A Study of GST Implementation at Bhilai Steel Plant

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Introduction

GST is a destination based tax on consumption of goods and services. It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer.

Taxes which are subsumed under GST-

TheGSTwouldreplacethe following existing taxes

(i) **Taxescurrentlylevied andcollectedbytheCentre**

a. CentralExciseduty

b. Duties of Excise (Medicinal and Toilet Preparations)

c. AdditionalDutiesof Excise (Goodsof SpecialImportance)

d. AdditionalDutiesofExcise(TextilesandTextile Products)

e. AdditionalDutiesofCustoms(commonlyknown as CVD)

f. SpecialAdditionalDutyofCustoms(SAD)

g. ServiceTax

h. CentralSurchargesandCessessofar astheyrelatetosupplyofgoodsandservices

(ii) **StatetaxesthatwouldbesubsumedundertheGSTare**

a. StateVAT

b. CentralSalesTax

c. LuxuryTax

d. EntryTax(allforms)

e. Entertainmentand AmusementTax(exceptwhen leviedbythelocalbodies)

f. Taxesonadvertisements

g. Purchase Tax

h. Taxesonlotteries,betting andgambling

i. State Surcharges and Cessesso farasthey relate tosupplyofgoodsandservices

Commoditiesproposedtobekept outsidethepurview of GST-

Following are the commodities-

1. Alcoholicliquorforhuman consumption

2. Fivepetroleumproductsviz.

a. - petroleumcrude,

b. -motorspirit (petrol),

c . -highspeeddiesel,

d. - naturalgas,

e. - aviation turbinefuel

3. Electricity

For the above mentioned commodities theexistingtaxationsystem(VAT&CentralExcise)willcontinueinrespectoftheabovecommodities.

Need for the study

1. It is important to understand that Goods and Services Tax better known as GST in India, is a new and comprehensive tax to be levied on sales, manufacturing and consumption of services and goods across the nation. Referred to as one of the biggest tax reforms in the country, GST is expected to bring together state economies and improve overall economic growth of the nation. Both the Central as well as State governments are set to impose GST on all services and goods produced, manufactured and imported in India. Exports are not subject to GST. As of now, the proposal is for two tax rates at both State and Central levels for the initial two years, which would be merged into a single tax rate in the third financial year.

2. Indian steel sector is one of the most leveraged sectors, as being drowning heavily under high debts and no further loans provided to this sector from banks. Plagued by the price reductions at global level in 2015 led to a severe impact on the operating margins of the domestic steel plants and in turn became major contributor to the non-performing assets (NPAs) of the public sector banks. Post GST implementation, there might see a ray of hope to raise this sector from debt trap with deliberate pricing. Iron and steel are major inputs for construction and manufacturing industries and contribute nearly 2% of the country’s Gross Domestic Product (GDP).

3. Indian Steel Sector's contribution to overall GDP of the country is nearly 2% during 2015-16. The Government has initiated simultaneously wide ranging investment plans in infrastructure which is expected to increase the demand for steel.

Objectives of the study

1. To study about GST and its related provisions.
2. To comprehend the practical Implementation of GST.
3. To identify the challenges faced by Bhilai Steel Plant during the implementation of GST.
4. To examine the impact of implementation of GST on the financial aspects of Bhilai Steel Plant.

Literature Review

1. **Maudar (2017) has stated that due to the GST regime, steel prices would go up marginally.** The new tax structure will be neutral for the steel sector but there may be collateral gains for the industry, which was under rough weather until recently. According to analysts tracking the sector, with CENVAT rules being replaced by GST, the credit cycle will become smooth, thereby improving the visibility of revenues and increasing liquidity and availability of working capital. This will also help the steel companies overcome their NPA problems and get credit more easily. “While classification of steel in the lower tax bracket would have helped steel manufacturers to compete with players in nations like China, a robust credit mechanism and anti-profiteering clause in the GST regime will help to reduce effective procurement cost. Further, a lower GST rate of 5 per

cent on transportation services will also help to bring down effective manufacturing cost. It was added that the 5 per cent tax on coal will reduce the costs of steel companies.

2. **Mazumdar (2017) has stated that Steel industry likely to benefit from GST, rate stands at 18 percent.** Kolkata Steel industry is likely to benefit from the new GST rate for steel which has been finalised at 18% --also the slab that includes most number of items. With key inputs like coal, iron ore pegged at 5%, which is the lowest slab under GST, steel companies like JSW Steel JSPL, Tata Steel SAIL etc., could be looking at lower input costs. Together, with a substantial slash in transport costs due to unified and standard tax rate under GST, this is likely to help steel companies reeling under large debt and also keep steel prices stable. Commenting on it, H Shivramkrishnan, Director, Commercial, and Essar Steel said the GST rates are on expected lines. “We expect the requirement of working capital to go up in the immediate future. But going forward, GST will have a beneficial impact on the steel sector and the economy,”

3. **Pahuja (2017) has stated that Steel sector to witness more organised form of business**
The steel sector is feeling bullish after the GST roll out. Players in the sector feel that with GST, unorganised players will have to move to organised form of doing business. Steel Users Federation of India (SUFI) has said GST has abolished the special additional duty (SAD) on imported goods which was a very cumbersome procedure.

4. **Deshpande (2017) has stated that Govt. says GST won’t raise cost of most services; Experts not so sure**
The Centre and states on Friday crossed another major milestone towards launching GST(goods and services tax) by agreeing on a four-tier tax structure for services that should make economy class air travel and cinema tickets cheaper. The government maintained that cost of other services will not rise, but not all industries and tax consultants are as convinced. The four slabs of 5%, 12%, 18% and 28% mirror the GST rates+ on goods. The GST Council, opted for the highest slab of 28% levy on rooms and restaurants in five-star hotels, along with cinema tickets and betting at race courses, while pegging the rates on telecom and financial services at 18%. The GST system will subsume the various Central and state taxes - such as excise, value-added (VAT), service,

octroi and entertainment into a common all-India system, with transparency as one of its prime objectives.

5. **Majumdar (2017) has stated that Steel sector to be unaffected by GST rollout**
The impact of GST, which is due to be implemented with effect from July 1, 2017, is largely expected to be neutral on the steel sector. While pre GST, rates on steel are at 18.1%, the GST rates have been kept at 18%. Hence the impact will be largely similar to the effective rate based on prevailing excise duty and VAT rate, both of which would be subsumed under the GST going forward. It would expand availability on input tax credit, lead to a higher degree of tax compliance with business moving away from unorganized sector to organized sector, greater transparency on tax administration and reduce bottlenecks and improve efficiencies in supply chain and logistics.

Research Methodology

Research Design

The idea to carry out this research study is to measure the impact of Goods and service tax implementation with special reference to Bhilai Steel Plant. The paper written is exploratory in nature.An exploratory design is conducted about a research problem when there are few or no earlier studies to refer to. The focus is on gaining insights and familiarity for later investigation or undertaken when problems are in a preliminary stage of investigation.

Data type and sources

The data for this study is obtained from secondary sources as well as primary sources. The study has been carried out by conducting a survey i.e. through an interview. The interview was conducted in finance department. The interview was conducted amongst the 8 managers (sample size), convenience sampling technique was used. Secondary data was collected from various internet websites like SAIL, BSP, TAXGURU, GSTINDIA.

Data Analysis

Areas where GST is being implemented in Bhilai Steel Plant

1. **Registration**-The state of Chhattisgarh has various units of SAIL namely-

a) Bhilai Steel Plant

b) BSO Bhilai

c) Rajhara Dalli Mines

d) Roughat Mines

e) SAIL Refractory Unit

Impact under GST

GST provides for one state one registration concept. Option for separate registration available for different business verticals within the State. However, the different units of SAIL do not fall under separate business verticals and single registration has to be adopted.

2. Marketing - Secondary Sales

Rebate is payable to the customer in case of lifting over and above the specified quantity. This quantity linked rebates shall be payable to the bidder after the end of the lifting period of the Sale Offer. Rebate will be computed on an annual basis.

Impact under GST

In terms of Section 15 of MGL, deduction of the value of discount from the transaction value is permissible only if the post supply discount can be specifically linked to the relevant invoices or can be established as per the agreement between the supplier and recipient and input tax credit as is attributable to the discount has been reversed by the recipient. It is essential that the amount of discount is shown invoice wise in the credit note which shall be declared in the return for the month during which such credit note has been issued for matching with the corresponding invoice of outward supply declared by the supplier.

3. Marketing - Secondary Sales

In case of Railway freight, RR is in the name of the customer on whom invoice is being raised by SAIL.Currently, Railways charge Service Tax from SAIL. Thereafter, SAIL recovers railway freight and Service tax on that from the customer. The customer avails the Cenvat credit based on STTG issued by the railways.

Impact under GST

Under MGL, there would be 2 supplies and 2 separate invoices would be raised accordingly:

I. Railways to SAIL-BSP

Railways to charge freight from SAIL & SAIL would be eligible to take credit.

ii. SAIL-BSP to the customer

This transaction may be considered as a composite supply as per Section 2(27) of MGL & SAIL-BSP would charge GST on the gross value of goods and freight from the customer. The principal supply will be of the goods hence the rate of tax applicable for goods sold would apply on the whole consideration.

4. Marketing - Secondary Sales

Advance payment for multiple lots having different GST Rates

Impact under GST

In terms of Section 12 of MGL, the time of supply in case of advance received shall be the date of receipt of such payment.

5. Marketing - Secondary Sales

Time of supply in case of credit sales

Impact under GST

In case of supply of goods, the TOS as per Section 12 of MGL shall be the earliest of-

Date on which invoice is issued or required to be issued as per Section 28 of MGL

Date of receipt of payment by the supplier.

6. Sales& Marketing

Pending C / F/ H Form Issue

Impact under GST

Transitional provision of Section 167 allows carry forward of unutilized VAT credit on inputs used in manufacture of goods sold on Form C, Form F and Form H basis only if these forms are collected before. In case the C Forms and F Forms are not collected before the appointed date the differential tax (by foregoing benefit already availed) will have to be paid which will be a cost.

7. Sales & Marketing

IPT Despatches

Impact under GST

Inter-plant transfers covered by different registrations would be treated as a supply and attract GST. ITC of the same would be available to the plant receiving the goods.

8. Sales& Marketing

FOC samples given to customers

Impact under GST

In terms of Section 3 read with Schedule I of the MGL, no GST is leviable on FOC Supply of material on sample basis for trial.

9. Sales & Marketing

Export transactions under GST

Impact under GST

Under GST regime, BTSO lying outside Chhattisgarh will be part of a separate registration and the supply by SAIL-BSP to BTSO will be taxable under GST. Hence, under GST regime, BTSO will have to be registered separately and the activities performed by it will have to be notionally valued and charged to BSP and other plants for the purpose of levy of GST.

10. Sales& Marketing

Stock-Transfer of goods to stock yard

Impact under GST

Currently stock transfer suffers only ED at the time of removal. VAT/ CST are paid only when goods are ultimately sold from stock yard. In GST regime, if goods move from factory to a stock yard within the same state having the same registration, no GST is payable. However, if the factory and stock yard are in different states or covered under different registrations, GST is payable.

11. BSO

Credit on stocks lying in stock yards.

Impact under GST

Transitional provision - Section 169 applicable for BSO. BSO is registered as a First Stage Dealers. They are eligible for taking ED credit on all stocks lying in stock yards which have arrived up to 12 months prior to appointed date.

12. Purchase

In certain cases, SAIL - BSP receives rakes which are inadvertently diverted to BSP instead of some other plant of SAIL. In that case, the RR as well as Invoice is not in the name of SAIL-BSP.

Impact under GST

Under GST, there would be an issue in ITC Matching in case of Rake Diversion since the tax paying document does not bear the name and GSTIN of SAIL - BSP and credit will not be available for the same.

13. Contracts

Free supply of water, electricity, oxygen, office place, storage area made to contractors. The cost of water and electricity is recovered from the contractors.

Impact under GST

Hence, the value of free supplies of oxygen, office place, storage area etc. to contractors would be added to the transaction value for GST. However, the cost of water and electricity recovered from the contractors would not be chargeable to GST.

14. Township

Several inputs and capital goods are procured by the township department for which Cenvat credit/VAT credit is not eligible in the present regime.

Certain items are listed below:

I. Circuit breakers

ii. Fire & safety materials

iii. Luminaries and Fittings

iv. Transformers and reactors

v. General equipments and spares - pumps, compressors and hydraulics

vi. Office equipment and stationery

Impact under GST

Since the availment of credit on procurements under GST regime is very wide, it is advisable to postpone the procurements of the said items in the GST regime.

15. Township

Status of SAIL industrial township authority under GST law.

Impact under GST

From our discussions with Town planning and services department we understand that the management and control of the industrial township is not delinked from SAIL as an entity. There is no separate authority created for this purpose. Therefore, in essence it a separate department of SAIL-BSP plant which takes care of township. Therefore, any supply made by the township to its occupants is made by SAIL. Majority occupants of the township are SAIL employees. A small portion of its occupants are other persons who are authorized by contract/ agreement with SAIL-BSP.

16.Human Resource

The employees are sometimes awarded in kind (Ex- CFL bulb, 25 pc dinner set) as a long service reward/ reward for good suggestions etc.

Impact under GST

As per Section 2(84) of the MGL, employer and employee are related persons. Further as per Schedule I, free supplies between related parties is leviable to GST. Thus, rewards to employees in kind may become leviable to GST.

17. Mines

Valuation of stock transfer from mines to SAIL-BSP

Impact under GST

Under GST Regime, where goods are transferred from mines located in Chhattisgarh to SAIL-BSP, no GST shall be payable since supply is being made to the same taxable person, having single registration.

18. Mines

Cenvat Credit of capital goods used in the course of or furtherance of business used in mines.

Impact under GST

Under GST Regime, "capital goods" means goods, the value of which is capitalized in the books of accounts of the person claiming the credit and which are used or intended to be used in the course of furtherance of business. In terms of the said amendment, the Cenvat Credit of various items capitalized in the books of accounts, which were not otherwise eligible for Cenvat Credit under the earlier Regime in mines would be eligible under the GST Regime, viz. items of foundation and structural support etc. for plant and machinery subject to certain restrictions.

Challenges Faced by Bhilai Steel Plant

1. **Maintenance of Records.**

   Account should contain detail of goods manufactured in a factory or production house. All the purchases made within a tax period for manufacturing of goods or provision of services. Account of all the sales made within a tax period must be maintained. The register should contain a correct stock of inventory available at any given point of time. The register should contain a correct stock of inventory available at any given point of time. The register should maintain the details of GST liability outstanding to be adjusted against input credit or paid out directly. Also, should maintain the details of GST paid for a particular tax period. Government can further specify by way of a notification, additional records and accounts to be maintained.

2. **Customs duty will be present for imported raw materials.**

   Supply of goods imported into India, till they cross customs frontier, shall be treated as interstate supply; similarly, goods being exported outside India would be treated as an inter-state supply, being treated as zero rated supply.

3. Increase in cost of procurement for iron and steel.

In the steel industries, the materials cost would normally be substantial between 50-70%.

Therefore, would influence management decisions such as product pricing, outsourcing, Import vs. domestic procurement, vendor selection etc.

4. Company have to file 37 returns in a year in GST.

A business will have to file 37 returns in a year (three returns per month and one annual return) per state," offices in more than one state, the number of returns will go up accordingly. With the government announcing GST for four tax rates -- 5, 12, 18 and 28 per cent -- industry will face implementation challenges that include system upgrades, manpower training and understanding new taxes. Every transaction -- sale or purchase -- will now have to be recorded online to benefit from the tax paid earlier.

Table 1: Pre-GST scenario for FY -2016-17

S.NO.	MERCHANT PRODUCTS	ANNUAL CAPACITY IN TONNES	PRICE(PER TONNE)	COST	PROFIT	REVENUE IN CR.
1	TMT Bar 8mm (Angles, Channels, Round & TMT bars)	5,00,000	41000	31540	30%	2050
2	PM Plates abv 10-20mm Plates wide	9,50,000	40000	33370	20%	3800
3	Rail & Heavy Structural	7,50,000	52000	41600	25%	3900

There are three different kinds of taxes that are currently levied on the manufacture of iron and steel (in any form) and reaching the end-consumer.

Excise Duty at the rate of 12.5%

Average VAT at the rate of 5%

Central sales tax(CST) at the rate of 2%.

A net tax of **19.5 %(12.5+5+2)**are charged on iron and steel under the current laws. Articles made of iron and steel are also charged at the same rate except for Punjab where the VAT rate for articles of iron and steel is **2.5%** currently.

Table 2: Post GST Scenario

S.NO.	MERCHANT PRODUCTS	ANNUAL CAPACITY IN TONNES	PRICE (PER TONNE)	COST	PROFIT	REVENUE IN CR.
1	TMT Bar 8mm (Angles, Channels, Round & TMT bars)	5,00,000	40182	30909	30%	2009
2	PM Plates abv 10-20mm Plates wide	9,50,000	39243	32703	20%	3728
3	Rail & Heavy Structural	7,50,000	51220	40976	25%	3841

Note- Cost of products will be reduced as now input credits will be allowed on CST. Before GST total taxes was applied 20%, after GST taxes reduced by 1.5% and 2%. The products come under 18% tax slabs in GST chart.

Calculations of BSP products Price & Cost

These are the three products

1. TMT Bar 8mm (Angles, Channels, Round & TMT bars)

Cost 31540

(631) reduced by 2%

= 30909

Price 41000

(818) due to reduce in cost by 2% & add profit margin by 30%

= 40182

2.PM Plates abv 10-20mm Plates wide

Cost 33370

(667) reduced by 2%

= 32703

Price 40000

(757) due to reduce in cost by 2% & add profit margin by 20%

= 39243

3. Rail & Heavy Structural

Cost 41600

(624) reduced by 1.5%

= 40976

Price 52000

(780) due to reduce in cost by 1.5% & add profit margin by 25%

= 51220

Analysis of the financial performance of the Company

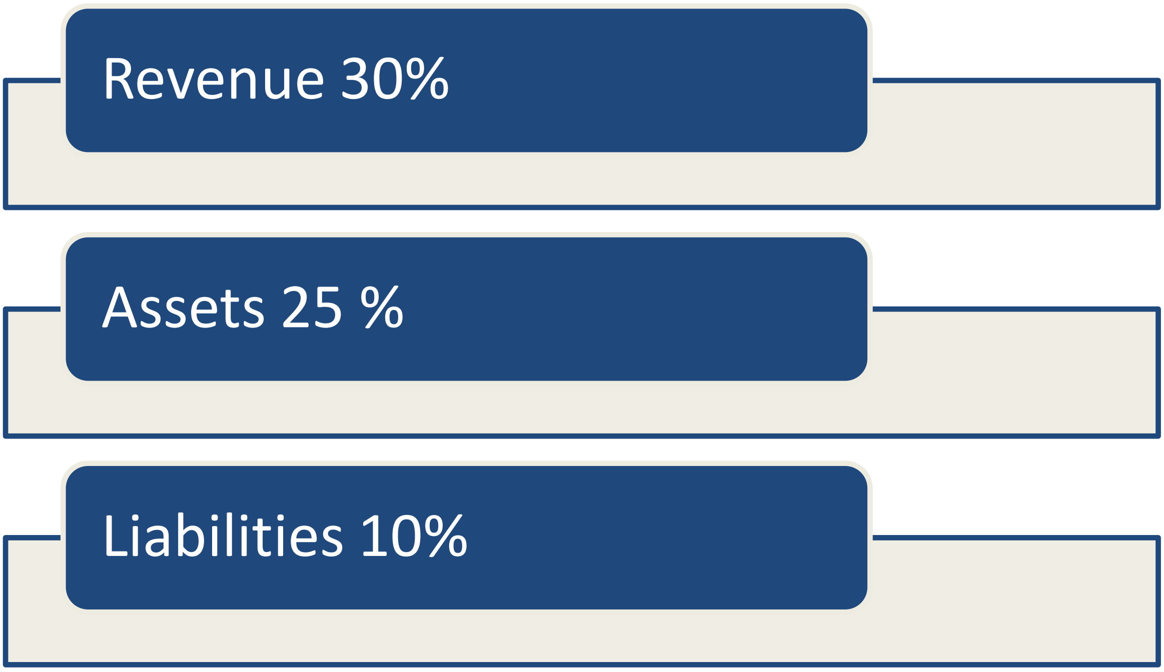
Table 3: Revenue from operations

Bhilai Steel Plant Revenue,Result,Assets & Liabilities		Rs (In Crore)	% Change
Revenue (Revenue from Operations)	31-Mar-17	31-Mar-16	
Bhilai Steel Plant	14926.6	15512.32	-4%
Results (Profit / (Loss) before Interest, Exceptional Items and Tax)			
Bhilai Steel Plant	546.87	803.09	-32%
Assets			
Bhilai Steel Plant	27079.13	24452.24	11%
Liabilities			
Bhilai Steel Plant	6872.38	6449.77	7%

Table 4: Revenue from operations

SAIL Revenue,Result,Assets & Liabilities		Rs (in Crore)	% Change
Revenue (Revenue from Operations)	31-Mar-17	31-Mar-16	
Steel Authority of India Limited	49828.95	43932.73	13%
Results (Profit / (Loss) before Interest, Exceptional Items and Tax)			
Profit/(Loss) before Tax	-4715.69	-7114.21	-34%
Assets			
Steel Authority of India Limited	107615.24	101302.29	6%
Liabilities			
Steel Authority of India Limited	70572.97	61150.86	15%

Percentage of BSP Contribution to SAIL



Calculation of Percentage of BSP Contribution to SAIL

Total Revenue of Bhilai Steel Plant- 14926.6

Total Revenue of SAIL - 49828.95

Contribution = 30%

Total Assets of Bhilai Steel Plant- 27079.13

Total Assets of SAIL - 107615.24

Contribution = 25%

Total Liabilities of Bhilai Steel Plant- 6872.38

Total Liabilities of SAIL -70572.97

Contribution = 10%

Findings

- BSP will come under single registration policy for the whole state of Chhattisgarh.
- Cost of products will be reduced as now input credits will be allowed on CST.
- From the implementation point of view of GST, there will be hell lot of difficulties for the finance department as the other departments are not aware of the new tax law. Hence, to make things work in synchronization will be a challenging task for finance department.

Limitations

1. Lack of Knowledge of new taxation system amongst the employee.
2. Finance Officers are facing difficulties to adopt new taxation system.
3. To understand the term GST, it incurs cost & Time.

Recommendation

The framework of work process in the finance department should be updated with latest technology and updated software, which will help to understand the complete process and will give better throughput.

Conclusion

The new tax reforms of our country pertaining to GST is inclusive of various core concepts such as input Credit, composite and mixed supply, time of supply, registration rules, various slab rates etc.It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. Currently BSP is taking single registration for the whole state of Chhattisgarh as all the business verticals are same. The company is under very strong management and its complex organization structure is perfect for GST implementation. Every employee should be aware of his role in GST implementation. In a nutshell, only value addition will be taxed at Bhilai Steel Plant and burden of tax is to be borne by the final consumer.

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