

Preparing for goods & service tax: challenges and issues

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For the industry, a transition into any new tax regime is usually fraught with several challenges and issues. While some of these are one time-short term issues, some others are long term and recurring and could have a lasting impact on the business.

With GST in the anvil, it would be prudent for the industry to identify and understand some of these potential issues. Such an understanding is imperative for timely implementation of measures to overcome these issues and avoid potential disruptions they could cause to the business.

In the context of GST or for that matter any new tax law, it is true that many of these issues can be identified and therefore tackled only in light of concrete information as regards the proposed law. Admittedly, as on date, we are not privy to the provisions of the proposed law.

However, based on the limited information presently available, there are some issues and areas of impact that can be identified/ shortlisted, even in the absence of a concrete GST legislation. Specifically, given the imminent introduction of GST, it would be prudent for the industry to, as a first step, prepare a checklist of these issues/ areas of potential impact based on the information presently available. Such a preparation would enable efficient and easy tackling of these issues as and when they arise, and timely implementation of measures to smoothen transition into the GST regime.

Firstly, we are aware that a significant change proposed to be ushered in by GST is the replacement of multiple state and central levies and a consolidation of the same into a Central/ State GST levy. Current levies in the form of excise duty (including countervailing duty and additional duties of custom), value added tax, central sales tax, service tax, entry tax etc are proposed to be subsumed under a single levy of State/ Central GST. Businesses could therefore start examining the current indirect tax costs and the possibility of mitigating some of these costs under the GST system.

When VAT was introduced a few years back, several companies reorganized their sourcing and distribution patterns in favour of local sales and purchases. Specifically, on the distribution side, reorganisation was initiated to embrace the concept of regional warehouses on account of non availability of CST credits. However with the imminent phasing out of CST and possible GST credits in respect of interstate transactions, whether the stock transfer and sell model would continue to be efficient under the GST regime is an issue that needs to be examined and addressed. In this regard, businesses many also need to factor in the cost inefficiencies associated with operating multiple warehouses across the country. Similarly, on the procurement front, the tax efficiency or otherwise of imports would need to be compared with that of domestic

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procurements. Further, businesses may have to re-work their pricing strategies by factoring in the changes in tax rates, tax costs, credit availability etc.

Also of relevance, in the context of the present discussion, is the recent press report that the states have agreed to implement a single GST rate across all products. This coupled with the earlier announcements that all transactions of goods and services would be concurrently taxed by the State and Centre leads us to another potential issue. In this regard, an important factor to bear in mind would be the working capital costs associated with paying a higher GST upfront on interstate purchases and then availing credit of the same vis-à-vis the present lower overall CST cost of 2 percent especially in trading operations.

GST impact assessment on any business would involve a simultaneous analysis of changes in tax rates vis-à-vis credit flows. Preparatory ground work could include collating historic procurement/ distribution data and the tax costs/ credits presently incurred by the business. This is likely to ensure easy population of the GST rates/ credits and inter-alia enable an efficient comparison of the present tax costs vs potential GST costs; thereby help analyze the potential GST impact and expedite employment of requisite measures to maximise the positive effects of GST.

Pertinently, a GST impact analysis could lead to implementation of measures that minimise tax costs, improve working capital efficiency, and more importantly, revise the product price. Needless to say, such an analysis and consequent downward revision in price could be crucial a business advantage given the current competitive market scenario.

Overall, there is little doubt that GST will have several advantages over the current indirect tax system in India, especially in terms of elimination of the cascading effects of several inbuilt tax/ duty costs. No doubt, a considerable quantum of preparatory work needs to be done to understand and analyse the potential GST impact and implement necessary changes to reap the potential benefits that the GST regime promises.

However, as the saying goes, "Well begun is half done", therefore, now is the time for India Inc to start gearing itself for a changeover into the GST fold and initiating requisite groundwork towards achieving a successful transition.

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