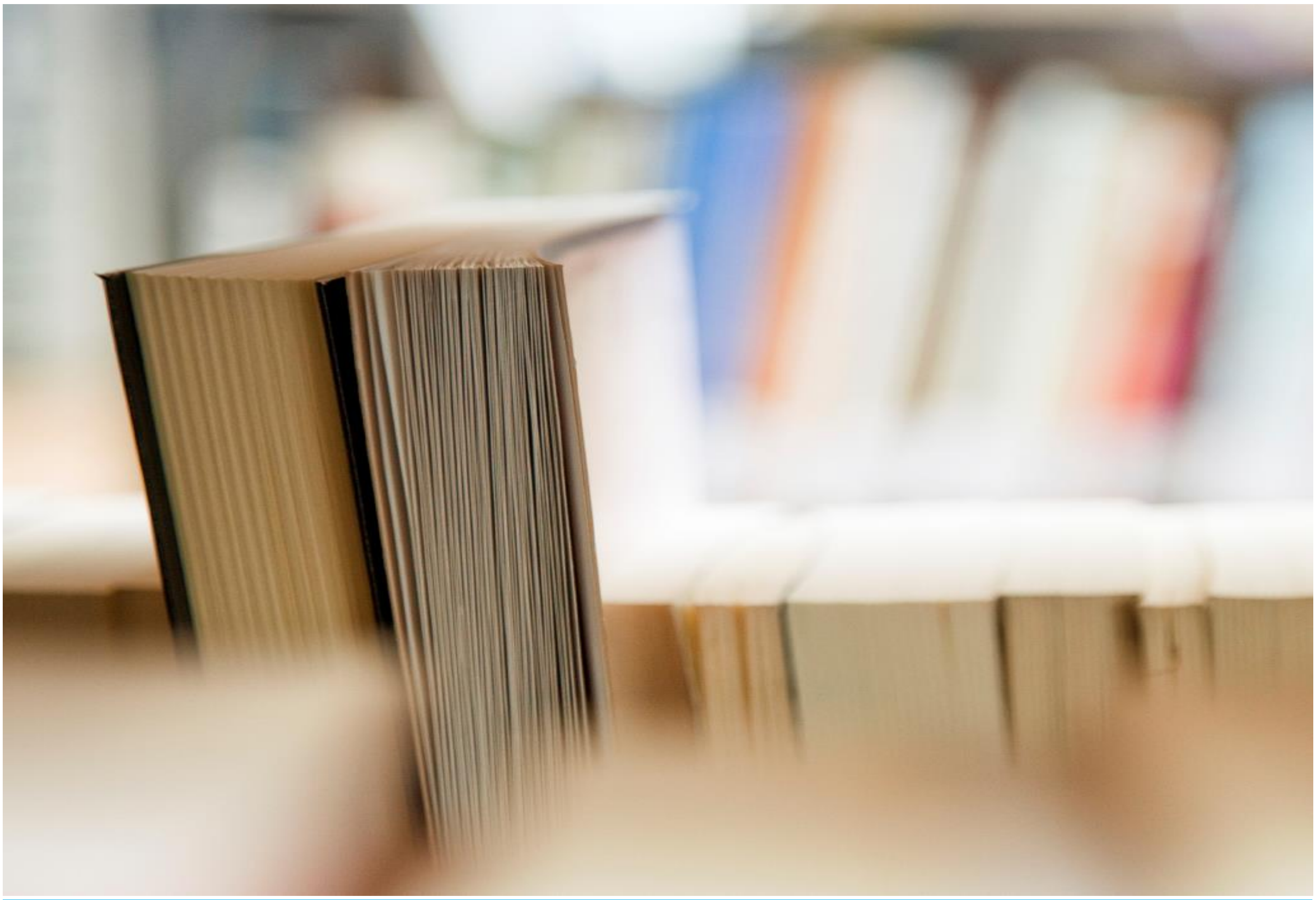


Bhutan GST
Things you must know!
CA Pritam Mahure

Book on proposed GST in Kingdom of Bhutan – Recommended in IMF Report

May 2019 1st Edition

Goods and Services Tax (GST) in Kingdom of Bhutan

Contents

About the Author

- CA Pritam Mahure works in the field of GST /VAT since more than a decade. Pritam has authored more than ten books on GST / VAT.
- Pritam has authored more than hundred articles for leading media houses such as Business Standard, Business Line, Asian Age, Times of Oman, Zawya etc.
- Pritam has been invited as a Key Note Speaker on GST/ VAT in numerous conferences/ seminars in UAE, Kuwait, Bahrain, Oman and India.
- Pritam has been recognized as 'Master Trainer' on GST/ VAT and has trained more than 20,000 Government officials and professionals on GST/VAT.

Feedback

- Author is thankful to the entire team of CA Pritam Mahure and Associates for their support in the book.
- Feedback for improvement of the book is welcome at pritam.mahure@lawgical.in/info@lawgical.in
- The book is prepared for generic guidance on GST law and while, all efforts have been made to make the book error free, however, the author and contributors cannot be held responsible for any errors/omission.

1. Basics of indirect taxation

Taxes are typically key source of revenues for Governments across the world. Taxes can be 'direct' taxes or 'indirect' taxes.

1.1 Direct Tax

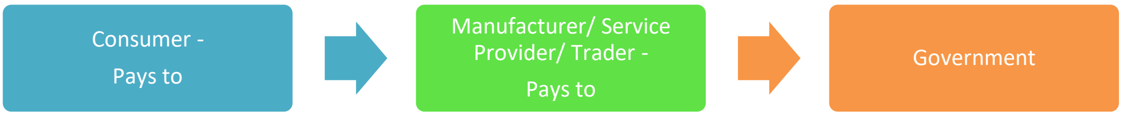
Direct taxes are taxes which are levied and collected directly from the person, company, firm etc. Taxes such as Corporate Tax is example of Direct Tax.

1.2 Indirect Tax

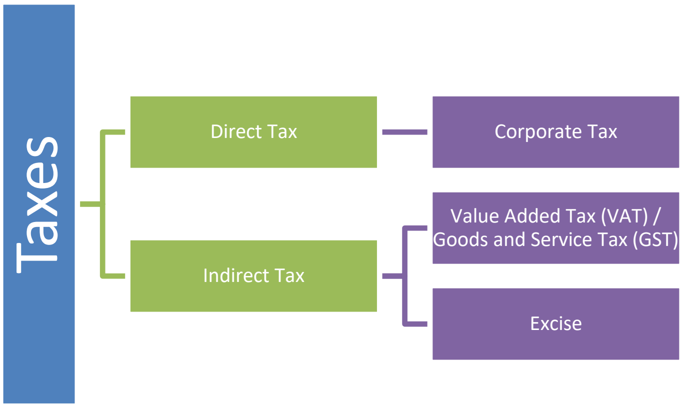
Indirect taxes are levied and collected from consumers **through** manufacturers, traders or service providers. Herein, the Government collects the taxes through manufacturers, service providers, traders than the person who bears it ultimately (i.e. consumer), and thus it is called as 'Indirect Tax'.

In legal sense, the responsibility to pay an indirect tax rests with the manufacture/ seller/ service providers though, finally, the tax is collected from the consumer.

The following picture depicts how money is collected by Government indirectly:



Pictorial depiction of Direct Tax and Indirect Tax:



2. Primer on GST

2.1 How GST derives its name?

GST is abbreviation for Goods and Services Tax. In few countries, GST is also known as Value Added Tax (VAT).

2.2 GST is consumption-based tax

GST is a consumption-based tax wherein the basic principle is to tax the value addition at each business stage. To achieve this, tax paid on purchases is allowed as a set off/ credit against liability on output/income.

Goods and Services Tax is levied on activities such as **'supply'** of goods and services. Each time goods/ services exchange hands, typically, they are subjected to GST. GST is levied on all transaction of goods and services.

Thus, in principle, GST should not differentiate between 'goods' and 'services' (though GST law may prescribe separate place of supply/ time of supply provisions for goods and services).

Internationally, GST was first introduced in France and now more than 162 countries have introduced GST.

Most of the countries, depending on their own socio-economic formation, have introduced Single GST (like UAE or KSA) or Dual GST (like India).

Key aspects of GST:

GST

GST is destination based consumption tax

GST is applicable on supply of goods or services

GST allows input tax credit/ set off of GST paid on procurement

3. GST in India and Gulf Countries

3.1 India

India introduced GST from 1st of July 2017. Key aspect of Indian GST are:

GST was introduced from 1st July 2017	India introduced Dual GST i.e. intra-State supply attracts attracts Central GST plus State GST whereas inter-State supply attracts IGST	Standard rate of GST is 18% and other rates are 3%, 5%, 12%, 28% etc

3.2 United Arab Emirates (UAE)

VAT was introduced from 1st January 2018	UAE introduced single VAT	Standard rate of VAT is 5%

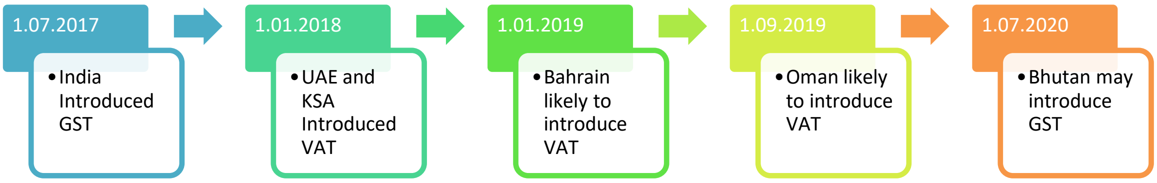
3.3 Kingdom of Saudi Arabia (KSA)

VAT was introduced from 1st January 2018	KSA introduced single VAT	Standard rate of VAT is 5%

3.4 Kingdom of Bahrain

Likely to be introduce VAT from 1st January 2019	Bahrain is likely to introduce single VAT	Standard rate of VAT is expected to be 5%

3.5 Recent Chronology of GST in Asia and Gulf Countries



4. About Kingdom of Bhutan[1]

4.1 Constitution of Bhutan

The Constitution of Bhutan is the Supreme Law of the State and affirms the authority of legal precedent.

Adoption of Constitution of Bhutan, in 2008, marks the transition from a Monarchy to a Democratic Constitution Monarchy in the country.

4.2 Supreme Court

Supreme Court of Bhutan is the Kingdom of Bhutan's highest court of review and interpreter of the Constitution[2].

4.3 Religions

Major religions are Buddhism (official) and Hinduism.

4.4 Language

Major language is **Dzongkha**, while English is used as an official language in the business sector.

4.5 Currency

Bhutan’s currency is **ngultrum** and it is approx. equivalent to INR.

[1] From Bhutan.gov.bt

[2] https://en.wikipedia.org/wiki/Supreme_Court_of_Bhutan

4.6 Other key aspects

Bhutan's **Capital** is **Thimphu**. Bhutan has 20 districts.

Bhutan has one Airport, **Paro**.

Bhutan's **population** is approx. **750,000**.

Bhutan's **GDP** is approx. **USD 2,056 mn** (2016).

Bhutan has Local Government and Municipalities.

Bhutan's key sector are Agriculture, Minerals and Mining, Cement, Food products, Tourism, Livestock, Renewable Energy.

Bhutan has very close trade and business links with India.

4.7 Setting up of business in Bhutan

Typically, businesses are formed as:

a. Company
b. Partnership firm
c. Proprietorship etc

Fiscal Year is from 1st January to 31st December.

4.8 Key links / websites

Particulars	Link
Bhutan Government	www.Bhutan.gov.bt
Ministry of Finance	https://www.mof.gov.bt/

5. Taxes in Kingdom of Bhutan[3]

5.1 Key Taxes in Kingdom of Bhutan

Taxes	Particulars
Sales Tax	In 2000, Bhutan enacted its Sales Tax and Customs Excise Act. The Act sets forth the duty to pay sales tax and excises on goods and services within Bhutan as well as customs on imports according to rates and schedules published by the Ministry of Finance.
Corporate Income Tax[4] (CIT)	CIT is a corporation tax. It is levied @ of 30% on net profit. CIT is payable by those entities registered under the Company's Act of the Kingdom of Bhutan, 2000.
Business Income Tax[5] (BIT)	BIT is a non-corporate business tax. It is levied @ of 30% on net profit.

[3] https://en.wikipedia.org/wiki/Taxation_in_Bhutan
[4] http://portal.drc.gov.bt/drc/node/29
[5] http://portal.drc.gov.bt/drc/node/26

	BIT is payable by all unincorporated business entities holding a trade license or registration certificate issued by the Ministry of Economic Affairs (MoEA) or any other competent authority.
Personal Income Tax[6] (PIT)	PIT is a tax levied on the personal income of an individual on an accrual basis from any or more of the following six sources: (a) Employment Income (b) Rental income (c) Dividend income (d) Income from interest (e) Income from sale of Cash Crop (f) Income from other sources Rate varies from Nil to 25%. Further, specific exemptions/ deduction needs to be considered for computing aforesaid income.
TDS[7]	A preliminary estimate of tax liability payable on a Pay As You Earn (PAYE) basis.

[6] http://portal.drc.gov.bt/drc/node/25

[7] http://portal.drc.gov.bt/drc/what-is-tds

	Its deducted at source from the payments made to a taxpayer by a withholding agent and deposited with Government. TDS is adjusted against the final tax liability.
Customs Duty	A customs duty is a tariff or an indirect tax levied on the import and export of goods entering or leaving the country. In other words, Customs Duty is duties laid down in the Customs tariff schedule of the Bhutan Trade Classification 2017 to which goods are liable on entering or leaving the Customs territory. In case of Bhutan, as to encourage export, there is no Customs Duty or any type of duties or indirect taxes levied on export. Duties may be ad valorem or specific. No customs or duties are levied on goods imported into Bhutan from India, as per the nations' Agreement on Trade and Commerce[8].

[8] http://www.commerce.nic.in/trade/bhutan.pdf

5.2 Constitution of Bhutan

Key Articles from Tax Perspective

Article 8

Fundamental Duties

…

8. A person shall have the responsibility to pay taxes in accordance with the law

Article 14

Finance, Trade and Commerce

1. Taxes, fees and other forms of levies shall not be imposed or altered except by law

5.3 IMF and ADB report

IMF report states that "While currently not in the baseline projections, the **authorities have begun planning for GST implementation scheduled for July 2020, supported by Fund technical assistance (TA)**."

Similarly, **ADB** report states that **"**The Fiscal Policy Framework projects a sharp increase in budget revenue in FY2020 on **Bhutan introducing its own GST to replace most indirect taxes**…"

6. IMF Report 2018 – Bhutan - Article IV Consultation[9]

Relevant extracts

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year.

A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

…

IMF Executive Board Concludes 2018 Article IV Consultation with Bhutan

On October 26, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Bhutan.

…

Nevertheless, risks are skewed to the downside. Domestic risks include delays in implementing the ***goods and services tax (GST)*** *and completing hydropower projects and lower electricity exports. …*

---

[9] Reproduced extracts of https://www.imf.org/en/News/Articles/2018/10/30/pr18401-bhutan-imf-executive-board-concludes-2018-article-iv-consultation

6.1 Executive Board Assessment[10]

Executive Directors welcomed the significant improvements in per capita income and poverty indicators, with strong economic growth and low inflation…

Given Bhutan's infrastructure needs, Directors called for higher capital expenditure supported by additional domestic revenue and a modest increase in domestic financing. ***They welcomed the authorities' commitment to implement a broad-based GST by July 2020*** *and called for a rationalization and gradual curtailment of tax exemptions.*

6.2 Key Policy Recommendations:

Fiscal consolidation is appropriate to reduce vulnerabilities. However, a more gradual pace than envisaged in the draft 12th Five-Year Plan would help lessen the planned sharp fall in capital spending and better support growth. Resources should be secured for timely implementation of the GST project.

16. To boost the domestic revenue base, the authorities should implement their plans for a broad-based GST without delay (Box 2). While currently not in the baseline projections, the ***authorities have begun planning for***

[10] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

***GST implementation scheduled for July 2020, supported by Fund technical assistance (TA)**. Early endorsement of the project by the incoming government and passage of the associated legislation will be critical to meet the implementation timeline. In terms of design, the **GST** should be broad-based (to include services) and have a simple rate structure (preferably a single tax rate). Some additional domestic revenue could be collected in the short term by updating the bases of user charges and land/property taxes, which have been eroded by inflation.*

*With **India's implementation of the GST in July 2017**, **the adoption of a GST in Bhutan has become a high priority**. This box outlines some of the key considerations in adopting a GST in Bhutan, including the benefits and important milestones to be accomplished to meet the July 2020 deadline for its implementation.*

At present, Bhutan raises around 5½ percent of GDP in indirect tax revenues. Sales taxes account for 2½ percent of GDP, while around 2 percent of GDP is raised from the excise duty refund (EDR), which reflects excises levied by India on exports to Bhutan. The remainder is raised from domestic excises, a green tax, and customs duties.

With India's adoption of the GST (and removal of excises on exports), the EDR will effectively cease in FY2020, leaving a large revenue gap to be filled. While the authorities have identified a set of primarily sales tax-

related measures that could potentially make up for the loss of EDR revenue, a broad-based GST will help to cover the revenue gap in a sustainable and more efficient manner. Moreover, a GST is likely to be buoyant; in a sample of nearly 70 countries compiled by staff, the average increase in VAT revenue as a percent of GDP was about ½ percent of GDP over a five-year period.

Furthermore, the potential to increase indirect tax revenues from other sources, such as raising customs duties, is severely limited by Bhutan's free trade agreement with India (which covers 90 percent of imports), as well as South Asian Association for Regional Cooperation preferences and the preferential trade agreement with Bangladesh. ***Thus, indirect tax revenues will rely heavily on GST implementation.***

While the benefits of a broad-based GST are well understood, the key challenge from a tax policy perspective will be to design and implement a GST that does not "resemble" the existing sales tax. This requires:

(i) a broad base,

(ii) effective input tax credit/refund management, and

(iii) administrative simplicity (e.g., few rates), in particular given capacity constraints.

The GST under consideration presently in Bhutan resembles a standard VAT with input tax crediting, a mandatory turnover-based registration *threshold, and adherence to the destination principle (with zero-rated exports and taxed imports, including service imports).*

Bhutan is receiving extensive IMF support for implementing the GST. Bhutan created a project office and prepared a GST implementation plan, consisting of a detailed timeline, in line with IMF recommendations. IMF TA has provided further recommendations in key areas including:

(i) legislation and rules including to draft the GST law;

(ii) establishing and guiding business processes related to the GST;

(iii) selection of the appropriate information technology (IT) system;

(iv) taxpayer outreach; and

(v) capacity building.

TA on the GST law is currently on-going. The draft law is being reviewed by the GST Working Group at the Department of Revenues and Customs. *In terms of challenges, the ability of the revenue authority to develop and implement an IT system that can underpin GST processing is considered one of the potential stumbling blocks that could delay the adoption of the GST."*

7. Things you must know about GST

As GST has pervasive impact on businesses, its critical for businesses to understand a broad framework of GST.

Thus, lets discuss things one must know about GST.

7.1 GST is payable on supply

GST is imposable on every taxable supply and deemed supply made by a taxable person. Thus, in GST regime, all 'supplies' be it sale, transfer, barter, lease, import of services etc. of goods or services are subject to GST.

Typically, GST is leviable on supply made for consideration, however, the GST law may levy GST on specific supplies made **without consideration**, such as use of business assets for purposes other than business.

7.2 GST payable as per time of supply

The liability to pay GST will arise at the time of supply as determined for goods and services. In this regard, separate provisions, typically, prescribe what will be the time of supply for goods and services.

Further, the GST typically contemplates payment of GST at the earliest of date of issuance of invoice or receipt of consideration. Additionally, there could be special provisions for supplies of a repetitive nature or continuous supplies.

Given that there could be **multiple parameters** in determining 'time' of supply, maintaining reconciliation between revenue as per financials and as per GST could be a major challenge to address for businesses.

7.3 Determining Place of Supply could be the key

In GST law, determining place of supply, is critical as if it is determined that supply is made within a country's jurisdiction then in such case GST becomes applicable.

In this regard, GST typically provides separate provisions which help an assessee determine the place of supply for goods and services.

Typically, for 'goods' the place of supply would be shall be in the State if the supply was made in the State, and does not include Export from or Import into the State. Whereas for 'services' the place of supply could be either the Place of Residence of supplier or recipient.

Further, GST Law generally prescribes multiple scenarios wherein the aforesaid generic principles will not be applicable and specific provisions will determine the place of supply. Thus, in GST regimes, businesses are expected to scroll through all the place of supply provisions before determining the place of supply.

7.4 Valuation in GST

GST would be payable on the 'value' of supply.

Typically, value of supply shall be the value of consideration less the tax and includes the value of the non-cash portion of the consideration determined according to the fair market value.

The value of the supply shall include all the expenses imposed by the taxable supplier on the customer, the fees due as a result of the Supply and all the Taxes including Excise Tax, if any, but excluding GST.

Typically, discounts given is permissible as deduction from value of supply (subject to fulfilment of prescribed conditions).

7.5 Input tax credit in GST

Goods and Services Tax scheme derives its name as 'value added tax' to the fact that it enshrines in its framework the concept of input tax.

Input tax is the recoverable GST paid on procurement of goods and services.

Lets take an example, goods worth 105 (inclusive of 5 as GST), are sold for 210 (inclusive of 10 as GST). In this case, 5 is referred as input GST whereas 10 is referred as output GST. In GST regime, supplier is liable to deposit net GST with the Government. Thus, in the example supplier is liable to deposit GST of 5 (Output GST less input GST) with Government.

The aforesaid example is tabulated in below:

Particulars	Goods sold by A to B	Goods sold by B to C
Sale Price	100	200
GST applicable @ 5% (I)	5	10
Input Tax Credit (II)	Nil	5
Net GST payable (III = I-II)	5	5

Though, at a prima-facie level, aforesaid appears simple, in GST regime, the complications crop up due the fact that, typically, goods or services used for personal purposes or exempt supplies is denied.

Herein, in GST regime interpretation issues crop up such as business lunch with clients, is it personal expense or official expense or both!

Similarly, GST laws restrict GST credit in respect of employees related expenses or motor vehicles, catering etc. related expenses. Further, there could be restriction on availment of goods disposed of by way of gift or free samples.

Thus, businesses need to factor in availability, non-availability of credit. Further, businesses need to ensure that the conditions prescribed to availment of credit are fulfilled.

It is pertinent to note that incorrect GST credit leads to penal consequences whereas non-availability of credit leads to tax cascading. Thus, business need to finding the right balance between these two to sail successfully in the GST regime.

7.6 Rate of GST

Each country depending on its socio-economic needs decides the standard rate of GST.

Rate of GST varies across the world from 5% in UAE to 18% in India and 25% in Norway.

Typically, most of the goods attract standard GST rate unless exemption or zero-rate is applicable.

The businesses need to be careful in determining whether the goods or services supplied by them are liable for standard rate, zero rate or exempted.

7.7 GST framework comprises of Law and Regulations

In GST regime, typically the substantive provisions (such as provisions governing levy of GST, registration, place of supply, time of supply etc) is contained in GST Law whereas procedures/ processes (such as process of registration, explanation for what qualifies as goods or services etc) are typically contained in Rules/Executive Regulations.

Additionally, in GST regime, the Government may issue Decrees or Decisions or Notifications for specific aspects of GST law.

Further, the Tax Authorities issue Guides, flyers, clarifications on social media (Twitter etc).

During implementation of GST in a country, typically, these pieces of GST legislation are available at different points of time (such as Decree Law may be issued first followed by Regulations).

Also, over period of time, based on feedback from taxpayers, the Authorities, clarify various aspects through seminars/ workshops.

Thus, it can be observed that in typically, the GST law is contained in different pieces of law and thus, taxpayers need to ensure that they join all these pieces of GST jigsaw puzzle to see the correct picture and take appropriate GST position on the business transactions.

8. Commentary on GST

8.1 GST introduction also brings disruption!

All over the world, businesses are facing disruption due to either technology or rapid pace of change. While technological disruptions hog the limelight, disruption brought by GST typically goes un-noticed.

Whilst technology disruptions can't be predicted, GST is predictable (as likely dates are known). However, introduction of GST, like any change, counters scepticism and doubt about its likeliness of introduction.

Before introduction of GST, most seminars / conferences on GST, get embroiled about whether GST will be introduced or spend time in crystal glazing likely dates.

Thus, doubt over GST introduction itself becomes one of the reason why businesses remain un-prepared.

To ensure business enjoys early mover advantage, top management/ owners/ CEO should rather use the aforesaid doubts about GST introduction, as a fuel to initiate dialogue about impact of GST and steer their organisations successfully to GST-era.

Thus, to mitigate the disruption likely to be brought by GST introduction, its essential for business leaders to proceed early for GST impact analysis than ponder over likely dates!

8.2 GST impacts businesses and their supply chain

GST being all pervasive, impacts the country's economy as well as the industries therein.

Within a business entity, GST impacts each and every function such as finance, supply chain, product pricing, sales, procurement, legal, commercial, logistics, information technology, HR etc.

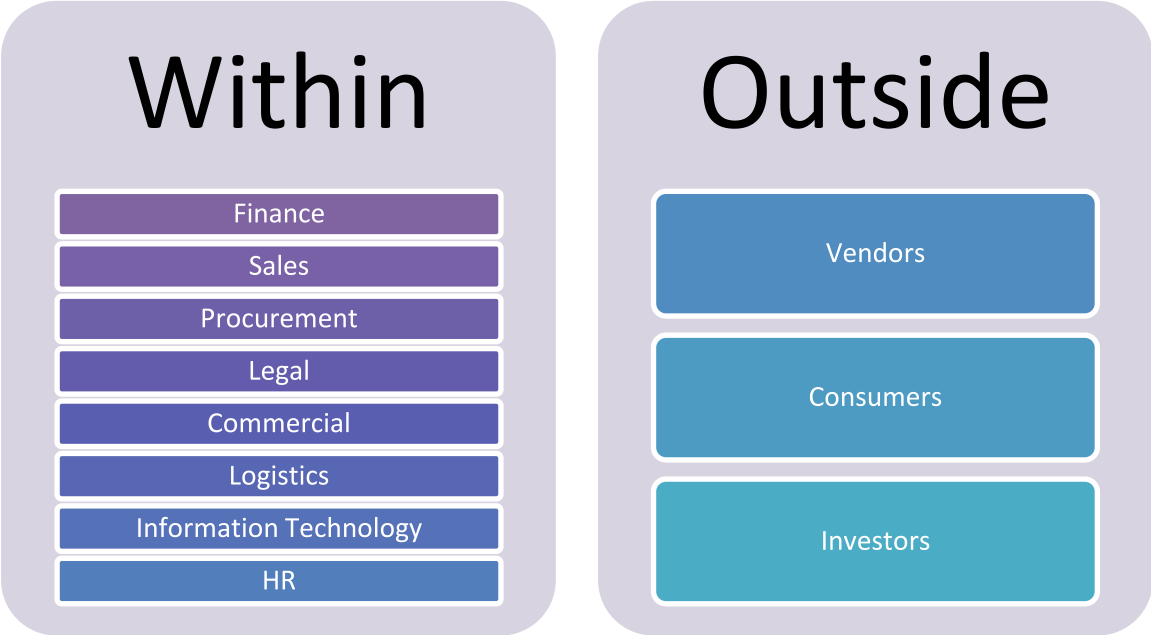
Further, GST impacts also spills over to the eco-systems of business entities i.e. suppliers/ vendor, customers and investors (as profit margins could get impacted!).

Thus, if the business entity is not well prepared for GST then it may shake the trust of the vendors and consumers, impact the bottom line and bring penal consequences (for GST lapses, if any).

Given this, its critical for the business entity to initiate early dialogue on likely impact and step plan with each stakeholder.

Pictorial depiction is provided below highlighting the VATimpact:

Pictorial depiction: GST Impacts inside and outside entity



8.3 Prepare step plan for each team!

GST impacts each department in an organisation differently.

For example finance team will be required to finalise the GST implications / positions on different income and expenses streams, the sales team will be required to talk to the customers about the GST impact.

Similarly, the procurement team will be required to discuss with vendors the GST implications.

Thus, as the steps vary, department-wise/ team-wise, its important for the organisation to prepared a department-wise step plan for GST implementation.

This will ensure that each department/ team knows their respective steps/ role in the entire ambit of GST implementation and risk of missing out key steps reduces drastically.

8.4 Top-down or bottom up approach for GST!

On the face of it GST introduction, appears to be just a tax change. The external noise about GST coupled with internal debates on GST, makes top management take steps towards GST.

Generally, the steps taken by management involve sending few of the accounts/ finance members to attend initial GST trainings and discussion on GST.

While this gives the accounts/ finance team members an added advantage to decode GST early. However, this also means that GST transition is perceived as 'tax' change and lead by finance team.

Further, in management terminology, 'top to bottom' approach (i.e. strategy being formed at strategic level and then implemented across different verticals/ departments of the organisation) is better to handle the magnum opus change like GST introduction.

However, when GST change is lead by only one team (i.e. accounts / finance team) then the possibility of missing the big picture and strategic implications increases substantially.

Thus, its essential that the CEO/ top management leads a hand-picked team from across all departments (finance, supply chain, product pricing, sales, procurement, legal, commercial, logistics, information technology, HR etc) than leaving the same to finance/ accounts team.

8.5 Co-ordination amongst team is critical for GST implementation!

As GST implementation involves multiple teams across multiple locations, external vendors and consultants, it becomes crucial to have co-ordination in place across such varied teams.

For example, during GST implementation finance team is required to co-ordinate with ERP team to ensure that ERP systems are upgraded to handle GST and generate GST reports.

In such cases of co-ordination, its observed that the finance team waits for ERP team to approach them while ERP team waits for instruction from finance team.

Not only these two teams are required to co-ordinate, but rather all teams in an organisation need to work towards GST implementation.

However, it’s a regular feature during GST implementation that lack of co-ordination leads to delay in GST implementation project.

Given this, appropriate time and efforts needs to be spent on visualising the steps in GST implementation, likely steps which needs co-ordination amongst wither two teams or team members, possible challenges in co-ordination and addressing the challenges in advance.

8.6 GST shapes technology!

GST is known to have magnum opus impact on the Information Technology (IT)/ ERP system.

IT/ERP is a key area for business entity, as irrespective of the fact whether the organisation is ready or not, on the very first day when GST is introduced, the IT/ERP system has to be ready to generate GST invoices.

If the IT/ERP system is not geared up to generate GST invoices appropriately then it can literally bring the entire business to standstill!

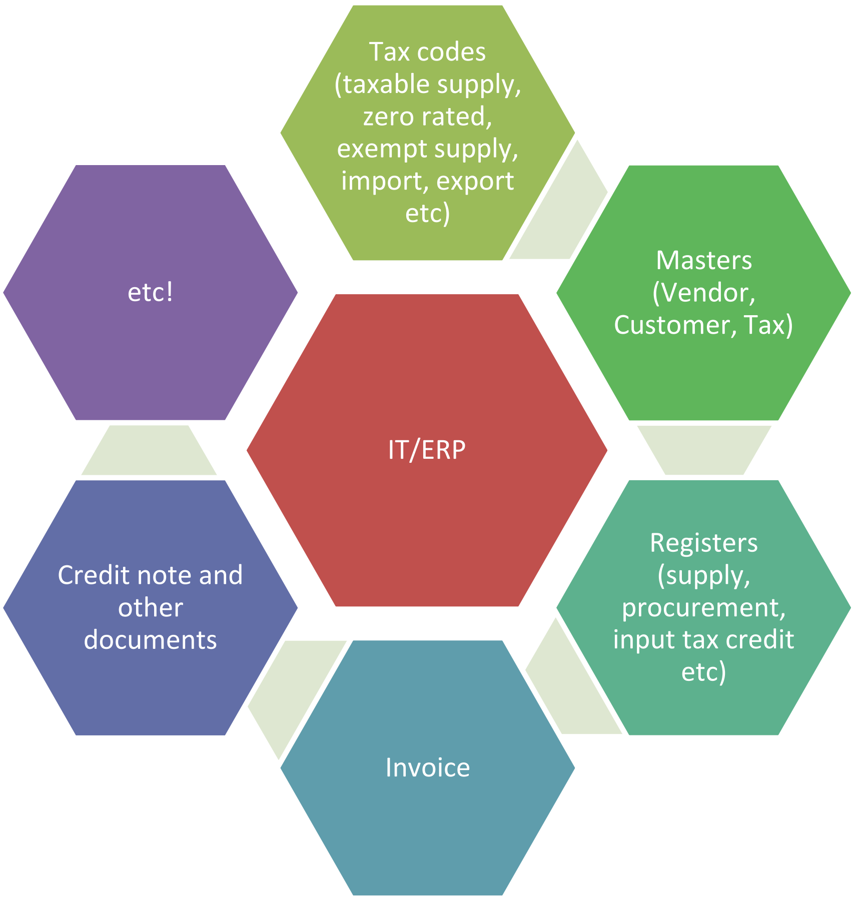
Additionally, aspects like design of GST invoice and its contents become very critical during transition of IT/ERP system to GST. Further, GST also impacts various masters in IT/ERP like vendor master, customer master, tax master etc. Similarly, tax ledgers and entries are required to undergo a change.

Even further, the IT/ERP system needs to generate various registers like supply register, procurement register, input tax credit register, import register etc

Given the aforesaid, business entity need to visualise all the likely changes in ERP system and appropriately blueprint the same to ensure that nothing is missed out.

Thus, to avoid the threat of disruption of business, it is advisable that early ERP study should be carried out to understand how the system migration for GST will be carried out.

Pictorial depiction: GST shapes technology!



8.7 Review ERP systems

The data for preparing GST returns are generated from the ERP or accounting system.

If the ERP system is able to generate the requisite details for GST returns then the risk of incorrect GST returns reduces.

However, though it's been observed that many times, either the ERP systems are either rigid or GST laws are too complex to be configured in ERP system.

Thus, not only before introduction of GST, but also after GST is implemented, business entity need to review ERP or accounting systems and configure them to generate the requisite GST reports or details.

Further, there are instances from GST jurisdictions, wherein, the GST payers, in-spite of having an ERP system, compile the details for GST returns on manual basis (i.e. fusion of man and machine).

However, the risk of missing crucial ledgers or numbers is high in case of manual preparation of details for GST returns.

Therefore, it is crucial to assess the current ERP system to evaluate and ensure that the requisite reports, as required for preparation of GST returns are generated from the ERP system itself.

Further, its critical for business entity to review, at regular intervals (say every six months) the reports generated from ERP system and whether they need to be improved (to reduce the manual intervention).

Pictorial depiction: Review ERP reports

8.8 Its about who blinks first!

Globally, many GST jurisdiction could not give enough time for business entities to gear up for GST.

In few jurisdictions, business entities got less than six weeks to prepare for GST and few others even less than a week!

The reason for this paucity of time is that, typically, even the Authorities/ Government are occupied in review and making the last-minute changes to the draft law/ regulations as its cumbersome to make changes in it after introduction.

Thus, before actual date of introduction, GST law alongwith its implementing or executive regulations/ rules, will remain evolving and fluid state.

Further, in most jurisdictions, before GST introduction, Government was waiting for suggestions from business entities whereas business entities were waiting for final GST law to provide suggestions!

Thus, business entities should carry out the GST impact analysis at the earliest so that it can share the suggestions/ feedback with the Government.

Thus, effectively, its about who blinks first!

Pictorial depiction: Who blinks first!

8.9 GST Impact varies based on who the buyer is!

Typically, the business transactions can be classified as:

a. Business to Business (B2B)

b. Business to Consumers (B2C)

c. Business to Government (B2G)

Based on who the buyer is, the impact may vary. Thus, business entity is required to analyse impact based on aforesaid classification.

For eg. in case of B2B transactions, the buyer may not be worried about GST (unless credit is not available to the buyer)[11].

In case of B2C cases, the buyer may not be willing to bear the additional impact of GST (as the consumer cannot claim credit). This aspect becomes a real challenge (and cost!) for business entities, particularly in cases where the transaction spills over to GST regime, say:

[11] At a time when GST is about to be introduced, its observed that seller and buyer get entangled in debate about GST applicability say whether a particular transaction qualifies as a 'zero rated' supply. Similarly, there can be debate/ discussion about GST applicability on supplies to/ from special economic zones (also referred as designated zones or export-oriented zones).

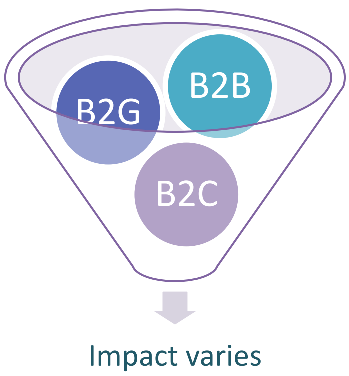
Additionally, debates revolve around applicability of GST in case of tri-party agreements (say actual customer is in the GST jurisdiction whereas agreement is with a customer who is located outside the GST jurisdiction).

a. Gym membership is taken in pre-GST era, however, some tenure falls in GST era
b. Insurance is taken in pre-GST era, however, some tenure falls in GST era
c. Property booked in pre-GST era, however, property registration completed in GST era
d. Hotel accommodation booked in pre-GST era, however, stay in hotel falls in GST era
e. Goods purchased online in pre-GST era, however, goods delivered to buyer in GST era

In case of B2G cases, the supplier needs to be careful to understand whether contract / tender with the Government specifically mentions about GST to be paid extra or is inclusive.

Thus, its critical to analyse impact based on who the consumer is!

Pictorial depiction: Impact depends on who the buyer is!



8.10 Everything is bi-lateral in GST!

Typically, after introduction of GST, businesses discover that their entire business eco-system i.e. their vendors and customer are also part of their business.

Underlying reason for this tectonic shift is the fact that in GST, businesses cannot take unilateral decisions and have to take decisions bi-laterally as buyer can claim credit only based on the supplier invoice.

Effectively, GST stitches the entire supply chain with each other and makes the businesses realise that every supplier is just a cog in the wheel!

Dependency between the supply chain further intensifies, particularly, if the input tax credit is available on the principle of 'invoice matching[12]' (i.e. buyer can claim credit of GST only once the vendor uploads invoices).

However, in few cases, in absence of specific clarification, the inter-dependency also leads to difference of opinion between supplier and buyer.

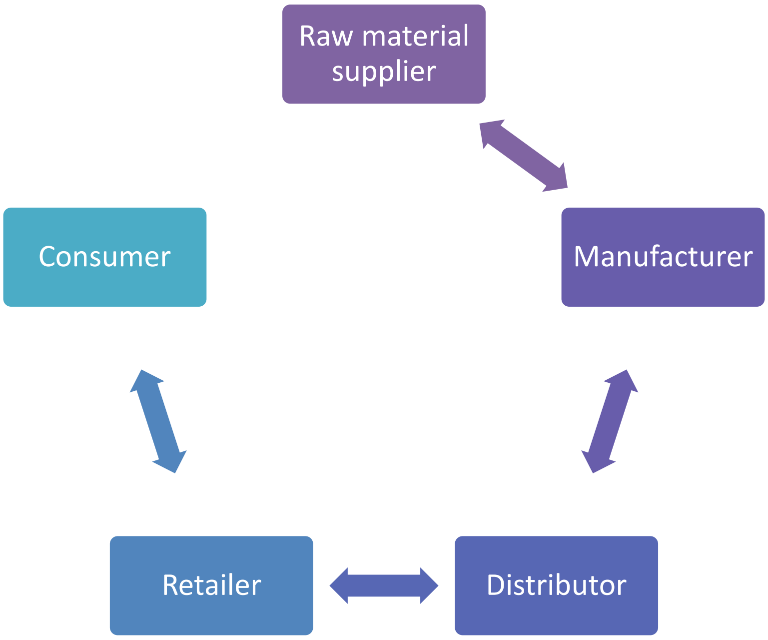
---

[12] Concept of 'invoice matching' is introduced in Indian GST. Further, India is expected to move to real-time invoice matching from 2019.

For eg. how distributor should give extra incentive/ discount for higher sales, whether through credit note by suppler or on a tax invoice by distributor.

Thus, its essential that the Tax Authorities provide clarity on these aspects!

Pictorial depiction: Everything is bi-lateral in GST!



8.11 Out of GST means out of business!

Introduction of GST moves the entire economy towards the culture of compliance.

One of the reason for change in culture is the fact that in GST regime, 'out of GST net' means out of business as many large business entities stop procuring goods / services from un-registered vendors!

Thus, numerous small businesses obtain voluntary registration (based on threshold applicable in the GST jurisdiction).

Interestingly, these new taxpayers will not only pay GST but also pay corporate tax (if any) and report their downstream and upstream of supply chain.

Thus, in case there are any business entities who, to evade GST, are un-registered, then the GST Authorities can still know about them through sale and purchase data submitted by registered GST payers.

8.12 GST evolution is continuous process!

GST is known for its constant evolution.

At a time when GST is in its nascent evolving stage, everyone is learning and there are no precedence for GST applicability on most of the business transactions.

Further, in initial phase, with an endeavour to simplify GST and address specific issues, GST Authorities will typically, issue specific and generic GST Guides, GST awareness flyers, cabinet decisions/ clarifications etc.

These clarifications/ guides are quite detailed and thus, taxpayers need to peruse the same to decode whether the same are relevant for their business operations and if yes, then what are the appropriate steps to be taken.

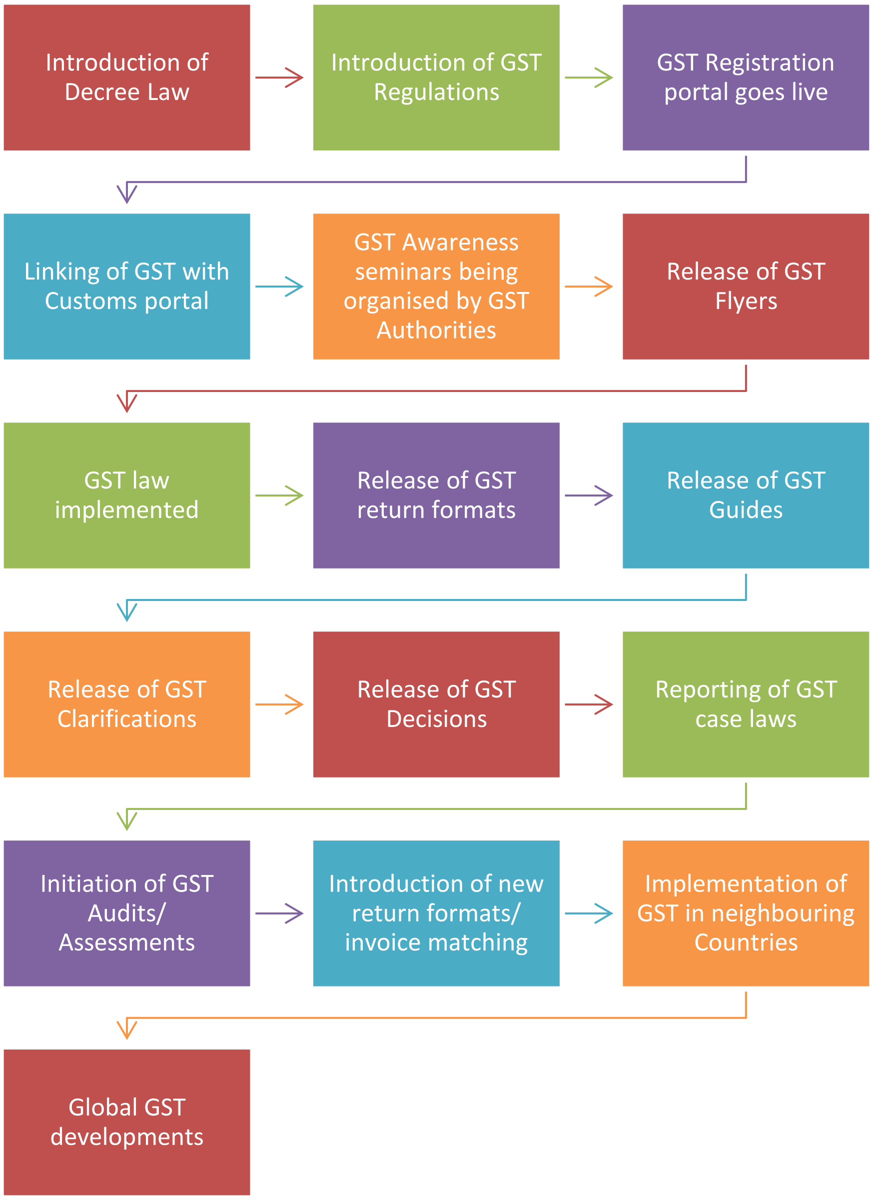
For instance, if a detailed guide on real estate related services is issued then, the taxpayers should ideally review/ revisit the position on real estate related services based on the guide.

As the time passes, the GST law evolves and GST payer is required to pro-actively track GST developments, decode them and take requisite action.

Further, as change is constant for GST, once GST is introduced, there could be developments in GST rates, invoice matching, credits or refunds being available across, changes in GST threshold etc.

Given the aforesaid, GST payer should not only track the development but also anticipate the likely change and gear-up for the same!

Pictorial depiction: GST evolution!



8.13 GST impacts working capital!

In GST regime, business entities may get entangled in the web of working capital blockage which may severely hamper their businesses.

For instance, while GST is payable on raising of invoice, many business entity receive payment only after a gap of after 6 months, year or even more than a year. Meanwhile, alongwith organisation's routine expenses (such as salary etc), business entity needs to pay GST.

Herein, it may be noted that the cumulative impact of GST is much more than the rate of GST.

For eg. ABC has turnover of say BTN 1mn p.m. Lets assume the rate of GST to be 10%. So, the GST liability on BTN 1 mn will be BTN 100,000. If the debtor cycle of business is 3 months, then, ABC will pay GST of BTN 300,000 (100,000 * 3 months) whereas customer will pay after 3 months. Thus, for business entities, paying GST on accrual basis, will be practically challenging.

Two factors, debtor cycle (i.e. time to receive money from buyers) and GST payment cycle (i.e. time to deposit GST liability) determine how GST impacts working capital requirement of business entity.

Preferably to minimize the GST impact, GST provisions could provide for some relief, atleast to small and medium enterprises to ease their working capital burden.

8.14 Optimise GST credits!

GST Invoices / Tax invoices are the documents based on which a buyer can claim input tax credit.

Tax invoices are issued by vendors and thus, its not uncommon to observe in-complete tax invoices or tax invoices with incorrect details (such as missing name, incorrect address etc).

Input Tax Credit availability on invoices with incomplete contents is always disputable in GST regime.

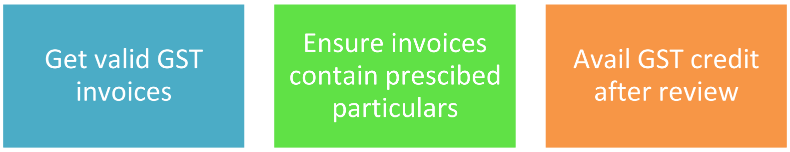
Additionally, credit availability on employee-related expenses such as car for employees, foreign trips, medical insurance could be subject matter of scrutiny by authorities.

Additionally, taxpayer may inadvertently sometime miss on claiming eligible GST credit.

Claiming ineligible credits leads to risk of denial of credit alongwith imposition of penalty whereas not claiming eligible credit leads to unnecessary cost for the organization.

Thus, it is important for taxpayers to run a sanity check for GST credit to ensure that in-eligible credits are not claimed and eligible credits are not missed.

Pictorial depiction: Optimise GST Credits!



8.15 Input Tax credit – Online matching

One of key feature of GST regime is that it allows input tax credit to the business entity and effectively, levies GST only on the 'value addition'.

Whilst this feature (of input tax credit) is the biggest strength of GST regime, this also is the weakest feature.

GST laws across the world work on the principle of 'self-governance' as GST regime allows input tax credit to the business entity based on GST invoice issued by the seller/ supplier.

Herein, the basic assumption is that the seller will deposit applicable GST amount with the Government.

This trust-based feature in GST laws allows buyer to claim input tax credit without any need to insist that the supplier/ seller should deposit the GST amount and file GST return. This GST system may be referred as a 'trust-based' GST system.

However, its pertinent to note that in many GST jurisdictions (which follow trust-based system), are plagued with 'missing-trader' fraud. 'Missing-trader' is a kind of fraud wherein the buyer claims input tax credit, however, the supplier does not deposit the applicable GST (and goes missing), eventually harming the Government exchequer.

To address the aforesaid frauds, many GST jurisdictions have either introduced or intend to introduce in near future, 'system-based' credit system that allows input tax credit to the buyer once the seller/ supplier uploads the invoices online (in the prescribed GST portal) and deposits applicable GST.

It is pertinent to note that the 'system-based' credit mechanism, brings its own challenges as:

a. Business entities are expected to request their respective vendors to upload invoices to enable them to check the same online
b. Business entities have to continuous reconcile the procurements (which may run into thousands of line items for large business entities) as appearing on the Government GST portal with their financial statements
c. Business entities have to continuously identify missing invoices and follow up with vendors
d. Its cumbersome to address and correct the human errors i.e. incorrect claim of credits due to wrong returns filed by supplier
e. System may become un-responsive or encounter glitches

Given the aforesaid, the GST jurisdictions need to do a cost benefit analysis, before embracing the system-based input tax credit mechanism to ensure that the 'ease of doing business' continues in GST regime.

8.16 Reverse Charge mechanism

GST is applicable on supply of goods or services. Further, the liability to pay GST is on the supplier of goods or services.

However, in certain cases the liability to pay GST is cast on 'recipient' instead of supplier of goods or services.

Reverse charge on services

GST law, typically, provides that where services are availed from a non-resident service provider (who does not have any place of business or presence in the GST jurisdiction), the liability to pay GST is on the recipient of services.

This mechanism, which casts responsibility on recipient, is referred as 'Reverse Charge Mechanism'.

The rationale of RCM is to ensure a level-playing field for domestic supplier (in-comparison with non-resident supplier).

Reverse charge on goods

In case of import of goods, the liability to pay GST is cast on the 'importer' of goods. In such cases GST is deposited by the importer of goods alongwith customs duty.

Further, to facilitate tracking of import transaction and the GST liability thereon, the GST registration numbers are 'linked' with customs code.

Whilst the purpose of the linking is to simplify the GST compliances for the businesses, however, in certain cases challenges arise as 'importer on record' could be the person who clears goods from customs (such as logistics company) than the actual importer of goods.

Further, challenges arise in determining availability of exemption/ zero rating to certain goods (such as medical equipment) as end-use of the goods may not be determinable at the time of import itself.

Additionally, reconciling the auto-populated amount of import with imports as per financials could pose challenges for business entities.

What business entity need to do?

GST laws prescribe that, if input tax credit, is available then the GST liability need not be paid in cash. Thus, reverse charge mechanism remains to be a disclosure requirement for GST return purposes unless input tax credit is not available.

Given the aforesaid, business entity needs to examine all their procurements from non-resident entities from the perspective applicability of reverse charge.

Further, in case reverse charge is applicable then the same needs to be disclosed in GST returns and GST liability thereon needs to be deposited (if law prescribes depositing GST liability in cash).

8.17 If GST provides for option, seek clarification!

Any GST regime, being self-assessment regimes, entails GST payer to take tax positions on day to day business transactions such as:

a. Whether GST is applicable on supplies

b. Whether the transaction will qualify for zero rating

c. Whether GST charged by vendor will be available as input tax credit

d. Whether reverse charge mechanism is applicable etc.

Given numerous business transactions, taxpayers need to take tax positions at drop of the hat.

The matter gets complicated if taxpayer needs to discuss the tax position with their customer or vendor, as in such cases, the tax position could be adopted on commercial rational than legal rational.

Over a period of time, such decisions gets accumulated and the cumulative risk of adopted tax positions may turn out to be substantial.

Fortunately, GST jurisdictions provide for a mechanism, referred as 'Clarifications' or ‘Advance Ruling’, through which GST payers can seek clarity on their GST positions.

To minimize the risk exposure its advisable for taxpayers to identify the big-ticket items at the earliest and seek clarifications.

In the long run, this step of seeking clarifications will certainly prove to be a step in the right direction and save the organization from penal consequence.

Pictorial depiction: Seek Clarifications!

8.18 Periodic GST Returns!

Once a business entity is registered for GST purposes, the GST laws prescribe that GST payer should file periodic returns.

In the periodic returns, business entity submits details of their inward supply and outward supply.

The periodicity of the GST returns, is prescribed based on parameters such as turnover, nature of industry etc. The periodicity of the GST returns can be monthly, quarterly, half yearly or annually.

Typically, the periodicity for large business entities is monthly whereas for medium / small enterprises it can be quarterly, half yearly or annually.

Whilst, for uniformity, its preferable to have common periodicity for all the business entities in a GST jurisdiction, still staggered GST filing could be prescribed due to various rational (such as to reduce compliance load on medium / small enterprises as well as GST portal).

As regards, the details to be filed in GST returns, GST law may require the business entity to, either file invoice level details or lump-sum details (i.e. gross amount of sales/ purchase in a particular period). In case the GST law asks details at gross level (than invoice level details) then it certainly, some extent, it simplifies the GST compliances.

GST return compliance typically involves **five steps** such as:

a. Compiling the details (such as outward supplies, inward supplies, amount of input tax credit available, reverse charge etc)
b. Computing the GST liability
c. Depositing the GST liability (if any)
d. Preparing the GST return
e. Filing/submitting the GST return

The business entities, meet the GST return compliances either internally or with the help of external GST consultants.

Its generally observed that, given the risk of incorrect interpretation of GST law or missing crucial numbers, most large and medium business entities prefer external GST consultants for GST return preparation or review. Additionally, involving external consultant is better as it means the maker-checker principle (or four eye test) is followed which minimizes the errors.

Given that GST returns are periodical and missing the due date of GST return can trigger penal consequences, it is crucial for business entities to set up appropriate process and timelines for preparing and filing GST returns.

8.19 Periodic GST Returns in GST may become redundant!

Instead of prescribing periodic GST returns, most of the GST jurisdictions are either shifted or are planning to introduce uploading of GST invoices on real time basis.

This will mean there is no fixed due date for uploading GST details with GST Authorities and rather, GST details are required to be uploaded on real time basis.

This shift to real-time, though expected to bring simplification in long-run, still in short-run, this means substantial daily compliances for business entities.

Typically, in real-time system, the business entity is required to upload the invoices continuously (anytime during the month).

Further, such uploaded invoices are continuously visible to the recipient. The real-time system ties the buyer and receiver and ensures their compliances.

Certain GST regime even require that the unique invoice number be generated from the common Government GST portal to enable tracking of input tax credit invoices.

In case GST regime is proposing real-time system, it is crucial for business entities to set up appropriate process for preparing and uploading GST details on real time basis.

8.20 Gear up for GST Audit!

After introduction of GST and filing of few GST returns, GST payers typically move from Phase-I (pre-GST) to Phase-II (GST first return), to Phase-III i.e. regular GST compliance and GST return filing.

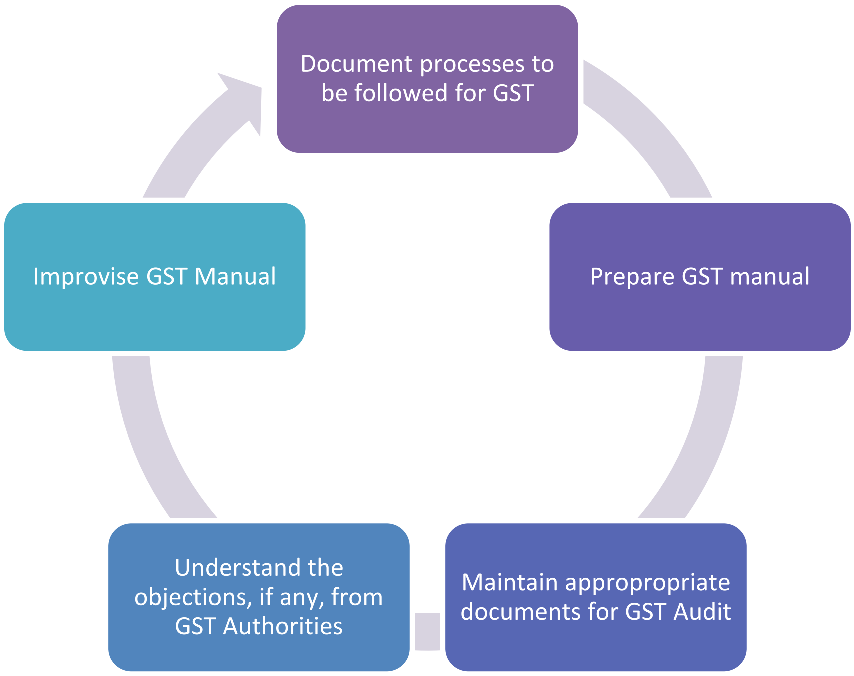
Its pertinent to note that the thrust of Phase-III should be on documentation and maintaining prescribed GST records.

Documentation and maintaining prescribed GST records is critical, as GST settles down in any jurisdiction, GST payers are required to face GST audits initiated by GST Authorities.

Thus, GST payers not only should gear for GST audits bit also, pro-actively, consider preparing customised 'GST Manual' for their own business which should contain all the tax positions adopted, processes followed and the basis of preparation for GST returns.

The GST manual will be handy during audit and could also be used for GST training for new employees in the organization.

Pictorial depiction: Gear up for GST Audit!



8.21 Enabling GST administrators is key!

Knowledge of GST law and systems holds the key during and after GST transition.

Particularly, GST Authorities are bombarded with numerous GST queries. Not only legal queries are asked to the GST Authorities but also technical queries pertaining to GST portal.

Business entities look upto the GST Authorities for resolution of these queries.

Also, GST Authorities could be required to educate the GST payer on various aspects of GST and in-turn become evangelists for GST.

Given the aforesaid, its essential that the GST administrators are well equipped about GST.

8.22 Empowering consumers is important!

GST impacts every consumer in the country.

Everything a consumer consumes gets impacted. Thus, if consumer is not well educated it is likely that the supplier may fleece the consumer in the name of GST.

Thus, to ensure that GST does not lead to confusion, inflation and evasion, dissemination of GST knowledge to empower the end consumer.

GST Administrators may explore various modes of knowledge dissemination like TV / radio, news prints and social media for dissemination of GST knowledge to end consumer.

GST Administrators may reach out to prominent consumer associations to communicate benefits of GST and get valuable feedback from the key stakeholder who will actually bear the impact of GST.

As GST is magnum opus change, 'Educate, Enable and Empower' could be the mantra the to successfully sail over to GST.

8.23 Educate GST payers!

Based on the legal knowledge of GST available in public domain (such as GST law, various regulations etc.) the GST Authorities may consider to hold sensitising seminars to educate the taxpayers community.

For these seminars the GST Authorities may consider partnering with prominent trade chambers/ associations.

An early initiation of these training will give the taxpayers a sense of involvement. Initially, most of the taxpayers have concerns around key aspects such as place of supply, value of supply, time of supply, compliance provisions, transition provisions etc.

These concerns can be dispelled through the seminars.

The seminars can ensure that the GST Authorities reaches across length and breadth of the Country for a steady and reliable source of feedback.

8.24 Enable fintech!

After introduction of GST, business entities need to gather numerous daily details of procurement, sales, payments etc.

Thus, for capturing these daily transactions business entities need to assess either the capability of their existing IT system or procure one (if they don't have any).

Better equipped software will also help not only in meeting GST compliances but also maintaining internal control. Better software will put business entities at ease in the demanding situation of meeting GST compliances.

Start-ups are known for their inventive method to solve problems with minimum pricing. This approach of start-up will help small and medium businesses in meeting their GST compliances.

Thus, as the GST Authorities put thrust on electronic filing / compliances, its equally important for GST jurisdictions/ Authorities to ensure that opportunity and freedom should be given to start-ups and their eco-system.

Therefore, GST Authorities/ Government can invite app developers and Fintech entities, give them requirements and ask them to make apps specifically for GST.

8.25 GST is a 'rarest of rare' policy of Government

GST all along is perceived as a 'tax change' however it impacts the economy, industry, product /services, taxpayer and consumers.

GST is one of the rarest Government policy reforms which impacts each and every resident of the country (and even tourists!).

Rarely any policy of the Government actually has this potential (i.e. potential to impact the entire country).

Given this magum opus impact, introduction of GST, which if not well planned, has potential to increase inflation.

Thus, its critical for the Government to ensure that GST is smoothly implemented and it does not lead to inflation.

8.26 Government needs to find right 'balance' between protecting buyer and seller interest!

The rising income levels as well as penetration of internet / social media is one of the reason for rising level of consumptions across world and making us a 'consuming' society!

Interestingly, GST impacts everything a person consumes, whether its product or services! Thus, in view of introduction of GST, while seller would like to increase the product/ service prices (sometimes even more than the actual GST rate!), a consumer would want to see the prices remain stagnant.

Additionally, whenever GST is to be introduced in the Country, its not un-common to observe that sellers increase the product/ service prices (even before actual introduction of GST!).

Thus, if appropriate measures are not taken and if the consumer is not well aware / educated about GST, then the gullible consumer could be fleeced by the seller in the name of GST.

Given the aforesaid, to protect the interest of the consumer, few of the GST jurisdictions have deployed following methodologies:

a. Specific instructions (particularly to banks, insurance entities) to not to increase prices
b. Displayed prices should be inclusive of GST
c. Introducing 'anti-profiteering provisions'[13]

Given the aforesaid, its most critical for Government as well as GST Authorities to not only take specific measures (such as specified above) but also to empower the end consumers through dissemination of GST knowledge.

Pictorial depiction: Finding balance is critical!

[13] Few of the GST jurisdictions like Australia and India had introduced 'Anti-Profiteering' provisions during GST introduction. Though there is not enough empirical evidence to support that the introduction of 'Anti-Profiteering' provisions actually helped the consumers.

8.27 Government Authorities need to extensively co-ordinate during GST implementation!

GST, *inter-alia*, impacts goods of daily consumption, real estate, imports etc.

Typically, any Country, intending to introduce GST, will have separate Authorities which are managing/ responsible for prices of essential goods, transfer/ registration of real estate (such as Customs Authority), import of goods (such as Customs Authority).

These existing Authorities are responsible for specific functions (such as say collection of customs duty).

However, introduction of GST, has potential to impact their function (such as Customs Authorities could be required to monitor collection of GST on import of goods[14]) or there could be overlap between their role and role of GST Authorities.

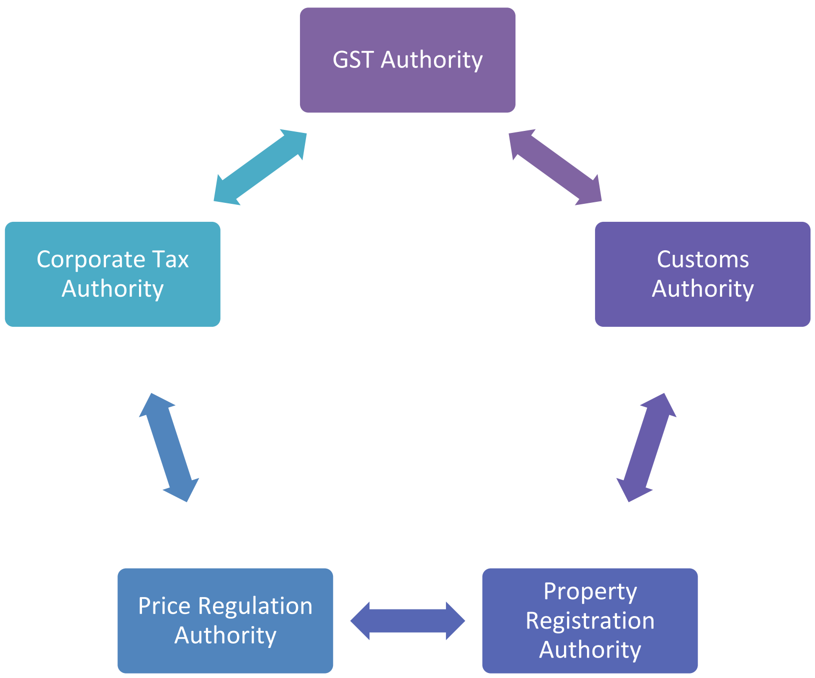
Given the aforesaid, before introduction of GST it is important that there is apt co-ordination between such multiples GST authorities and other Authorities such as customs authority, property registration authority (if

[14] Typically, GST is payable at the time of import of goods alongwith Customs Duty.

any), price regulation authority, (if any, as GST Law may insist that displayed prices to be inclusive of GST), corporate tax authority, if any (as GST Law may insist that the turnover, as shown in corporate tax returns, to be reconciled with GST returns) etc.

Given the aforesaid discussion, early initiation of dialogue between various Authorities is must to ensure smooth transition to GST.

Pictorial depiction: Co-ordination between various Authorities



8.28 Simpler user interface of GST portal is helpful!

GST portals are an interface between the GST payers and GST Authorities.

Across GST jurisdictions, GST portals are used for obtaining GST registration, making GST payment, filing of GST returns, submission of GST related documents and even for audit /assessments.

The first interaction of GST payer takes place at a time when the GST portal goes live for registration purposes.

For registration, GST payers submit the information about the organization (alongwith requisite documents) on the GST portal.

The registration process is initiated through generation of login id and password and completed after submission of documents. Subsequently, the GST Authorities review the documents submitted and grant the GST registration to the deserving cases.

It may be noted that the GST Authorities should ensure that there is minimum time gap between application and granting of GST registration.

In certain GST jurisdictions, it was observed that due to technical glitches on GST portal, though GST payer had applied for registration before due date still the registration was granted late and penalty was levied! Such delays could be avoided.

Further, given than GST portal is an interface, if the same is simpler then its easier to use/understand. Further, GST portal should be responsive even in case of heavy traffic to the portal and glitch- free.

To improve the user interface, simple data validation controls should be placed (alongwith pop-ups to enable the GST payer understand the error and how to correct it).

Also, before GST portal goes live, it should be ensured that appropriate testing should be carried out. The GST portal should also be designed for peak traffic to make it robust / crash-proof portal.

Pictorial depiction: GST Portal!

GST portal should be easy to use

GST portal should support heavy traffic

GST portal should be tested well before it goes live

8.29 Make the law and portal multi-lingual!

Typically, apart from the official language of the Country, GST Law should be made available in English.

This certainly helps the non-residents as well as English speaking readers.

9. Five steps to be GST ready

In the following paras, the critical step plan for business to be GST ready are discussed.

1. Decode GST

It is an accepted fact that GST is not merely a tax change but a business change as it will impact all functions of an organisation such as finance, product pricing, supply chain, information technology, contracts, commercials etc.

Thus, it is imperative that all these functional teams should be aware about the GST. But the underlying question is what should these team members read/ refer for GST?

In this regard, its pertinent to note that most of the key aspects of the GST regime are already in public domain through various books and background material on GST in public domain. Thus, based on this legal knowledge of GST available in public domain the organisation may consider sensitising its employees.

The organisation can consider sensitising its entire business eco-system i.e. not only the employees but also vendors (such as Tier-1, Tier-2 vendors etc.) and key customers of the organisation. An early initiation of training will give the concerned employees, vendors and customers a sense of involvement in discussion much before GST legislation it is put in public domain.

2. Understand GST impact

GST may provide opportunities but at the same time it could bring threats. Given this, an organisation may consider carrying out an exercise to identify how its operations will get impacted because of GST.

For GST Impact Analysis exercise, the respective department heads such as finance, supply chain, product pricing, human resource etc. should be involved to ensure that they provide their inputs and suggestions.

Going one step forward, organisations can also identify possible cost savings which key suppliers / vendors could be entitled to in the GST regime.

Based on the possible cost savings to suppliers / vendors, the organisations can have discussion with its vendors for passing of benefits by way of cost reduction in the coming years (i.e. after GST is introduced).

Early discussion and engaging with vendors will ensure maximum possible benefit to be passed on to the organisation.

Organisations will also have to take into consideration the increase (most likely!) or decrease (least likely!) in tax compliances. For most of the organisations, in GST regime, compliances are expected to increase dramatically.

Thus, in human resource department will have to be informed about the GST regime so that they can anticipate the increase (and decrease in certain cases) in the manpower.

3. Gear up for transition of IT systems

Information Technology (IT) is a key area for business organisations as irrespective of the fact whether the organisation is ready or not, on the very first day GST is introduced, the information technology system of an organisation has to be ready and running else it will bring the entire business to standstill.

Thus, to avoid the threat of disruption of business, it is advisable that early study should be carried out to understand how the systems migration for GST could be done.

4. Design Alternate Business Strategies

To gear up for GST regime, the organisation may identify alternate efficient business strategies to ensure smooth transition to GST.

Even, supply chain strategies is expected to undergo a major change. An organisation will have to re-visit their pricing strategies as business competitors may well reduce prices of their product to pass on the GST input tax credit benefits.

However, while forming alternate business strategies, it goes without saying that the organisation should take into consideration the commercial feasibility of alternate business strategies before these strategies are recommended.

5. Make Representation

Introduction of GST regime could affect negatively (than positively!) to few industries/ sectors.

Un-fortunately, GST does not come with a tagline, 'GST is a matter of solicitation. Please read all the law documents carefully!' Given this, efforts should be made by the organisation to identify the possible issues for which appropriate representation could be made before the appropriate forums though various trade chambers.

While current economic situation is characterised by volatile global economic conditions, introduction of GST remains a new challenge, thus early initiation of aforesaid steps can surely help the organisations gain most of the GST regime.

10. VAT in United Arab Emirates (UAE)

VAT was introduced in United Arab Emirates (UAE) and Kingdom of Saudi Arabia (KSA) from 1st January 2018.

Till 31st December 2017, there was neither direct tax nor indirect tax in UAE. Thus, for a country (and rather for the Gulf region), bringing an indirect tax was a biggest socio-economic change! But did GST in UAE fare well? Lets understand!

10.1 Single rate!

What has worked well with UAE is the fact that it brought VAT with single rate of 5%! No other rates! Even the exemptions in UAE VAT are restricted to a list of four items only (one of them is residential leasing). This has ensured lesser complications in the VAT law.

Additionally, though UAE is union of seven Emirates and Emirate-wise supply details are to be disclosed in VAT returns, still there is no need to bifurcate transactions as 'intra-State' and 'inter-State' as all taxable supplies are liable for VAT of 5%.

Further, the reasonable rate of VAT i.e. 5% has ensured remarkably higher compliances.

10.2 Reverse Charge Mechanism (RCM) is only a disclosure!

In UAE, if credit is available, RCM is not required to be paid in cash. Thus, effectively, RCM only is a disclosure for VAT return purposes. This also has simplified the GST compliances to some extent for the businesses.

10.3 One-page return!

In UAE only one VAT return is to be filed and its just a one-page return. UAE has stayed away from the concept of matching of invoices, rather, invoice level details are not required to be submitted at the time of filing of return!

10.4 Staggered GST return filing!

As per recent statistics, more than 3 lac taxpayers registered for VAT in UAE. Given this, for GST return filing, the Federal Tax Authorities (FTA) staggered GST return period for taxpayers i.e. the system allotted quarterly filing for few taxpayers and for others monthly, four monthly etc is allotted.

This step of FTA has ensured that there is no overload on the VAT return filing common portal. This has resulted in more than 98.8% taxpayers filing their first VAT return. This compliance of 98.8% is one of the highest tax compliance rate in the world!

10.5 Prices inclusive of GST!

For business to consumer (B2C) transactions, the UAE VAT law in UAE mandates that the displayed prices should be inclusive of VAT. This provision has ensured that the customer precisely knows how much he is paying for the goods or food etc he is buying.

Though few instances were noted, wherein the shopkeepers were fleecing the customers, however, thanks to the social media savvy consumers, these shopkeepers were penalized by FTA for their mis-adventures.

10.6 Substantive FTA initiatives!

During the transition as well as post-transition, the FTA have regularly addressed seminars and thrown light on key issues concerning businesses through various VAT guides and VAT flyers. This has also helped put many doubts on VAT applicability on to rests!

10.7 Few challenges!

It cannot be said that there were no challenges in the initial phases of VAT in UAE. Like any country introducing VAT, in UAE also witnessed and continue to witness few challenges and confusion on free trade zone, imports, supplies to other GCC countries, determining place of supply etc.

10.8 GCC countries yet to become one common market!

Challenges are being faced by businesses in GCC as Kingdom of Saudi Arabia (KSA) and UAE are yet to recognize each other as GST Implementing States. Bahrain is likely to introduce VAT from 1st January 2019 and Oman from 1st September 2019. Kuwait and Qatar are yet to provide clear dates for VAT introduction.

11. GST - International Scenario

Internationally, GST/ GST was first introduced in France and now more than 162 countries have introduced GST/ GST.

Most of the countries, depending on their own socio-economic formation, have introduced National level GST/ GST or Dual GST/ GST.

We have discussed below key features of GST prevalent in some of the countries.

United Kingdom[15]

Particulars	Details
Name	Goods and Services Tax
Date of introduction	01.04.1973
Scope	▪ Supply of goods or services made in UK ▪ Intra-community procurements from EU members ▪ Importation of goods and services
Standard Rate	20 %
Reduced rate	5 % and exempt and zero rated

[15] Source www.hmrc.gov.uk

Threshold exemption limit	£ 73,000
Liability arises on	**Accrual Basis:** On raising of invoice or receipt of consideration or supply (of goods or services), whichever is earlier. **Cash basis** (if turnover is below £1.35 million): On receipt of consideration
Payment	Usually quarterly returns. However, small business can opt for annual returns filing.
Export	Exports are 'Zero' rated.
Exempt services	1. Medical and education 2. Finance, insurance, postal services
Innovative concept	To ease the GST administration, the assessee is informed at the time of registration itself as to which of the three quarterly cycle it should follow for filling the GST returns.

Canada[16]

Particulars	Details
Name	Federal Goods and Service Tax & Harmonized Sales Tax
Date of introduction	GST 01.01.1991 & HST 01.04.1997
Scope	Taxable supplies of goods and services

[16] Source cra-arc.gc.ca

Standard Rate	GST 5% and HST varies from 0% to 15%
Reduced rates	Exempt and Zero rated
Threshold exemption limit	Canadian $ 30,000
Liability arises on	On accrual (date of invoice, date of issue of invoice) or receipt of consideration, whichever is earlier.
GST returns and payments	Depending on the turnover, tax needs to be deposited either monthly, quarterly or annually.
Reverse charge mechanism	Reverse charge applies to importation of services and intangible properties.
Export	Exports are 'Zero' rated.
Exempt services	1. Supply of real estate 2. Financial Services and residential renting 3. Supplies by charities 4. Health, education services
Innovative concept	A group concern can supply to another group concern at zero rate

Australia[17]

Particulars	Details
Name	Goods and Service Tax

[17] Source www.ato.gov.au

Date of introduction	01.07.2000
Scope	▪ Taxable supplies of goods and services made which are connected with Australia and made for a consideration by a registered (or required to be registered) person in the course of business enterprises ▪ Importation of goods
Standard Rate	10 %
Reduced rate	0 %
Threshold exemption limit	$ 75,000
Liability arises on	Accrual basis: On raising of invoice or receipt of consideration, whichever is earlier. Cash basis [an option available to assessee having turnover below $ 2 million]: On receipt of consideration.
Payment	Depending on the turnover, the tax needs to be deposited either monthly, quarterly or annually.
Due date for payment	Tax needs to be deposited on 21st day following the end of the month/quarter/year.
Reverse charge mechanism	Reverse charge applies to supplies made by non-residents
Export	Exports are 'Zero' rated.

Exempt services	1. Government supplies such as water services, drainage services etc. 2. Health, education, religious supplies Financial Services and residential renting 3. Vegetable, fruit, meat
Innovative concept	'Group registration' wherein a single consolidated return for the group can be filed.

Republic of China[18]

Particulars	**Details**
Name	Goods and Services Tax
Date of introduction[19]	01.01.1994
Scope	▪ Taxable supplies of goods and services for consideration in China by a taxable person in the course or furtherance of a business ▪ Importation of goods The scope of GST in China is particularly on 'goods'. At present, only two services (viz. Repair services & Service of supply of goods as per customers requirement) attract GST.

[18] Source Chinatax.gov.cn

[19] Recently, China introduced Shanghai GST Pilot Project

Standard Rate	17 % or 16% (reduced rate for certain supplies)
Reduced rates	11% or 10%, 6%, 4%, 3 % and 0%
Liability arises on	On raising of invoice or receipt of consideration, whichever is earlier. However, in case of payments in installments, the relevant date when the installment is due.
Payment	Depending on the turnover if it is monthly or quarterly then payment within 15 days from end of the month or quarter
Due date for GST return	Within 15 days from end of the month/ quarterly
Export	Exports are 'zero' rated.
Exempt services	1. Agricultural products and fertilizers 2. Contraceptives, Second hand goods (by individuals)
Innovative concept	Small businesses can pay GST @ 3% (however input tax credit would not be available).

New Zealand[20]

Particulars	**Details**
Name	Goods and Service Tax
Date of introduction	01.10.1986
Scope	▪ Supply of goods or services made in New Zealand by a registered person

[20] Source ird.govt.nz

	▪ Importation of goods
Standard Rate	15 %
Reduced rate	Zero rated and exempt
Threshold exemption limit	NZ$ 60,000
Liability arises on	On raising of invoice or receipt of consideration, whichever is earlier.
Returns	Depending on the turnover it is either monthly, bi-monthly or six-monthly
Due date for returns and payment	On 28th day following the end of the month or bi-month or six-month. However, different date for the certain periods.
Reverse charge mechanism	Reverse charge applies to supply of services made by non-residents.
Export	Exports are 'zero' rated.
Exempt services	1. Real estate 2. Financial services 3. Residential rental
Innovative concept	The headline price in advertisement and stores must be always GST-inclusive except when supplies are to whole-sale clients.

Singapore[21]

Particulars	Details
Name	Goods and Service Tax
Date of introduction	01.04.1994
Scope	▪ Supplies of goods and services in Singapore by a taxable person in the course or furtherance of a business ▪ Importation of goods
Standard Rate	7 %
Reduced rate	Zero rated and exempt
Threshold exemption limit	Singapore $ 1 million
Liability arises on	On raising of invoice or receipt of consideration or supply (of goods or services), whichever is earlier.
Returns	Usually quarterly returns. However, business can opt for monthly returns.
Due date for returns and payment	Last day of the month following the end of the month or quarter.
Reverse charge mechanism	Reverse charge applies to supply of services
Export	Exports are ‘zero’ rated.

[21] Source iras.gov.sg

Exempt services	Real estate, Financial services, Residential rental
Innovative concept	Divisional registration wherein if an assessee has several divisions he may register the said divisions separately. Each such division should submit its own return. The supplies between the divisions are ignored for GST purposes.

European Union

Particulars	**Details**
Name	Goods and Services Tax
Territory	Of the 27 states the prominent states are: United Kingdom[22], France, Germany, Sweden, Spain, Italy, Ireland, Poland, Austria, Belgium, Denmark, Netherland, Portugal, Hungary. EU is a 'single market' meaning the goods and services can move freely in cross border trade between member states.
Scope	**Supplies to Taxable persons**: GST is payable by the taxable person on acquisition (i.e. purchaser) at the rate applicable in his (acquirer's) country **Supplies to non-taxable persons**: GST is payable by supplier (i.e. seller)
Standard Rate	Minimum 20%
Reduced rates	5 % and 0 %

[22] Brexit is underway!

For threshold exemption limit, payment, etc	Refer specific country

12. GST Illustrations

12.1 Illustration A

Particulars	Sale by Raw material supplier to Manufacturer	Sale by Manufacturer to Distributor	Sale by Distributor to Retailer	Sale by Retailer to Consumer
Selling price	100	200	300	400
GST payable on sale (GST 10%)	10	20	30	40
Input tax credit available (ie GST paid on purchases)	-	10	20	30
Net tax payable to Government	**10**	**10**	**10**	**10**

12.2 Illustration B

The following example will illustrates how GST would work:

Say, ABC rents out office to PQR. The taxable revenues and expenses are as follows:

Particulars	BTN
Income of ABC	
Rent from commercial premises	1,00,000
GST 10%	10,000
Total	1,10,000
Expenses of ABC	
Telephone expense (including GST 500)	500
Property maintenance charges (including GST of 1,000)	1,000
GST payable by ABC = GST payable less GST paid on procurement	
Output GST BTN 10,000 – GST BTN 1,500 (BTN 500 + BTN 1,000) paid on procurements	**8,500**