

GST Newsletter

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The Empowered Committee of State Finance Ministers on VAT/ GST met on August 22, 2009 for a detailed discussion on the GST structure. In particular, they discussed issues relating to the list of exempted items, threshold limits, the rates of the State GST and the manner of taxation of inter-state transactions of goods and services.

The three Working Groups in the EC working on the GST rates, list of exempted commodities and phase-out of the central sales tax also submitted their reports.

The EC is expected to meet again in early September to finalize the modalities of the dual GST and its rate structure.

(FE Bureau, August 23, 2009)

The Chairman of the Empowered Committee of State Finance Ministers on VAT/ GST, Dr. Asim Dasgupta said that a Constitutional amendment will be required for the introduction of a dual GST system in India. A working group is expected to parallelly look into this issue.

According to sources, a task force under the M. M. Punchi Commission on Centre-State ties is looking into the Constitutional amendments required for introduction of the dual GST.

(Business Line Bureau, August 22, 2009)

News

The Finance Minister, Mr. Pranab Mukherjee expressed confidence that the GST would be implemented from April 1, 2010. He stated that the Centre is in conversation with all the States to sort out the various issues so that the deadline can be met.

Mr. C Rangarajan, Chairman of the Prime Minister's Economic Advisory Council however added there was a host of technical issues involved in the implementation of the GST such as creation of data bank for inter-state transactions, which needed to be sorted out.

The implementation of the GST, tipped to be one of the biggest tax reforms in India, is expected to play a key role in the country's bid to get back into the 9% growth trajectory.

(ET Bureau, August 26, 2009)

The Gujarat State Government has demanded an open public discussion on the GST proposed to be implemented from April, 2010. Mr. Saurabh Patel, Minister of State for Finance & Industry, has demanded that the Centre should provide the GST white paper in public domain for an open discussion. He also said that the various States have also demanded open debate on many crucial issues such as the rate of GST, exemption categorization of products, monitoring of movement of inter-state goods etc.

(DNA Bureau, August 26, 2009)

The Chairman of the Empowered Committee of State Finance Ministers on VAT/ GST, Dr. Asim Dasgupta said that the EC is likely to finalize the list of exempted items in the first week of October. He also said that the EC has largely resolved the differences over the new GST regime and most States have come around to accepting the introduction of GST.

(domain-b.com)

According to sources, the 13th Finance Commission chaired by Dr. Vijay Kelkar, tasked with dividing tax revenues between the Centre and States, has been given three more months till December end to submit its report. The Commission is supposed to make allocations between the Centre and each State, assuming the implications of the new dual GST regime that will rewrite the division of the indirect tax corpus of close to Rs. 2,70, 000 Crore.

(FE Bureau, September 02, 2009)

News

The Finance Minister, Mr. Pranab Mukherjee inaugurated the all-India annual conference of the Chief Commissioners and the Directors General of Customs and Central Excise, to discuss amongst other matters, the administrative issues and the preparedness of the Revenue Department on the implementation of GST. The Finance Minister, in his inaugural speech, said that the contours of administering GST would be soon made available to the Department. He expressed confidence that CBEC will be well prepared to meet the challenges arising out of introduction of GST and the Chief Commissioners would ensure its smooth implementation.

(Press Information Bureau, September 08, 2009)

The Finance Minister, Mr. Pranab Mukherjee is slated to discuss the progress regarding the introduction of the dual GST system with the State Finance Ministers' on September 16, 2009. He also said that inspite of a 28 per cent fall in indirect tax collections till July 2009, the Centre had no exit strategy for incentives granted under the stimulus packages.

(Business Standard Bureau, September 09, 2009)



Supply Chains & GST



The dual GST is an inflexion point in India's fiscal landscape. It marks a transition from the existing origin based taxation regime to a destination based taxation regime. Introduction of dual GST is expected to remove the cascading effect of taxes by moving to a common tax base and subsuming of various Central and State level levies into Central Goods and Services Tax ('CGST') and State Goods and Services Tax ('SGST').

Supply Chains are impacted by several forces, some intrinsic to the organization, some market specific and some fiscal in nature.

Fiscal costs have remained a key determinant of supply chains in India with manufacturing bases and distribution networks engineered to harness fiscal benefits. Availability of tax exemptions/ deferrals and the differential tax considerations across various geographical locations have been one of the vital determinants for structuring of supply chains, procurement patterns and distribution networks.

The introduction of dual GST would significantly impact the procurement patterns, supply chains and the distribution networks. The dual GST presents both challenges and opportunities for corporates.

Supply Chains & GST

Current Issues & Concerns

The existing indirect tax regime has the following complex characteristics, all of which impact supply chains negatively:

- Irrecoverable tax costs due to State barriers – Central Sales Tax ('CST')
- Cascading effect of taxes
- Complex compliance requirements – Statutory Forms such as C, F etc.
- Entry barriers at State borders
 - longer transportation time
 - increased compliance costs
 - hindrance to free inter-State movement of goods
- Local levies such as Entry tax, Octroi, Cess
- Increased cost of compliance with multiple taxes and multiple regulations

All of these add to the cost of doing business in India.



Supply Chains & GST

Opportunities & Challenges



The dual GST would foster a single market by subsuming various Central and State level taxes into the CGST and the SGST respectively. With a common tax base, common tax rates and uniform classification of goods and services across various States, some of the present deficiencies under the current tax regime would stand addressed.

More importantly however, the dual GST will apply uniformly on all supplies of goods and services throughout the supply chain. Consequently, the Central GST, which was hitherto limited to the manufacturing stage, will now be applicable throughout the chain subject of course to turnover thresholds below which the tax will not apply at all. Similarly, the States which hitherto had not taxed services at all would now tax services throughout the chain. Further, under the GST, the erstwhile taxable events of manufacture and sale of goods will no longer be in force and will be replaced by the taxable event of supplies of goods and services. Consequently, supplies of goods not amounting to either manufacture or sale thereof will be charged to the dual GST. This has significant implications for inter-State branch transfers / stock transfers primarily, since the supply rules are expected to cover such inter-State movement of goods. The point that the CST will be abolished / discontinued is equally important from a supply chain configuration standpoint. All of these changes would result in major implications for companies as to how they might engineer their supply chains so as to be GST efficient. It is probably fair to suggest that the longer the supply chain, the more the tax points in the GST scheme of things and hence increased compliance costs. The challenge and the opportunity is to thus compress supply chains for GST efficiency while ensuring that the business objectives in and around supply chains are also met.

Supply Chains & GST

Opportunities & Challenges

The dual GST consequently affords companies significant opportunities for realignment of procurement, manufacturing and distribution / sales patterns and to engineer their supply chains on purely economic considerations as opposed to fiscal considerations. To use a truism, companies will henceforth need to manage physical supply chains and no longer fiscal supply chains. A full scale comprehensive GST assessment study on a company's supply chain will hence bring forth significant benefits.

Supply Chains & GST Way Forward



The dual GST will consequentially give rise to several challenges; some of them being short term & non-recurring in nature and others being long term and recurring in nature, having significant implications for companies. The optimization of the impact of the dual GST would require revisiting the supply chain and the business model in a very fundamental sense.

Some of the options around reengineering the supply chain would relate to the following:-

- Indigenous supplies vs Imports;
- Intra-State vs Inter-State procurement of goods and services;
- Manufacturing/ Service/ Warehousing & Stocking locations;
- In-house vs. Contract manufacturing;
- Direct sales vs. stock transfers;
- Cost sharing arrangements

Based on the information available around the structure of dual GST, the potential issues and areas of impact for a particular company could be identified and thereafter a detailed mapping of the 'as is' supply chain and the associated current tax costs would be done. Thereafter, the impact of the dual GST on this 'as is' model could be worked out and alternatives/options could be developed for changes in the supply chain/business model in order to ensure that both the supply chain as well as the business model are GST efficient.

The time is therefore opportune for companies to gear up and to face the challenges as also to seize the opportunities that the transition from the present tax system to the dual GST would throw up. The time to act is now!



Contacts

Click on each PricewaterhouseCoopers contact name to contact them directly via email

Delhi

[S. Madhavan](#) / [R. Muralidharan](#) / [Rahul Renavikar](#)
Ph: +91(124) 3050000/ 4630000

Mumbai

[Sachin Menon](#) / [Prasad Paranjape](#) / [Santosh Dalvi](#) /
[Subhasis Banerjee](#)
Tel: +91 (22) 6689 1000

Kolkata

[Somnath Ballav](#) / [Siladitya Sarkar](#)
Ph: +91(33) 2357 9100/ 3384 - 3390

Bangalore

[Indraneel Roy Chaudhury](#) / [Pramod Banthia](#)
Ph: +91(80) 4079 6000

Hyderabad

[Ashlesh Varma](#) / [N.V. Raman](#)
Ph: +91(40) 6624 6600

Chennai

[Jayant Jain](#) / [S. Ramachandran](#)
Ph: +91(44) 4228 5000

Pune

[Suresh Rohira](#) / [G.P Kawathekar](#)
Ph: +91(20) 4100 4444