



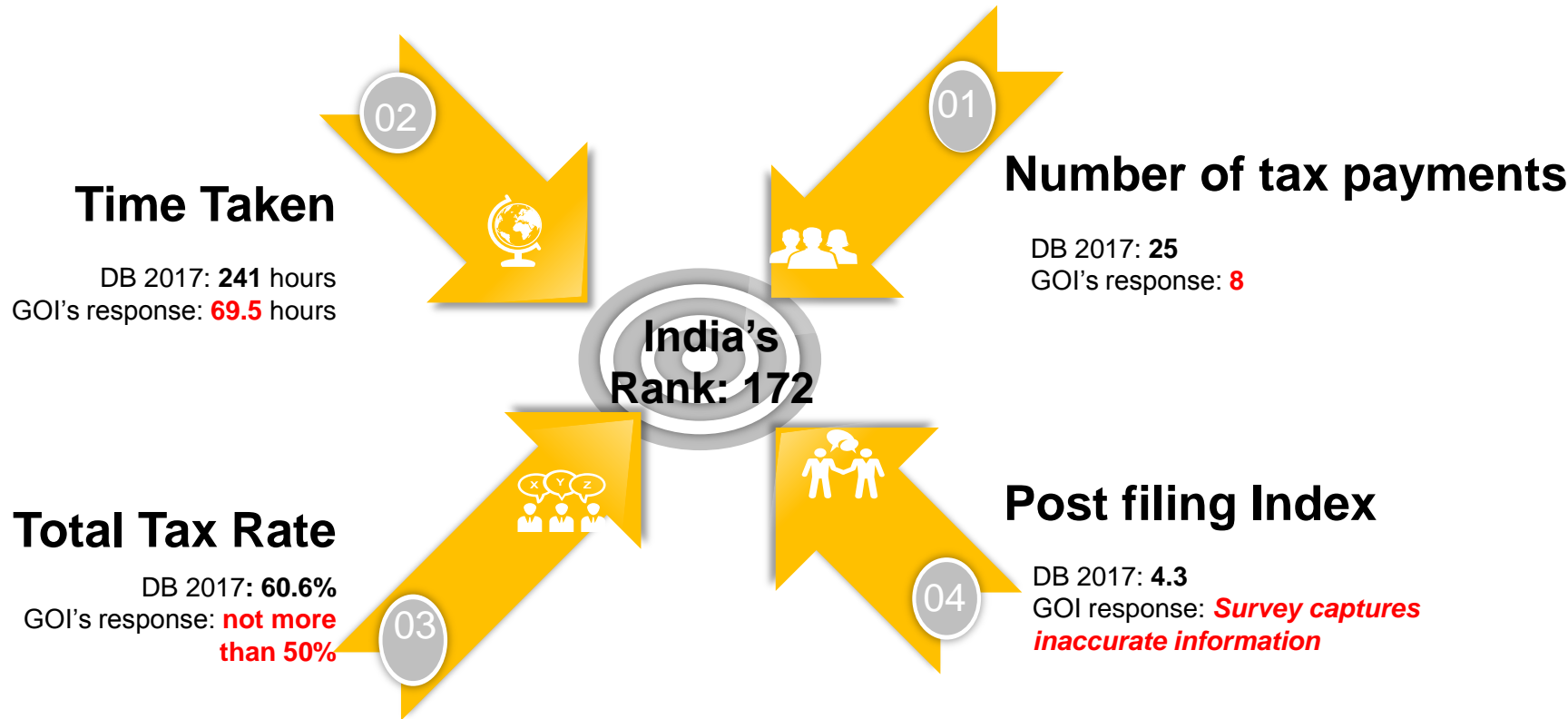
Doing Business 2018

Indian Perspective on Paying Taxes

24th April 2017

Department of Revenue
Government of India

Paying Taxes – DB 2017



Time Taken

DB 2017: 241 hours
GOI's response: 69.5 hours

Number of tax payments

DB 2017: 25
GOI's response: 8

Total Tax Rate

DB 2017: 60.6%
GOI's response: not more than 50%

Post filing Index

DB 2017: 4.3
GOI response: Survey captures inaccurate information

Sub-indicator 1: Number of tax payments

Number of Tax Payments (1/4): Gol's Responses for DB 2018

S. No.	Tax or mandatory contribution	Payments (per year)	
		DB 2017	Gol's response
1	Employee's state insurance contribution	4	1
2	Social security contributions (EPFO)	12	1
3	Central Sales Tax	1	0
4	Tax on insurance contracts (service tax)	1	0
5	Fuel tax	1	0
	Other Taxes	6	6
	Total	25	8

Number of Tax Payments (2/4): ESIC and EPFO

Employee's State Insurance Contribution

- DB 2017 reported 4 payments on account of ESIC .
- DB team acknowledged electronic payments for 9 out of 12 months in 2015.
- All ESIC payments are [online](#), hence, **the number of ESIC payments should be 1.**

Social Security Contribution: Employee Provident Fund

- DB 2017 reported 12 payments on account of EPFO.
- DB team acknowledged last year that majority medium-sized businesses paid EPF contributions online.
- All EPF payments are now [online](#), hence, the **number of EPF payments should be 1.**

Number of Tax Payments (3/4): CST and Tax on Insurance

Central Sales Tax

- DB 2017 reported 1 payment on account of CST.
- CST is payable by the seller when he makes an inter-State sale to a dealer registered in another State. In the questionnaire, we assume that the TaxPayerCo. is making only retail sales, and hence, **no CST can be leviable on these sale transactions.**
- All retail sales attract only VAT as these are assumed to be intra-State sales transactions under the CST Act, 1956.

Tax on insurance contracts: Service Tax

- DB 2017 reported 1 payments on account of tax on insurance contracts.
- Tax on insurance contracts or service tax is part of the Insurance Premium Invoice, and is **not payable by the TaxPayerCo.**
- The service tax payment and return filing in relation to the insurance contract is undertaken by Insurance Company and not the Taxpayer Co.

Number of Tax Payments (4/4): Fuel Tax

Fuel Tax

- DB 2017 reported 1 payment on account of Fuel Tax.
- **No Fuel Tax is payable by the TaxPayerCo.**
- Sales tax on Fuel is included as a part of the Fuel Invoice. The Sales Tax is payable by Petrol Filling Station and corresponding return is also filed by Petrol Filling Station and not by TaxPayer Co.

Sub-indicator 2: Time Taken

Time Taken (1/7): GoI's Responses for DB 2018

S. No.	Tax or mandatory contribution	Time taken (hours per year)	
		DB 2017	GOI's response
1	Corporate income tax	45	15.5
2	Social security contributions	91	35
3	Sales tax/VAT/CST	105	19
	Total	241	69.5

Time Taken (2/7): Corporate Income Tax/ Profit Tax

S. No.	Corporate Income Tax/ Profit Tax	Time taken (hours per year)	
		DB 2017	GOI's estimate
1	Preparation	28	10
2	Filing	7	3.5
3	Payment	10	2
	Total	45	15.5

Time Taken (3/7): Corporate Income Tax/ Profit Tax

Preparation

- Data gathering from accounting software is simple process. Adjustments are minor (only depreciation and some personal expenditure), would not take too long.
- Under Indian Income Tax Act, maintenance of tax records is not mandatory.
- Hence, the number of hours estimated for preparing for filing returns has been estimated as **10 hours**.

Filing

- In 2016, an easy to use software facility for attachment of digital signature certificate was launched, and online filling with digital signature was made mandatory.
- Companies not required to send the acknowledgment (ITR V) to the tax authorities in hard copy for processing or verification.
- Hence, the number of hours estimated for filing returns has been estimated as **3.5 hours**.

Payments

- Payments are mandatorily online, hence, payment of tax would take about **2 hours**.

Time Taken (4/7): Labour Taxes and Mandatory Contributions

S. No.	Labour Taxes and Mandatory Contributions	Time taken (hours per year)	
		DB 2017	GOI's estimate
1	Preparation	48	23
2	Filing	12	9
3	Payment	31	3
	Total	91	35

Time Taken (5/7): Labour Taxes and Mandatory Contributions

Preparation and Filing

- Salary sheets are already prepared in the accounting software, and data can be easily extracted from the the software for computing labour contributions.
- Calculation of contribution would be similar to previous year and would not involve much time.
- Learning curve: No change in business and no major change in turnover, employees will hasten the pace of doing work.
- Hence, the number of hours estimated for preparing for preparing returns has been estimated as **23 hours** and the time taken for filing returns has been estimated as **9 hours**.

Payments

- Payments are online, hence, payment of tax would take about **3 hours**.

Time Taken (6/7): VAT, Sales Tax and/GST

S. No.	VAT, Sales Tax and/GST	Time taken (hours per year)	
		DB 2017	GOI's estimate
1	Preparation	55	12
2	Filing	34	3
3	Payment	16	4
	Total	105	19

Time Taken (7/7): VAT, Sales Tax and/GST

Preparation and Filing

- VAT returns are invoice based.
- Under Indian Laws, maintenance of tax records is not mandatory. DB 2017 estimates 24 hours for maintenance of statutory records alone.
- Nearly 80% of the return fields auto populated from invoice based Sales and Purchase Annexure.
- VAT Department in Mumbai provides return filing template to dealers for filing returns through their invoices. Returns are auto-generated, and no separate returns need to be prepared. (Refer Trade Circular T22 of 2016)
- Learning curve: No change in business and no major change in turnover, employees will hasten the pace of doing work.
- Hence, the number of hours estimated for preparing for preparing returns has been estimated as **12 hours** and the time taken for filing returns has been estimated as **3 hours**.

Payments

- Payments are online, hence, payment of tax would take about **4 hours**.

Sub-indicator 3: Total Tax Rate

■ Total Tax Rate (1/2): Gol's Responses for DB 2018

S. No.	Tax Rate	Tax rate as percentage of commercial profit	
		DB 2017	Gol's estimate
1	Central Sales Tax	14.14%	Not more than 1.7%

■ Total Tax Rate (2/2): CST

Central Sales Tax

- Statutory Rate of CST is 2%, which is charged on the value of inter-State sales of goods.
- DB 2017 questionnaire assumes that the TaxPayerCo. purchases **80%** of its raw materials from outside the state, which translates to **14.14%** of total commercial profits as CST payments.
- TaxpayerCo is a medium sized ceramic flowerpot manufacturer. Typically all Raw materials are locally procured due to the high weight and low value.
- In the case of a Large Ceramic Sanitary Ware Company, the fine clay required for strength is procured out of state which accounts for 30 % of all Raw Material. Taxpayer Co is not a Sanitaryware Company – therefore, the clay is locally procured.
- Therefore, it is safe to assume that only about **10%-12%** of the raw material purchases are out of state for TaxPayerCo., which translates to about **1.7%-2%** of total commercial profits as CST payments.

Sub-indicator 4: Post-filing Index

Post Filing Index (1/5): Gol's Responses for DB 2018

S. No.	Post-Filing Index	Time taken (hours per year)	
		DB 2017	Gol's estimate
1	Time taken to comply with VAT refund	No refund	Refund is admissible
2	Time taken to obtain VAT refund	No refund	Prescribed by law
3	Time taken to comply with corporate income tax audit	54	2
4	Time taken to complete corporate income tax audit	27.7	NA

■ Post Filing Index (2/5): VAT Refunds

Time taken to comply with VAT refunds

- DB 2017 reported that no VAT refunds were admissible to the TaxPayerCo. However, this is untrue.
- In both Mumbai and Delhi, cash refunds can be requested for excess input VAT on capital goods.
- In Mumbai, the entire amount of excess input VAT on capital goods can be claimed as cash refund. **(Sec 51 of the MVAT Act, 2002)**
- In Delhi, the excess input VAT on capital goods can be claimed as ITC or cash refund over a 3 year period. **(sec 38 read with sec 9 of DVAT Act)**

Post Filing Index (3/5): VAT Refunds

Time taken to obtain VAT refunds

➤ **Mumbai:**

- Refunds are to be granted within within 45 days from the due date of filing of Audit Report, as per Trade Circular 5T of 2016.
- 95% of the refund is granted without audit within 10 days from the date of application of refund. Refund is also granted against Bank Guarantee (B. G.) (Sec 51(3)(b) of the MVAT Act, 2002) within 20 days of the date of application for the refund without audit.
- Fast Track Refund Scheme for the reputed manufacturers.
- About Rs. 25 billion sanctioned as refunds in calendar year 2016.

➤ **Delhi:**

- Refunds to be sanctioned within 15 days of refund claim, as per sec 38 (6) of DVAT Act.
- About Rs. 8.5 billion sanctioned as refunds in fiscal year 2015-16.

Post Filing Index (4/5): Corporate Income Tax Audits

Time taken to comply with Corporate Income Tax Audit

- DB 2017 estimated 54 hours for filing revised corporate income tax returns.
- Time for filing revised return can never be more than the time for original returns. (*45 hours as per DB 2017*)
- Since all filing and payment is online, ½ hour each is taken for submission of documents and payment of tax liability, as per WB methodology.
- As only limited errors need to be corrected, correction of error would take minimal time. Hence, 1 hour has been assumed for this process.
- Hence, the number of hours estimated for filing revised returns has been estimated as **2 hours**.

■ Post Filing Index (5/5): Corporate Income Tax Audits

Time taken to complete with Corporate Income Tax Audit

- IT Department does not mandate audit/assessment of revised returns in each case.
- Only 2% of the revised returns are taken up for the scrutiny procedures, that too only if other risk parameters are attracted, not because the return is revised, making a return highly unlikely for selection for scrutiny.
- The rate is commensurate to the number of cases taken for assessments even if revised returns are not filed.

Thank you!