

## **How to do 'GST impact study' of a Small and Medium Enterprise**

### **Background:**

The implementation of GST would be a milestone for the Indian economy that is expected to cause overall growth in the long run, subject to few temporary adverse impact on portion of the industry say those who are currently enjoying the tax exemption benefits or service industries whose cost is expected to raise due to increase in rate of tax etc.

The industry has already initiated the cost benefit analysis that may result from GST implementation. At the same time, it would be a great opportunity for the professionals like Chartered Accountants (even other professionals) to provide value added services to their clients by way of conducting qualitative GST impact studies during Pre-implementation stage.

### **Purpose of conducting a GST impact study:**

The name says it all. The assignment called 'GST impact study' would draw the attention of management on exactly how the GST would impact their particular nature of business. Impact would certainly be there on each wing of their operation such as sales, procurement, finance and accounts, marketing and distribution etc, whereas, to what extent GST would impact each of such wings could be ascertained by conducting an impact study.

The other benefits include:

- Inputs for strategic decisions – Pricing policy, place of operation, procurement decisions, business reconstruction etc.,
- Impact on cashflows/working capital and profitability,
- Smooth transition to GST – administrative convenience,
- Awareness on areas of positive and negative impacts.
- Awareness on immediate action points – accounting system, vendor management,
- Easy Procedural compliance – Registrations, returns, payment, refund etc
- Equipments of human resources ready for GST.

### **Prerequisites for conducting an Impact study:**

Are we ready for GST? – before asking this question to clients, professionals! are we ready for GST!! GST impact study is crucial for any given undertaking as the decisions taken based on impact study report could make or break their business. Professionals must be ready before initiating such assignment in the following aspects:

### In-depth understanding of relevant laws:

GST is replacing most of the indirect taxes and the provisions in GST would certainly differ from our current understanding of existing laws. It is essential to study and understand the in and out of the model GST law (including IGST law) along with the draft rules and business processes, FAQs, formats, empowered committee report and other relevant publications with regard to GST.

In-depth understanding of the existing laws such as Central Excise, Service tax and relevant VAT laws would be necessary as the impact could not be accurately measured with misunderstanding of current provisions.

### Defining the Scope of assignment:

The scope always defines the length and breadth of any assignment in professional like. The GST impact study shall be customised in such a manner that it suits the requirement of the given client.

The impact study shall meet the perspectives at various levels of management. The scope should enable the results that could yield strategic decision making inputs to top management and at the same time it shall also consider the transaction level impact, compliance manual and Standard operating procedure related aspects for middle and lower level management perspective.

Following could be the broad areas to be included in the scope:

- To create awareness on GST to management and staff
- Customised application of legal provisions of GST
- Providing course of actions to prevent negative impact
- Cenvat credit management – Not availed / ineligible / disputed etc
- Suggest impact on pricing – impact on costing and impact on customers
- Guidelines for working capital management – Favourable and adverse impact
- Agreement vetting, suggesting the possible changes regarding tax clauses etc.

Customised checklist could be prepared considering the relevant aspects to be covered in any given impact study assignment.

### **Manner of Conducting an impact study:**

Basically, it is not an audit. Hence approach in conducting the audit and GST impact study would be totally different. The intention is to measure the impact of relevant aspects of GST on respective business transactions.

Following aspects would improve the quality of the assignment:

- Obtain data from reliable source. More useful data provides better result
- Impact to be quantitative and practical to the extent possible
- Impact should be supported by recommendations and course of action.
- Assumptions made shall be relevant and reasonable.

The impact study is aimed to cover almost all the critical areas of all the business segments. Here we have listed such aspects to be covered preferably in the same order.

Detailed understanding of the operations: understand each line of operation in detail from the respective department heads and note down the flow of transaction for better analysis. Understanding should be complete in respect of sources of revenue, number of units and locations, current compliance under indirect tax, possible reconstructions, major procurements, job work details, details of imports & exports, major input services, costing details and other similar aspects which would have impact under GST. Broad understanding of the industry to which the entity belongs to, including industry margin, categories of customers and vendors, GAAP would provide better foundation for the impact study.

Scrutiny of financials: Once the operation side is understood, next step is to scrutinise the financials of the company including trial balance, statement of profit or loss and the balance sheet. The financials provide us the better picture of current status of compliance and the possible impact under GST. Related party transactions, major vendor details, major customers, receipts and payment in forex, profitability, direct and indirect sources of income etc could be identified which would play crucial role in reporting the impact of GST on each of such relevant item.

Impact on Revenue: One should dig the various sources of revenue carefully it has direct connection with the term supply. Understanding the current tax implication on each such source of income and the impact of GST there on shall be discussed in the impact study report. Classification of goods and services, the rate of GST, impact on pricing due to change in tax rate, exemptions, abatements and similar aspects shall be taken into consideration and quantify the impact for better analysis. Supplies made through e-commerce operators. Mixed and composite supplies, sale through agents and zero rated supplies shall need special attention.

Supplies without consideration: There could be some transactions such as stock transfers, internal consumption, personal usage, sending goods for job work, free

samples, gifts and disposals where no consideration being received by the entity. However, these transactions would have diversified impact under GST regime.

Impact on procurement: Procurements are the major debit item in a trading account of a manufacturing enterprise. The sources of procurement (manufacturers/dealers/unregistered) and the rate of duty suffered, quantum of credit eligible, alternatives available shall be taken into consideration during impact study. The impact of GST on procurement play crucial role in costing, vendor selection and negotiation with existing vendors.

Impact on Expenditure:Major expenditures like manpower supply, AMC services, payment against IPRs, transportation etc may undergo different treatment under GST. The change in rate of tax would certainly has impact on working capital and then the input tax credit. The provisions relating to reverse charge mechanism and restriction of credit under current regime Vs GST would provide better picture.

Impact on Input tax credits:This is the area of value addition where in client gets the benefits in cash equivalents. Missed out credit in past, ineligible credit availed, lost credit, purchase from unregistered dealers, unnecessary reversals, accumulated balance of credit, wrong utilisation, lapses in system adopted wrt Cenvat, restricted credits and similar aspects shall be addressed carefully. Undoubtedly, the shoulder of Cenvat credit under GST is going to be broader as the taxes currently not available as credit would be available under GST. It is recommended to list out all such possible additional credit available under GST say credit on materials procured by service provider, interstate purchases etc would help the assessee to restructure his costing and working capital policies.

It is equally important to analyse the status of input service distributors, conditions, and applicability under GST with change in other provisions relating to registrations and input tax credit.

Impact on Place of supply and Time of Supply:The place of supply and time of supply would be depending on the nature of goods and /or services dealt by the client. Currently these are called in different names under different laws and the events determining the place and time of removal/provision of service/sale are different under respective tax laws. The comparative analysis could be done for smooth implementation of procedural checks at the respective location at the appropriate time.

Impact on Valuation:The value at which currently taxes being paid and that of GST could be different as there is no MRP valuation and current excise valuation rules are not applicable to GST. Similarly, in case of services, free supply of materials, reimbursement of expenditure etcetera would influence the valuation. The change in method of valuation would result in change in amount of tax.

Transitional issues:Though the GST would be implemented soon, the path of change from existing regime to new regime would be crucial. The impact study shall address the issues of carry forward of credit, converting from regular/composition schemes, from exemption to taxable supply, credits on stocks lying on appointed day, pending litigations, refund claims, sales returns, and many other issues which would crop up during the transition shall be addressed for smooth transition into GST.

Apart from the above, there are many other areas which needs attention like agreement vetting, relevance of warehouses outside state, impact of antiprofitteering clause, FTP benefits, IT/ERP customisation, GST returns etc. The events which is neutral under both regime could be ignored like ineligible credits. Exempted activity under both current tax and GST.

**Conclusion:**

The GST impact study report shall be prepared considering all the possible areas where the attention of management is needed. The scale of impact study would differ from one entity to another depending on its size, volume and nature of operation. In-depth knowledge in subject and clear cut understanding of the client's business would yield fantastic result in order to provide optimum value addition along with protection from possible threats when the GST is implemented.

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