Customers tryst with GST: Here is what is required to ensure swift adoption

Given that a lot of changes in customs procedure and FTP are being introduced at the last minute and at breakneck speed, it is important for businesses to keep an eye on the ball and evaluate the impact of such changes.

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The industry will have to continuously and pro-actively be engaged at each step of the GST roll-out and its interplay with customs and FTP to ensure swift adoption.

The roll-out of the goods & services tax (GST) is triggering a major revamp in the customs and the foreign trade policy space, where 'exemptions'-driven customs duty structure and 'loose engagement' with domestic transaction taxes like VAT is being replaced with 'minimal IGST exemptions' and 'tighter engagement' between customs and GST on international supply chain which extends and integrates with domestic supply chain. While changes are significant, all the modifications have not yet been identified and defined, which makes the task of sizing the effort required to tide the challenge a difficult one. It would need additional focus and energy to rethink and rewire various aspects of import-export of goods, foreign trade policy (FTP), GST, etc, into operating matrix of the business. At the government-end core of customs processes, documentation and reporting requirements are being rewired more closely and tightly with GST compliances, documentation and reporting. The requirement of declaring the GST Identification Number (GSTIN) of an entity finding a mention in the bill of entry and shipping bill, PAN of an entity becoming the default import-export code (IEC) number, revenue and expenses to be tagged with harmonised system nomenclature (HSN)-based classification of goods for reporting in GST returns, change in costing of goods because of increased availability of credit, and reduced number of customs duty exemptions are a few elements of the emerging new normal in customs' tryst with GST.

This list is just an illustration of the changes already announced and available in public domain; many more such changes are expected as the FTP gets redrafted and details of customs' exemption notifications are revisited. These changes are aimed to realise the vision of 'one country, one tax' and take it to the next level of 'one supply chain, one credit chain'. This was not the case in the past, where elements of the import-export supply chain attracting levy of customs were fairly independent with the domestic supply chain attracting levy of VAT—no need for classification, valuation or credit alignment.

In fact, the changes being triggered by the GST roll-out are not limited to reporting and compliances only. These are nudging a more fundamental shift in the operating structure of the government and business; it is redefining the role and responsibility of the tax administrative machinery in government and industry. At the government-end, as reported in the media, the administrative machinery dealing with imports and exports is getting rewired, i.e. the role of the Directorate General of Foreign Trade (DGFT) is proposed to be merged with that of the Central Board of Indirect Taxes & Customs (CBIC)—currently Central Board of Excise & Customs (CBEC). This is a big change where the role of the ministry of commerce is getting realigned with the role of the ministry of finance as far as international trade in goods is concerned.

It is being seen in GST that the government is leading the change and industry is following the path of change. It is expected that the change in industry operating structure will follow. At the industry-end, there would be need for a more centralised and empowered command structure to force realignment amongst various roles and responsibilities of stakeholders getting impacted by GST in different ways. For example, the HSN classification of goods at the time of import, which until now was a relevant topic of conversation only between the customs and importer-exporter, will become a need for alignment between multiple external stakeholders, i.e. business, supplier, customers, customs and GST authorities, besides internal stakeholders. GST will throw up new challenges of coordination for convergence amongst various stakeholders—external and internal.

Another illustration of the need for coordinating and centralised command emerges from the requirement to tag line items of expenses and revenue numbers with HSN classification of goods for the purpose of GST reporting. In addition, merging of the international supply chain with the domestic, the GST supply chain would result in change in costing of goods and hence the industry must define a new price point for the sale of goods. Add to it the constraint of the anti-profiteering law, and the industry gets an interesting task at hand—to strike a fine commercial balance while changing the price points of goods. This would require closer integration with the pricing and marketing team to understand the unbundling of credits from the import cost and thus meeting the competing expectation of the market, shareholders and the government.

Considering that a lot of these changes in customs procedure and FTP are being introduced at the last minute and at breakneck speed, it would be important for the business to keep an eye on the ball and continuously evaluate the impact of these changes. Industry needs to be continuously engaged with the government for advocacy of genuine concerns and pain points.

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An example of advocacy is in relation to the need for declaring the GSTIN in the bill of entry. This will allow credit of IGST paid at the time of import. The bill of entry format circulated by the CBEC allows a single GSTIN per bill of entry or shipping bill; however, from a business perspective, one import shipment may carry goods for multiple locations of the same entity having different and unique GSTIN. The limitation of a single GSTIN per bill of entry or shipping entry poses an artificial restriction on the importer-exporter to plan and split the shipment as per the location of GSTIN registration address.

Given that, should it not be an advocacy point that each line item in the bill of entry should be allowed to have a GSTIN or each page of bill of entry should be allowed to have a GSTIN, depending on the place of supply and the state of consumption of goods covered in the line items or the page of the bill of entry, thus allowing multiple GSTIN per bill of entry, per IEC/PAN? This flexibility is available in the format of courier bill of entry where under one IEC number of the courier company, multiple GSTIN of each of the customer can be declared. The government should consider allowing the flexibility of separate GSTIN for each line item of bill of entry or separate GSTIN for each page of the bill of entry.

All in all, it is evident that industry would have to continuously and pro-actively be engaged at each step of the GST roll-out and its interplay with customs and FTP to ensure a swift adoption of the change from compliance perspective and concurrent feedback for course-correction required from the government. The finance minister summarised it well when he said, “The first principle is you should not blink. If you blink, you get derailed.”

These are interesting times and each one of us has an opportunity to contribute in successful adoption of this important economic reform and also to the evolution of the law by lending our bit to the thought process. I would borrow from the finance minister to say “nobody has any business not to be ready” in India’s tryst with GST, so let’s apply ourselves fully to the success of this momentous event.

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