

## What Material- Purchase need to know of IDT?

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### What The Material/ Procurement Executive/ Manager needs to know about Indirect Taxes?

The successful material/ purchase officers knows the production needs well in terms of quality, timeliness and quantity. He also understands the cost of products / services sought to be procured , where available at economical prices. Maybe nearer the source + have a few alternative's in case of urgent procurement.

In this article we look at a few options/ situation in the procurement life cycle and understand the impact. The central excise duty & service tax rate is 12.36 percent , VAT could be around 5 percent or 14 percent depending on the State and product. CST for interstate sale is 2 percent subject to "C form". In case of imports the total customs duty is normally around 27 percent . Therefore the average impact of IDT in procurement of any product could range from 18 percent to 30 percent of the total purchases.

The indirect tax aspects/ knowledge of such a person could be as under:

1. Understand the role taxes play vis a vis the company which is procuring:
  - a. The purchaser who is **an intermediary manufacturer** liable to pay the central excise duty would be able to avail the central excise duty and utilise the same for payment of duty on his final product. Therefore with such company ALL purchases need to be quoted CED & VAT extra. The procurement dept in such cases would only compare the basic.
  - b. Such a company may also be exporting the goods. In that case option to procure without payment of duty can be examined. Maybe CT-1, [Notification 43/ 2001 NT](#) can be used.
  - c. Such a company maybe manufacturing exempted products. [ Defense – research sector..] They maybe selling in the retail trade.

In that case the credit of CED would not be available. Here the comparison should be all inclusive as credits are not available. Maybe the job work route to avoid loading the CED on the cost of product can be examined for supply to company. Alternatively getting the same sourced form a SSI manufactured where no duty would be added could be thought of.

In such companies the VAT however would be availed and set off/ refund claimed if accumulated.

- d. Such a company maybe a 100 percent EOU where procurement under CT-3 can be made without payment of duty and also claiming duty drawback as available.

- e. The company maybe **importing from outside India**: In this case the option of reducing costs by importing raw materials without payment of duty, claiming the export benefits under Foreign Trade Policy like drawback, rebate, refund, Focus Market Scheme, Focus Product Scheme, Incremental Export scheme, Star exporter scrips.... maybe examined. Importing from countries having preferential tariff agreement could also save 2.5- 5 percent of the customs duty.
- f. In general buying from the source would ensure that intermediary margins are avoided + the cenvat credit is available.
- g. Where one is buying from the registered dealer/ importer under central excise [ Any 1<sup>st</sup> Stage/ 2<sup>nd</sup> Stage dealer/ Importer/ Depot] can get registered for the passing on of the duty of excise (12.36 percent ) or CVD(12.36 percent ) or CVD + SAD(17 percent ). Further the margin of the dealer would also be transparent in these transactions.
- h. While going for a contracts the bifurcation of the supply and service could also be based on the availability of credit.
- i. In case of job worker the need to capture the job workers credit on capital goods/ consumables may also be an important criterion. Asking the JW to charge the service tax though not essential could be an option.
- j. The issue of the clear PO to the vendors disclosing value of material supplied FOC would avoid later demands.
- k. The possibility of planning the logistics by sending material directly to the job worker and sending out the goods directly from the job workers premises could save some costs.
- l. The policy of having all vendors registered under VAT/ CST/ central excise & service tax maybe made mandatory.
- m. Policy to buy only from sources which pass on credit maybe put in place other than in exceptions.
- n. Material needs to ensure that the duty paying documents are in order and accounts to pay only if credit is eligible.
- o. The reversal of credit on non receipt of job work material within 180days and its subsequent re credit to be controlled.
- p. The credit on material purchased for captively used tools, dies , patterns and machinery could

also be ensured.

- q. Avoiding CST procurement as the credit is not available and procuring locally only.
  - r. Procuring on Just in Time to save on inventory carrying costs, reduction in cash flow.
  - s. Payments for service providers in time to avoid reversal.
  - t. Avoiding the joint charge or reverse charge applicability to the extent possible as it involves additional compliances from company.
  - u. Ensure completeness of credits being availed and its regular reconciliation with the returns
  - v. Keeping the dept. updated on the change in law especially the budget which may have a substantial impact.
  - w. There could be many other impacts...
2. Understand the role taxes play in our concern:
- a. Indirect tax can be upto 20+ percent of the cost as customs duty [ normally 10 percent of value of imported parts] , CED of upto 6-7 percent of the cost, Input services upto 1-1.5 percent of cost, VAT amounting to 3-4 or 10-11 percent of the cost. The availment of the eligible credits could ensure that one is very competitive. The benefit of credits can be passed onto the customers by reducing the base price.
  - b. Exports provide methods to get the refund/ recouping of these taxes and therefore these could be excluded when bidding.
  - c. The sale mix as on date may be resulting in accumulation of credit [ more of exports/ supply to 100 percent EOU] Whether concern able to get refund if not then focus on local sale as the non receipt of refund becomes a cost.
  - d. What is the material cost of the product. More the proportion, more is the credit and vice versa.
3. At times the material & procurement team, not being able to understand the indirect tax implications agrees to some conditions to quickly procure the materials but does not realise that the impact of tax may make the order a loss from the concerns perspective. The smart procurer can save the company anywhere between 10 -20 percent by ensuring seamless credit and adequate documentation .

The purchase planning, materials, procurement executive therefore for being able to be company centric, negotiate better and quote properly would need to have some specialised knowledge of indirect taxes which would help him to discharge his function in a value additive manner. Hope this article

provides a direction. Reader may share what are the other ways in which the material/ procurement department can be impacted by IDT.