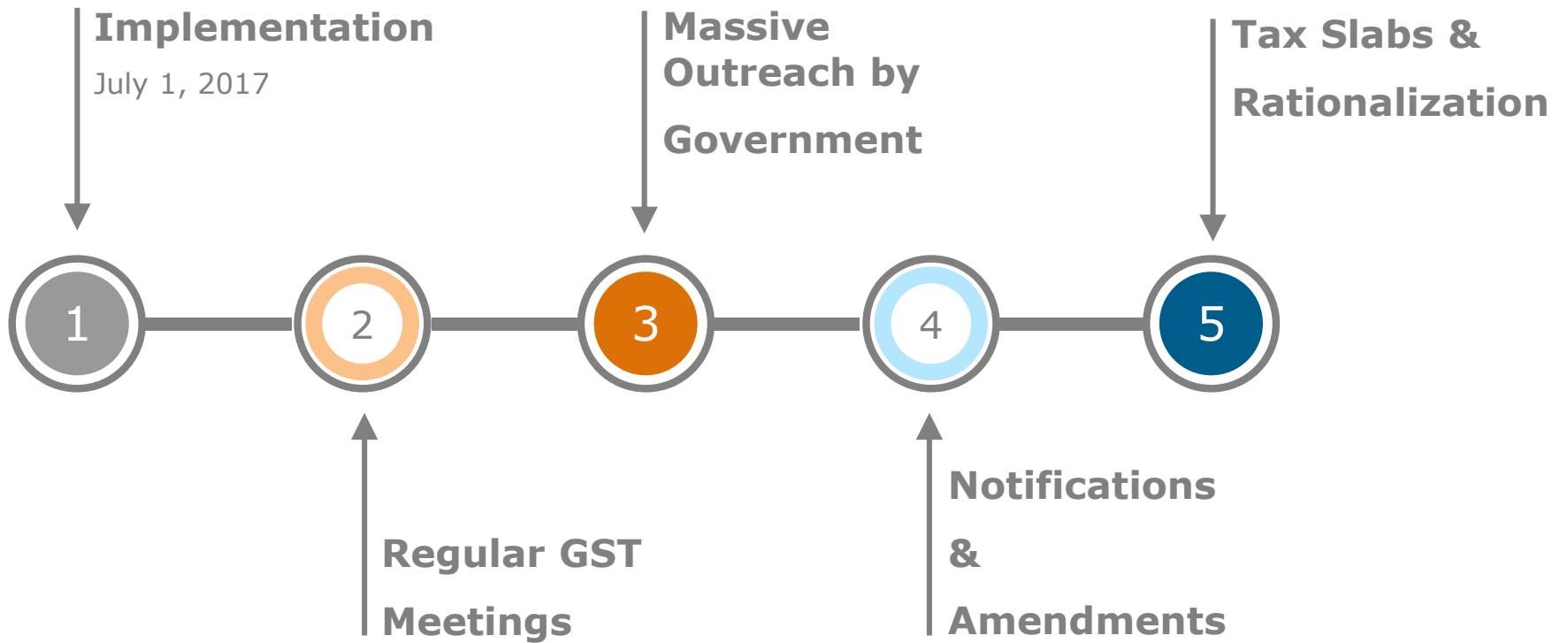




GST – CHALLENGES AND WHAT NEXT

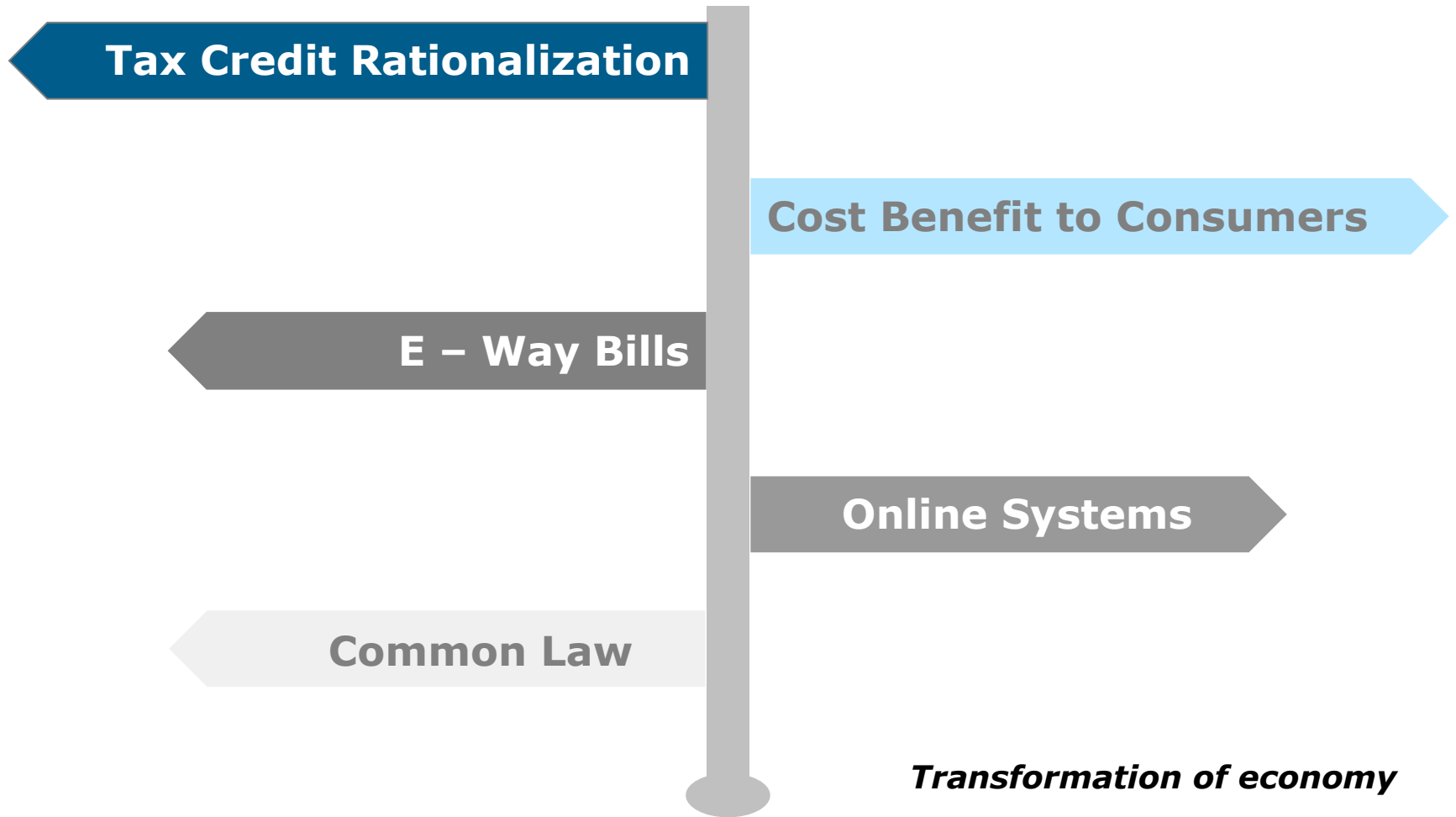
January 29, 2019

THE GST ROLL OUT

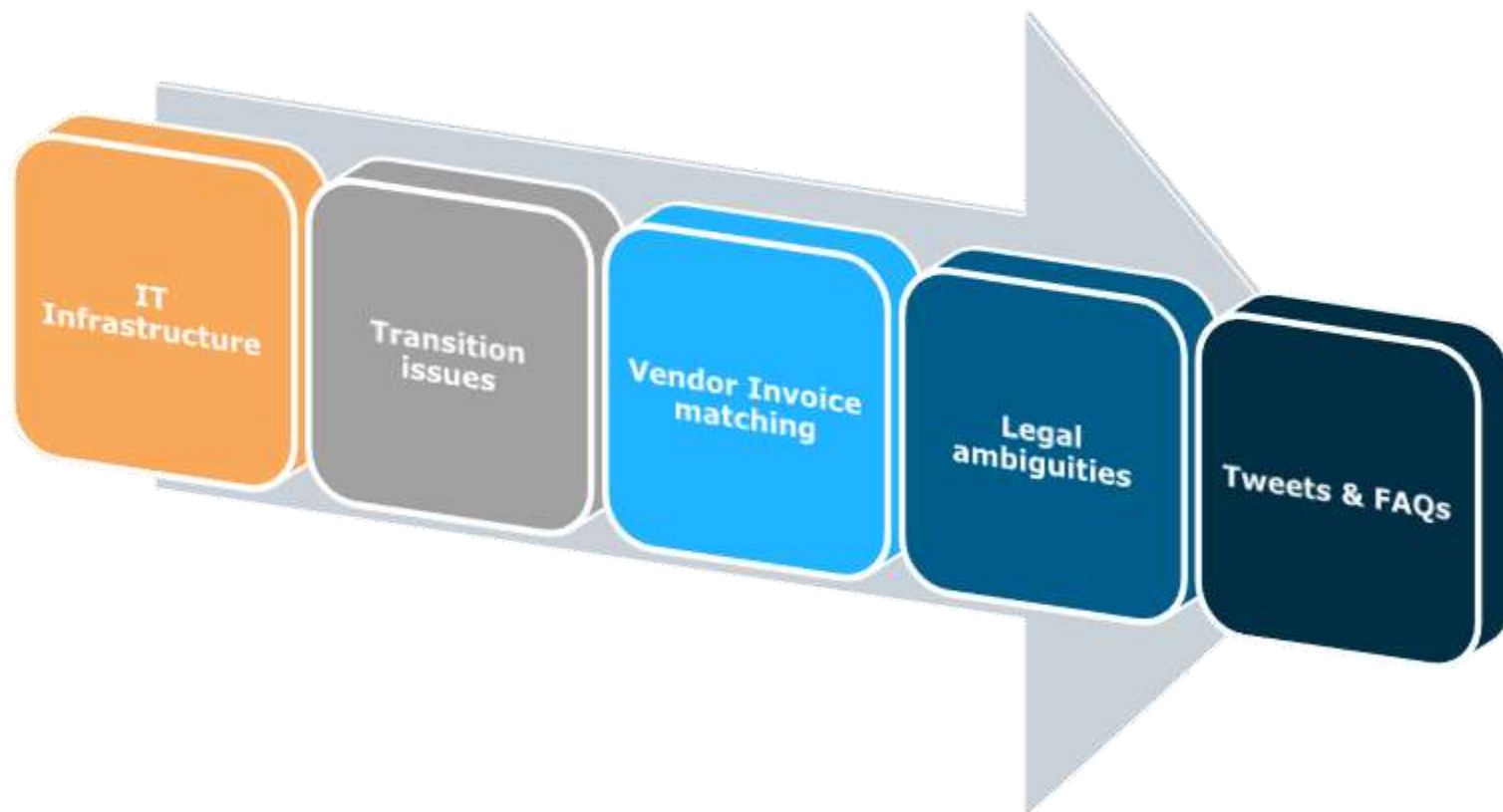


India GST – an evolution in progress

THE BENEFITS



THE SPEED BUMPS



Government pro-activeness and outreach helped

CHALLENGES & CONCERNS

Annual Return & Audit

Vendor reconciliation

Anti-profiteering

Advance Rulings

HSN classification

Valuation issues

Employer-Employee transactions

Distinct Establishments

E-commerce Operators

Dual taxation



CHALLENGES & CONCERNS

Will be the first closure for GST

1

Annual Return and Audit

- Online utility yet to be released
- Reconciliation of monthly returns with Annual return
- Data collation – additional requirements *viz. HSN wise summary of inward supplies, categorisation into inputs, input services and capital goods*
- Audited financial statements breakdown into each registration; further breakdown into Apr-Jun and July-March : *pre-GST and post-GST periods*
- Tax positions taken v. auditors' views and resultant liability determination
- IT platform challenges

CHALLENGES & CONCERNS

Critical process going forward

2

Vendor Reconciliation

- GSTR-2 – monthly return for vendor reconciliation kept on abeyance
- Continuous changes resulting in complex reco process
- Difficulties for smaller B2B vendors in adapting to new IT eco-system
- Credit mismatch results in exposure and enquiries
- Dual penalization due to vendor defaults

CHALLENGES & CONCERNS

Increase in litigation expected

3

Anti Profiteering

- No detailed guidelines from government
- Anti-profiteering rulings provide guidance to some issues – some not justified
- Most rulings on tax rate changes
- Ambiguities persisting:
 - ❖ *Transitional costs set-off*
 - ❖ *Documentation*
 - ❖ *Cost components to be considered – whether only at gross margin level*
 - ❖ *Allocation to individual consumers in case of input tax credit benefits*
 - ❖ *Service sector challenges – hourly charge reductions*
 - ❖ *Product level v. SKU level computations*
 - ❖ *Market drivers in MRP based products*
 - ❖ *Manufacturer responsible for retailer actions*

CHALLENGES & CONCERNS

Complex issues to be decided only upon adjudication

4

Advance Rulings

- Conflicting rulings by different State authorities
 - ✓ Valuation of tools & dies
 - ✓ Taxability of solar power panels
- Strait-jacketed rulings
 - ✓ Taxability of sales from duty free shops at airports
 - ✓ Taxability of sales from bonded warehouses
- Controversial rulings
 - ✓ Cross charge of common employees
 - ✓ IGST on intermediary services
 - ✓ Taxability of back office services provided to parent by subsidiary

CHALLENGES & CONCERNS

Should be rationalized and made harmonious with Customs

5

HSN Classification

- Due to multiple rate structure, classification becomes critical
- GST classification not harmonized with ICEGATE
- Exact nature of goods to determine appropriate tax rate and classification
- Disputes in works contract – composite v. mixed supplies

CHALLENGES & CONCERNS

Will resolve over time

6

Valuation Issues

- Valuation provisions framed ambiguously – *rehash of Excise, VAT and service tax provisions*
- Challenges in case of exempt supply *viz. penal interest, liquidated damages*
- Job work situations where tools/dies provided FoC
- Threshold based tax rate changes *viz. discount vouchers*
- Schedule I supplies – specified supplies without consideration

CHALLENGES & CONCERNS

Government should issue appropriate clarifications

7

Employer – Employee Transactions

- Supplies by employer to employee in tax net
- Identification and establishing relationship with employment
- Conflicting rulings on canteen services and basis of taxation (*outdoor catering v. restaurant services*)
- Various other expenses in course of business relating to employees v. personal consumption and denial of credit
 - ✓ Uniform expenses
 - ✓ Brokerage for residential accommodation
 - ✓ Education of children
 - ✓ Interest-free / subsidized interest loans

CHALLENGES & CONCERNS

Tax positions will need to be taken

8

Distinct Establishment Transactions

- Identification of specific supplies received by Head Office attributable to other offices
- Determining time of supply
- Valuation basis and working capital blockage
- Vendor payment condition for claim of tax credit v. Schedule I supply without consideration
- Common employees issue
- Procedural difficulties

CHALLENGES & CONCERNS

Ease of compliances should be brought in

9

E – Commerce Operator

- Multiple registrations in each State of operation
- Ambiguity where no third party vendors involved
- Working capital blockage
- TCS compliances additional
- Infrastructure challenges – being looked into by government

CHALLENGES & CONCERNS

Should ease as collections improve

10

Dual Taxation

- Blocked credits - not a seamless input tax credit chain
- Taxability of ocean freight on notional basis in case of CIF imports
- GST on TCS under Income Tax regulations *viz. scrap etc.*
- Exclusions from GST coverage

GOVERNMENT CONCERNS



WHAT TO EXPECT

