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GST Insight

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Coverage:

- GST News and Updates
- Is GST four tiered rate unconventional to the core principle of GST?
- Impact of GST on retail sector

Assembled & Edited by:

GST Team



AKGVG & Associates
Chartered Accountants

(Delhi | Gurgaon | Mumbai | Ahmedabad | Bangalore | Chennai)

Head Office: 307, Pearls Corporate, Mangalam Palace, Sector -3, Rohini,
New Delhi - 110085

Visit us on www.akvg.com

For more info:

E-mail us at info@akvg.com

Ph: +91 9811118031, +91 9818330516, +91 9818314719

GST UPDATES AND NEWS

GST at final stages, will bring more revenues into the system: FM Arun Jaitley

Source – The Financial Express
Date –27th January, 2017
[\(Click here to read more\)](#)

Going by Jaitley's speech at the CII Partnership Summit in Vishakhapatnam, the GST bill looks like it will become reality. Once the bill is passed there will only be a national-level central GST and a state-level GST spanning the entire value chain for all goods and services, with some exemptions.

"I am glad that almost all state governments have actively co-operated in making this a reality. **Most of the contentious issues have been sorted out** in the GST Council, a forum where you will see deliberative democracy in action. Those **are now at final stages of implementation**," Jaitley said.

FM assures taxmen, says GST will increase new professional opportunities

Source – The Times of India
Date –29th January, 2017
[\(Click here to read more\)](#)

The spate of decisions of the GST council has triggered worries among Indian Revenue Service (IRS) officers under the Central Board of Excise and Customs (CBEC), who feel their relevance will diminish once the ambitious tax reform measure is implemented later this year.

IRS officers under CBEC have been protesting against decisions of the GST council. They have also expressed concern over the Goods & Services Tax Network (GSTN), the entity set up to handle the IT systems of GST. The IRS officers say this function should be handed over to the CBEC which has the expertise to handle the mammoth data and maintain its secrecy. In an unusual move, CBEC chairman Najib Shah raised the issue of discontent in the IRS cadre with finance minister Arun Jaitley at the Customs Day function. Jaitley responded swiftly to Shah's concerns and **assured the taxmen that they had nothing to worry and implementation of GST will usher in several new opportunities.**

GST to benefit warehousing sector: Official

Source – Money Control
Date –30th January, 2017
[\(Click here to read more\)](#)

Implementation of GST will benefit warehousing sector with prevailing taxation issues in logistics and transportation expected to be streamlined, a senior official said. **Warehousing sector will see transformation to a next level as the GST regime would have preferential treatment towards this sector**, Nikhlesh Jha, Additional Secretary & Financial Advisor, Ministry of Consumer Affairs, said at a conference. Jha said that given its criticalities, the GST regime would be pro-actively supportive to logistics and warehousing. Speaking on the occasion, **Managing Director, Central Warehousing Corporation, Harpreet Singh said the government would create warehousing, cold storage with modern approach.**

Keep healthcare out of GST purview: Assocham

Source – The Economic Times

Date –25th January, 2017

[\(Click here to read more\)](#)

Healthcare sector should be kept outside the purview of Goods and Services Tax (GST) as it is likely to make medical care expensive and unaffordable for the common people, industry body Assocham said today. Healthcare is currently exempted from service tax and a similar dispensation should continue even after the implementation of the GST regime at least for 10 year. **According to Assocham-TechSci Research paper, the sector caters to the unmet health needs of the society and should be kept out of the purview of the GST or else medical care would become expensive and unaffordable for the common people.**

Budget can clear the air over input tax credit, unutilized education cess: Firstpost

Source – Firstpost

Date –28th January, 2017

[\(Click here to read more\)](#)

It is expected that in view of the impending GST implementation, the government may propose to refund the entire accumulated credit balance due to inverted duty structure instead of allowing the same to be carried forward indefinitely as this could further aggravate the working capital blockage under GST regime. In addition, usual changes in basic customs duty rates of certain goods, basis recommendations received from industry on account of providing impetus or level playing field, may also form part of indirect tax announcements.

Similarly, it is also expected that government may propose to amend rules related to refund of input credit in line with rules laid down under Model GST law making them rather time-bound and simple to ensure minimal blockage of working capital for exporters.

Is GST four tiered rate unconventional to the core principle of GST?

GST RATE PROPOSAL

POTENTIAL COVERAGE

0%

Items of basic needs illustratively, food grains

5%

Items of mass consumption

12%/ 18%

Pegged as standard rates – products for “lower middle class”

28%

Other products

28% plus cess

Luxury cars, aerated drinks, pan masala & tobacco products

A four-tier GST tax structure of 5%, 12%, 18% and 28%, with lower rates for essential items and the highest for luxury and demerit goods that would also attract an additional cess, was decided by the all- powerful GST Council on November 3, 2016. These rates has been fixed on the principle of **RNR**.

Revenue Neutral Rate(RNR)

In context of Goods and Services Tax India (GST), the **Revenue Neutral Rate(RNR)** is a rate of GST at which the amount of taxes currently collected by the government and the amount expected to be collected after GST remains the same.

Calculation of Revenue Neutral Rate

$$\text{Revenue Neutral Rate} = \frac{\text{Indirect Tax Collection}}{\text{Private Final Consumption Expenditure}}$$

The rationale for differential rates for good is driven by the desire to keep the rate lower for goods consumed by the masses and higher for those consumed by affluent sections of society.

Government's Stand
Multi-rate GST is inevitable:
Arun Jaitley

Source – The Times of India
Date –27th October, 2016
[\(Click here to read more\)](#)

Finance minister Arun Jaitley has strongly backed the **multiple rates for Goods & Services Tax**, saying it **is inevitable as different items used by different segments of society have to be taxed differently**. "Otherwise the GST would be regressive. Air conditioners and hawai chappals cannot be taxed at the same rate. **Total tax eventually collected has to be revenue neutral**," Jaitley said

Single GST rate, says it's easier to roll out: Vijay Kelkar

Source – The Economic Times
Date –29th January, 2017
[\(Click here to read more\)](#)

Former finance secretary Vijay Kelkar has backed a single rate for the Goods & Services Tax (GST) saying it would help the authorities administer it better before considering multiple rates.

It is better to first build a single-rate GST with a low GST rate, achieve full mastery of this, and only then consider more complex possibilities such as high rates, multiple rates etc," said Kelkar. A **panel set up by the 13th Finance Commission** under Kelkar had talked of a single GST rate of 12 per cent. It had said a substantially lower, uniform, and combined single rate of 12 per cent on all goods and services will reduce the economic distortion and the incentive to evade.

Four Tiered structure a "compromise": Morgan Stanley

Source – CNBC

Date –04th November, 2016

[\(Click here to read more\)](#)

Morgan Stanley, economists called the **four-tier structure a "compromise"** that went against the initial objects of a GST. "Looking at other countries' experience suggests that most have adopted a single tax rate when implementing GST." Singapore, for example, has a GST rate of 7 percent, while Australia's is set at 10 percent.

A differential rate of GST on services is a bad idea: Pratik Jain

Source – Hindustan Times

Date –27th January, 2017

[\(Click here to read more\)](#)

The simplicity of the tax system has to be one of the cornerstones of a successful GST. A multiple rate structure on goods compromises the system, having a similar rate structure for services will result in several more complications. **For goods, the differential rate structure is relatively easier. However, for services, this distinction is much more difficult.** For example, if restaurants attract a higher rate, then it will apply to all eating joints, which of course would be inflationary.

GST was proclaimed to be "one nation one tax" reform. But the introduction of four tiered rates seems to be a deviation from the proclamation, as opposed by several experts. Apart from this, there are several glitches in implementation of multi rated GST. For instance, a kirana store dealer will have multiple products under different slabs i.e. milk (0 rated), spices (5%), toothpaste (12-18%), cotton items (28%), pan masala (28% plus cess). Bread being a commodity of daily consumption may be exempt but other bakery products may be taxable at merit rate. Everyone is eying the next GST council meeting scheduled on 18th February, 2017 for on aftermaths of rate structure.

Impact of GST on Retail Sector

- With the implementation of GST three sectors will benefit the most: retail, FMCG and consumer companies and **logistics business**.
- In the **retail sector**, implementation means a seamless integration of goods and service transaction across the states. It will have benefit at different stages of the value chain.
- For **consumer products**, there could be tax savings on procurements on account of discontinuance of Central Sales tax, state entry taxes and reduction in non-creditable taxes such as excise duty and countervailing duty paid on traded products, VAT input tax retentions, CENVAT credit reversals on account of trading turnover.

Procurement of materials

- ✓ Movement of goods would **become less cumbersome**, which would open gates for more suppliers /vendors to merge.
- ✓ A wider base of distributors would be available as state boundary paper work will not be a hurdle, resulting to better access and low transportation costs.
- ✓ A favorable environment for a supply chain will reduce in transit inventory that will further **reduce the working capital requirement**.
- ✓ Simplified taxes & availability of input tax credits can also help **fetch better margins**.

Input Tax credit

- Rentals are one of the main costs of retailing industry and it attracts service tax at 14.5 per cent. Currently, the retailers cannot set off these costs like the other industries.
- Retail consider rentals as an additional cost of operating in this industry which is unfair to them. **Under GST, taxes on services would be available for set off against taxes on goods**. Thus, the retailers would be positively impacted.
- This is again one of the big advantages for the retail sector where certain taxes charged on supply of services say on rent payment for outlets (as discussed above), huge professional charges paid for various services like recruitment agency etc., will now be available as credit under GST.
- The duty payment made at the time of import (CVD+SAD) of goods will be available as tax credit under GST which was earlier a cost for the sector although refund of SAD was available subject to various restrictions, checks and balances.
- Overall GST would enhance availability of credits which would bring a positive impact for the sector.

Phasing out of CST will bring efficiency in supply chain

Under Current Regime:

Every company in the retail sector plans locations of its warehouses and branches in order to avoid cost of CST.

- Suppose if a retailer is located in Delhi and it procures material from a supplier in Maharashtra, then normally they prefer the route of stock transfer against F form to avoid CST although loss of retention is accepted overall.

Under GST Regime:

All inter-state supply of goods shall be subject to IGST which is a creditable tax.

- This availability of credit will give options to the sector to shut some of the locations which were just used to transfer goods from depot to outlets.
- Under proposed GST regime transfer of goods will be simpler with complete availability of tax credit.

Blockage of working capital in case of stock transfer

Under Current Regime: Stock was transferred between the offices of same entity on strength of F forms under CST law. This was a great planning tool for many companies to avoid CST cost in case goods are procured from other states.

Under the GST Regime: Interstate movement of goods will attract IGST even in case of same entity. Hence it will cause significant blockage of working capital.

Branch Transfer: The branch which is transferring goods to another branch of same entity, has to upfront pay the tax, whereas the receiver can book the credit and use this tax to pay his output GST liability in times to come.

What should be the assessable value in case of stock transfer from one branch to another?

As per Section 15, value of supply shall be “transaction value”. i.e., the price actually paid or payable for the supply of goods where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply. As per Section 15(4), where the value of the supply of goods or services cannot be determined under sub-section (1), the same shall be determined in such manner as may be prescribed.

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