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GST is fast approaching: Is your business ready?

India has long earned brickbats for the complexity of its tax regime and the difficulty in carrying out business in the country. After years of consideration, goods and services tax (GST) is expected to be implemented in India from April 2017, marking the beginning of a new era for ease of doing business and solving the complex puzzle of various indirect taxes.

The GST rates and processes are still being considered but we expect final rates of 12-18%, which would be lower than the current incidence of indirect taxes, which works out to 22-24%. We can also expect procedures, tax filing and compliances that are less ambiguous, confusing and friendlier to business.

Movement of goods that involved the maximum complexity considering taxes such as value-added tax (within a state), central sales tax (interstate) and octroi at various stages of the journey of the transaction will benefit the most, giving trade, infrastructure and logistics a much needed fillip and the Indian economy the buoyancy it needs.

France was the first country to implement GST and now nearly 150 countries worldwide use it. This gives India the advantage of learning from other countries' experiences. An efficient implementation of GST would result in price rises and a moderate rise in inflation. Further, considering the very high percentage of parallel trade and economy, there could be some artificial scarcity of goods until various systems are able to absorb GST and a good amount of acceptance as well as penetration has taken place in the market.

Even though GST could be inflationary in nature, it is a good way to rationalize taxes as well as to make it easier to do business in India for both domestic and foreign companies.

Now is the time for those with businesses in India to evaluate whether their business model and practices are under any risk or pressure due to the changes that are expected with the implementation of the GST regime.

Operating margins and also cashflows for manufacturers will need to be re-evaluated.

Those that have had business in the parallel market, or an advantage due to any tax arbitrage, need to evaluate how they will handle the changes.

This is also a good time to conduct an audit of business and tax practices with a trusted adviser to identify any aspects of a business that would come under scrutiny of the taxman and whether more business data will need to be shared than in the past. If tax returns need to be reviewed and some changes in practices are required, it would be beneficial to carry out all such changes before the GST regime comes into operation.

A lot of business is conducted on the basis of long-term contracts or even informal understandings. It would be beneficial to review such agreements and work on renegotiating the terms before the new tax comes into being.

This is also the time to train staff who would be involved in procedures related to GST. Since the impact of GST would be immediate, procedures that would replace other tax procedures should be set up and training completed for a smooth transition.

GST will simplify taxes and will be a boon to businesses that suffer a variety of taxes while their products move from their manufacturing location to their final customer. Any business that has these as the key elements of its trade would stand to win.

For anyone open to modifying or diversifying their business a shift towards a business model that includes manufacturing, business-to-business e-commerce and logistics would be a smart idea at this point.

GST implementation is also a good time to re-evaluate a business and audit any deficiencies in practices and systems. As India moves towards simplification and efficiency, it is a good time to set up robust tax and accounting systems within an organization.

Those expected to gain from GST include: any form of manufacturing; logistics businesses; e-commerce; businesses with branches and customers in various locations; information technology and software; tax advisers, law firms and consultants; foreign companies set up in India.

In contrast, the price rise that is expected to accompany GST could pose problems for the real estate sector. All tax-exempt businesses could suffer a setback, along with those involved in textiles and agriculture products.

GST could be the catalyst that the Indian economy was looking for in order to leapfrog into the future with high growth and a great investment climate. The law makers, law enforcers and industry should look at GST as an opportunity to recalibrate the Indian economy and take the country to the heights that it truly deserves.

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