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Is GST in India a Game Changer?



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SOURCE Neeraj Bhagat & Co.

NEW DELHI, September 27, 2016 /PRNewswire/ --

The Government's plan to roll out Goods and Services Tax (GST) from April 1, 2017, has moved an inch closer to reality with the Hon'ble President Shri. Pranab Mukherjee signing the Government's flagship **GST Bill recently**. The much-awaited GST now becomes a law with President signing the GST Bill after more than 16 States (BJP-ruled Assam being the first one) ratified it.

(Logo: <http://photos.prnewswire.com/prnh/20160831/402953/LOGO>)

The introduction of GST is expected to not only make the tax system simpler but also help increased tax compliance, boost tax revenues, reduce the tax outflow in the hands of the consumers, make exports competitive and provide an unfragmented national market for goods and services.

Constitutional amendments that affect the tax regime have been notoriously difficult to pass in the legislature, especially in federal countries where state governments fiercely defend their autonomy. This is one of the main reasons why even a developed country like USA is yet to implement GST. In India, the most prominent hurdle in introducing GST has been the ongoing tussle between the states and the Centre on the loss of revenue.

It has taken almost 16 years, from the inception of the idea and formation of a task force, to a historic multi-party consensus-building exercise that led to the passage of the GST bill in Parliament.

Keeping this in mind, the successful introduction and passage of the GST Bill in the Indian Parliament is a noteworthy achievement for a large democracy like India. Interestingly, a major Indian software giant is building a state-of-the-art electronic infrastructure for a GST tech portal where taxpayers can register, pay their taxes and file returns.

Goods and Services Tax, which aims to simplify the indirect tax regime largely seems to bring in a breather for manufacturing and trading businesses, services may become expensive depending on the GST rates.

TAXES TO BE SUBSUMED IN GST

- | | |
|---|--|
| <p>Central Taxes to be Subsumed</p> <ol style="list-style-type: none"> 1. Central Excise duty (CENVAT) 2. Excise duty levied under Medicinal & Toiletries Preparation Act. 3. Additional Excise Duty 4. Countervailing Duty (CVD) 5. Additional duties of customs (ADC) 6. Service Tax 7. Surcharges & Cess, KKC | <p>State Taxes to be Subsumed</p> <ol style="list-style-type: none"> 1. State VAT 2. Central Sales Tax 3. Purchase Tax 4. Luxury Tax 5. Entertainment Tax (unless it will be levied by Local Bodies) 6. Entry Tax (All forms) 7. Taxes on lottery, betting & gambling 8. Surcharges & Cess |
|---|--|

Only single Tax GST will be levied on all the Goods & Services. The above taxes will be abolished.

- Taxes that will not be subsumed
1. Electricity Duty
 2. Stamp Duty
 3. Other Entry taxes and Octroi
 4. Basic customs duty and safeguard duties on import of goods into India
 5. Professional Tax
 6. Entertainment Tax (levied by local bodies)

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GST Rates on Goods & Services: to be based on Revenue Neutral Rate (RNR) - There will be *Four rates*:

- Merit rate for essential goods and services.
- Standard rate for goods and services in general. For goods in general, government is considering pegging **the rate of GST from 18% to 20%**,
- Special rate for precious metals, &
- NIL rate

Current Rates of GST in some other countries are:

Japan	8%
Germany	19%
Canada	5%
Sweden	25%
France	19.60%
Singapore	7%
New Zealand	15%
Australia	10%

Rules for Calculation of Tax Liability and Tax Credit

	INR	CURRENT SYSTEM	GST Manufacture
COST OF GOODS		0	0
Add: Value Addition (A)	10000	10000	10000
Basic Price		10000	10000
Add: CENVAT @12.5% (D)	1250	0	0
Add: GST @18%	0	1800	1800
Add: VAT @12.5%	1406	0	0
Total Price	12656	11800	11800
Wholesaler/Distributor			
Cost of Goods	12656	11800	11800
Less: Input credit of VAT/GST	-1406	-1800	-1800
Add: Value Addition (B)	5000	5000	5000
Basic Price	16250	15000	15000
Add: VAT @ 12.5%	2031	0	0
Add: GST 18%	0	2700	2700
Total Price	18281	17700	17700
Retailer			
Cost of Goods	18281	17700	17700
Less: Input credit of VAT/GST	-2031	-2700	-2700
Add: Value Addition (C)	2000	2000	2000
Basic Price	18250	17000	17000
Add: VAT @ 12.5% (E)	2281	0	0
Add: GST 18% (F)	0	3060	3060
Total Price paid by consumer	20531	20060	20060
Total Value added (A+B+C)	17000	17000	17000
Total Tax Paid (D+E+F)	3531	3060	3060
Effective Tax Rate (% of Value Addition)	21%	18%	18%

GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.

Large corporate houses have always been keen for the introduction of GST as it proposes to rationalize complex indirect tax structure and most importantly unite 36 different markets (states and union territories) existing today within India into a single market for goods and services. Presently, most of the goods domestically manufactured and traded within India face around 25 to 27 percent of tax burden which may go down to around 18 percent under GST. The operational costs may also reduce as expense on logistics and various other distribution costs can be optimized under GST. Further, experts opine that the implementation of GST would push up India's GDP by 1%-2%.

By eliminating barriers such as entry taxes, GST will result in a **unified national market** for goods and services that will be accessible to the smallest entrepreneur. It could potentially make sourcing, distribution and warehousing of goods easier and faster between the Indian states. Also, as companies will no longer need to pay interstate taxes, implementation of GST will free up capital that they can now use in their business.

Thus, in our view, GST has the potential to be a 'game changer' for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system.

Though GST is not the solution to all the problems of India's economy, it is nevertheless a revolutionary and much awaited reform. It is hoped that GST will boost economic growth and jobs, the ease of doing business, and higher tax collection.

In light of the Model GST laws released in June 2016 and business process reports released last year, companies should start assessing the GST impact on their business operations. Pricing pattern of products or services, supply chain optimization, warehousing strategies, IT, accounting and tax compliance systems are some of the aspects that should be re-looked at so as to align with this proposed key reform.

About the author:

Neeraj Bhagat is a member of the Institute of Chartered Accountants of India (ICAI) since 1997. He is also an Associate member of Association of International Accountants, United Kingdom. He is founder of Neeraj Bhagat & Co, an Indian Chartered Accountancy firm serving various MNC'S from across the globe. Neeraj Bhagat & Co. has its offices at New Delhi, Gurgaon and Mumbai. They are part of INAA Accounting Association which is one of the World's Top 20 in accounting associations.

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