

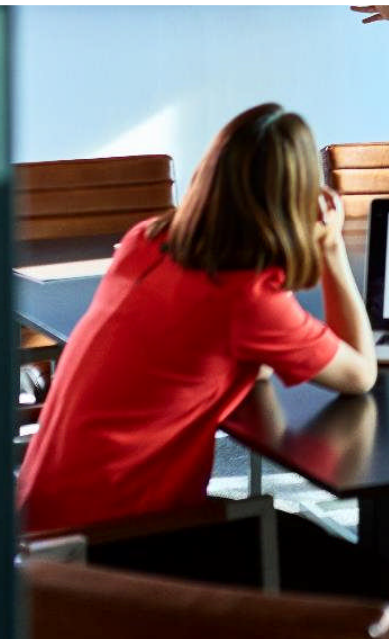
GST and Ease of Doing Business in India

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**Section 1 -
Overview of ease of
doing business**



Overview of ease of doing business

- World bank provides rankings to countries for ease of doing business
 - Factors include starting business, employing workers, permits and getting electricity, getting credit, paying taxes, trading across borders, enforcing contracts etc
 - Paying taxes is one of key contributors to determine 'ease of doing business'**
- Considerable improvement for ranking of India - From 130 in 2017 to 63 in 2020
- For States, top 5 States for ease of doing business are Andhra Pradesh, Uttar Pradesh, Telangana, Madhya Pradesh and Jharkhand

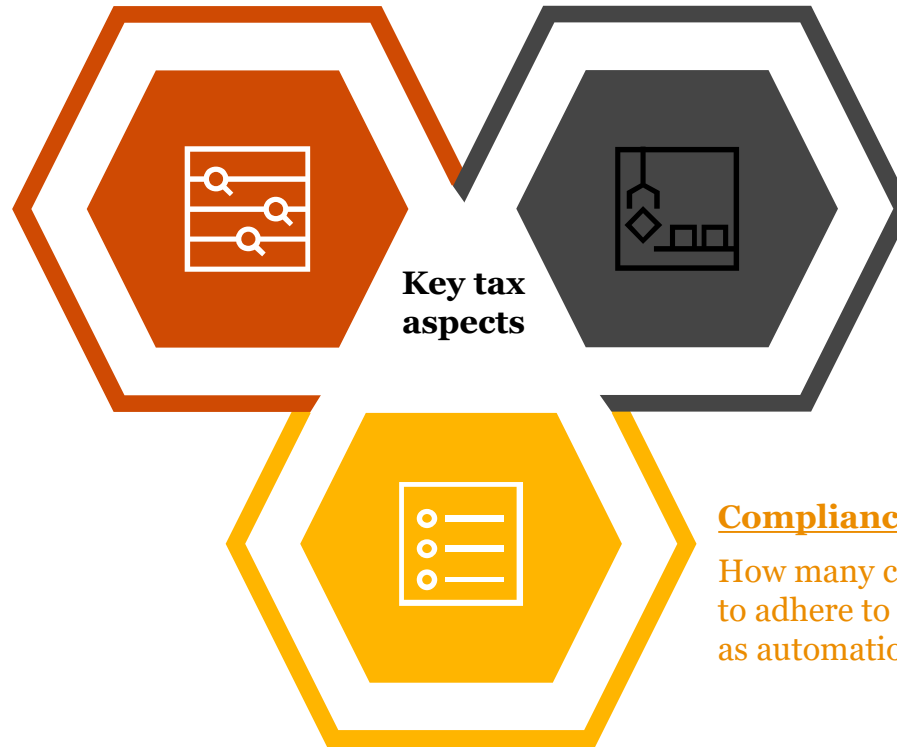
Year	India ranking
2017	130
2018	100
2019	77
2020	63



Key tax related aspects

Legislative requirements/changes

Law related aspects and influenced by changes made in law to help businesses to function



Key tax aspects

Commercial aspects

Determines how supply chain and distribution is impacted due to taxation policies

Compliance requirements

How many compliance requirements do business need to adhere to and level of complexity of the same as well as automation

Issues prior to GST

Legislative requirements

- Multiple laws leading to complexity – VAT/ CST, entry tax, service tax, excise etc
- Cascading effect of taxes – State vs Central taxes leading to credit blockage
- Taxes on different aspects lead to complexity – Such as excise on manufacturing and VAT/ CST on sale

Commercial aspects

- Requirement of warehouses across States – Increase in supply chain/ warehousing costs
- Entry tax and check posts acted as deterrents to free movement

Compliances

- Difference compliance requirements across laws as well as States
- Lack of uniformity – formats and compliance dates different
- Reliance on manual submissions increased complexity

Impact post GST introduction



Legislative requirements

- Most taxes consolidated into GST - Unified GST laws across States
- Concept of 'supply' as compared to manufacture/sale/ service
- GST Council formed – Cooperative Federalism between Centre and State
- Cascading effect reduced to certain extent
 - Different taxes continue – IGST, CGST and SGST – However utilization formula provided
 - Credit pool to be seen State wise and cannot be used across States
 - GST registration still needed on State level from where business operates



Commercial aspects

- Government motto of '*One Nation One Tax One Market*'
- Removal of state barriers due to reduction of cascading effect
- Many companies have restructured supply chain and distribution model – Revamping requirement of warehouses
- E-waybill requirements standardized and automated
- *Removal of checkpoints in many cases – though flying squads continue*



Compliances

- Standardized compliances across States
- GSTN acts as backbone for GST compliances – All compliances automated - Working towards auto-population of returns
- Introduction of e-invoicing from 1 October 2020 (for turnover more than Rs. 500 crore) and 1 January 2021 (for turnover more than Rs. 100 crore)
- Providing data based on returns populated by vendors (GSTR 2A), import of goods (from ICEGATE), advisory credit statement in GSTR 2B, data based on e-invoicing etc
- Few issues for reconciliation, matching concept continue

Introduction of GST, increase in automation and e-invoicing have played pivotal role in improving India's ranking for 'ease of doing business'

Few issues still continue post GST...

Increase in reconciliations requirement

- Automation has led to multiple reconciliation requirements – Increase in compliances
 - Output – ERP vs GSTR 1 vs GSTR 3B vs IRN vs e-waybill
 - Input – ERP vs GSTR 2A vs GSTR 2B vs e-waybill vs imports of goods
- Reliance on vendor compliances may act as deterrent to claim credit

Stricter provisions for curbing tax evasion

- Multiple changes made in law for curbing tax evasion and fraudulent credit
- Stricter provisions for penal action as well as power to arrest
- Impacts genuine assessee also and may hamper business (such as power for blockage of credit, credit based on matching as per Rule 36(4), suspension of registration etc)

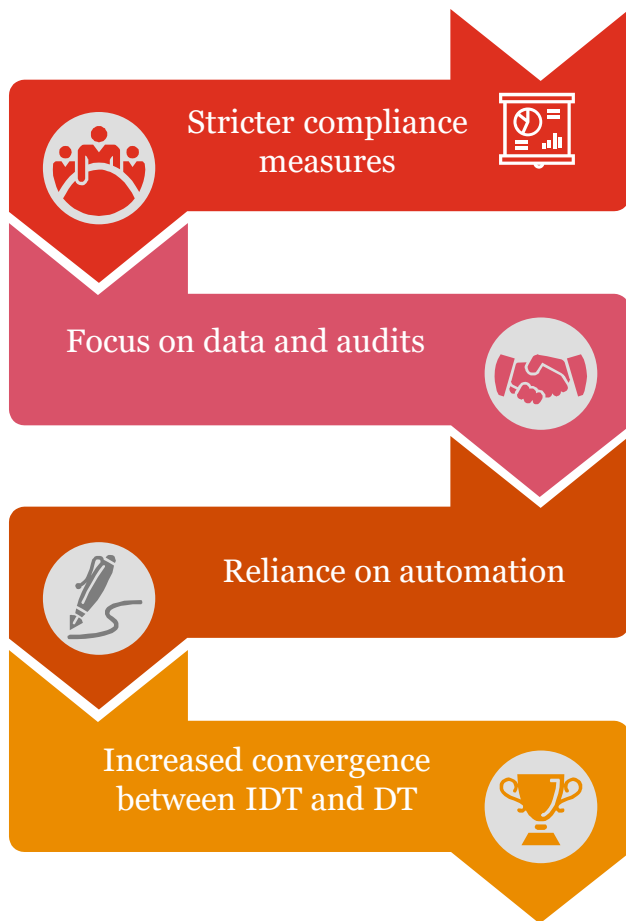
Increase in notices and litigation

- Increase in notices issued by Government for reconciliations based on AI – Time consuming activity
- Possible increase in State wise GST audit by authorities as well as investigation
- Litigation – Process not yet stabilized
 - Most advance rulings are negative
 - GST Tribunal not yet setup
 - Surge in writ petitions being filed

Other key factors

- Changes introduced such as e-waybill, e-invoice, changes needed on invoice/ HSN, changes in returns etc – Frequent changes in ERP needed which requires involvement of IT team (including global teams)
- Refunds – Refunds of capital goods credit still not allowed

Government's focus on curbing tax evasion...



- Stricter provisions for suspension or cancellation of GST registration
- Increase in restrictions on credit availment and utilization

- Increase in GST audits and investigations
- Multiple raids being carried on fraudulent taxpayers
- Focus on reconciliations

- Increasing ambit of e-invoice for 100 crore and above from 1 January 2021 – May be proposed for above Rs. 5 crore turnover from April 2021 onwards
- Auto-population of returns on GSTN portal

- GST data being captured in Corporate Tax filings
- Reconciliation between turnover as per income tax and GST – Base for issuance of various notices
- Increase in GST investigations based on income tax references

Overall increase in GST collections over last few month – Record high of Rs. 1.15 lakh crore collection for December 2020

Section 2 -
Key recent changes
under GST law



Registration related changes

Aadhar authentication

- Provisions introduced for making '*Aadhar based authentication*' mandatory
- Where Aadhaar authentication not opted or the department deems fit to carry physical verification, registration shall be granted/objected to within 30 days now - Effective from 22 December 2020

Stricter provisions for suspension or cancellation of registration

- Officer can proceed for cancellation or suspension of GSTIN in case where credit taken in contravention of Section 16 or details of GSTR 1 exceed that of GSTR 3B or where assessee has violated Rule 86B
- No opportunity of being heard to be given to a taxpayer for suspension of GSTIN where officer believes registration to be cancelled

Impact

- **Practical issues coming at time of registration wherein lower level authorities creating difficulties in certain cases to grant new registrations or amendments**
- Document issued by CBIC on myth vs facts highlighting that such provision would be used only in cases for fraudulent taxpayers - Important to see how changes are implemented on ground by lower level authorities

Input tax credit related changes

1. Credit availment - Reduction in credit to be claimed beyond matched credit (Rule 36(4))

- Claim of input tax credit in respect of invoices not furnished by vendors restricted to 5% (instead of 10% earlier) effective 1 January 2021
- Requirement to ensure vendor compliances on timely basis
- *Validity of such rule has already been challenged and pending before Delhi and Gujarat High Court*

2. Credit utilization vide Rule 86B - Restriction related to utilization of credit

- Restriction w.e.f 1 January 2021 placed on setting off more than 99% of output tax liability from Input tax credit where the value of taxable supplies (other than exempt supply and zero rated supply) exceeds Rs. 50 lakhs in a month
- Certain exceptions provided as under:
 - Income Tax paid in excess of Rs. 1 lakh in each of the two preceding FY by person or the proprietor or karta or the managing director or any of its two partners, whole-time Directors, Members of Managing Committee of Associations or Board of Trustee
 - Registered person has received refund in excess of Rs. 1 lakhs under Section 54
 - Registered person has made tax payment made using electronic cash ledger to pay of liability on outward supplies which cumulatively makes 1% of the total liability up to the said month in current FY
 - Government Department, Public Sector Undertaking (PSU), local authority or a statutory body

Using technology to curb tax evasion...

Blocking of GSTR-1 filing

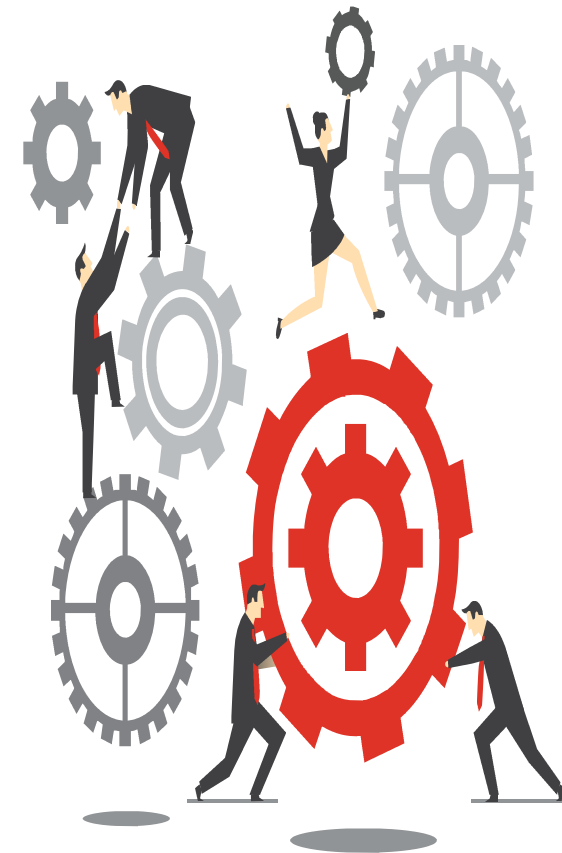
- GSTR-1 return to be blocked on failure to file GSTR 3B for two subsequent months
- Similar provision inserted for quarterly return filers in case of failure to submit GSTR 3B for preceding tax period
- Provision effective from 22 December 2020

Waybill related changes

- Rule 138: Validity of e-way bill to be one day for a distance of 200 kms (earlier limit was 100 kms) – Taxpayers need to plan movement of goods accordingly
- Rule 138E: E way bill generation to be blocked if return not filed for two tax periods (earlier restriction was 2 months)

Notices based on reconciliations

- Notices being issued based on auto-reconciliation of GST returns (such as GSTR 1 vs 3B and GSTR 3B vs 2A)



Using technology for automation...

Auto-population of GSTR 1 using IRN details

- GSTR-1 getting auto-populated basis data received from NIC for IRN on T+3 day basis
- Auto-population based on document date
- E-invoice report available for download which provides details of invoices, debit notes, credit notes etc
- Increase in reconciliation effort for taxpayers

Linking of EWB with IRN

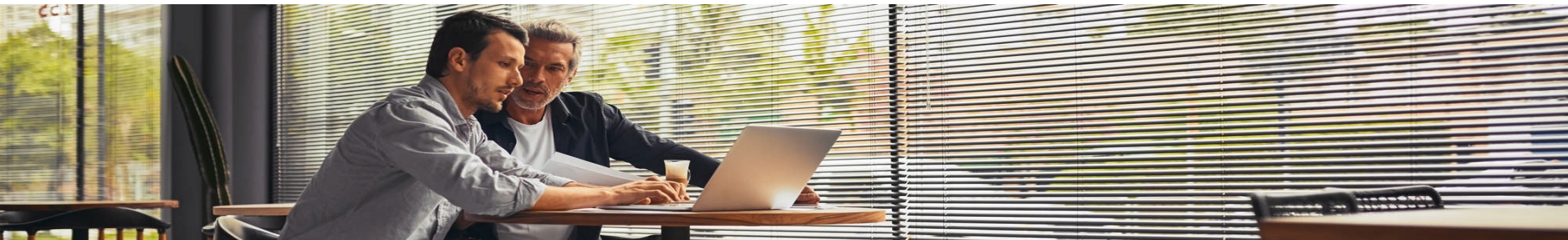
- Enhanced APIs of e-invoice and EWB released on 1 January 2021
- EWB print now has the IRN , Acknowledgement no. and date
- Direct EWB generation through web/offline/API will be blocked for the taxpayers who are generating IRN

GSTR 2B introduced

- Auto drafted ITC statement
- Provides advisory on credit that can be availed, credit that may be reversed etc
- Static statement and provides document level advisory on credit available and not available

Download of bill of entry details

- New APIs released to download the 'Bill of Entry' details (for import from outside India and SEZ) while downloading GSTR-2A
- API also provides details of amendments made in "Bill of Entry" details
- Important to reconcile data with purchases to analyze credit which can be claimed for import of goods



Dynamic QR code for B2C invoices



Legal requirement

- Persons with aggregate turnover more than Rs. 500 crores shall include Dynamic QR code on invoices issued to unregistered persons (referred to as B2C invoice)
- Intent seems to be to digitize payments as well as Government may consider to give GST rebate
- Date when effective
 - Requirement was effective from 1 December 2020
 - However, penalty waived for non compliance with dynamic QR code for the period 1 Dec 2020 till 31 Mar 2021
 - Waiver is subject to the condition that assessee complies with provision w.e.f 1 April 2021



Key points pending clarity

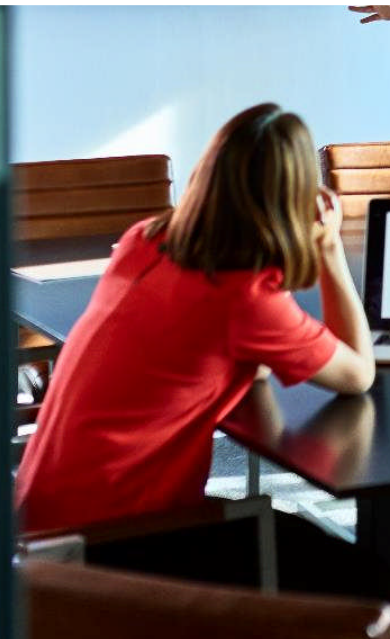
- Ambiguity in industry on how to generate such dynamic QR code
 - What should be the contents of such dynamic QR code?
 - Whether the same is only to facilitate payment or any other details to be provided also?
- Representations filed to issue clear guidelines on the same



Other key updates

- Emails being issued recently by NPCI to taxpayers with turnover more than Rs. 500 crores
- May be implemented in phases – Phase I to capture tax/ transaction information as well as merchant details and Phase II to include customer details

**Section 3 -
Key points of
consideration**



Important aspects for businesses

Revamping P2P process

- Building checks at time of vendor onboarding regarding status of vendors - Establish compliance rating criteria
- Keeping regular checks on vendor return filing status under GST as well as e-waybill enablement on portal
- Stricter checks to be put on vendor invoice processing depending on GST requirements (such as IRN availability, appearing in GSTR 2A etc) – Leveraging on automation for the same
- Preparing/ updating SoPs on claiming credit, changes in invoice processing method, track on vendor payments etc
- Strengthening commercial safeguards - *Notices being issued by GST authorities under Section 79 to recover amount from customer where vendor has defaulted*

Reconciliation

- Doing regular reconciliations for both output and input – Automation is key
- Output – ERP vs GSTR 1 vs GSTR 3B vs IRN vs e-waybill
- Input – ERP vs GSTR 2A vs GSTR 2B vs e-waybill vs imports of goods – Also reconciling with QR codes on vendor invoices
- Reconciliation may also be needed with GRN date to establish receipt of goods as condition to avail credit

GST audits

- Government has started issuing GST audit notices – Important to prepare for the same
- Proactive approach vs reactive approach – Important to be ready beforehand to deal with multiple notices across States
- Undertaking multiple reconciliations both for output and input

Few opportunities...



- Leveraging on automation for vendor reconciliation
- Revamping entire P2P process using technology
- Using technology to build comprehensive MIS reports



- Centralizing tax functions
- Focused teams for GST reconciliations and audits which can leverage on experiences across India
- Tax transformation – Revamping teams using technology wherever applicable



- Supply chain restructuring based on tax efficiencies



Questions?



Thank you

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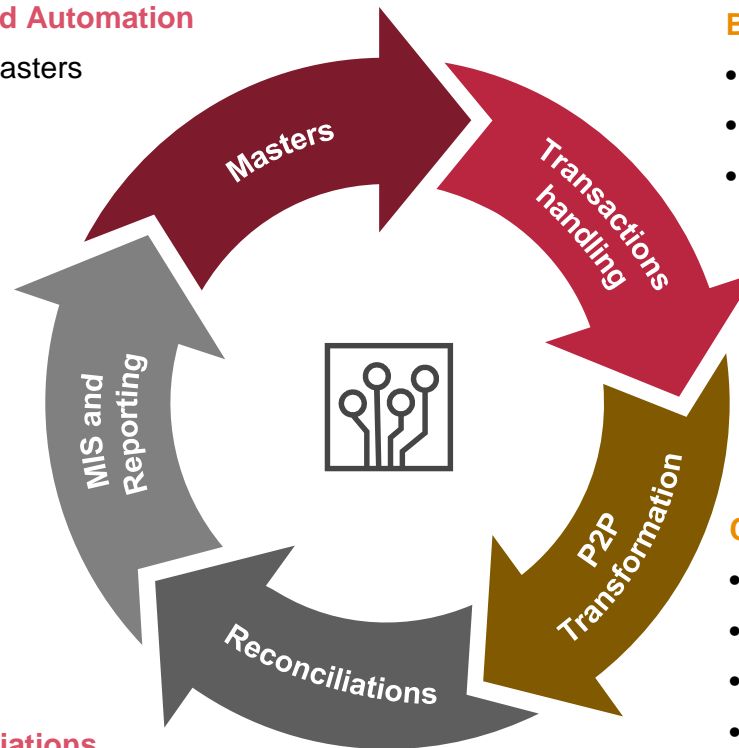
Annexure - Managing taxes effectively in ERP

A. Masters - Validation and Automation

- Vendor and Customer masters
- Product masters

B. Transactions Handling

- Tax determination (SO, PO, invoices)
- Statutory document formats - IRN, QR code
- Integrated compliances (E-Invoicing & E-way bills)



E. MIS and Reporting

- Comprehensive data templates for statutory compliances, third party applications and MIS purposes

C. P2P Transformation

- Automated data entry
- Automating GST credits
- ERP assisted decision making vis-à-vis vendors
- Withholding tax and reverse charge tax liability automation

D. Reconciliations

- Key reconciliation reports useful for tax compliances and risk management