Overview of Proposed Goods and Service Tax - India

CMA BHOGAVALLI MALLIKARJUNA GUPTA

oods and Service Tax

Any views or opinions represented in this presentation are personal and belong solely to th speaker and do not represent those of people, institutions or organizations that the speake may or may not be associated with in professional or personal capacity, unless explicitly stated. Any views or opinions are not intended to malign any religion, ethnic group, club, organization, company, or individual.

Goods and Service Tax

- Agenda
- Meaning and Why taxes are imposed
- Current Taxation in India
- Proposed Taxes under GST
- Why India has to go for Dual GST

GST – Current Taxes – Excise Taxes

- Basic Excise Duty – it is levied based on Section 3 of the Central Excise and Salt Act 1944 for goods manufactured in India except for salt
- Special Excise Duty – introduced from 1978 based on Section 37 of the Finance Act, 1978. It is levied on all excisable goods that come under taxation, in line with the Basic Excise Duty under the Central Excises and Salt Act of 1944. Applicability of the Special Excise Duty is mentioned in the Finance Bill for every year thereafter.
- Additional Excise Duty on Motor Spirit – it is being levied from 1998 on petrol vide Finance Act 2 of 1998.
- Additional Duty on Excise on High Speed Diesel Oil – it is being levied on diesel from 1999.
- Special Additional Duty of Excise on Motor Spirit – it is being levied from 2002 on petrol as surcharge.

GST – Current Taxes – Excise Taxes

- Surcharge on Pan Masala and Tobacco Products: This Additional Duty of Excise has been imposed on cigarettes, pan masala and certain specified tobacco products, at specified rates in the budget every year.
- National Calamity Contingent Duty – it is levied on pan masala and certain tobacco products vide Finance Act 2001. From 2003 it is also being levied on polyester filament yarn, motor cars, two wheelers, multi-utility vehicles and crude petroleum oil.
- Education Cess – it is being levied from 2004 on all Central taxes for funding of primary education in India
- Secondary Higher Education Cess – it is being levied from 2007 on all Central taxes for funding of secondary education in India
- Cess – it is levied on various products from time to time

GST – Current Taxes – Service Tax

- Introduced in 1994 starting with 3 services
- Latter on expanded to many service – year on year
- Point of Taxation Rules introduced – 2011 – shift from Cash Basis Accounting to Accrual Basis Accounting
- Negative List – 2012 – only services mentioned in the list are exempt from service tax and rest are taxable
- Place of Provision of Services & Reverse Charge

GST – Current Taxes – Import Duties

- Basic Duty – it is levied on imported goods under the Customs Act, 1962.
- Additional Duty (Countervailing Duty) – it is levied under Section 3 (1) of the Custom Tariff Act which is equal to Excise duty levied on a product manufactured or produced in India. If a similar product is not manufactured or produced in India, the Excise duty that would be chargeable on that product would be similar to what would have been charged had it been manufactured or produced in India.
- Additional Duty – it is levied to compensate duty on inputs used by Indian manufacturers: This is levied under Section 3(3) of the Customs Act.
- Anti-Dumping Duty – levied under section 9A of the Customs Tariff Act when a foreign exporter exports his good at low prices compared to prices normally prevalent in the exporting country.
- Protective Duty – it is levied by the Tariff Commission set up based on recommendations of the Central Government to protect the interests of India on specified goods.

GST – Current Taxes – Import Duties

- Duty on 73 Bounty Fed Articles – it is levied in cases where the foreign country subsidizes its exporters for exporting goods to India; the Central Government may impose additional import duty equal to the amount of the subsidy or bounty.
- Export Duty – it is levied on export of certain goods. At present very few articles such as skins and leather – are subject to export duty. The basic intention of imposing this duty is to discourage exports.

GST – Current Taxes – Central Sales Tax

- Central Sales Tax is levied by the Central Government but collected by the State Governments as it is an origin-based tax under the constitutional Sixth Amendment Act 1956.
- If Forms are submitted the tax rates are 2% and in some cases lesser than 2% (exempted areas)

GST – Current Taxes – Value Added Tax

- Value Added Tax has been introduced in India to bring uniform taxation in states and remove tax cascading
- VAT– on sale and purchase of goods along with excise and other taxes as applicable, if any, for purchases within the same State, replacing Local Sales Tax.
- Entry Tax – is levied on goods entering the consuming State, from a producing State.
- Luxury Tax – it is levied on hotels by respective State Governments.
- Entertainment Tax – it is levied on entertainment programs, shows, etc. by States.
- Taxes on lotteries and gambling – it is a tax on sale of lotteries & gambling levied by States.

GST – Current Taxes – Challenges

- TAX POINT – TAX APPLICABILITY
  - Excise – movement of goods
  - VAT – moment of goods
  - Service tax – invoicing or completion of service of advance receipt which ever is earlier
- TAX ON TAX
  - VAT is computed on Item price + Excise duties
- CREDIT MECHANISM
  - Uninterrupted flow of credit not available
- ITEM CLASSIFICATION
  - Each item is classified differently in VAT / Excise
  - Difference in classification from state to state

GST – Current Taxes – Challenges

- REPORTING
  - Different reports for Excise & VAT
  - Different treatment of taxes – ITC on CG in case of Excise & VAT

GST – What is GST?

- Goods and Service Tax is a comprehensive tax on supply of Goods and Services
- A single tax is applicable for goods and services
- It is also know as Value Added Tax in few countries like European Union
- It is been implemented in about 160 countries
- In Malaysia it is implemented from 1st April 2016

– Features of Goods and Service Tax

- No Tax on Tax or Tax Cascading
- Uninterrupted input tax credit in the supply chain process
- Supply of goods and services share the same tax
- Items are classified in same manner unlike current classification different for excise and VAT. VAT item classification deferrers from state to state
- Origin based taxation to destination based taxation

– Features of Goods and Service Tax

- No Tax on Tax or Tax Cascading
  - Taxes are computed only on the item price only unlike current taxation where VAT is computed on Item Price + Excise Duties
  - Example under current taxation structure

Item Price	–	Rs 10,000
Excise Duty @ 12.5%	–	Rs 1,250
Value Added Tax @ 15%	–	Rs 1,687
Total	–	Rs 12,937

  - Same example under GST

Item Price	–	Rs 10,000
GST@ 18%	–	Rs 1,800
Total	–	Rs 11,800

– Features of Goods and Service Tax

- Uninterrupted Input Tax Credit in the supply chain
  - Input tax credit is available in the whole supply chain process unlike the current taxes like Central Sales Tax where credit is not available
  - All taxes are available for input tax credit if purchased for a registered dealer
- Supply of goods and services share the same tax
  - Goods and services share the same tax
  - Report to the same tax authority unlike the current system where it has to be reported to different tax authorities
  - Same report for goods and services
  - Same tax rates for supply of goods and services

– Features of Goods and Service Tax

- Item Classification
  - Items are classified in same manner under central and state
  - All states are recommend to maintain the same classification

- Origin based taxation to destination based taxation
  - Paradigm shift in the taxation
  - Main impact with CST which will be replaced with a new will be going to the consuming state in place of the state where sale is taking place. It does not have any impact on the end consumer but on the revenue to the state governments.

GST – The Journey so far

- Moving to GST in India has started way back in 1974.

1974	Report of LK Jha Committee suggested VAT
1986	Introduction of a restricted VAT called MODVAT
1991	Report of the Chelliah Committee recommends VAT/Goods & Services Tax (GST) and recommendations accepted by Government
1994	Introduction of Service Tax
1999	Formation of Empowered Committee on State VAT
2000	Implementation of uniform floor Sales Tax rates (1%, 4%, 8% & 12%)
	Abolition of tax-related incentives granted by States
2003	VAT implemented in Haryana in April, 2003
2004	Significant progress towards a Central VAT, Sept 2004 GST – Integration
2005–06	VAT implemented in 26 more States
2007	First GST Study Released By Mr. P.Shome in Jan 2007 FM announces for GST in Budget Speech CST Phase out Starts in April 2007 Joint Working Group formed by EC in May 2007 WG Submits its report in November 2007
2008	EC finalizes its view on GST structure in April 2008
2009	GST proposed to be implemented from 1.4.2010
2011	THE CONSTITUTION (ONE HUNDRED AND FIFTEENTH AMENDMENT) BILL, 2011 was introduced
2014	THE CONSTITUTION (ONE HUNDRED AND TWENTY-SECOND AMENDMENT) BILL, 2014 was introduced
2015	Introduced in the Lok Sabha for discussion and passage of the bill

GST – Goods and Services

- The definition of goods and services has been clearly defined and stated in the hundred and twenty second Constitution Amendment Bill, 2014 as well as earlier in the hundred and fifteenth Constitutional Amendment Bill 2011. It says GST will be levied on 'supply of goods or services or both, except on supply of alcoholic liquor for human consumption'.

GST – Taxes under GST

- Taxes under the proposed Goods and Service Tax in India
  - Central Goods and Service Tax – CGST
  - State Goods and Service Tax – SGST
  - Inter State Goods and Service Tax – IGST
  - Additional tax of 1% on interstate supply of goods

GST – Central Goods and Service Tax

- Taxes which are being proposed to be subsumed under CGST are
  - Central Excise duty
  - Duties of Excise (Medicinal and Toilet Preparations)
  - Additional Duties of Excise (Goods of Special Importance)
  - Additional Duties of Excise (Textiles and Textile Products)
  - Additional Duties of Customs (commonly known as CVD)
  - Special Additional Duty of Customs (SAD)
  - Service Tax
  - Cesses and surcharges insofar as far as they relate to supply of goods or services

CGST – Central Goods and Service Tax

- Taxes which are not being proposed to be subsumed under CGST are
  - Basic Customs Duty
  - Excise Duty on Tobacco Products (In addition to GST)
  - Excise Duty on Petroleum Products for initial years (In addition to GST at NIL rate)

SGST – State Goods and Service Tax

- Taxes which are being proposed to be subsumed under SGST are
  - State VAT
  - Central Sales Tax
  - Purchase Tax
  - Luxury Tax
  - Entry Tax (All forms)
  - Entertainment Tax (not levied by the local bodies)
  - Taxes on advertisements
  - Taxes on lotteries, betting and gambling
  - State cesses and surcharges insofar as far as they relate to supply of goods or services

SGST – State Goods and Service Tax

- Taxes which are not being proposed to be subsumed under SGST are
  - State Excise on Alcoholic Beverages
  - VAT on Petroleum Products for initial years (in addition to GST at NIL rate)
  - Entertainment Tax levied by local bodies
  - Stamp Duty
  - Electricity Duty & Royalty on minerals
  - Environmental/Regulatory Taxes, e.g., Vehicles Tax

ST – Inter State Goods and Service Tax

- Taxes which are being proposed to be subsumed under IGST are
  - Central Sales Tax

ST – Additional Tax upto 1%

- It is being proposed to be levied on inter state sale of goods for a period of two years
- This tax will go to the origin state, as states have expressed reservations on revenue loss
- Based on the select committee report "Consideration" added, it means when consideration is received the only it is applicable not applicable in case of stock transfer to branches where consideration is not received.
- Latest media reports state that it may be dropped to get the bill passed in Rajya Sabha and have the support of the Congress, which has majority
- CEA Report also recommend to drop this additional tax

ST – Why Dual Taxation

- Globally under GST there is only one tax for goods and services
- Why India has to go for dual taxation – by center and state
  - Due to be constitutional provisions
- Only Canada has dual GST, similar to India called as Harmonized Sales Tax – Labrador, Nova Scotia etc

ST – Change in Taxation

- Two types of taxation
  - Origin Based Taxation – Currently we have origin based taxation. The taxes will be levied based on the location from where the goods are shipped like Excise – exempted, VAT Deferment by states.

    Revenue collected will go to the selling state
  - Destination Based – under GST it is proposed to be Destination based taxation.

GST – Change in Taxation

  - Under GST there will be no concept of exemptions until and unless specified in the Constitutional Amendment Bill.

    Tax Revenue will go to the consuming state not to the selling state – CST

T – Registration Numbers

- In the current taxation we have different registration numbers for different taxe
  - Excise – Excise Control Code (ECC) – location level
  - Service Tax – Service Tax Registration Number – based on assesse requirement
  - VAT – TIN – State level
  - CST – State level
  - IEC – Import Export Number

- This really a tough job for companies to obtain so many registration number an also maintain along with submission of periodic reports at registration number le along with audits.

T – Registration Numbers

- Under the registration number is being called as Goods and Service Tax Identification Number
- Registration number is based on PAN Number similar to ECC number.
- If an enterprise has presence is 15 states it has to oblation that many registratio numbers.

T – Registration Numbers

- Format of Registration GSTIN – 15 digits based on PAN

State Code		PAN										Entity Code	BLANK	Check Digit
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

- The first two digits, determine the state in which the GSTIN in being obtained, the list of the sta based on 2011 Indian Census. Under this each state will be allocated a two digit number.
- Next 10 digits are PAN number of the entity issued by the Income Tax Department.
- Thirteenth digit is alpaha numeric and it is based on the users requirement to get registration based on the business vertical. There can be 35 sequences maximum for this 1-9 numbers an alphabets a - z . If the tax payer is going for a single registration then it will be 1 in the thirteen field but if he goes for more than one registration like one two business vertical say for examp one for consumer durables and another for automobiles then the second one will be having the thirteenth number and the third registration number will be having 3 in the thirteenth fiel
- 14th digit is a being reserved by the GSTN for the future use and the 15th digit is check digit.

T – Tax Point

- In general parlance Tax Point refers to the point or event when the taxes are applicable for the transaction.
  - Excise – movement of goods
  - VAT – moment of goods
  - Service tax – invoicing or completion of service of advance receipt which ever is ea
- Under GST tax point is proposed to time of supply – goods
- Time of supply will be determined based on earliest of the following dates
  - Date on which the goods are removed
  - Date on which the goods are made available to the buyer
  - Date on which the supplier issues the invoice
  - Date on which the supplier receives the payment
  - Date on which the buyer shows the receipt of the goods in his books

T – Tax Point

- Under GST tax point is proposed to time of supply – Services
- Time of supply will be determined based on earliest of the following dates
  - Date of issue of invoice or date of payment which ever is earlier if invoice is issued wi stipulated period
  - Date of completion of the provision of service or the date ofreceipt of payment, whichever is earlier, if the invoice is not issued within the prescribed period;
  - Date on which the recipient shows the receipt of services in his books of account,
  - If above two are not applicable .

- There will be different treatment for reverse charge, continuous supplies etc

T – Value of taxable supply

- It is being proposed to have taxes on transaction value if consideration is received
- What does transaction value include ? – does it include discounts, freight, insurance, packing charges, forwarding charges etc? Need to have clarity on this.

T – Input Tax Credit

- In the current taxation all the taxes are not eligible for taking credit – Entry Tax, Octori, Central Sales Tax, etc
- These increase the cost of the production and there by increasing the prices of the goods to the end consumer
- Under GST all taxes will be eligible for availing the credit, this will reduce the cost of production as the landed cost will come down and there by passing on the benefit to the end consumer.

T – Input Credit

- Let's see an example under the current taxation

	Input	Tax Rate	Tax Amount	Value addition	Output	Tax Rate	Tax Amount	Tax Pay
Manufacturer	1,000.00	14.00%	140.00	240.00	1,380.00	2.00%	27.60	
Distributor	1,380.00	2.00%	27.60	127.60	1,535.20	15.00%	230.28	2
Retailer	1,535.20	15.00%	230.28	100.00	1,865.48	15.00%	279.82	
Consumer	1,865.48	15.00%	279.82		2,145.30			2

- The above example in the current tax structure. In the value addition, have ta Rs 100 in each stage plus the amount of non-recoverable taxes i.e. in the first st the Manufacturer pays input tax of Rs 140 but on that he is not eligible to take credit as it is excise taxes and output tax being CST, as result the excise taxes a added to the value addition. In the second stage and the third stage the distributor, retailer and consumer are in the same state, Value Added Tax of 15 considered.

T – Input Credit

- The same example in the proposed Goods and Service Tax

	Input	Tax Rate	Tax Amount	Value addition	Output	Tax Rate	Tax Amount	Tax Pay
anufacturer	1,000.00	15.00%	150.00	100.00	1,250.00	15.00%	187.50	
istributor	1,250.00	15.00%	187.50	100.00	1,537.50	15.00%	230.63	
etailer	1,537.50	15.00%	230.63	100.00	1,768.13	15.00%	265.22	
onsumer	1,768.13	15.00%	265.22		2,033.34			2

- In the proposed GST for ease of computation purpose considered the taxes like CGST, SGST and IGST @ 15% and explaining the impact on the taxes and the fi price for which the consumer buys. We could see that all the taxes are recover in nature as a result there is no impact on the value addition with the non-recoverable taxes. The final price which the consumer pays under GST is Rs 203 as against Rs 2,145.30 pre GST. The price difference is due to un interrupted cre the whole supply chain.

T – Input Tax Credit

- Under current taxation credit is available on receipt of goods in case of excise and invoice in case of service tax.
- Changes are being proposed in the credit mechanism under GST to eliminate revenue leakages in the system.
- To avoid revenue leakage it is being proposed that credit will be available only when the seller remits the taxes.
- It is being proposed to introduce rating system for dealers

T – Input Tax Credit – Offset

- CGST, SGST and IGST are eligible for input tax credit
- Input tax offset hierarchy
  - CGST – CGST, IGST
  - SGST – SGST then with IGST
  - IGST – IGST then CGST and then SGST

T – Reporting

- In the current taxation various reports have to filed for different tax regimes / authorities from time to time.
- Excise – ER – 1, ER -2, ER -3, ER -5
- Service Tax – ST – 3
- VAT – State wiser returns
  - Gujarat - 201
  - Tamil Nadu MH – Form 1
  - AP – Form 200
- And many other reports

T – Reporting

- Under GST it is being proposed to have only few reports
  - GSTR-1 Return - Outward supplies made by taxpayer
  - GSTR-2 Return - Inward supplies received by a taxpayer
  - GSTR-3 Return - Monthly return –
  - Compounding Taxpayer Return (GSTR-4) - Quarterly return for compounding Taxpayer
  - Foreign Non-Resident Return (GSTR-5) - Periodic return by Non-Resident Foreign Taxpayer
  - ISD Return (GSTR-6) - Return for Input Service Distributor (ISD)
  - TDS Return (GSTR-7) - Return for Tax Deducted at Source
  - Annual Return (GSTR-8) - Annual Return
- These reports have to be filed based on the nature of the entity and which are applicable

T – Reporting

- There are few challenges with reporting
- It is being proposed to have online filing and each transaction wise for sales and purchases
- System will validate if supplier has paid the credit and based on that credit will be available
- Is the software for handling such requirements ready ?
- Does all the state governments have the same level of IT Infrastructure?

T – Impact on Business houses

- Training of the Manpower
  - What taxes to be applied after implementation ?
  - Example of bulk drug industry – inputs are excisable and output is not? Will it continue in GST also ?
  - Make or buy decision ? – is outside processing applicable?
  - Input Tax Credit available only on payment of taxes by supplier

- Contract Renegotiations
  - Validate all sales orders with inclusive taxes else impact on bottom line – ex Service Tax currently 14.5% after GST it will be above 14.%.

T – Impact on Business houses

- Impact on costing of the products & services
  - Input Tax Credit is applicable on all taxes
  - Impact on costing on procurement of goods and services – which place to save on transpiration costs and inventory holding costs due to reduction of lead times
- Impact on Working Capital
  - Input credit available only on payment of taxes by suppliers
  - Job Work is being defined as supply – is Tax applicable ?if yes impact on working capital

T – Impact on Business houses

- Changes in IT Systems
  - Current transaction processing for Receipts / GRN's and Invoices – RG Registers –
  - HSN code for SGST also
  - Impact of customizations
  - Will the reports be ready by ERP Vendors by date of implementation of GST
  - Testing & Training of end users for new systems
- Warehousing
  - Current warehousing is based on tax implications with same tax PAN India is the same old required ?
  - Can it be handled with minimum number of warehouses ?

T – Impact on Business houses

- Future Business Plans
  - Under current taxation new units are setup based on tax benefits
  - Will the same work in future as there will be no longer tax benefits under GST?
  - Should the new units be located near place of availability of raw materials or place of consumption ?

T – The road ahead

- Will the bill be passed in Winter Session of Parliament ?
- Will it be practical for implementation from 1st April 2016
- What will be tax rate – Revenue Neutral Rate
- Thresholds
- Rules for supply of goods and place of provision of supply
- IT Preparedness
- Transactional Provisions

T – Additional Information

- Facebook page – for latest news on GST - www.facebook.com/ingst
- Blogs - https://indiagstdotin.wordpress.com/
- Website - http://india-gst.in/
- Mail – arjunagupta@india-gst.in

oods and Service Tax


thank you
danke
謝謝
ngiyabonga
teşekkür ederim
gracias
merci
obrigado
dziękuję
bedankt
go raibh maith agat
mochchakkeram
sukriya
kop khun krap
terima kasih
спасибо
grazie
arigatō
dakujem
takk
tapadh leat
감사합니다
ありがとう
мерси
рахмат
Баярлалаа
dank je
hvala
mauruuru
sagolun
taiku
dhanyavad
blagodaram
enkosi
ευχαριστώ
obrigada
diolch
xièxie
shukriya
tanemirt
rahmet
trugarez
хвала
asante
paldies
grazzi
misaotra
malondo
kiitos
dankie
taafetai lava
nandri
mersi
tack
barka
chnorakaloutioun
gratias ago
gracies
sobodi
dekuji
mesi
dhanyavadagalu
najis tuke
kam sah hamnida
manana
djiere dieuf
spas
tenki
welalin
vinaka
kia ora
bayarlalaa
sulpáy