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The Management Accountant

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IDEALS

THE INSTITUTE STANDS FOR

□ to develop the Cost and Management Accountancy profession □ to develop the body of members and properly equip them for functions □ to ensure sound professional ethics □ to keep abreast of new developments.

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MISSION STATEMENT

“ICWAI Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.”

VISION STATEMENT

“ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally.”

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views and should not attributed to ICWAI.

Students Edition of The Management Accountant is discontinued w.e.f. July 2010. Students will instead be distributed members edition of The Management Accountant for the first six months from date of registration at each stage.

Two distinct events have been hogging the headlines of late. One has been the international uproar over the oil spill in the Gulf of Mexico by oil major, BP. Another has been the hue and cry over what victims of Bhopal's Union Carbide gas leak view as a redressal too little and too late. These two episodes belong to different time frames and in very far off parts of the world, yet there is a common thread that runs between the two events. They highlight the spectre of corporate liability.

Corporate liability determines the extent to which a corporation as a legal person can be liable for the acts and omissions of the natural persons it employs. Under the aegis of this legal protection, BP has been fined 20 billion US dollars to compensate the shrimp farmers affected by the spill. Union Carbide India Ltd., the pesticide company from whose Bhopal plant, toxic methyl isocyanate gas was released, was ordered to pay 3.3 billion USD but has so far paid only 470 million USD as compensation. The Chairman of the company against whom culpable homicide charges were filed, could not be traced.

Under laws of some lands, corporate liability is considered a criminal vicarious liability which demonstrates the gravity of this offence. A corporate can be held criminally responsible in cases of conspiracy, bribery, larceny, misuse of medicine, public nuisance, violation of regulatory/ consumer protection laws, non compliance with court orders/ decrees, extortion, statutory federal crimes and violation of Occupational Safety and Health Act. The very intent of corporate liability laws is deterrent in nature.

However, there are many grey areas that exist in this realm as can be seen both from the Indian and American episodes. Today, the corporate sphere is ruled by multinationals, whose seamless opera-

tions across different countries impede the determination of jurisdiction of this law while seeking protection. Also the multinationals have deep pockets which results in long drawn litigation processes. And we are all aware of the saying "Justice delayed is justice denied". Finally when victims seek redressal, they often fail to get anywhere in local courts, but discover that the head office abroad is a separate entity. This problem – the 'corporate veil' – means strong evidence is needed to hold a parent company liable, which can be a daunting task for disaggregated and poor victims.

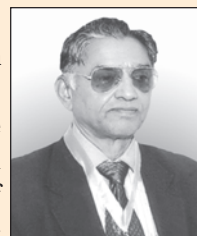
More specifically in India, the statutes have not kept pace with the changing corporate scenario. Most statutes hold only the officials and not the company responsible; even the Indian Penal Code does not take corporates into consideration while directing compulsory imprisonment. Most cases do not recognize corporates to be criminally liable and even if they do so, the punishment is reduced to that of fines. Often the fines are too paltry in relation to the amount of damage or the profits of the company. This defeats the very purpose of corporate liability law since fines (which escape imprisonment) do not act as a deterrent nor are the victims adequately retributed.

These existing lacunae in the legal systems need to be filled in. Apart from stiff monetary punishments that can both act as disincentive for the company as also create a rehabilitation fund for victims; social sanctions that tarnish the reputation of such offending companies, are also effective to prevent further such incidents. Corporate liability should occupy greater place in corporate governance not merely in terms of monetising impact of such liability; but in a greater drive to replace corporate liability with greater corporate responsibility.

● President's Communique ●

Dear Professional Colleagues,

I head towards completing my tenure as President of this esteemed Institute with deep sense of gratitude and great satisfaction. It was indeed the encouragement, cooperation and support, I received from all my colleagues on the Council of the Institute, Past Presidents, Members, students and other professionals that enabled me to render my duties towards growth and development of our profession. Some of the major developments during the year, that I wish to share with you are as under :-



2nd CMA Global Management Accounting Summit 2010

I am happy to inform that the 2nd CMA Global Management Accounting Summit on the theme of "CMA for Sustainable Business" was held in Colombo from 29th June to 1st July, 2010. This was a moment of pride and joy for ICWAI too, as the sapling of Global Summit on Management Accounting that we planted in 2008 has grown to bear fruits. The Institute of Cost and Works Accountants of India (ICWAI) co-hosted the Global Summit with the host Institute of Certified Management Accountants of Sri Lanka and other co-host institutes of the region. CMA, Canada and IMA, USA were the Technical Partners in the Summit. I on behalf of ICWAI and CMA fraternity profusely thank Shri R. Bandyopadhyay, IAS, Secretary, Ministry of Corporate Affairs, Government of India to be the Guest of Honour during Inaugural Session, and addressed the CMA's for future.

India Corporate Week

The Ministry of Corporate Affairs observed India Corporate Week from 14th to 21st December, 2009 on the theme "Corporate Sector and Inclusive Growth". To commemorate the occasion, the Institute, its Regional Councils and Chapters organized programmes independently as well as in collaboration with other sister professional bodies and associations. The celebration culminated at Vigyan Bhavan, New Delhi on 21st December, 2009, where Her Excellency, Smt. Pratibha Devisingh Patil, President of India, presented a Trophy to ICWAI in recognition to its excellent contribution towards growth and development of profession of Cost and Management Accountancy and promoting good governance culture in Corporate India, in the gracious presence of Mr. Salman Khurshid, Hon'ble Minister of State (I/C) for Corporate Affairs and Minority Affairs and Shri R. Bandyopadhyay, IAS, Secretary, Ministry of Corporate Affairs. "Corporate Governance Voluntary Guidelines 2009 and 'Corporate Social Responsibility Voluntary Guidelines, 2009" formulated by the Ministry of Corporate Affairs and to be followed by India's corporates, were also released on this occasion. I congratulate MCA, IICA and NFCG for giving a thrust to these events for the first time in Corporate India and including our Institute to carry on the task.

Visit of Hon'ble Minister of Corporate Affairs to ICWAI Delhi office.

September 11, 2009 was indeed a path breaking and significant date, when for the first time in the history of our Institute, even for that matter in the annals of the history of any professional body, the Hon'ble Minister for Corporate Affairs, Mr. Salman Khurshid addressed our Council at New Delhi and more than that, spent considerable amount of time clarifying and assuring that Government was seized with the several issues facing the profession, particularly the name change of the Institute which he clarified to the press, has lot of support from Government. This has given a new life and will bring cheers to the members, as this has been pending for quiet some time due to several reasons.

Investors' Awareness Programme

Ministry of Corporate Affairs, Government of India has empanelled ICWAI for the first time to organize Investors' Awareness Programme preferably in two-tier and three-tier cities through out

● President's Communique ●

the country. The Institute has responded favourably to this by holding such programmes. I congratulate the Vice-President, ICWAI Shri Brij Mohan Sharma, Central Council Members and Regions & Chapters in conducting the Investor Awareness Programmes, which are appreciated by MCA. A message has been received from the Ministry indicating that ICWAI should focus on conducting Investor Awareness Programmes all over the country, right from 1st April, 2010 onwards for another year till 31.3.2011 to drive the advantage of spreading the Investor Awareness Programme every month, if possible every fortnight at various places in India. I request the Chapters and Regions to plan the events in advance and intimate the Delhi Office and Vice President, ICWAI so that we could focus on the directions of Ministry in implementing their guidelines.

Cost Accounting Standards Board (CASB)

The Cost Accounting Standards Board has been working tirelessly for developing the cost accounting standards under the Chairmanship of Shri Chandra Wadhwa. The Council of the Institute has so far issued 12 Cost Accounting Standards. The Council has also made the application of these Cost Accounting Standards mandatory w.e.f. accounting period commencing on or after 1st April, 2010 for the preparation and certification of General Purpose Cost Accounting Statements. In case the members of the Institute in practice are of the opinion that the aforesaid cost accounting standards have not been complied with for the preparation of the cost statement, it shall be their duty to make a suitable disclosure/qualification in their audit report/certificate. Once again for the first time the President, IFAC Robert Bunting visited our Institute and participated in CASB Meeting. He commented that India is the leader in contributing cost accounting standards to the whole world. He also expressed the opinion that while developing the Cost Accounting Standards, the Institute should keep in mind the International perspective and appeal.

On Companies Bill 2009

Regarding, Companies Bill, 2009, we have brought it to the notice of all the concerned that we will be presenting our comments before the Chairman and Members of the Standing Committee. ICWAI is geared up to meet the challenges with regard to certain sections of the new Companies Bill 2009 which may have to be looked into and we are confident that this Government will do justice to our profession.

The Institute was given an opportunity to appear before the Hon'ble Parliamentary Committee on Finance for oral hearing on Companies Bill 2009 on 24th May 2010 at New Delhi. A presentation was made before the Hon'ble Committee and further replies were submitted for the queries.

GST and Direct Tax Code

The Taxation, Perspective Planning & Execution Committee, prepared a full proof document regarding the importance of Role of Cost Accountants in forthcoming DTC to ensure reduction of leakage of Revenue and protection social interest and presented the same before the Ministry of Finance. On Direct Tax matter, the committee finalised the draft on Guidance Note on Transfer Pricing. The committee also finalised the preparation of Technical Guide on Implementation of Goods & Service Tax in India, being the First Publication in the Country, and presented to all concerned for their consideration

International Affairs

It was our good experience to participate in the International Seminar of CAPA on SMEs and SMPs organized by IFAC and World Bank. I and Shri S.R. Bhargava, Central Council Member participated effectively in the above programme at Beijing during the end of October, 2009. As a part of Programme

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of CAPA, I was also fortunate to attend the World Bank programme arranged along with the Chinese Government where the Finance Minister of China and Auditor General of China discussed about the introduction of IFRS in particular in China and other 23 countries.

During 1st week of November 2009, it was a satisfactory meeting at Dhaka of SAFA Board and Assembly with ICWAI's participation effectively. Shri Kunal Banerjee, Immediate Past President and Shri A.N. Raman, CCM & Board member of SAFA, brought out many points particularly with regard to the Enterprise Governance matters and also certain lacunas in introduction of IFRS, namely, by introducing fair value accounting which in turn calls for a current cost accounting approach. We also brought that in respect of countries like India wherein heavy subsidies are given on cost base approach, the adoption of fair value will bring in surmounting problems. This was well appreciated by the SAFA Board.

During 15th & 16th of November, 2009, ICWAI partnered with Institute of Cost and Management Accountants, Oman to launch Accounting Technician Course. ICWAI efforts were appreciated by our Indian Ambassador and officials of ICMA Institute. We want to share our knowledge till we achieve full professional growth in Oman for which we have signed an MoU with the approval of Government of India. You may observe that it marks a beginning of era of knowledge cooperation in Gulf Region, wherein a big potential exist. I am happy that ICWAI has taken this lead. Oman has successfully conducted the first exam in June 2010.

I am happy to inform you that ICWAI participated in the recent SAFA meetings and conference in Karachi, Pakistan. The team was led by me along with the immediate past president Shri Kunal Banerjee and Mr. V. C. Kothari and Mr. A.N.Raman. It was our pleasure in participating in the memorial lecture organized by ICMAP in the memory of their founder president Late Mr. Md. Shoaib, who happened to be our founder president also. The crowd applauded at Karachi when I proclaimed that I am the 52nd president having received the baton from Late Mr. Md. Shoaib and their successors.

INDO-USA Delegation to America led by our Hon'ble Secretary, MCA Shri R.Bandhyopadhyay, IAS

We are happy to inform you that our Council Members Shri A.N.Raman, Vice-President, SAFA & Member, PAIP, IFAC and Shri Chandra Wadhwa, Past President, led by our Hon'ble Secretary, MCA Shri R.Bandhyopadhyay, IAS visited Washington and New York and held discussions with various International Bodies to study the implementation of IFRS and also the contribution of CMAs for the development of management accounting profession. The discussion with IMA-USA was very helpful and both Mr. Bandhyopadhyay ji and Shri Jitesh Khosla ji, IAS who headed the delegation stressed the need for an MoU between ICWA of India and IMA-USA.

Visit of CIMA President, Mr Aubrey Joachim to our Institute

Mr Aubrey Joachim, President, CIMA-UK visited the Delhi office of the Institute on 10th March, 2010 and met Central Council Members and officials. After detailed discussions many issues were finalised for further follow-up like, exchange programme between the members of the two Institutions for training; undertaking research work jointly in India and other countries, particularly in the area of Cost Audit, Health and Education; possibility of making e-learning programme available to the Indian students at a concessional rate; holding joint conference/seminars on various areas like Performance Management, Enterprise Governance, Cost Audit etc.

SAFA Board Meeting and other Committee Meetings hosted by ICAI-Sri Lanka at Colombo

I represented ICWAI at SAFA Board and Committee Meetings along with my colleagues Shri B.M.Sharma, Vice-President, ICWAI; Shri Kunal Banerjee, Immediate Past President and Shri A.N.Raman,

● President's Communique ●

Vice-President, SAFA. Deliberations took place on two days. On the first day, SAFA finalized the Task Force recommendations towards revised constitution of SAFA. There was also meeting of Public Accounting Governmental and Public Sector Enterprises Accounting. On the next day was the Board Meeting of SAFA, represented by all the member bodies. The deliberations were very fruitful and I am happy to say that the Board approved two SAFA programmes for India, one at New Delhi and another at Bangalore.

CAPA Board and Annual General Meeting

I along with Shri B.M.Sharma, Vice-President, ICWAI attend the Confederation of Asian and Pacific Accountants (CAPA) Board Meeting and Annual General Meeting held on 20th and 21 May 2010 in Wellington, New Zealand. There was also a presentation from all countries of CAPA as well as India on the latest professional achievements.

ICWAI represented by the President in MCA delegation to Netherlands and Germany

An MCA delegation led by Shri R.Bandhyopadhyay, IAS, Secretary, MCA visited Netherlands and Germany during 24-31 May, 2010 to establish a Joint Working Group with the Governments of Netherlands and Germany in the area of Corporate Governance and Corporate Social Responsibility. There was also an interaction with various organizations engaged in the areas of CG/CSR in these two countries. During this visit, detailed discussions were held with the Netherlands Government at Hague to identify the areas of interest to develop a mutual consensus for exchanging points relating to Corporate Governance and Corporate Social Responsibility. The Netherlands Government appreciated the efforts taken by the Ministry of Corporate Affairs, Government of India in this regard. We were happy to participate in an International Global Reporting Initiative Conference at Amsterdam and were among the 77 countries which discussed various practices of Global Reporting Initiatives.

ICWAI 51st National Cost Convention

51st National Cost Convention of Cost and Management Accountants of India was organized by the Eastern India Regional Council of the Institute from 23rd to 25th April, 2010 at Fortune Park Panchwati, at Kolkata on the theme "CMAs in Nation Building – Today and Tomorrow".

Shri SriPrakash Jaiswal, Hon'ble Minister of State (I/C) for Coal, inaugurated the 51st National Cost Convention. Shri Promode Mankin, Minister of Cultural Affairs Bangladesh was Guest of Honour. Technical discussions took place after the inauguration which was very useful to participating cost and management accountants. Prof. Sugata Roy, Minister of State for Urban Development inaugurated the 2nd day of the Convention on 24th April, 2010. The Minister while addressing appreciated the role of Cost and Management Accountants and said that we have to play a greater role in the coming years. To a request made by the President, ICWAI for allocation of a land for the Research and Excellence Center at Delhi, he suggested that since there is no land in Delhi, Institute may approach Noida Authorities. However, he said he will be considerate to the request of the President of ICWAI. It needs to be underlined here that this Convention was attended by more than 600 delegates from all over the Chapters and Regions. I once again express my heartiest congratulations to the EIRC and the Organizing Committee for making the event a grand success. I also place on record the efforts put in by two Council colleagues Shri Somnath Mukherjee and Dr. Sanjiban Bandyopadhyay for making the Convention a grand success.

ICWAI Signs MOU with CBEC

I am happy to inform that The Institute of Cost and Works Accountants of India (ICWAI) and Central Board of Excise & Customs have signed a Memorandum of Understanding (MOU) on 13th

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April, 2010 to set up ACES Certified Filing Centres (CFCs) across the country. These CFCs can be set up and operated by the Members of ICWAI, who have valid certificate of practice issued by the ICWAI. This initiative aims at providing services to taxpayers who may not have requisite IT infrastructure/resources, to use ACES. These services will also be beneficial to the industry and they will not be required to visit the office of CBEC for Registration, Returns, etc. The services would be available on payment of prescribed services charges for various services such as digitization of paper documents and on-line filing/ uploading of documents such as Application for Registration, Returns, Claims, Permissions and Intimations etc. in ACES.

MOU between ICWAI and MCX Stock Exchanges Ltd

I am happy to inform you that the Institute of Cost and Works Accountants of India (ICWAI) and MCX Stock Exchanges Ltd (MCX-SX) have signed a Memorandum of Understanding (MOU) on 7th May 2010 at Kolkata. The programme was graced by Shri R.Bandyopadhyay, IAS, Secretary, MCA as the Chief Guest. This MOU will result in joint programmes between ICWAI and MCX-SX for various certification programmes on financial markets, cost accounting standards and effective corporate functioning.

CAT course inauguration at Srinagar, Kashmir

I am happy to inform you that The Institute of Cost and Works Accountants of India (ICWAI) has made headway in Kashmir Valley through Global College of Professional Studies (GCPS) as a Recognized Oral & Coaching Centre (ROCC) to launch CAT course in Srinagar on 05.04.2010. Shri Balwinder Singh, Chairman, CAT was also present on this occasion. The CAT course will be no doubt a boon for the students' community from the Valley and with this the Institute has established Oral Coaching Centres for CAT from Kashmir to Kanyakumari. As of date, Institute has 222 Oral Coaching Centres apart from Regional Councils and Chapters for imparting oral coaching to CAT students. CAT course indeed reflects the inclusive agenda of the Institute for benefiting the students' community especially from rural and remote areas.

Strengthening of Infrastructure at Regional Councils/Chapters

The Council continued its efforts to strengthen the infrastructural facilities of Regional Councils/ Chapters during the year. As a result, I am pleased to inform you that the Professional Development activities at Regional Councils/Chapters have increased significantly. I am sure, the services being rendered by the Regional Councils/Chapters to the students and members would be more visible and satisfying in times to come.

SAFA Vice-Presidentsip

After 14 years, our Institute has got the turn of occupying the Vice Presidentsip of SAFA and this has happened on 23rd January 2010 when SAFA Assembly elected ICWAI Council Members, Shri A.N. Raman as its Vice President for the year 2010 with an overwhelming unanimous support.

Green Initiative from ICWAI

Southern India Regional Council of ICWAI took initiatives to meet the "Green Initiative Standards" as part of CSR initiatives, which was declared open on 22nd February 2010 by Shri R. Bandhopadhyay, IAS, Secretary-MCA. This was piloted by Shri M.B. Nirmal, Founder of Exnora International, well-known for such initiatives in the country. Shri M. Gopalakrishnan, CCM, co-ordinated the activities to make it a success. Apart from Chairman and members of SIRC, Shri V. Kalyanaraman, Past President of ICWAI and SAFA also played a key-role in the completion of the programme. In his address,

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Shri R. Bandhopadhyay, IAS, Secretary-MCA, lauded the initiatives taken by ICWAI and emphasised that such efforts will bear fruits by including this subject in the Curriculum so that students can be well acquainted with the subject of "Green Costing and Audit." His suggestion was well endorsed and I on behalf of ICWAI commit that all the Chapters and Regional Councils of ICWAI would be drawn to the Green Initiative in the course of time. The programme was well taken by the media with good coverage in National Newspapers and Television Network. The programme was attended by Students & Members of ICWAI and Officials from the Regional Office of MCA.

I am glad to inform you that recently the Karnataka Government has recognized the Cost Accountants also in corporate VAT Audit by amending Karnataka Value Added Tax. The Government is releasing the amendment of Rule 34 (Third Amendment Rules, 2009). We are extremely grateful to the Hon'ble Chief Minister of Karnataka, Shri B.S. Yeddyurappa for recognizing Cost Accountants to shoulder this responsibility.

Announcement from Government of Kerala on inclusion of Cost Accountants in Urban Local Bodies for the purpose of adoption of Double Entry Accrual Based System of Accounting

I would like to place on record my sincere appreciation and thanks for S/Shri R Bandyopadhyay, Secretary, P. D. Sudhakar, Special Secretary, Avinash K Srivastava, Joint Secretary, Smt. Renuka Kumar, Joint Secretary, S/Shri B. B. Goyal, Adviser (Cost), Jaikant Singh, Manoj Arora, Director of the Ministry of Corporate Affairs in this regard.

ICWAI 7th National Award for Excellence in Cost Management - 2009

The Institute is organizing the ICWAI 7th National Award for Excellence in Cost Management -2009 at 5:30 PM on 8th July, 2010 at Scope Auditorium, SCOPE Complex, Core VIII, 7 Lodhi Road, New Delhi. The ceremony will be inaugurated by **Shri Salman Khurshid, Hon'ble Minister of State for Corporate Affairs** and Shri R.Bandyopadhyay, IAS, Secretary, MCA will grace the occasion as Guest of Honour. The Award ceremony will be preceded by a Seminar on 'Cost Audit under New Mechanism and Cost Accounting Standards' at 2:30 PM.

National Seminar on "Regulatory Practices-Role of Management Accountants" at Bhubaneswar from 25th - 27th June, 2010

I was happy to participate in The Cuttack-Bhubaneswar Chapter of the Institute of Cost and Works Accountants of India (ICWAI) organized a three day National Seminar on "Regulatory Practices-Role of Management Accountants" at Bhubaneswar during 25th June, 2010 to 27th June, 2010. Hon'ble Dr. Justice Arijit Pasayat, Chairman, Competition Appellate Tribunal inaugurated the Seminar as Guest of Honour and member, Competition Commission of India, Shri P. N. Paresar gave the key note address.

With regards,
Yours sincerely,



(G. N Venkataraman)
President

Date : July 8, 2010

GST-Introduction and Role of Cost and Management Accountant

CMA Dilip M. Bathija*

The Proposed Goods and Service tax (GST), a very important part of India's tax reforms is around us. After the successful introduction of VAT, GST — the next logical step — will be a further breakthrough.

GST is a comprehensive value added tax on goods and services.

standard GST rate ranges between 15-20%.

In India, VAT was introduced at the Central level on selective basis in terms of MODVAT with effect from March 1, 1986, and slowly it was extended to all commodities in terms of CENVAT in 2002-03. Service tax was also added to

Shortcomings

- Several Central taxes such as additional customs duty, surcharges etc not included in the overall framework of CENVAT, hence benefit of set-off is not available.
- Several taxes such as luxury tax, entertainment tax etc are not included in State level VAT Scheme.
- CENVAT load on the goods remains included in the value of goods which is taxed under State VAT, thus cascading effect on account of CENVAT element.
- CST remains element of cost, as no set-off available.

The introduction of GST at the Central and at the State level will comprehensively include more indirect taxes, wider coverage of input tax set-off and service tax set-off, and phasing out of CST. Thus additional burden of Cenvat and Service tax would be comprehensively removed and a continuous chain of set-off from the original producer's point and service provider's point up to the retailer's level will eliminate cascading effect of tax.

GST—Indian Scenario

The Empowered Committee of State Finance Ministers had released the First Discussion Paper on Goods and Services Tax in India on 10th November 2009. This discussion paper is divided into following four sections :

1. Introduction
2. Preparation for GST
3. Goods & Services Tax Model for India
4. Annexure on Frequently Asked Questions and Answers on GST.

Present Indirect Tax Scenario in India

Taxable Event	Type of Indirect tax levied
Import of goods	Basic Customs Duty
Manufacture of goods	Central Excise
Import of goods	Additional duty of customs levied in lieu of excise duty
Providing Service	Service Tax
Inter-state sale of goods	CST
Sale of goods within state	VAT
Import of goods	Special Additional Duty levied in lieu of VAT

It is levied and collected on value addition at each stage of sale or purchase of goods or supply of services based on input credit method but without state boundaries.

CENVAT in 2004-05. Introduction of VAT in the States started from April 1, 2005. Now all the states and Union Territories have implemented VAT.

Why GST ?

Even though VAT has been successful, tax revenues have increased and cascading effect of tax has been reduced, there are still certain shortcomings in the structure of VAT both at the Central and at the State level.

GST—Global Scenario

About 140 countries have adopted GST. Different models of GST exist, each having its own peculiarities. In many countries,

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With the release of this First Discussion Paper, the government has invited interaction with the representatives of industry, trade, agriculture and common people.

Main Features of the Proposed GST Model (As per First Discussion Paper)

1. GST will have two components, one levied by the Centre (CGST), and the other levied by the States (SGST).
2. The CGST and the SGST will be levied simultaneously on all transactions of goods and services except exempted list, goods outside the purview of GST and the transactions below the prescribed threshold limits.
3. CGST and SGST to be paid to the accounts of the Centre and the States separately.
4. Cross-utilization of Input Tax Credit between CGST and SGST in general not allowed.
5. To the extent feasible, uniform procedure for collection of both CGST and SGST.
6. Centre would administer CGST and State would administer SGST.

7. Taxpayer to submit periodical returns to both the CGST authority and to the concerned SGST authority.
8. Each taxpayer would be allotted a PAN linked tax-payer identification number with a total of 13/15 digits.
9. A uniform State GST threshold of Rs. 10 lakhs for both goods and services for all States and Union territories recommended. The threshold for CGST for goods may be kept at Rs. 1.5 crore and the threshold for services may also be appropriately high.
10. Composition/Compounding Scheme with cut-off at Rs. 50 lakhs of gross annual turnover and a floor rate of 0.5% across the States.

GST Rate Structure

Goods—A two tier rate structure will apply at both CGST and SGST levels.

Services—A single rate is expected to apply at the Central and State levels.

According to Empowered Committee, characteristics of the rate structure will be :

- A lower rate for necessary

items and goods of basic importance.

- A standard rate of goods in general.
- A special rate for precious metals
- A list of exempted items.

Exact rates will be released in legislations.

Exports—Exports would be zero rated.

Imports—Both CGST and SGST will be levied on import of goods and services into the country, with provision of full and complete set-off.

Taxes to be subsumed under the GST

CETRAL TAXES to be sub-sumed:

1. Central Excise Duty
2. Additional Excise Duties
3. The Excise Duty levied under the Medicinal and Toiletries Preparation Act.
4. Service Tax
5. Additional Customs Duty (CVD)
6. Special Additional Duty of Customs (SAD)
7. Surcharges
8. Cesses.

Illustration explaining the working of GST

Stage of Supply Chain	Purchase Value	Value Addition	Sale Value	Assumed GST Rate	GST on Output	Input Tax Credit	Net GST
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Manufacturer	100	50	150	10%	15	10	5
Wholesaler	150	30	180	10%	18	15	3
Retailer	180	20	200	10%	20	18	2

							10

STATE TAXES AND LEVIES to be subsumed

1. VAT/Sales Tax
2. Entertainment tax(unless it is levied by the local body)
3. Luxury Tax
4. Taxes on lottery, betting and gambling
5. State Cesses and Surcharges relating to supply of goods and services.
6. Entry tax not in lieu of Octroi.

Taxation of Inter-State transactions of Goods and Services

Centre would levy IGST which would be CGST and SGST on all inter-state transactions of taxable goods and services. The inter-state seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The importing dealer will claim credit of IGST while discharging his output liability in his own state.

It can be seen from the above table that Manufacturer, Wholesaler and Retailer pay Rs. 10 (Rs. 5 + 3 + 2) as GST on the value addition along the entire value chain from the producer to the retailer, after setting off GST Paid at the earlier stage.

GST in India—Latest Position

Empowered Committee of State Finance Ministers has released first discussion paper on GST on 10-11-2009. Finance Minister in his Budget Speech in February 2010 has said that it will be his earnest endeavour to introduce GST from April 2011.

Role of Cost and Management Accountant in GST Regime

1. Advisory/Support service to Government

Training and teaching is required at various levels. Staff training will be very important area as many new concepts will emerge. Government has to put IT Infrastructure in place. State Infrastructure facilities are to be tied up with Central facilities. Lot of work is to be done in the areas of arriving at revenue neutral rates, compensation to be given to States. How much will be loss due to phasing out of CST and how much will be additional revenue due to taxation of services to the States. Cost and Management Accountant with his specialized knowledge can help the government in these areas with his analytical tools such as Cost Benefit Analysis equipped with the knowledge of indirect taxes, deeper understanding of manufacturing, and also distribution channels.

2. Training to Corporate Staff

Corporates have to do lot of changes in their systems to adopt GST. Staff will have to be trained to make them familiar with concepts, record keeping, returns filing and other compliances. Cost and Management Accountant — with his knowledge of Indirect taxes can provide staff training.

3. Consultancy Service for SME Sector

GST will be a new concept. Enterprises in the SME sector will need lot of guidance in the matters of Classification, Taxation,

Threshold limits, Registration Procedures and Compliances. They will also need guidance on whether to go for Composition/ Compounding Schemes or to go for normal provisions. Cost and Management Accountant can provide guidance in these areas.

4. Facilitation Centres

As GST will involve many new things, new principles, new concepts, government like MCA may open facilitation centres or Help Centres to help the Industry, Trade etc. Cost and Management Accountant can enter this area and provide help to the Industry.

5. Decision making functions

In the light of new developments due to GST Regime, management may have to take important decisions about their market strategies, stock transfer policies, godown keeping policies, establishing branch versus establishing manufacturing unit in different States. In all these areas, Cost and Management Accountant can help the management in taking right decisions by doing analysis such as Cost Benefit Analysis etc.

6. Audit

Cost and Management Accountant is already engaged in doing Audit under Central Excise, Customs and State Vat Acts. In the GST Regime also, he can offer his services as Auditor.

From the above, it is clear that Cost and Management Accountant can become GST expert and render services to the government, Industry and Trade. □

Reform in Indirect Taxes – Importance of Unified Goods and Services Tax [GST]

CMA Mrityunjay Acharjee*

Basic Objectives of Tax Reforms

The basic objective to introduce the new system is to establish a tax system economically efficient, neutral in its application, widely distributed and simple to comply and administer.

Revenue considerations suggest that the tax base should be broad, comprise all items in the consumer basket, including goods, services, as well as real property.

The tax system should contain the principles of neutrality which may comprise :

1. That the tax be a uniform percentage of the final retail price, of a product regardless of the supply-chain arrangements for its manufacturing and distribution;
2. That the tax on inputs be fully creditable to avoid tax cascading; and
3. That the tax be levied on the basis of the destination principle, with all of the tax on a given product/service accruing in the jurisdiction of its final consumption;
4. Projection of simplification of tax administration and compliance — the first factor is tax design itself like minimum

classifications and minimum tax rates.

The objective of reforming any taxation policy and structure should be :

First, that trade and industry, particularly small business units, should be able to comply with the provisions of tax laws with the least of time and money cost. The taxation laws need to be simple and unambiguous and the nature of records to be maintained, returns to be submitted, in terms of the contents and periodicity, should be commensurate with the size and complexities or the business units.

Secondly, the taxation rates should not be prohibitive. These two factors are considered to be the most important in inducing tax compliance.

Single Point Tax vis-a-vis Multi Point Value Added Tax

Single point tax system, whether at the first point or the last point, was considered an inefficient way of taxation because it led to huge tax evasions, very high rates or tax, multiplicity of tax rates and huge number of disputes. Major historic step in this regard was adoption of Value Added Tax (VAT) system,

which mainly brought about two-rate structure, transparency in VAT realised by the dealers, removal of the cascading effect of local sales tax, widening of tax base etc. The next revolutionary reform in indirect taxes will be in the form of Goods and Services Tax (GST), which will not only integrate Goods and Services tax structure but also integrate tax structures of Government of India and State Governments, with a fresh look at tax exemptions and rate structure.

Reforms in tax structure towards converging into new tax regime

Reforms in the taxation statutes are an ongoing process. From the era of age-old sales tax or single point levy of sales tax, the country is now witnessing the reformed era of Value Added Tax where tax on goods sold is levied at every stage wherever any value addition takes place in the entire supply chain till the goods ultimately reaches the end customer. Consumers as well as the government has been immensely benefited with the introduction of Value Added Tax in India. By the dint of the innovative idea to neutralise the amount of tax paid on Input raw material procured within the stingate with the amount of tax payable on the finished product at the time of its sale, sales tax no longer remains as a part of cost of production and accordingly, the end consumer gets the benefit of neutralization of the cascading effect of sales taxes.

An attempt has been made to analyze the different reasons responsible for non-compliance of the tax laws so that an integrated and balanced view may be taken for improving the tax compliance.

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Undoubtedly, higher tax rates have been an important factor resulting in massive tax evasions. However, simpler tax laws are essential in facilitating compliance, reducing transaction costs and in making it easier to do business. Hence, the tax policies have to aim at simpler tax laws, keeping in view the nature and size of business. However, various rules and regulations, which require detailed information, periodic reports including real time reporting, or which grow complicated with the growing economic complexities, however, are not the real reasons for tax evasion. Requirement for information from the tax payers or the dealers is likely to increase in future for cross-verification purposes, besides the data being captured through electronic surveillance etc. In fact, submission of structured and accurate information has become very easy with maintenance of electronic records by almost all the dealers who are required to comply with such requirements.

However, policymakers have to make conscious efforts to evolve an administrative and legal framework which ensures level playing field to the various business units in the same class of business in its final impact, which would include aggregate impact on the profits due to fiscal and non-fiscal benefits. Final impact, of course, has to be assessable with respect to viability of the business. In fact, this factor is internationally recognised, more so in the context of globalisation. This is the reason that tariff-barriers, domestic subsidies and even exploitation of labour or other domestic laws are closely studied by the competitors in other

countries to assess the impact on the level playing field. Anti-dumping duties, safeguard duties and ban on imports from certain countries are imposed only to provide domestic industries a same and uniform playing field.

Though Tax Reforms is an ongoing process and the next revolutionary reforms in the area of Indirect Taxes shall be the introduction of Goods & Services Tax (GST) which shall not only consolidate and integrate the statutes rearmament.

Dual Goods and Services tax, proposed to be levied by the Government of India and the States on the common base, is expected to bring about further substantial reforms, which should result in removing remaining distortions in the tax structure which hamper level playing field. Several State level and Central indirect taxes such as Value Added Tax, Entry Tax, Tax on consumption of goods, Luxury Tax, Entertainment Tax, Central Sales Tax, Central Excise Duty, Service Tax, Cenvat on imports are likely to be subsumed in Goods and Services Tax. Besides, Goods and Services Tax also aims at completing the process of destination-based tax, which has been initiated in the case of goods only with the introduction of VAT, by CST being phased out gradually. While it will remove distinction between goods and services so far as taxability is concerned, it will also broaden the tax base by bringing under tax net untaxed services of all kinds and classes except the services consciously exempt.

What is GST?

GST is a broad based and a single comprehensive tax levied on goods

and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set-offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. To put at a single place, GST may be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service.

It is seen as the panacea for removing the ill-effects of the current indirect tax regime prevalent in the country. If adopted and implemented, GST may neutralise the existing problem of taxes being levied on top of taxes. For instance, when a shoe company produces a pair of shoes, the Central Government charges an excise duty on them as they leave the factory. At the retail level, the state where the outlet is located charges VAT (different states charge different rates of VAT) without giving credit on the excise duty levied earlier (the State tax is levied on top of a Central tax). In the GST system, both Central and State taxes may be collected at the point of sale. Both components (the Central and State GST) may be charged on the manufacturing cost of the goods manufactured and services provided.

This system is basically designed to simplify current level indirect tax system. It integrates the union excise duties, customs duties, service tax and State VAT into a single levy known as GST. GST may be rightly termed as national level VAT

on goods and services with only one difference —in this system not only goods but also services are involved and the rate of tax on goods and services are generally the same.

Widening the Tax Base

The GST at the Central and at the State level will thus give more relief to industry, trade, agriculture and consumers through a wide comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several taxes in the GST and phasing out of CST. With the CST being properly formulated by appropriate calibration at rates and adequate compensation wherever necessary, there may also be revenue/resource gain for both the Centre and the States, primarily through widening of tax base and possibility of a significant improvement in tax-compliance. In other words, the GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers, as well as for the Central Government and the State Governments. The CST may, indeed, lead to the possibility of collectively positive-sum game.

GST THE NEED OF THE DAY

Any multiple tax structure can't construe a conducive environment for accelerated economic development. It is, accordingly, the demand of all the countries that a Tax System should be structured in the following manner :

(i) To avoid multiple taxes and thus cascading effect on prices must go.

(ii) While presenting the Finance Bills almost every Finance Minister, may be at the Centre or the

State levels, states that the economic philosophy says that taxes should be collected from the public without causing hardship. However, it does not happen in practical. Only honest tax payers are paying regular taxes whereas the tax offenders could still walk scott free. The idea to bring CST is to make a chain which is difficult to break and base of tax collections may widen, so that at lower rates better revenue may be garnered.

(iii) Kautilya's 'Arthashastra', says that public prosperity, rewards for good conduct, capture of tax evasion, prevention of mismanagement by officials, abundance of greenery, prosperity of commerce, prevention of disasters, reduction in unnecessarily expenditure and optimum collection of taxes leads to prosperity of the State. Keeping these objectives in mind the introduction of the CST is imperative.

(iv) "Law cannot stand still, it must change with the changing social concepts and values. If the law fails to respond to the needs of the changing society, then either it will stifle the growth of the society and choke its progress or, if the society is vigorous enough, it will cast away the law which stands in the way of its growth. Law must, therefore, constantly be on the move adapting itself to the fast changing society and matured lag behind" — P N Bhagwati.

(v) The law has not, so is the definition of the term 'goods' under various sales tax laws. Now, it is judicially decided that the term 'goods' is not merely what is tangible but it embraces within its ambit what is called intangibles too, like electricity, softwares etc. Not only the definition of the term

'goods' has widened, so is the effect on the mode and method of doing business with the advent of technology. Now the computers have ruled over the age of chivalry. Therefore, the newer laws — which are universal in nature must prevail in the era of globalization. When an MNC wants to do business in India it finds new laws in each State. Not only that but they find so many laws applicable on them that find it impossible to work with such a country like India and they reroute to some other neighboring country like China. Therefore, it is almost imperative now to enter the era of GST.

(vi) To allow inter-State transactions VATable.

(vii) Input tax credit must be allowed on all inputs including capital goods, services etc across the board.

(viii) Multiplicity of tax laws must be minimized.

(ix) The success of a tax system rests upon its efficiency, equity and simplicity.

(x) The compliance cost of the tax system should be minimum.

(xi) It must be simple to administer.

(xii) It should be wider in base and tax evasion must be difficult.

(xiii) There should be minimum number of tax rates and, instead of long schedules of tax rates, it must provide only negative list of goods and services being exempt or zero-rated.

(xiv) It must contain simpler provisions for registration, filing of returns, assessment procedures, maintaining of books of accounts, closing of business for small taxpayers.

(xv) It may contain composition schemes for small tax-payers.

(xvi) These must abolish competition and a cold tax war between various States.

Advantages of GST

VAT has been accepted worldwide as a buoyant source of revenue to the Government. It has been considered as the broadening tax base system and neutral to patterns of production and consumption decisions due to minimum tax rates and minimum exemptions. GST may bring down rates of tax and still may increase the total revenue. Significant Advantages of a comprehensive GST Model are :

- a) Reduces the effective rate of tax to one or two base floor rates;
- b) Abolition of multiple rate structure relating to sale, manufacturing of goods and provision of services on all India basis;
- c) Reduces cost of compliance and increases voluntary compliance;
- d) Removes the cascading effect of taxation and all distortions in the economy;
- e) Enhances manufacturing and distribution efficiency, reduces the cost of production of goods and services;
- f) Increases the demand, production of goods and services;
- g) Makes all the goods & services more competitive in global competitive field leading to more export of goods & services;
- h) Shall promote more economic efficiency and sustainable long term economics growth since GST is neutral to business processes, business models, geographic locations and product substitutes;

- i) Reduces litigation, harassment and corruption;
- j) Bring-in 'e'-Governance and electronic data based environment replacing the age-old conventional system of tax management and administration;
- k) Widening the tax base and tax network and thereby enhancing the revenue of the Centre as well as State Governments;
- l) Reduces administrative cost of the Government;
- m) Moving towards internationally comparable and compatible tax structure and tax administration.

High tax rates do not generate more revenue—rather discourage compliance and gives rise to economic distortions. The history of our tax system is evident that the peak basic rate of customs duty has been reduced to 10% in 2007-08 from 300% in 1990-91 on manufacturing nonagricultural products. Also, the basic excise duty has been reduced to 14% from 110% in the same period with an objective to encourage more voluntary compliance.

Background of introduction of GST in India

In the Budget Speech of 2006, the Hon'ble Finance Minister Shri P Chidambaram had set a target of year 2010 date for the introduction of the Goods and Services Tax (GST) and stated that the same would help India achieve economies of scale by becoming a common market, and help India score in the global market for labour-intensive manufacturing. The question now remains that what about translating this intent into execution. The effort to introduce the new tax regime was reflected,

for the first time, in 2006-2007 Union Budget Speech. The Hon'ble Finance Minister Mr. P. Chidambaram remarked that there is a large consensus that the country must move towards a national level GST that must be shared between the center and the states. He proposed 1 April 2010 as the date for introducing GST. After successful introduction of Value Added Tax (VAT) in almost all the States and continuous increase in number of services under the service tax net, nobody must have any doubt of the Finance Minister's seriousness about GST. The present rates for service tax and CENVAT, that is most proximate to the global GST rate, and the continuous steps towards phasing out of Central Sales Tax (CST), clearly hints at the endeavor on the part of Government of India. The Hon'ble Finance Minister Shri P. Chidambaram once again referred to the new system and informed that there is considerable progress in preparing a roadmap for introducing the GST with effect from 1 April 2010. By 2010, revenue deficit may be completely eliminated as per the goals set out in the Fiscal Responsibility and Budget Management Act, 2003 (FRBM). Meeting with the FRBM target may help in proper introduction of the new tax regime—that is GST.

Once again, the Finance Minister took one step further when he announced that, Empowered Committee of State Finance Ministers has agreed to work with the Central Government to prepare a roadmap for introducing a national level GST with effect from 1 April 2010. In May 2007,

Empowered Committee (EC) of State Finance Ministers, in consultation with the Central Government, constituted a Joint Working Group (JWG), to recommend the GST model. Within 7 months of its constitution, that is in November 2007, JWG presented its report on the GST to the EC. The EC has accepted the report on GST submitted by the JWG.

All these developments in the Indian tax scenario is quite evident of the government's incessant effort towards the successful introduction and implementation of the GST regime. Indian democracy involves many actors, and has an exquisite dispersion of power. Complex fiscal reforms hence, require special care in planning and implementation. Two important role models can be cited. The first was the FRBM itself, which was led by Shri Yashwant Sinha and Dr. Jaswant Singh, and implemented in a non-partisan manner, which lent itself to consummation by the UPA government. The second was the State VAT, which was led by the Empowered Committee of State Finance Ministers in a non-partisan framework. Both these were multi-year efforts through carefully crafted institutional arrangements, which ultimately succeeded. In similar fashion, an Empowered Committee for GST Implementation now needs to be set up. Unlike the State VAT, the GST involves both Centre and States. Hence, it is fitting that this committee should be chaired by the FM.

In the Union Budget 2010, the Finance Minister, Shri Pranab Mukherjee, has categorically confirmed that implementation of GST should take place effective from 1st April 2011.

Limitation of Dual GST System **Fiscal autonomy to both State and Centre**

Whether this variant can strike a good balance between fiscal autonomy of the Centre and States and whether it will bring harmonization between the two authorities is a big question. It empowers both levels of Government to apply the tax to a comprehensive base of goods and services, at all points in the supply-chain, under two separate legislations—probably both under Central Government. It may tantamount States to be merely collecting institutions, which the State may not agree to. It only partially eliminates tax cascading because of truncated or partial allowance of input tax credit of the Centre and state taxes.

Inter State Transactions in Flux

The apprehension about feasibility of application of State GST to inter-State transactions of goods and services is understandable, given the complete absence of any framework in India for determining their place of supply. However, the task of developing of such a framework is not insurmountable. Such frameworks do already exist for application of tax to international cross-border goods and services which can be modified for inter-State services.

Reality transactions

The modern VATs apply to all supplies, including supplies of land and real property. The service tax has already been extended to rentals of commercial property and construction services. However, the Empowered Committee's proposal is silent on the treatment of land and reality transactions in the description of this variant.

Other vexed issues

Under this system, defining the bases of tax, definition of services and goods, movement of goods and services from one State to another, sites of sales, transfer of property in goods and services, application of different rates (SGST and CGST) of tax, classification disputes, taxing of indivisible works contracts may continue to be vexed issues. these challenges may frustrate the very purpose of implementation of GST. Moreover, with more than 68% of rural base population of India, the complexities of claiming inter-chain and inter-State input tax credit at the time of malfunction of robust electronic system may make the administration difficult.

WHAT TAXES WILL SUBSUME IN GST

Architecture of GST can subsume

The Goods and Services Tax (GST) is aimed to subsume almost the entire system of indirect taxation in India. Presently, the following systems of indirect taxes are prevalent in one form or the other :

Custom Duties on Imports of Goods.

Additional Duties of Customs (known as Countervailing Duty)

Excise Duty on Manufacture of Goods.

Additional Excise Duty.

Surcharges.

Service Tax on Rendition of Services.

VAT on State Sales/Purchase of Goods including deemed sales.

Central Sales Tax.

Lottery Tax.

Betting and Gambling Tax.

Entry Tax, Octroi on entry of goods in the State.

Luxury Tax on Services in Hotels and Restaurants.

Entertainment Tax.

Stamp Duties.

Telecom License Fees.

Tax on consumption on electricity.

Salient features need to be noted in respect of GST

GST is a destination based tax structure

Presently, Central Excise Duty is levied on any product that have been manufactured within the country. Further, while the goods are sold, Central Sales Tax or local sales tax is levied. Though credit in respect of Central Excise Duty paid on removal of goods as well as Value Added Tax (VAT) is set-off against the duty credit available to the manufacturer, credit in respect of CST paid is not available. Different State Governments levy different rates of VAT on the same product within the country and that leads to a total confusing situation. Under the GST model, both Union and State taxes would be collected at the point of sale and the tax so paid shall be available as input tax credit and, accordingly, the cascading effect shall be minimized.

Dealer under GST Act

Dealers of all category including the manufacturers, traders, wholesaler, contract executors, service providers, resellers shall be covered within the ambit of GST. Accordingly, GST shall be a unified tax system within India.

Registration of Dealer

In GST scenario, dealers need to be registered under the Act, failing which input credit chain will break. If a dealer is not registered,

he can't charge GST and, accordingly, the GST chain shall break and the dealer can't claim input tax credit in respect of all his purchases of goods and services.

Input Tax Credit

Like the existing CENVAT/VAT system, under GST model, entire tax shall be available as credit. Such input tax credit shall be available based on invoice. The input tax credit shall be available for set-off seamlessly against any tax liability of the dealer—be it against manufactured goods, goods sold, as well as services rendered.

Joint Working Group of Empowered Committee

Hon'ble Union Finance Minister, during his Budget Speech, 2007-2008, announced that at his request, the Empowered Committee of State Finance Ministers has agreed to work with the Central Government to prepare a Roadmap for the introduction of the Goods and Services Tax (GST) with effect from 1st April 2010. In view of above, it has been decided by the Empowered Committee of State Finance Ministers, in consultation with the Central Government, to constitute a joint Working Group in May 2007.

The Working Group would study the various models of GST existing globally and any other relevant material available on the subject. It would also identify the possible alternative models for introduction of GST in India and examine their various characteristics and assess their suitability in India's fiscal federal context. After these studies, the Working Group should present its findings before

the Empowered Committee for decision on the most appropriate model for introduction of GST in India.

The Working Group would identify the Central Taxes and State Taxes which possess properties to be appropriately subsumed under GST.

While suggesting a model for the base and rate structure of GST, the following should be kept in mind by the Working Group:

(a) CST should be so designed that it should be revenue fair with sufficient growth of revenue to the Centre and every State. Interests of the Special Category, North-Eastern States and Union Territories have to be especially kept in mind.

(b) The group will examine different models and see the manner in which the power of levy, collection and appropriation of revenue should be vested in the Centre and the States by looking at the pros and cons of various models.

(c) The various models suggested by the Working Group should ensure that double taxation is avoided.

(d) The Working Group would ensure that the suggested models take into account the problems faced during inter-State transactions and any revenue loss.

(e) The Working Group should consider how exempted goods and services and Non-VAT items such as petroleum goods and alcohol might be treated under the new regime.

(f) The models developed should reflect the interests of the Trade, Industry, Agriculture and Consumers, with due concern to the Centre-State relations.

(g) The Working Group would be free to constitute sub-Working Groups and would also be competent to co-opt experts.

(h) Commissioners of Trade Taxes of the States could join their Secretaries/Principal Secretaries of Finance/Taxation during the meetings.

(i) All Secretarial assistance to the Working Group would be provided by the Empowered Committee Secretariat.

(j) The Working Group would submit its report to the Empowered Committee within a period of four months.

Salient Features of the Discussion Paper on Goods & Services Tax (GST) in India

One of the principal objectives of the Goods & Service Tax was to remove the cascading effect of all indirect taxes in the valuation of product as well as services. In the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. This CENVAT load needs to be removed. Despite the success with VAT, there are still certain shortcomings in the structure of VAT—both at the Central and at the State level. The shortcoming in CENVAT of the Government of India lies in non-inclusion of several Central taxes in the overall framework of CENVAT, such as additional customs duty, surcharges, etc., and thus keeping the benefits of comprehensive input tax and service tax set-off out of reach for manufacturers/dealers. Moreover, no step has yet

been taken to capture the value-added chain in the distribution trade below the manufacturing level in the existing scheme of CENVAT.

The objective behind introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance.

In the regime of GST, there should be integration of VAT on goods with tax on services at the State level as well, and, at the same time, there should also be removal of cascading effect of service tax. Accordingly, both the cascading effects of CENVAT and service tax are removed with set-off, and a continuous chain of set-offs from the original producer's point and service provider's point up to the retailer's level is established which reduces the burden of all cascading effects. For this, GST to be introduced at the State level, it is essential that the States should be given the power of levy of taxation of all services. This power of levy of service taxes has so long been only with the Centre. A Constitutional Amendment will be made for giving this power also to the States. The burden of Central Sales Tax (CST) should be removed for effective implementation of GST in India. The GST at the State-level is, therefore, justified for

(a) additional power of levy of taxation of services for the States,

(b) system of comprehensive set-off relief, including set-off for cascading burden of CENVAT and service taxes,

(c) subsuming of several taxes in the GST, and

(d) removal of burden of CST.

Proposed Models of GST in India

(i) 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.

(ii) 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.

(iii) 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.

(iv) Each taxpayer would be allotted a PAN-linked taxpayer identification number. This would bring the GST PAN-linked system in line with the prevailing PAN-

based system for Income Tax, facilitating data exchange and tax compliance.

(v) Central GST and State GST are to be treated separately. Accordingly, 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. 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.

(vi) 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.

(vii) Concurrent Jurisdiction—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.

(viii) Uniform Threshold Limit for Goods & Services

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 certain States. 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.

(ix) 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.

(x) The concerned authority which is collecting the tax would undertake functions such as assessment, enforcement, scrutiny and audit, with information sharing between the Centre and the States.

(xi) Central and State Taxes to be subsumed under GST

Keeping in mind Revenue fairness for both the Union and the States 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.

The various Central, State and local levies were examined to identify their possibility of being subsumed under GST.

However, a number of States have disagreed to subsume the amount of purchase tax a while.

(xii) Other Relevant Issues relating to GST

Tax on items containing Alcohol (Service Tax on Alcoholic Beverages) : Alcoholic beverages would be kept out of the purview of GST. Sales Tax/VAT can be continued to be levied on alcoholic beverages as per the existing practice. In case it has been made VATable by some States, there is no objection to that. Excise Duty, which is presently being levied by the States, may not be also affected.

Tax on Tobacco products: Tobacco products would 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: As far as petroleum products are concerned, it was decided that the basket of petroleum products — i.e. crude, motor spirit (including ATF) and HSD — would be kept outside GST as is the prevailing practice in India. Sales Tax could continue to be levied by the States on these products with prevailing floor rate. Similarly, Centre could also continue its levies. A final view as to whether Natural Gas should be kept outside the GST will be taken after further deliberations.

Taxation of Services : As indicated earlier, both the Centre and the States will have concurrent power to levy tax on all goods and services. In the case of States, the principle for taxation of intra-State and inter-State has already been formulated by the Working Group of Principal Secretaries/Secretaries of Finance/Taxation and Commissioners of Trade Taxes with senior representatives of Department of Revenue, Government of India. For inter-State transactions, an innovative model of Integrated GST will be adopted by appropriately aligning and integrating CGST and SGST.

(xiii) Inter-State Transactions of Goods and Services (IGST for Inter-State Taxation of Goods & 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. 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) As all inter-State dealers will be e-registered and correspondence with them will be by e-mail, the compliance level will improve substantially.
- g) Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

(xiv) 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.

Zero Rating of Exports

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 Imports

The GST will be levied on

imports with necessary Constitutional Amendments. Both CGST and SGST will be levied on import of goods and services into the country. 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.

IT Infrastructure

After acceptance of IGST Model for Inter-State transactions, the major responsibilities of IT infrastructure requirement will be shared by the Central Government through the use of its own IT infrastructure facility.

Constitutional Amendments, Legislations and Rules for administration of CGST and SGST

Constitutional Amendments for empowering the States for levy of service tax, GST on imports and consequential issues as well as corresponding Central and State legislations with associated rules and procedures should be implemented. Simultaneous steps have also been initiated for drafting of a legislation for IGST and rules and procedures. A dispute resolution and advance ruling mechanism should also be formulated and implemented.

Need for compensation during implementation of GST

Despite the sincere attempts being made by the Empowered Committee on the determination of GST rate structure, revenue neutral rates, it is difficult to estimate accurately as to how much the States will gain from service taxes and how much they will lose on account of removal of cascading effect, payment of input tax credit and phasing out of CST. Adequate compensation should be provided for the loss that might emerge during the process of implementation of GST for the next five years

Role Model of Cost & Management Accountant in GST

Professionals such as Cost & Management Accountants shall play an active and very important role, individually as well as collectively as a professional body, in creating an effective voice for level playing field, thereby increasing tax compliance. Instances of this kind will bring the profession into the limelight of the society and benefit the profession. At the same time, it is the duty of the Cost & Management Accountants to highlight departures from tax compliance and ensure appropriate application of the rules and procedures of the statute religiously.

The role of the Cost & Management Accountants is unique in this respect due to various reasons.

First, being intimately connected with the business activities of the entrepreneurs and having access to the primary records including cost records, proper application of all the provisions of the statute towards availment of

all Input Tax Credit may be ensured. The Cost & Management Accountants may provide rational and convincing recommendations towards ensuring the Government revenue and protecting all possible slippage of revenue.

Secondly, based on inputs from various business units and also other professional colleagues, it is possible for them to arrive at general conclusions and their response time can be minimum.

Thirdly, being a statutory body set up by the Government of India, they can always present their views on reforms and corrective actions which would be beneficial for the Government, manufacturers, selling dealers, service providers and all citizens of the country at a large.

There has been a renewed interest in the financial data-keeping procedures and financial management approach taken by several entities in different countries since the introduction of the Goods and Services Tax (GST) in 2000. It is generally accepted that there is a greater level of usage of Computerized Accounting Systems since the GST commenced and under such circumstances and the role of cost & management accountants becomes of immense important because of their efficiency in developing a greater e-enabled environment and total system based financial data management.

The following paragraphs shall enumerate the importance of management accountants in the implementation as well as maintaining GST accounting system.

An analysis—which involved both IT users and non-users—indicated that the major IT problems were: inefficient use of the technology, lack of IT expertise, and lack of planning for implementation and training. In the forthcoming regime of Goods and Services Tax (GST) in India effective from the year 2011 should encourage many small businesses to upgrade their accounting systems; either by improving their existing computerized system or by replacing their manual accounting system with a computerised one. Since the entire procedure of financial data flow management including availments and utilization of Input Tax Credit would be operated in an electronic database management system and all the procedural aspects would be under e-governance during the GST regime, Cost & Management Accountants shall have a greater role in developing and maintaining the e-governance in all the spheres. All category of business houses including small businesses should be computerised in GST regime for greater and effective control and governance of the provisions of the statute. Cost & Management Accountants are uniquely placed to provide accounting software advice and support to their clients as business owners value the recommendations made by their management accounting firms in choosing accounting software, application thereof and fulfilling all the provisions of the Act. Further, being an expert in the field of valuation, the cost & management accountants could provide a much reliable and acceptable basis of valuation of goods & services towards levy of GST. □

GST for Indian Economy

Satya Ranjan Doley*

The Indian tax system was archaic with complex and cumbersome procedures, multiplicity of rates, numerous exemptions and large areas of discretion, all of which had a compelling desire for evasion by the taxpayer and harassment by the tax authorities. It was, therefore, necessary to have a system wherein all these loopholes are suitably plugged in order to reduce tariffs, harmonize state taxes, widen tax net and, above all, increase the budgetary support for developmental purposes.

Process of reforms in taxes was formally started with Modvat in Central Excise in 1986. Initially, the scheme of input credit was restricted only to inputs used in manufacture. In 1994, the scheme was extended to Capital Goods and extended to services in 2004. In the meantime, Modvat became Cenvat without many changes in the basic provisions. This was the first step to minimize cascading effect of Excise Duty and Service Tax. Introduction of State Vat started in 2005 and now most of the states have implemented State Vat.

Despite the success of Vat, there were still certain shortcomings in the structure of Vat — both at the Central and State level. The shortcomings in CENVAT of the

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Government of India lies in non-inclusion of several Central taxes in the overall framework of CENVAT such as additional customs duty, surcharges, etc and thus keeping the benefits of comprehensive input tax and service tax set-off out of reach for manufacturers/dealers. Moreover, no step has yet been taken to capture the value added chain in the distributive trade below the manufacturing in the existing scheme of CENVAT. Goods and Services Tax (GST) is one more and very important landmark in Indian tax reforms.

Goods and services tax

Now-a-days our country is following the unitary system for collection of Indirect Taxes levied on manufacture, sale and consumption of goods as well as services in order to create a suitable reform in Indirect tax from both domestic and foreign investment perspective—thereby reducing burdensome compliance, high cost of transaction and nagging uncertainty in tax liability for a business.

The budget speech of 2006-2007 included a proposal for commencement of Goods and Services Tax (GST) and in the budget speech of 2009-10 it has been said again that the introduction of GST would be accelerated with effect from April 01, 2010. (It is now likely to be introduced w.e.f. April 01, 2011).

GST model is outlined with a dual GST consisting of a Central and a State GST. To relieve the pressure on States, an assistance of Rs 1,000 crore will be provided to them for GST implementation.

Government of India is studying tax reforms that include many other Central and State level direct and indirect taxes, excise duties, service tax and luxury tax, and replace them with a single Goods and Services Tax (GST). Customs duty will be levied out of GST and is likely to be replaced by VAT on imports.

The introduction of goods and services tax will create an effect for abolition of taxes such as octroi, Central Sales Tax, State level sales tax, entry tax, stamp duty, telecom licence fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, and get rid of the cascading effects of multiple layers of taxation.

The predicted rate for the proposed GST is going to be 20 percent. Petroleum products and liquor are, however, likely to stay behind the GST structure. Liquor and tobacco could be included in GST. States could impose an additional tax on these products.

Goods and services that are subject to GST can be taxed at standard rate, which is at a fixed rate of, for example 5% or 10%, and at zero rate. Zero rating is a concept only found under the GST framework. Suppliers of zero rated supplies do not collect GST because the GST rate is zero.

Goods and Services Tax (GST) is a part of the proposed tax reforms that centre round evolving an efficient and harmonized consumption tax system in the country.

Presently, there are parallel systems of indirect taxation at the Central and State levels. Each of the systems needs to be reformed to eventually harmonize them. World over, goods and services attract the same rate of tax. That is the foundation of a GST. Goods and Services Tax is nothing but a step forward towards progressive convergence of the service tax rate and the CENVAT rate.

How GST will Work

The idea of Goods and Services Tax (GST) also known as Value Added Tax (VAT) is a tax on each financial contribution in the distribution chain. The taxable event is 'supply of goods' and 'supply of services'. Any transmission of right to utilize goods will comprise supply of goods, and any supply not engaging goods will be treated as supply of service. On the other hand, the tax is exercised on the value-added component of the supply. This is accomplished by working tax on the full fundamental value of the goods or service and giving set off/credit of tax undergo at previous stage, identified as input stage, to keep away from cascading effect. Thus, the entire supply chain up to final consumer gets taxed with in-built mechanism of input stage credit. In this system, the final consumer ends up bearing the full burden of tax without any set-off benefit.

The GST can be categorized in the following segments for better understanding :

Charging Tax

The dealers (including Manufacturers, Wholesalers and Retailers and Service Providers) registered under GST need to charge

GST on goods and services delivered to customers at the specified rate of tax. The GST payable is comprised in the price borne by the purchaser of the goods and the service buyer. The supplier including seller and service provider should deposit this GST amount to the Government.

Getting Credit of GST

If the recipient of goods or services belongs to a registered dealer (Manufacturers, Wholesalers and Retailers and Service Providers) and has got an appropriate tax invoice then he can claim a credit for the payment of GST amount. This "input tax credit" is set-off against any GST (Output), charged on goods and services by the dealer to his customers.

Ultimate Burden of Tax on Last Customer

As the last and final consumer of the goods and services obtains no credit for the GST paid to the sellers or service providers, the ultimate burden of the tax drops to him.

Registration

Dealers including the suppliers, manufacturers, service providers, wholesalers and retailers must be registered for GST; failing which he is normally unable to charge GST and claim credit for the GST he pays. Besides, he can not also issue a tax invoice.

Tax Period

The tax period should be calculated by the respective law and normally for monthly and/or quarterly. The concerned dealer has to deposit the tax on a particular tax period applicable to him if his output credit is more than the input credit after considering the open-

ing balance, if any, of the input credit.

Refunds

The dealer is entitled to get refund subject to the provisions of law applicable in this respect if the input credit of a dealer is more than the output credit for a tax period. Depending on the provision of law, the excess amount need to be brought forward to next period or should be refunded with immediate effect.

Exempted Goods and Services

Some particular goods and services may be marked as exempted goods and services and the input credit should not be claimed on the GST paid for purchasing the raw material in this regard or GST paid on services used for providing such goods and services.

Zero Rated Goods and Services

Normally, export of goods and services are treated as zero-rated and the GST paid by the exporters of these goods and services is refunded in this regard. This is the fundamental distinction between Zero-rated and exempted goods and services.

Tax Invoice

Tax invoice is the most vital and basic document in the GST. A dealer registered under GST can issue a tax invoice, and with that invoice the credit (Input) can be claimed. Usually, a tax invoice should include the name of supplying dealer, his tax identification numbers, address and tax invoice numbers. coupled with the name and address of the purchasing dealer, his tax identification numbers, address and description of goods sold or service provided.

GST Models

There exist various models of GST. Each model has its own advantages and disadvantages.

Australian Model

In Australia, GST is a federal tax, collected by the Centre and distributed to the States. But India is a diverse country and it is not possible that States may permit the Centre to gather all the taxes while they become just spending institutions.

Canadian Model

The GST in Canada is dual between the Centre and the States and has three varieties: (i) Federal GST and provincial retail sales taxes (PST) managed separately — followed by the largest majority; (ii) Joint federal and provincial VATs administered federally (Harmonious Sales Tax — HST); and (iii) Separate federal and provincial VAT administered provincially (QST) — only for Quebec as it is like a breakaway province.

The first variety is fundamentally the Canadian model, which is similar (though not the same) to the existing situation in India.

Kelkar-Shah Model

This model of a unified GST, is based on a grand bargain to merge Central Excise, service tax and state VAT into one common base. Two different rates of tax are to be levied by the Centre and the States. The collection may be by the Centre. This is like the HST model in Canada.

Bagchi-Poddar Model

This model, just like Kelkar-Shah's, envisages a combination of Central Excise, service tax and VAT to make it a common base of GST

to be levied both by the Centre and the States separately. This means that the Central Excise Act, 1944, may be abolished and the goods tax may be only on the sale of goods. It may merge in it the service tax.

To put this in legal language, the taxable event for the GST may be the act of sale of goods and services. The difference between the Bagchi-Poddar and Kelkar-Shah models is that, in the former, the collection is at two levels, by the Centre and the States, while in the latter the collection is only by the Centre. So while the Kelkar-Shah model is like the Canadian HST, the Bagchi-Poddar one is like the Quebec model. Although the model says that it is based on the Quebec model, it is actually not fully so as this model envisages collection both by the Centre as well as the States, whereas the Quebec model envisages collection only by the state of Quebec.

The Bagchi-Poddar model also clearly envisages that a Constitutional amendment is necessary to bring the taxing powers on goods and services under the concurrent list and to abolish the present division of taxing powers between the Centre and the States.

The Practical Model

The same result with no upheaval/without upsetting the present setup can be achieved by a dual VAT or parallel GST at the Central as well as the State levels. At the Central level we can have, as we have now, a combination of Cenvat and Service Tax. At the State level we can have VAT alone without Service Tax. There is no need to combine Cenvat and VAT which envisages the complete abolition of Central Excise Act,

which gives the power to the Centre to charge tax on manufacture. At the Centre the merging of Cenvat and Service Tax has been already done to a large extent by allowing interchangeability of input credit for both goods and services. The rate of tax can be made 14 per cent for both goods and services in the next Budget or the one after that. At the State level, VAT can be perfected by abolishing CST and allowing inter-changeability of input credit between States. This will work administratively as well as revenue-wise.

Taxes to be subsumed

According to Empowered Committee, the following Central taxes should be subsumed under CGST :

- a) Central Excise Duty
- b) Additional Excise Duty
- c) The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- d) Service Tax
- e) Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- f) Special Additional Duty of Customs
- g) Surcharges, and
- h) Cesses.

The following State taxes and levies would be subsumed under SGST :

- a) VAT/sales tax
- b) Entertainment tax (unless it is levied by the local bodies)
- c) Luxury tax
- d) Taxes on lottery, betting and gambling
- e) State cesses and Surcharges in so far as they relate to supply of goods and services
- f) Entry tax not in lieu of Octroi.

Exempt Goods and Services

Some goods and services are exempt from GST in order to keep some goods and services cheaper for lower-income group. In this case, no GST is charged on your supplies of goods and services and input tax credits (ITCs) is claimed.

There are two types of GST exclusions: tax-free and tax-exempt:

“**Tax-exempt**” exclusions consist of goods and services that are charged with GST at the production and distribution stages but not at the final retail stage. Manufacturers, whole-salers, and retailers can't claim an Input Tax Credit. As such, some GST is embedded in the final price of the good or service; however, it is lower than it would otherwise be under the regular GST regime. Examples of tax-exempt exclusions include residential rents, health and dental care, and educational services.

“**Tax-free**” exclusions cover goods and services that are not with GST throughout the life of the product. Final consumers are not charged GST while purchasing these products from distributors. Moreover, vendors get Input Tax Credits at the production and distribution stages. As a result, the good or service becomes completely free from taxation relating

to the GST. Examples of tax-free exclusions include basic groceries, prescription drugs, and medical devices.

Examples of exempt goods and services include

- ❖ Goods transported by rail.
- ❖ Supply of transport vehicles (goods carriage) to a goods transport agency (GTA) to be used for transport of goods by road.
- ❖ Transport of essential goods such as foodgrains, fertilisers, and petroleum products.
- ❖ Edible oilseeds and edible oil, foodgrains (cereals and pulses) and flour, petroleum and petroleum products and defence and military equipment.
- ❖ Transport of parcels containing newspapers (registered with the Registrar of Newspapers).
- ❖ Raw jute and jute textile, seeds for food crops and fruits and vegetables, seeds for cattle feed, jute seeds, medicine/pharmaceutical products and relief materials meant for victims of natural or other disasters.

There are certain issues that need to be taken into account before implementation of GST. One area of concern is about the revenue-neutral rate of GST in which no consensus has been reached yet. Since the success of the GST would

critically depend on the rate of taxation, there is need to have a very realistic estimate of the RNR. Another area of concern is about the quantum of compensation to be paid to the States during the implementation of the system. The formula for calculation of the amount of compensation to be paid to the States would become difficult for the Central Government.

Conclusion

It is anticipated that the implementation of GST would reduce inefficiency of VAT, compel better compliance, minimize transactional cost and increase the amount of revenue which will result in buoyancy of our economy. This piece of legislation would surely contribute to the growth of the economy in the days ahead. □

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ANNOUNCEMENT

The Management Accountant — August, 2010 will be a special issue on

‘**COST AND MANAGEMENT ACCOUNTANTS IN TRANSPORT & LOGISTICS SECTOR**’

Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to research@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th July, 2010.

Goods and Services Taxes (GST) in India and its impact

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Introduction

Simply, the meaning of GST is goods and service taxes. Value Added Tax (VAT) is considered to be a major improvement over the preexisting Central excise duty at the national level and the sales tax system at the State level. Then the Goods and Services Tax (GST) will be a further significant breakthrough towards a comprehensive indirect tax reform in the country. Keeping this over-all objective in view, an announcement was made by Shri P. Chidambaram, the then Union Finance Minister in the Central Budget (2007-2008) to the effect that GST would be introduced from April 1, 2011 and that the Empowered Committee of State Finance Ministers, on his request, would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement, the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group (May 10, 2007), with the then Adviser to the

Union Finance Minister and the Member-Secretary of Empowered Committee as Co-conveners and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the States as its members. This joint working group is entrusted with every aspect of GST in India.

Finally, GST is going to be applicable from 01.04.2011 in India. In 1954, GST was first introduced in France. Today this tax has spread across 140 countries.

Concept of GST

Goods and Services Tax (GST) is a tax on goods and services which is leviable at the point of sales by the seller from the purchaser. GST is applicable on goods as well as on provision of services, where VAT is only applicable on goods but not on services. GST is a tax on only value addition at each stage. In GST, the seller of goods and services providers can claim the input credit of taxes which he has already paid at the time of purchasing of goods and services. Thus the tax burden finally comes on the shoulder of the consumers or last users of goods and services. The following example makes clear the concept

of GST or how the GST works : Let us suppose that GST rate is 10%, with the manufacturer making value addition of Rs. 300 on his purchases worth Rs. 1000 of input of goods and services used in the manufacturing process. The manufacturer will then pay net GST of Rs. 30 after setting-off Rs. 100 as GST paid on his inputs (i.e. Input Tax Credit) from gross GST of Rs. 130. The manufacturer sells the goods to the wholesaler. When the wholesaler sells the same goods after making value addition of (say), Rs. 200, he pays net GST of only Rs. 20, after setting-off of Input Tax Credit of Rs. 130 from the gross GST of Rs. 150 to the manufacturer. Similarly, when a retailer sells the same goods after a value addition of (say) Rs. 100, he pays net GST of only Rs. 10, after setting-off Rs. 150 from his gross GST of Rs. 160 paid to whole seller. Thus, the manufacturer, whole saler and retailer have to pay only Rs. 60 (= Rs. 30 + Rs. 20 + Rs. 10) as GST on the value addition along the entire value chain from the producer to the retailer, after setting-off GST paid at the earlier stages. The overall burden of GST on the goods is, thus, much less. This is shown in Table-1. The same illustration will hold in the case of final service provider as well.

From the above it is clear that the whole system is developed in such a way that cascading effect can be avoided and final tax burden is on final user of goods and services. The seller or service provider-collect taxes from their customers and deposit it to the exchequer after adjusting their input credit. This system is very similar to the existing VAT system

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Table 1

Stages of supply chain	Purchase value of inputs	Value addition	Value at time of transferring the goods and services at next stage	GST Rate	GST on output of Goods & services	Input Tax Credit	Net GST Payable = GST on output tax – GST on input tax credit
Manufacturer	1000	300	1300	10%	130	100	130 – 100 = 30
Wholesaler	1300	200	1500	10%	150	130	150 – 130 = 20
Retailers	1500	100	1600	10%	160	150	160 – 150 = 10

but only difference is that VAT is applicable on only goods but GST is on goods as also on service.

In GST, the rate of taxes on most goods and services are uniform but some goods and services can be declared as exempted or zero rated goods and service. Export can be considered as zero rated and exporters are returned all taxes paid by them which they paid at the time of purchasing of raw materials or other materials or inputs to make export more competitive.

Features of GST

Collection of Tax : The GST to be collected by Central (Central GST) as well as by the State government (State GST) but basic features 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.

Applicability : The GST would be applicable to all transactions of goods and services except the exempted goods and services or goods which are outside the purview of

GST and the transactions which are below the prescribed threshold limits.

Tax to be paid : The Central GST and State GST are to be paid to the accounts of the Central and the States separately.

Administration : The administration power of the Central GST would be with the Central, and for State GST with the States.

Return : The taxpayer would need to submit periodical returns to both the Central GST authority and to the concerned State GST authorities as per GST rules.

Separate identification : 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. The exact design would be worked out in consultation with the Income Tax Department.

Tax treatment : The Central GST and State GST are to be treated separately. In general, 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.

Input tax utilization : Cross-utilizations of Input Tax Credit between the Central GST and the State GST would, in general, not be allowed.

Collection procedure : Uniform procedure for collection of both Central GST and State GST would be prescribed by the respective legislation for Central GST and State GST.

Verification : Assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Central and the State governments.

Proposed rate structure of GST

- ❖ A lower rate structure for necessary goods would be set and a standard rate would be set for general goods.
- ❖ Special rate will be applicable for precious metals.
- ❖ Alcoholic beverages would be

kept out of the purview of GST. Sales Tax/VAT can be continued to be levied on alcoholic beverages as per the existing practice.

- ❖ Tobacco products would be subjected to GST with ITC. Centre may be allowed to levy excise duty on tobacco products over and above GST without ITC.
- ❖ Petroleum products i.e. crude, motor spirit (including ATF) and HSD would be kept outside GST as is the prevailing practice in India. Sales Tax could continue to be levied by the States on these products with prevailing floor rate.
- ❖ Exports and Special Economic Zones (SEZs) would be zero-rated.
- ❖ The GST will be levied on imports, both CGST and SGST will be levied on import of goods and services into the country.

Justification of GST

The existing VAT structure has some shortcomings in both State and central levels, to remove such shortcomings the GST is going to be introduced.

The shortcomings of existing CENVAT (i.e at Central level) :

- i. It not includes the various central level indirect taxes in the CENVAT, such as

Additional Excise Duties, Additional Customs Duty, Surcharges etc.

- ii. Moreover, no step has yet been taken by the existing CENVAT to capture the value-added chain in the distribution trade below the manufacturing level.

The introduction of GST at the Central level will introduce more comprehensive indirect Central taxes and integrate goods and service taxes for the purpose of set-

off relief. GST also may lead to revenue gain for the Central by widening the dealer base.

Shortcoming at State level VAT :

- i. There are several taxes at State level which are in the nature of indirect taxes on goods and services, such as luxury tax, entertainment tax, etc. and yet they are not subsumed in the VAT.

- ii. In the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. This CENVAT load needs to be removed.

- iii. If any good produced in the nature of product as also some nature of service have double taxation, VAT as also service taxes — that cascading effect is eliminated in GST.

Thus the GST at the Central and at the State level will give more relief to industry, trade, agriculture, and consumers through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several taxes in the GST and phasing out of CST. It also bring advantages to central as also State government in respect to tax collection.

Subsumed of various Central and State Taxes under GST :

For proper implementation of GST the various Central and State level taxes and levies are require to subsumed with the GST.

Various Central level taxes to be subsumed :

- (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.

State level taxes and levies 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.

Advantages of GST

- ❖ It will eliminate the cascading effect of taxation.
- ❖ Consumers will able to get goods and services at lower price as GST reduces multi taxation.
- ❖ It will result in simple, easy and transparent tax system.
- ❖ Handling of various indirect taxes will not be require under this system.
- ❖ It will result in uniformity of tax rate throughout the country, only two tax structures will be CGST and SGST.
- ❖ In GST system, taxes will be collected only at the point of sale.
- ❖ In GST, as input credit is available, cost of products and services remain within the justification level.
- ❖ It will broaden the tax bases.
- ❖ It will result in more collection of taxes in the hand of Central as well as State.
- ❖ It will result in simple tax payment system.
- ❖ Traders, retailers, consumers, exporters all will benefit by the GST.

- ❖ It will introduce simple tax administration system.
- ❖ Very small trader will be benefited as they will be exempted from GST.

Role of Cost and Management Accountants in GST regime

A cost and management accountant can play vital role in implementation of GST.

From the viewpoint of government : the role of cost and management accountants are :

1. GST structure determination : A cost and management accountant can properly determine the entire structure of the GST, i.e. how the system is to be operated, starting point of taxation system and ending point, responsibility of different personnel relating to such system etc, as he has sufficient knowledge about the taxation system and also has good knowledge about the VAT.

2. GST rate determination : Properly, GST rate determination is not an easy task. If the rate is higher or lower than what it actually should be, then it may have strong/viable impact on the industry and trade. VAT rate should be properly analysed and as GST avoids the cascading effect of taxation it has impact on total revenue earning of the government. A cost and management accountant can properly determine the GST rate as he has sufficient knowledge in this area.

3. Proper handling of entire GST system : A cost and management accountant can properly and efficiently handle the entire GST system, as he has sufficient knowledge about not only the VAT and GST but also the entire tax structure. He has sufficient knowledge both on direct as also on indirect taxation. GST comes under indirect taxation system.

4. Advisory work : A Cost and Management Accountant also can act as a advisor for the government by applying his expert knowledge on this matter.

From the viewpoint of traders, exporters, importers, manufacturers etc

1. Suggestion provider : Cost and management accountants can provide better suggestions to the above mentioned various parties regarding how the maximum benefits can be availed from the GST.

2. Minimisation of GST burden : By using expertise knowledge of cost and management accountants all the above mentioned parties can minimise their GST burden.

3. Handling of GST related any work : All the above mentioned parties can properly handle any GST related matter with the help of cost and management accountants. □

ANNOUNCEMENT

We at ICWAI are committed to encourage sustainable development policies for the future. One such issue very dear to the Institute's heart is environmental preservation. Towards this end we propose to come out with a special edition of the Research Bulletin on 'Climate Change and Protection'. We request the active participation of all readers through sharing of news, views and opinions on the abovementioned topic. The articles may cover a wide canvas touching upon issues of the economic, social and physical impact of climate change; variants of urban pollution and rural environmental damage; and steps for controlling the damage with special emphasis on improvement of quality of human life, rehabilitation measures and costs of preservation. Write-ups containing case studies and live examples will be preferred. All interested can send their write-ups to Research & Journal Dept., ICWAI, 12 Sudder Street, Kolkata-700016 or email to research@icwai.org.

Cost and Management Accountants' Role in GST Regime

CMA Asok Chattopadhyay*

Goods and Services Tax is the contemporary method of taxation being followed by most of the countries. This is a comprehensive tax on Goods and Services with a continuous chain of set off benefits. This will benefit the business as these are transparent and a complete chain of set offs which will result in widening of tax base and better tax compliance. Effect of this is clear – a lower tax burden at the hand of the consumer by eliminating the cascading effect of taxation.

Till date, around 140 countries have adopted the GST pattern and more, including India, are in the process. All the countries have demonstrated lower tax burden on the consumers, as it widens the taxation base. At the outset, this method looks very simple but becomes complicated when inputs need to be separated from the production cost and also at the time of fixation of sale price, calculating landed costs etc.

In India, GST is being introduced with some caution and deliberations. There are few basic reasons for this :

1. India is a federal state and every State has its own indirect

taxation laws, luxury tax and entertainment tax laws. These will be abolished and one GST Act will be there which is common throughout the country. Naturally, States will have to understand the basis of proposed tax laws and ensure their revenue is not reduced.

2. States are not empowered to collect Services Tax. Constitutional amendments are required for giving States such power.

3. Businessmen are accustomed to the old pattern of forms, taxes etc and it will take time to get them mentally accustomed to the changed scenario.

4. Seamless credit transfer mechanism for the interstate transactions need to be established and the IGST method should function from the very first day; otherwise, the purpose of GST will be defeated.

In his Budget Speech, the Finance Minister has set the date for introduction of GST with effect from 1st April 2011. Naturally, all the Government machinery is working towards keeping the date. As per the recommendations of the Finance Commission, the GST will be introduced with the following features :

- There will be dual taxation – CGST and SGST.
- Destination based SGST.

- Uniform classification, forms and returns.
- Cross credit between States will be allowed.
- Tax will be levied from production to consumption.
- Uniform threshold exemption limit.
- Petroleum products, Alcohol, Tobacco etc. will get special treatment.

Since Cost and Management Accountants are better equipped with the knowledge of production methods or service criteria, they are in a better position to provide service to the industry. Cost and Management Accountants will be extensively required for the following specialized nature of jobs :

- GST proposed to introduce credit availability on petroleum products used for production but do not allow credits for transportation. Cost and Management Accountants can be equipped with the method of determining the amount to be charged for credit.
- In case of transport business, abatement is available. CMAs can help in claiming the abatement.
- The specialized treatment of High Seas sales and internet sales – determination, classification etc need to be done by a professional accountant.

Cost and Management Accountants have a major role to play before and after the GST comes into force. The areas where the cost accountants can play their role are :

Before GST comes into existence

- Creating public awareness and making the businessmen understand the proposed taxation system and its benefits.
- Providing training to the small

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and medium business manpower about the processes and procedures of GST and its benefits.

- Providing training to the State Government taxation department about the GST procedures as this process of taxation is entirely different from the existing indirect taxation system in the States.

- Support services to the Government taxation department (both State and Central) and to the business establishments about identification and classification of the products/services.

After GST comes into existence:

- Preparing or advising the preparation of the self assessment forms of GST.
- Facilitation centers for regis-

tration and submission of returns.

- Helping small business in the compounding scheme.
- Product classification, calculating landed costs of the products, determining selling price and thereby arriving at the value addition.
- Special audits by the departments.
- Services to the process of adjudication and litigations arising out of imposition/applicability of GST, rate of taxation, classification etc.
- Certification jobs like – non-applicability of GST, exemptions from GST, certifying cash subsidies.
- Services in getting the cash subsidy in case of the States where the existing tax exemptions are

proposed to be given as cash subsidy.

In almost all the countries where GST is in force, professional accountants are playing a major role in supporting the tax administration and the business entity. In some countries, professional accountant certifications about tax liability are accepted by the taxation department. In the Indian context, we envisage there will be problems in coordination between the State and Central government tax departments and the business community. Here, the role of the professional institutes and business federations come to play, to make a coherent existence of Goods and Services Tax in India. □



Hearty Congratulations

Sh. Preet Mohinder Singh, a senior Associate Member of the Institute has bagged a award for excellence from the Cabinet Secretariat, Performance Management, Govt. of India in a recently concluded two days workshop on Results-Framework documents at the Mahatama Gandhi State Institute of Public Administration, Chandigarh. He was the member of the winning group constituting of senior bureaucrats and senior officers of the Punjab Govt. This is first time in the history of India that a concept titled Results-Framework Documents (R.F.D) had been introduced to bring transparency and accountability by the application of best international practices.

Notice

Attention of members is drawn to new guidelines on issuance of CEP hours for contribution of articles to Management Accountant. Credit of 2 hours is to be given for articles of upto 2 pages; 4 hours for articles of 3-5 pages and 6 hours for 5 pages and above. This is with effect from May 21, 2009. CEP certificate will continue to be issued by MDP Department, New Delhi.

A Road Map for CGST and SGST

CMA Sudarshan Maity*

Summary

Goods and Services Tax (GST) is a part of the proposed tax reforms that center round evolving an efficient and harmonized consumption tax system in the country. Presently, there are parallel systems of indirect taxation at the central and state levels. Each of the systems needs to be reformed to eventually harmonize them.

Introduction

Any modern economy, which is not richly endowed with natural resources, requires two broad-based taxes. The first is the individual income tax and corporate income tax, and the other consumption tax on goods and services, variously called value added tax (VAT) or the goods and services tax (GST).

Taxing both goods and services under one tax is more revenue productive, and more equitable as the share of expenditure on services increases with household income than taxing goods alone, and selected services separately. It is also more efficient as broad-based tax, unlike excises, provides much less room for distortions in household and business decisions.

Several countries implemented this tax mechanism followed by France, the first country which introduced GST. Goods and service tax is a new version of VAT which gives a comprehensive setoff

for input tax credit and subsuming many indirect taxes from state and national level.

The Finance Minister in his Budget speech in 2006 – 2007 had said :

“It is my sense that there is a large consensus that the country should move towards a National Level Goods and Services Tax (GST) that should be shared between the Centre and the states. I propose that we set April 1, 2010 as the date of introducing GST. World over, Goods and Services attract the same rate of Tax. This is the foundation of GST. People must get used to the idea of a GST. We must progressively converge the service tax rate and Cenvat rate. I propose to take one step this year and increase the service tax rate from 10 per cent to 12 per cent. Let me hasten to add that since service tax paid can be credited against service tax payable or excise duty payable, the net impact will be very small.”

The Empowered Committee of State Finance Ministers has agreed to work with the Central Government to prepare a roadmap for the introduction of the Goods and Services Tax (GST) with effect from 1st April 2010. In May 2007, Empowered Committee (EC) of State Finance Ministers in consultation with the Central Government, constituted a Joint Working Group (JWG), to recommend the GST model.

All these developments in the

Indian tax scenario, is quite evident of the government's incessant effort towards the successful introduction and implementation of the GST regime.

What is GST ?

GST is a broad-based and a single comprehensive tax levied on goods and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set-offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. To put at a single place, GST may be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service-provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service.

This system is basically designed to simplify current level indirect tax system. It integrates the union excise duties, customs duties, service tax and state VAT into a single levy known as GST. GST may be rightly termed as national level VAT on goods and services with only one difference that in this system not only goods but also services are involved and the rate of tax on goods and services are generally the same.

One of the main reasons of the introduction of GST is to avoid cascading effect of taxes in India. For example, manufacturing of a product attract CENVAT. The manufacturer pays CENVAT on goods produced. So the CENVAT element is loaded on the product. According to VAT rules, the sales tax is payable on the aggregate selling price which include CENVAT. Here there is no set-off

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benefits available. Likewise, there are many situations in the nature of cascading effect for instance, State VAT on CST, Entry tax on VAT etc. Now Government has decided to abolish tax on tax effect by implementing GST.

Indirect taxes like luxury tax, entertainment tax, are yet to be included in the VAT. These taxes are still existing and payable.

The working of GST with respect to manufacture, dealer

Pharmaceuticals Manufacturing company has consumed the following input materials and services while producing the final product.

Inputs :

Raw material – Rs. 40.00 Lakh
Packing Material – Rs. 10.00 Lakh
Store & Spares – Rs. 10.00 Lakh
Services – Rs. 10.00 Lakh

Output :

Sale- Rs. 100.00 Lakh

single GST. India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. 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.

The proposed Dual GST model will have two components:

1. CGST—Central goods and service tax for levied by Central government.
2. SGST—State goods and service tax levied by state government.

There would have multiple statute one CGST statute and SGST statute for every State. The Central Board of Excise & Customs (CBEC) shall be responsible for implementing the CGST and the State Tax administrations will be separately responsible for implementing the SGST.

The Empowered Committee (EC) has recommended the following Central taxes should be subsumed in the Central level GST

1. Central Excise Duty
2. Additional Excise Duty
3. The Excise Duty levied under

● **Input Tax paid by the manufacturer**

Description	Amount	Tax Paid @ 12%
Raw Material	Rs. 40 lakh	Rs. 4.80 lakh
Packing Material	Rs. 10 lakh	Rs. 1.20 lakh
Stores & Spares	Rs. 10 lakh	Rs. 1.20 lakh
Services	Rs. 10 lakh	Rs. 1.20 lakh
Total Input Tax		Rs. 8.40 lakh

● **Output tax charged by the manufacturer**

Description	Amount	Tax Collected @ 12%
Sale	Rs. 120 lakh	Rs. 14.40 lakh
Total Output Tax		Rs. 14.40 lakh

● **Net tax payable by the manufacturer**

Description	Amount
Total output tax	Rs. 14.40 lakh
Total input tax	Rs. 8.40 lakh
Net GST payable	Rs. 6.00 lakh

and consumer can be seen in the illustrations given below :

The manufacturers will get the input credit of all taxes paid by them on the input materials and services. Let, us assume the rate of GST at 12% and a Drugs and

The system is very much similar to the present system of VAT but the implementation of this system will certainly have some unique problems compared to VAT.

GST model in India

Many countries are following

the Medical and Toiletries Preparation Act

4. Service Tax
5. Additional Customs Duty (commonly referred to as 'CVD'—Countervailing Duty)
6. Special Additional duty of Customs—4% (SAD)
7. Surcharges
8. All Cesses.

The following State taxes and levies would be, to begin with, subsumed under State level GST:

1. VAT/Sales tax
2. Entertainment Tax (unless it is levied by local bodies)
3. Luxury tax
4. Taxes on lottery, betting and gambling
5. State cesses and surcharges in so far as they relate to supply of goods and services
6. Entry tax not on in lieu of octroi.

Since all taxes on goods and services, levied by the Centre or the States, should be subsumed in the GST, the following other taxes levied by the States on goods and services should also be subsumed:

- a. Stamp duty;
- b. Taxes on Vehicles;
- c. Taxes on Goods and Passengers; and
- d. Taxes and duties on electricity.

Purchase tax: Some of the States felt that they are getting substantial revenue from Purchase Tax and, therefore, it should not be subsumed under GST while majority of the States were of the view that no such exemptions should be given. The difficulties of the foodgrain producing States was appreciated as substantial revenue is being earned by them from Purchase Tax and it was, therefore, felt that in case Purchase Tax has to be subsumed then adequate and continuing compensation has to be provided to such States.

Tax on items containing

Alcohol : Alcoholic beverages would be kept out of the purview of GST. Sales Tax/VAT could be continued to be levied on alcoholic beverages as per the existing practice. In case it has been made VATable by some States, there is no objection to that. Excise Duty, which is presently levied by the States, may not also be affected.

Tax on Tobacco products :

Tobacco products would be subjected to GST with ITC. Centre may be allowed to levy excise duty on tobacco products over and above GST with ITC.

Tax on Petroleum Products :-

As far as petroleum products are concerned, it was decided that the basket of petroleum products, i.e. crude, motor spirit (including ATF) and HSD would be kept outside GST as is the prevailing practice in India. Sales Tax could continue to be levied by the States on these products with prevailing floor rate. Similarly, Centre could also continue its levies. A final view whether Natural Gas should be kept outside the GST will be taken after further deliberations.

Inter-State Transactions of Goods and 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. The inter-State seller will pay IGST on value addition after adjusting

available credit of IGST, CGST, and SGST on his purchases.

The input tax credit of SGST can be utilized for the payment of SGST only and input tax credit on CGST can be utilized for the payment of CGST only. This means that cross-utilization of input tax credit will not be allowed. However, there is an exemption for the above in the case of interstate transaction. For inter-State transaction, IGST is proposed and would be implemented along with CGST and SGST.

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.

Compensation package for States

It is difficult to estimate accurately as to how much the States will gain from service taxes and how much they will lose on account of removal of cascading effect, payment of input tax credit and phasing out of CST. In view of this, the States have demanded compen-

sation for any loss which might be incurred as a result of the shift from the existing indirect tax system at the state level to the GST level. To compensate the states a GST Compensation Fund should be created under the administrative control of the Council of Finance Ministers. The Thirteenth Finance Commission (TFC) has suggested Rs. 50,000 crore for the next five years if, and only if, the States

- Introduce the 'flawless' GST as recommended by TFC; and
- Follow the road map, as suggested by TFC, for its introduction;

The amounts in the Fund should be used only for the following purposes :

- To compensate the states for any revenue loss on account of the adoption of the 'flawless' GST;
- The balance, if any, in the Fund, to be carried forward to the subsequent year.

The balance, if any remaining at the end of the fifth year, to be distributed amongst the States on the basis of the same formula used for distributing resources in the divisible pool.

The amount will be transferred in quarterly instalments. The amounts shall be disbursed by the Council on the basis of the recommendations by a three member Compensation Committee comprising of the Secretary, Department of Revenue, Government of India, Secretary to the Council and any fiscal expert appointed by the Central Government for this purpose. No contribution to the Fund shall be made by the Central Government in any year in which the States fail to adhere to the roadmap for implementation of the GST. The methodology to be used for estimating the revenue loss and

the compensation shall be decided by the Council.

In the grand bargain for implementing the goods and services tax (GST), the Centre can even consider a compensation package that is higher than Rs 50,000 crore for states, according to Vijay Kelkar, chairman of the Thirteenth Finance Commission (TFC).

The empowered committee of state finance ministers had demanded Rs 1 lakh crore as the compensation package for introducing the GST. However, States will not be entitled to any compensation if they adopted a model different from the one suggested by the TFC. States are expected to commence fresh talks on the GST design this month, though no date has been finalised yet. States would be the immediate beneficiaries of the GST as they are large buyers of goods and services, Kelkar said. They would save substantial taxes on these purchases. "For states it is budget-positive, not even budget-neutral."

Advantages/Benefits of GST

1. Introduction of GST would result in abolition of multiple types of taxes on goods and services.
2. It removes cascading effect of taxation and removes distortion in the economy.
3. GST provide comprehensive and wider coverage of input credit set-off, we can use service tax credit for the payment of tax on sale of goods etc.
4. CST will be removed and need not pay. At present there is no input tax credit available for CST.
5. It reduces effective rates of tax to one or two floor rates.
6. Uniformity of tax rates across the states.
7. Ensure better compliance due to aggregate tax rate reduces.

8. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

9. Enhances manufacturing and distribution efficiency.

10. Reduces cost of production increase demand and production of goods and services.

11. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and thereby development of the nation.

12. As it is neutral business process, business models, organization structures, geographic location and production substitutes, it will promote economic efficiency and sustainable long-term economic growth, will give competitive edge in international market for goods and services produced in India, leading to increased exports, reduces litigation, harassment and corruption, will result in widening tax base and increase revenue to Centre and State and reduces administrative cost for the government.

13. Implementation of GST had raised Canada's GDP by 1.4 per cent. In India, we can expect a similar kind of positive impact. This means gains of about 15 billion dollars annually.

Salient features of the GST model

Salient features of the proposed model are :

- GST is based on principle of VAT.
- 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). This dual GST model would be implemented through multiple

- statutes (one for CGST and SGST statute for every State).
- 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.
 - 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).
 - The CGST and SGST should be credited to the accounts of the Centre and the States separately. Since the CGST and SGST are to be treated separately, taxes paid against the CGST should be allowed to be taken as input tax credit (ITC) for the CGST and could be utilized only against the payment of CGST. The same principle will be applicable for the SGST, taxes paid against the SGST should be allowed to be taken as input tax credit (ITC) for the SGST and could be utilized only against the payment of SGST.
 - Cross-utilization of credit of CGST between goods and services would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST.
 - 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.
 - No provision for refund of unutilized credit of unutilizable SGST or CGST, except in case of export and supplies to SEZ.
 - Full and immediate input credit should be allowed for tax paid (both CGST and SGST) on all purchases of capital goods (including GST on capital goods) in the year in which the capital goods are acquired. Similarly, any kind of transfer of the capital goods at a later stage should also attract GST liability like all other goods and services.
 - 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.
 - 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.
 - Meanwhile, official sources said that the Centre continues to stick to its stand of having a common threshold for both State GST and Central GST. Some States like Madhya Pradesh want the Empowered Committee to stick to its stand to keep electricity duty, stamp duty, motor vehicle tax, entry tax and entry tax in lieu of Octroi outside GST.
 - Keeping in view the compliance cost and administrative feasibility, small dealers (including service providers) and manufacturers should be exempted from the purview of both CGST and SGST if their annual aggregate turnover (excluding both CGST and SGST) of all goods and services does not exceed Rs.10 lakh. Further, the threshold exemption limit should be uniform for both CGST and SGST and across States.
 - In case of manufactured goods, presently, excise exemption up to Rs. 1.50 crore per annum is available. 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 Rs. 1.5 crore and the threshold for services should also be appropriately high. The small enterprises (SSI) with turnover less than Rs. 1.50 crore per annum will be exempt from CGST but will be liable to pay SGST after crossing threshold limit of Rs. 10.00 lakh.
 - All persons with annual aggregate turnover of goods and services exceeding Rs.10 lakh (excluding CGST and SGST) should be required to register and obtain a GST registration number. Persons with lower turnover may be allowed an option to register.
 - The unit of taxation for the purposes of GST should be persons as defined under the Income Tax Act. Consequently, for the purposes of CGST, all production units/branches of a person located anywhere in the country will be treated as a single taxable entity eligible for CGST input credit across units/branches. Similarly, for the purposes of SGST, all production units/branches of a person located anywhere within the State will be treated as a single taxable entity eligible for SGST

input credit across units/branches in that State.

- The Central Government shall establish a common IT infrastructure which will serve the needs of both CGST and SGST.
- The payment of tax and the transaction reporting should be made through a combined payment and transaction reporting statement in Form No. GST-I. This statement should detail all business to business transactions relating to sales. This statement should be common for both CGST and SGST compliance and it should be mandatory to file this statement electronically on a monthly basis while making payment of taxes.
- 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.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits keeping in view the information requirement of CBEC and the State tax administration. The first ten digits should be the alpha-numeric Permanent Account Number (PAN) followed by a space and two more digits indicating the State code. This number scheme should be publicised widely and should be self-generated after obtaining a PAN. 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. The TIN will be shared between the Centre and the States.
- The Task Force of TFC had recommended a combined rate of

12 per cent GST comprising 5 per cent central GST and 7 per cent state GST on all goods and service except few specific categories.

- One common checkpoint would be implemented while crossing one border of exporting States and importing States or vice versa. Such an arrangement will significantly reduce travel time and reduces administrative cost for the government. The Finance Commission is prepared to support creation of such checkpoints if the respective State governments are willing to operate jointly.
- 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.
- The list of exemption included public services of Union, State and local governments, service transaction between an employer and employee, unprocessed food articles sold under the public distribution system, educational and health services provided by non-government schools, college and agencies. However, public services will not include railways, post and telegraph, services and products provided by other commercial departments and public sector enterprises, banks, insurance, health and education services.
- The GST will be levied on imports with necessary Constitutional Amendments. 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.

- The computation of the CGST and SGST liability should be based on the invoice credit method i.e., allow credit for tax paid on all intermediate goods or services on the basis of invoices issued by the supplier. As a result, all different stages of production and distribution can be interpreted as a mere tax pass-through, and the tax will effectively 'stick' on final consumption within the taxing jurisdiction. This will facilitate elimination of the cascading effect at various stages of production and distribution.
- Further, with a view to reduce administrative and compliance burden, small dealers with annual aggregate turnover of goods and services between Rs. 10 lakh to Rs. 40 lakh may be allowed to opt for a compounded levy of one percent, each towards CGST and SGST. However, no input credit should be allowed against the compounded levy or purchases made from exempt dealers.
- Certain high value goods comprising of (i) gold, silver and platinum ornaments; (ii) precious stones; and (iii) bullions (hereafter referred to as "high value goods") are subject to the threshold exemption but without the ceiling of Rs. 40 lakh, also be allowed to opt for the compounded levy of one percent, each towards CGST and SGST.

- The limit of Rs. 40 lakh is based on the consideration that dealers with turnover of Rs. 40 lakh (Revised limit Rs. 60 lakh as per Union Budget 2010-11) or more are subject to tax audit under the Income Tax Act, 1961, and, therefore, they would suffer from many additional burden in terms of documentation under the GST.
- Keeping in mind the need of taxpayers 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.
- The benefit to the poor from the implementation of GST will flow from two sources : first, through increase in the income levels and, second, through reduction in prices of goods consumed by them.
- There is empirical evidence to suggest that the switchover from the present distortionary taxation of goods and services to a 'flawless' GST will, amongst others, increase productivity of all factors of production and, hence, enhance GDP. The switchover has also been analysed to be pro-poor and, therefore, further the cause of poverty reduction. Further, in the Indian context, a dual VAT type tax concurrently levied by both the Centre and the States would enable the creation of a common market.

Conclusion

The world is more interdependent now than ever before. Multi-national companies manufacture products across many countries and sell to consumers across the globe. Money, technology and raw materials have broken the international

barriers. Not only products and finances, but also ideas and cultures have breached the national boundaries. The accountants are posted in managerial and senior positions in the corporate world in the country. As a Professional Accountant a cost accountant in practice can help business establish a well knit accounting mechanism. Establish internal controls and perform internal audit—Cost Accountants being expert in the indirect taxes, valuation and input tax credit. Valuation being core area of expertise of cost accountants.

Employment of accountants and auditors is expected to grow by 22 percent between 2008 and 2018, which is much faster than the average for all occupations. An increase in the number of businesses, changing financial laws and corporate governance regulations, and increased accountability for protecting an organization's stakeholders will drive job growth.

As the economy grows, the number of business establishments will increase, requiring more accountants and auditors to set up books, prepare taxes, and provide management advice. As these businesses grow, the volume and complexity of information reviewed by accountants and auditors regarding costs, expenditures, taxes, and internal controls will expand as well. The continued globalization of business will also lead to more demand for accounting expertise and services related to international trade and accounting rules and international mergers and acquisitions. Additionally, there is a growing movement towards International Financial Reporting Standards (IFRS), which uses a judgment-based system to determine the fair-market value of assets and liabilities,

which should increase demand for accountants and auditors because of their specialized expertise.

As per the compulsory internal audit of credit rating agencies, direct stockbrokers/trading members/clearing members to carry out complete internal audit on a half yearly basis, SEBI has considered Cost Accountants along with CAs and Company Secretary for conducting internal audit. In a recent order Government of Kerala permits utilization of the services of cost accountants for adoption of double entry accrual based system of accounting implemented in Corporation and Municipalities. As above, many new opportunities are being opened for a cost accountant who are in practice or in service.

The Institute may be careful for new coming opportunities, so that fifty thousand cost accountant all over the world may not be neglected while implementing GST. Provision for audit by Cost Accountants needs to be made in GST. We also hope that in the near future a cost accountant also may get same rights as a chartered accountant.

Finance Minister Pranab Mukherjee asked to introduce Goods and Services Tax (GST) "as early as possible", amid speculations that the indirect tax reform may not be implemented from the scheduled date of April 1, 2010. Some states, including Madhya Pradesh, Rajasthan, and Tamil Nadu, want the GST implementation to be delayed as there are issues relating to preparedness. In fact, Mukherjee had also said that it might not be possible to introduce GST from April 1, 2010. Finance Minister Pranab Mukherjee said in the Union Budget 2010-11 that he hoped to implement the GST from April 1 2011. □

Changing Phase of Indirect Taxes—Challenges And Opportunities

CMA R Ganesh*

In the era the major reforms and development taking place in our country, India, the tax reforms is and has been the key to have the change of track in the economic growth of the country. The various stake holders for these happenings are keenly awaiting the tax reforms, namely, the introduction of Goods and Services Tax “GST”. This phase of transition poses challenges for the stake holders viz., Government both Centre and States, the various industries involved in mining to manufacturing and the now fast tracked service industry. To bring in place a unified indirect tax that enables a standardized pricing of the product and services without any cascading effect of accumulation of all the indirect taxes, the GST is the answer that is much awaited.

GST is a well designed value added tax on all goods and services eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-through, and the tax essentially sticks on final consumption within the taxing jurisdiction.

GST comprises of the following elements :

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1. It should be a dual levy concurrently by the Centre and States, but independently to promote cooperative federalism.
2. Both the Central Goods and Services Tax (CGST) and the State Goods and Services Tax (SGST) should be levied on a common and identical base.
3. The Centre and the States should adopt a consumption-type GST, that is, there should be no distinction between raw materials and capital goods in allowing input tax credit.
4. The tax base should comprehensively extend over all goods and services up to the final consumer point.
5. There should be no classification between goods and services in law so as to ensure that there is no classification of dispute.
6. The GST should be structured on the destination principle. As a result, the tax base will shift from production to consumption whereby imports will be liable to both CGST and SGST and exports should be relieved of the burden of goods and service tax by zero rating.
7. The computation of the CGST and SGST liability should be based on the invoice credit method, i.e. allow credit for tax paid on all intermediate goods or services on the basis of invoices issued by the supplier. This will facilitate elimination of the cascading effect at various stages of production and distribution.
8. The CGST and SGST should be credited to the accounts of the Centre and the States separately. Since the CGST and SGST are to be treated separately, taxes paid against the CGST should be allowed to be taken as input tax credit (ITC) for the CGST and could be utilized against the payment of CGST. The same principle will be applicable for the SGST. Cross-utilization of ITC between the CGST and SGST should not be allowed.
9. Full and immediate input credit should be allowed for tax paid (both CGST and SGST) on all purchases of capital goods (including GST on capital goods) in the year in which the capital goods are acquired. Similarly, any kind of transfer of the capital goods at a later stage should also attract GST liability like all other goods and services.
10. The consignment sales and branch transfers across States should be subject to treatment in the same manner as if it was a inter-state transaction in the nature of sale between two independent dealers.

To put straight in a simplified note, before a final product and service is put in place, there are various stages and value addition in the production of the manufactured goods which also need professional service coming within the ambit of service tax. As the tax is on an ad valorem basis, the costing of the value addition at each stage has to be derived in a professional and standardized, manner based

on the technology, size of operation and the price of the basic raw material. This standardized working of the value addition at each stage before it passes on to the next level of value addition in the chain of operations is to be done in a professionalized manner so that consistency and uniformity is maintained.

The industry forums like the CII, FICCI, and professional bodies like Chartered Accountants, Cost Accountants are gearing up to get the derived advantage of the GST Regime. The Government would want that there are no revenue leakages in the GST regime. The need is, therefore, to have the enabling agents who can ensure that all these are done in the correct manner. Here lies the opportunity for the Cost Accountants to rise and be the change-manager.

■ **GST—Role and Scope for Cost Accountants**

GST implementation will lead to immense scope for Cost Accountants who — with expert knowledge about manufacturing, costing and pricing — can play an important role once GST is implemented.

■ **For Industry**

1. Cost Accountants — with their good knowledge on manufacturing, costing and pricing — can educate the suppliers/vendors about GST and ensure input tax credit is availed correctly.

2. Help in arriving at the cost of the product correctly by considering/availing input tax credit as per the provisions of GST.

3. Cost Accountants — with their expert knowledge on manufacture — can ensure tax compliance, monthly returns, e-filing, availing of credit and payment of taxes.

4. Cost Accountants can ensure tax planning and interpretation of the Act correctly and educating the various departments like strategic sourcing, payables, supply chain management, marketing etc.

5. There will be dual structure for GST, there will be levy by the Central Government known as CGST, and levy by the State Government known as SGST. CST rate at present is 2% against Form C and CST will be phased out once GST is implemented and there will be another levy on stock transfers and consignment transfers known as IGST. The set-off against these CGST, SGST and IGST will be a complex model which is not clearly spelt out by the Government. Once the same is implemented, Cost Accountants with their vast knowledge on Costing, Finance and indirect taxation — can ensure proper set-off against these three levies — CGST, SGST, and IGST.

6. CGST will be levied by the Central Government and every State will have its own SGST. To understand the complexity of each model of SGST, only Cost Accountants can guide the industry.

7. There are several Central Taxes which are not presently CENVATable, viz., additional excise duty, countervailing duty etc and CGST would, therefore, subsume the following :

- a) Central Excise Duty
- b) Additional Excise Duty
- c) Additional Excise Duty on medicinal and toilet preparations
- d) Countervailing duty
- e) Additional Duty under Section 3(5) of the Customs Tariff Act
- f) Service Tax
- g) Cesses
- h) Surcharges.

Cost Accountants can ensure

set-off for all Central levies as per provisions of GST when implemented.

8. In the present system, Central Excise is levied at the manufacturing level whereas, in the GST, tax will be levied on the value addition in the supply chain after the manufacturing level. Cost Accountants — with their knowledge of Finance, Costing and SCM — will be able to compute the taxes correctly under the GST.

9. In the present VAT system, there is no provision to levy VAT on services. However, GST proposes to levy SGST and CGST on services and Cost Accountants can ensure tax compliance on services — both for Central and States.

10. In the present VAT system, even though input tax credit (ITC) is allowed, it does not include other taxes levied by the State Government, viz., Luxury Tax, Entertainment Tax and Entry Tax not in lieu of octroi. Under GST, all these levies would be subsumed in the SGST. Cost Accountants can ensure set-off for all State levies as per provisions of GST when implemented.

11. In the present system, all inter-state transactions are covered by CST Act and administered by the respective State Government. The present rate is 2% CST against Form C or scheduled rate of VAT without Form C. The amount paid as CST is not available for set-off. Under the GST, IGST will be levied on all inter-state transactions like stock transfers and consignment transfers. The scope of IGST Model is that the Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services. The inter-State seller

will pay IGST on value addition after adjusting available credit of IGST, CGST and SGST on his purchases.

The major advantages of IGST Model are :

- a) Maintenance of uninterrupted ITC claim 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) Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

The process of paying IGST and claiming set-off can only be done by a professional Cost Accountant with his immense knowledge on Finance & Accounting, computer, and knowledge of GST.

12. In the present system, no VAT or excise duty is payable on imports. Under GST, SGST and CGST is payable on imports and set-off can be taken. This can be done by the Cost Accountants.

13. Under GST, 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. In such cases, the Central and State Governments could provide reimbursement after collecting GST. This scheme of payment of GST and reimbursement from Central or State Governments can be administered by a Cost Accountant who is well-versed with Finance & Accounting and indirect taxation.

For Government

Cost Accountants with their knowledge on Finance & Accounting and indirect taxation can ensure :

1. Taxpayers under GST need to submit periodical returns — in common format as far as possible — to both the CGST authority and to the concerned State GST authorities. All registered dealers to make the payment by electronically furnishing the return, which would be a combined monthly payment and return form for all intra-state and inter-state transactions.

2. CGST and SGST should be credited to the accounts of the Centre and States separately. Since CGST and SGST are to be treated separately, taxes paid against the CGST should be allowed against the payment of CGST. The same principle will be applicable for the SGST. Cross of utilization of ITC between the CGST and the SGST will not be allowed.

3. Full and immediate input credit should be allowed for tax paid (both CGST and SGST) on all purchases of capital goods in the year in which the capital goods are acquired. Similarly, any kind of transfer of the capital goods at a later stage should also attract GST liability like all other goods and services.

4. Small dealers with annual aggregate turnover of goods and services between Rs.10 lakh to Rs.40 lakh may be allowed to opt for a compounded levy of one percent each towards CGST and SGST. However, no input credit will be allowed against the compounded levy or purchases made from exempt dealers.

For Cost Accountants

1. For practicing Cost Accountants there is immense potential in the form of tax compliance, filing

of returns, interpretation of law, advising dealers about the correct procedure for availing ITC, annual audit etc.

2. For Cost Accountants there will be immense opportunities in the industry as they can ensure that all the complexity in GST can be understood and implemented in the industry where they are employed.

3. Under the GST, new sectors are likely to be covered like real estate sector, power sector, transportation by road, rail, air and sea which will have vast scope and opportunities for Cost Accountants.

The GST will be a world-class model which will consist of :

1. The base should extend to all goods and services including immovable property.
2. There should be a single low rate.
3. The tax should be destination based.
4. The tax should be designed on invoice-credit method.
5. Full and immediate input tax credit in respect of capital goods.
6. The GST must replace all transaction based taxes on goods and services and factors of production.
7. There should be seamless flow of the tax through all stages of production and distribution so as to stock on "final" consumption.
8. The exports should be zero rated and imports should be fully taxed.
9. There should be a threshold exemption for small dealers.
10. Full computerization of the compliance and administrative system.

GST will overcome all the present inefficiencies and inadequacies of the indirect taxes. This will be a win-win situation for all the stakeholders. □

Goods and Service Tax (GST) in India : An Overview

Dr. Kartik Chandra Nandi*

Backdrop

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step an important break through in the sphere of indirect tax re-forms in India.

If the CENVAT and VAT are a major improvement over the pre-existing Central excise Duty at the national level and the sales tax system at the State Level, respectively, then the Goods and Services Tax (GST) will indeed be a further significant improvement—the next logical step towards a comprehensive indirect tax reforms in the country encompassing both commodity and services tax under a full — fledged destination based VAT regime.

The central focus of the transition to GST is to introduce an efficient, effective and tax payer-friendly system of taxation of goods and services in the country, in line with international best practices as well as the special characteristics of the Indian economy. Keeping this objective in view, an announcement was made by the Union Finance Minister in the context of Budget 2007-08 to

the effect that GST would be introduced w. e. f. 1st April 2011.

The Union Finance Minister Mr. P. Chidambaram has given indication that the country will have Goods and Service Tax (GST) regime in 2011. With successful introduction of VAT in almost all the States and continuous increase in number of services under the service tax net, nobody should have any doubt of the Finance Minister's seriousness about GST. The Finance Minister in his Budget speech in 2006 had said: "It is my sense that there is a large consensus that the country should move towards a National Level Goods and Services Tax (GST) that should be shared between the Centre and the States. I propose that we set April 1, 2011 as the date of introducing GST. World over, Goods and Services attract the same rate of tax. This is the foundation of GST. People must get used to the idea of a GST. We must progressively converge the service tax rate and Cenvat rate. I propose to take one step this year and increase the service tax rate from 10 per cent to 12 per cent. Let me hasten to add that since service tax paid can be credited against service tax payable or excise duty payable, the net impact will be very small."

Concept of GST

Goods and Services Tax is a tax on goods and services, which is leviable at each point of sale or provision of service, in which 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.

Goods and service tax is a new version of VAT which gives a comprehensive set-off for input tax credit and subsuming many indirect taxes from state and national level.

GST is a comprehensive value added tax on goods and services. It is collected on value added at each stage of sale and purchase in the supply chain without State boundaries. In GST structure, different stages of production and distribution are interpreted as a mere tax pass-through, and the incidence of tax is essentially borne by the final consumer within a taxing jurisdiction.

If GST in its real form is implemented in the Indian context, it would integrate all taxes currently levied in India by Central and State Governments on goods and services like excise duty, service tax, entry tax or octroi, state excise, countervailing customs duty, telecom license fee, luxury tax, tax on consumption/sale of electricity, entertainment tax etc.

Reasons for the development of Goods and Services tax

i) Avoid cascading effect of taxation : One of the main reasons of the introduction of GST is to avoid cascading effect of taxes in India. For example, manufacturing of a product attracts CENVAT. The manufacturer pays CENVAT on

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goods produced. So the CENVAT element is loaded on the product. According to VAT rules, the sales tax is payable on the aggregate selling price which includes CENVAT. Here there is no set-off benefits available. Likewise, there are many situations in the nature of cascading effect — for instance, State VAT on CST, Entry tax on VAT etc. Now Government has decided to abolish tax on tax effect by implementing GST.

ii) Shortfall of Existing VAT : Indirect taxes like luxury tax, entertainment tax are yet to be included in the VAT. These taxes are still existing and payable.

iii) Shortfall of Existing CENVAT : Several taxes like additional customs duty, surcharges are not included under CENVAT. Input tax and service tax set-off is out of reach to the manufacturer and dealers.

Why GST is a preferred tax structure?

i) G.S.T. is a quite simple tax structure because under GST just one or two rates are charged on all goods and services and it is a uniform single tax across the entire supply chain.

ii) GST increases tax revenue due to wider base and better compliance. GST allow full credit for all input taxes across supply chain and across States within a tax jurisdiction.

iii) GST structure promotes exports on account of its zero rating and refund of tax paid on inputs used in export production and services exports.

iv) It ensures better compliance as aggregate tax rate reduces.

v) It reduces distribution cost as there is no tax barrier in GST for inter-State movement of goods, which encourages state-wise

branches and depots involving additional supply chain cost.

vi) GST is unbiased tax as it is neutral to business processes, business models, organization structure, product substitutes and geographic locations.

vii) It brings uniformity of tax rates across the States.

viii) It reduces the overall tax compliance cost for government and can concentrate the on GST.

Goods and Services Tax Model for India

It is important to take note of the significant administrative issues involved in designing an effective GST model in a federal system with the objective of having a harmonious market. Together with this, there is a need for preserving the sovereign powers of Central and State Governments in their taxation matters. To fulfill these objectives there is a need to propose a model that would be easily implementable, while being generally acceptable to all the stakeholders.

Salient features of the GST Model being worked out by the Empowered Committee

Keeping in view the report of the Joint Working Group on Goods and Services Tax and the views received from the States a dual GST with defined functions and responsibilities of the Centre and the States is re-commended.

Salient features of the proposed model are :

i) The GST shall have two components : one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States and Union Territories (UTs) (herein after referred to as State GST). Rates for Central GST and State GST

should be prescribed separately, reflecting revenue considerations and acceptability.

ii) The Central GST and the State GST should be applicable to all transactions of goods and services. HSN classification for goods should be used both for the Central GST and the State GST. A classification for services should be evolved by examining international practices, keeping, at the same time, in view the particular characteristics of India's services sector.

iii) The Central GST and the State GST should be credited to the accounts of the Centre and states separately.

iv) 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.

v) Cross-utilization of ITC between the Central GST and the State GST should not be allowed.

vi) Ideally, the problem related to credit accumulation on account of refund of GST — in the particular cases where input tax exceeds output tax — should be avoided both by the Centre and the States.

vii) Procedures for collection of both the Central GST and State GST should be uniform.

viii) Under the proposed model, the productive/distribution chain for goods with regard to manufactures having gross turnover of more than Rs. 1.5 crores would belong to both the Centre and the State. However, keeping in view the prevailing tax payer bases and the availability of the administrative machinery with

the Centre and States, the remaining tax payers for goods will be assigned exclusively to the States for the purposes of registration, collection, ITC matters etc for both the Central GST and the State GST.

ix) The present thresholds prescribed in the State VAT Acts below which VAT is not applicable (which varies from State to State), may also be adopted under the GST.

x) The taxpayer would need to submit one periodical return (i.e. the same document), with one copy given to the Central GST authority, the other to the State GST authority concerned.

xi) Each taxpayer should be allotted a PAN based taxpayer identification number, with two additional digits to distinguish between States, and another digit to distinguish between the Central GST and the State GST, i.e. a total of 13 digits. This would bring the GST PAN based system in line with the prevailing PAN based system for Income Tax, Excise Duty and Service Tax, facilitating data exchange and tax payer compliance.

xii) Keeping in mind the need of tax payers' convenience, functions such as assessment, enforcement, scrutiny and audit should be undertaken by the authority which is collecting tax, with information sharing between the Centre and the States.

xiii) Composition /Compounding Schemes for the purpose of GST should be designed keeping in view the present threshold limits followed by different States under VAT.

Central and State Taxes to be subsumed under GST

The various Central, State and Local levies were examined to

identify their possibility of being subsumed under GST. While identifying, the following principles were kept in mind :

i) 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.

ii) 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.

iii) The subsumation should result in free flow of tax credit at intra and inter State levels.

iv) The fees that are not specifically related to supply of goods and services should not be subsumed under GST.

v) Revenue fairness for both the Union and the states individually would need to be attempted.

(a) On application of the principle, it is recommended that the following Central Taxes should be subsumed under the Goods and Services Tax :

- i) Central Excise Duty
- ii) Additional Excise Duties
- iii) Service Tax
- iv) Additional customs duty, commonly known as counter-vailing duty (CVD)
- v) Surcharges
- vi) Special Additional duty of customs 4% (SAD)
- vii) Ideally, Cesses should also be merged with the GST. However, keeping in view the specific needs of the concerned Ministries, it was decided that for the time being these levies may not be included in the GST.

(b) Following State taxes and levies should be subsumed under GST :

- i) VAT/Sales tax
- ii) Entertainment tax (unless it is levied for 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
- vii) Purchase tax (this is not sure — still under discussion).

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.

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

ii) 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.

iii) Tax on Petroleum Products : In view of the requirements of the States as well as the Central, 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.

iv) Taxation of Services : With regard to taxation of services, it is proposed that the States should be given the power to levy taxes on all services. Regarding the

collection of services taxes, the States may collect taxes on services of intrastate nature both for Central GST and State GST. Similarly, the Centre may collect tax for services of inter-State nature both for Central GST and State GST. An arrangement to transfer the Central portion of GST on inter-State services to the Centre, and the State portion of the GST on the inter-State services collected by the Centre to the States, may be worked out based on the destination principle.

Number of Tax Rates

Considering the economic reality of the country and the fact that certain categories of goods and services may need to be taxed at a rate lower than the standard rate, it is recommended that there should be standard and a lower rate. A significant lower rate could be assigned for precious metals, jewellery, stones and diamonds :

(i) Rates of Central GST and State GST : Rates of Central GST and State GST : The required rate of tax has to be worked out in accordance with the tax base. The calculations would have to be done separately for the Centre and the States on the basis of a transparent methodology jointly worked out by the Centre and the States.

(ii) Zero Rating of Exports: Export should be zero-rated. Similar benefits may be given to SEZs. However, such benefits should only be allowed to the processing zones of the Special Economic Zones (SEZ). No benefit to the sales made from a SEZ to Domestic Tariff Area (DTA) should be allowed.

Inter-State Transaction of Goods

The following mechanism has been proposed to be put in place to deal with inter-State transactions of goods, based on the existing vast banking network

that widely utilizes information technology (IT) :

a) The seller in the exporting State (say State A) collects GST for inter-State GST transaction from the importer, i.e. the purchasing dealer in the importing State (say State B). This GST is collected at the applicable rates for both the Central and the State GST.

b) The seller makes a monthly deposit of the GST collected for inter-State transaction in a designated bank to the credit of the respective State Government, i.e. State B in present case. The seller would provide details of all transactions — including details of purchasing dealers — to the bank.

c) This information would be available also to the State B Government automatically through a GST portal where the bank of State A uploads the information.

d) The purchasing dealer in State B claims ITC on the basis of a digitally signed (by the bank of State A) invoice/challan when he files his tax return. The State B grants ITC on the basis of the credit received by it from the bank.

e) The Central and State authorities can access information regarding all inter-State dealers/transactions and tax payment from the GST portal.

f) If the State B purchaser is a non-dealer, then the money deposited in the State B Government account will remain with that Government since ITC will not be claimed by the purchaser.

The advantages of this system are : (1) there is no paper declaration forms; (2) cross-checking by the administration is not required; (3) there is a safe transaction with little possibility of revenue loss for the importing or exporting States; (4) fund transfers from one Government to another is not

required; and (5) revenue of the importing State is not subject to control of the exporting State.

Tax Exemptions

Various tax exemptions have been granted both by the Centre and States to achieve objectives of promoting a particular sector or to reduce tax burden on a particular segment of society in the interest of fairness or to promote a particular economic activity etc. Tax exemptions have the effect of narrowing the tax base and increasing the administrative and compliance cost of GST. Therefore, it is felt that exemptions should be minimized. Direct and transparent subsidies, instead of tax exemptions, are more efficient ways to achieve the targeted objective. It is recommended that apart from a dual rate GST structure at the Central and the State levels, there should be a common exemption list. Further, specific provisions to provide limited flexibility to the States within a set of prescribed criteria may need to be incorporated, as in the prevailing VAT structure, in order to accommodate exemption of goods of local importance. Similar limited flexibility would need to be provided to the Centre to address exceptional situations such as natural disasters.

Drawbacks of GST

Some of the important drawbacks of the proposed GST are summarized :

i) First, it does not specify the list of exempted goods and services. The list of exempted goods and services is yet to be finalised and it is quite likely that some discretion may be allowed to individual States. This is a matter relating to the fiscal autonomy of the States, but to the extent that there is no

uniformity, both administrative and compliance costs will be higher.

ii) Second, two rates are proposed for the SGST – one a low rate for essential items, and another — a standard rate for the remaining goods and services. It also advocates a similar approach to CGST. This increases both administrative complexity and compliance costs, besides creating classification disputes. Indeed, there is considerable evidence across the world to show that levying a GST at multiple rates does not improve equity. First, the classification of goods and services is done according to judgments on income elasticity of demand. Even if they are correct, in general equilibrium terms, employment intensity of a good or service may be different from income elasticity of demand. Thus, taxing goods and services at multiple rates instead of a single rate (in addition to exemption) may decrease rather than increase employment. Surely this is a socio-political choice exercised by governments, but it is necessary to know the economic cost of this decision.

iii) At the State level, the proposal still leaves open the possibility of levying entry tax in lieu of octroi as also octroi. Similarly, it does not include stamp duties and registration fees. Furthermore, entertainment tax, if levied by local bodies (Kerala) will continue. Thus, while the proposal goes a long way in unifying multiple taxes, it still leaves out some taxes. Indeed, it is important to ensure that revenue sources of local bodies are protected. The more rational course would be to add an additional percentage point to SGST as a local levy and distribute the proceeds to urban and rural local governments based on their consumption shares.

Maharashtra — the only State in which municipal corporations are allowed to levy octroi — too can abolish it.

iv) This is the opportune time to correct some of the design faults that exists in the prevailing State VAT. One of the problems with the present design is the distinction made between inputs and outputs and levying the tax on the former at 4% and the latter at 12.5% even as it is well known that the essential principle of VAT is providing credit for input taxes. First, taxing inputs and outputs at different rates is unscientific for, what is input in one use can be an output in another. Sugar, for example, is an input for a restaurant whereas it is an output for households. Second, an 8.5 percentage point margin of difference in the rates provides sufficient incentive to evade the output tax. Thus, a manufacturer of steel furniture, for example, will buy his input – steel – and pay the tax at 4%, but can suppress his output of steel furniture and evade paying the tax at 12.5% of the output value. The fact that most States do not yet have reliable information system to match input and output transactions reduces the probability of detection. In any case, no tax administration can match each transaction and when South Korea tried to do it, it created a chaotic situation. If the inputs too are taxed at the same general rate of 12.5%, the incentive to evade will be much less because the tax saved from evasion will be only on the value added at that stage. Hopefully, this design fault will be corrected in the GST.

v) For the reasons explained above, under GST, the concept of “declared goods” in the Goods of Special Importance Act, does not have a place and the only criterion

for rate differentiation to be followed, if at all, is on the basis of income elasticity of demand. As mentioned above, even this need not ensure overall equity in the general equilibrium sense; but tax design is less of a science and more of exercising socio-political judgments. Since, under GST, input tax will get the credit, there is no need to maintain a special treatment for “goods of special importance”.

Justification of GST in Indian Context

Despite the success with VAT, there are still certain shortcomings in the structure of VAT both at the Central and the State levels. The deficiency in CENVAT of the Government of India lies in non-inclusion of several Central taxes in the overall framework of CENVAT, such as, additional customs duty, surcharges, etc; and thus keeping the benefits of comprehensive input tax and service tax set-off out of reach for manufactures/dealers. Moreover, no step has yet been taken to capture the value-added chain in the distribution trade below the manufacturing level in the existing scheme of CENVAT, resulting in a significant loss of opportunity of revenue gain for the Centre. The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade.

In the existing State-level VAT structure, there are, even now, several taxes which are in the nature of indirect tax on goods such as luxury tax, entertainment tax,

etc. and yet not subsumed in the VAT for set-off relief. Moreover, in the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. This CENVAT load needs to be removed. Furthermore, any commodity, in general, is produced on the basis of physical inputs as well as services, and there should be integration of VAT on goods with tax on services at the State level as well. This is the essence of GST, which will be a further improvement on goods-based VAT in the State. However, for this GST to be introduced at the State-level, it is essential that the States should be given the power of levy of taxation of all services. This power of levy of service taxes has so long been only with the Centre. A Constitutional amendment will be necessary for giving this power also to the States. The GST at the State-level is, therefore, justified for (a) comprehensive set-off relief (involving goods as well as services) for trade, industry and agriculture, (b) removal of cascading effect of CENVAT load, and (c) additional power of taxation of services of the States.

The GST at the Central and State-level will thus give more relief to trade, industry and agriculture through a more comprehensive and wider coverage of input tax and service tax set-off relief, further removal of cascading effects and more powers of taxation to the Central and the States. If this GST is properly formulated with appropriate calculation of rates, then there may eventually be revenue gains for both the Central and the States. If the potentiality of these revenue gains is significant, there

may also be a likelihood of reduction of the overall incidence of taxes from the existing level, and yet retaining the revenue gains. This possibility of reduction of this overall incidence of taxes may mean a gain to trade, industry and consumers. In other words, there is a possibility of a collective gain for the Centre, the States, trade, industry, agriculture, and also the common consumers.

GST : The Global Scenario

More than 140 countries have introduced GST/National VAT in some form. While countries such as Singapore virtually taxes everything at a single rate, some countries have more than one rate (a zero rate, certain exemptions, and higher and lower rates). In some countries, it is recoverable only on goods used in the production process and specified services. The standard GST rates in most of the countries ranges between 15% to 20%. In Scandinavian countries (North Europe) where social security coverage is higher, it ranges between 22 to 25%.

In India, the standard rate of excise duty is 16% on manufacturer's sale price. In addition, there is a state VAT at 4% and 12.5%. Therefore, the aggregate peak rate of taxes works out to 22% on retail sales price or at consumption level with standard rate of excise duty. At a lower end, with 4% VAT, it works out to 13.5%. It is therefore, feasible to fix tax neutral GST rate of 20% (less, if existing duty exemptions are reduced).

Conclusions

The implementation of GST in India in the form of a comprehensive value added tax is contingent on several key decisions. While there is clarity that the tax would

be in the form of a dual VAT, that is the only detail about the tax that is available in the public domain. Presuming that the country is going to witness considerable tax reform, it is only fair on the taxpayers that the details are worked out well in advance so that preparations for a smooth transition can be made. The success of GST will largely depend on the determination of ideal rate at Central level as well as State level which should be acceptable by public and revenue neutral to Government. All efforts should be made to keep the GST rate as low as possible. The standard rate of 16% adopted for CENVAT along with residuary rate of VAT 12.5% brings the overall rate to 28.5%, which is too high a rate compared globally. Ideally, GST rate may be kept at about 18%. We may say that if coming GST will fulfill our expectations it will turn out to be good and serving tax. □

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Role of Cost and Management Accountants in GST Regime

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GST – A Step towards Indirect Tax Reforms in India

The Constitution of India delegates power to the Central as well as State Governments to levy tax on various economic activities. Central Government is empowered to levy tax on manufacture of goods (except alcoholic beverages) and services whereas State Governments are empowered to levy taxes on sale of goods. Presently, tax on manufacture of goods i.e. CENVAT, is levied under the Central Excise Act whereas service tax is levied under the Finance Act on provision of services for a consideration. As we have parallel systems of indirect taxation at the Central and State levels, each of the system needs to be reformed to eventually harmonize them. In the Union Budget for the year 2006-2007 the Finance Minister proposed that India should move towards national level Goods and Services Tax that should be shared between the Centre and the States. The Goods and Service Tax (GST) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of

goods as well as services at a national level. World over, goods and services attract the same tax rate. About 120 countries follow the GST model. Integration of goods and service taxation would give India a world class tax system and improve tax collections. The proposed tax system would end the long standing distortions of differential treatments of manufacturing and service sector. The introduction of GST would lead to abolition of multiple indirect taxes such as Octroi, Central Sales Tax, State level Sales Tax, Entry Tax, Stamp Duty, Telecom License Fees, Turnover Tax, Taxes on transportation at goods and services, Tax on consumption of Electricity with a single tax and eliminate the cascading effects of multiple layers of taxation. The proposed change would address the problems of the current system arising from the complexity of multiple taxes with their respective compliance requirements and the issue of tax credits not following seamlessly across States and the value chain. The GST seeks to remedy those anomalies by allowing a continuous and uninterrupted chain of credits through the supply chain eliminating the burden of cascading effects of taxes.

In 2007, committees consisting of bureaucrats from different States

and the Centre worked on to frame a road map for GST under the overall guidance of the then special advisor to the Finance Minister, Sri Parthasarathy Some. In December 2007, State Finance Minister, reached a consensus on the basis of discussion of road maps suggested by the committees of bureaucrats that India would move to a dual GST: a Central GST for Centre and a State GST for States. The big change is that the States would charge a uniform GST rate, as opposed to the existing practice of multiple rates. At present our economy is having a hybrid tax structure, narrow base, prone to evasion and fraud, un-integrated, multifarious status like customs duty, additional customs duty, excise duty, additional excise duty, surcharge, service tax, VAT, CST, lottery tax, entry tax, octroi, luxury tax, entertainment tax, stamp duty, property tax, toll tax, road tax, house tax etc. Today, it seems easier to fly in air, easier to swim in water as compared to walking on land due to such a complex tax structure.

The globalization and liberalization in the world economy has necessitated the upgradation in our taxation policies and tax laws as well. Our economy has been growing @ 8% on an average for the last 6 years which is a rate far above the average rate of world economy. At this juncture we need a robust development—specifically in the fields of infrastructure, education and, more specifically integration of our tax laws with e-governance.

The Finance Secretary of Hon Kong Government, Mr. Tang Ying Yen, said at the time of describing the significance of the GST regime, "The GST offers us the best option to broaden our tax base and we

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should grasp this opportunities to introduce it when the circumstances are favourable and while the economy is enjoying steady growth with only mild inflation." Mr. Vijay Kelkar also said similarly almost in the same line "GST will help India to achieve economies of scale by becoming a common market, and help India score in the global market for labour intensive manufacturing".

The then Union Finance Minister Shri P. Chidambaram announced at the time of presenting Union Budget 2007-08 that the GST would be introduced from 1st April 2010. He also said "It is my sense that there is a large consensus that the country should move towards a national level Goods and Services Tax (GST) that should be shared between the Centre and the States. I propose that we set 1st April 2010 as the date of introducing GST. World over, Goods and Services attract the same rate of tax. This is the foundation of GST".

He further said that the Empowered Committee of State Finance Ministers, on his request, would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement, the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group (May 10, 2007), with the then Advisor to the Union Finance Minister and the Member-Secretary of the Empowered Committee as Co-Convenor and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the States as its members. This Joint Working Group, after intensive internal discussions as well as interaction with experts and representatives

of Chamber of Commerce and Industry, submitted its report to the Empowered Committee (November 19, 2007).

This report was then discussed in detail in the meeting of Empowered Committee (November 28, 2007). On the basis of this discussion and observations of the States, certain modifications were made and a final version of the views of the Empowerment Committee at that stage was prepared and was sent to the Government of India (April 2008). The comments of the Government of India were received on December 12, 2008 and were duly considered by the Empowered Committee (December 16, 2008). It was decided that a Committee of Principal Secretaries/Secretaries of Finance/Taxation and Commissioners of Trade Taxes of the States would be set up to consider these comments and submit their views. These views were submitted and were accepted in principle by the Empowered Committee (January 21, 2009). Consequently, a working group, consisting of the concerned officials of the State Governments was formed which, in close association with senior representatives of the Government of India, submitted their recommendations in detail on the structure of the GST. The Centre and the States have agreed upon the basic structure in keeping with the principles of fiscal federalism enshrined in the Constitution. The Centre and the States together fund on equal basis, a nationwide computerization project called "Tax Information Exchange System (TINXSYS)" to enable exchange of critical data on inter-State. Government of India has sanctioned financial assistance for projects in the North Eastern States, Himachal

Pradesh and Jammu & Kashmir. To provide financial support to computerization needs of the Commercial Taxes Departments of States the Union Budget for 2009-10 made a provision of Rs. 408 crore for a Mission Mode Project.

The much awaited White Paper on the dual GST, officially called a 'First Discussion Paper on Goods & Services Tax in India', was released on November 10, 2009. The Discussion Paper sets out in an authoritative fashion the background and the context for the introduction of the GST, the nature of the dual GST that is proposed and annexure on answers to frequently asked questions thereon for discussions with industry, trade, agriculture and people at large. The proposed GST regime is expected to be successful in removing the distortions in the form of exemptions. The First Discussion Paper enunciates the broad objectives that GST has set out to achieve.

The Discussion Paper opens the windows before finalization of the regime and provides an opportunity to business to participate and prepare before GST hits them. The existing Joint Working Group has been mandated to prepare a report on the Constitutional Amendments necessary for GST, the changes required for levy of GST on imports, a draft legislation for Central GST a draft for common legislation for State besides a draft for rules and procedures that may be required to administer the GST.

The Finance Minister Shri Pranab Mukherjee at the time of presenting the Union Budget for the year 2010-2011 on 26th February, 2010, regarding taxation front medicated that all the eyes are on any important declaration with respect to the Goods and Services

Tax and Direct Tax Code. He said "On Goods and Services Tax, we have been focusing on generating a wide consensus on its design. In November 2009 the Empowerment Committee of the State Finance Ministers placed the First Discussion Paper on GST in the public domain. The Thirteenth Finance Commission has also made a number of significant recommendations relating to GST, which will contribute to the ongoing discussions. We are actively engaged with the Empowered Committee to finalize the structure of GST as well as the modalities of its expeditious implementation. It will be my earnest endeavor to introduce GST along with the DTC from April 1st 2011". So the implementation of the GST pushed from 1st April 2010 to 1st April 2011.

The Chairman of Empowered Committee, Finance Minister of West Bengal, Shri Asim Dasgupta told that under the proposed GST regime the preparation of IT infrastructure is essential, especially for tracking the movement of goods and services and the Committee tried to complete the scheme within August 2010. The Central Finance Minister promised the Empowered Committee on 21st May 2010 that Central Government is ready to compensate the State Governments more than the recommendations of the 13th Finance Commission in respect to proposed GST. A landmark decision was taken by the Central Government regarding GST. It has been resolved to amend the Constitution to enable States to have the same powers as the Centre in administering the proposed GST. For this, a new Fourth List is proposed to be created in the Seventh Schedule of the Constitution. The proposed GST, an ambi-

tious bid to reform the indirect tax regime, aims to streamline the movement of goods and services across India with a uniform countrywide tax structure. There will be a common annual minimum turnover threshold for both the Centre and States, likely to be Rs. 10 lakh covering Rs. 50 lakh business establishments. On the assumed tax base, a revenue-neutral GST rate could be 16%. This 16% tax could be shared by the Centre and the States at 8% each, or the States could have a percentage point more.

Basic Objectives of Tax Reforms towards GST

The basic objectives of reform of indirect tax are :

- The basic objective to introduce the new tax system is to establish a tax system which is economically efficient, neutral in its application, widely distributed and simple to comply and administer.
- Revenue considerations suggest that the tax base should be broad, comprise all items in the consumer basket, including goods, services as well as real property.
- The tax system should contain the principles of neutrality which may comprise :
 - the tax be a uniform percentage of the final retail price of a product, regardless of the supply-chain arrangements for its manufacturing and distribution;
 - the tax on inputs be fully creditable to avoid tax cascading;
 - the tax be levied on the basis of the destination principle, with all of the tax on a given product/service accruing in the jurisdiction of its final consumption;
 - simplification of tax administration and compliance;
 - the tax design like minimum

classifications and minimum tax rates;

- the information technology to enhance the quality of service and to ensure greater transparency in administration and enforcement;
- the harmonization amongst the taxes levied by the Centre and the States.

Current Tax System and its Pitfalls

The pitfalls of existing tax system may be discussed as :

- The Bagchi Report (1994) stated that the system prevalent before introduction of VAT was "archaic, irrational and most complex in the world".
- The CENVAT is levied on goods manufactured which gives rise to differential issues as to what constitutes manufacturing and valuation issues for determining the value on which the tax is to be levied, moreover, manufacturing itself forms a narrow-base for taxation. It is for this reason that most of the companies have adopted multipoint taxation system extended to retail level.
- The States are precluded from taxation of services. Interpretational problems arose whether a particular activity is an intangible good or a service like – copyright, software, telephonic services, leasing of an equipment etc. In the contemporary market, goods, services and other types of supplies are being as composite bundles and offered for sale to consumers under varieties of supply-chain arrangements. At present, neither the Centre nor the States can tax such transaction in a seamless manner.
- At present, tax cascading occurs under both Central and State

taxes. This is due to the reason that inter-chain and inter-chain input credits are not available and also some items are kept outside the ambit of CENVAT like oil and gas production, mining, real estate sector, exempted sector, retail trade etc. Cascading not only increases the cost of production but it also keeps Indian business as a competitive disadvantage in international markets.

In spite of the improvements made in the tax design and administration for the past few years, the system—both at Central and State level—remains complex. The most significant cause of complexity is, of course, policy related and is due to the existence of exemptions, multiple rates and the irrational structure of levies. The complexities under the State VAT relate primarily to classification of goods to different tax rate schedules. Another source of complexity under the State VAT is determining whether a particular transaction constitutes a sale of goods. This problem is more acute in the case of intangible items like softwares, right to distribute/exhibit moneys or time slots for broadcasting advertisements.

Now we may turn our discussions towards existing indirect tax system and logical steps to be taken in favour of GST.

GST — next Logical Step to Central VAT System

Despite the success of VAT, there are still certain shortcomings in the structure of VAT both at the Central and the State level. The shortcoming in CENVAT of the Government of India lies in the non-inclusion of several Central taxes in the overall framework of CENVAT, such as additional customs duty, sur-

charges etc and this keeping the benefits of comprehensive input tax and service tax set-off out of reach of manufacturer/dealers. Moreover, no step has yet been taken to capture the value-added chain in the distribution traded below the manufacturing level in the existing scheme of CENVAT. The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrated goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance.

State's VAT System

In the existing State-level structure, there are also certain shortcomings. There are, for instance, several taxes which are in the nature of indirect tax on goods and services, such as luxury tax, entertainment tax, etc and not yet subsumed in the VAT. Moreover, in the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State Vat and contributing to the extent of cascading effect on account of CENVAT element. This CENVAT load needs to be removed. Furthermore, any commodity, in general, is produced on the basis of physical inputs as well as service and there should be integration of VAT on goods with tax on services at the State levels as well as at the same time there should also be the removal of cascading effect of service tax. In the GST, both the cascading effects on CENVAT and service tax are removed with set-off and a continuous chain of set-off from the original producer's point and service provider's point up to the retailer's level is estab-

lished which reduces the burden of all cascading effects. This is the essence of GST and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. However, for this GST to be introduced at the State-level, it is essential that the States should be given the power to levy taxation of all services. This power to levy service taxes has so long been only with the Centre. A Constitutional Amendment will have to be made for giving this power to the States. Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. The GST at the State-level is, therefore, justified for :

- (a) additional power to levy taxation of services for the States,
- (b) system of comprehensive set-off relief, including set-off for cascading burden of CENVAT and service taxes,
- (c) subsuming of several taxes in the GST, and
- (d) removal of burden of CST.

Due to removal of cascading effect, the burden of tax under GST on goods, in general, will fall.

Widening of Tax Base

The GST at the Central and the State level will thus give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several taxes in the GST and phasing out of CST. With the GST being properly formulated by appropriate calibration of rates and adequate compensation whenever necessary, there may also be revenue/resource gain for both the Centre and the States, primarily through widening of tax base and possibility of a significant improvement in tax-

compliance. In other words, the GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Governments. The GST may, indeed, lead to the possibility of collectively positive-sum game.

Abolition of Multiple Points Taxation

At present, Central Government is charging Central Excise Duty at the point of removal of goods from the place of production. The Central Excise Duty is to be deposited irrespective of payment, against goods removed from the place of production. Service Tax is charged on the date of rendering services or the date of receipt of payment, whichever is earlier. The State VAT is chargeable at the time of sale of goods irrespective of receipt of payment against such sale. The introduction of GST will obviously be a solution to it. GST would be chargeable on each transaction like sale of goods, incorporation of goods in an individual contract, hiring a taxi, hiring equipment, lease of premises, consultation by a chartered accountant, import and export of goods of any service or may be a transfer of immovable property etc. Since GST chargeable on each transaction, it is some time called 'transaction tax'. Now a vital question may arise – How would the GST work? On the basis of proposed road map GST would work as such – suppose a fan company produces a fan. The Central Government charges excise duty on the fan as it leaves the factory. At the retail level the State charges VAT, where the outlet is located. Different States charge different rates of VAT—being their own tax policy. The State does not

give credit on the excise duty levied earlier i.e. State VAT is levied on top of a Central tax. In the GST system, both Central and State taxes will be collected at the point of sale. Both the components, i.e. the Central GST and State GST, will be charged on the manufacturing cost. The result obviously will lower the incidence of tax and reduce prices.

Service Tax under GST Regime

At present, service tax is charged by the Central Government only on about 106 services. Out of these the State Governments get full share on about 33 services and on remaining service about 30.5% share goes to the States. This arrangement may continue until implementation of GST i.e., up to 1st April 2011. At present, service tax collections are about Rs. 55,000 crore as compared to the budget estimate of about Rs. 50,000 crore. Service tax under the new regime may be imposed on all services barring having a small negative-list exempting new service like public education, health and exports. Since the GST will extend to all goods and services, no distinction will be maintained between goods and services. A dealer will be required to collect taxes on every invoice irrespective of whether the supply is for goods or services. Therefore, no classification of goods and services should be provided for in law. This will, of course, eliminate all classification disputes.

Taxation on Inter-State Transaction of Goods and Services

Taxation on inter-State transaction of goods and services would be governed by the Integrated GST (IGST) model. The Empowered Committee accepted the recommendations of the Working Group of Central and State Governments

for adoption of IGST model for taxation on inter-State transaction of goods and services. The Centre will levy IGST which would be aggregate of Central GST (CGST) and State GST (SGST) on all inter-State supplies of taxable goods and services with appropriate provisions for consignment or stock transfers of goods and service. 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 which, in turn, will be taken as credit by the importing dealer while discharging the output tax liability in the Importing State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. This would be effected by a Central Agency acting as a clearing house which will verify the claims and inform the respective Governments to transfer the funds. Since all inter-State dealers will be e-registered and correspondence with them will be by e-mail, the compliance level will improve substantially.

Exemption of GST for Exports

In GST regime, all exports will be zero rated and similar benefits will be allowed to special Economic Zones (SEZs). However, such benefits will be extended only to the processing zones of the SEZs. No benefit will be allowed for sales from a SEZ to Domestic Tariff Area (DTA).

GST on Imports

Both the CGST and SGST will be levied on import of goods and services into the country with necessary Constitutional Amendments. The incidence of tax will

follow the destination principle. 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 of goods and services.

Treatment of Current Industrial Incentives

After the introduction of GST in April 2011, the tax exemptions/remission etc. related to industrial incentives would be converted into cash refund schemes after collection of tax. So the GST scheme on the basis of a continuous chain of set-offs is not to be disturbed.

Constitutional Amendments, Legislations and Compliance Procedures of GST

Constitutional Amendments are essential for empowering the States for levy on service tax, GST on imports and consequential issues as well as corresponding Central and State legislations with associated rules and procedures. The Joint Working Group prepares draft legislation for Constitutional Amendment, draft legislation for CGST, a suitable Model Legislation for SGST and rules and procedures for CGST and SGST. In the respective legislations, uniform procedure for collection of both CGST and SGST would also be prescribed.

The taxpayer would need to submit periodical returns for both the CGST and SGST authorities in common format. The need for Centre-State and inter-State harmonization is paramount under the dual GST, the ultimate goal would be a uniform base and one set of laws for the two taxes.

While implementing any new tax regime like GST our bureaucrats must look into the need of

good tax administration and sound tax policy. Since an electronically equipped tax administration designed to faster voluntary compliance can yield higher revenue than a sound tax policy administered by an inefficient tax administration. Indeed, the GST has the potential to be the single most important initiative in the fiscal history in India. It can pave the way for modernization of tax administration makes it simpler and more transparent and significant enhancement in voluntary compliance.

The new GST regime is at our doorstep. The proposed amendment is also in line with the demands of trade and industry, which wanted certainty and uniformity across the country on the new indirect tax structure. The proposed GST ambitious bid to reform the indirect tax regime aims to streamline the movement of goods and services across India with a uniform countrywide tax structure. At this juncture of indirect tax reform the Cost and Management Accountants have to play an important role before and after the new GST regime.

Role of Cost and Management Accountants relating to GST regime

The Cost and Management Accountants with expertise knowledge of applied indirect taxes are not expected to keep themselves set aside from the GST regime. They are well-conversant with all the areas of indirect taxes like Central Excise, Customs Laws, Service Tax, Central Sales Tax Act and VAT Act and practical problems and case studies under Indirect Tax Laws. As the GST regime will be introduced in April 2011 abolishing the current scheme of multiple indirect taxes they have to be updated them-

selves with all the pros and cons of the GST. Since they possess expertise knowledge of existing Indirect Tax Laws it requires very short period and minimum effort to grasp all the tax provisions of GST. The ICWAI may arrange Workshops, Seminars, and Symposiums on GST for the Cost and Management Accountants.

To encourage the manufactures and generate the goal of 'Tax Reduction' and 'Avoidance of Tax Evasion' the Cost and Management Accountants will have to play an advisory role for formulating the strategy for implementation of this tax system throughout the country. In one hand, total cost of the final product will be minimized and it will ensure the Government regarding recovery of revenue from transfer transaction. Indian economy is working up again after recovery from the global meltdown and to become a successful global player in industry, trade and commerce, the acceptance of tax reforms is inevitable. Not only to initiate the tax reform strategy but also to attract FDI in various sectors of the investment, the Cost and Management Accountants have a significant role for reducing cost burden, to make the product acceptable at a comparative price in international market, to encourage the foreign investors to participate in India to make it a productive doorstep and to create a positive balance of payment situation. The role of Cost and Management Accountants is no longer will be played just as the Cost and Management Accountants but it will encourage the Indian economy a faster growth with structural reforms in the tax culture.

At the GST is an indirect tax and being a new legislation there

is a great scope for professionals like Cost and Management Accountants to advice and assist the tax payers. With their expertise knowledge, training and experience they can play a significant role as an advisor and tax consultant for due compliance of GST provisions.

The natures of services that can be performed by them in this area are :

1. Consulting Services: As the GST is to be levied on goods and services in lieu of all existing indirect taxes, a great deal of expertise is required to interpret and understand the law and give advice to the clients about the applicability of the GST and its related issues. The Cost and Management Accountants are the most competent to provide advice in this field.

2. Procedural Requirements: The Cost and Management Accountants can help their clients to comply with the following procedural requirements :

- (a) Registration
- (b) Payment of tax
- (c) Filing returns including e-filing
- (d) Maintenance of books and records.

3. Constant updation of Law and Provisions: The GST is to be

administered more by way of trade notices to be issued by Commissionerates. There is a need to keep the client abreast of the latest notifications and trade notices in addition to the changes in law so as to meet the clients' expectations.

It is revealed from our discussion that the Cost and Management Accountants have to play a significant role in the new GST regime w.e.f. 1st April 2011 for the benefit of their clients on the one hand as well as for the Central and State Governments on the other i.e. for both the parties who are involved in the new GST regime. □

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Role of Cost and Management Accountants in GST Regime

Ela Sen

Introduction

The Government of India, in its major initiative towards tax reform has announced to introduce a well designed system of value added tax on all goods and services commonly called as GST. The new regime will become effective since October 2010.

Much hue and cry has been raised thereafter. The Government claims that it would remove all inherent inefficiencies in the existing tax system, encourage voluntary compliance, and ensure better resource allocation. States fear that they might lose their fiscal autonomy as well as their legitimate share in revenue. Traders and businessmen are apprehensive whether the new system will complicate the procedure further. Even some critics argue that the new GST regime will be nothing but “old wine in new bottle”.

Many issues are yet to be resolved. States and Centre will have to reach a consensus—particularly on the sharing pattern of the total revenue. A constitutional amendment has to be made to implement the GST in its proposed form. Nevertheless, implementation of the new system, sooner or later, is sure.

Any major tax reform process

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is generally accompanied by a number of compliance issues associated with audit, inspection, filing of return etc. This opens up a new field for all finance professionals including cost and management accountants. At this juncture it is necessary for all practicing CMA to get themselves acquainted with the new regime and its intricacies, blend it with their professional skills so that they can offer valuable advice to make best use of this new system implemented.

What is GST

Goods and Services Tax, or GST in short, is a broad-based multi level value added consumption tax imposed on all goods and services except where specific exemptions are allowed.

The concept of a value added tax was first mooted by German industrialist Dr. Wilhelm von Siemen in 1918. Maurice Laure, joint director of French tax authority, was first to introduce it in 1954. Since then many of the countries worldwide has introduced GST system including the European countries, Australia, New Zealand, Canada and many south-east Asian countries. An exception is USA where the federal system of taxation is still in vogue.

The structure of GST, more or less, remains same everywhere.

There is a uniform rate throughout the country. The incidence of taxation is solely on consumption basis. All interim parties are entitled to get refund of their input tax. There is no tax on tax itself. Coverage is broad. Exemptions are as few as possible. Government of India in past few years has entered into free trade agreement with many countries. Once the agreements are operational, it is necessary to make our industries competitive—especially by removing the distortions induced by any incompetent tax system. Hence there is an urgent need to reform the same by adopting a flawless goods and services tax system.

GST in India

GST in India, as proposed by the Empowered Committee of Thirteenth Finance Commission, will have these salient features :

- a. It will be a dual levy imposed concurrently by Centre [CGST] and State [SGST] on a common and identical base.
- b. All major Central taxes including excise duty, service tax will be subsumed in CGST while all major State taxes including sales tax, stamp duty etc will be subsumed in SGST.
- c. The GST will be structured on destination principle whereby tax base will shift from production to consumption. As a result, all international import will be liable to GST while export will be relieved of GST by zero rating. Similarly, all inter-State transaction in goods and services will be zero rated —the revenue being accrued to the State where the final consumption will take place.
- d. The computation of CGST and SGST will be based on invoice credit method, i.e., credit for tax

paid on all intermediaries goods or services will be allowed on the basis of invoice issued by the supplier.

- e. The tax will extend over all goods and services, except a few exempt sectors like unprocessed food items, healthcare and educational service and those which fall below the threshold limit.
- f. All enterprises with aggregate annual turnover [excluding CGST and SGST] above Rs.10 lakhs will have to register themselves for GST. The existing exemption up to Rs 1.5 crores of turnover for small scale industries is withdrawn.
- g. The area based exemption for CENVAT [i.e tax holiday for certain economically backward states] and exemption for units in special economic zone will not be continued.

Any tax reform process can be said to be a success only if it is able to earn more revenue without being regressive. This implies that while the tax administration will have to be effective on one hand to ensure collection of expected revenue, on the other hand the business community in general will have to be well aware of the new policies to reap the most benefit out of it. Here a CMA will have opportunity to play roles both as an auditor on behalf of the authority and as a management consultant on behalf the tax paying organization. We will examine the positions one by one.

CMA as an auditor

GST is a self-assessing tax. The tax payer's own declaration supported by invoice credit are the only documents required to be submitted to the authority. If these documents are not bona fide our government will face large value of

tax evasion not only by way of non-receipt of legitimate taxes but also through payment of input credit fraudulently claimed. GST audit will become an important tool of the tax administration in ensuring no underpayment of GST in this regard. Institute of cost and Management Accountant has an important role to play here. It should take up the issue with the authority in an appropriate way so that the members of our institute can utilize full potential of this new avenue. It may be pointed out here that the draft plan prepared by task force mentions that "levy of GST will be on the basis of audited accounts only" but it does not make any distinction between GST audit and statutory audit. In fact, a statutory audit seldom serves the purpose of GST audit.

A GST audit is essentially the scrutiny of all sales invoices with all purchase invoices, matching the input value with output values and ensures reasonability of the output tax paid or input tax claimed. This requires typical professional knowledge for ascertaining, analyzing and then tracking down the various input costs to its final end products.

The task becomes even more difficult in case of a manufacturing or service type industry, particularly those of multi-product, multi-unit category—where the input costs are not readily identifiable with the corresponding output. Only a person with thorough understanding of the system and processes in business organization and well-versed with different tools and techniques of costing and various modern concepts like target costing, activity based costing, lean accounting etc will be able to perform the job efficiently and, thereby, restrict tax evasion.

Incidentally, evasion in GST regime in EU and many other countries is a matter of concern. Public attitude towards evasion is relevant in the occurrence as well as the estimation of evasion. A UK survey showed that 70% of the sample did not consider it morally wrong to pay a trader in cash who volunteered not to charge VAT and 65% appeared to consider it as acceptable behavior to take cash for work performed to evade VAT or income tax.

Some common practices adopted by the businesses to evade taxes are :

- a. Non-disclosure of sales actually made
- b. Under-invoicing of sales value and to recover the expenses otherwise
- c. Production of false purchase bills or purchase bills of a non-registered sister concern for claiming input credit
- d. Raising service bills to overseas customer [and thus making the supply zero rated] when the service has actually been consumed within the country.
- e. Input tax credit claimed in respect of material or services which have actually been used to produce goods of exempted category.
- f. Submission of purchase bills for which input tax has not been paid.

In recent past, treasuries of many EU countries have become the victim of carousel type fraud. Here a company originating from one member country exports large value items to another member country and takes the benefit of input tax credit while the importer company—called "the missing trader"—goes bankrupt without paying any tax.

As a consequence, international trend now shows a sharp increase in the frequency of GST audit. Any irregular trend in GST refund claim, filing late return or payments is attracting their attention. Even the small and medium sized enterprises are not spared. And they are getting the benefit definitely. An example may be cited from the annual report of inland revenue authority of Singapore which claims that it has recovered 103 million dollars from their GST audit—an 18% increase over previous year's revenue.

A major impetus behind introducing GST regime is to earn more revenue by widening tax net. The task force estimates potential GST base to be Rs. 39,49,907 crores and the expected collection to be Rs. 31,25,325 crores after giving allowance for exempted categories and taking compliance level same as previous year's. However with broader tax net it is quite natural that the compliance level will fall. Unless some timely measures are taken it will be quite difficult to achieve the target.

A GST audit can be taken either on case-to-case basis or by making it mandatory for all cases beyond a certain level of activities. While a mandatory GST audit will certainly have a larger coverage its effectiveness is likely to be less compared to a surprise audit.

Another point is worth mentioning here. With the lowering of threshold limit to Rs. 10 Lakhs and withdrawal of exemption for SSI units with turnover below Rs. 1.50 crores, many small enterprises will now come under the purview of GST. A separate GST audit is neither advisable nor cost effective. However, their books of accounts could be subject to inspection but only by State Government officials, as

proposed. But GST inspection requires special knowledge for which in-house training program may be necessary. Since our institute is already in the line of developing professional skills and expertise they can explore the ground and organize suitable training program for those officials.

CMA as a Management Consultant

GST is expected to bring change of significant proportion for the businessmen in India which will necessitate more proactive steps to be taken beyond a mere alteration in the tax rate and accounting records. Henceforth, no tax concession will be available for setting up a unit in economically backward State or in Special Economic Zone. Any sales tax differentiation between States will be abolished. The business organizations, particularly those hailed from large corporate sector, which were hitherto making their location planning on the basis of tax incentives will now have to revise their strategy. New business set up plan will now be driven by logistic cost only. Proximity to market or resources will be the prime criteria. Supply chain management will get deserved importance.

Entire India will now be integrated into a single market. This will encourage the companies to avail economies of large-scale operation by building one big mother warehouse to handle countrywide distribution. Most modern technology for inventory management has to be adopted. With the introduction of GST, tax exemption on many goods will be withdrawn. Again, for those in exempted category, input tax credit will not be available. Now the companies will have to select their product line in a more

realistic manner. One innovative feature of the new GST rules is to treat capital goods like any other goods for claiming input tax credit. This will surely influence a company's "make-or-buy" decision". All these would require a detailed cost benefit analysis at every stage to arrive at an optimal cost structure. This is the management consultant's job. A CMA will be the most apt person to handle such cases.

Even the entrepreneurs from small and medium categories will be in the need of their professional advice. An efficient use of GST provisions may help them to reduce their cost of operation and become competitive. GST registration will generally tend to increase the price of a product. But if the producer makes selective purchase from GST registered dealer he could get refund of substantial sum in form of input tax credit and his price may actually come down. Moreover, if his customers are also mostly GST registered dealers the higher price would be easily accepted. This provision will be particularly useful for those with annual turnover between Rs. 10 lakhs to Rs. 40 lakhs who will have to make a choice between full GST payment with the benefit of input tax credit and payment of lower GST without any input tax credit benefit. Even a non-registered dealer could avail this facility through voluntary registration. Besides, many of these small entrepreneurs—with their usual lack of awareness—are prone to assessment risk. Errors may occur by wrongfully claiming input credit for production of goods from exempted category [for which no input tax credit is allowed] or by intermixing CGST input credit with

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Role of Cost and Management Accountants In Regime-Strategies to Manage Change

CMA Nilakanta Shastry Tata *

Introduction of GST is inevitable in order to have uniform tax rates and seamless movement of Goods & Services across India with prior knowledge of taxability of such goods or services within any part of India. This, in a way, is a dynamic legislation bringing all the indirect taxes under one umbrella and goes with ONE INDIA concept.

While the Government is trying its best to bring in varying States to agree on the formulae laid down by various Committees/commissions in this regard, the industry needs to look inward to meet the challenges of sweeping changes in the indirect tax regime.

In this context the role of the Cost & Management Accountant, as an important decision maker in the senior management team, is pivotal and he needs to equip himself, his team members and other stakeholders to have effective strategies in place to manage the change.

Introduction

The proposed Goods & Services Tax (GST), slated for introduction from 1 April 2011, is an ambitious bid to reform the indirect tax regime, aims to streamline the movement of goods across India with a uniform countrywide tax structure. It brings in sweeping changes as implementation of GST would cover some of the major indirect tax regulations — Central Excise, Additional Customs Duty, Service Tax, State VAT & CST, surcharges and cess which, presently, have different points for liability to arise and make the payments.

A dual GST structure is pro-

posed which shall have two components, Central GST (CGST) and State GST (SGST). Inter-State supply of goods and services would be covered under the Integrated GST (IGST) which would be CGST plus SGST. This will be applicable to all transactions of goods and services except the exempted goods/services, goods outside the purview of GST, viz., Crude oil, Petrol, diesel & ATF, and the transactions below the threshold limit which is likely to be Rs. 10 lakhs.

While under the present regulations, the point of taxability and payment taxes are different (i.e. for Central Excise it is on manufacture, Additional Customs Duty on import, Service Tax on realization, VAT & CST on sales on accrual basis) whereas under GST it ap-

pears (although this has not been specifically spelt out) that the point of taxability and payment of taxes will be on sales effected/services provided possibly on an accrual basis.

This aspect in itself will change the Commercial and Cash Flow dynamics of every business.

The change in the timing of taxability and payment of taxes will imply major adjustments/documentation/reporting requirements to be ensured with respect to carry over balances etc., as on the implementation date as each of these balances will be resting in different records and with different authorities, with some of them also being under dispute.

Thus, while a lot is being spoken on the possible challenges in the implementation of the GST regulations from a Government perspective, not much is being said about the challenges which businesses are expected to face in the changing circumstances.

Thus the role of CMA as part of senior management team has to fully gear himself along with his team and other stakeholders in order to meet various challenges in the changed regime.

Process

For organizations to address various challenges and to enable seamless changeover, a substantial amount of preparedness and structured planning/analysis of the various key elements/aspects etc involved needs to be done in advance.

It is here that the need of taking initiative by the senior Management, especially by the CMA, to have an Internal GST Steering Committee (GSTSC) which will spearhead and lead on the initiative becomes imperative.

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The Key Result Areas (KRA) of the said group would be identifying the possible organizational challenges and appropriately categorizing and prioritizing them, doing a mock impact study, identifying possible strategies to address the related issues, etc.

Identification of Business functions

The first and foremost responsibility of the GSTSC should be to identify the various business functions and team members who would be affected in the new GST Regime. After the above analysis, each of the business functions would need to be studied in depth to gauge the challenges which the organization shall face. The above analysis can be undertaken either simultaneously or in a phased manner as detailed hereunder :

Phase 1 — Challenges in Taxation and Finance Functions

GST, being a major indirect tax reform, is bound to have a significant impact on the Taxation and Finance Functions of any organization. Some of the initial significant challenges would include :

- Determining whether the existing goods/services fall under taxable/exempt category in GST Regime
- Determining the rate of GST applicable
- Impact of Composition/various Concession Schemes (being availed)
- Impact of withdrawals of concessions to SEZ, EOU, STPI, EHTP, etc.
- Impact of withdrawals of exemptions and deferral schemes
- Determination of Taxable Events for sale of goods and provision of services

- Impact on Inventory (at factory, depots)
- Impact of certain transaction models such as sales in transit, high sea sales, penultimate sales for exports, Impact on existing Input Tax Credit (ITC) — under Excise, Service Tax, VAT etc
- Tax Impact on supply of goods/provision of services to off-shore locations such as Mumbai High (eg. sales to oil rigs situated beyond territorial waters of India).
- Impact on supply of goods/provision of services to SEZ, EOU, EHTP, STPI etc. locations
- Impact on of inter-State, inter-unit transfers, consignment transfers, transfer on returnable basis (i.e. on lease or for repair) etc
- Impact of GST on cost associated with packing, labeling, etc
- Impact on Work in Progress — Goods, Long Term Contracts for construction, lease, etc, provision of services already under progress.

Phase 2 — Challenges in Operational Business vis-A-vis the Finance Functions

Across the world, it is generally seen that the introduction of GST reduces the tax burden on the ultimate consumer and, hence, reduction in general prices of goods. Accordingly, it is imperative that operational business functions such as procurement, sales and marketing etc shall be impacted under the GST Regime.

- Procurement of Goods and Services — Domestic (local vis-a-vis inter-State) and Imports, centralized and decentralized
- Remodeling of the Product Costing
- Determination of pricing of the Finished Goods
- Need to develop new Sales

Model—ITC impact on account of Inter State Sales/Transfer to Depots, restructuring of supply chain distribution aspects etc

- > Planning for Capital expenditures during cut-off stage.

Phase 3 — Challenges in Documentation and Compliances

As the GST would replace Central Excise, Service Tax and Value Added Tax, the same shall have a significant impact on the documentation being used in commercial, accounting and compliances functions. Accordingly, the GSTSC will have to revamp the documentation, accounting and compliances related function. The same would include:

- Format of Purchase Orders and Contracts
- Format of Register for Raw Materials, Finished Goods
- Format of Register for allocation of inputs and ITC to taxable Goods/Services and exempt Goods/Services
- Formats for input and output register (taxable/exempt)
- Format of Price Lists
- Format of Invoices
- Format of delivery challans
- Policies for approving input documents
- Accounting for GST Charged (i.e. SGST, and CGST/IGST)
- Accounting for ITC Paid (i.e. SGST and CGST/IGST)
- Accounting for SGST, CGST, IGST (charged or set-off) on account of purchase/sales returns, discounts etc
- Systems of Determination of timely payment SGST, CGST and IGST Liability
- Filing of Returns and refund claims
- Amendment to the Standard Operating Manuals—Policies and Procedures

- Revamping of existing accounting systems to suit the above GST requirements.

Phase 4 — Challenges in Information & Technology system

As most organizations today work on ERP/Real Time Operating Systems, changes emerging can have far reaching impact on organizations. In this regard there is a need to strategize/identify on —

- Significant areas where GST can impact the Information Technology system (own systems and integrated systems with other stakeholders like Vendors/Customers etc).
- Evaluation of the possible impact and strategies to address the same with minimal changes in the system.
- Considering continued legacy systems operating for some time identifying and addressing the related challenges.
- Examine the need for a possible rework on areas and formulating a possible strategy for the organization to enable achieve seamless migration.
- Working on methods to get the change over IT strategy ready for implementation.

Phase 5 — Challenge to upgrade the knowledge by continuous training

The GST Regime will need that every employee in the organization is well aware of the impact of GST on his day-to-day work. Accordingly, training would be an essential ingredient in the initial stages of the GST Regime :

- In-depth training to the various functional heads who will monitor day-to-day work
- Initial training to all the em-

- ployees whose routine day-to-day work shall be impacted with the introduction of GST.
- Need to ensure appropriate level of awareness of other stake holders like vendors, service providers/customers etc in case of companies where substantial systems integrations are there with Vendors/Customers systems.

Considering that GST shall be altogether a new regime for the Administrative Authorities, the regulations are bound to undergo various changes based on the practical experiences/difficulties faced during the implementation process. Accordingly, the GSTSC should ensure that there are systems of continuous training to the employees/key stakeholders etc so as to enable to up-date their knowledge at regular intervals.

Phase 6 — Challenge to mitigate risk

Any migration will have its accompanying challenges. With GST encompassing a number of regulations covering both Central and State regulations, the challenges are also significant. Every challenge will bring with it financial and legal exposure and liabilities. Some of the key tasks in this area would be to —

- Ascertain some of the major and significant impact areas considering the specific requirements of the business organization where there is, or can be, subjectivity and lack of clarity which would result in potential litigations with the various stakeholders, namely Vendors, Customers, Tax authorities etc.
- Categorize these impact areas

based on criticality/possible financial impact.

- Work on addressing the issues brought out by a more focused study/interpretation of regulations and/or taking cues from how the industry in general is responding to the same.

Phase 7 — Challenge to have effective control mechanism

Day-to-day advisory in respect of the GST so as to ensure that the GST team in the organization is updated with the latest changes which could have an impact on the Establishment of an internal control in line with the GST requirements :

- Establish an internal control environment that effectively supports GST processing > Review of the effectiveness/deficiencies in the GST model implemented
- Regular Reporting of the transition to GST regulations
- Reporting of the impact of GST on the costing, pricing, profitability
- Ensuring control and monitoring the regulatory changes undertaken having an impact on the business organization
- The switchover regulations need to be carefully analyzed including the impact and the requirements for the transition—
- Considering continued legacy systems operating for some time identifying and addressing the related challenges.

Present scenario

The draft GST Bill proposing constitutional amendment to have Fourth List in the Constitution. For the purpose, a new Fourth List is proposed to be created in the Seventh Schedule of the Constitu-

tion. Designed to deal exclusively with GST, the Fourth List visualizes a governing council headed by Union Finance Minister and comprising State finance ministers as its members. The council will have overriding powers on issues of indirect taxes — neither Parliament nor State legislatures can take an independent view. As of now there are three Lists — Union, State and Concurrent.

Conclusion

Introduction of GST being certain, strategies to meet the chal-

lenge and able to meet the desired objective one needs to have thorough understanding of the structure of GST and be able to plan well in advance considering all departments in the Organisation to meet the change with proper understanding and confidence. It is imperative that the CMA—being a senior member of the Management—take the necessary initiative in educating and giving appropriate training to all concerned in the organisation to confidently face the challenge of implementing GST.

While GST is a welcome change which aims to simplify the regulations and making businesses more tax efficient and would be heralded as one of the significant Tax Reforms happening in India in the recent times, the road ahead on implementation is a turbulent one. Thus CMA's role as a senior management personnel along with other stakeholders in the business entity should target to address this challenge and effectively manage the change. □

CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959

REGISTRATION NUMBERS CANCELLED FOR DECEMBER 2010 EXAMINATION UPTO

ERS/001320

NRS/001792, 1800-1803, 1851-1987, 2071-2200, 2411-2423, 2441-2447

SRS/004483, WRS/004079, RSW/076209, RAF/005837

RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered up to 30th June 2003) as above but desire to take the Institute's Examination in December 2010 must apply for **DE-NOVO** Registration and, on being Registered DE-NOVO, **Exemption** from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, shall remain valid as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to the Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs.5/-) along with a remittance of Rs. 2,000/- (Rupees Two Thousand) only as Registration Fee through Demand Draft drawn in favour of THE I C W A OF INDIA, payable at KOLKATA.

Date : 21st June 2010

Arnab Chakraborty,
Director of Studies

A Study on GST System Prevailing in Some Other Countries of the World

Sujit Sikidar*

Kaveeta Maheswari*

Introduction

GST—Goods and Service Tax is catching attention of every person belonging to the concerned government departments, business community and apex bodies of trade and commerce in India. India is planning to implement a Dual GST System where a Central Goods and Service Tax (CGST) and a State Goods and Service tax (SGST) will be levied on the taxable value of the transaction. The implementation of GST in the country as proposed will lead to the abolition of other indirect taxes such as Octroi, Central Sales Tax, Central VAT, State VAT, Entry Tax, Stamp Duty, Turnover Tax, Tax on consumption or sale of electricity, etc. thus avoiding multiple layers of taxation that currently exist in the country. Therefore, the implementation of GST is expected to bring a great change in the indirect tax structure of the country.

Keeping this in mind, the present article has been developed with the following objectives :

i) To know the mechanism of GST and how the GST system operates.

ii) To examine the existing system of GST in some other countries of the world.

iii) To analyse the rates of taxes prevailing under GST in some other countries of the world.

Methodology

Considering the objectives stated above, the methodology for the study has been adopted as follows :

Collection of Data

The primary data have been collected through personal interviews with tax officials, tax consultants, registered dealers, registered assesses, etc.

The sources of secondary data are the data available with various departments, at websites, and the published data in newspapers and journals.

Information from Secondary Source for International Study

To examine the structure of GST and the tax rates prevailing across the world, data have been collected for many countries, namely Canada, Australia, China, Austria, Germany, New Zealand and Singapore.

GST – its Meaning

GST – Goods and Services Tax— is a Tax on goods and ser-

vices, which is leviable at each point of sale or provision of service, in which 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.

Having discussed the meaning of GST, it would be pertinent at this point to examine the operating system of GST as discussed here-under :

Levy of GST

The dealers registered under GST Act (manufactures, traders, service providers) are required to collect GST at the specified rate of tax on goods & services that they supply to customers. The GST payable is included in the price paid by the recipients of the goods and services. The supplier must deposit this amount of GST with the Government.

Input Tax Credit

If the recipient of goods or services is a registered dealer, he will be able to claim a credit for the amount of GST he has paid to the supplier of goods or service provider provided he holds a proper tax invoice. Thus “input tax credit” : is set-off against any GST paid by dealer to the Government.

Ultimate burden of taxation on Final consumer

The dealers under GST collect the tax from the consumer and makes payment to the Government. This means that the dealers act as collecting agents for the Government. The ultimate burden of the tax falls on the final consumer of goods and services.

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Compulsory Registration under GST

Dealers shall have to register themselves compulsorily with GST. These dealers will include suppliers, manufactures, wholesalers, retailers and the service providers, if a dealer is not registered, he cannot charge GST and cannot claim Input Tax Credit.

No distinction between goods & services

Goods and Service Tax – GST—is a comprehensive tax levy on manufacture, sale and consumption of goods & services. All goods and services, barring a few exceptions, will be brought into GST base. There will be no distinction between goods and services.

GST in other countries of the world

More than 140 countries of the world have implemented the GST system. Most of the countries have unified GST system. Brazil and Canada follow a dual GST system where GST is levied by both Union and State Government. Indian Government is proposing to implement Dual GST in India. Under Dual GST, the States will get power to levy taxes on services. Presently the States have the power to levy taxes only on Commodities under the constitution.

Power to levy GST in some countries

The division of taxation powers between federal and provincial

Government in **Canada** provides a bright example for our adoption. Under the Canadian Constitution, the Federal Govt. can levy any tax and the provinces have the power to levy any direct tax within the province. Thus, it includes all forms of income and wealth taxes. A sales tax or VAT is also viewed as direct if it is levied on the buyer/consumer but not on the vendor. The vendor acts as an agent between the Govt. and the consumer. As a result, there are two levels of concurrent powers for all types of taxes, subject to the condition that the provincial taxes can only be levied on persons within the geographical boundary of that province.

The **Australian** constitutional situation is that both the States and Commonwealth (Federal Government) have power to tax supplies of goods and services. The Constitution prevents laws interfering with inter-State trade and gives the power to collect customs and excise taxes exclusively to the provinces' Government. It is forbidden to the Commonwealth to tax State property.

In **China**, the GST laws and administration are centralized, but the revenues are shared with the provinces.

In **Austria** and **Germany**, tax design is controlled by the Centre, but States collect the taxes.

In **USA**, the case is just opposite. Here the GST is levied by the States only. The Centre collects revenue by levying income tax, customs duty and excise duties on selected products mainly on motor fuels. It has reduced the dependence of the States on the Centre.

In New Zealand, there is a unified GST system where only the

An example showing How GST System Operates on Goods & Services :

(Let us assume GST rate to be 10%)

The cost of various goods purchased or services procured while constructing a house are :

		GST included in the purchase Value	
<u>Purchase of Goods :</u>			
Cost of Land	40,000	(10% of 40,000)	= 4,000
Cost of Material	20,000	(10% of 20,000)	= 2,000
<u>Purchase of Goods :</u>			
Architect's Fees	10,000	(10% of 10,000)	= 1,000
Labour Contractor Charges	20,000	(10% of 20,000)	= 2,000
Total Value of the Building	90,000	Total GST	= 9,000
Value Addition By the Builder	10,000		
Sale Value	1,00,000		
Now GST payable by the Builder			
at the time of sales 10% of Rs.1,00,000.00	=	Rs.	10,000
(-) Input Tax Credit	=	Rs.	9,000
(GST included in the purchase of goods or procurement of service)			
Net GST payable	=	Rs.	1,000
(10% of Value Addition, i.e. 10% of Rs. 1,000.00)			

Centre has power to levy GST and the States collect the GST from people.

GST rates prevailing in some countries

Under the Canadian model of Harmonized Sales Tax (HST), the tax is levied at a combined federal and provincial rate of 13% (5% federal rate and 8% provincial rate). Tax design and collection are controlled by the Centre, but provinces have some flexibility to vary their tax rates. The revenue from the tax is shared among the participating provinces on the basis of consumer expenditure data for the provinces.

Successful GST models adopted by other countries have a very broad base and a relatively modest tax rate, especially at the time of inception. For example, New Zealand GST was introduced @ 10% with a base consisting of almost all the goods and services.

The Singapore GST was introduced @ 3%, but the rate has now been raised to 7% as inefficient excises and custom duties have been progressively eliminated.

Findings :

Rates of Tax Under GST

It has been observed during the study that most of the countries have adopted a moderate tax rate at the initial stage of implementing GST. The combined GST rate suggested by the empowered committee in India for VAT is around 14% to 16% which is quite higher than the GST rate prevailing in other countries of the world. But when we compare this rate with the present rate of taxation in India, it is comparatively low—Currently the combined indirect taxes on most of the goods is around 20%.

Hence the GST rate, if it remains below 15%, then the prices of the goods are expected to fall in the long run.

Tax Base under GST

Most of the countries have adopted GST with broad tax base where almost all the goods and services are brought under the tax net, excluding some food items. Therefore, a broad tax base can be suggested while adopting a new GST model.

Power to Levy GST

As observed during study, except Brazil and Canada, most of the countries have adopted unified GST where either the Union or the States have the power to levy GST. In case of India, the proposed model of GST as suggested by the Empowered Committee is the dual GST model where both the Centre and the States will be going the levy GST.

Conclusion

Successful implementation of GST in India is a challenging task for the government. This will need constitutional amendments giving power to the states to levy tax on services, fixation of GST rates for various items, issues like sharing the revenue between the Centre and the States, issues like inter-State movement of goods and services, development of proper information & technology system and other administration infrastructure required for successful implementation of GST. In fact, with multiplicity of tax regimes in India, it is the second-most complex country in the world—after Brazil—as noted by Anthony Mc-Clenaghan, the global indirect tax leader. Therefore, for

successful implementation of GST, the country should take lessons from other countries of the world. The comparative picture depicted above would guide us to adopt a system which is most befitting for our federal polity and, at the same time fulfilling the regional fiscal aspirations in finally regional growth of fiscal revenue.

1. There will be dual GST namely : Central GST (CGST) and State GST (SGST). GST would cover all types of goods and services. There will be no distinction between goods and services, both of them will be treated as a composite unit for levy of tax.

2. For inter-State transactions through which the GST paid by the selling dealer in one State will become input tax credit for the buying dealer in the other State.

3. The tax paid in exporting State will be transferred to the coffers of the importing State.

4. The GST regime would transform and be changed from producer based to consumer based tax framework. Hence the tax will travel with goods and services from selling state to the buying state; from the producer point to the consumer point.

5. All other indirect taxes like octroi, and entry tax, electricity duty, stamp duties on financial services and real estate would be subsumed in GST. There will be uniformity in classification of goods and services and processes.□

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Taxation Awareness of MBA students – Role of professionals

CMA Shilpa Parkhi*

Abstract

This paper is an outcome of an exploratory research carried out by the researcher to understand the awareness of taxation in India amongst the students of Master of Business Administration (MBA) with special reference to Nasik city. MBA graduates enter into business world in the management cadre where they are expected to take lot of business decisions which have financial implications. When the decisions are in Indian context, taxation structure in India is an integral part of it. Sound knowledge about the country's tax policy helps in decision making. Keeping the objective in mind to understand the current level of awareness and some measures to improve it the research was carried out.

Business managers with inadequate tax knowledge may suffer in business decisions and, as, whole—the economy of the country in turn. The direct taxes are influencing income earners but indirect taxes are influencing every common citizen of the country and have great social impact. Cost Accountants—as experts in the Indirect taxes—can take lead and disseminate

the knowledge of taxation across the country. Understanding the forthcoming GST tax regime and Direct Tax Code; Cost Accountants have a very vital role to play which will facilitate the better tax administration.

1. Introduction

Master of Business Administration (MBA) is the course offered by many institutes under the guidelines of All India Council for Technical Education (AICTE) and University Grants Commission (UGC) in India. The students who qualify in this examination normally follow either of the routes—one is employment in business world, and second is entrepreneurship.

Business decisions necessarily involve various financial decisions. Taxation is one of the important areas which affect the profitability of the business when it comes to returns on investments. Researcher was interested in understanding the level of awareness of these MBA graduates in the field of taxation. Normally, for those who study finance as specialization, it is covered in their curricula but the students of other specializations also should know about the taxation policy of India.

Every citizen of the country earning income in India is liable

to pay Income Tax after the basic exemption limit is crossed. Similarly, every consumer of product or service covered under respective tax laws is indirectly paying the tax on it.

Business activity or rendering of service in India, exporting and importing product(s) or service(s) in India attract different types of taxes at different points of time. There is no single point tax provision in India; due to this, unawareness of taxes may lead to tax avoidance or tax evasion. However unintentional it is; it will attract penal provisions and various enforcement actions. In order to safeguard from these aspects one must possess basic understanding of taxes even though advance level of tax provisions and procedures can be complied with the help of tax practitioners.

The MBA graduates—who are the business policymakers down the line—must have adequate knowledge of taxation as their decisions not only affect their business but also the society at large. The direct taxes may affect income earners only but the indirect taxes are influencing the life of every common citizen of the country. In this context, first understanding the present knowledge level and suggesting the measures for the enhancing it are attempted in this research. Professional institutes need to take active part in this social awareness program which will help the profession and also the country as a whole. Cost Accountants are always instrumental in indirect tax filed and considered as experts in these taxes which form the major part of the economy of the country. ICWAI can contribute towards this social motto and also impact the business in more efficient way.

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2. Literature Review

The experts and tax consultants are always available but a business decision maker needs to understand whom to approach and at what time with his tax problem. Many a times it is observed that the experts are consulted in crisis situation rather than following the fundamentals of the law. Understanding of taxes is not a luxury but a necessity of business decision makers (Rafi Mohd, 2009).

There are two types of users of taxes—one who pay taxes i.e. citizens, and one who guide for taxes, i.e. tax professionals (Govindan, N.S., 2008). Both the set of people need tax awareness at different levels (Vaitheeswaran, K., 2008), Professionals follow the stringent guidelines of the taxes (Jain, R. K. 2007), whereas the fundamentals are adhered to (Raghuraman V. & Hiregange., 2007), Managers are required to take decisions—that is not the time to go back to books (Kohli, D. N., 2007); in this scenario the fundamentals of taxes do play significant role (Sarangi, G., 2007) These views are supported by many tax experts (Nagarajan, Viswanathan., 2005), (Datey, V .S., 2004), (Popat, R. B., 2002).

Researcher reviewed the article about the economic awareness of adults made by Barlow, W. and C. Kaufman, 1975—*Increasing the economic understanding of adults*. Public Relations Review 1 (Summer) : p14-22. In American context, Caplan, B. 2001—*What makes people think like economists? Evidence from the Survey of Americans and Economists on the Economy*. Journal of Law and Economics, 44:395-426. Co. relation of MBA students in India and economic literacy was studied

by Koshal, Rajindar K. & Gupta, Ashok K., 2008—*Assessing Economic Literacy of Indian MBA Students*, American, Journal of Business, vol.23, no.2, p 44-50. Finance related subject warrant sound knowledge of taxes for investment purposes; this is evident from research work of Volpe, R. P., H. Chen and J. J. Pavlicko, 1996—*Personal investment literacy among college students: A survey*. Financial Practice and Education 6(2):86-94. The need for the study can be established understanding the gap that exists between expected bare minimum knowledge and the actual knowledge.

3. Objective and Scope of the study

Objectives of the study were :

1. To understand the awareness level of MBA students about Indian Taxation system as future business managers and decision makers.
2. Identify the gap between the expected level of understanding and the actual level gauged thorough the answers collected from MBA students.
3. To suggest the remedial measures to bridge the gap—if it exists.

Considering the above objectives the scope of the study is extended only for the students of the management institutes in the selected geography. The students of second year of study with specialization other than Finance are covered for sample.

4. Research Methodology

The research is an exploratory research and the data collection is done through the questionnaires distributed to students of MBA second year. According to MBA curricula across Indian universi-

ties, it is a two year course where specialization is studied in the second year. This is the reason why the sample as per stratified random sample method is selected—one from MBA institute which does not provide Finance specialization, and one Institute as a representative where Finance specialization is offered. Thus the sample consists of all the students who have not studied Finance as a special subject. Assuming the same level of understanding, no gender specific information is collected so as to infer about taxation awareness. The average age of the respondents is 25 years.

5. Data Analysis and Interpretation

The geographical boundary of the study is restricted to Nasik city where there is only one MBA institute which does not offer finance specialization and for the sample design one institute where it is offered are selected. Considering the population of 180 students, both institutes taken together the sample size is restricted to 100 numbers of respondents.

The questionnaire was circulated amongst all 180 students of the institutes and around 120 were received back. From that, 18 were incomplete in nature. 100 amongst the collected one were chosen randomly and the data analysis and interpretation was carried out.

The method followed was : researcher visited the institute and distributed the set of questionnaires in respective class. The concept and the objective of the study were explained to respondents. The confidentiality of the data so collected and also pure academic use of information derived was assured to the respondents.

A questionnaire consisting of basic level questions on taxation was prepared and circulated amongst the students. The questions were covering the direct and indirect taxes such as Income Tax, Excise Duty, VAT, Service Tax, and Customs Duty. Considering the attributes of the sample of MBA students the questions were more focusing on the present understanding, the willingness and attitude to gain knowledge about taxation and also to understand whether the participants are aware of the sources of information which are available now about taxes in India. Data analysis is done with the help of descriptive statistics such as mean, frequency etc.

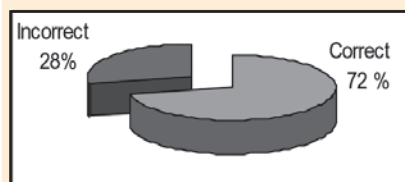
Major findings of the study : The questionnaire for the purpose of analysis was divided into four groups. Considering the difficulty level of questions it was expected that more than 85% of sample will respond accurate answers.

1. Basic Understanding/Awareness about Indian Taxation: Questions of this category were:

1.1. What type of tax structure is followed in India?—Flat rate tax structure or Progressive tax structure.

Only 72 percent of the respondents could answer it correctly. This indicates that reasonably educated students still need to know about the taxation structure of the company.

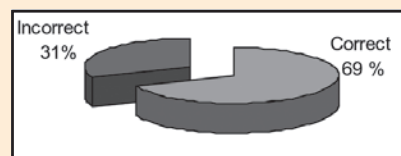
Incorrect	Correct
28%	72%



1.2. Classify taxes as Direct tax or Indirect tax. List of taxes was given as Income Tax, Service tax etc.

On an average 69 percent could give correct answers while 31 percent were wrong in even classifying the tax as Direct or Indirect. Difference between the direct and indirect tax is not very clear to the students. This may lead to unintentional tax evasion or avoidance.

Incorrect	Correct
31%	69%

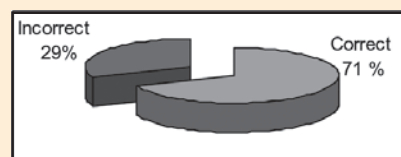


1.3. Who levies and collect taxes in India?

Central Government, State Government etc.

71 percent students could answer it correctly whereas 29 percent wrote wrong answers. The federal tax structure followed in India is required to be explained to the students who are future business managers in order to systematizing the revenue collection for government.

Incorrect	Correct
29%	71%



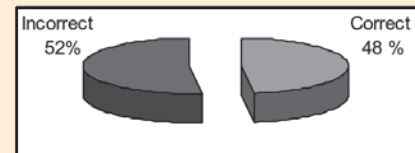
2. Specific tax related questions: this category covered questions related to Excise Duty, VAT, Sales Tax, Customs Duty, Service Tax etc.

2.1. When Central Excise duty is applicable?

48 percent students could answer it correctly whereas 52 per-

cent wrote wrong answers. Students were not aware about the applicability of Central Excise Duty.

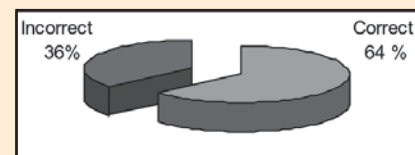
Incorrect	Correct
52%	48%



2.2. Who is liable to pay Central Excise Duty?

64 percent students could answer it correctly whereas 36 percent wrote wrong answers. Who is liable for excise duty payment is very vital in manufacturing business and the managers of future are required to be trained about it.

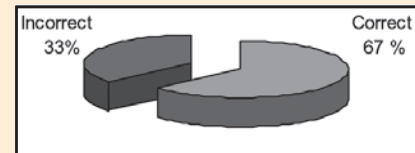
Incorrect	Correct
36%	64%



2.3. When is VAT payable?

67 percent students could answer it correctly whereas 33 percent wrote wrong answers. When liability under the respective taxes arises should be known to the business managers in order to avoid the non-compliance.

Incorrect	Correct
33%	67%

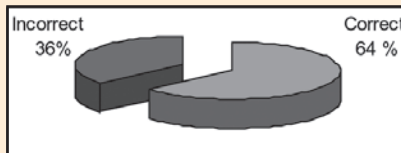


2.4. Who is liable to pay Sales Tax to Government?

64 percent students could answer it correctly whereas 36 per-

cent wrote wrong answers. Students were not informed about the concept of State Sales Tax and Central Sales Tax with difference between the two.

Incorrect	Correct
36%	64%

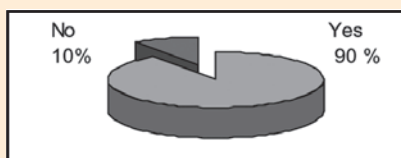


3. Attitude and willingness to learn and acquire knowledge about the taxes. This category of questions was on understanding of willingness to learn and gain more knowledge about taxes.

3.1. Do you feel that all MBA graduates must know basics of taxes in India irrespective of area of specialization?

90 percent of the students consented that yes it is essential whereas 10 percent were having other view on the question. This shows that the willingness and attitude to know about the taxes is there which can be well attended by proper training workshops.

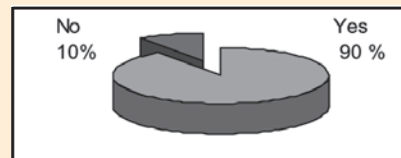
No	Yes
10%	90%



3.2. The views were collected to understand the willingness to learn more about taxes by attending a workshop.

90 percent of the students consented that yes it is essential whereas 10 percent were having other view on the question. The gap between the need to know and current knowledge needs to be bridged.

No	Yes
10%	90%



4. This set of questions was looking for the awareness in terms of resources available to get knowledge about taxes.

4.1. Question asking to name the resources to obtain tax information.

General answers such as Internet or News etc were received. It has been observed that the students were not aware of the government official sites where all authentic information on taxes is available such as www.cbec.gov.in, www.incometaxindia.gov.in etc.

4.2. When asked about ways to improve knowledge some of the students suggested the inclusion of the subject in curriculum while some suggested that this topic should be made mandatory for MBA as a whole.

4.3. The views were collected to understand the willingness to learn more about taxes by attending a workshop.

90 percent of the students consented that yes it is essential whereas 10 percent were having other view on the question.

Considering the views and answers collected through the questionnaire circulated amongst the sample respondents it was evident that the awareness level—specially related to specific taxes such as direct and indirect taxes—was considerably low.

The citizen may be a part of any trade or business or an entrepreneur of the country who is an

integral part of the economy and contributes towards the national GDP; is expected to be reasonably aware of tax structure of the country. Taking forward this point the remedial measures can be devised. In the opinion of the researcher there can be a foundation course for such topics during the MBA program, which may impart the fundamental cross-functional inputs. The detailed structure of this foundation course is explained in the conclusions and recommendations.

6. Conclusions and Recommendations

The fundamental knowledges of taxes is inevitable for any person staying in the country and contributing in the business world. The assistance from the experts or consultants can be sought at the later stage where one understands whom to approach and for what.

One of the questions in the questionnaire was to gauge the awareness amongst the students about forthcoming tax i.e. GST; hardly twenty percent students were aware about it while eighty percent were not.

To bridge the gap between what is expected and what exactly is known the training workshops are recommended. The structure of the workshop can be a two-day training with basic and intermediate level of knowledge. The specific objective of the workshop is to create awareness about taxes in the country in business perspective.

Global recession has helped the enterprises to survive on the basis of effective cost and management strategies. The tax structure in the product costing plays a vital role which gives a competitive edge in

the present era. Studying the proposed Direct Tax Code (Section 29) it is evident that the plant-wise profitability is required to be furnished, which can be calculated only based on Costing principles.

The CMAs have great role to play in this regime. Similarly, Goods and Services Tax (GST) is approaching fast which is based on the principles of VAT and CENVAT of indirect taxes. All these are going to impact the business to a large extent. Looking at the future the CMAs are expected to lay the path by walking it.

The professional institutes such as ICWAI, ICSI and ICAI can take the initiative with the help of the well spread chapter offices and offer the training modules in taxation for various management institutes in respective jurisdictions to offer the proposed programs. This will facilitate the growth of the profession and contribute towards growth of the country as well. □

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SGST sales, or vice versa. In any case if any short payment is detected it will attract penalty. There will be chances of payment of higher taxes as well. Filing a GST return correctly will be a real hard task for them. Internationally, many consultancy firms are assisting these groups by checking their sales and expense statements and helping to maximize recovery under VAT. They have developed special software force for the purpose which would cater to the need of many at a time. To reach these category our institute may interact with various small and medium industries associations

and organize workshop or seminar on voluntary basis. This will not only help to improve the image of the institute but also ensure regular inflow of business for its members.

Conclusions

Today's commercial world is changing fast. With every change it is offering new challenges for the finance professionals who are an inseparable part of this world. A cost and management accountant has got every qualification to accept this challenge and assert his position. It is certain that he will be able cope up with the changes coming along with GST regime and

render his valuable services to various interested parties and to the nation as a whole. □

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Testing the Beta Stability of Banking Sector over various phases in Indian Stock Market

CMA Roopam Kothari*
Narendra Sharma**

Abstract

Our study aims at creating a banking stock portfolio which serves as a representative of all the banking stocks traded on Bombay Stock Exchange and testing the beta instability of the banking sector stock portfolio over various phases in the Indian stock market. We also evaluate the monthly stock price returns of the banking portfolio vis-a-vis the market portfolio from the period ranging from July 1994 to December 2008. The journey of Sensex during the span of past fourteen years in the post liberalization period has been divided into three phases based upon technical analysis. An attempt is made to evaluate the under/over performance of the banking stock portfolio returns under various phases.

Introduction

Equity Investment has evolved as one of the most preferable investment options amongst the investor fraternity in India. Gradual reforms in the financial sector have

resulted in the emergence of the Indian stock market as one of the leading and well-built stock markets in the global economy. The other prominent impact of financial sector reforms has been on the improvement of the financial health of the commercial banks. (AK Purwar, Chairman, SBI Ltd., 2001-02).

Lot of emphasis has been laid down by the investment managers on the sectoral performances in the process of creating an optimal portfolio for an investor. The effectiveness of a portfolio is reflected in the over—or under-performance of the portfolio vis-a-vis the market portfolio. Research results can be different for portfolio effectiveness in long run and short run. Our study aims at creating a stock portfolio which represents all the banking stocks traded on the BSE at any point of time, testing the beta stability and evaluating the abnormal returns on the banking portfolio with respect to Sensex. The same analysis is done for the public and private sector banking portfolios.

Review of Literature

Performance evaluation to a large extent depends upon the field

of application, goals and methodologies used (Bana Abuzayad and Philip Molyneux, 2009). Accountants are concerned more about book value, economists are interested in finding out the fair value, whereas an investor is keen to know the excess return which the stock or portfolio is generating over and above some benchmark—generally the market portfolio.

Lot of research studies have been conducted to evaluate the long run efficiency of banking sector using accounting data and the initial stock returns to issue (Megginson et al, 2000). Several studies have been conducted to study the impact of privatization on the efficiency of the banking sector. Levis (1993), Menyah et al (1995) and Menyah and Paudyal (1996) found significant positive abnormal returns in the long run for UK SIP's (Share Investment Privatization). Aggarwal et al (1993) found an insignificant negative return for a period of three years for Chilean SIP's.

T T Ram Mohan (2003) examines the long term returns to stocks of public and private sector banks in India. The research results proved that PSB stock's performance on the average was not significantly different from that of SENSEX or from that of private sector banking stocks.

Risk and return are two important parameters to determine the performance of the portfolio. The measure of systematic risk is known as beta. It quantifies the expected return of the security based upon the actual return of the market portfolio. Evaluation of the factor sensitivity (beta) can be done in many ways depending upon the assumptions of the model (Black 1993). The most widely used method is linear regression, which assumes the con-

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stancy of the parameters over the historical sample period.

Baesel (1974) studied the impact of the length of the estimation interval on stability of beta estimated where betas were estimated using estimation intervals of one year, two years, four years, six years, and nine years. It was found that beta stability is directly proportional to the length of the estimation interval. Theobald (1981) found that the time period used for the estimation of beta with increased function affects stationarity.

In a very relevant study to our present research, Allen et al (1994) have compared the stability of beta coefficients for individual securities and portfolios. The general perception is that the portfolio betas are more stable than those for individual securities. Because of wide application of beta, the issue of stability of beta takes the center stage. The stability of beta estimates based on historical returns has found importance both in the investment industry as well as academic world. They argue that if the portfolio betas are more stable than those for individual securities, greater confidence can be placed in portfolio beta estimates over longer periods of time. But, their study concludes that greater confidence in portfolio betas is not justified.

The studies of Sunder (1980), Collins et al (1987), Brooks et al (1992, 1994, 1997) advocates that the instability in beta is driven by macroeconomic factors. Shan and Alles (2000) examined the stability of the Australian industry beta, in relation to the variation of key macroeconomic factors. Betas of several industries were found to be sensitive to at least one or two macroeconomic factors. The exchange rate factor was observed to be in-

fluential on the beta variability of most industries, while current account balance, trade balance, interest rates, and unemployment were influential in the case of some industries. Brooks et al (1998) explored the issue of beta instability in the Singaporean stock market over the period 1986 to 1993. The analysis revealed a very high occurrence of beta instability. The results of the study were insensitive to whether the betas are measured through OLS or Dimson (1979). Further, the results were also insensitive to the Market index chosen for measuring the market rate of return.

Chawla (2001) examined the stability of beta using monthly data on returns for the period April 1996 to March 2000. The stability of beta was tested using two alternative econometric methods such as incorporating time variable in the regression and dummy variables for the slope coefficient. Both the methods reject the stability of beta in majority of cases. Moonis and Shah (2002) tested the hypothesis of constant beta which was rejected for 26 of 50 stocks. They found that the Indian stock market exhibits symptoms of time-varying betas and the tendency of beta to be mean reverting, and show little evidence of beta as a random walk process. Odabasi (2003) studied the beta instability in the Istanbul Stock Market, where it has been found that betas are time varying.

Secondly, the incidence of beta instability at about 80% for the full eight-year interval is a high score compared to the scores for similar length periods in the studies made earlier. Similar statement can be put forward for the score of about 65% in the case of four-year sub-periods. Third, the incidence of in-

stability gets lower as the estimation sub-period shortens.

Haddad (2007) investigated the degree of return volatility persistence and time-varying behavior of systematic risk of two Egyptian stock portfolios. He used the Schwert and Seguin (1990) market model to examine the relationship between market capitalization and time varying beta for a sample of investable Egyptian portfolios during the period January 2001 to June 2004. According to the findings of Haddad, the small stocks portfolio exhibits difference in volatility persistence and time variability. The study also suggests that there are evidences that the volatility persistence of each portfolio and its systematic risk are significantly positively related. Because of that, the systematic risks of different portfolios tend to move in a different direction during the periods of increasing market volatility.

Objective and rationale of the study

Objective of the study :

1. To study the trend of movement in SENSEX in the post-liberalization era.
2. To test the beta stability of the banking sector portfolio over various phases in the market.
3. To compare the beta stability of public sector banking portfolio and the private sector banking portfolio over the various phases.
4. To compare the residual returns of public sector banking portfolio and the private sector banking portfolio over the various phases.

The rationale behind selecting the banking sector lies in the following facts :

Economic reforms initiated in 1991. During the period 1991-2000,

Banking sector as well as Indian stock market was experiencing new dimensions of the growth. That was the consolidation phase for both banking sector as well as the stock market. Our study comprises of the growth cycle of Sensex. The log normal returns of both the SENSEX and Banking portfolio are plotted on the line graph. The movement of returns in the quadrants appears to be same for both the SENSEX and the banking portfolio (Figs. 1 and 2).

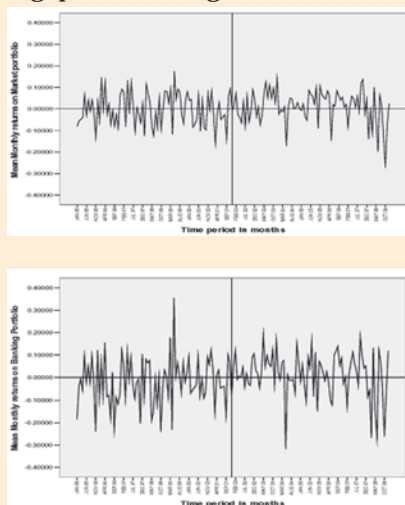


Fig. Graph prepared on the basis of lognormal returns calculated on the closing Sensex values and closing prices collected from www.bseindia.com

This graph states that there should be high correlation in these two portfolios. The Pearson correlation coefficient was calculated. There was high degree of correlation in both the portfolios at 1% significant level.

Methodology

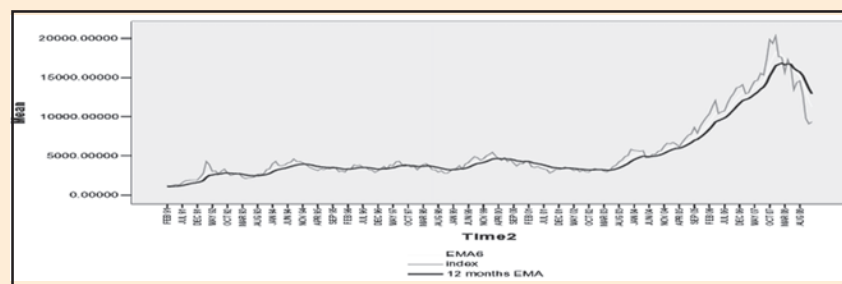
On the basis of 12-months' Exponential Moving Average (EMA) of Sensex, the entire period ranging from 1994 to 2008 has been categorized into three phases

Phase 1 : July 1994 – December 2003

Phase 2 : January 2004 – December 2007

Phase 3 : January 2008 – December 2008

Portfolio revision is done after every six months. We were able to iden-



Source : Graph prepared on the basis of monthly Sensex values collected from www.bseindia.com

In this paper, banking sector comprises of the portfolio consisting of the banks listed on BSE. Since our study is based upon the post-liberalization period which coincide with the period when the banking sector was in its nascent phase and not many banks were listed on BSE.

The asset allocation strategy follows following steps :

Firstly, based upon the data collected from Prowess Database, the banking portfolio has been created which represents almost 90% of the market capitalization of all the banking stocks listed and traded on the BSE during the time specific. Secondly, Weights to be assigned to each security in the portfolio is based upon its market capitalization. Thirdly, performance of banking portfolio is evaluated in three phases, with a six monthly rebalancing strategy to optimize the portfolio. Fourthly, the average monthly returns of the banking portfolio have been calculated on the basis of weighted average market capitalization method.

In 1994, there was no specific sector index for the banking sector. Very few banks were traded on BSE. Hence, initially the banking portfolio consists of only two banks (representing 90% of total market capitalization of banks on BSE).

tify 29 portfolios in all, representing almost the 90% of the total market capitalization of the banking stocks on BSE. On the similar parameter, we further create public and private bank portfolio.

Though the Sensex and the share prices shows the non-stationarity but log normal returns of the Sensex of the banking portfolio depicts the stationarity (Refer figs. 1 and 2). Assuming the homoscedasticity of the error variances in the various phases, we apply the dummy variable regression model to test the beta stability as well the stability of alpha ($\hat{\alpha}$).

Following regression model is used for our analysis :

$$R_p = \alpha_1 + \alpha_2 D_1 + \alpha_3 D_2 + \beta_1 R_m + \beta_2 (D_1 R_m) + \beta_3 (D_2 R_m) + u_t$$

where

R_p = return on banking portfolio

R_m = return on Sensex

$D_1 = 1$ for phase 2 (January 2004–December 2007)

$D_1 = 0$, otherwise

$D_2 = 1$ for phase 3 (January 2008–December 2008)

$D_2 = 0$, otherwise

u_t = error term/residual return

$\alpha_1, \alpha_2, \alpha_3, \beta_1, \beta_2$ and β_3 are coefficients to be estimated.

Therefore, the equation for phase 1 will be :

$$R_p = \alpha_1 + \beta_1 R_m + u_t$$

Equation for phase 2 will be
 $R_p = \alpha_1 + \alpha_2 D_1 + \beta_1 R_m + \beta_2 (D_1 R_m) + u_t$
 Equation for phase 3 will be
 $R_p = \alpha_1 + \alpha_3 D_2 + \beta_1 R_m + \beta_3 (D_2 R_m) + u_t$

The beta would be stable over the three phases if the terms β_2 and β_3 are insignificant. The significance of β_2 and β_3 can be tested using either the t statistic or the corresponding p value. If both β_2 and β_3 or any one of the two terms (β_2 and β_3) are significant, then the beta of the portfolio is deemed to be unstable over time.

The same process is repeated to check the stability of beta of the public as well as the private sector banking portfolio.

Data Collection: Data regarding monthly closing prices of the banks having the scrip codes with BSE, Closing Monthly values of BSE Sensex and the Monthly Market Capitalization of the banks have been collected from Prowess data base. SPSS software has been used for the purpose of Analysis and Graphs.

Result and Analysis

1. Testing the Beta stability of the banking sector portfolio, Public Sector banking Portfolio and Private sector Banking Portfolio over various phases in the market : Beta stability is tested using the dummy variable regression analysis. The results are summarized in Table 2 :

The above results of beta values show that β_2 and β_3 are insignificant at 5% confidence level. Therefore we accept the null hypothesis that the beta values of the banking sector portfolio, Public Sector Banking Portfolio and Private Sector Banking Portfolio does not exhibit the time varying behavior over various phases in the stock market. These results support the view that the variability in beta may be reduced through diversi-

Table 2 BETA VALUES				
	Static Beta	Asymmetric Beta		
	β	β_1	β_2	β_3
Banking Stocks Portfolio	1.105	1.065	0.134	0.147
	0.000	0.000	0.420	0.435
Public Sector Banking Portfolio	1.102	1.095	0.116	0.063
	0.000	0.000	0.561	0.782
Private Sector Banking Portfolio	1.078	1.005	0.125	0.256
	0.000	0.000	0.574	0.31

Source: Result of Regression Analysis

fication. Hence, in order to assess the abnormal or residual returns on the banking portfolios, we may consider the regression equation obtained from static beta model.

2. Residual Return Analysis

The average residual returns of the banking sector portfolio have been summarized in Table 3. The

over various phases in the Indian stock market.

Conclusion

The above study reveals that the banking sector has been an aggressive sector as the beta value of BSP, PubBSP and PvtBSP is greater than one and is significant at 5% confidence level. Further, when we compare the beta values of PubBSP

Table 3 Average Residual Returns			
	Phase 1	Phase 2	Phase 3
Banking Stock Portfolio	-0.0028	0.0043	0.0139
Sig. Value (at 5% confidence level)	0.631	0.605	0.52
Public Sector banking Stock Portfolio	-0.0034	0	0.0286
Sig. Value (at 5% confidence level)	0.621	0.997	0.296
Private sector banking Stock Portfolio	-0.0014	0.0049	-0.0077
Sig. Value (at 5% confidence level)	0.874	0.49	0.726

results of t statistics shows that the residual returns of BSP, PubBSP and PvtBSP in all three phases are insignificant at 5% confidence level. Therefore, we accept the null hypothesis that the BSP, PubBSP and PvtBSP performed fairly vis-a-vis the benchmark index Sensex,

and PvtBSP, it is found that the Public sector banks are more aggressive as compared to the Private sector banks. The beta values of banking sector portfolio does not exhibit the time varying behavior. We may thus conclude that the beta of banking sector in

Indian stock market has demonstrated a stable behavior over various phases. This conclusion may not be applicable on the individual banking stocks. Researches show that the beta of portfolio is more stable than the individual stock betas; hence, further research may be conducted to test the beta stability of individual banking stocks.

We restrict our study to test the beta stability and the abnormal returns of the banking sector as a whole in the Indian stock market in the post-liberalization period. The residual returns analysis of the banking sector further reveals that all the three portfolios did not generate any significant abnormal returns at 5% confidence level, over the various phases in the Indian stock market. □

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OBITUARY

With profound grief we inform that Mr. E S Ranganathan, member of our Institute has passed away on 29/05/2010. He was 89 years old and is survived by his 2 daughters and grand children. He was working as Accounts Officer in the AG's Office, Chennai and at the time of his superannuation he was the Acting Director (Audit) posted for Pondicherry Region. He has served as the Vice Chairman of the Pondicherry Chapter for 14 years from 1992.

IAS 27, Consolidated and Separate Financial Statements — A Closer Look

CMA K. S. Muthupandian*

International Accounting Standard (IAS) 27, Consolidated and Separate Financial Statements, provides guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent-company. The standard also provides guidance on the presentation of investments in subsidiaries, jointly controlled entities and associates in separate financial statements.

In September 1987, the International Accounting Standards Committee (IASC) issued the Exposure Draft E30, Consolidated Financial Statements and Accounting for Investments in Subsidiaries. In April 1989, the IASC issued IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, effective from January 1, 1990. In 1994, the IASC reformatted IAS 27. In December 1998, IAS 27 was amended by IAS 39, Financial Instruments: Recognition and Measurement, effective from January 1, 2001.

In April 2001, the International Accounting Standards Board (IASB) resolved that all Standards

and Interpretation issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn. On December 18, 2003, the IASB issued the revised version of IAS 27, effective from January 1, 2005. On June 25, 2005, the IASB issued the Exposure Draft of Proposed Amendments to IFRS 3 and IAS 27. On January 10, 2008, the IASB issued the revised IAS 27 (2008), effective from July 1, 2009. The January 2008 revisions to IAS 27 are closely related to the revisions to IFRS 3, Business Combinations.

On May 22, 2008, IAS 27 was amended for Cost of a Subsidiary in the Separate Financial Statements of a Parent on First-time Adoption of IFRSs. On the same day, IAS 27 was also amended for Annual Improvements to IFRSs 2007 relating to measurement of investments held for sale under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, in separate financial statements. The effective date of these two May 2008 amendments was fixed as January 1, 2009.

Objective

The objective of IAS 27 is to enhance the relevance, reliability, and comparability of the information contained in :

- consolidated financial state-

ments that a parent-company prepares for the group of entities it controls; and

- separate (non-consolidated) financial statements that a parent-company, investor, or venturer elects to provide, or is required by local regulation to provide.

IAS 27 specifies the circumstances in which consolidated financial statements are required, as well as providing guidance on the required accounting for changes in ownership levels, including changes that result in the loss of control of a subsidiary. IAS 27 also includes requirements for disclosure of information to allow financial-statement users to evaluate the nature of the relationship between the parent entity and its subsidiaries.

IAS 27 requires parent undertakings to provide financial information about the economic activities of their group in consolidated financial statements. These consolidated financial statements should present the financial information of the group as a single economic entity. IAS 27 defines subsidiaries and prescribes the circumstances in which a parent-company is required to prepare consolidated financial statements. It also prescribes the rules for the preparation of consolidated financial statements and the separate financial statements of a parent-company, and prescribes disclosure requirements in respect of investments in subsidiaries.

Scope and Application

IAS 27 shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent-company. In addition, when an entity presents separate financial statements (by choice or to comply with local regulations), the standard must be

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applied in accounting for the investments in subsidiaries, jointly controlled entities, and associates.

IAS 27 does not deal with the methods for accounting for business combinations and their effects on consolidation, including the treatment of goodwill arising from the business combination (see IFRS 3, Business Combinations).

Key Definitions

Paragraph 4 of IAS 27 provides definitions for the following key terms (among others):

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A group is a parent-company and all its subsidiaries.

Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, through subsidiaries, by the parent-company.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

A parent-company is an entity that has one or more subsidiaries.

Separate financial statements are those presented by a parent-company, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent). Note: a subsidiary may

have dissimilar business activities from those of the other entities within the group.

Presentation and scope of consolidated financial statements

IAS 27 requires the preparation and presentation of consolidated financial statements that include all subsidiaries under the control of a parent. Control is the principal concept which underpins this standard. There are exceptions to the rule if subsidiaries that, on acquisition, meet the criteria to be classified as held for sale in accordance with IFRS 5.

These subsidiaries shall be accounted for in accordance with IFRS 5. In addition, a parent need not present consolidated financial statements if and only if:

- the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements

- the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)

- the parent did not file nor in the process of filing, its financial reports with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market

- the ultimate parent (or any intermediate parent) of the parent produces consolidated financial statements available for public use that comply with IFRSs

If a parent meets these criteria, consolidated financial information is being provided at a higher level

by either the ultimate parent or an intermediate parent; consequently, it is not needed at the entity's level and the reporting entity can elect not to present consolidated financial statements. The entity would then present only separate financial statements in accordance with the guidance for separate statements.

Consolidation involves

- line-by-line adding together like items of assets, liabilities, equity, income and expenses of the financial statements of the parent and its subsidiaries

- elimination of the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary

- elimination in full of intragroup balances and transactions (e.g. profits and losses resulting from sale of inventory within the group), and including income, expenses and dividends; note—
intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements

Note: IAS 12, Income taxes applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions :

- identification of minority interests in the profit or loss and net assets of consolidated subsidiaries for the reporting period

- if a subsidiary has outstanding cumulative preference shares that are held by minority interests and classified as equity, the parent computes its share of profits or losses after adjusting for the dividends on such shares, whether or not dividends have been declared

- losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity, the excess

is allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses

- on ceasing to be a subsidiary, an investment in an entity shall be accounted for in accordance with IAS 39, Financial instruments: recognition and measurement using its carrying value at that date as the cost on initial measurement, unless it becomes an associate or jointly controlled entity which have dedicated applicable accounting standards that apply.

Dissimilar Reporting Dates and Accounting Policies

IAS 27 requires the financial statements of the parent and its subsidiaries to have the same reporting date. If the reporting dates of the parent and subsidiaries differ, the subsidiary must prepare additional financial statements for consolidation purposes with the same reporting date as the parent. If it is impracticable to prepare additional financial statements, the subsidiary's financial statements used for consolidation purposes with a different reporting date is acceptable provided:

- its financial statements are adjusted for the effects of significant transactions or events that occur between the subsidiary's reporting date and that of its parent
- the difference between the reporting dates is no more than three months

Consolidated financial statements must be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If a member of the group uses dissimilar accounting policies, appropriate adjustments shall be made to the financial statements before consolidation.

Separate Financial Statements of a Parent

When a parent prepares separate financial statements, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale in accordance with IFRS 5 are to be accounted for either at cost or in accordance with IAS 39. The accounting treatment must be consistently applied to each category of investments. Investments classified as held for sale in accordance with IFRS 5 are accounted for in accordance with that Standard. Investments in jointly controlled entities and associates that are accounted for in accordance with IAS 39 in the consolidated financial statements shall be accounted for in the same way in the parent entity's separate financial statements.

Identification of Subsidiaries

Consolidated financial statements are required to include all of the parent's subsidiaries.

Subsidiaries are identified based on control by the parent. Control over an entity is presumed to exist when the parent entity has direct or indirect ownership of more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

Control also exists when the parent owns half or less of the voting power of an entity when there is :

- power over more than half of the voting rights by virtue of an agreement with other investors
- power to govern the financial and operating policies of the entity under a statute or an agreement
- power to appoint or remove the majority of the members of the board of directors or equivalent

governing body and control of the entity is by that board or body.

- power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body

Factors to be considered when determining the existence of control include :

- substance rather than form
- the effect of potential voting rights that are currently exercisable or convertible.

Note : This excludes potential voting rights which lack economic substance e.g. the exercise price which is set in a manner that makes the conversion commercially unrealistic.

- the role of dominance can be passive and not necessarily actively exercised; majority ownership interest in an entity is not necessary for control to exist (e.g. in the absence of another entity dominating the composition of the board of directors, voting rights of less than 50 per cent held by the reporting entity may constitute control)

- the power to govern may be direct or indirect

- whether the parent derives benefit from the actions of the subsidiary.

- a loss of control may occur without selling an ownership interest in the subsidiary

Prescribed Disclosures

IAS 27 requires disclosure of information regarding the nature of the relationship between the parent entity and its subsidiaries. Disclosure requirements are divided into three categories :

Disclosures required in consolidated financial statements

- the nature of the relationship between the parent and a subsid-

iary when the parent does not directly or indirectly own more than half of the voting power (for example, explaining how control has been determined)

- justification in cases where an entity directly or indirectly through subsidiaries owns more than half of the voting or potential voting power of an investee but this ownership does not constitute control

- the reporting date and period of the financial statements of a subsidiary when they are using a reporting date or period that is different from that of the parent, along with the reason for the use of different dates (for example, justifying why it was impracticable to prepare all statements as of the same date)

- the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on a subsidiary's ability to transfer funds to the parent in the form of cash dividends or to repay loans or advances

- a schedule showing the effects on the equity attributable to owners of the parent of any ownership changes that do not result in a loss of control

- if control of a subsidiary is lost, specific details on the gain or loss

Disclosures required in separate financial statements that are prepared for a parent that is permitted not to prepare consolidated financial statements :

When separate financial statements are prepared for a parent that meets the criteria in paragraph 10 of IAS 27 and elects not to prepare consolidated financial statements, those separate financial statements must disclose

- the fact that the exemption from consolidation has been used and the financial statements are separate rather than consolidated

- the name and country of incorporation or residence of the entity (that is, the ultimate or intermediate parent) whose IFRS-compliant consolidated financial statements have been produced for public use, and the address where those consolidated financial statements are obtainable

- a list of significant investments in subsidiaries, jointly controlled entities, and associates, including the name, country of incorporation or residence, proportion of ownership interest, and (if different) proportion of voting power held

- a description of the method used to account for the investments disclosed

Disclosures required in the separate financial statements of a parent, investor in a jointly controlled entity, or investor in an associate :

When a parent (other than a parent that is permitted not to prepare consolidated financial statements), a venturer with an interest in a jointly controlled entity, or an investor in an associate prepares separate financial statements, those separate financial statements must disclose

- the fact that the statements are separate rather than consolidated, and the reasons why those statements are prepared (if the reason is other than legal requirements)

- a list of significant investments in subsidiaries, jointly controlled entities, and associates, including the name, country of incorporation or residence, proportion of ownership interest, and (if different) proportion of voting power held

- a description of the method used to account for the investments disclosed.

Because the separate financial statements do not meet the entity's reporting requirements (the disclosure requirements in paragraph 43

relate to entities that are not exempt from filing consolidated statements), the entity must also identify the consolidated financial statements that have been prepared to meet IAS 27 (or IAS 28 Investments in Associates or IAS 31 Interests in Joint Ventures, as the case may be).

Interpretations

The Standards Interpretations Committee (SIC) of the IASC and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB has issued the following three Interpretations relating to IAS 27:

- SIC 12, Consolidation—Special Purpose Entities (issued in November 1998, effective from July 1, 1999, and amended by IFRIC in November 2004 to remove the equity compensation plans from the scope of SIC 12)

- SIC 33, Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interest (SIC 33 was superseded by 2003 revision of IAS 27)

- IFRIC 17, Distributions of Non-cash Assets to Owners (issued in November 27, 2008, effective from July 1, 2009)

SIC 12: This interpretation addresses when a special purpose entity should be consolidated by a reporting enterprise under the consolidation principles in IAS 27. Under SIC 12, an entity must consolidate a special purpose entity (SPE) when, in substance, the entity controls the SPE.

The control of an SPE by an entity may be indicated if :

- * The SPE conducts its activities to meet the entity's specific needs

- * The entity has decision-making powers to obtain the majority of the benefits of the SPE's activities

- * The entity is able to obtain the majority of the benefits of the

SPE's activities through an 'auto-pilot' mechanism

* By having a right to the majority of the SPE's benefits, the entity is exposed to the SPE's business risks

* The entity has the majority of residual interest in the SPE.

Examples of SPEs include entities set up to effect a lease, a securitisation of financial assets, or R&D activities. The concept of control used in IAS 27 requires having the ability to direct or dominate decision-making accompanied by the objective of obtaining benefits from the SPE's activities.

Some enterprises may also need to separately evaluate the topic of derecognition of assets, for example, related to assets transferred to an SPE. In some circumstances, such a transfer of assets may result in those assets being derecognised and accounted for as a sale. Even if the transfer qualifies as a sale, the provisions of IAS 27 and SIC 12 may mean that the enterprise should consolidate the SPE. SIC 12 does not address the circumstances in which sale treatment should apply for the reporting enterprise or the elimination of the consequences of such a sale upon consolidation.

IFRIC 17: This interpretation applies to the entity making the distribution, not to the recipient. It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets. IFRIC 17 clarifies that:

* a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity

* an entity should measure the dividend payable at the fair value of the net assets to be distributed

* an entity should remeasure the liability at each reporting date

and at settlement, with changes recognised directly in equity

* an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss, and should disclose it separately

* an entity should provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

IFRIC 17 applies to pro rata distributions of non-cash assets (all owners are treated equally) but does not apply to common control transactions.

Comparative Indian Standard

The Accounting Standard issued by the Institute of Chartered Accountants of India (ICAI) comparative to IAS 27 is AS 21, Consolidated Financial Statements. AS 21 is based on IAS 27 (revised 2000). AS 21 is presently under revision to converge with IAS 27.

The major differences between these two standards are:

1. Difference due to legal and regulatory environment: Keeping in view the requirements of the law governing the companies, AS 21 defines control as ownership of more than one-half of the voting power of an enterprise or as control over the composition of the governing body of an enterprise so as to obtain economic benefits. This definition is different from IAS 27, which defines control as "the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities".

2. Conceptual Differences: Goodwill/Capital reserve is calculated by computing the difference between the cost to the parent of its investment in the subsidiary and the parent's portion of equity

in the subsidiary in AS 21 whereas, in IAS 27, fair value approach is followed.

January 2008 Revised Standard

On January 10, 2008, the IASB revised the IFRS 3 and IAS 27. The revisions will result in a high degree of convergence between IFRSs and US Generally Accepted Accounting Principles (GAAP), although some inconsistencies remain, which may result in significantly different financial reporting.

The revised Standards promise significant change, including :

- a greater emphasis on the use of fair value, potentially increasing the judgement and subjectivity around business combination accounting, and requiring greater input by valuation experts;

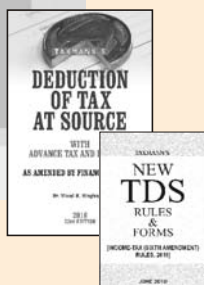
- focussing on changes in control as a significant economic event — introducing requirements to remeasure interests to fair value at the time when control is achieved or lost, and recognising directly in equity the impact of all transactions between controlling and non-controlling shareholders not involving a loss of control; and

- focussing on what is given to the vendor as consideration, rather than what is spent to achieve the acquisition. Transaction costs, changes in the value of contingent consideration, settlement of pre-existing contracts, share-based payments and similar items will generally be accounted for separately from business combinations and will generally affect profit or loss.

Conclusion

The revised IAS 27 resolves many of the more contentious aspects of business combination accounting by restricting options or allowable methods. As such, they should result in greater consistency in accounting among entities applying IFRSs. □

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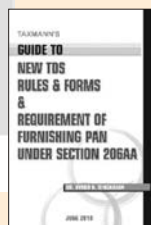
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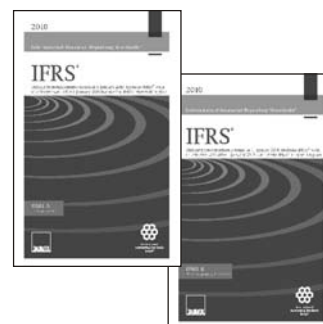
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EASTERN REGION

ASANSOL CHAPTER

The following members are the new Managing Committee Members for the year 2010-2011 :

Utpal Majumdar	Chairman
Subrato Banerjee	Vice-Chairman
Jaydip Ghosal	Secretary
Sudip Dasgupta	Jt. Secretary
Kajal Mishra	Treasurer
G. B. Gupta	Jt. Treasurer

WESTERN REGION

AURANGABAD CHAPTER

The following members have been elected as Managing Committee Members for the year 2010-2011 :

R. B. Shukla	Chairman
R. D. Khandalkar	Vice-Chairman
D. V. Dabri	"
S. J. Deore	Secretary
R. S. Deshmukh	Jt. Secretary
N. L. Kuyate	"
M. A. Avhad	Treasurer

KALYAN AMBERNATH CHAPTER

The following office bearers have been elected for the year 2010-2011:

G. B. Shamnani	Chairman
M. R. Dudani	Vice-Chairman
	(ADM)
S.G. Narasimhan	Vice-Chairman (PD)
Neetu Kapoor	Secretary
G. U. Keswani	Treasurer

KONKAN CHAPTER

Following are the office bearers of Konkan Chapter for the year 2010-11 :

Ramesh M Joshi	Chairman
Uday S Bodas	Vice-Chairman
Anand M Shembekar	Secretary
Rajendra D Aphale	Hons. Treasurer

LUCKNOW CHAPTER

The following members have been elected for Managing Committee Members for the year 2010-2011 :

O.P. Saxena	Chairman
Mahendra Singh	Vice-Chairman
Shailendra Paliwal	Secretary
Vikas Srivastava	Treasurer

PUNE CHAPTER

The following are the newly elected members to the Managing Committee for the year 2010-2011 :

Pramod Dube	Chairman
Madhuvanti Sathe	Vice-Chairman
Milind Date	Secretary
Harshad Deshpande	Treasurer

NORTHERN REGION

GORAKHPUR CHAPTER

Members unanimously elected the following office bearers for the year 2010-2011 :

Prateek Kr. Chawdhary	Chairman
R. S. Ojha	Vice-Chairman
S. S. Pandey	Secretary
H. N. Pandey	Jt. Secretary

JODHPUR CHAPTER

The following office bearers of the Managing Committee of the chapter for the year 2010-2011 are as under:

Devendra Daga	Chairman
S. N. Pareek	Vice-Chairman
K. K. Vyas	Secretary
Sunny Agarwal	Jt. Secretary
	(Student Nominee)
Virendra Surana	Treasurer

KANPUR CHAPTER

The following Managing Committee have been elected unanimously for the year 2010-2011 :

A. K. Awasthi	Chairman
S. K. Verma	Vice-Chairman
D. S. Misra	Secretary
R. K. Trivedi	Jt. Secretary
S. K. Saxena	Prog. Director
H. O. Mishra	Treasurer

SOUTHERN REGION

VISAKHAPATNAM CHAPTER

The following members have been elected for the Management Committee Members for the year 2010-2011 :

S. Satyananda Rao	Chairman
G.S.R. Krishna Murthy	Vice-Chairman
D. Ramana Murthy	Secretary
U. Prakash	Treasurer

OBITUARY

ICWAI deeply regret the sad demise of Mr. M. L. Yadaw (M.Sc, LLB, AICWA) one of the prominent scholar and officer of Railway. Mr. M. L. Yadaw was the founder Member of the **Gorakhpur Chapter of Cost Accountants.**

Seminar on 'Cost and Strategic Management for Growth of SME Sector'

WIRC organized a Seminar on 'Cost and Strategic Management for Growth of SME Sector', on Wednesday, the 19th May, 2010, at prestigious Bhaidas Sabhagrih, Vile Parle, Mumbai. This Seminar was organized with the support of MCX' SX, as Partner Exchange, CIMA of UK as Knowledge Partner and with the Association with SME Chamber of India and Maharashtra Chamber of Commerce, Industry and Agriculture. State Bank of India, IDBI Bank and Credit Analysis & Research Ltd. (CARE) kindly sponsored this programme. CMA V.C. Kothari, CCM., ICWAI and Chairman, CMA Research & Training Centre Committee, WIRC, coordinated the programme with the active support of CMA Aruna Soman, Co-opted Member-Excom., WIRC.

Shri Jagdish Capoor, Chairman, HDFC, inaugurated the Seminar as Chief Guest. Shri U. Venkataraman, Executive Director, MCX Stock Exchange Ltd., Shri Shriram Dandekar, Vice-President, Maharashtra Chamber of Commerce, Industry & Agriculture (MACCIA) and Shri Chandrakant Salunke, President, SME Chamber of India were the Guest of Honors for the function. The Seminar had 5 Technical Sessions, viz., Growth Opportunities for SME Sector for 2020, Cost / Strategic Management for Sustaining Growth, Regulatory Changes for Accelerating Growth, Success Stories in SME Sector and Special Financial Products for SME Sector.

Shri Jagdish Capoor, in his inaugural address mentioned about his association with ICWAI for more than two decades including during the period he was Deputy Governor of RBI. He highlighted the difficulties faced by SME Sector, which has been partly mitigated with the help of Institutions like ICWAI.

The eminent faculty members covered divergent subjects relevant to the SME Sector, but were unanimous that the Cost and Management Accountants should come forward to assist this Sector, which has to manage operations with limited resources, while facing multiple challenges.

Central Council Members, CMA Somnath Mukherjee, CMA (Dr.) Sanjiban Bandyopadhyaya, CMA H.K. Goel also graced the Seminar. A number of past Presidents, ICWAI and past Chairmen of WIRC participated in the Seminar.

CMA Manubhai K. Desai, Chairman, WIRC, CMA Amit A. Apte, Vice-Chairman, WIRC, CMA P.V. Wandrekar, Hon. Secretary, WIRC, CMA G.R. Paliwal, RCM, WIRC, CMA Sanjay R. Bhargave, CCM, ICWAI and CMA Ashwin G. Dalwadi, CCM, ICWAI also contributed as faculty / session Chairman, etc., for making the Seminar memorable and exemplary.

The Programme started with Saraswati Vandana by CMA & CA (Smt.) Pamela Jain, which was followed by welcome address by CMA G.R. Paliwal, RCM, WIRC. The Guests were welcomed with flower and mementos. The main programme started with lighting of lamp by the dignitaries.

CMA V.C. Kothari, Chairman, CMA Research & Training Centre, WIRC introduced the theme of the Seminar. He explained that the SME Sector comprises about 98% and 99% of total establishments in USA and Japan. Its share of employment in these countries is 53% and 72%. SME enterprises at present contribute nearly 17% of India's GDP, which is expected to increase to 22% by 2012. This sector accounts for 95% of the industrial units, is contributing around 40% of manufacturing output, is the second largest employer after the agricultural sector and enjoys around 40% of exports in India. The sector faced many unforeseen challenges during the last few years due to abnormal increases and decreases in prices of petroleum products, impact of sub-prime meltdown in economy all over the world, strain on financial sector universally and high inflation. All these factors have affected their capital requirements for keeping pace with speedy revival of Indian Economy. Besides many regulatory changes are taking place like new Companies Act, IFRS, GST, DTC, LLP, etc. Hence, WIRC decided to organise this seminar.

CMA Manubhai K. Desai, Chairman, WIRC in his introductory remarks briefly narrated achievements of the Institute and its contribution to the Society since its incorporation in 1944 as a Company and thereafter recognition by an Act of Parliament in 1959. The Guests were introduced by CMA Amit A. Apte, Vice-Chairman, WIRC.

Shri Shriram Dandekar, Vice-president, Maharashtra Chamber of Commerce, Industry and Agriculture, Guest of Honour, in his address mentioned the contribution of Small and Medium Sector nationally and particularly in Maharashtra with special reference to Mumbai City. Shri Chandrakant Salunkhe, Guest of Honour and President, SME Chamber of Industry highlighted the problems faced by SME Sector and its role in Indian Economy, particularly the exports. He also highlighted the services of his organization almost all over the country in assisting SMEs to further contribute for the welfare of the Society as a whole.

Shri U. Venkataraman, Executive Director, MCX Stock Exchange Ltd., Guest of Honour, in his address specially mentioned the MoU entered with ICWAI on 6th May, 2010 at Kolkata to contribute for the success and growth of various businesses by optimising utilization of resources of both the organizations. He also highlighted various facilities offered by MCX Stock Exchange for transacting various businesses particularly hedging of risk to cover unforeseen volatility in the market.

Shri Jagdish Capoor, Chairman, HDFC Bank Ltd., while recalling his association with ICWAI for more than 2 decades, appreciated the role of the Institute for service to the businesses in general and Society in particular. Shri Capoor narrated his experience as Committee Member during his days in RBI in solving the problems of SMEs by bringing together the authorities, bankers and industry associations. He wished the Institute and the Profession growth for service to the society.

In the First Technical session on "Growth Opportunities for SME Sector for 2020", CMA Amit Jatia, Managing Director, McDonalds Restaurants, shared his experiences in setting up chain of Restaurants in Western and South India for 15 years which involves development of uniform and standard raw materials to meet stringent International quality standards and training of man power to meet different tests. Shri Jatia was optimistic that with the increasing income and better living standards, small businesses have good opportunity for growth, if they plan their operations carefully.

Shri Shriram Dandekar, Guest of Honour, shared his experience in his business of stationery, reading materials, writing instruments, etc. in education and general businesses, which has very good potential in future due to large allocation of resources by the government for education and health sector.

Shri Asim Mukhopadhyay, Head-Business Planning (Commercial Vehicle Business Unit), Tata Motors, highlighted the growth opportunity in Automobile Sector particularly the country's contribution in export of large and small vehicles. He also highlighted his

experience in vendor development for ensuring high quality as foreign vehicle users follow very high technical standards for long life of automobiles and to ensure safety and environmental control.

CMA A.G. Dalwadi, Session Chairman shared his experience in the State of Gujarat and how the State Government is providing new opportunities for improving domestic as well as export markets particularly in diamonds, chemicals and textiles sector. CMA Amit Apte, Vice-Chairman, WIRC proposed vote of thanks.

The Second Technical session on **“Cost / Strategic Management for Sustaining Growth”** was addressed by Shri D.R. Dogra, Managing Director & CEO., Credit Analysis & Research Ltd. Smt. L.P. Deosthalee, Dy. Chief Accounts Officer, Mumbai Port Trust and Ms. Arati Porwal, Chief Representative, CIMA, which was chaired by CMA P.D. Phadke, Past President, ICWAI. Shri Phadke in his introductory remark, emphasized on the importance of cost and strategic management for substantial growth for SME sector. He especially mentioned that the global economy which faced unprecedented slow down in 2008 has been greatly revived with detailed cost / strategic management, leading to improved efficiency, saving in cost of operations, restructuring businesses, relocating employees and businesses, etc. Shri Dogra, while explaining the risk faced by an organization highlighted the role of Credit Rating Agencies, which analyses the external / internal risks faced by the organization. Credit rating helps in providing confidence to stake holders including lenders, investors, customers, suppliers and the Government Authority. The charges for credit rating are nominal considering the benefits derived. He explained in brief the help his organization provides, as credit rating has become compulsory for finance assistance from banks over Rs.5 crores.

Smt. Deosthalee meticulously gave details of businesses handled by Ports in India in assisting international trade and the facility provided by Ports particularly Mumbai Port Trust including Warehousing for Imports and Exports. Ms. Arati Porwal, in her presentation analyzed various studies made by CIMA in UK covering operation of Small and Medium Enterprises. CMA G.R. Paliwal, RCM in the beginning introduced Guests. CMA (Dr.) Heena Oza, Chairman, Surat-South Gujarat Chapter of Cost Accountants, proposed vote of thanks.

Third technical session covering **‘Regulatory Changes for Accelerating Growth’** and **‘Success Stories’** was chaired by Shri K.R. Bhargava, Guest of Honour and Chief Commissioner of Customs. CMA Sanjay Bhargave, CCM, ICWAI, explained in detail, the various Excise, Customs, Cenvat, VAT and Service Tax Provisions, which help SMEs. CMA N.K. Nimkar analyzed Direct Tax Code provisions for SMEs. Dr. Bipin Doshi, Industrialist and Social Worker explained that in spite of being a Medical Doctor, he has switched over to construction business of his family and has been very successful mainly due to proper planning, timely execution of project and meticulous cost management. He advised participants to do proper planning before starting a project to avoid time and cost over runs. He also emphasized for provision of environmental factors in business. Shri Anil Gachake, Chairman of SME Committee of Maharashtra Chamber of Commerce, Industry and Agriculture, narrated success stories in various parts of the country by co-operative efforts in which a sector of SMEs join together to obtain large volume orders from customers and share among themselves for its timely execution. This joint marketing and production sharing strategy has been helping many SMEs in the country like leather, textile and furniture making, etc.

Shri K.R. Bhargava, Chief Commissioner of Customs and Guest of Honour, in his address emphasized on the role of Cost and Management Accountants in helping SMEs as a bridge maker between the revenue authorities and businesses. He also explained initiatives taken by the Government of India including for e-filing of various forms and communications for speedy compliance of various procedures and reducing the cost of transactions. He hoped that with new GST regime, the Profession and the ICWAI will help the authorities and businesses as usual for smooth transactions, better compliance and growth of national economy in general.

CMA Somnath Mukherjee, CCM, ICWAI, in the beginning analyzed new provisions of GST and DTC and special role expected of the Profession for smooth transition. CMA Y.S. Thakkar, Chairman, Baroda Chapter of Cost Accountants proposed vote of thanks.

The final technical session on **‘Financial Products for SMEs’** and **Valedictory session** was chaired by CMA V.C. Kothari, Chairman, Research & Journal Committee of ICWAI and Chairman, CMA Research & Training Centre Committee of WIRC. CMA Ashish P. Thatte, Programme Coordinator and WIRC Bulletin Editorial Board Member, introduced the Guests.

Mrs. G. Rita, Deputy General Manager-SME, State Bank of India presented details of products and services offered by SBI for SME sector particularly Stree Shakti (Plan for Women Entrepreneur) Seed Capital for Professionals and open loan facilities, vehicle loans, equipment loan, international trade finance, etc. She mentioned that the Bank has special SME Branches all over the country to facilitate businesses at a low cost in minimum time. Shri Ajay Kumar, Assistant General Manager – SME, IDBI Bank also highlighted various special products and facilities for SMEs, including for long term assistance. Shri Saji Cherian, Head, Corporate Services & Business Developments, MCX Stock Exchange mentioned various facilities offered by his exchange for SME. He especially mentioned efforts made by the Exchange to promote SME exchanges all over the country to provide long term finance for SME sector.

CMA Shyamal Acharya, Chief General Manager, SBI, Guest of Honour of the Valedictory Session congratulated the Institute in organizing this Seminar and providing an opportunity for interaction between financial institutions, MCX Stock Exchange and Chamber of Commerce and Industry and Professionals to discuss various problems faced by SMEs. He hoped that the members of the Institute will assist SMEs in managing operations efficiently and for planning growth. He assured assistance by his Bank in particular and the entire banking system in general for the growth of this important sector in the national economy.

CMA V.C. Kothari, in his concluding remarks summarized the proceedings for the day and announced that considering to deliberations at the Seminar, the Institute will make efforts for co-coordinating efforts of SME Chambers, Banks, Direct and Indirect Taxes Authorities, Government Organizations, Professional Institutes and Industries, in setting up advisory services to improve the operations of SME sector with the help of Institute's Regional Offices and Chapters. He also emphasized that the Institute has brought out a Special Issue of its journal – The Management Accountant, on Cost and Strategic Management for growth of SME Sector, which has been distributed to the participants today. Similar special issues have been planned on Direct Tax Code, Goods and Service Tax, new Companies Act, etc., which will have special articles for SME sector also. He requested all the stake holders to support the Institute in this direction.

CMA Manubhai K Desai, Chairman, WIRC assured to provide services of the Regional Council and the Institute for assisting the SME Sector in general and the businesses in particular.

CMA P.V. Wandrekar, Hon. Secretary, WIRC proposed vote of thanks for the whole Seminar.



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