out by the Government. Once the same is implemented, Finance professionals with their vast knowledge on Costing, Finance and indirect taxation can ensure proper set-off against these three levies namely CGST, SGST and IGST.

6. CGST will be levied by Central Government and every State will have its own SGST. To understand the complexity of each model of SGST, only Finance Professionals can guide the industry.

7. There are several Central Taxes which are not presently CENVATable viz., additional excise duty, countervailing duty etc and CGST would therefore subsume the following:

   a) Central Excise Duty

   b) Additional Excise Duty

   c) Additional Excise Duty on medicinal and toilet preparations

   d) Countervailing duty

   e) Additional Duty under Section 3(5) of the Customs Tariff Act

   f) Service Tax  g) Cesses

   h) Surcharges Finance Professionals can ensure set-off for all Central levies as per provisions of GST when implemented.

8. In the present system, Central Excise is levied at the manufacturing level whereas in the GST, tax will be levied on the value addition in the supply chain after the manufacturing level. Finance Professionals with their knowledge of Finance, Costing and SCM will be able to compute the taxes correctly under the GST.
9. In the present VAT system, there is no provision to levy VAT on services. However, GST proposes to levy SGST and CGST on services and Finance Professionals can ensure tax compliance on services both for Central and States.

10. In the present VAT system, even though input tax credit (ITC) is allowed, it does not include other taxes levied by the State Government viz., Luxury tax, Entertainment tax and Entry Tax not in lieu of octroi. Under GST, all these levies would be subsumed in the SGST. Finance Professionals can ensure set-off for all State levies as per provisions of GST when implemented.

11. In the present system, all inter-state transactions are covered by CST Act and administered by the respective State Government. The present rate is 2% CST against Form C or scheduled rate of VAT without Form C. The amount paid as CST is not available for set-off. Under the GST, IGST will be levied on all inter-state transactions like stock transfers and consignment transfers. The scope of IGST Model is that Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services. The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST and SGST on his purchases.

The major advantages of IGST Model are:

a) Maintenance of uninterrupted ITC claim on inter-State transactions.

b) No upfront payment of tax or substantial blockage of funds for the inter-State seller or buyer

c) No refund claim in exporting State, as ITC is used up while paying the tax

d) Self monitoring model

e) Model can take “Business to Business” as well as “Business to Consumer” transactions into account. The process of paying IGST and claiming set-off can only be done by a Finance professional with his immense knowledge on Finance & Accounting, computer and knowledge of GST.

12. In the present system, no VAT or excise duty is payable on imports. Under GST, SGST and CGST is payable on imports and set-off can be taken. This can be done by Finance Professionals.

13. Under GST, tax exemptions, remissions etc related to industrial incentives should be converted, if at all needed, into cash refund schemes after collection of tax, so that the GST scheme on the basis of a continuous chain of set-offs is not disturbed. In such cases, the Central and State Governments could provide reimbursement after collecting GST.

This scheme of payment of GST and reimbursement from Central or State Governments can be administered by Finance Professionals who are well versed with Finance & Accounting and indirect taxation.

For Government: Finance Professionals with their knowledge on Finance & Accounting and indirect taxation can ensure following:
1. Taxpayers under GST need to submit periodical returns, in common format as far as possible, to both the CGST authority and to the concerned State GST authorities. All registered dealers to make the payment by electronically furnishing the return, which would be a combined monthly payment and return form for all intra-state and inter-state transactions.

2. CGST and SGST should be credited to the accounts of the Centre and States separately. Since CGST and SGST are to be treated separately, taxes paid against the CGST should be allowed against the payment of CGST. The same principle will be applicable for the SGST. Cross of utilization of ITC between the CGST and the SGST will not be allowed.

3. Full and immediate input credit should be allowed for tax paid (both CGST and SGST) on all purchases of capital goods in the year in which the capital goods are acquired. Similarly, any kind of transfer of the capital goods at a later stage should also attract GST liability like all other goods and services.

4. Small dealers with annual aggregate turnover of goods and services between Rs.10 lakh to Rs.40 lakh may be allowed to opt for a compounded levy of one percent each towards CGST and SGST. However, no input credit will be allowed against the compounded levy or purchases made from exempt dealers.

For Finance Professionals:

1. For practicing Finance Professionals there is immense potential in the form of tax compliance, filing of returns, interpretation of law, advising dealers about the correct procedure for availing ITC, annual audit etc.

2. There will be immense opportunities in the industry as they can ensure that all the complexity in GST can be understood and implemented in the industry where they are employed.

3. Under the GST, new sectors are likely to be covered like real estate sector, power sector, transportation by road, rail, air and sea which will have vast scope and opportunities.

The GST will be a word class model which will consist of the following:

1. The base should extend to all goods and service including immovable property

2. There should be a single low rate

3. The tax should be destination based

4. The tax should be designed on invoice-credit method

5. Full and immediate input tax credit in respect of capital goods

6. The GST must replace all transaction based taxes on goods and services and factors of production
7. There should be seamless flow of the tax through all stages of production and distribution so as to stock on "final" consumption

8. The exports should be zero rated and imports should be fully taxes

9. There should be a threshold exemption for small dealers

10. Full computerization of the compliance and administrative system GST will overcome all the present inefficiencies and inadequacies of the indirect taxes.

This will be a win situation for all the stake holders.

R Ganesh, AICWA

Recommended Read

- A walk through new GST forms
- Insolvency & Bankruptcy Code(Amendment)Act,2019 notified on MCA dated 09.08.2019