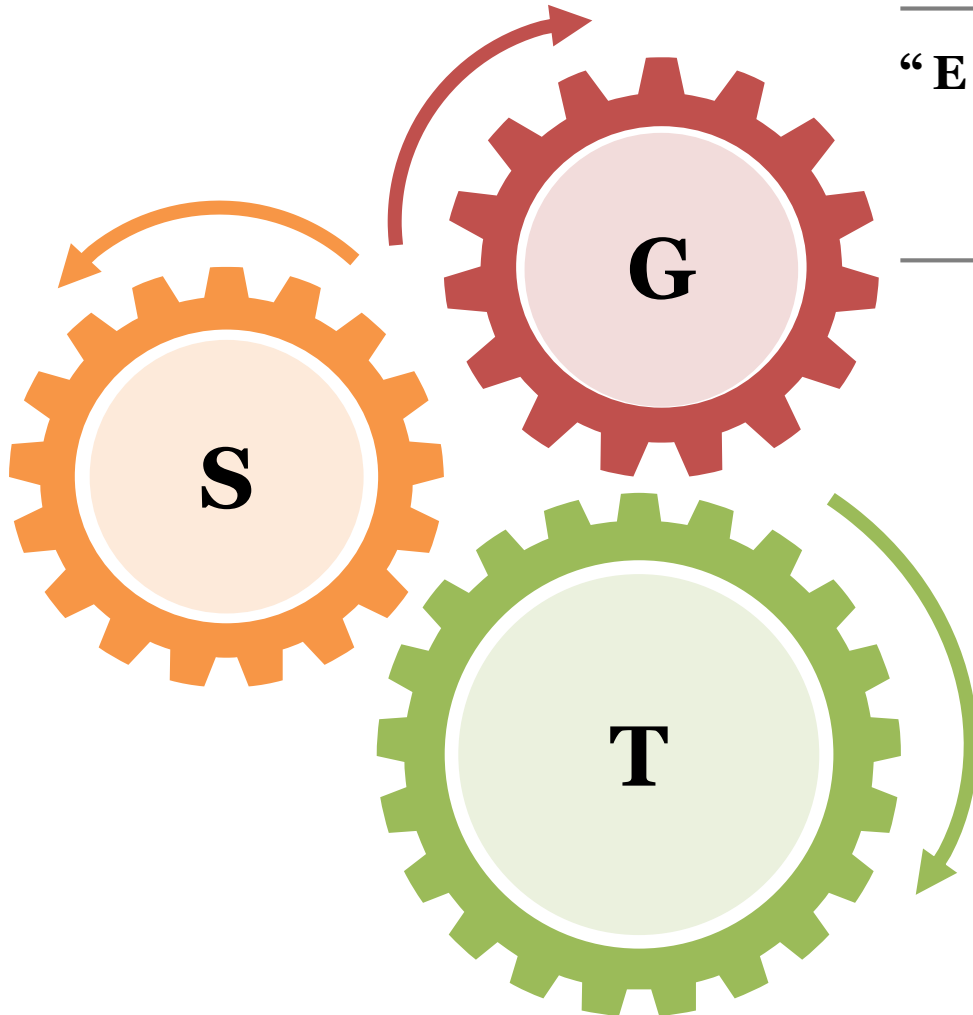




GST Impact on Textile

Arvind Bhansali

GST Impact – Theme



**“Every Masterpiece Begins
With a Drawing”**

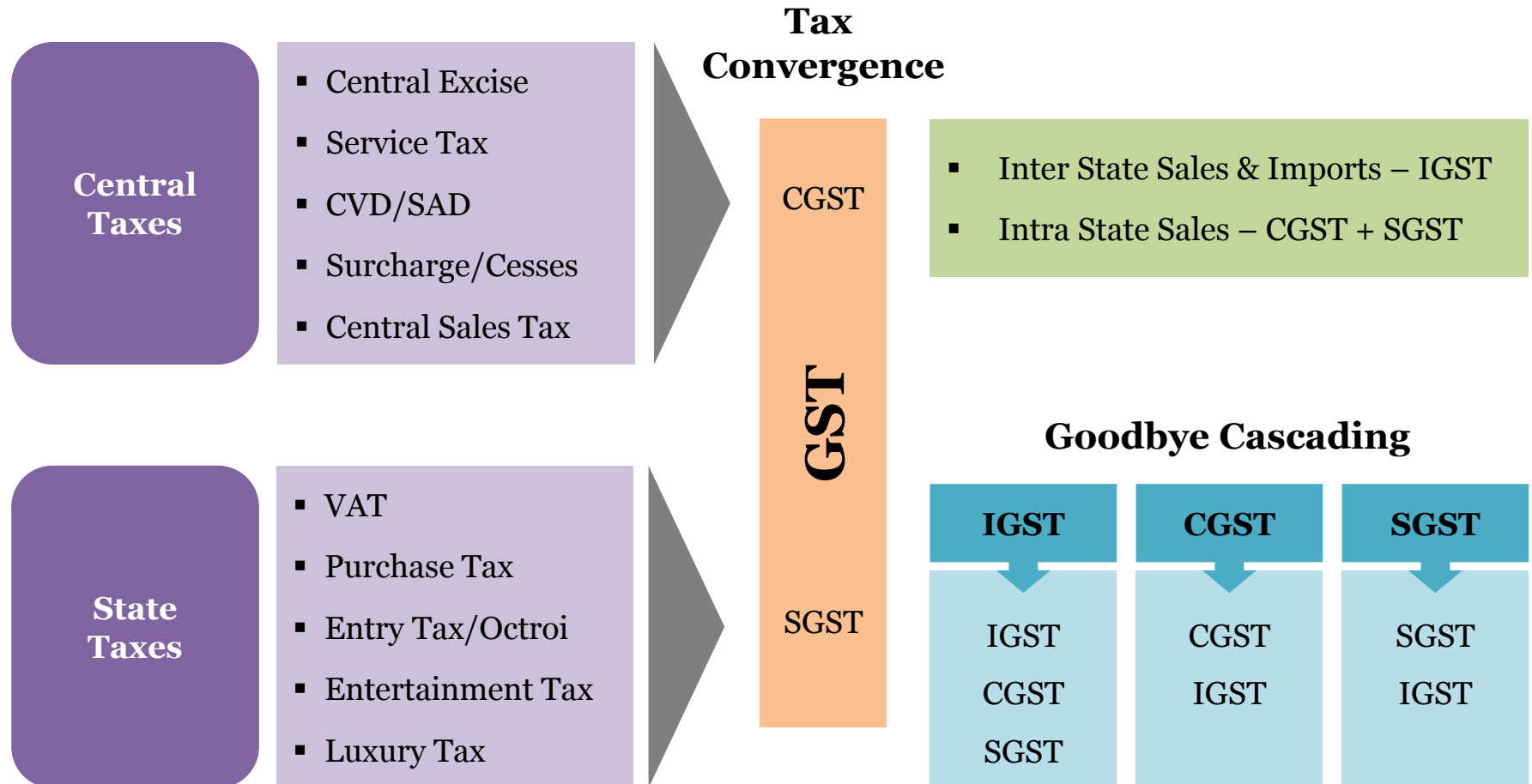
Leonardo De Vinci

G – Goodbye Cascading

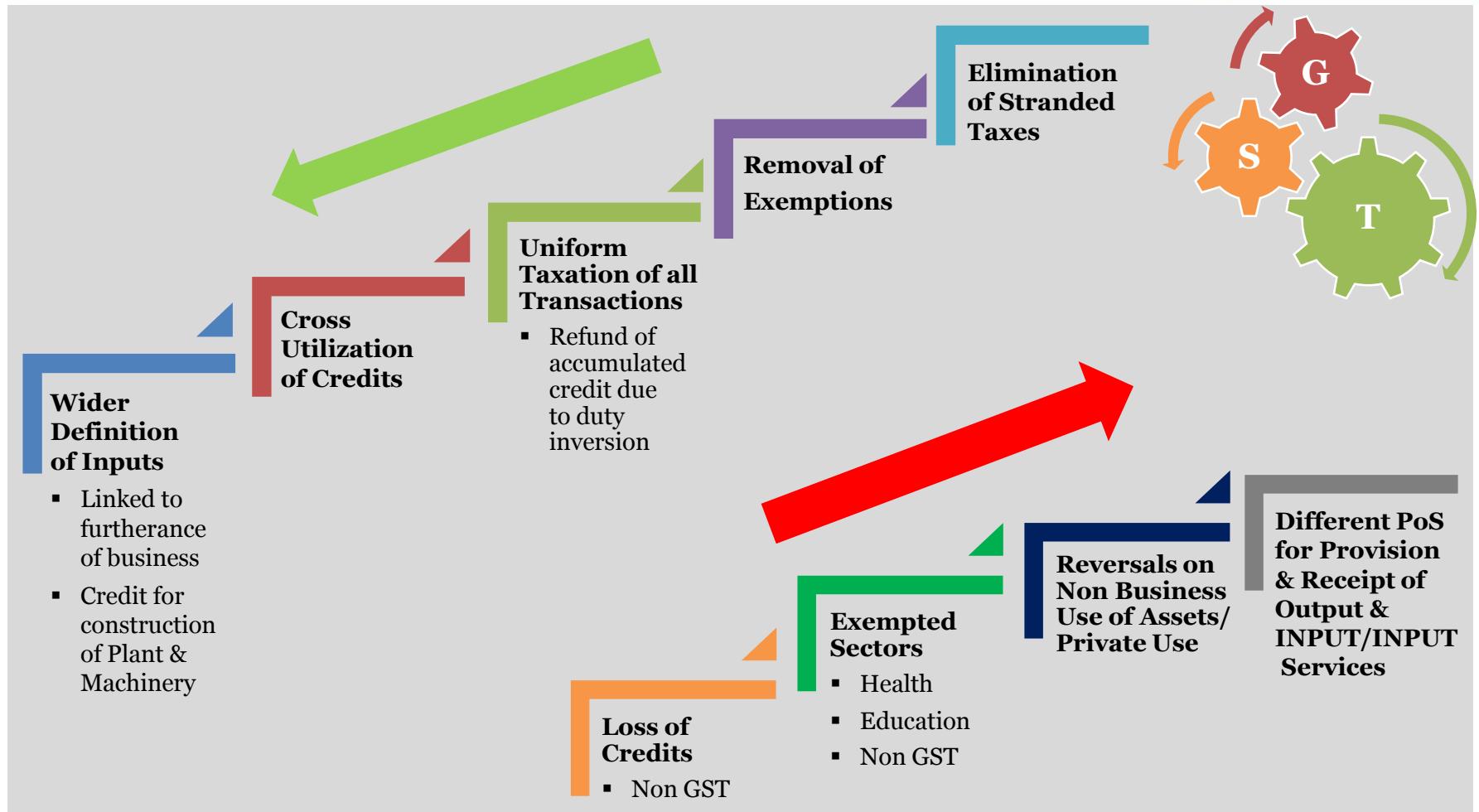
S – Simplified Procedures

T – Tax Convergence

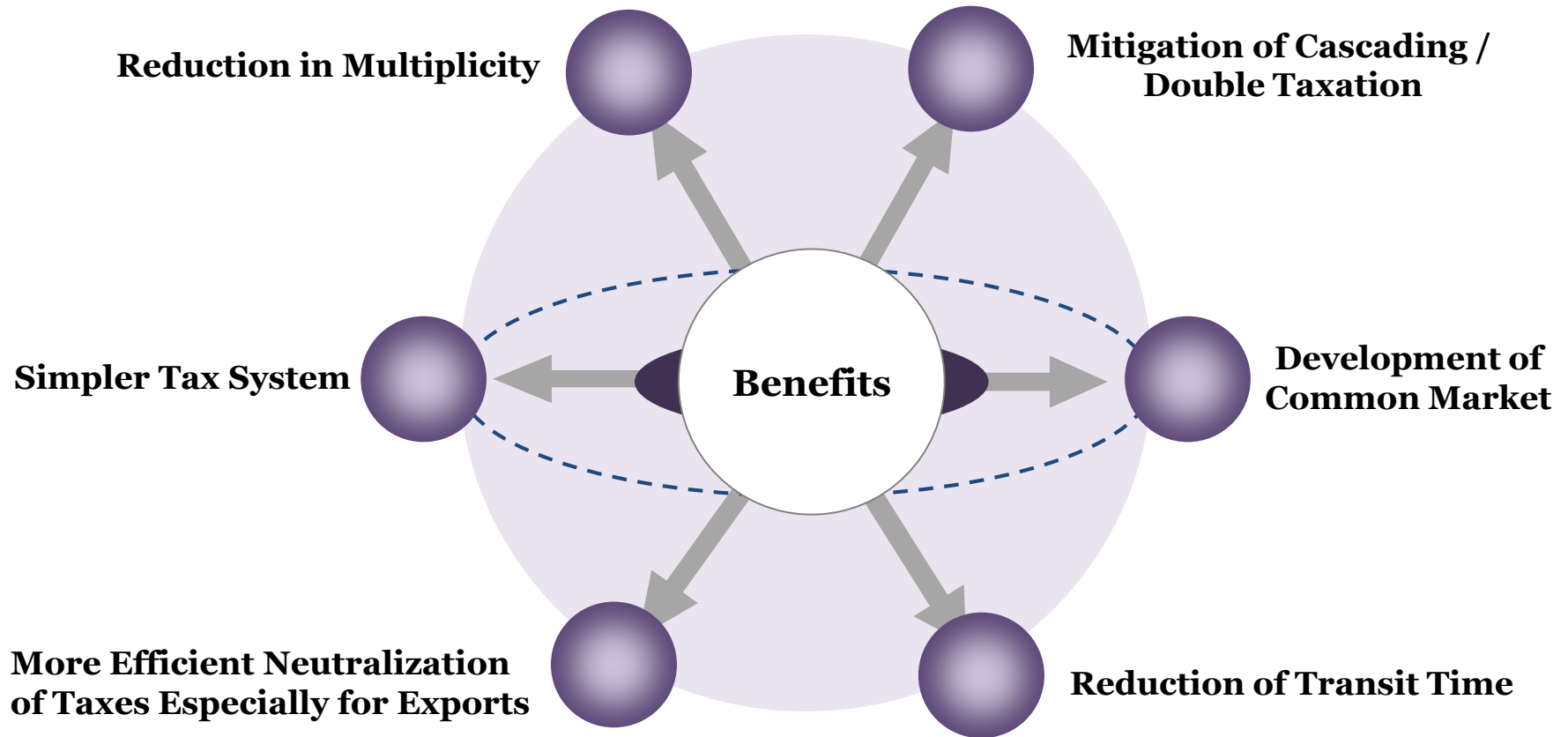
GST : Broad Framework



GST Impact on Cascading



GST Benefits ...



GST Optimizations

Registrations

- Single State registration or vertical wise
- Comparative Credit availability analysis
- Normally single reg. preferable – cross locational credit utilization; simpler compliances; no tax on inter-location movement
- Registration strategy to factor possibility of loss of credits – differential POS
- Working Group set up

Cascading

- Taking credit of input/input services used for construction of plant & machinery
- Minimize leakages thru vendor training
- Optimizing reversals
- Explore option and comparative benefits of compounding in exempt sectors
- Ensure credits are not lost due to mismatches in POS
- In-house than outsource, Make than buy where stranding

GST Optimizations (Cont'd)

Procurements, Operations, Marketing

- Review barter/ collaborative arrangements
- Review tax driven procurement decisions – interstate vs. intra state
- Review marketing /arrangements – mother depots model feasible
- Renegotiation of procurement contracts to share benefits of upstream removal of cascading
- Changes in job work transactions
- Billing pattern to capture POS and optimize credit utilization

Transition

- Maximum utilization of inputs/input services credits before transition in new areas of reversals
- Updating & maintenance of stock of raw materials, consumables, semi finished good, capital goods in new areas – services for VAT credits, Retail for Excise Credits, new credits - CST inputs, inputs for exempt outputs becoming taxable
- Complete job work transactions before transition
- Getting pending assessments finalized before transition – enhanced liability post transition may be a cost
- Incorporating review clauses in long term contracts (possibility of permitting continuation of existing levies if no review clause – may not be constitutional)

Key Challenges



Valuation



Valuation for Supplies:

- As per Section 15 of Model GST Law, value of supply shall be ***“Transaction Value”***

GST Valuation Rules 2016:

Rule 3(5) Where goods are transferred from-

- One place to business to another place of business
- The principal to an agent or from an agent to the principal

What would be the Valuation in case of the following as there is no specific valuation provisions under draft GST Law

- Stock transfer for sale
- Inter unit transfer
- Sale through Consignment Agents

Valuation (Cont'd)



Treatment of Post Sale Discounts

Section 15(h) of Model GST Law

- Transaction value shall not include any discount or incentive that may be allowed after the supply has been effected
- Such discount should be established as per the agreement and is known at or before the time of supply and specially linked to relevant invoices

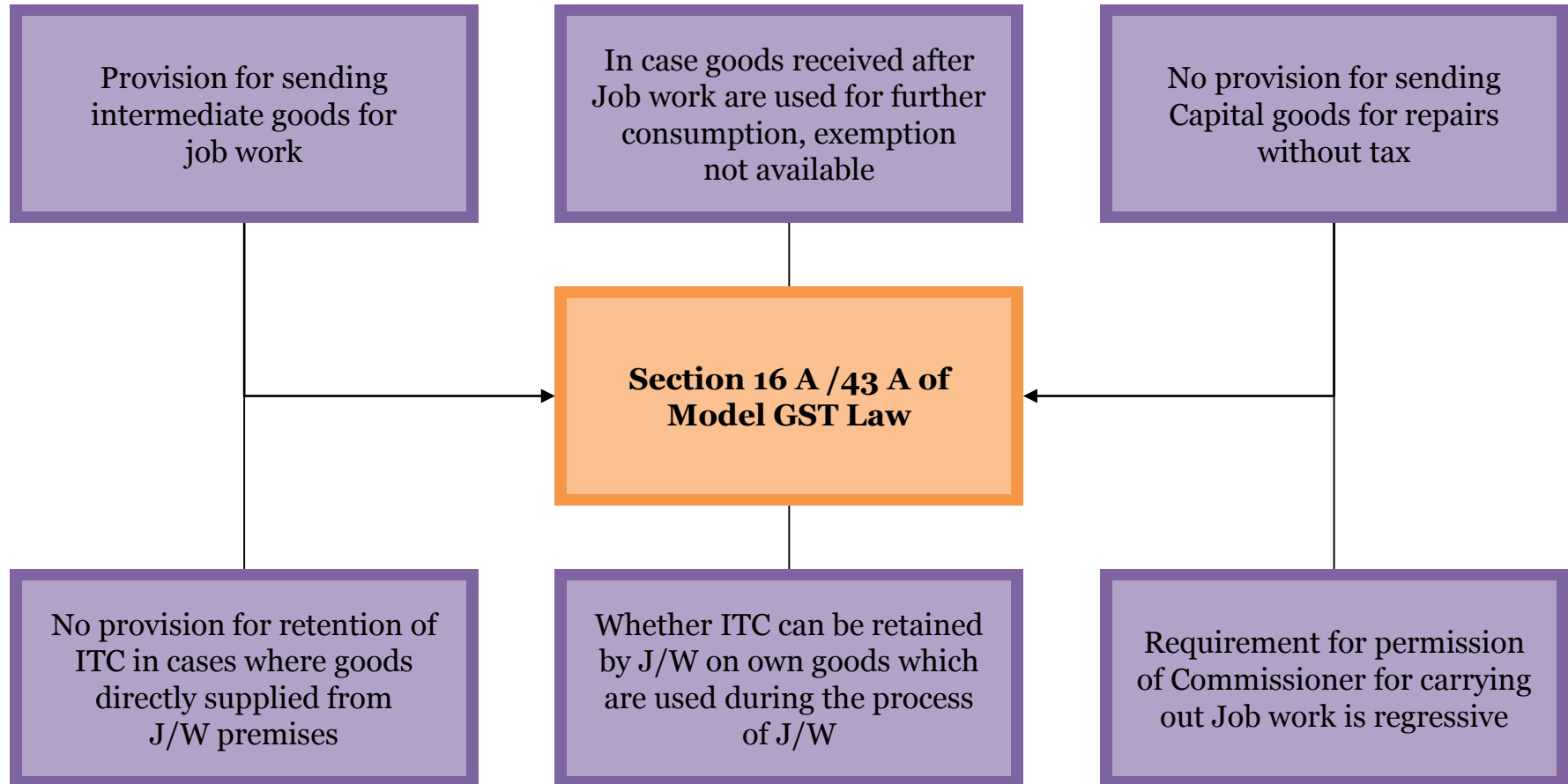
- If an intimation for post-sale discounts is given before the sale is effected then whether an agreement is still needed or Pricing Circular will serve the purpose ?
- One to one co-relation with each invoice may be challenge ?

Return of Goods



- Material supplied on delivered basis / Ex works basis and customer returns goods after / before taking delivery
- Diversion of material from one customer to another customer on account of return/rejection (intra / inter state)
- Accident case – Handover to transporter within state of supplying plant/ Customer
- Short supply of goods
- Material supplied on CIF / FOB basis and customer returns goods after/before taking delivery
- Dispatch and return inter / intra state
- Dispatch intra state and return inter state and [vice-a-versa](#)
- Return within/beyond 6 months
- Full / partial return of goods
- Dispatch from SEZ to DTA and return within SEZ and Dispatch from DTA to SEZ and return in DTA

Job Work



Time of Supply of Goods



Section 12 (2) of Model GST Law, Taxable Events Shall be the Earliest of the Following

- The date on which the goods are removed
- The Date on which the supplier issues the invoice
- **The Date on which the supplier receives the payment**
- The date on which the recipient shows the receipt of the goods in his books

Tax is Payable on Receipt of Advance Against Supplies. Few Scenario Where Advance Can be a Big Challenge

- Advance received is lower /more/equal than Invoice value
- Security deposit subsequently adjusted as advance
- Credit balance on account of discount is treated as money received for future supply
- Destination of supply and origination of supply is not ascertainable at the time of receipt of advance
- After supply against advance excess amount lying to be refunded to customer
- Advance paid by the customer but before credit of advance in books goods are dispatched
- After receipt of advance customer instructs to supply to his location having different registration in same state or different state

Key Concerns



1. No visualization for extension of tax benefits to STPs & EOUs
2. Export supplies / supplies to SEZ may be under refund route. This may lead to blockage of fund and increased transaction cost
3. To retain Input tax credit it is necessary that supplier makes the tax payment, in the absence Input tax credit to be reversed with interest
4. Capital goods not excluded for reversal of Input tax credit, if used for taxable and non-taxable supplies
5. Supplies without consideration in the course or furtherance of business by a taxable person have been made taxable under Schedule-I

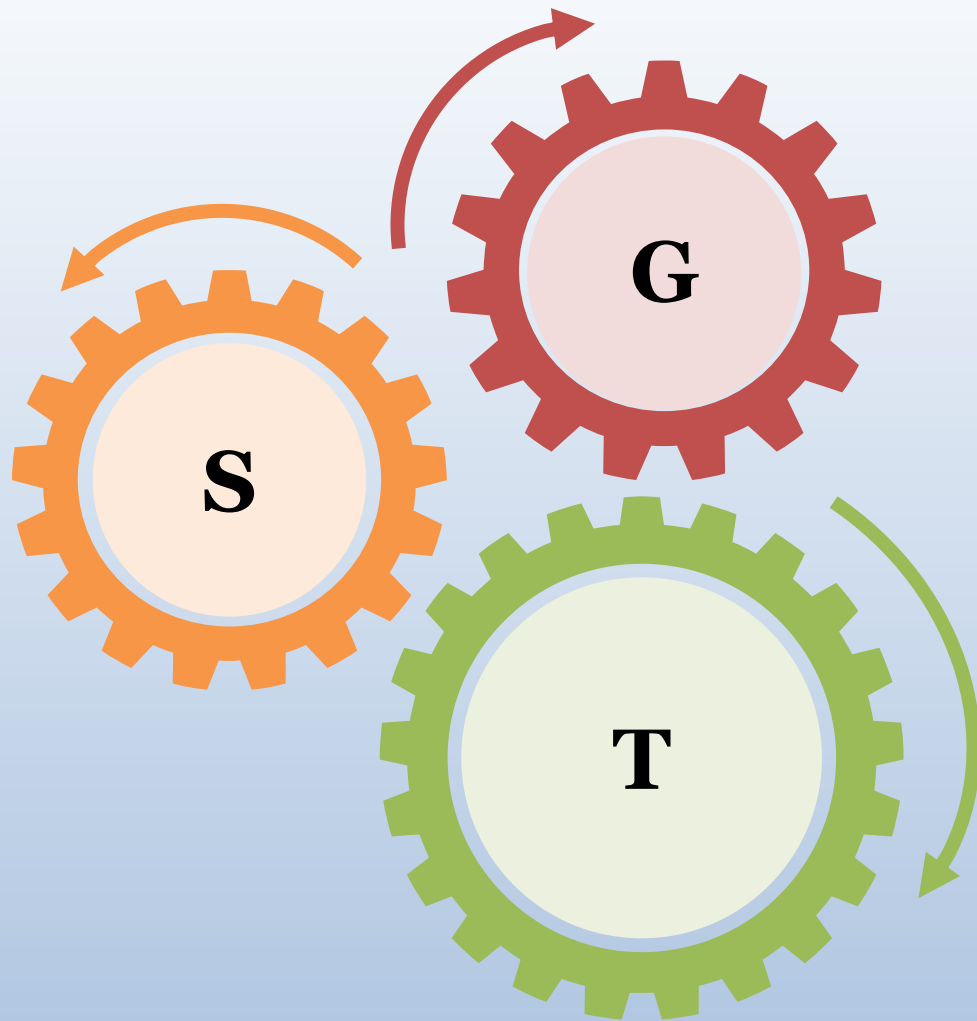


Key Concerns (Cont'd)



6. Inadequate transitional provisions – No visualization for following situations
 - I. Tax credits for Goods in transit on appointed date
 - II. Excise duty paid goods lying in depots / consignment agent / dealer's premises on appointed date
 - III. No provision for refund of taxes paid under earlier law but refund claim to be filed post GST
7. Requirement for robust IT infrastructure for submission of exhaustive information viz. invoice wise / HSN code wise details, matching of documents for Input tax credit etc.





ANALYSIS + OPTIMIZATION = +ve IMPACT

Thank You