

## All India Rubber Industries Association (Eastern Region)

Seminar on the “Role of Bank for business facilitation: and emerging “Goods & Service Tax (GST)” held in the evening of 20<sup>th</sup> July, 2011 at Hotel Bigboss, Kolkata.

In pursuance of the catalytic role – a key operational principle of the Association as business facilitator, All India Rubber Industries Association (Eastern Region) organized the captioned Seminar for the benefit of its members. *The Seminar was held under the aegis and sponsorship of Royal Bank of Scotland (RBS) and also with the pedagogical support of the Pune-based Chartered Accountants M/s. Udyen Jain & Associates.*



The presentations in the Seminar had two parts – the first part basically centered round the role of commercial banks for business facilitation. And with reference to RBS in the main the presentation was given by Mr. Vandit Mohan, the Business Relations Head of RBS in India. The second part was relating to the nitty gritty of the emerging Goods & Service Tax (GST) and the presentation was given by Mr. Aniket Kulkarni, Partner, Udyen Jain & Associates, Chartered Accountants.

By and large the Association members were keen and deputed their representatives to attend the Seminar. As Chairman of AIRIA (ER) Mr. Sawar Dhanania was pleased to express his greetings and warm welcome to each one of those present at the Seminar. He specially thanked the RBS Officials Mr. Vandit Mohan and Mr. Arijit Chakraborty, for their support and sponsorship that enabled the Association to hold the programme. He also appreciated and thanked Mr. Aniket Kulkarni for extending their pedagogical support with regard to GST.

In his welcome address Mr. Dhanania emphasized the importance of capital and credit in business. About Royal Bank of Scotland, the sponsor of the Seminar, his idea was that RBS has an extensive global presence and strong relationships with corporations, financial institutions and governments in Europe, North America and Asia Pacific. It is one of the world's biggest banks in the forefront. As regards GST, Mr. Dhanania mentioned, the indirect tax regime in India is proposed to be replaced by a comprehensive dual GST with Central GST and State GST to be levied concurrently by the Centre and the States; GST is expected to have a far reaching impact on virtually all aspects of businesses operating in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems.

**Technical Presentation: Bank, a resource of business entities:**

*Areas where business entities incur more cost – Views of Mr. Vandit*

*A bank is a place that will lend you money if you can prove you don't need it, said US actor Bob Hope. But on a serious note, there is no denying the fact that banks are to economies what souls are to human beings.*

Whatever the case, Mr. Vandit Mohan in his presentation categorized the resources of an organization as mainly *Human, Machinery and Bank.*

He highlighted *how to increase efficiency using all these resources, areas where business entities incur more costs, how to ensure that they bring down maximum costs related to banking, how to use bank for achieving higher revenue.*

**Mohan of RBS in banking perspective**

**>> Wrong/ Rigid Limit Structuring & Assessment**

Wrong structuring causes mismanagement as limit structured & sanctioned is not as per business model requirement. This causes underutilization of one limit & over-utilization of another limit

- Limit fungibility/Swappable
- Utilize limits to the max. & have
- flexibility in business transactions

**>> Fast Renewal & Enhancement**

Business that is growing very fast would suffer if approach is slow & conservative. Fast business growth would need fast enhancement at proper stages. Delay in enhancement will cause opportunity loss and will help competitors.

Limit is made available so that market share grows with larger turnover & profit increases.

As far as RBS is concerned, what Mr. Mohan stated was –

- As an international bank RBS has a network of more than 3500 offices spread over 75 nations around the world,
- RBS has been in India through ABN AMRO from 1920 and is one of the oldest foreign banks in India,
- The Bank currently operates through 31 branches across 24 major cities in India,
- RBS staff strength across India exceeds 8000 employees,
- Assets of over US\$ 504 billion and AA credit rating,
- 365 days banking – RBS is open even on January 26 and August 15.
- Long Banking hours, open from 10 AM to 7 PM,
- Wide payment network, pay at over 7000 locations,
- Strong cheque collection network; Reportedly RBS can collect cheques at over 157 locations as local collections and over 839 locations as outstation collections through its partner banks,
- Wider ATM access with International Debit Cards – access the RBS ATMs for virtually all banking transactions. For cash withdrawals and balance inquiries one can access the Maestro/Cirrus network with over 2900 ATMs in India and over 790,000 ATMs across the world,
- Strong Doorstep Banking – Cash/Cheque pickup or Cash/Demand Draft delivery,
- 24 hours Bank by phone facility allowing access to any information anytime even on a Sunday.

### RBS Products in brief

- Cash Credit / Overdraft
- Pre-shipment Packing Credit
- Post-shipment credit
- Short-term loan
- Buyer's Credit,
- Cash Management System
- Letter of Credit
- Bill discounting]
- Bank Guarantee
- Forward Contracts
- Hedging
- FX deals –
  - Cash Deals – Exchange covered for the same day
  - Tom Deals – Exchange covered for next day
  - Spot Deals – Exchange covered for value date equal to 2 working days
  - Forward Deals – Exchange covered for a value later than 2 working days.
- LIBOR based funding, etc.

Reasons why banking with RBS makes business sense – Mr. Mohan highlighted as under:

Service	Pricing
Dedicated Relationship Manager & Service Manager	Available
Multi City Banking	Free
Unlimited Cheques payable at par	Free
Issuance of Pay Orders & DDs	Free
Free Check pick & DD delivery service	Free
24 hour Bank by phone	Free
Internet Banking	Free
E Tax	Available
FX	Preferred rates (negotiable)
FIRC Charges	Free
BIRC Charges	Free
Inward Remittances	Service Charges
Softex Filing	Negotiable
Forward Booking	Rs. 500
FX Advisory	Regular
Import payment	Negotiable
Prompt Alert service (SMS)	Free
Outward Remittances for services rendered	Rs. 250
Trade doorstep services	Free

Besides the above, Mr. Mohan dealt with the mechanisms of Forward Contract and Hedging and their advantages & implications vis-à-vis the services offered by RBS.

### Technical Presentation: GST

In his presentation Mr. Aniket Kulkarni dwelt on the nitty gritty of the emerging Goods & Service Tax (GST). The salient features of his presentation are as under:

GST is a tax on goods and services. It is leviable at point of sale. At the time of sale of goods or providing the services the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

### *Important features of the proposed GST model:*

Keeping in view the report of the Joint Working Group on Goods and Services Tax, the views received from the States and Government of India, a dual GST structure with defined functions and responsibilities of the Centre and the States is recommended. An appropriate mechanism that will be binding on both the Centre and the States would be worked out whereby the harmonious rate structure along with the need for further modification could be upheld, if necessary with a collectively agreed Constitutional Amendment. Important features of the proposed model are as follows:

- a) The GST shall have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.
- b) The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.

- c) The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST (with identification of the State to whom the tax is to be credited).
- d) Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST. A taxpayer or exporter would have to maintain separate details in books of account for utilization or refund of credit. Further, the rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
- e) Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services under the IGST model.
- f) Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc. where, again refund/adjustment should be completed in a time bound manner.
- g) To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- h) The administration of the Central GST to the Centre and for State GST to the States would be given. This would imply that the Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
- i) The present threshold prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. A uniform State GST threshold across States is desirable and, therefore, it is considered that a threshold of gross annual turnover of Rs.10 lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime. Keeping in view the interest of small traders and small scale industries and to avoid dual control, the States also considered that the threshold for Central GST for goods may be kept at Rs.1.5 crore and the threshold for Central GST for services may also be appropriately high. It may be mentioned that even now there is a separate threshold of services (Rs. 10 lakh) and goods (Rs. 1.5 crore) in the Service Tax and CENVAT.
- j) The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. In particular, there would be a compounding cut-off at Rs. 50 lakh of gross annual turnover and a floor rate of 0.5% across the States. The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off.
- k) The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- l) Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.
- m) Keeping in mind the need of tax payer's convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

***Central and State Taxes to be subsumed under GST:***

- a) Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services.
- b) Taxes or levies to be subsumed should be part of the transaction chain which commences with import/ manufacture/ production of goods or provision of services at one end and the consumption of goods and services at the other.
- c) The subsumation should result in free flow of tax credit in intra and inter-State levels.
- d) The taxes, levies and fees that are not specifically related to supply of goods & services should not be subsumed under GST.
- e) Revenue fairness for both the Union and the States individually would need to be attempted.

On application of the above principles, it is recommended that the following Central Taxes should be, to begin with, subsumed under the Goods and Services Tax:

- i. Central Excise Duty,

- ii. Additional Excise Duties,
- iii. The Excise Duty levied under the Medicinal and Toiletries Preparation Act,
- iv. Service Tax.
- v. Additional Customs Duty, commonly known as Countervailing Duty (CVD),
- vi. Special Additional Duty of Customs - 4% (SAD)
- vii. Surcharges, and
- viii. Cesses.

Following State taxes and levies would be, to begin with, subsumed under GST:

- i. VAT / Sales tax,
- ii. Entertainment tax (unless it is levied by the local bodies).
- iii. Luxury tax,
- iv. Taxes on lottery, betting and gambling.
- v. State Cesses and Surcharges in so far as they relate to supply of goods and services.
- vi. Entry tax not in lieu of Octroi.

***State Taxes proposed to be kept outside the preview of GST:*** Some of the States are levying purchase tax, octroi or entry tax in lieu of octroi. Ideally all these should also be subsumed under GST. However, keeping in view the specific requirements of the concerned States and the interest of the local bodies, it was decided that for the time being these taxes may not be included in the GST.

***Tax on items containing Alcohol:*** Considering the requirements of several States, alcoholic beverages may not be brought under the GST.

***Tax on Tobacco products:*** Tobacco products should be subjected to GST with ITC. Centre may be allowed to levy excise duty on tobacco products over and above GST without ITC.

***Tax on Petroleum Products:*** In view of the requirements of the States as well as the Centre, out of the basket of petroleum products, Crude, Motor Spirit (including ATF) and HSD may be kept outside GST, as is the prevailing practice in India.

### ***Interstate transaction of Goods & Services***

The Empowered Committee has accepted the recommendations of the Working Group of concerned officials of Central and State Governments for adoption of IGST model for taxation of inter-State transaction of Goods and Services. The scope of IGST Model is that Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services. For the purpose of levy of IGST by the States, necessary Constitutional Amendments have already been implemented. The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds. The major advantages of IGST Model are:

- a) Maintenance of uninterrupted ITC chain on inter-State transactions.
- b) No upfront payment of tax or substantial blockage of funds for the inter-State seller or buyer.
- c) No refund claim in exporting State, as ITC is used up while paying the tax.
- d) Self monitoring model.
- e) Level of computerization is limited to inter-State dealers and Central and State Governments should be able to computerize their processes expeditiously.
- f) Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

### ***GST Rate Structure:***

The Empowered Committee has decided to adopt a two-rate structure – a lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items. For upholding of special needs of each State as well as a balanced approach to federal flexibility, and also for facilitating the introduction of GST, it is being discussed whether the exempted list under VAT regime including Goods of Local Importance may be retained in the exempted list under State GST in the initial years. It is also being discussed whether the Government of India may adopt, to begin with, a similar approach towards exempted list under the CGST.

The States are of the view that for CGST relating to goods, the Government of India may also have a two-rate structure, with conformity in the levels of rate under the SGST. For taxation of services, there may be a single rate for both CGST and SGST.

### ***Zero Rating of Export:***

Exports would be zero-rated. Similar benefits may be given to Special Economic Zones (SEZs). However, such benefits will only be allowed to the processing zones of the SEZs. No benefit to the sales from an SEZ to Domestic Tariff Area (DTA) will be allowed.

### ***GST On Import:***

The GST will be levied on imports for which necessary Constitutional Amendments have already been implemented. Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

### ***Special Industrial Area Scheme:***

After the introduction of GST, the tax exemptions, remissions etc. related to industrial incentives should be converted, if at all needed, into cash refund schemes after collection of tax, so that the GST scheme on the basis of a continuous chain of set-offs is not disturbed. Regarding Special Industrial Area Schemes, it is clarified that such exemptions, remissions etc. would continue up to legitimate expiry time both for the Centre and the States. Any new exemption, remission etc. or continuation of earlier exemption, remission etc. would not be allowed. In such cases, the Central and the State Governments could provide reimbursement after collecting GST.

### ***IT Infrastructure:***

After acceptance of IGST Model for Inter-State transactions, the major responsibilities of IT infrastructural requirement will be shared by the Central Government through the use of its own IT infrastructure facility. The issues of tying up the State Infrastructure facilities with the Central facilities as well as further improvement of the States' own IT infrastructure, including TINXSYS, is now to be addressed expeditiously and in a time bound manner.

### ***Constitutional Amendments, Legislations and Rules for administration of CGST and SGST:***

The 115th Amendment to the Constitution was put before the parliament on 22nd March, 2011. In its current state, the constitution does not provide concurrent powers to levy taxes on the Centre as well as the States. The bill empowers both the Centre as well as the States to frame necessary laws to levy goods and service taxes (GST) on transactions involving goods and services.

### ***Challenge for implementation of GST:***

Two most teething challenges faced by the implementing law makers are:

***Common Platform across the States and Centre:*** A common platform needs to be evolved across the States and Centre, so that there is a Central repository of data available across the States and with the Centre. A unique number has to be provided to each dealer/service provider/ manufacturer on the lines of PAN number. It could in fact be PAN number with a suffix/ prefix. The existing data with the States need to be collated and matched with the data with the Centre. This is exactly the technological challenge, that the implementation team needs to overcome. For starters a team headed by Mr Nandan Nilekani has been entrusted with a task of making a common clearing platform. Right from the word go, they have been encountering problems like the names in some States being recorded with middle names, while in other States they have been recorded without the middle names. So the challenge is to merge all this disparate data points. The common platform would work on the lines of a clearing platform like NSDL.

***Disparate schemes of taxation by the States:*** India is a heterogeneous country having different tastes, customs and culture. So the 'goods of special importance' in each State may be different. In some States for example, Betel Leaves are exempt from VAT in Maharashtra, while they are taxed @ 5% in Himachal Pradesh. The maximum marginal rate (except petroleum and liquor products) of tax is also different in different States. While most of the States have the maximum marginal rate of 12.5%, Andhra Pradesh has a maximum marginal rate of 14.5% revenue.

With such glaring disparities, arriving at a consensus in the larger interest of designing a harmonious structure of VAT seems utopian. For example, it would be unacceptable for Maharashtra to levy VAT on betel leaves, which is a huge source of employment in the State, and at the same time, Himachal Pradesh would not want to lose out on the

#### **Contact details of the resource persons**

**Mr. Vandit Mohan,  
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source of revenue on betel leaves. Once we arrive at a uniform tax rate, States may have to be compensated for the loss of

The presentations were followed by question-answer session. The members' queries were duly answered. The concluding statement of Mr. Kulkarni was that it is still unclear, how do we tread on to the path towards harmonization, with some teething problems as highlighted in the presentation. According to him, enough cooperation is not forthcoming from the States for obvious reasons. States do not want to lose out on their discretion to make policy statements by tweaking the tax rates. They fear, their financial ministers would become merely titular heads shorn of any real power.

There being no other presentations, the Seminar was concluded with vote of thanks by Mr. T.K. Majumdar, Regional Secretary of the Association.

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