
# Towards Goods & Services Tax in India: An Effective Approach to Transition

With significant changes on the anvil, planning and preparing for compliance to GST is an imperative

India Inc. has travelled a long way since the ideation of a flat, consumption-based Goods and Services Tax (GST) was first ushered in by the Government of India. A lot has been said about GST since then – that it would impact credit utilization, compliance, tax incidence, tax computation, payment and reporting. Obviously, GST will completely overhaul the current indirect tax structure and ultimately, the business processes associated. This will lead to a new era, with an ecosystem devoid of tax evasion, transfer pricing and value shifting.

At the onset, this single unified tax regime (GST), where the tax liability would be shared between the services and manufacturing industries, will provide the impetus for new paradigms of reforms in India. It will ideally set a level playing field for consumers, manufacturers and service providers, among others, across the country. By bringing in transparency and greater accountability for all participants of the Indian economy and by reducing the impact of tax on the cost of goods and services, GST will benefit the common man. GST would also ensure a level of stability as it is less susceptible to fluctuations. A neutral business landscape, minimal cascading of taxes, increased competitiveness and reduced cost of indigenously produced goods are some of the perceived direct benefits of the new broad-based indirect tax on business.

Doing business in India would be remarkably different with the proposed implementation of GST in April 2017. With significant changes on the anvil, planning and preparing for compliance to GST is an imperative. It demands gearing up with the best aligned practices: knowledge-wise, process-wise, and technology-wise.

# Impact of the game changing tax regime

Every constitutional amendment is broadly brought into action to institutionalize new reforms or measures for a larger cause. In this case (122nd amendment, GST), the expectation is more than just economic reforms, rather it is a revolutionary move towards a better future. These are the possible impacts that business practices would witness:

- Procurement across states will become more viable and additional duty components of customs will get subsumed; this would create opportunities for businesses to consider consolidation of suppliers/vendors
- The destination-based tax regime would warrant changes to the entire distribution framework, whilst reviewing alterations onto network structure and product flow models
- Tax savings brought forth due to GST would culminate into repricing of product(s), thereby triggering a rejig on margins and mark-ups
- Subsuming of major excise duty components could improve upon inventory cost(s), further building an enhanced cash flow to businesses

All the above events would ultimately trigger changes to accounting in the IT landscape in the areas of master data, supply chain transactions, system design and more prominently, on existing open transactions and balances. This would call for a robust mechanism of reconciliation for cut-off date data to be migrated efficiently, ensuring a smooth transition to GST.

Let's look at a typical supply chain scenario (see Figure 1) wherein a manufacturer sells his product(s) through a network of warehouses/depots, distributors and retailers across states in India. For easy reference, let's consider other logistics/landed costs to be nil and that the manufacturer is selling directly through a distributor/retailer across states.

### Current State: CST Sale to Distributor

| Transition Points | Landed Cost | Margin/ Mark-Up | Input VAT Cr. | Price Before Tax | VAT% | CST% | Total of Taxes | Final Price |
|---|---|---|---|---|---|---|---|---|
| Manufacturer | 1,000.00 | 50.00 | - | 1,050.00 | - | 2% | 21.00 | 1,071.00 |
| Warehouse/Depot | - | - | - | - | 0% | 0% | - | - |
| Distributor | 1,071.00 | 100.00 | - | 1,171.00 | 4% | 0% | 46.84 | 1,217.84 |
| Retailer | 1,217.84 | 80.00 | 46.84 | 1,251.00 | 4% | 0% | 50.04 | **1,301.04** |

MRP for the end Customer

### Future State: No CST, to become I-GST Sale

| Transition Points | Landed Cost | Margin/ Mark-Up | Input GST Cr. | Price Before Tax | GST% | Total of Taxes | Final Price |
|---|---|---|---|---|---|---|---|
| Manufacturer | 1,000.00 | 50.00 | - | 1,050.00 | 4% | 42.00 | 1,092.00 |
| Warehouse/Depot | - | - | - | - | 0% | - | - |
| Distributor | 1,092.00 | 100.00 | 42.00 | 1,150.00 | 4% | 46.00 | 1,196.00 |
| Retailer | 1,196.00 | 80.00 | 46.00 | 1,230.00 | 4% | 49.20 | **1,279.20** |

MRP for the end Customer

NOTE: Observe the impact on COGS and thereby the productivity inefficiencies of the current tax system

**Figure 1**: Supply Chain Scenario

# Are you ready for the change?

The Goods and Services Tax could well emerge as the most significant tax regime whilst replacing our complex Central and State indirect tax administration. This transition would require a synchronized effort from all aspects of business operations, including IT. Accordingly, businesses need to work towards –

- Preparing a transformation roadmap
- Thoughtfully re-aligning business processes towards the new tax regime
- Simultaneously, making changes to the IT landscape, including applications, to adapt to the proposed changes
- Finally, engaging in personnel trainings on new processes to ensure the change gets maneuvered smoothly

An effective transition should start with building awareness (see Figure 2: Roadmap to GST Compliance) and lead to effective implementation.

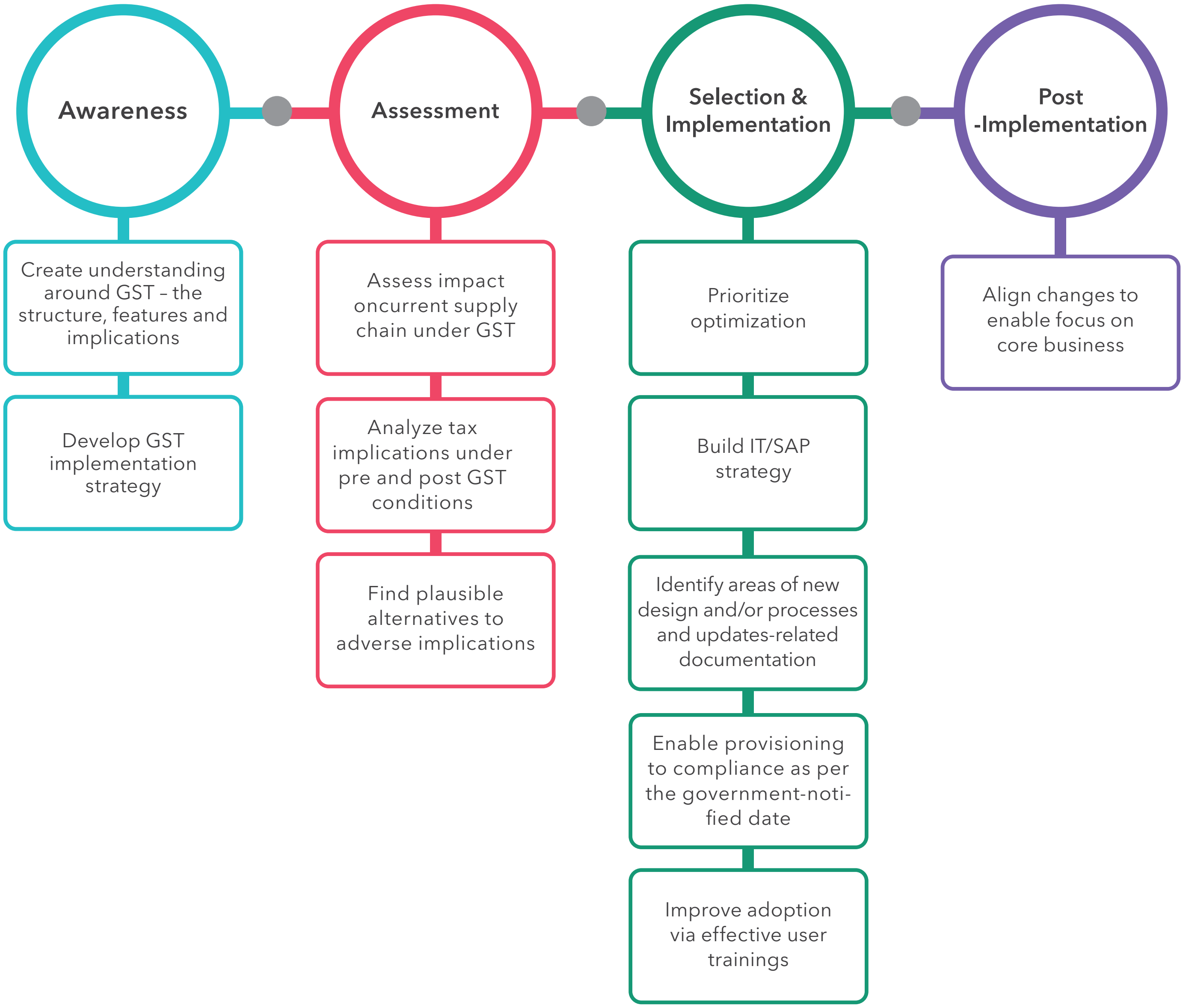


**Figure 2**: Roadmap to GST Compliance

The Assessment stage is the stepping stone for all enterprises in this transformation journey. Essentially, this entails review of relevant areas and indicates possible changes thereon. It includes:

**Process Evaluation:** Involves detailed study and analysis of supply chain

**Swift Adoption:** Upon implementation of the system-upgrades required for GST-readiness, an assessment can determine the level of user training that is required to ensure smooth business continuity

**Financial Efficacy:** Organizations need to take a fresh approach towards the taxation aspect of the finance function to drive efficiency, control and value

**Technology & Customization:** Impact assessment on the current SAP set-up will ensure systems are on the right versions (ECC/EHP/SP levels) and tax procedures are condition-based (from the earlier Formula-based methodology) with the required customizations. An assessment of business process impact and required master data changes like registration details, new GL codes, account determination, tax categories, tax codes, access sequences, condition records, item master, and customer/vendor master are essential

With the advent of the GST Bill (14th June 2016) in India, stakeholders, corporations, industries and business houses have set out on a transformation journey where time is of the essence as the target laid out (tentatively April 2017) looms closer. The road ahead is challenging; however, by being proactive and well-prepared, you can make this ride a comfortable one.

## About The Authors

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