S&V CHARTERED ACCOUNTANTS

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INSIGHT NEWSLETTER

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One year of GST: The success, failure and what's next....

One year into the goods and services tax (GST) regime, early-day jitters have given way to general acceptance that this may not be the most perfect single tax system, but it's working. There are many issues that remain to be addressed, but the fact that some of the complex ones have been resolved gives rise to confidence that even these will be sorted out.

No raise in Inflation rate:

GST, it was widely feared, would cause inflation to rise, as with many countries that launched a single tax regime. That hasn't happened in India. The recent spike in consumer inflation has been due to high food and fuel prices, unrelated to GST. What helped? The much-criticised multi-slab structure. It ensured the levy was as close as possible to the existing rate, which meant the incidence of tax didn't rise. The second factor was the anti-profiteering authority*. Though the body was set up after the GST rollout, the prospect of its establishment was enough to ensure businesses did not abuse the transition.

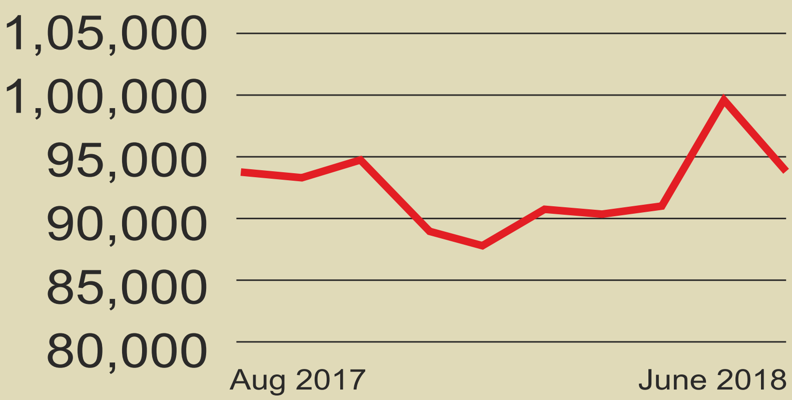
Nationwide one point operation:

Long queues of trucks at state borders disappeared as checkposts were dismantled, creating a seamless national market. These barriers had restricted movement of goods across the country, leading to huge delays and increasing transaction costs for the logistics sector, eventually translating into higher costs for consumers.

GST ONE YEAR STATS...

REVENUES BEGIN TO LOOK UP AS TAX SETTLES

Monthly GST revenues in ₹crores



Indicates Tax revenues have stabilised and will begin to go upwards.

* The National Anti-profiteering Authority (NAA) has been constituted under section 171 of the Central Goods and Services Tax Act, 2017. NAA check unfair profit making activities by the trade community and to determine whether the reduction in tax rates and benefits of ITC is being passed on to the recipient by way of reduction in price.

Countinued

EDITORS NOTE

Dear Reader, this edition features a brief overview on One year of GST implementation. Relaxation and reliefs along with general updates. Awaiting your feedback.

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TAX DUE DATES - JULY 2018

Monthly Compliances

Sl. No	Particulars	Due Dates
1	DUE DATE FOR FURNISHING OF CHALLAN C UM STATEMENT IN RESPECT OF TAX DEDUCTED UNDER SECTION 194-IA FOR THE MONTH OF JUNE 2018	30.07.2018
2	DUE DATE FOR FURNISHING OF CHALLAN C UM STATEMENT IN RESPECT OF TAX DEDUCTED UNDER SECTION 194-IB FOR THE MONTH OF JUNE 2018	30.07.2018

Quarterly Compliances

Sl. No	Particulars	Due Dates
1	FILING GSTR 1 FOR THE QUARTER APRIL – JUNE,2018	31.07.2018
2	QUARTERLY TCS CERTIFICATE IN RESPECT OF TAX COLLECTED BY ANY PERSON FOR QUARTER ENDING JUNE 30,2018	30.7.2018
3	QUARTERLY STATEMENT OF TDS DEPOSITED FOR QUARTER ENDING JUNE 30,2018	31.07.2018
4	QUARTERLY RETURN OF NON DEDUCTION OF TAX AT SOURCE BY BANKING COMPANY FROM INTEREST ON TIME DEPOSIT IN RESPECT OF QUARTER ENDING JUNE 30,2018	31.07.2018

Single tax nationally:

A consumer in Kanyakumari now pays the same tax on an item as one in Jammu & Kashmir. GST has also allowed businesses to streamline distribution systems-production, supply chain, storage to make them more efficient, having previously been forced to design them keeping state taxes in mind.

Tax base starets to widen:

One of the expected benefits was that GST would encourage formalisation of the economy. Evasion would stop making sense, thanks to transparent digital processes and incentive of input credit and invoice matching. With number of registrations crossing 10 million, it seems more businesses are signing up for GST. Rise in the Employees' Provident Fund Organisation subscriber base provides further evidence of the same. More people filing income tax returns could also have something to do with GST.

Everyone wins:

As many as 17 taxes and multiple cesses were subsumed into GST, aligning India with global regimes. Central taxes such as excise duty, services tax, countervailing duty and state taxes - including value added tax, Octroi and purchase tax - were all rolled into one. The new regime provided for free flow of tax credits and did away with cascading due to tax on tax, boosting company financials and resulting in reduced prices for consumers It also ensured a single law for the whole country with uniform procedures and rules, which reduces compliance burden and business complexity. The government sacrificed revenues, but improved compliance should cover any gap.

MORE BUSINESS HAVE SOUGHT REGISTRATIONS

Registration under old indirect tax

6.4 Million

Registration under GST

11.2 Million

TAX BASE HAS EXPANDED WITH GST

GST UPDATES

Simplification- Ease of doing business:

- Return Simplification. Quarterly returns for Taxpayers with turnover up to Rs. 5 crores with monthly tax payments. 93% to fall under this category.

GST Rates Reduction:

- GST on the supply of e-books reduced from 18% to 5%.
- Composite supply of food and drinks in restaurant, mess, canteen, eating joints and such supplies to institutions (educational, office, factory, hospital) on a contractual basis to be taxed at 5%
- GST exempted on Sanitary pads, Deities made of stone, marble or wood, Raakhis, without any precious metals, the Raw material used in brooms Commemorative coins circulated by the RBI or government, Saal leaves, Fortified milk.
- GST reduced from 12% to 5% on Handloom dari, Fertilizer grade phosphoric acids
- GST reduced from 28% to 18 %: Lithium-ion batteries, Vaccum cleaners, Food grinders, mixers, Shavers, hair clippers, Storage water heaters, Electric smoothing irons, Watercooler, Ice cream freezer, Refrigerators, Hand dryers, Cosmetics, Perfumes, Scents, Paint, Varnishes

GST UPDATES

Relaxations/Reliefs:

- GST on Hotel Tariffs based on actual transaction value instead of declared tariff
- Cross border-related party transactions in sectors like banking, IT to be exempted from GST
- Major reliefs/exemptions to service sectors in (i) Agriculture, farming and food processing industry, (ii) Education, training and skill development, (iii) Pension, social security and old age support.
- Refund to fabrics on account of inverted duty structure
- The opening of Migration Window till 31st August 2018 without any late fee.
- The upper limit of turnover for opting for composition scheme to be raised from Rs. 1 crore to Rs. 1.5 crore.
- Composition dealers to be allowed to supply services (other than restaurant services), for up to a value not exceeding 10% of turnover in the preceding financial year or Rs. 5 lakhs, whichever is higher.
- GST under RCM on supplies made by unregistered persons to be restricted to only notified categories and supplies
- The threshold registration exemption limit in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Meghalaya, Sikkim and Uttarakhand to be increased to Rs. 20 Lakhs from Rs. 10 Lakhs.
- Taxpayers may opt for multiple registrations within a State/Union territory in respect of multiple places of business located within the same State/Union territory.
- Mandatory registration is required for only those e-commerce operators who are required to collect tax at source.
- Registration to remain temporarily suspended while the cancellation of registration is under process so that the taxpayer is relieved of continued compliance under the law.
- No GST on Supply of goods to any person from outside India before clearance for home consumption
- The scope of input tax credit is being widened, and it would now be made available in respect of the following:
  a. Few exempted supplies specified in Schedule III;
  b. Motor vehicles for transportation of persons having a seating capacity of more than thirteen (including the driver), vessels and aircraft;
  c. Motor vehicles for transportation of money for or by a banking company or financial institution;
  d. Services of general insurance, repair and maintenance in respect of motor vehicles, vessels and aircraft on which credit is available; and
  e. Goods or services which are obligatory for an employer to provide to its employees, under any law for the time being in force.
- No Interest liability on the reversal of input tax credit on failure to pay to the Supplier by the recipient within 180 days from the date of issue of invoice
- Registered persons may issue consolidated credit/debit notes in respect of multiple invoices issued in a Financial Year.
- Supply of services to qualify as exports, even if payment is received in Indian Rupees, where permitted by the RBI.

Derecognition of financial liabilities:

Background:

Financial liabilities are derecognised from the financial statements of an entity when they are extinguished – i.e. when the debt has been paid off, or when the entity's obligation specified in the contract is cancelled or has expired. An exchange between an existing borrower and lender of debt instruments with substantially different terms, or a substantial modification of terms is accounted for as an extinguishment of the original financial liability, and the recognition of a new financial liability. Ind AS 109, Financial Instruments, prescribes the criteria for determining derecognition, and requires entities to perform a quantitative and qualitative analysis of the revised terms, when assessing a 'substantial modification of terms' of a financial liability. This includes a comparison of the cash flows, including the fees incurred on modification. While Ind AS 109 specifies the cash flows that are required to be considered for the above analysis, it provides limited guidance regarding the fees that should be included in the same. In this article, we aim to illustrate the evaluation and accounting for derecognition of a financial liability, and the fees that should be considered when performing the above analysis.

Accounting for the loan modification:

As per Ind AS 109, the difference between the carrying amount (or amortised cost) of the original liability and the consideration paid is recognised in the profit or loss. In this illustration, the consideration paid by the company is the assumption of the new financial liability (i.e. the modified loan). The fair value of the new loan is estimated as INR300 million in this illustration, based on the assumption that this loan has been provided by bank C at market rates (being 10.75 per cent per annum excluding any adjustment for transaction costs or fees) as applicable to the company on the date of modification. Consequently, the loss on derecognition of the loan amounts to INR5,039,228. Further, the costs or fees incurred related to the modification are to be recognised as part of the gain or loss on extinguishment recognised in the statement of profit and loss. These are not adjusted in the initial recognition amount of the new financial liability unless it can be demonstrated that they relate solely to the new liability. Accordingly, INR5 million will be considered for this purpose (modification fees payable by D Ltd., external lawyer fees of bank C payable by D Ltd. and advisory fees). The costs of the internal treasury department will not be considered for this purpose, since they are not directly attributable incremental transaction costs. Thus, the loss on modification will increase to INR10,039,228.

Consider this:

Requirements on modifications and exchanges of debt instruments do not extend to the usual repayment of a loan at maturity and its replacement by a new loan on an arm's length terms, even if the new loan is with the same lender, because the original loan is not modified or exchanged but is settled in accordance with its original terms. Also, it does not apply to changes in the amounts or timing of payments required under a loan that arise from existing features included in the original debt agreement e.g. interest rate step-ups or the acceleration of maturity contingent on a credit downgrade because these are not modifications of terms. However, changes in estimated cash flows attributable to such features may result in the recognition of a gain or loss. – The circumstances under which a modification of the terms of a financial liability are negotiated e.g. because of financial difficulties of the borrower are not relevant in determining whether the modification is an extinguishment of debt. – Considering the volume of fees and costs incurred on modification of a financial liability, in many cases, the inclusion of third-party fees or costs may not be a determinative factor in the '10 per cent' test, to assess whether the financial liability has been substantially modified. – If in the above illustration, the modification in terms was not substantial in nature, it would not result in derecognition of the financial liability. In this case, the entity is required to recalculate the gross carrying amount of the financial liability (as the present value of the renegotiated contractual cash flows that are discounted at the financial liability's original EIR) and recognise a modification gain or loss in profit or loss. The costs or fees incurred (of INR5 million) should adjust the carrying amount of the modified financial liability and be amortised over the remaining term of the modified liability#.

#Under Ind AS 109, this accounting is prescribed for modification to financial assets, however, IASB through its clarification (and an update in the Basis for Conclusions to IFRS 9) has specified that this will also apply to a modification of a financial liability, that does not result in derecognition.

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