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# "A Study of GST Implementation & It's Impact Assessment in RCF Ltd."

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***ABSTRACT***

*The concept of Goods & Service Tax is a "Dual Taxation system" in consideration of India as a Nation & it is popularly known by the name of GST. Firstly, in India the idea of GST was developed in the regime of Atal Bihari Vajpayee Government in 2003 & then afterwards it got implemented in 1 July 2017. Dual taxation system means it has two components i.e. Central GST & State GST which is expected to simplify tax structure & pay in as single tax component.*

*This paper highlights of the impact assessment & implementation of GST in Rashtriya Chemicals & Fertilizers Ltd. Henceforth it gives idea about the effect of it on various Fertilizers & Chemical industries around the Nation (India). At a consumer level, GST would reduce the overall tax burden & allow them to claim Input Tax Credit. Though Various GST Returns are to be implemented in practices by government it has mixed response in general as well as in industrial sectors.*

***Keywords:*** *Goods and Service tax; Indian economy; Indirect tax, Input tax Credit, Other impact areas.*

## 1. INTRODUCTION

This report provides information regarding the Goods & Service Taxation process adopted by the company, and the GST's Impact on RCF Ltd.

## 2. Conceptual Background

The possibility of GST was first mooted in 2003, amid the administration of Atal Bihari Vajpayee and it at last turned into a reality on July 1, 2017! This postponement of 14 years was a direct result of different legitimate obstacles. Presentation of the GST required revisions in the Constitution to at the same time enable the Center and the States to impose and gather this duty. The Constitution of India has been corrected by the Constitution (101st Amendment) Act, 2016 for this reason. Article 246A of the Constitution enables the Center and the States to impose and gather the GST.

GST in India is a DUAL TAX. India has a government structure where both the Center and the States have been allocated the forces to impose and gather assesses through fitting enactment. Both the levels of Government have particular duties to perform as per the division of forces endorsed in the Constitution for which they have to raise assets. A double GST is, thusly, be with regards to the Constitutional necessity of financial federalism.

## 3. Review of Literature

Mukhopadhyay Sukumar (2005): His examination uncovers that Revenue development is the most vital perspective by which to pass judgment on the accomplishment of VAT in Haryana. The esteemed development of income assessed by the Commercial Tax Bureau of Haryana, in any case, has not considered various positive variables. As Haryana actualized VAT just in 2003, one year is too short a period to pass judgment on its proficiency from an income purpose of see. The end is that the plan of VAT presented in Haryana is unexceptional

Nishitha Guptha (2014) in her investigation expressed that execution of GST in the Indian system will prompt business benefits which were immaculate by the VAT framework and would basically prompt financial improvement.

Jaiprakash (2014) in his examination contemplate said that the GST at the Central and the State level are normal to give more alleviation to industry, exchange, agribusiness and buyers through a more exhaustive and more extensive inclusion of information assess set-off and benefit impose setoff, subsuming of a few expenses in the GST and eliminating of CST.

Saravanan Venkadasalam (2014) has dissected the post impact of the merchandise and administration impose (GST) on the national development on ASEAN States utilizing Least Squares Dummy Variable Model (LSDVM) in his examination paper. He expressed that seven of the ten ASEAN countries are as of now actualizing the GST. He additionally proposed that the family last utilization use and general government utilization use are emphatically altogether identified with the total national output as required and bolster the financial speculations. Be that as it may, the impact of the post GST contrasts in nations.

## 4. Research Methodology

### 4.1Topic of Research:

"A Study of GST Implementation & It's Impact Assessment in RCF Ltd."

### 4.2 Aim & Objectives of Research:

1. To analyse the GST implementation & it's impact involved in taxation system of RCF Ltd.
2. To analyse the taxation process in RCF Ltd.
3. To understand the need of GST and procedure for claiming such Input Tax Credit.

### 4.3 SCOPE OF STUDY ON GST IMPLIMENTATION IN RCF LTD.

The scope of the project is limited to the understanding of GST implementation in the RCF Ltd company. The process includes fetching various Purchase Registers, General Ledgers of various purchases, reporting process using SAP server and how Input Tax Credit is claimed from the government for complex fertilizers and urea & over various IPD products.

### 4.4 HYPOTHESIS:

H1: - There is significant relationship of GST taxation system's Implementation on RCF Ltd.'s Cash Flow System & Other Areas of it.

$H_0$: - There is no significant relationship of GST taxation system's Implementation on RCF Ltd.'s Cash Flow System & Other Areas of it.

### *4.5 Research Methodology*

1. Primary Data: The primary data is collected through:
a) Discussions with the Finance managers of RCF.
b) Discussions with other employees in RCF.
c) Practical experience gained by working in RCF.

2. Secondary Data: The secondary data is collected through:
a. Data and Files of RCF
b. Internet
c. Media & Meetings of GST Council

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## 5. Data Analysis & Data Interpretation:

FINANCIAL HIGHLIGHTS AT A GLANCE

| Sr. No. | PARTICULARS | 2017-18 As per Ind AS | 2016-17 As per Ind AS | 2015-16 As per revised Schedule VI | 2014-15 As per revised Schedule VI | 2013-14 As per revised Schedule VI | 2012-13 As per revised Schedule VI | 2011-12 As per revised Schedule VI | 2010-11 As per revised Schedule VI | 2009-1 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Turnover (Gross Sales+ Subsidy + Other Income) | 7514.64 | 7450.74 | 9013.43 | 8057.65 | 6877.89 | 7102.49 | 6662.36 | 5671.60 | 5826. |
| 2 | Profit before Interest (Net), Depreciation and Tax (EBIDTA) | 319.19 | 478.34 | 573.24 | 887.29 | 628.59 | 612.72 | 531.24 | 476.74 | 439. |
| 3 | Depreciation | 137.04 | 141.10 | 145.13 | 258.12 | 141.75 | 173.15 | 142.44 | 112.62 | 75. |
| 4 | Interest [Net] | 53.81 | 88.51 | 135.93 | 111.38 | 119.90 | 59.09 | 12.75 | 9.65 | 19. |
| 5 | Prior year Adj. - Expenses / (Income) | 0.00 | 0.00 | 1.08 | 8.16 | (0.38) | 0.36 | 1.59 | (0.22) | 0. |
| 6 | Exceptional Items | 0.12 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0. |
| 7 | Profit / ( Loss ) Before Tax | 128.22 | 248.73 | 291.10 | 509.63 | 367.32 | 380.12 | 374.46 | 354.69 | 344. |
| 8 | Tax Provision ( Net of Adj.) | 49.42 | 69.47 | 99.87 | 187.57 | 117.43 | 99.22 | 125.22 | 109.57 | 109.3 |
| 9 | Profit / (Loss ) After Tax | 78.80 | 179.26 | 191.23 | 322.06 | 249.89 | 280.90 | 249.24 | 245.12 | 234.8 |
| 10 | Dividend | | | | | | | | | |
| | Rate % | 6.00 | 11.00 | 11.00 | 18.00 | 15.00 | 15.00 | 14.00 | 11.00 | 11.0 |
| | Amount : | 39.91 | 73.04 | 73.04 | 119.52 | 96.79 | 96.81 | 89.77 | 70.53 | 70.7 |
| | Dividend Payout Ratio % | 50.64 | 40.75 | 38.19 | 37.11 | 38.73 | 34.46 | 36.02 | 28.77 | 30.1 |
| 11 | Working Capital | 1544.05 | 1607.38 | 1465.03 | 1695.06 | 1378.73 | 1199.67 | 1116.04 | 1036.33 | 1933.6 |
| 12 | Capital Employed | 4388.64 | 4710.66 | 5564.75 | 4705.99 | 4333.38 | 4073.22 | 3423.14 | 2542.65 | 3176.3 |
| 13 | Net Worth | 2929.69 | 2925.02 | 2829.12 | 2710.93 | 2508.39 | 2355.29 | 2171.20 | 2011.73 | 1837.1 |
| 14 | RATIOS | | | | | | | | | |
| | Current Ratio [CA : 1] | 1.64 | 1.56 | 1.35 | 1.62 | 1.58 | 1.42 | 1.40 | 1.85 | 2.2 |
| | Debt Equity Ratio [Debts: 1] | 0.11 | 0.04 | 0.05 | 0.14 | 0.13 | 0.09 | 0.13 | 0.08 | 0. |
| | EBIDTA to capital employed % | 7.27 | 10.15 | 10.30 | 18.85 | 14.51 | 15.04 | 15.52 | 18.75 | 13.8 |
| | PBT to Capital Employed % | 2.92 | 5.28 | 5.23 | 10.83 | 8.48 | 9.33 | 10.94 | 13.95 | 10.8 |
| | PAT to Capital Employed % | 1.80 | 3.81 | 3.44 | 6.84 | 5.77 | 6.90 | 7.28 | 9.64 | 7. |
| | PBT to Net Worth % | 4.38 | 8.50 | 10.29 | 18.80 | 14.64 | 16.14 | 17.25 | 17.63 | 18. |
| | PAT to Net Worth % | 2.69 | 6.13 | 6.76 | 11.88 | 9.96 | 11.93 | 11.48 | 12.18 | 12. |
| | PAT to Equity % | 14.28 | 32.49 | 34.66 | 58.38 | 45.30 | 50.92 | 45.18 | 44.43 | 42. |
| | PBT to Turnover % | 1.71 | 3.34 | 3.23 | 6.32 | 5.34 | 5.35 | 5.62 | 6.25 | 5. |
| | PAT to Tounover % | 1.05 | 2.43 | 2.14 | 4.04 | 3.67 | 3.99 | 3.78 | 4.37 | 4. |
| | Earning per share Before Tax (₹) | 2.32 | 4.51 | 5.28 | 9.24 | 6.66 | 6.89 | 6.79 | 6.43 | 6. |
| | Earning per share After Tax (₹) | 1.43 | 3.25 | 3.47 | 5.84 | 4.53 | 5.09 | 4.52 | 4.44 | 4. |
| | EBIDTA to Turnover % | 4.25 | 6.48 | 6.42 | 11.12 | 9.23 | 8.71 | 8.05 | 8.49 | 7. |

**Financial Highlights of RCF Ltd of AY 2017-18 & past some years.**

What is Changing in GST…

| Pre GST Regime | GST Regime |
|---|---|
| 1.Restricted trade between States due to taxation structure | 1. Tax neutral regime , India to be one unified market. |
| 2.Tax on Manufacture, sales and provisions of services | 2. Tax on "Supplies"- Scope of term "Supply" extremely wide. |
| Extremely value3. Origin Based Taxation-tax accrues to origin state | 3.Consumption Based Tax-Tax to accrue to consuming State. |
| 4. Restricted Credit Regime | 4. Liberal Credit Regime (While Certain restrictions would still continue) |

GST IMPACT DRIVERS FOR RCF LTD.

| **Particulars** | **Impact Analysis** | **Broad Reasoning Of Impacts** |
|---|---|---|
| TOP LINE | NEGATIVE | Excise duty on traded goods |
| BOTTOM LINE | | Current tax costs which shall be negated under GST |
| -CST on procurements | POSITIVE | -CST paid on inter-state procurements will be subsumed under GST |
| -Ineligible Cenvat credit | POSITIVE | -Service tax on trading activities would be eligible under GST |
| Cenvat Reversal | POSITIVE | -Service tax reversal due to trading business shall not be required under GST |

| | | |
|---|---|---|
| -*VAT retention* | POSITIVE | -VAT retention on stock transfers, fuel(furnace oil and briquettes) and inter-state sale –no retention under GST |
| -Tax paid on procurement of Natural Gas | NEGATIVE | -Natural Gas is outside the purview of GST. Current applicable taxes will continue to be levied on and such taxes shall not be eligible as credits under GST. |
| -Ineligible credits under GST | NEGATIVE | -Service tax/ VAT credit on car-hire, personal consumption, civil construction, etc. shall be ineligible under GST –at an increased rate |
| **Cash flow** | | **Cash flow impact** |
| -Debtors | POSITIVE | GST shall be payable within 35 days while collection from customer is 30 days |
| -Creditors | NEGATIVE | GST credit shall be available within 35 days whereas payment to vendors is 30 days |
| -Imports | NEGATIVE | Increase in effective rate of duty on imports |
| -Stock transfers | NEGATIVE | Inter-state stock transfers become taxable under GST |

**Industry Background: -**

**PRE GST tax structure**

| **Nature of Tax** | **Fertilizers** | **Chemicals** |
|---|---|---|
| VAT(General RATE) | 6.00% | 6.00% |
| Excise Duty | 1.00% | 12.50% |
| Effective Rate | 7.06% | 19.25% |

**Tax structure under GST**

| **Products** | **TAX Rates** | **Remarks** |
|---|---|---|
| Fertilizers | 12% | • Increase in tax rate across supply chain will lead to price increase.<br>• Currently, credit was not allowed of excise duty, service tax and additional duties of customs on inputs and input services used in manufacture of fertilizers.<br>• However, under GST, input tax credit shall be available. |
| Chemicals | 18.00% | • There is marginal reduction in tax rate. Hence, the impact shall be minimal. |

- **DATA ANALYSIS**

**Likely Rates Under GST INPUTS**

| Particulars & Respective HSN Codes | Current Regime Excise VAT/ | | Effective Rate | GST Rate | IMPACT Analysis |
|---|---|---|---|---|---|
| | Duty | CST | | | |
| 1.Natural Gas (27111100) | Nil | 13.5% | 13.5% | 13.5% | NEGATIVE |
| 2.Methanol (29051100) | 12.5% | 2.00% | 14.75% | 18.00% | NEGATIVE |
| 3.Caustic Soda(28151200) | 12.5% | 5.5% | 18.7% | 18.00% | POSITIVE |
| 4.Neem Oil (15159020) | 6.00% | 6.00% | 12.36% | 5.00% | POSITIVE |
| 5.Sulphur(2802) | 12.5% | 2.00% | 14.75% | 18.00% | NEGATIVE |
| 6.Potassium Carbonite(28364000) | 12.5% | 2.00% | 14.75% | 18.00% | NEGATIVE |

Here Natural gas comes outside the purview of GST. Current applicable Taxes will continue to be levied on Natural Gas and these taxes are not allowed to i.e. are ineligible under Input Tax Credits Under GST Regime.

**Likely Rates Under GST Outputs**

| Particulars & Respective HSN Codes | Current Regime Excise VAT/ Duty | CST | Effective Rate | GST Rate | IMPACT Analysis |
|---|---|---|---|---|---|
| 1.Fertilizers | | | | | |
| 1.1 Urea (31021000) | 1.00% | 6.00% | 7.06% | 12.00% | NEGATIVE |
| 1.2 Suphala 15:15:15 (31052000) | 1.00% | 6.00% | 7.06% | 12.00% | NEGATIVE |
| 1.3Ammonium Nitrate Melt (31023000) | 12.5% | 6.00% | 19.25% | 12.00% | POSITIVE |
| 2.Industrial Chemicals | | | | | |
| 2.1. Ammonium Bi-carbonate (28362090) | 12.5% | 6.00% | 19.25% | 18.00% | POSITIVE |
| 2.2 Sulphuric Acid (28070010) | 12.5% | 6.00% | 19.25% | 18.00% | POSITIVE |
| 2.3Concentrated Nitric Acid (28080010) | 12.5% | 6.00% | 19.25% | 18.00% | POSITIVE |

## DATA INTERPRETATION

### Impact on Exemption / Concessional Excise

### Pre GST Regime

- In respect of Fertilizers, RCF is paying excise duty under notification no. 12/2012 C.E. dated 17 March 2012 at the rate of 1 per cent.
- Conditions for availing benefit of above notifications:

-No CENVAT Credit to be availed on inputs and input services used to produce the said excisable goods

-No CENVAT Credit to be availed on additional duties of customs on inputs used to produced said excisable goods

### GST Scenario

- We understand that there would be minimal exemption under GST regime. Exemption/ Concessional rate benefit currently available to RCF will not continue and GST rate on Fertilizers is 12%.

### REMARKS

**Pros**

- Enhanced credits resulting in reduction of cost of procurements

**Cons**

- Increase in tax rate on output will result in increase in cost to final consumer.

### Impact On Subsidy Received from Government

### Pre GST Scenario

- Subsidy received from the Government in respect of sale of fertilizers is not liable to tax under current regime.

### GST Scenario

- Under GST regime, GST shall be charged on the transaction value.
- The value of supply under GST shall include, inter-alia, subsidies linked to supply, except Government subsidies.
- Hence, subsidy received from the Government will not be liable to GST.

## 6. OBSERVATIONS & FINDINGS

6.1 GST Planning in RCF Ltd through ERP

***Impact Areas for Businesses***

- *Pricing, Costing, Margins*
- *Supply-chain management*
- *Change in IT systems*
- *Treatment of tax incentives*
- *Treatment of excluded sectors*
- *Transaction issues*
- *Tax compliance*

***6.2 Role of Professionals in RCF Ltd.***

- *Tracking GST development*
- *Review of draft legislation and impact analysis*
- *Industry Consultation for improvement in business process*
- *Review of final legislation and impact analysis*
- *Implementation assistance*
- *Post implementation support*
- *Tax Planning*
- *Record Keeping*
- *Departmental Audit*

***6.3 Changes in ERP done in RCF Ltd***

*"Sales/Manufacturing" to "Supply" and Updating Masters*

- *State-wise Sales Records*
- Credit avail and utilization records
- Tax computations
- New formats for invoices/records/returns /declarations
- Validity of statutory form (Form F/Form C)
- Manner of payment of taxes
- New compliance Dates
- Documentation for movement of goods

## *7. RECOMMENDATION*

- As the implementation of GST in India is currently new & it is complicated to understand at once, it requires a lot of training and skills. The company should arrange for Modular

Training, GST training & SAP training at regular Intervals and impart knowledge regarding GST process to technical persons as well.

- Various Purchase & Sales related registers are to be filled with exact document types & related Tax codes for it.
- The IT cell of the company should continuously check related entries in SAP system, are filled rightly or not & should get into the details of it, so that all Purchase & sales related register can be filled accurately.
- While Sourcing & price negotiating with vendors, the Company should re-negotiate the price with the existing vendors seeking a price reduction to the extent of additional credits available to the vendors
- While it may not be feasible for the company to assess the precise impact of GST on its suppliers, a high-level analysis may be done for the key suppliers.

## *8.CONCLUSION*

- RCF Ltd. company is the 3rd largest urea producer in the world and the company uses SAP system for keeping track of all the purchase & sales related activities.
- RCF Ltd. company is efficient & continuously working with new compliance dates of GST. Henceforth it is very effectively monitoring all the liability as well as ITC related transactions.
- RCF Ltd. company uses SAP system for keeping track of all the purchase & sales related activities & the invoices all the regarding activities are itself attached in the entries of SAP.
- Due to this Effective use of ERP (SAP) system, every unit of purchase & sales, are coming under the tax compliance & coming under the eyes of GST cell of RCF Ltd. Henceforth effectively paid up with right GST rates for it.
- As the RCF Ltd is the Giant manufacturing firm, it deals with the production of Chemicals & Fertilizers & has adopted Various HSN codes for transactions of commodities & chemicals for the compliance with GST taxation System.
- RCF Ltd. company is the 3rd largest urea producer in the world, according to this it's major business relies in the country itself, for this it has adopted respective GSTN Number for each states.
- RCF Ltd is working on SAP system of accounting with respect to Materials, with the implementation of GST many changes were done in SAP.

i.e.

a. New G/L No. of ITC & Output Tax Liability

b. Tax Codes creating new tax conditions based on GST Rates

c. Updating of GST No. in Vendor & Customer Masters

d. Updating of HSN/SAC codes in Material Masters

➢ RCF Ltd. is keeping well ahead with new tax system adopted by India even it has complications of its own by regularly Keeping & Maintaining

**1) State-wise Sales Records**
**2) Credit avail and utilization records**
**3) Tax computations**
**4) New formats for invoices/records/returns /declarations**
**5) Documentation for movement of goods.**

➢ The management has highly skilled and experienced professionals to manage the implications of GST.

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