



Topics to be covered in Detail

Act

Particulars

GST Act, 2017

- 1) Section 149 – Goods and Service Tax Compliances Rating**
- 2) Challenges in implementation of GST**
- 3) Opportunity for Chartered Accountants**



Goods and services tax compliance rating.

149. (1) Every registered person may be assigned a goods and services tax compliance rating score by the Government based on his record of compliance with the provisions of this Act.

(2) The goods and services tax compliance rating score may be determined on the basis of such parameters as may be prescribed.

(3) The goods and services tax compliance rating score may be updated at periodic intervals and intimated to the registered person and also placed in the public domain in such manner as may be prescribed.

Compliance Rating under GST

- GST proposes to bring in a new system of compliance rating score for every taxable person, based on the record of compliance with provisions of law. This score shall be determined on the basis of certain parameters such as timely furnishing of returns, accuracy of data furnished, timely payment of taxes, etc.
- The GST compliance rating score is somewhat similar to the concept of the Denied Entities List (DEL, earlier called 'Black List') under the provision of Rule 7 of the Foreign Trade (Regulation) Rules, 1993, wherein a total of 14 conditions have been described for invocation DEL before a company can be refused a license by the Directorate General of Foreign Trade.

The GST compliance rating score shall be updated at periodic intervals and intimated to the taxable person and also placed in the public domain. A prospective customer/client can view his supplier's GST compliance rating score and take appropriate decisions whether to deal with a particular supplier or not. It is therefore important for every taxable person to ensure adequate level of compliance, which will not only facilitate ease of doing his business, but will also have a bearing on his reputation.



GST-IMPLEMENTATION CHALLENGES

- Roll out GST
- Challenges from IT standpoint
- Migration Challenges.
- Challenges for SMEs
- Lack of Administrative infrastructure
- Drafting of GST legislature
- Acceptability of Change
- Vendors' consolidation and communication
- Anti-profiteering authority [Section 171, Central GST Bill, 2017]
- GST - Internet Link Issues
- Lesson from Different countries.



ROLL OUT OF GST

1

The long road to the implementation of the GST has finally ended on July 1, 2017 being achieved. The economic effects would be debatable as the views swing wildly between overt optimism and cautious pessimism. The GST involves a plethora of goods and services and tax rates and while the government has worked to ensure that it would be revenue neutral and inflation free in the medium term, the disruption in the short term could be significant. Further, it would still be hard to separate the tax effect from other factors when evaluating the impact on inflation or GDP.

The issues which would now be in focus are on the implementation side..

First, is the issue of the awareness of such a tax? While there has been a lot of effort put in by the government to educate the people about the shift-over of the tax system to GST. In GST there has to be continuous matching of payments and taxes for all members of the value chain for every participant in order to claim such benefits, it requires a robust IT system.

Second, given the monthly and annual filings to be done from each and every state where an enterprise operates, it is necessary to have the ERP system in place for all of them. While this would be seamless for the larger firms which operate from multiple state locations, the smaller ones would be challenged as they need to get this in place. Alternatively this has to be done separately in all locations which will add to the cost of compliance.

Third, the GST experts would be in demand due to various interpretations and will require professional advice.

Fourth, the GST software (GSTN) will stand the test of time because with all the RP filing their returns continuously on a monthly basis, systems to come under pressure.

Fifth, the apportioning of revenue to the states will be another area of interest. As the revenue flows on a monthly basis is important for all states there needs to be seamless movement of funds from the centre to the states and vice-versa or else there would be deficits in cash flows which get linked with expenditures.

Hence, the next few months will be very critical for the nation as the entire system adjusts to the new tax regime,



IT Challenges

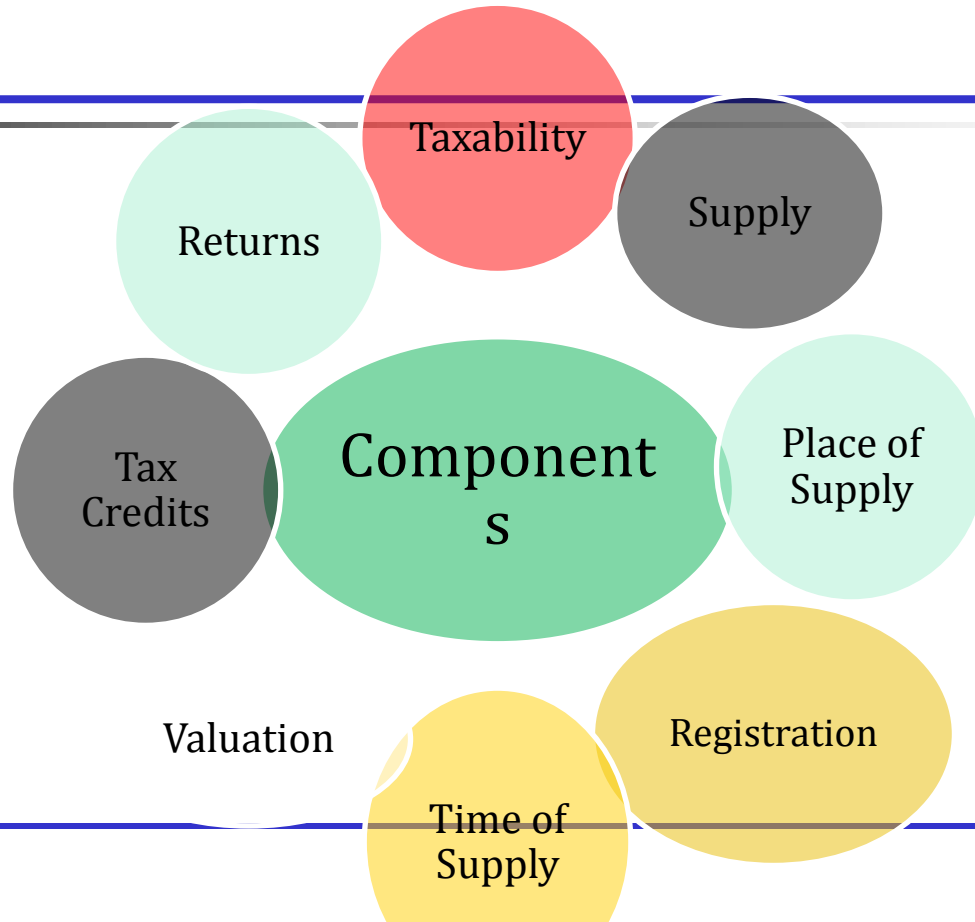
The software companies like SAP, Oracle, Tally etc. are started to roll out their GST patch sometime in April/May 2017.

→The common software by SAP, Oracle or Tally which will provide an interface with GSTN for GST compliances cannot cater to the needs of every business and it will require significant customization.


GST impact on ERP would need to customize their requirements and can be broadly classified into four broad buckets namely

- master data,
- configuration (which comprise of tax configuration & computation, document numbering etc.),
- reporting/printing requirements and
- defining roles and authorization

Critical Components of GST



Configuration

- 
-
- Way a software system is set up.
 - Methodical process of defining options in software.
 - Values for various parameters should be set up (configured)
 - Various modules of the enterprise such as Purchase, Sales, Inventory, Finance, User Access etc. have to be configured.
 - Defines how software will function and what menu options are displayed.
 - Some examples:
 - Mapping of accounts to front end transactions like purchase and sales
 - Control on parameters: Creation of Customer Type, Vendor Type, ...

Reports

- Periodically generated or on demand.
- Standard or ad hoc
- Used for monitoring the operations as also for tracking the performance or security.
- Some examples:
 - Balance Sheet, Profit and Loss, Receipt and Payments A/c
 - Sales Register
 - Purchase Register
 - Day Book
 - Debtors/Creditors Ledgers
 - Compliance Reports

GST to process as many as 4 billion invoices each month as it moves to roll out a landmark nationwide from July 1,2017 with the country's 8 million direct taxpayers required to file up to 37 tax returns in a year.

It's through this common GST portal that new users will register for the new tax system and existing taxpayers will migrate to file returns. However this is only the front end of the system. In the back end it will connect to all tax departments, which will also need to be upgraded to communicate with the GST system,

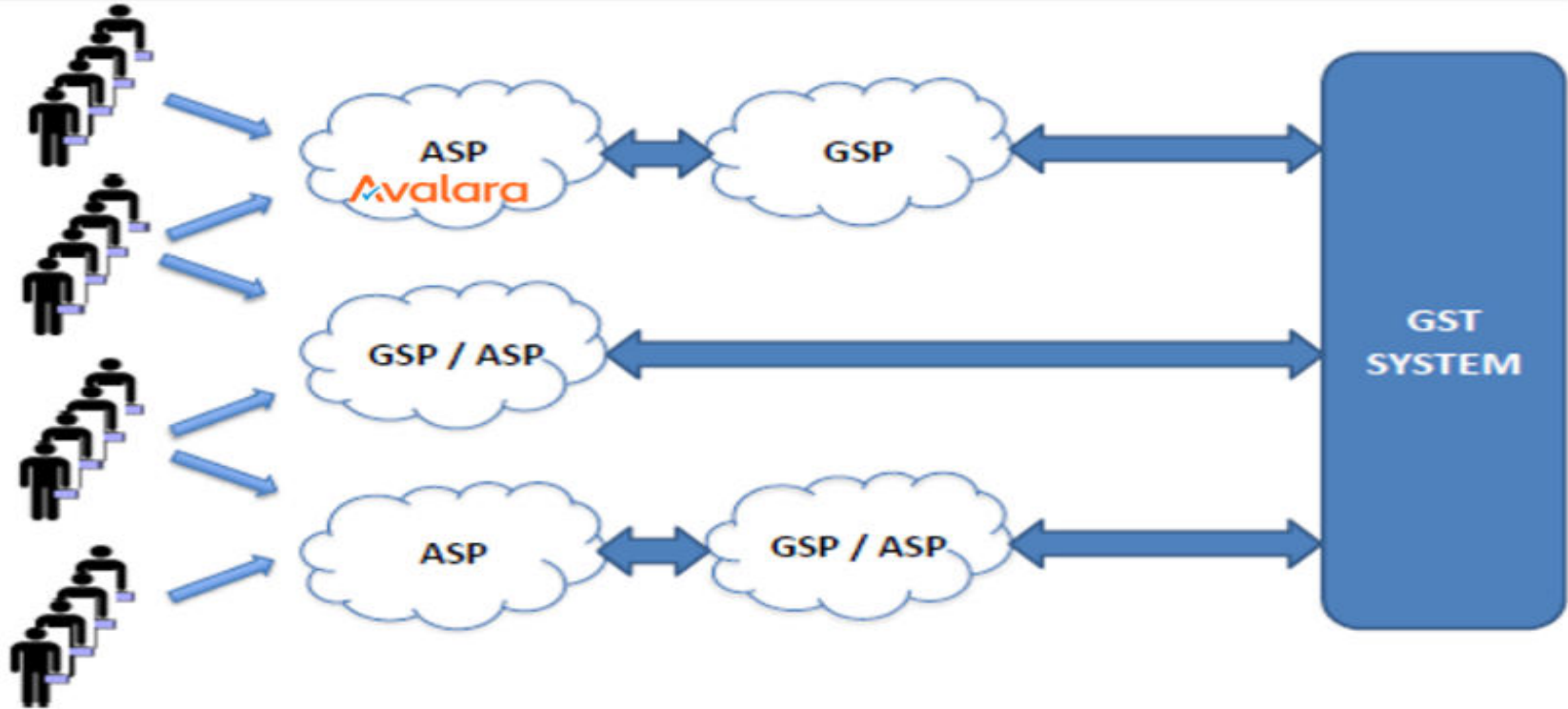
GSP Eco System



Taxpayers
(> 80 lakhs)

ASPs
(Hundreds)


GSPs
(34)



Migration Challenges



- Businesses have to migrate from the present value-added tax (VAT), service tax and central excise registration to a GST registration. However, it should be noted that those already registered under the GST portal can migrate.
- Fresh registrations started but lots of errors are reported on a day to day basis..
- GST will significantly enhance the dependence on the IT interface. While larger organizations are better equipped to overcome this hurdle, small and medium sized enterprises are struggling.

- 
-
- migration process is an additional task requiring new manpower and costs. Large businesses now have to ensure that not only them, but their vendors too are registered on the GST network.
 - key challenge while migrating because dealing with non-registered vendors would increase the compliance burden, affect ability to claim input tax credit and impact compliance ratings,
 - many companies may have to rework long-term contracts with customers and standardize them while migrating to GST.

Challenges for SMEs

What SMEs might be concerned about?

A large portion of small and medium enterprises (SMEs) are of the view that the GST is not entirely good for them and their worries might not be totally void. Decrease in duty limits is one of the primary concerns which have led them to be cautious of the Goods and Services Tax bill. Under the present excise tax regime, no duty is paid by a manufacturer with a gross turnover of less than Rs 1.50 crores. However, after GST implementation, this exemption limit would get considerably lowered to Rs 20 lakhs. Consequently, a large number of SMEs and start-ups would come under the purview of the GST tax.



Lack of Administrative infrastructure

GST requires huge administrative structure to be implemented in one stroke.

Centre government would require whole hearted participation from states.

Difference in existing infrastructure in various states may cause problems at implementation stages. Few states like Delhi, Maharashtra, Kerala are well equipped with technology and have their online administrative systems while states like Bihar, Uttar Pradesh, Sikkim lag behind and have to build their electronic infrastructure.



New GST legislature

Drafting a new law is never an easy job and to convert current indirect taxes and merge them into one is a quite challenging task.

New law will bring new issues and new challenges in its implementation.

Drafting would have to be performed very carefully and after a thorough analysis keeping in mind present issues faced by industries as well as consumers so that these can be avoided.



Acceptability of Change

Transitional phase is the most difficult one as old habits need to break down and new system is to be implemented.

Implementation of GST would not be a success until there is an acceptance from the people of the industries and consumers. Companies would be required to spend huge sums for easing of this transition phase.

GST staff of the central and state need to adopt the change and has to learn, relearn and unlearn the things with a positive attitude

Vendors' consolidation and communication

GST allows a seamless flow of credits. The seamless flow of credits is subject to vendors from whom goods/ services are procured shall be registered under GST. Being registered is not the only criteria. They shall also be required to comply with the compliance requirements of filing returns within due date

For example, A purchases goods from B worth INR 1000/- on which GST of INR 200/- is charged. In such a scenario, A shall be eligible to take credit of INR 200/- only if B records the same in his sales and uploads the return with correct details on GSTN. It is only then that A's account would reflect a credit of INR 200/- on account of purchases made from B. In case of no such reflection, A shall not be eligible to take credit of taxes paid on procurements from B.



Anti-Profiteering authority :

The authority will be responsible for ensuring that the reduction of tax rates on account of implementation of GST results in a commensurate reduction in prices.

It may be argued that this may allow the government to monitor and control prices of all goods and services, which may interfere with the idea of these prices being determined based on their demand and supply in the market.

Note that the price a good or service is dependent on a combination of factors, which include: (i) cost of inputs, (ii) technology used for production, (iii) tax rate, (iv) demand and supply of product, (v) consumer preferences and seasonal variations, (vi) competition in the market, and

(vii) distribution channels.

Since costs associated with these factors keep fluctuating, it may be difficult to determine if a reduction in tax rates has reflected in a commensurate decrease in price of goods or services. One concern could be that a company or a group of companies could collude together to rig prices; however, the Competition Commission of India has the jurisdiction to examine such cases and impose penalties



GST - Internet Link Issues

- GST implementation would be requiring a super speedy internet connectivity among all the GST server and the State VAT data center along with District VAT office and State VAT office as all the data processing of return filings will be done through online which also requires all the dealers to upload invoice-wise details online.
- The revenue secretary wanted the telecom secretary that a higher Department of Telecom official must be engaged to ensure the smooth connectivity of internet and “supervising the connectivity in North East and have all these complaints removed.” Co-ordination between different centre departments, between Central and the state and between the state government department is a challenge in itself

Lessons learnt from other countries



Inflation

Singapore saw a hike in inflation when it introduced GST in 1994. It makes it more important for Indian administrators to keep tabs on prices after implementation of GST India can consider what many countries did: initiate anti-profiteering measures at the retail level to protect consumers from price swindling.

Implementation

Lesson from Malaysia is that businesses need to start early with the implementation process to be GST-ready. The Malaysian Government received strong resentment even after providing 1.5 years for GST preparedness. Given the need for businesses to undergo a radical transformation to adapt to the complex GST regime, it would be quite challenging on the tentative implementation on 1st July 2017.

High tax rates

GST rates are typically between 16 per cent and 20 per cent worldwide. Lower rates can help bring down the tax evasion rates benefitting the economy in the long run. Singapore started with the lowest rate of 3% in the world in 1994 and gradually increased it to a maximum of 8% over the years..

SMEs and large organizations at par

The Indian GST places SMEs and large organizations at par by keeping the exemption threshold very low (Rs. 20lakhs) .

Although composition levy is available, there are many disadvantages such as no input tax credit, no taxable invoice which will deter many from availing such scheme.

Timely payment of input tax credit

Malaysia's GST implementation showed that timely payment of input tax credit refund is vital. Unless the necessary technology infrastructure is installed, it can take months to refund tax credits, thereby creating cash flow problems for all links in a supply chain.

In India, input tax credit will be available only when the supplier has filed his GST return.

Dual GST- more complications

Most countries have implemented ideal GST, with all indirect taxes grouped under one. India is going to implement dual GST with separate central and state component, which further complicates the process.



Conclusion

GST will be the biggest indirect tax/business reform this country has ever witnessed since independence and it will be giant step towards future.

The mere task of merging various indirect taxes into one is an achievement in itself. Despite its pitfalls, which can be rectified, it will be a game changer. GST will bring a positive impact on everyone be it Government, manufacturers, traders or common people. Basically, GST is nothing but an Indian business reform. To make it a success it is important that it is accepted by the people.