



GST: IMPLEMENTATION AND TRANSITIONAL ISSUES

CMA Ashok B Nawal
Mobile : 9890165001
Email : nawal@bizsolindia.com

No sooner political hurdles were out and consensus amongst the political party reach in the Rajya Sabha, 122nd Constitutional Amendment Bill, 16 states have immediately ratified 122nd Constitutional Amendment Bill and thereafter subsequent steps and actions, which has been taken by the Central Govt. really shows the seriousness and commitments to implement GST on the committed day, which can be seen from the following sequence of events:

- Assent by Hon. President of India
- Constitution (101st) Amendment Act, 2016 (incorporating provisions of 122nd Constitution amendment Bill) already notified on 8th September 2016
- GST Council already notified w.e.f. 12th September 2016
- Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, 16, 17, 18, 19 and 20 of the Constitution (101st) Amendment Act, 2016 has come into the force w.e.f. 16.09.2016
- Draft Rules for registration, invoicing, payment, refund and Returns put on public domain
- Revised Draft of Model GST Law has been put on Public Domain incorporating suggestions of various stake holders in the month of November 2016.

| Sr. No. | Date of Meeting | Details |
|-------------------------|--|---|
| 1 st Meeting | 22 nd & 23 rd September 2016 | Threshold limit, Compounding Scheme & issues of dual control. |
| 2 nd Meeting | 30 th September 2016 | Rules for registration, payments, returns, refunds & invoices |
| 3 rd Meeting | 18 th & 19 th October 2016 | Finalised the compensation formula for states |
| 4 th Meeting | 3 rd & 4 th November 2016 | 4 Tier Structure of Tax rates - 5%, 12%, 18% and 28% - additional cess for luxury and demerit goods – GST Compensation Cess |
| 5 th Meeting | 2 nd & 3 rd December 2016 | 9 Chapters of Model Law have been debated & approved |
| 6 th Meeting | 11 th December 2016 | Deliberated upto section 99 of the Model GST Law released in the public domain on 26 November 2016 |
| 7 th Meeting | 22 nd & 23 rd December 2016 | Approved provisions of Revised Draft Model CGST & SGST Law except for the provision of dual control for the dealers having turnover less than Rs. 1.5 Cr. |



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| Sr. No. | Date of Meeting | Details |
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| 8 th Meeting | 2 nd & 3 rd January 2017 | Approved Provisions of Revised Draft Model IGST Law except for the provision of dual control for the dealers having turnover less than Rs. 1.5 Cr. & applicability of IGST on High Sea Sale Transactions. |
| 9 th Meeting | 16 th January 2017 | Deliberation of above pending issues and resolved the issue of dual control in the ratio of 90:10 for turnover less than 1.5 Crores and 50:50 for turnover more than 1.5 Crores of State and Central Government. Similarly issue of taxing of High Sea Sale transaction has been resolved |
| 10 th Meeting | 18 th February 2017 | Finalisation of draft Model CGST, SGST & IGST Law and recommendations to the Central & State Government for putting these laws for approval of Parliament. |

GST Council is very serious in resolving all the issues and to implement GST in the nearest future. Meanwhile bureaucrats' panel (of states and the Centre) is working on "classification"—a comprehensive, if not exhaustive, list specifying the tax rate that each good and service will attract but in any case. Hon'ble Finance Minister has already stated that the broad view was that July 1 appears to be more realistic (date for rolling out GST). Since it is a transactional tax, it can be introduced at any time of the year.

All State Govt., VAT Officials and CBEC officials have been imparted training and further training on the software is expected to complete by 15th February 2017.

As far as infrastructure is concerned, there is a continuous monitoring from Hon. Finance Minister Arun Jaitely and PMO for creating the infrastructure through GSTN and Infosys. Further, Hon. Minister Nitin Gadkari have already announced to invest Rs. 4000/- Cr for revamping the check post for installation of scanners to avoid the transit delay and checking.

Why "Game Changer?"

- Single Tax with the same provisions as against Multiple Acts & Compliances and Returns
- Different Valuation basis



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- Different Adjudications
- No ambiguity under GST as against prevailing Service Tax & VAT in case of
 - Restaurant Services
 - Works Contract
 - Right to use of Movable goods
 - Software
 - IPR
- No ambiguity under GST as against prevailing Excise & Service tax for
 - Drawings and Designs
 - Software
 - Commissioning & Installation
- Change in Taxable Event in case of Excise: Taxable Event is Manufacture/ Deemed Manufacture now will be **"SUPPLY"**
- Different Valuation Mechanism: Production Capacity/ Transaction Value/ MRP in Excise and now same Valuation for CGST & SGST or IGST
- Same Exemptions for CGST & SGST or IGST as against different exemptions in Absolute & Conditional in VAT and Excise
- No Duty Exemption Zone - Uttaranchal/ Himachal Pradesh / J&K/ N&E
- Change in definition of services, place of supply, time of supply and valuation
- One Nation, One Tax.

In the GST regime, there will be no tax on tax or cascading effect and hence following taxes were part of the cost of production and cost of services and thereby there was increase in pricing level, whereas prices will go down in the GST regime for the following reasons:

Cascading effect of taxes:

- Tax on Tax
- SAD to Service Provider
- VAT Credit to Service Provider



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- VAT Retention for Stock Transfer and less credit for capital goods
- Cenvat Credit on Input Services to Trader
- Central Sales Tax
- Entry Tax
- Purchase Tax

In view of the above, the prices will come down and there will be less inflation provided all the stake holders pass the benefits which will reach to the ultimate consumer and that will be a real contribution for the nation building.

Steps to Implement GST by Trade and Industries:

- A. Understanding of Business Transactions in the changed scenario to find out the impact of GST:
- B. Classification of the transactions into specified w.r.t. Goods & Service & Place of provisions.
- C. Understanding of Flow Chart for enabling the change in business strategies with GST perspective:
 - i. Organization
 - ii. Material Movement – Prior manufacturing
 - iii. Material Movement – During manufacturing or for other purpose.
 - iv. Distribution Pattern – Post manufacturing
- D. Understanding functions of each Department at Macro & Micro level to assess the GST impact on their transactions and mapping them with existing Business Model.
- E. Understanding of warehousing & logistic model including depot, branches, stock level thereof for GST impact and restructuring thereof with the perspective of GST.
- F. Understanding distribution patterns till ultimate sale to consumer for GST impact and restructuring thereof.
- G. Understanding of suppliers - nature of goods, place of supply & present contractual terms for GST impact and restructuring thereof and benchmark the new rates in GST.
- H. Understanding service providers including contractors & contractual terms and place of supply for GST impact and restructuring thereof and benchmark the new rates in GST.
- I. Understanding of sales policy including schemes, discounts, return of goods for GST impact and restructuring thereof for changing the sales promotion and marketing strategies.



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- J. Crafting Business Strategies
 - i. Analyzing function wise GST leakages & liabilities form the existing business strategy.
 - ii. Finalizing new business strategies and continuous consultation with GST Core Group of the company (multifunction team).
- K. Contract Review
 - i. Finalizing revised terms & conditions in GST regime
 - ii. Finalizing amendment to the present POs during transition period
 - iii. Probable reduction in purchase price: A-Class vendors
- L. Transaction Restructuring w.r.t. existing ERP & proposed ERP with interface through GSTN
- M. Developing SOPs in each function of the Department including GST compliance
 - i. Finalizing Accounting Control for Tax Compliance and Tax Management.
 - ii. Mapping Transactions to ERP System.
- N. Preparedness for Transitional Period so as to avail transitional credit and not to lose any ITC (Cenvat Credit)
- O. Continuous Training at all levels.
 - i. Senior Level Team for decision making
 - ii. Middle Management for implementation
 - iii. Lower Management & Operating Team for documentation and compliances.

It is advisable to do all activities as mentioned above then only it can be stated Trade and Industry is also prepared not only to implement GST but reap the benefits of GST, which will enhance 1.5% growth of GDP and contribute to the nation building.

Trade and industry have to prepare for transition from existing tax regime to GST regime and attempt has been made to list out important areas to embrace GST in most desired manner.



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| DEPARTMENT | TRANSITION | GST REGIME |
|---|---|---|
| Material Inward / Material Handling / Dispatch Department / Warehouse | Ensuring proper recording of all receipts upto appointed day with zero pendency on daily basis to facilitate proper accounting and stock tacking Co-ordinate with ERP Team for changes required w.r.t. recording of receipts / outward deliveries | Timely recording of receipts and outward supplies on daily basis Generation of Tax invoices for outward supplies and preparation of challans for temporary removals Tracking and linking of goods returns w.r.t. prior appointed day transactions and post GST Transactions |
| Supply Chain / Purchase / Commercial | Revisit the procurement network considering the taxation impacts Revisit the warehouses / agents / branches / depots network for outward supplies and define a revised network Revisit contracts and contractual terms for receipts and supplies Draft revised contracts and PO terms Introduce Vendor Rating system Coordinate with stakeholders for the stocks with vendors / job workers / branches / depots Define SOPs for material movement | Ensure compliance with revised contracts Continuous Review and proper implementation of vendor rating system Monitor the functioning of the revised warehouse / agent network to tackle the business needs and changes Track and monitor the compliance of SOPs |
| Sales / Marketing | Revisit sales policy including schemes, discounts, return of goods for GST impact and restructuring thereof. | Review and monitor the revised sales policy to tackle the business needs and changes |
| Finance / Taxation | Ensuring Transitional credits are properly taken Ascertain the taxation impact on inward supplies / outward | Proper analysis of each transaction to ensure proper accounting and taxation |



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| | <p>supplies by undertaking transaction analysis Ascertain costing impact due to above and determine revision in prices Ascertain working capital impact and requirement of finance for the same Timely Issue of Forms as per existing VAT / CST Regime Define SOPs for retrieving data required for statutory compliances, all risks of losses and controls Define registrations required and obtain necessary registrations List down all pending litigations, proceedings along with status of the same to determine the impact</p> | <p>Work out the eligible credit and determine the reversals required if any Determine the tax to be deducted and ensure compliances thereto Tracking / monitoring the transitional transactions Proper payment of Taxes Statutory compliances - The vendor rating process will be in place and hence it is extremely critical to ensure compliance not only for statutory purpose but also business purpose</p> |
| Accounts | <p>Accounting of all invoices upto appointed day with zero pendency on daily basis Define revised chart of accounts considering the GST requirements Coordination with ERP team to facilitate updation in ERP</p> | <p>Timely recording on daily basis Pass accounting entries as per the new accounting head Facilitate reconciliation with Tax records w.r.t. balances of Cenvat / VAT Credit Facilitate Finance and Taxation team for easy reporting and reconciliation Accounts reconciliation and accounting of authorized adjustments by way of debit / credit note.</p> |
| Human Resource | <p>Revisit HR Policies w.r.t. recovery / reimbursements</p> | <p>Monitor the revised policies and impact on GST</p> |
| ERP | <p>Analyse the transactional impact to ERP and build changes accordingly</p> | <p>Track reports and review the transactions reporting Continuous automation and upgradation to meet the</p> |



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| | Define Data Points for GST Returns and Reconciliations in line with GSTN Facilitate system to enable auditing | change / correction requirement |
|--|--|---------------------------------|

Other Specific Issues – Transition:

- Identify Place of businesses and conduct feasibility for continuity of the same considering the GST transaction impact
- Recording of in transit transactions including receipts and removals along with respective credits / liabilities and Forms against sales / purchase in transit
- Determine Cut off balances for carry forward / reversals
- Stocks at various locations and tax impact considering continuity of registrations / change in registrations
- Revisit HR Policies and impact under GST
 - Awards to employees / Reimbursements to employees
 - Business Assets for personal purpose
 - Recovery from employees
 - Valuation of Benefits
 - Leave Encashment / Medical / Insurance
- Scripts in hand and endorsements required, if any
- Review of contracts with Suppliers / Customers / Job-workers / Consignment agents / Commission Agents / Contractors and determine revised terms
- Define Accounting changes and Revised Chart of accounts
- ERP updates / changes to accommodate the transitional transactions and transactions in GST scenario without impacting existing transactions - Compliance w.r.t. GST Requirements, Customised Reports required for uploading to GSTN, Return requirements, Auditing requirements
- Define GST Implementation and Coordination Team
- Training of team across the functions of the company w.r.t. new responsibilities, systems, processes, ERP changes, controls, reporting requirements
- Define SOPs for each transaction



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Section 163 of CGST and SGST Law (Revised Draft Model Law) provides

Quote :

163. Anti-profiteering Measure

(1) The Central Government may by law constitute an Authority, or entrust an existing Authority constituted under any law, to examine whether input tax credits availed by any registered taxable person or the reduction in the price on account of any reduction in the tax rate have actually resulted in a commensurate reduction in the price of the said goods and/or services supplied by him.

(2) The Authority referred to in sub-section (1) shall exercise such functions and have such powers, including those for imposition of penalty, as may be prescribed in cases where it finds that the price being charged has not been reduced as aforesaid.

Un Quote

In view of the aforesaid provision, it is mandate for each trade & industry to do the impact assessment and pass on the benefits to the consumer otherwise be liable for penalty.
