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## COMPREHENDING GST

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AIGMF ANNUAL GENERAL MEETING

| 12 SEPTEMBER 2015

Bengaluru

Kolkata

Mumbai

New Delhi



## WHY CARE ABOUT GST



Transaction taxes cause an incremental burden on cost of product or services (**30% on goods and 20% on services**)



Optimization - Critical to gain competitive advantage & augment bottom line



Good & Service tax (GST) - significant opportunity to revamp the supply chain & gain competitive edge



Tax efficient supply chain is also operationally the most efficient



## THE NEED FOR GST

Multiplicity of levies

Excise, Service tax, CST, VAT, Entry tax

Excessive Compliance

Multiple filings, state reconciliations

Cascading Effect

Embedded costs due to lack of cross credits

Narrow Tax Base

High rate & narrow base

Systemic Inequities

Exemptions & rate arbitrage within states



## WHAT IS GST

- A Creation of a common Indian market through unification of taxation on goods and services
- B Levied on value addition at each stage of "supply"
- C Consumption based tax
- D Seamless credit chain



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## DECODING THE STRUCTURE

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# STRUCTURE - TAXES TO BE SUBSUMED



- Excise duty
- Additional Excise duty
- Excise duty on medicines & toiletries
- Service tax
- Countervailing duty
- Special Additional duty
- Surcharges & cesses
- Excise duty on tobacco products
- Excise duty on petroleum products

- Value Added tax
- Entertainment tax
- Luxury Tax
- Taxes on lottery, betting & gambling
- State cesses & surcharges
- Entry tax
- State Excise on alcohol
- VAT on petroleum products
- Entertainment tax levied by local bodies
- Stamp duty
- Regulatory & Environmental taxes, e.g. vehicles tax



## PROPOSED STRUCTURE

Inter State Supplies

IGST = [CGST + SGST]

Intra State Supplies

[CGST ] + [SGST]

- Identical treatment of inter-state & intra-state supplies
- Uniform classification of goods & services
- Fewer exemptions unlike present system
- Automated compliances at central & state level
- Export supplies including those to SEZ "Zero rated"



## KEY FEATURES TO NOTE

CONSUMPTION TAX	Ultimate consumer to bear the tax burden  Zero rated exports & SEZ supplies
INTER-STATE TRANSACTION	IGST to apply  Stock transfer to be treated as sale under deeming fiction
TAX JURISDICTION FOR SERVICES	Rules being framed to determine place/ time of supply
SEAMLESS CREDIT OF INPUT TAX	No Cross Credit allowed b/w CGST & SGST  Threshold exemption projected at INR 10 lakhs





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## IMPACT ON BUSINESS

Bengaluru

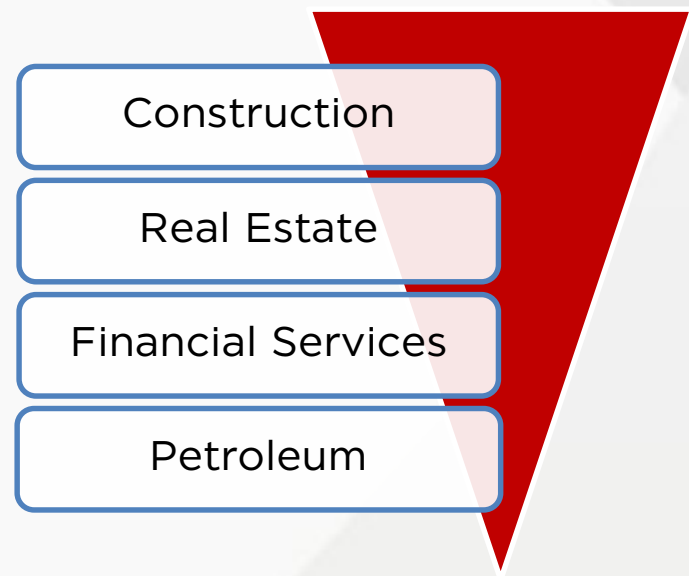
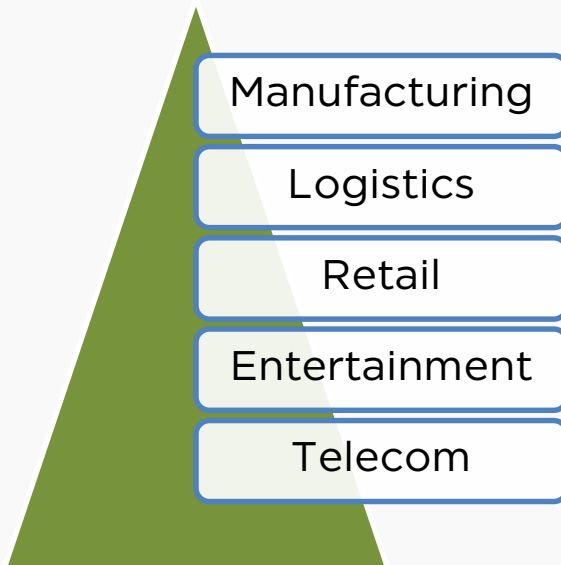
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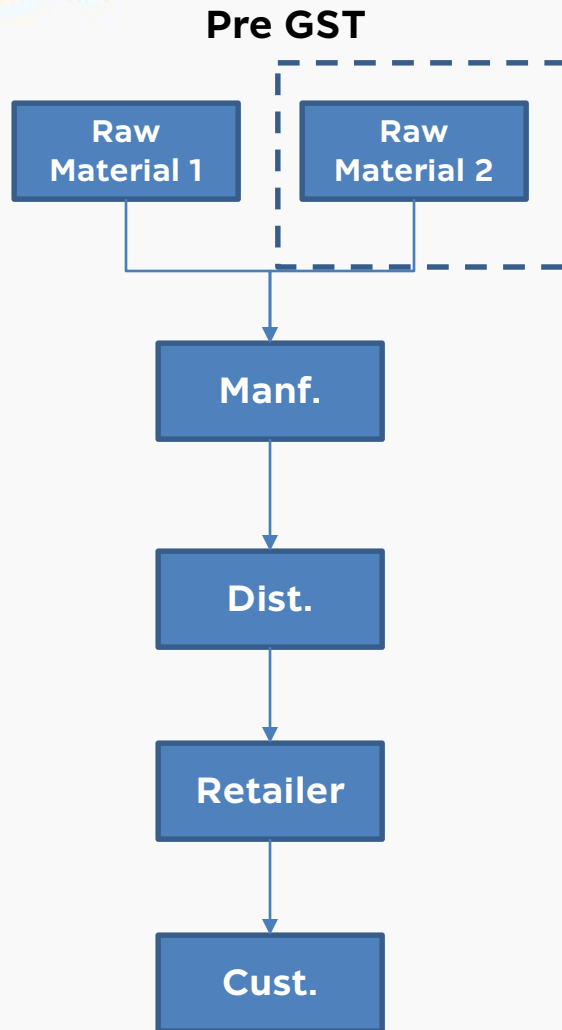


## SECTOR PROFILING FOR GST





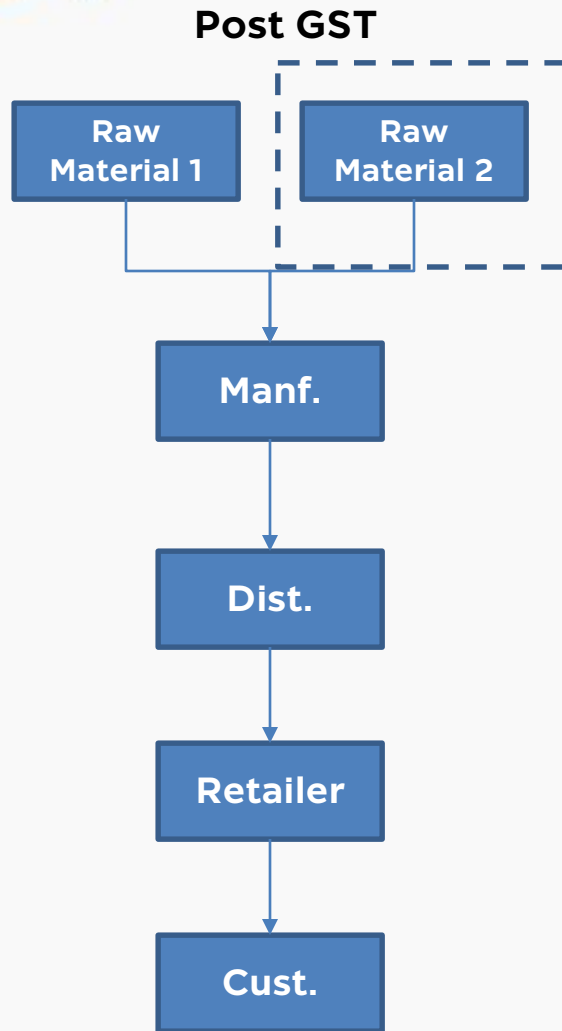
# VALUE CHAIN - IMPACT ANALYSIS



	Vendor 1	Vendor 2	Manufacturer	Distributor	Retailer
Cost	₹ 100	₹ 100	₹ 222	₹ 275	₹ 303
Margin	₹ 10	₹ 10	₹ 22	₹ 28	₹ 30
ED	₹ 14	₹ 14	₹ 31	₹ 0	₹ 0
VAT	₹ 6	₹ 0	₹ 34	₹ 38	₹ 42
CST	₹ 0	₹ 2	₹ 0	₹ 0	₹ 0
Total	₹ 110	₹ 112	₹ 275	₹ 303	₹ 375



# VALUE CHAIN - IMPACT ANALYSIS

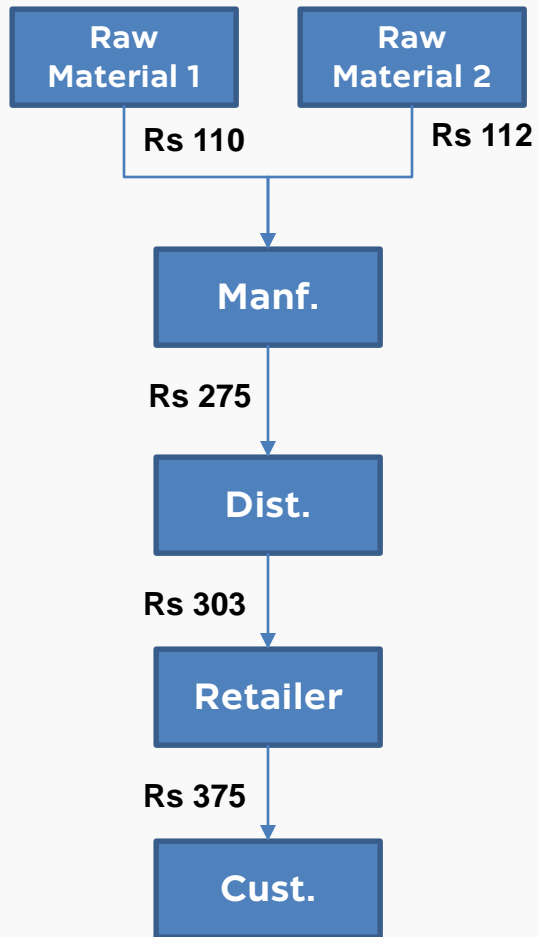


	Vendor 1	Vendor 2	Manufacturer	Distributor	Retailer
Cost	₹ 100	₹ 100	₹ 220	₹ 242	₹ 266
Margin	₹ 10	₹ 10	₹ 22	₹ 24	₹ 27
GST	₹ 18	₹ 18	₹ 39	₹ 43	₹ 47
Total	₹ 110	₹ 110	₹ 242	₹ 266	₹ 340

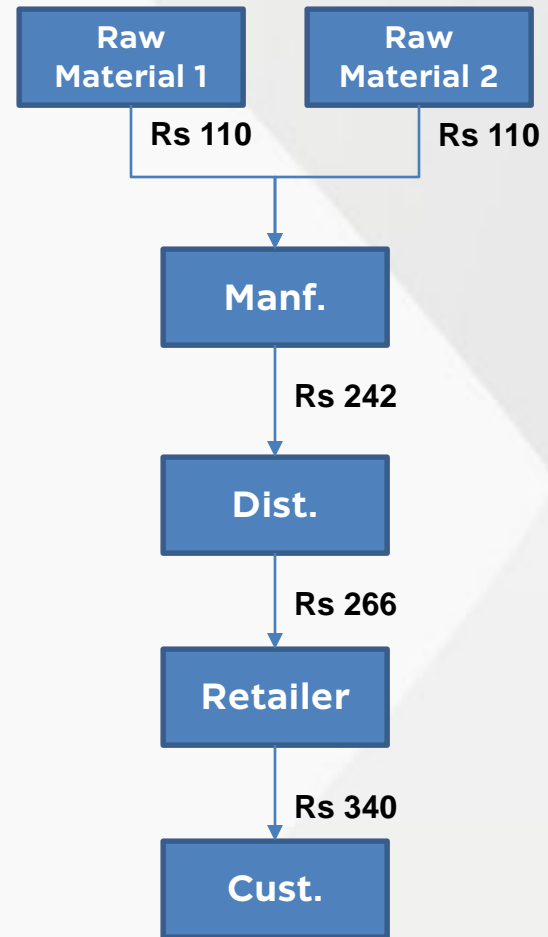


# VALUE CHAIN - IMPACT ANALYSIS

## Pre GST



## Post GST





## SUPPLY & DISTRIBUTION IMPACT



- Multiple warehouses / depots
- More vehicles- smaller distance
- Regional/ local players entrenched
- More Compliance



- Hub and spoke model
- Small warehouses to get replaced by large hubs
- Fleet realignment
- Reduced compliance
- Less reliance on small/ regional transporters



# CHALLENGES FOR BUSINESS

## HIGH LEVEL CHALLENGES

- Compliance transition
- Restructuring supply chain model
- Exemptions
- Price adjustments for MRP items
- Accounting treatment
- Educating executive staff

## EXECUTION CHALLENGES

- Treatment of returned goods
- Alignment of vendor payments vis-à-vis credit availment
- Resolution of bottlenecks
- Reverse charge
- Special arrangements like bill to ship to



## GREY AREAS



Revenue Neutral Rate (RNR) may be high enough to add to inflation and loss of demand



Flexibility to states in fixing the rate within a narrow band



Proposed non-creditable additional tax of 1% would cause significant disruption in value chain planning under GST





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**ARE YOU READY?**

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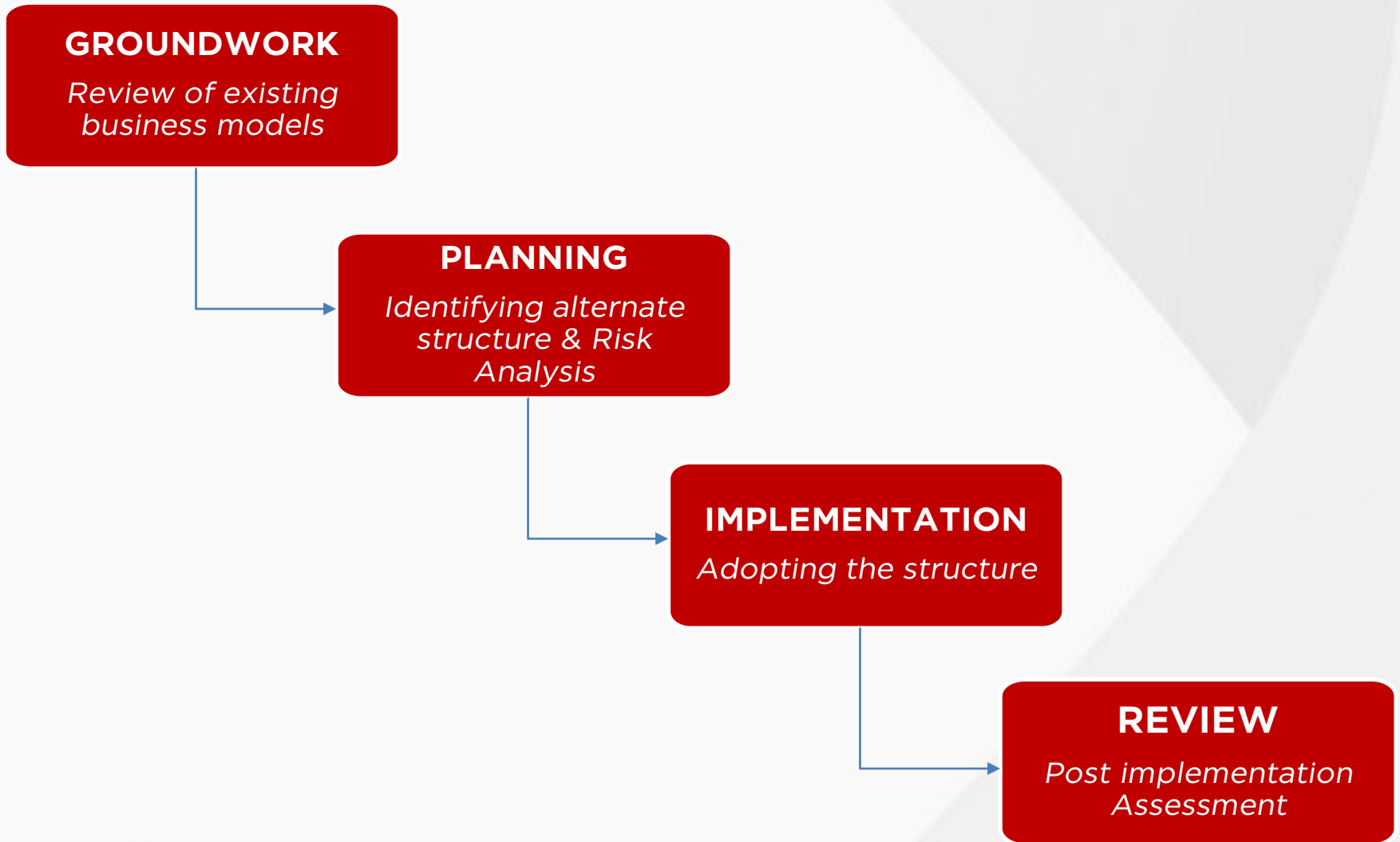
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# PATH TO PREPAREDNESS





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