

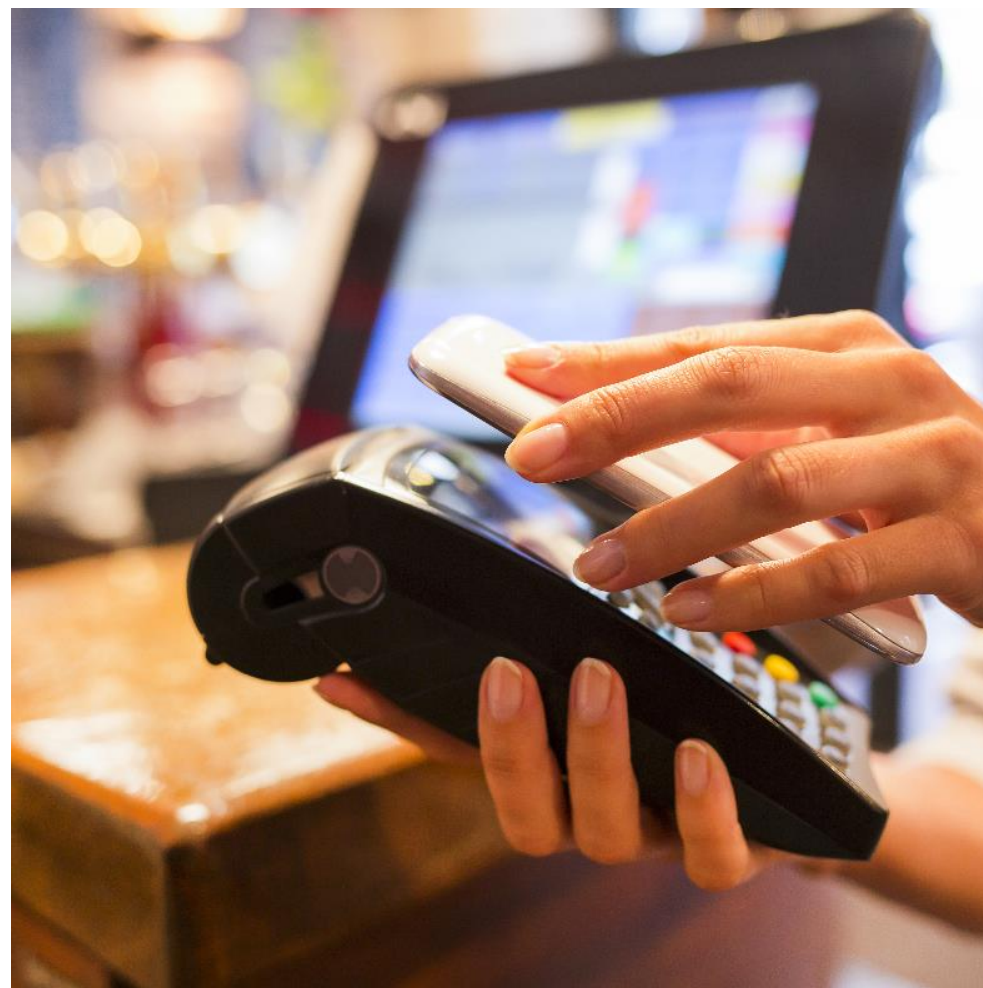
**Deloitte.**



**GST Era Beckons:**  
Outlook on Petrochemical Industry

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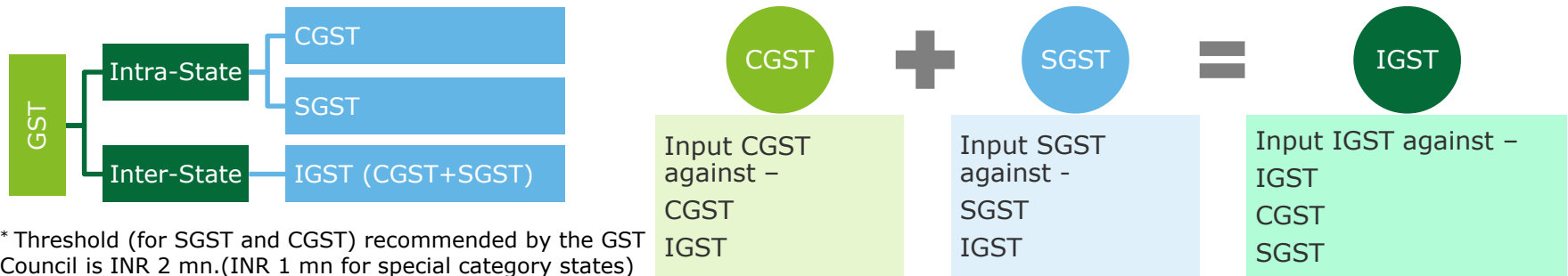


# GST Framework in India

## Dimensions of the proposed GST

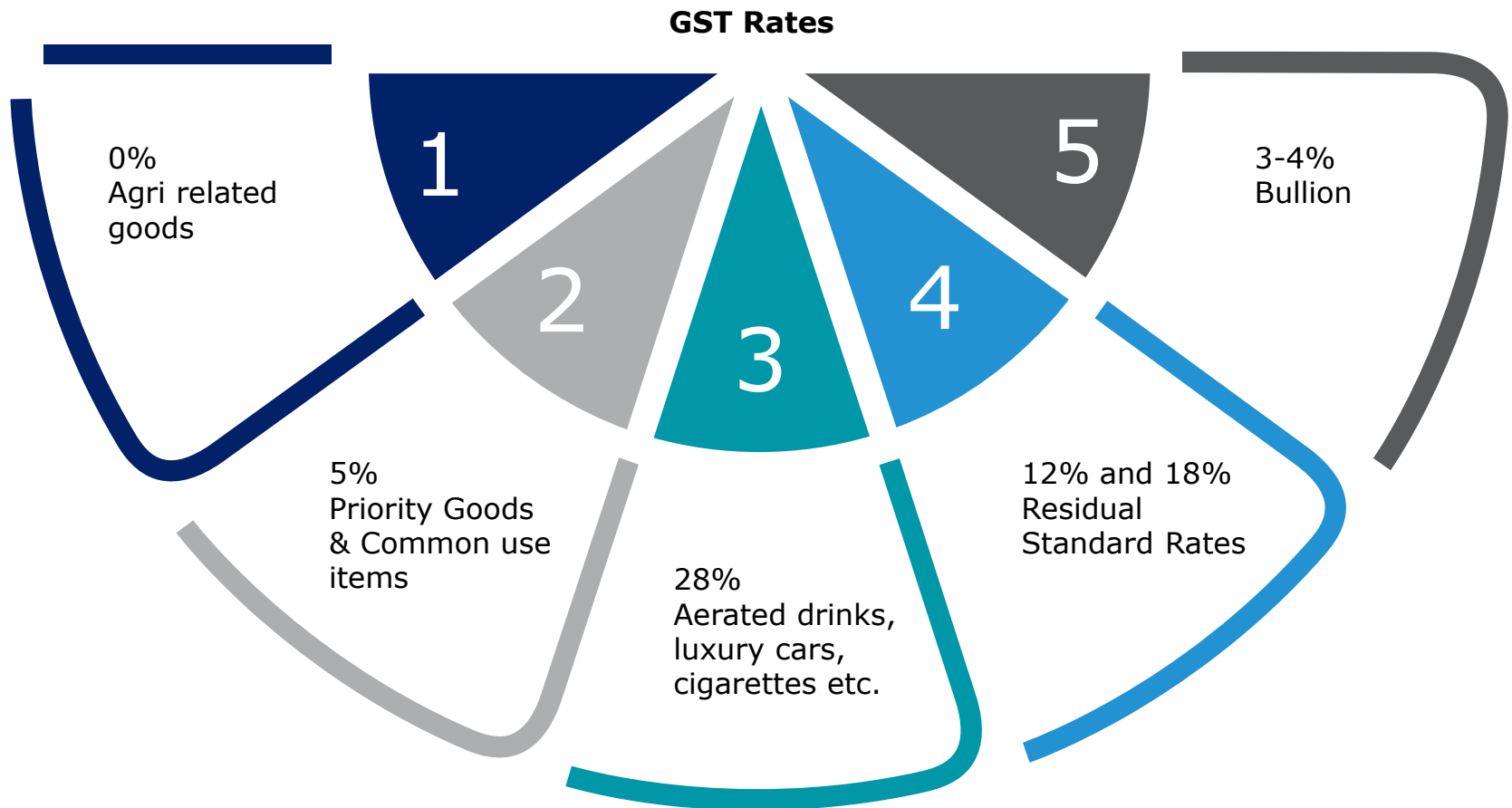
What are the dimensions of significance?

- **Taxation based on destination based consumption principles**
- **Dual GST:** Central GST (CGST) and State GST (SGST) to **operate concurrently** on supply of goods and services
- **Inter-State transactions** subject to **Integrated GST (IGST)** which will be **aggregate of CGST and SGST**
- **Taxable event of 'supply'** as against multiple taxable events for levy of present indirect taxes
- **Cross utilization** of CGST and SGST credit will not be permitted except under IGST
- Exports and supplies to SEZ to be zero-rated
- **Imports would be subjected to IGST** on destination principle; SGST component of IGST to be appropriated by State where supplies get consumed
- EOU to be treated at par with DTA units except benefit of Basic Customs Duty on import.



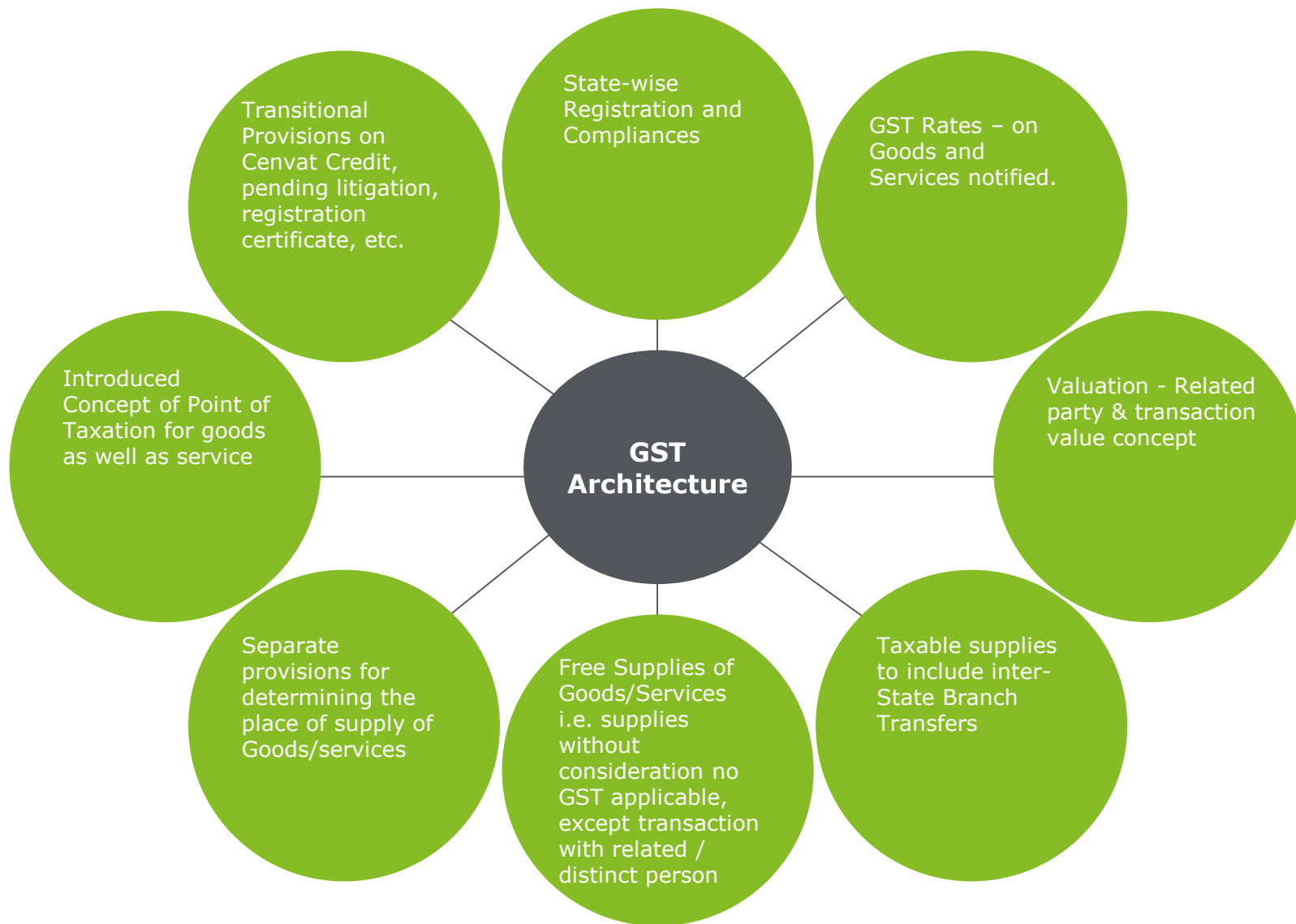
\* Threshold (for SGST and CGST) recommended by the GST Council is INR 2 mn. (INR 1 mn for special category states)

# GST rates



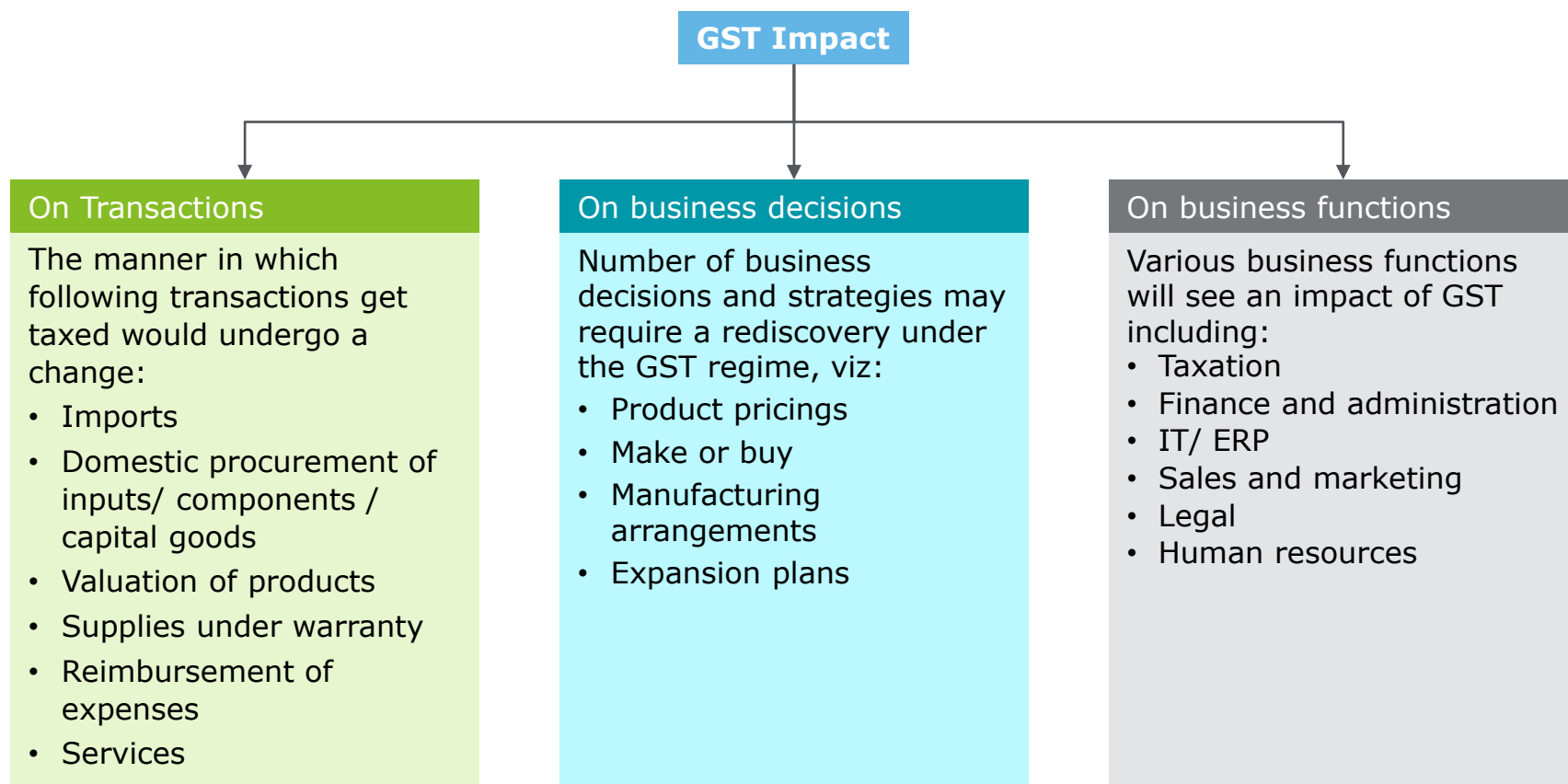
# GST Model Law

## Broad architecture






# Impact of GST

GST will have a multi-fold impact on different segment/operations, which can be summarized as below:





# GST Implications

	Pre GST Scenario	GST Scenario	Impact
Taxable Events	<p>Multiple Taxable events which includes:</p> <ul style="list-style-type: none"> <li>• Manufacture</li> <li>• Sale</li> <li>• Service provided / Agreed to be provided</li> </ul>	<p>Only one Taxable event which is called "Supply".</p> <p>GST is payable on "Supply of goods / Services".</p>	
Supply of goods / services b/w branches in different states	Intra-entity supply of goods / services are not liable to tax	Supply of goods / Services between distinct persons i.e. branch offices in different states is a taxable supply in GST regime	
Input Tax Credits	<p>Tax Credit on Interstate purchases are not available.</p> <p>Requires reversal of proportional Tax Credit to the extent of exempt supplies.</p>	<p>Credit of Inter-state transaction tax (IGST) is now available.</p> <p>Tax credit available to the extent of taxable supplies including zero-rated supplies.</p> <p>Option for banking industry to avail 50% of eligible input tax credit</p>	

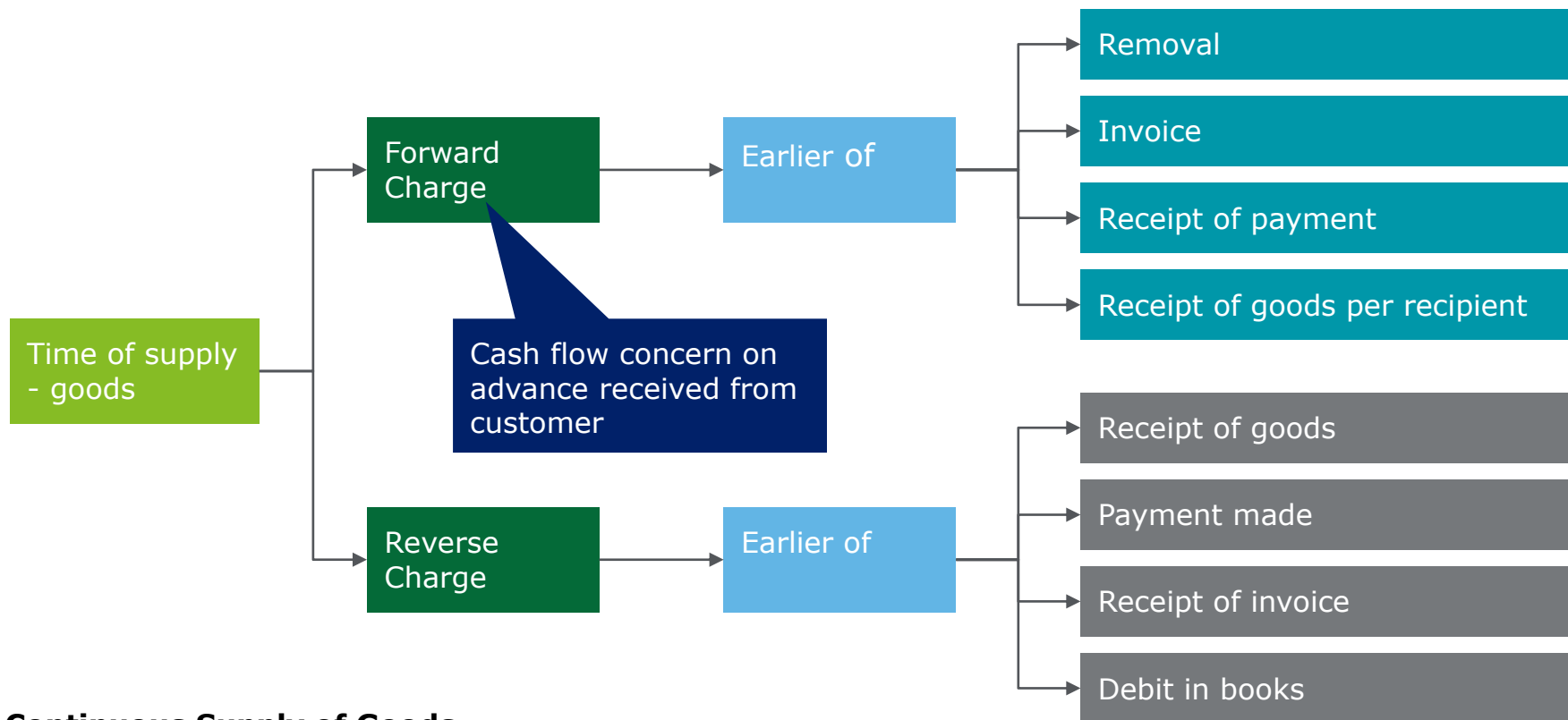


# GST Implications

	Pre GST Scenario	GST Scenario	Impact
Tax invoices	Under the present indirect tax regime, supply of goods and services to be made under the cover of an appropriate invoice.	Additional disclosures in the invoice viz. HSN code, SAC code, location of recipient, etc. required in GST regime	
Compliance & Return filings	Under present scenario, 10 returns (avg.) are required to be filed annually under Service Tax, VAT and CST laws	Under GST, the compliance burden would increase manifold. At least 37 instances of filings per registration would be required.  Additional compliance burden - <b>Anti profiteering</b> compliance.	



# Time of Supply of Goods



## Continuous Supply of Goods

- If successive statement of accounts or payments are involved – Date of expiry of the period to which such statements/payments related to
- If no successive statement of accounts or payments are involved – Earlier of Date of Invoice or Date of Payment

# Place of Supply of Goods

Supply involves movement of goods – sale of goods

- Location where movement terminates for delivery to recipient

Where goods are delivered before or during movement of goods (bill to ship to)

- Principal place of business of person to whom goods are transferred

Supply does not involve movement of goods

- Location of goods at the time of delivery to recipient

Where goods installed or assembled at site

- Place of installation or assembly

# Input Tax Credit

## Meaning

Input Tax Credit refers to credit of IGST/CGST/SGST paid on supply of goods/services for use in course or furtherance of business



## Time Limit to take credit

Within **one year** from the date of invoice subject to earlier of

- filing of **September return** following end of the financial year to which invoice relates or
- filing of relevant **annual return**



## Conditions for availing ITC

Invoice/supplementary invoice/debit note from a registered supplier

Goods/services are received and taxes are paid to appropriate Government

Furnishing of return

Where goods are received in installments, then credit can be availed after receipt of last lot.

Where inputs/capital goods sent on job work- received back within 180 days/2 years respectively, if not, credit to be reversed



## Reversal Requirements:

ITC available only to the extent used for business purposes (in case of partial supplies)

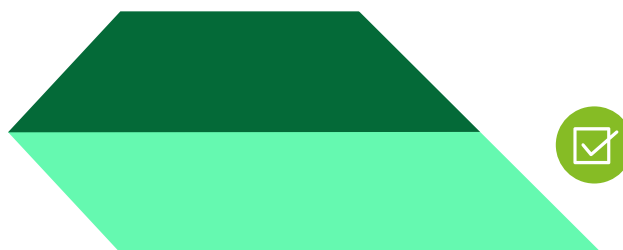
ITC available only to the extent used for taxable supplies (in case used for taxable/non-taxable/exempt supplies)



# Transitional Provisions

## Input tax Credit

Closing balance of credit as per earlier law to be carried forward and allowed only when the credit is allowed under both earlier law and GST law



## Price Revisions

Any tax payable or tax reduction on account of price revisions upward/downward after the appointed date will be considered under GST



## Existing Litigation

Existing litigation would be assessed as per the provisions of the earlier law



## Periodic Supply of Services

GST is not payable if the supply of service has already been completed before the appointed date and tax has already been paid under earlier law

# Impact on Petrochemical Products

# Petrochemical Products : An Understanding

Petrochemicals, also called petroleum distillates, are chemical products derived from petroleum.

Primary petrochemicals are divided into two groups depending on their chemical structure:

1. Olefins includes ethylene, propylene, and butadiene. Ethylene and propylene are important sources of industrial chemicals and plastics products. Butadiene is used in making synthetic rubber.

2. Aromatics includes benzene, toluene, and xylenes. Benzene is a raw material for dyes and synthetic detergents, and benzene and toluene for isocyanates MDI and TDI used in making polyurethanes. Manufacturers use xylenes to produce plastics and synthetic fibres.

## Uses:

Olefins and Aromatics are the building-blocks for a wide range of materials such as solvents, detergents, and adhesives. Olefins are the basis for polymers and oligomers used in plastics, resins, fibers, elastomers, lubricants, and gels.



# Petrochemical Products : An Understanding

## Sources required for manufacturing petrochemicals:

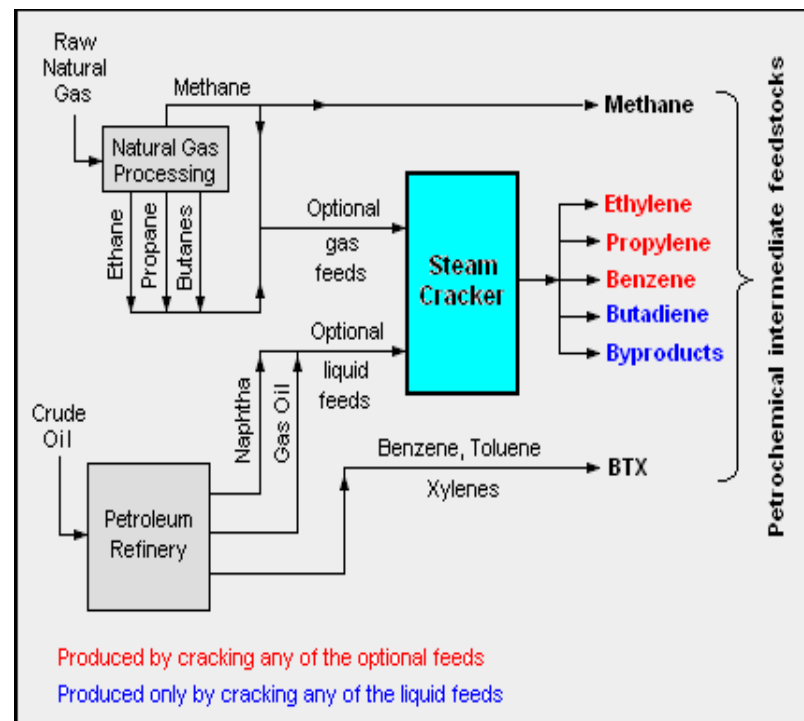
Methane and BTX are used directly as feedstocks for producing petrochemicals. However, the ethane, propane, butanes, naphtha and gas oil serve as optional feedstocks for steam-assisted thermal cracking plants referred to as steam crackers that produce these intermediate petrochemical feedstocks:

1. Ethylene
2. Propylene
3. Butenes and butadiene
4. Benzene

## How it is produced:

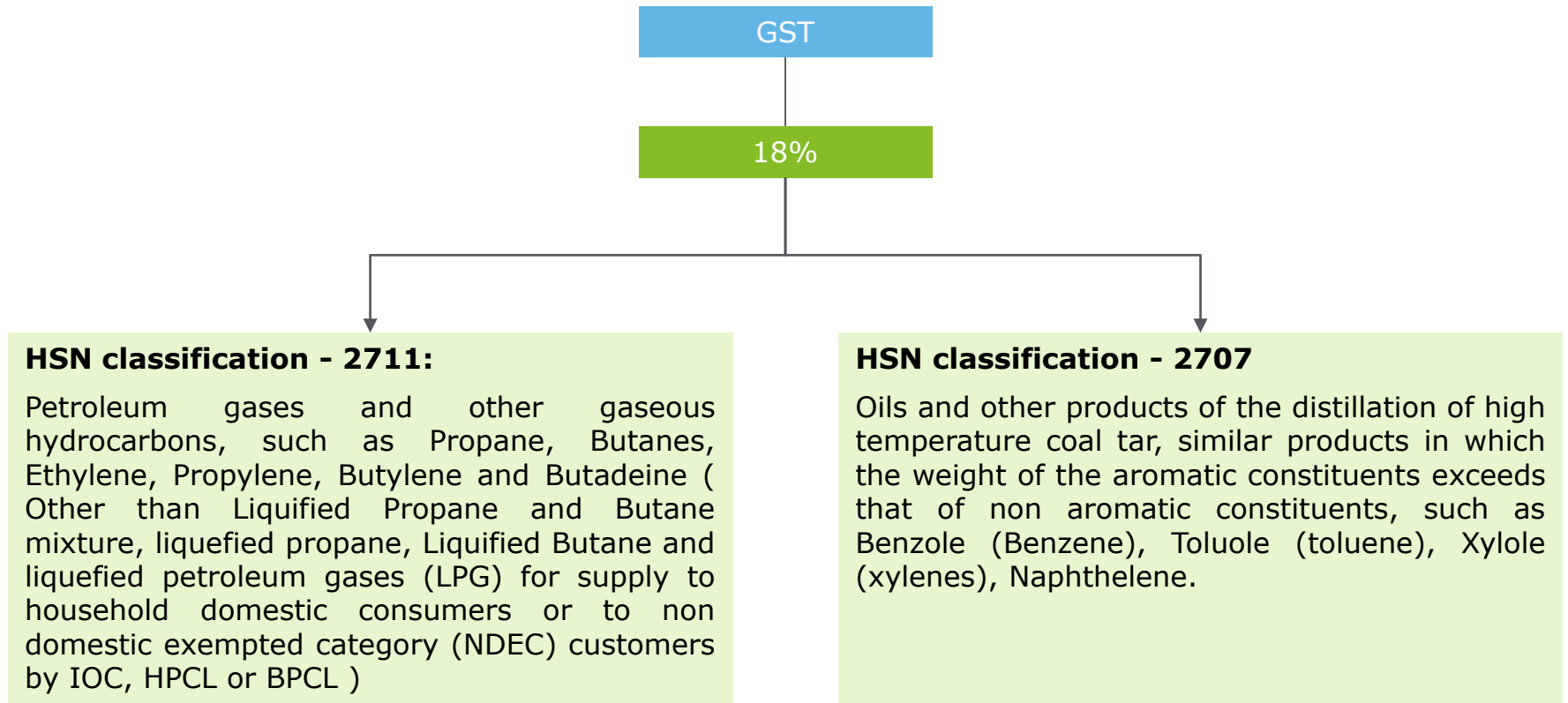
Many petrochemicals are produced using extreme temperatures (over 1500 °F) and pressures (over 1000 psi). This process requires large amounts of energy and sophisticated engineering. Because of these extreme operating conditions, energy consumption accounts for a significant portion of the total cost of production.

As energy costs rise, the cost of doing business also rises. Access to inexpensive and reliable energy sources (such as natural gas) is essential for ensuring the petrochemical industry remains competitive in an increasingly global marketplace.



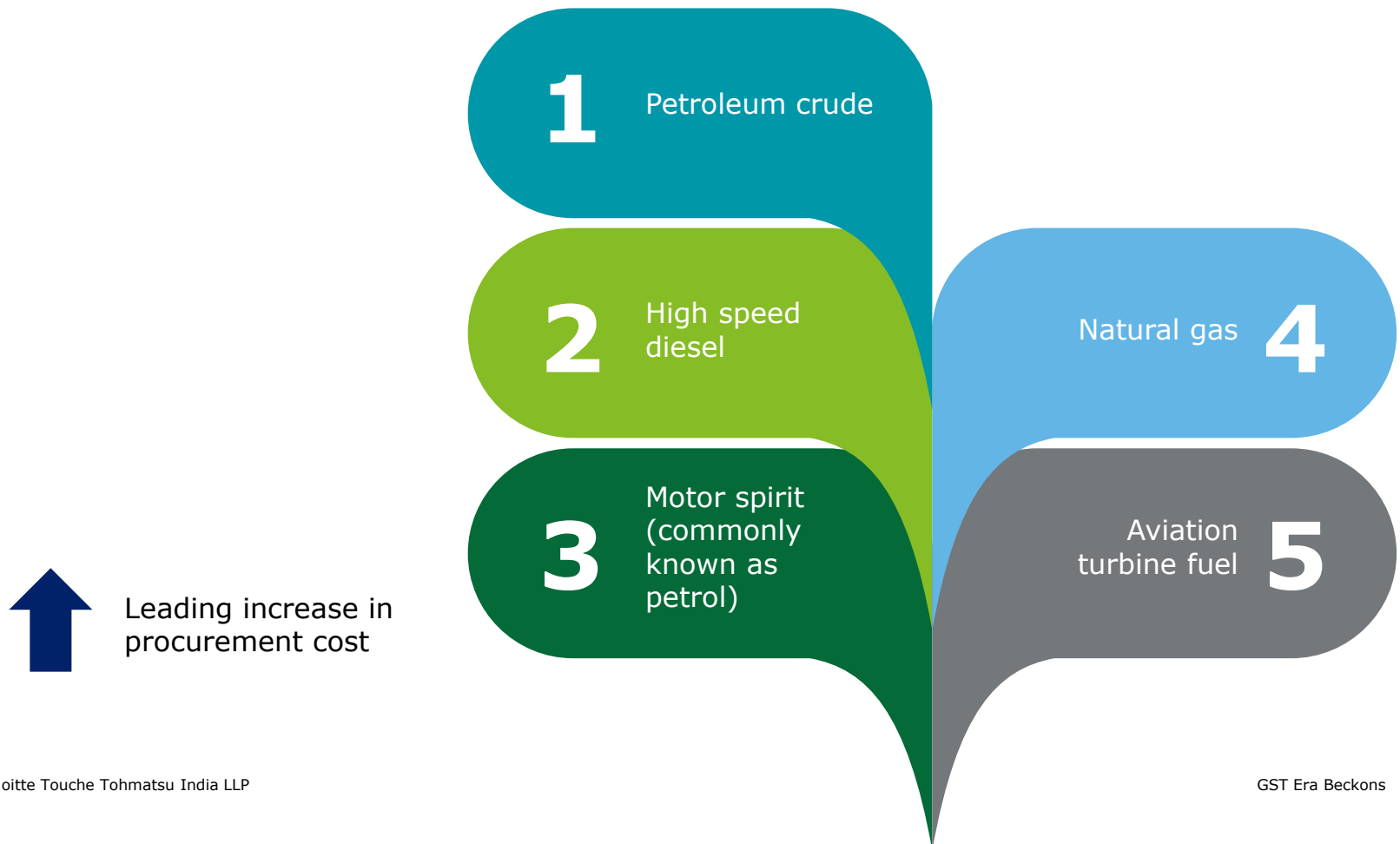


# GST rates:



# Fate of getting input tax credit:

Following products are kept outside GST ambit for time being, meaning thereby earlier taxes / duties shall continue to be required to be paid on procurement and accordingly cannot be adjusted against output GST liability.



# Exemption granted

Description	Remarks
Service provided by the Central Government, State Government, Union territory or local authority by way of registration required under any law for the time being in force	Notification exempts the service provided by Central/State Government, Union Territory or local authority for any fees charged for registration under any law for the time being in force
Service provided by the Central Government, State Government, Union territory or local authority by way of testing, calibration, etc.	Notification exempts the services provided by Central/State Government, Union Territory or local authority for any fees charged for testing or calibration required under any law for the time being in force. There may be regular requirement for sending sample goods for testing to the authorized laboratory maintained by governmental authority
Assistance of agent for getting registration or complying with the testing/calibration requirement of the company	Since the fees paid for registration or for testing fees are exempted, even though paid by agent to governmental authority and subsequently claimed as reimbursement, it shall be exempted for payment from GST

# Transition related issues

- Capital goods invoice pre GST implementation date, but received post GST implementation date
- Availability of input tax credit of the inputs held in stock and inputs contained in semi-finished or finished goods held in stock as on the GST implementation date
- Whether one year limit shall be applicable in case of stock for which there is no duty paying documents.
- GST impact in regard to service and invoice received in pre GST era, but invoice received physically post GST implementation date
- GST impact on goods sent to job worker prior to GST implementation date
- GST impact on goods return, which were sold prior to GST implementation date and returning back in post GST implementation date
- GST impact in regard to upward or downward revision of price of the goods sold prior to GST implementation date
- Fate of the refunds claim made under pre GST era.
- Fate of input tax credit of the tax eligible and availed in pre GST era
- GST impact of goods/services tax on which was leviable under the earlier laws

# Broad Impact Areas – Compliance and Migration

## Forms/Layouts

- Tax Invoice
- Bill of Supply
- Receipt Voucher
- Payment Voucher
- Self Invoicing
- Invoice by Input Service Distributor
- Sales Order Form
- Purchase Order Form
- Debit Notes and credit notes

## Books of Accounts for each place of business

- Production or manufacture of goods
- Inward supply of goods/services
- Outward supply of goods/services
- Stock statements
- Details of input tax credit
- Details of output tax payable

## Chart of Accounts

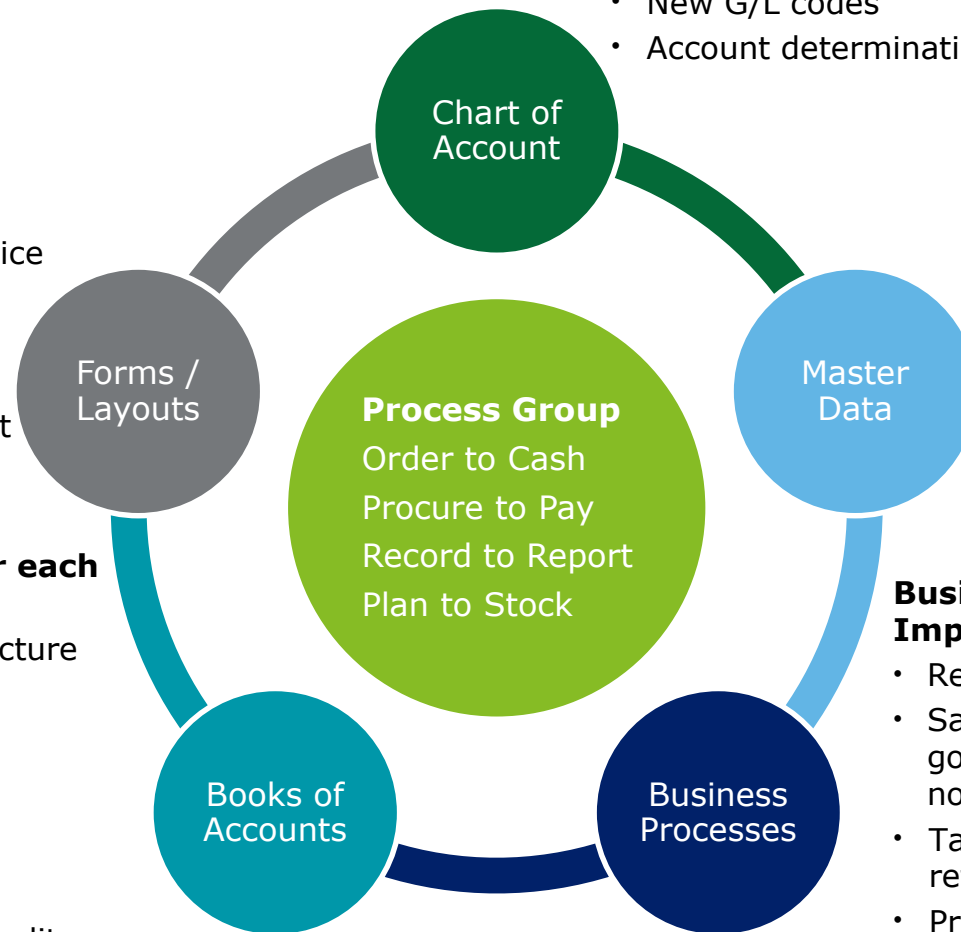
- New G/L codes
- Account determination

## Master Data

- Registration details and place of business
- Tax categories, Tax codes
- Access Sequences

## Business Processes Impacted

- Registrations
- Sales and purchases of goods and services, Debit notes, credit notes, etc.
- Tax payments, Filing of e-returns
- Processes handled in peripheral systems (CRM, SRM, Dealers Management etc.)

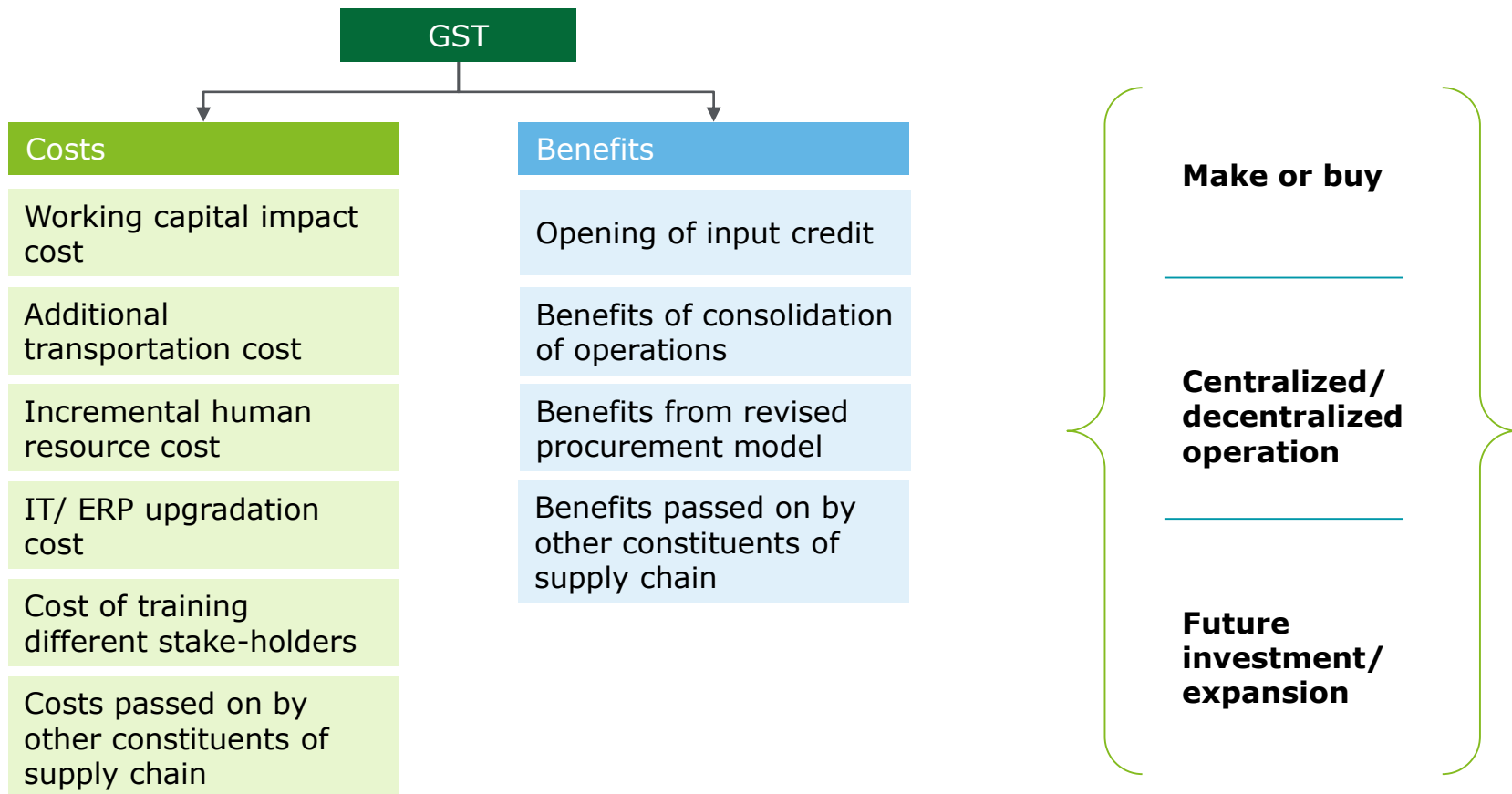


# Business Impact – Complete Process Re-engineering?

- A complete **reassessment of the processes and procedure for the procurement models** of the companies
- **Re-structuring of the existing contracts** on account of change in taxability, change in pricing model, change in delivery/supply model etc.
- **Review of the pricing policies** and sales structures along with the supply chain teams
- Examining procedures in relation to the distribution channels, warehousing, stock transfers, local vs. inter-state purchases etc.
- Re-evaluate the **working capital requirements** for the business
- Analyze the changes in tax cost, tax credits, working capital requirements, etc. under existing and GST regimes
- Review of the documentation / record aspects under GST, viz. Invoicing requirements, Maintenance of records and registers, Preservation of records, Continuity of Concessional Forms etc.

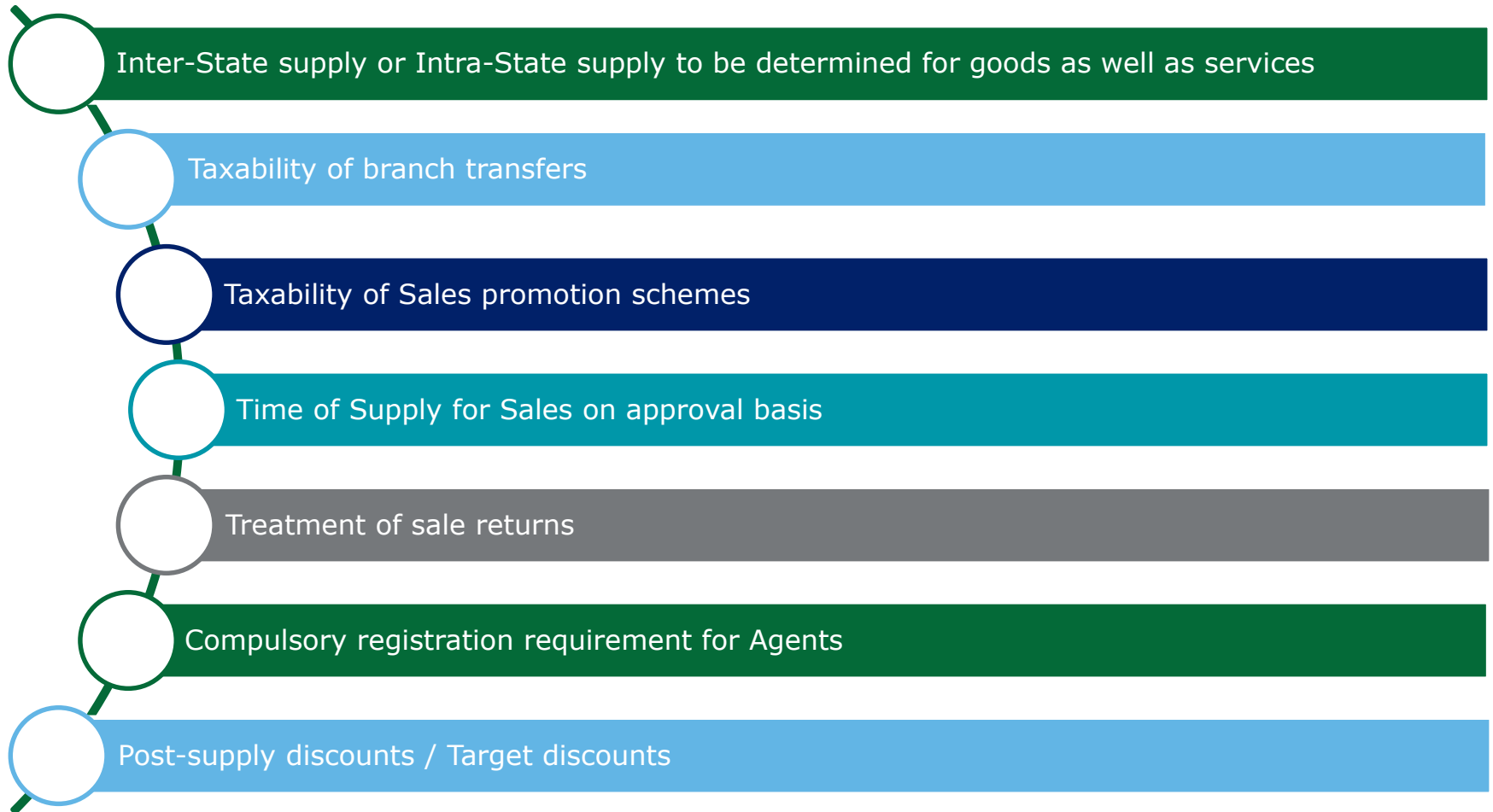
# Broad Impact Areas-Strategy/ Business decisions

GST may result into **incremental costs** for companies. Similarly, GST has potential of bringing in **incremental benefits** for organizations. The potential costs and benefits may include:





# Broad Impact Areas- Sales and Marketing





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