ADDLESHAW GODDARD

# INDIAN GST IMPLEMENTATION

## Goods and Services Tax

Goods and Services Tax (**GST**) in India came into force on 1 July 2017 and is one of the most significant tax reforms the country has ever seen. It is widely expected to have significant implications for the way in which businesses (especially larger businesses) operate in the market. In addition to delivering material tax savings and simplification, GST is predicted to have a significant practical impact on supply chain management and in-country transport and logistics arrangements. The rest of this article briefly summarises what has actually changed with the arrival of GST and speculates on what broader, non-tax challenges and opportunities it could bring.

## What has changed?

Prior to GST, supplies of goods and services in India were subject to multiple taxes imposed by different authorities that might all have to be considered in relation to a single set of transactions. GST is intended to modernise that regime considerably, and to replace much of the old system with one that more closely resembles the taxation of goods and services in other developed economies – for example, VAT in the EU. GST is also intended to move India further towards being a single common market.

GST has replaced the following taxes:

| State Taxes which have been subsumed | Centre Taxes which have been subsumed |
|---|---|
| State VAT | Central Excise Duty |
| Central Sales Tax | Duties of Excise (Medicinal and Toilet preparations) |
| Luxury Tax | Additional Duties of Excise (Goods of Special Importance) |
| Entry Tax (all forms) | Additional Duties of excise (Textiles and Textile Products) |
| Entertainment and Amusement Tax (except when levied by local bodies) | Additional Duties of Customs (commonly known as CVD) |
| Taxes on advertisements | Special Additional Duty of Customs (SAD) |
| Purchase Tax | Service Tax |
| Taxes on lotteries, betting and gambling | Central Surcharges and Cesses so far as they relate to supply of goods and services |
| State Surcharges and Cesses so far as they relate to supply of goods and services | |

The new system is simpler, but still complex in some aspects. As readers will know, India is a federal country and GST allows for both state and central government GST to be charged simultaneously on a common tax base – SGST by states and CGST by the centre. In addition, "Integrated GST" (IGST) will be levied and administered by central government on every inter-state supply of goods and services, as well as imports into India.

There are also a considerable number of tax rates that could apply, depending on the classification of the goods/services being supplied, and some supplies are outside the scope of GST entirely – e.g. petrol, alcohol and tobacco. Overall, the system appears to be considerably less complex than it was, but still more complex than equivalent rules in other jurisdictions.

## What does it mean for businesses – the logistics impact

One potential consequence of GST is a change to warehousing arrangements in India. Before GST, individual state tax regimes meant that many businesses found it tax-efficient to have a warehouse for distribution of goods in each state where they operated. In some circumstances it was also apparently more tax-efficient to export goods from a state and then re-import them into the same state for actual delivery. The new GST rules, and in particular the way in which tax paid earlier in the supply chain can be credited against tax collected on sales, are intended to do away with this sort of requirement.

This is expected to mean that businesses can decide where to locate their distribution centres on the basis of logistical efficiencies rather than tax requirements – in some cases a number of states might be served by a single large warehouse, or in others multiple distribution points might be needed or desirable. Overall, the outcome could be that the total number of warehouses needed comes down significantly.

That reduction should bring efficiencies and cost savings, and the new system of IGST should simplify and facilitate inter-state movement of goods by removing practical/administrative barriers to trade. However, as well as potentially needing significant investment in new/upgraded warehouses, it would also put more of an emphasis on the rapid and efficient transportation of goods to and from warehouses and local distribution points and ultimately to customers. That will particularly be the case if practices such as "just in time" delivery and stocking are increasingly adopted. Having fewer warehouses and distribution points is likely to mean that the average delivery journey of goods becomes longer, which may in turn require increased sophistication and scale for Indian delivery and logistics businesses. More powerful IT solutions may also be needed to keep track of and manage stock and materials in transit.

In summary, the arrival of GST could bring changes in both the tax sphere and beyond. Clearly that sort of change presents both a challenge and an opportunity for the Indian logistics sector, which has already been forecast to achieve significant year on year growth.

## Who to contact


**PAUL CONCANNON**
Partner

020 7160 3285
07973 185086

**ANAMIKA PANDEY**
Associate

0161 934 6297
07872 413739




addleshawgoddard.com

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