GST - Current Challenges & Way forward

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GST – Status so far

- Steady increase in number of registered taxpayers, returns filed and GST collections
- Increase in GST collections seen, despite rationalization of tax rates – trend suggests increase in tax base and improvement in compliance
- However, collections still short of target, which leads to strict anti-evasion and enforcement measures by the Government
GST – Journey so far

- **Focus on Simplification in Overall Compliance**
- **Buoyancy in revenue collections:**
  - Leading to rate reduction for many goods and services which attract 28%
- **Anti profiteering used for controlling inflation:**
  - Over 860 complains filed till Nov 18
- **Relief for exporters as special GST refund drive rolled-out**
- **Advance Ruling to provide clarification:**
  - Plethora of rulings issued (at times conflicting)
- **Petroleum products kept out** – Govt mulling to include under GST

- **Government Focus**
  - Thrust on **clearing old backlog** such as assessments and litigations
- **Industry Focus**
  - **Ensuring closure of FY19:**
    - With minimum lapses and loss of credits
    - Mapping credits and automate compliance to handle annual return
    - Handling GST Audits and assessment
  - Trade Bodies proactive in making representation
  - Companies resorting to **Advance Ruling for seeking clarification**

India’s Biggest Tax Reform still Evolving
GST – Journey so far

**Continuous Monitoring**
- Regular Change in law
- Updates through twitter
  - Moving Goalpost

**Robust IT System required**
- System driven compliances
  - No revision of returns
- Government ahead than industry

**Receptive Government and Authorities**
- Various FAQ, Clarification issued
  - Amendment in rates basis representation

**Key Learnings**

**Focus on Data analytics**
- E-way bill implemented
  - Notices on 2A vs 3B
- Focus on revenue leakage
Challenges During Last Year

Amendments and Rulings
• Restriction on refund of IGST paid on exports, if Advance Authorization benefit availed
• Relaxation of pre-import condition for import against Advance Authorization, post significant representations
• Retrospective reversal of cess credit transitioned
• Restriction of credit on post sale discounts
• GST applicability on ocean freight

Vendor Mismatch
• Significant mismatches in vendor information
• Mismatch on account of multiple reasons – non accounting of invoice, incorrect GSTN or POS, taxable value, invoice no.
• Availing credit of reimbursements made to agents / airlines
• Integration of ICEGATE and GST portal yet to be done – manual reconciliation of GST paid on imports
• Extension of due date for FY 18 till March 2019 brought some relief
• However, due date for FY19 still remains – September 2019

E-waybill
• Confusion prevailing on need of e-waybill
• Clerical errors have led to goods being detained
• Delay in delivery of goods coupled with litigation cost hampering business
Impact on Supply Chain

**No Restrictions on Procurement sources**
Post GST, Companies have shifted procurement sources, if benefits available as compared to existing procurement sources.

**Network Optimization**
Companies have identified optimization of warehouses - though implementation has been slow in a phased manner.

**Faster movement of goods**
Removal of state barriers / checkposts has avoided long queues and faster movement of goods.

**Inventory Optimization**
Opportunity to optimize inventory at different warehouses, so as to reduce inventory holding costs.

**AEO Benefits**
Tangible benefits extended to importers & exporters such as:
- Facility of deferred tax payment
- Refund granted within 45/30 days
- Document scrutiny waived
- BE / SB’s processed faster
- Higher level of facilitation than others

Significant increase in warehousing space expected over next 2 years, including setting up of Multi-Modal Logistics Parks.
What to Expect

1. Increase in threshold limit for GST registration may see many small suppliers opting out of GST

2. Composition Scheme introduced for service providers (annual turnover upto INR 50 Lakhs with GST rate 6%) will increase cost of procurement

3. Place of supply for transportation of goods outside India will impact credit availment – increase in cost

4. Vendor compliance continues to be a problem – non payment of tax / delay payment of tax / non filing of returns / delay filing of returns will impact cash flow

5. Reconciliation of e-waybill details with information filed in returns – can lead to penal consequences

6. New compliance mechanism and availment of credit process will impact cash flow
New return filling process and forms introduced. The effective date for the same has been deferred with no further clarification:

**New Return Procedure**

**Form GST ANX 1**
- Outward supplies including import and RCM to be uploaded up to 10th of following month

**Form GST ANX 2**
- Documents uploaded by supplier will get reflected immediately and credit on the same can be availed till 20th of the following month

**GST RET -1**
- Summarized details reported in Anx -1 and Anx -2 will be uploaded and auto computed tax liability to be discharged

Only credit appearing on portal and accepted by customer will be available as credit
Next on Government Agenda

**Compliances**

- Introduction of new Compliance process shall simplify returns and facilitate real time credit reconciliation

**Rate rationalization**

- GST rates to be rationalized and restrict 28% slab for sin or luxury goods including cement

**Convergence**

- Converging direct tax, transfer pricing and GST related aspects

**Impact of elections on GST reform**

- Impact of elections on GST reform

**Increased demand for bringing five petroleum products under GST Regime**

- Petrol under GST

**Government using analytics to study revenue trends to analyze reasons for deviation in targets**

- Data Analytics

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What Needs to be Done

- Vendor compliance / discipline will be crucial to ensure timely availment of credits
- Non-compliance by vendors can lead to credit loss
- Vendor selection criteria will have to be relooked at
- Commercial measures can be adopted in case of default by vendors

- Explore opportunities to optimize distribution network, inventory
- Explore benefits available under AEO scheme (Tier 2 certification)

- Strengthening of internal processes – timely tracking of input tax credits – use of technology (bots)
- Reconciliation of GST paid on imports with credits availed in returns
- Reconciliation of e-waybill data with GST returns
- Use of analytics to review loss of credits / non compliance