

# GOODS AND SERVICE TAX

## PROPOSED INDIRECT TAX REFORM



**AHMED & AHMED**  
TAX AND COMMERCIAL LAW ATTORNEYS

Adv. Shameem Ahmed  
ICAI, Cochin chapter  
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# Overview



**Present Structure and Glitches**

**Proposed GST Model**

**GST Implications – in Different Scenarios**

# Present Structure of Indirect Tax





# Present Structure of Indirect Tax

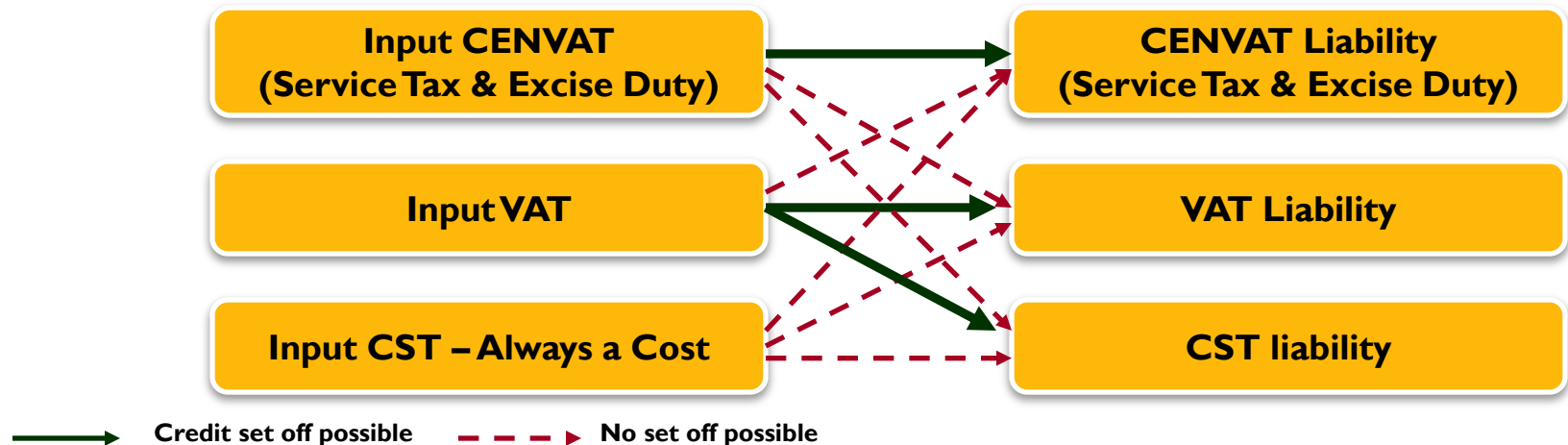
Central Taxes	Applicability	Rate
Custom Duty	Import / Export of goods	10%
Additional Duty of Customs	Import of goods levied in lieu of excise duty	12.50%
Special Additional Duty*	Import of goods levied in lieu of VAT	4%
Central Excise	Manufacturing of goods	12.50%
Service Tax	Provision of Services	14%
CST**	Inter-state sale of goods	2%
State / Local Taxes	Parameters	Rate
VAT	Sale of goods within a state	5/15%
Entry Tax / Octroi	Movement of goods into local territories	***

\*\*\* Rate depends on the State / Municipality where the goods are consigned`

■ Cost ■ Pass through

# Glitches of Present Structure

- Cascading Impact – Burden of tax on tax
- Non - availability of VAT Credit against CENVAT liability and vice versa
- Non - availability of CST Credit against VAT liability
- Multiplicity of taxes at the Centre and State levels
- Multiplicity of Tax Rates



# Goods and Service Tax



# What is GST

GST is a tax on **supply** of **all** goods and services [Manufacture / Sale / Service] with **comprehensive** and **continuous** chain of set-off benefits from producer's point / service provider's point up to the retailers' level

Tax **only on value addition** -Tax at each stage -Supplier at each stage is permitted to set off - Through credit mechanism



# Why GST...?

Simplified tax structure – minimal number of rates

Integration of prevailing indirect taxes to ensure uniformity

Credit available across goods and services

Availability of credit even for inter-state procurements

Mitigation of cascading of taxes / double taxation

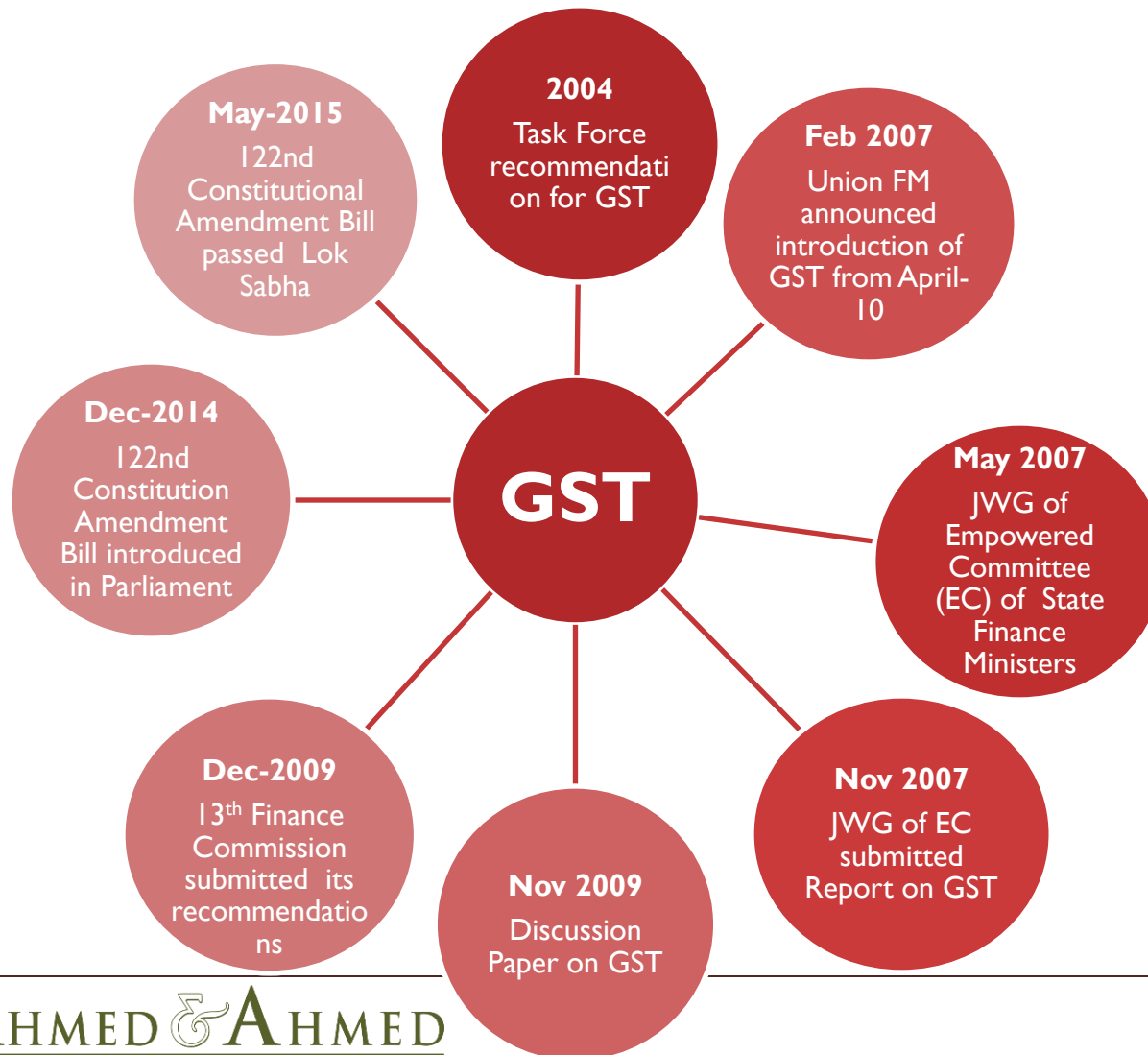
Wider tax base leading to increased tax collections

Simplified compliances



# Where are we?

## The Journey So Far



On 12 May 2015, the GST Bill had been referred to Select Committee of the Parliament. Select Committee tabled its report on 22 July 2015.

# Key Features of GST

## Switchover to destination based consumption tax

Dual GST model for all transactions of goods and services

CGST and SGST concurrently levied by Central Govt and State Govt, respectively, on same intra-state supply of goods or services in India

IGST on inter-state supply of goods or services in India – levied and collected by Centre. Additional 1% tax on inter-state supply of goods (with consideration)

Uniform Threshold Limit

Import of goods and services will attract both CGST and SGST (BCD to continue).  
Export will be zero-rated

Revenue Neutral Rate (RNR) – 16% to 27%\*

# Key Features of GST

New terms, you must be aware of

CGST

CST

IGST

EXCISE DUTY

SGST

VAT

ADC



# Key Features of GST

## Taxes to be Subsumed

- Central Excise Duty
- Service Tax
- Countervailing Duty
- Special Additional Duty
- Surcharges & Cesses
- Excise Duty on Medicinal & Toiletries Preparation Act

**CGST**

- VAT (CST will be abolished)
- Entry tax
- Entertainment tax /Luxury Tax (*Except as levied by Panchayat or Municipality*)
- Taxes on lottery, gambling, etc.
- State Surcharges & Cesses
- Octroi (under deliberation)

**SGST**



# Key Features of GST

## Taxes not to be Subsumed

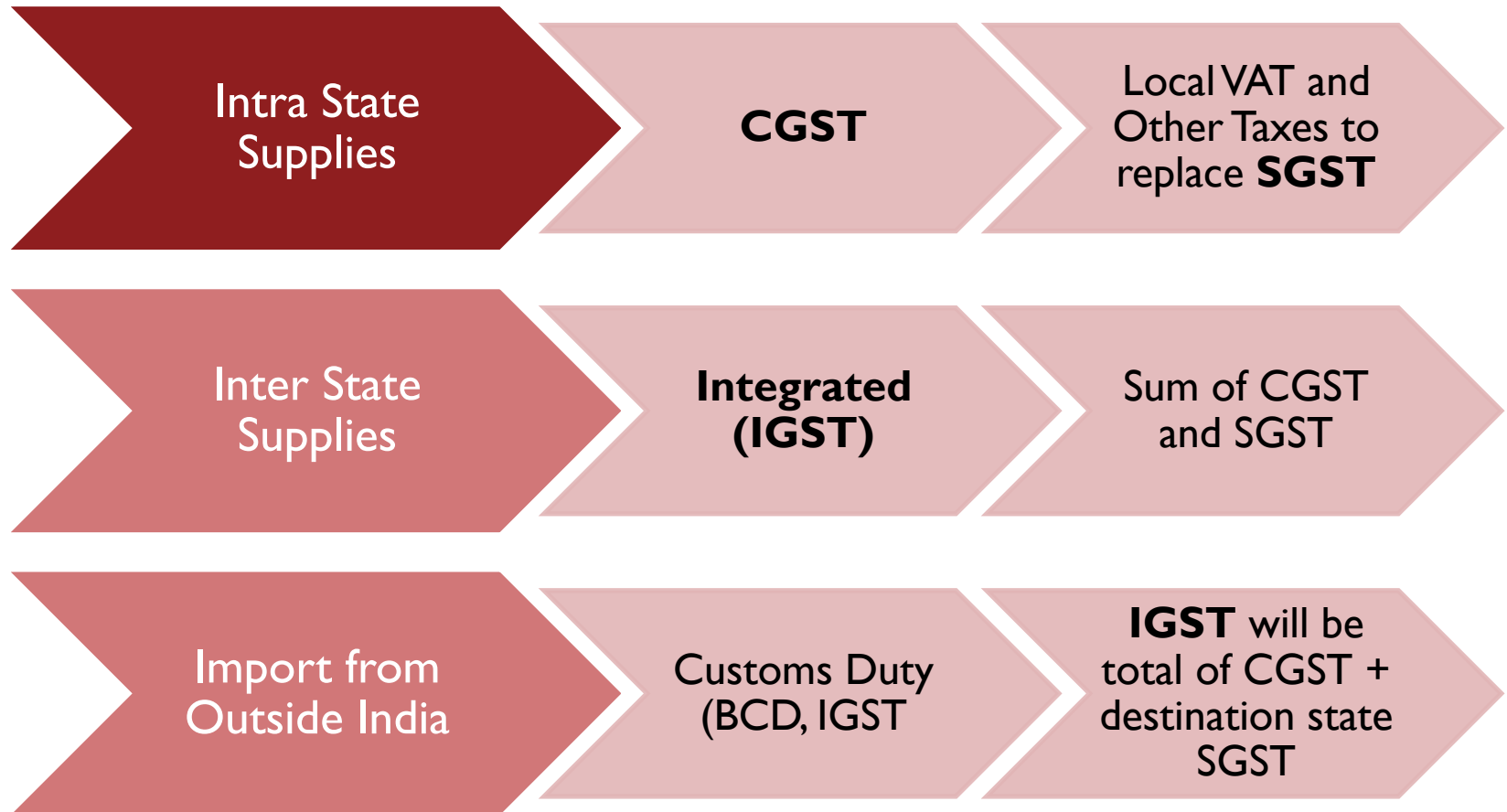
- Excise duty and tax on sale of petroleum products (till extension of GST)
- State taxes on alcoholic beverages for human consumption
- Entertainment tax /Luxury Tax as levied by Panchayat or Municipality
- Stamp duty
- Electricity duty
- Taxes on vehicles
- Cesses which do not relate to supply of goods or services (e.g. Oil Industry Development Board Cess etc.)

# Key Features of GST

## Exclusions

- All goods and services shall be covered in GST regime except
  - ✓ Exempted Goods
  - ✓ Negative List/ Exempted list of Services
  - ✓ Alcohol and alcoholic beverages
  - ✓ Petroleum products (deliberation on how to be included) and
  - ✓ Natural gas (still under deliberation)
- Tobacco products to attract GST with input tax credit. Central Government may levy excise duty

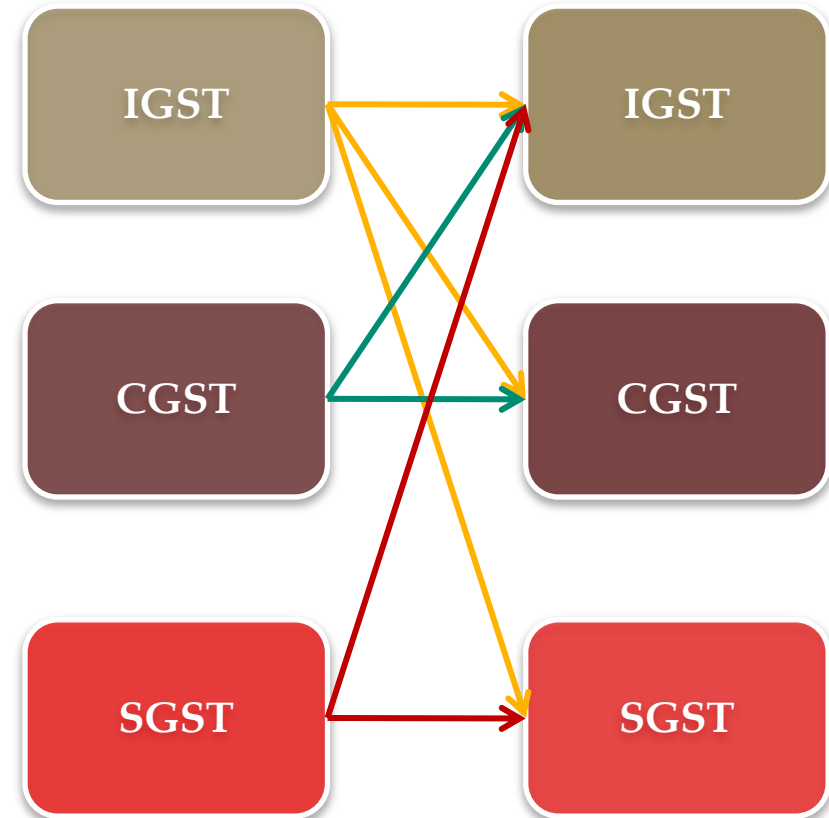
# Proposed Mechanism



# Key Features of GST

## Credit Mechanism

- CGST creditable against CGST and IGST
- SGST creditable against SGST and IGST
- IGST creditable against IGST, CGST or SGST
- Cross utilization of credit between CGST and SGST not permitted
- Cross utilization of credit between goods and services allowed
- Refund of GST allowed to Exporters
- Maintenance of separate accounts for utilization and refund of credits





# Key Features of GST

## How IGST Will Works

- Dealer will pay IGST in the state from where supply is made
- For payment of IGST, he can take credit of Input IGST, CGST & SGST
- Collecting state (origin state will then transfer SGST portion to the destination state
- Dealer in the receiving state will take credit of the IGST and utilise it against his out put tax liability.
- There will be running account settlement between various states and centre.



# Illustrations – CGST, SGST & IGST



# CGST and SGST Model

Inter-state purchase - 50

IGST @ 20% = 10

Additional tax @ 1% = 1 (Cost)

Local purchase - 50

SGST @ 10% = 5

CGST @ 10% = 5

Input  
credits



Local Sale - 110

CGST @ 10% = 11

SGST @ 10% = 11




Local sale - 140

CGST 14

SGST 14

Customer

Order of Utilization 		
	CGST	SGST
Output GST	11	11
Less: Input IGST	10	
Input CGST	1	
Input SGST		5
Net SGST payable by D1	-	6

# IGST Model

Inter-state purchase - 50

IGST @ 20% = 10

Additional tax @ 1% = 1 (Cost)

Local purchase - 50

SGST @ 10% = 5

CGST @ 10% = 5

Input credits



Inter-state sale/ Stock-transfer - 110

IGST @ 20% = 22

Additional tax @ 1% = 1.10 (Cost)



Local sale - 140

CGST 14

SGST 14

Customer

Order of Utilization	Output IGST	22
	Less:	
	Input IGST	10
	Input CGST	05
	Input SGST	05
	Net IGST payable by D1	02

Order of Utilization		
	CGST	SGST
Output GST	14	14
Less: Input IGST	14	
Input IGST		08
Net SGST payable by D2		06



# Constitutional Amendment

## What Changed

Article	Details of Article
Article 246A	To give concurrent jurisdiction to union as well as States w.r.t GST
Article 269A	Levy of IGST, and shall be apportioned between states and union
Article 279A	GST Council – Constitution, Functions Matters w.r.t taxes, cess, surcharges which needs to be subsumed, Goods and Services to be included or exempted, Model GST laws, Principles of Levy, etc.,
Article 366 (12A)	GST means any tax on supply of goods or services <b><u>except taxes on alcoholic beverages for human consumption</u></b>
Cl.18	Additional levy of 1% on IGST transaction (only on Goods)

# GST – Different Scenarios

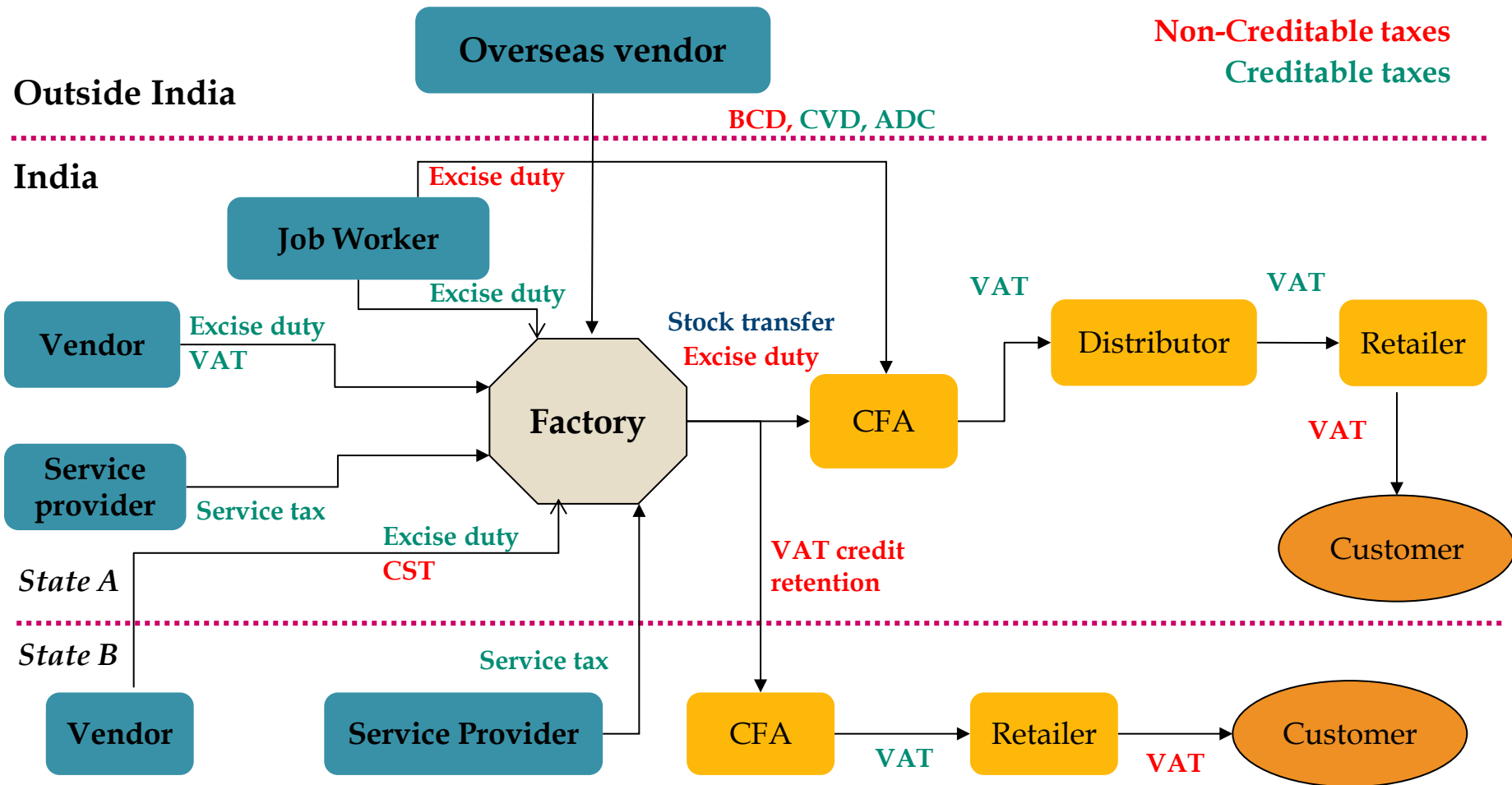


RETAIL

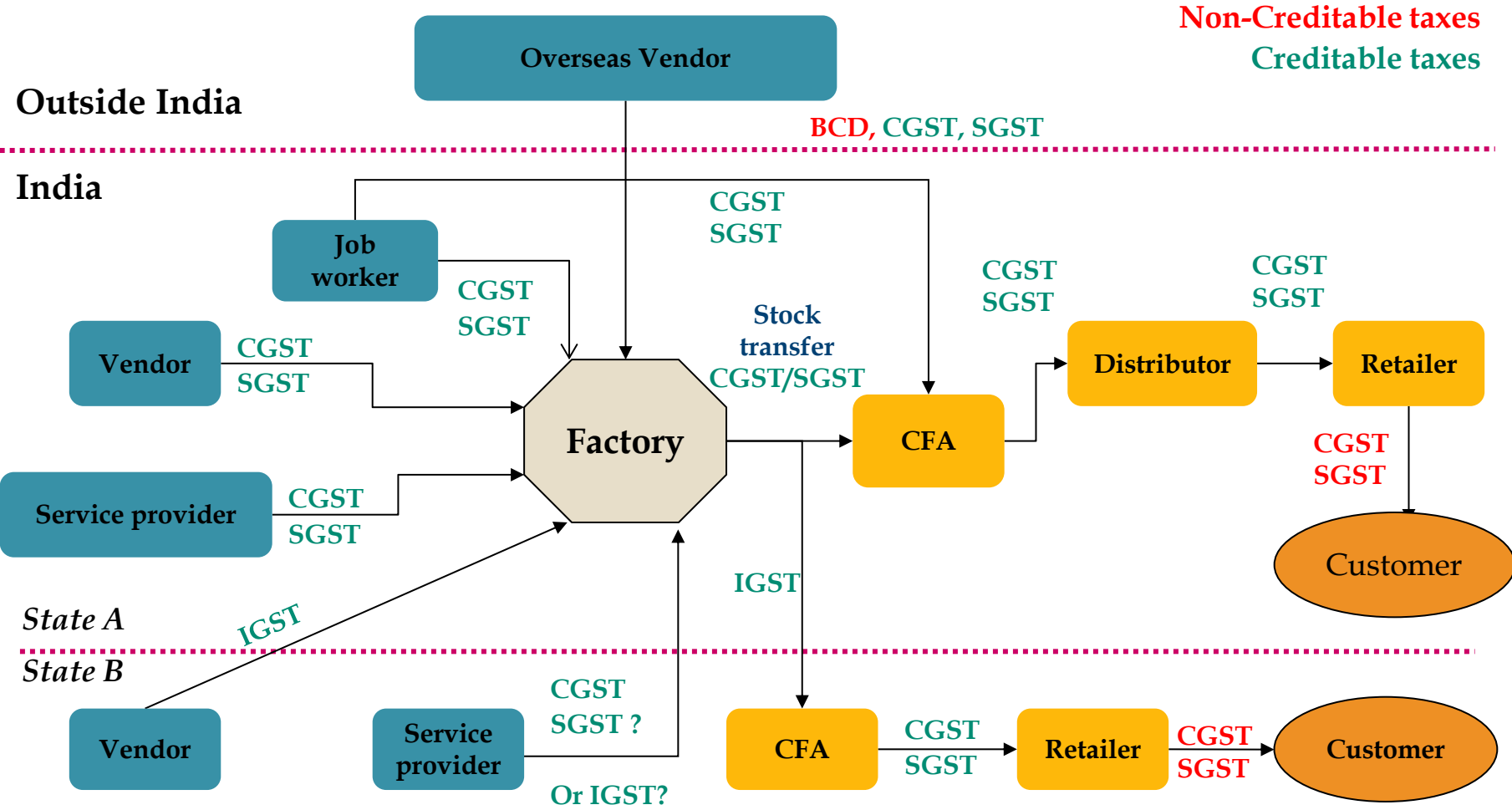
SERVICE

MANUFACTURING

# Manufacturing Model – Current Tax Regime

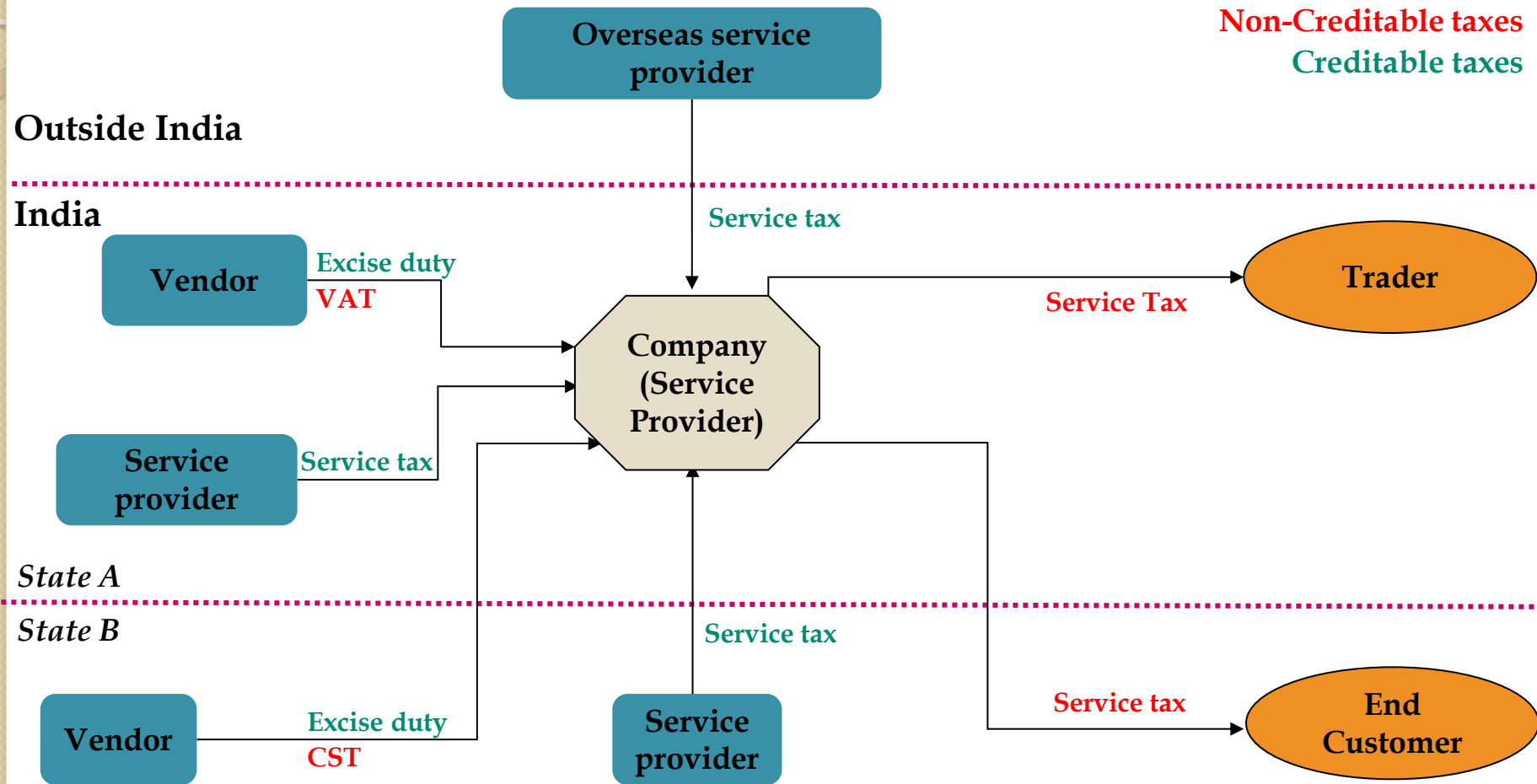


# Manufacturing Model – GST Regime

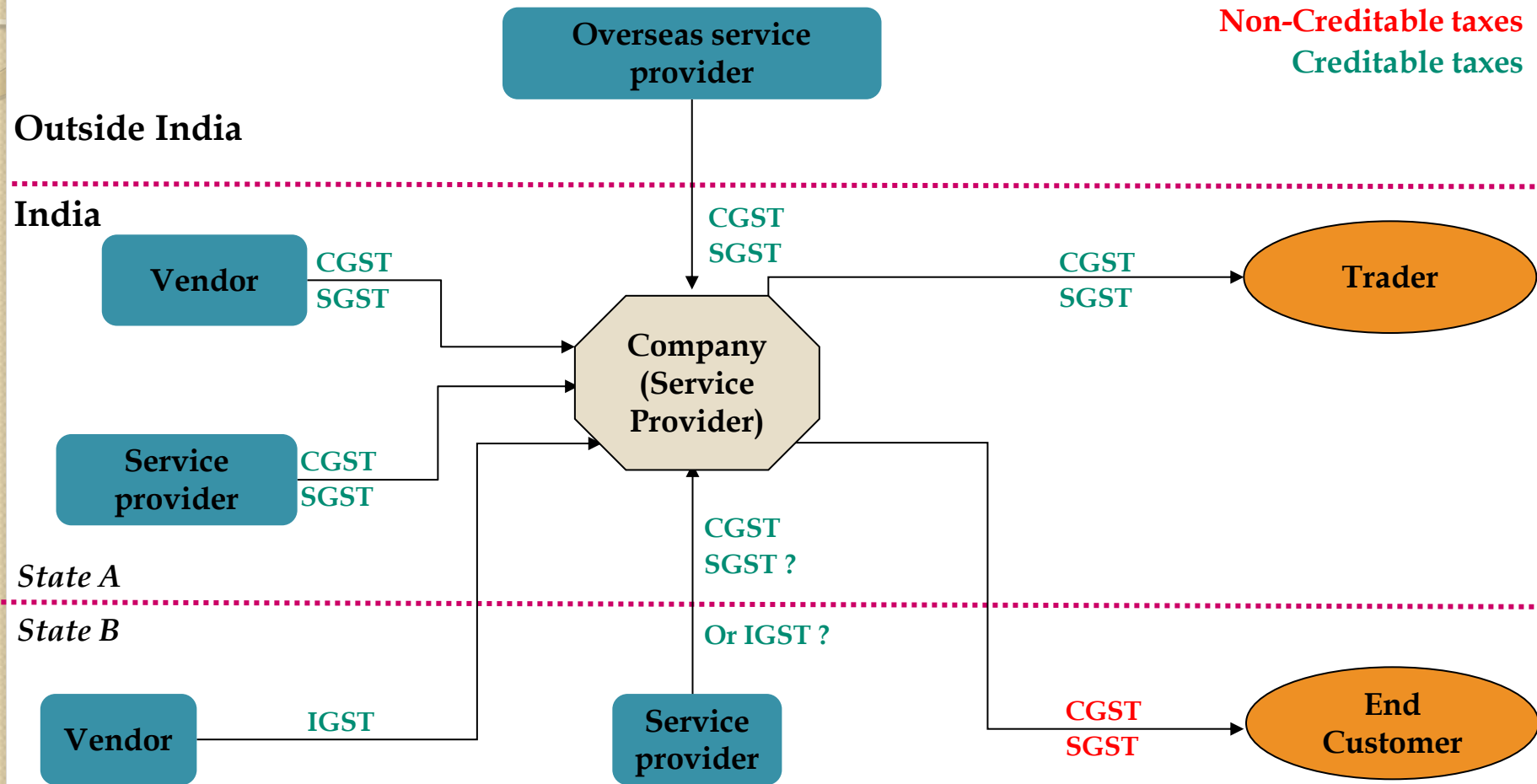




# Service Model – Current Tax Regime



# Service Model – GST Regime



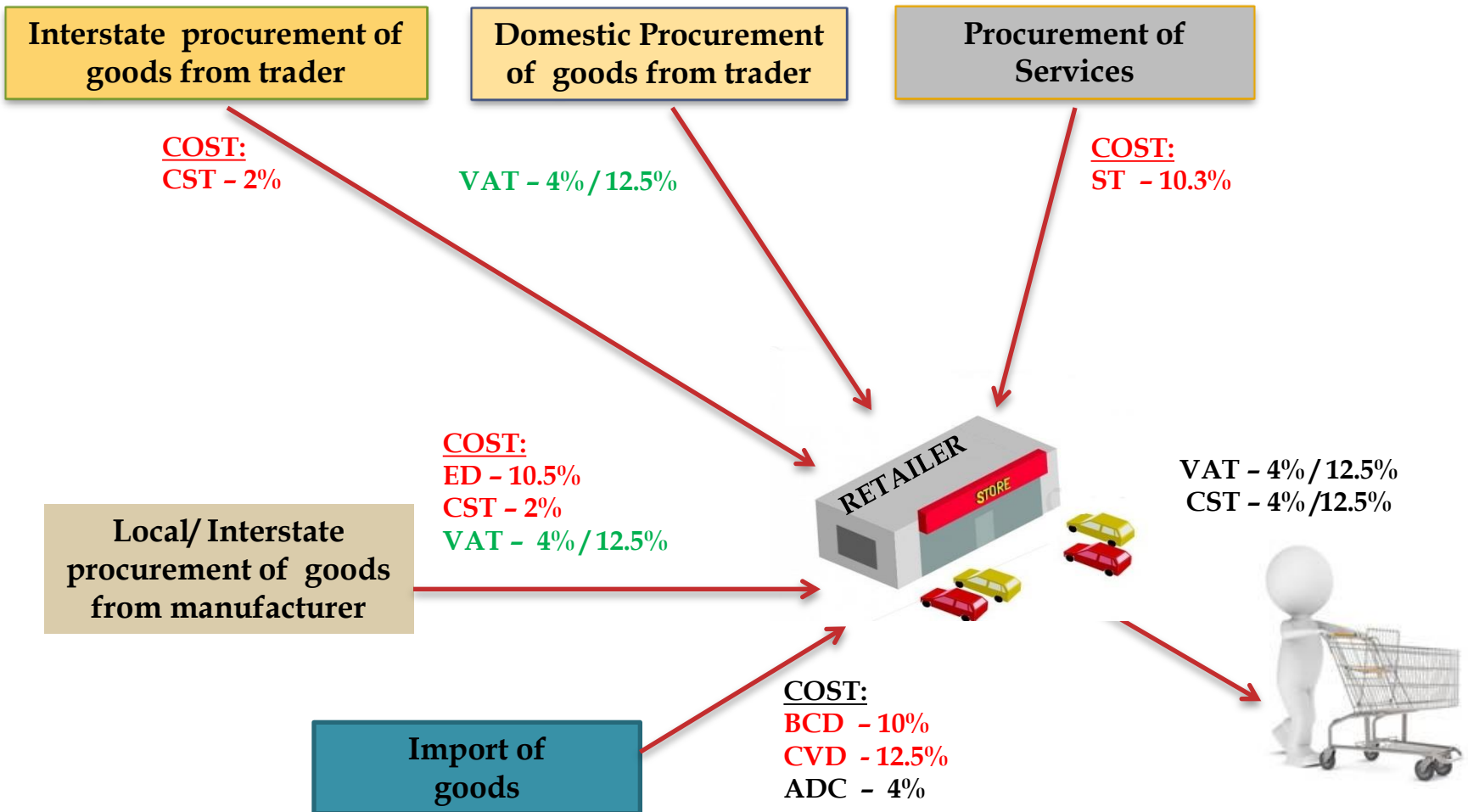
# Some Open Issues Concerning 'Inter State Supplies of Services'

- Can there ever be 'stock transfer' of services?
- Will Service Providers need to take separate registration with each State for SGST?  
OR will it be based on IGST Model?
- Which State will be the taxing jurisdiction:
  - ✓ Where Service Provider is located?
  - ✓ Where Service Receiver is located?
  - ✓ From where service is provided?
  - ✓ Where service is consumed?

# Retail Sector – Current Issues

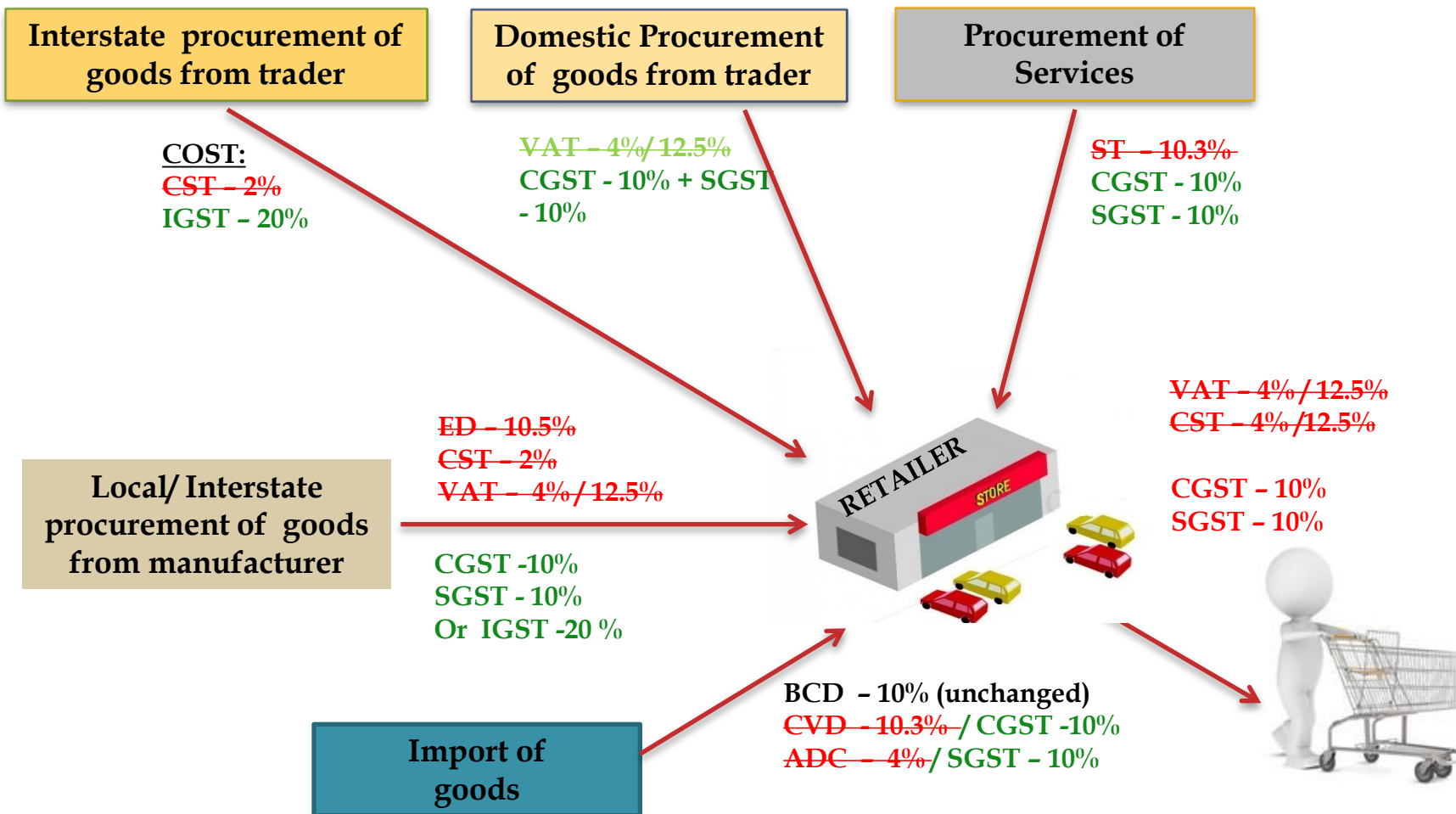
- Rate varies in each state for same products such as electronic items, computers etc.
- Regulator-License required for certain products
- Availability of SAD refund (not claimed on account of volume)
- Pilferage, loss
- Continuous amendment in Registration Certificate for branches
- Taxability of other services like advertisement, promotion, events, visibility etc

# Retail Sector – Basic Indirect Tax Implications

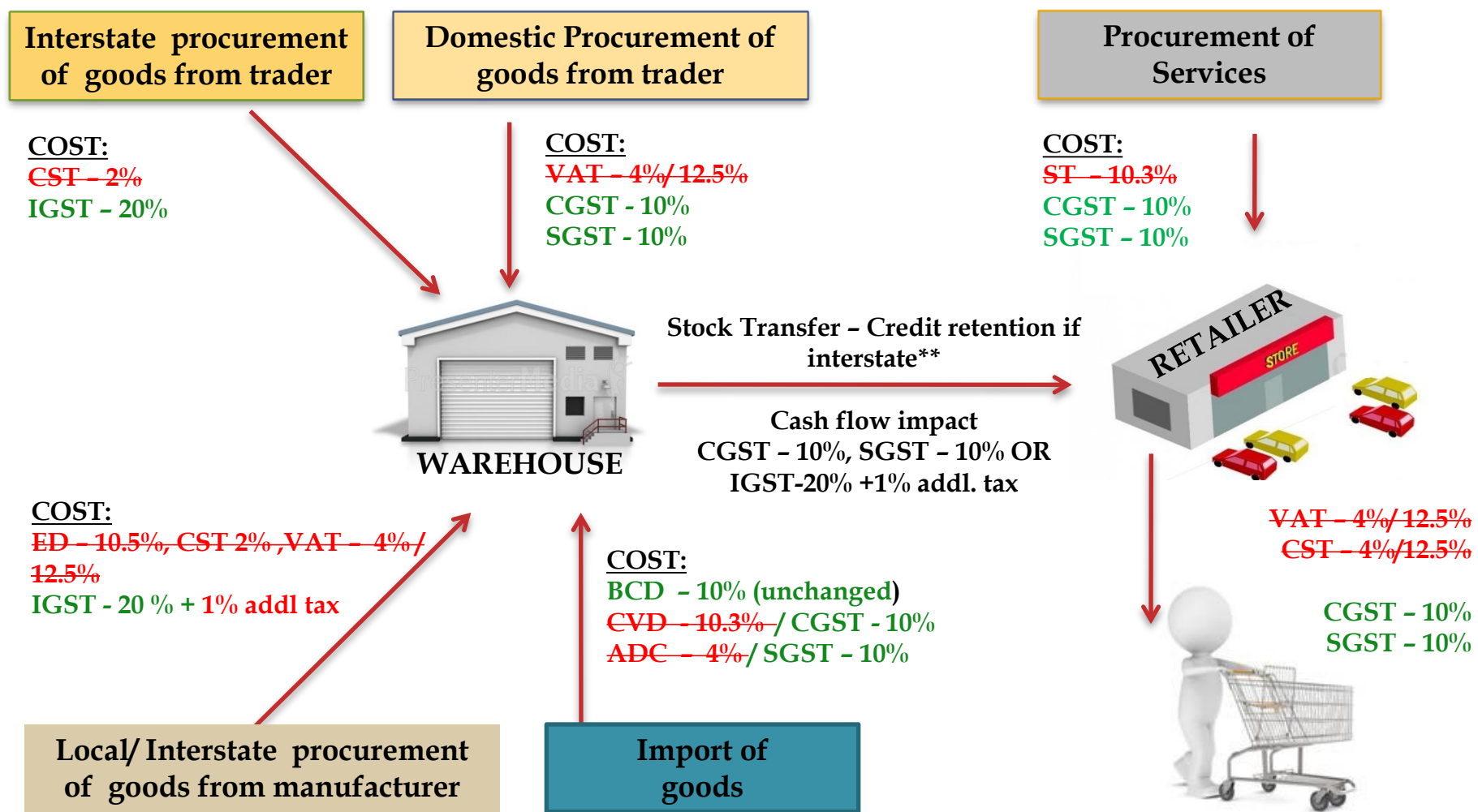




# Retail Sector – GST Implications



# Warehouse Scenario - GST Implications



\*\* In case it is a sale VAT @ 4/12.5% or CST @ 2% is payable

# Place of Supply Rules - Possibilities

Situations	Determination
<b>General Rule [except for service separately mentioned]</b>	Place of location of SR [if registered] Place of location of SP [If not registered]
<b>Location of SP means</b>	If registered in a state - As per Registration Certificate If not registered , but provides service in a state – then a) establishment from where he provides service b)
<b>Location of SR</b>	If registered in a state - As per Registration Certificate If not registered , but receives service in a state – then a) establishment from where he provides service b)
<b>Immovable property related [architect / interior designing/hotel accommodation etc]</b>	Where immovable property situated

# Place of Supply Rules - Possibilities

Situations	Determination
Performance based [Physical presence of good/SR required]	Place of actual performance
Events	Place where events are held
Hiring of goods	Where goods are put to use
GTA	Location of service receiver – if registered Otherwise – where goods handed over
Services on board	First point of departure
Legal Services Representation before a forum Other services	Where the forum is situated Registered client - Location of SR Individual client – Location of SP

# Other important points

- Threshold exemption - up to 10 Lacs (current recommendation 20-25 Lac)
- Above 10 Lac – 1.5 Cr - There will be dual levy, but may be assessed and administered only by SGST team and report to be shared with CGST team
- Health Care, Education, un processed food covered under the through public distribution system are likely to be exempted.
- Full Credit will be given for Capital Goods in the first year itself.
- All public services of Government exempt, but not applicable for Post & Telegraph, Insurance etc.
- GST on construction service – credit may be available in respect of input maintenance service for the output Renting Services [No clarity, but proposed in the Finance Commission Report]



# Multiple Rate Structure – No final Consensus Yet

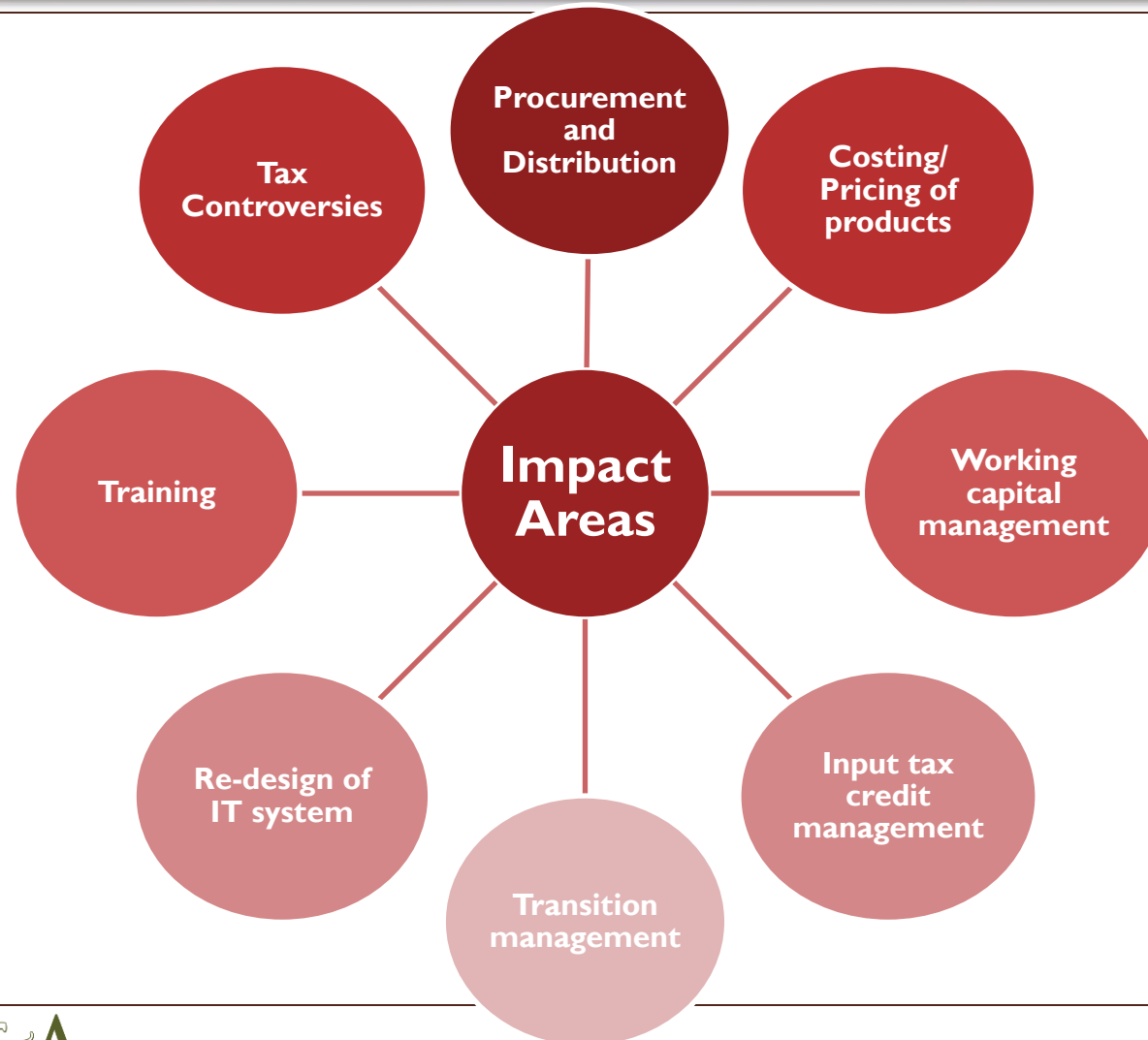
## Rates proposed earlier

Goods / Services	Levy	Rate in 1 <sup>st</sup> Year	Rate in 2 <sup>nd</sup> Year	Rate in 3 <sup>rd</sup> Year
Goods – Lower Rate	CGST	6%	6%	8%
	SGST	6%	6%	8%
Goods – Standard Rate	CGST	10%	9%	8%
	SGST	10%	9%	8%
Services	CGST	8%	8%	8%
	SGST	8%	8%	8%

## Rates proposed by NIPFP to sub committee

- different rates scenarios, including a two rate **GST**, three rate **GST** and four rate **GST**
- Rates of **14%, 16%, 20%, 24%, 27%** suggested in the recent report

# Multiple Dimensional Impact – Specific Areas



# Multiple Dimensional Impact – Specific Areas

## Procurement/ Distribution

- a) Inter state procurement of raw material – credit eligibility
- b) Inter-state vs. Intra state GST – May impact the sourcing decision
- c) Warehousing may need a relook

## Costing/Pricing

- a) Cost of input/input service may change due to –
  - rate change and full creditability
  - withdrawal of exemptions
- b) Overall pricing of the goods may change - factoring of GST credits

## Working Capital

- a) Higher tax outgo on sourcing of services
- b) Shift in taxable event to supply
- c) Shift in point of tax collection
- d) Taxability of stock transfers/ captive consumption

## Tax Credits

- a) Treatment of accumulated credits on transition to GST
- b) Loss of credits beyond one year?
- c) Continuity of ISD concept
- d) Restrictions on Credits

# Multiple Dimensional Impact – Specific Areas

## Re-design of IT Systems

- a) Accounting change in formats of invoices, reports, returns
- b) Redefining the logic
- c) Updating the masters and tax codes

## Training

- a) Staff training on compliance requirement
- b) Realignment with procurement and distribution partners
- c) Regular communication with stake holders

## Transition management

- a) Registration
- b) Tax payments
- c) Statutory declarations
- d) Returns
- e) Records and registers
- f) Entry permits

## Tax Controversies

- a) Place of supply rules
- b) Transition stock
- c) Negative list
- d) Saving clauses

# GSTN - Features

- GSTN incorporated on 28.03.2013 as Section 25 private limited company with authorized equity of Rs. 10 cr.
- Strategic control to remain with Government
- A self-sustaining revenue model - to levy user charges for availing services from -
  - ✓ tax payers
  - ✓ tax authorities
- Exclusive national agency responsible for delivering integrated Tax related services involving multiple tax authorities
- Equity Holders
  - ✓ Central Government - 24.5%
  - ✓ EC and all States together - 24.5%
  - ✓ Financial Institutions - 51%



# GSTN - Functions

- GST Common Portal to be set-up before GST roll out
- Common Portal to function as pass-through portal for dealers to -
  - ✓ submit registration application
  - ✓ file returns
  - ✓ make tax payments
- Registration, return & payment information to be passed on to Central & concerned State tax authorities
- GSTN to develop back-end modules like Assessment, Audit, Refunds, Appeal, Enforcement & tax payer profiling utility, etc. - as part of Cafeteria Services
- Statutory functions like assessment, enforcement of tax laws, settlement of disputes etc. to be performed by the respective tax authorities only
- GSTN to provide various services

# GSTN - Services

- Common Registration, Return filing & e-Payment for tax payers
- Integration of Common GST Portal with existing tax administration systems of Central / State Governments & other stake holders
- Facilitate, implement and set standards for providing services to tax payers through common GST portal
- Build efficient & convenient interfaces with tax payers to increase tax compliance
- Assist tax authorities in plugging tax evasion & improving transparency of tax administration system
- Carry out research, study best practices & provide training to the stakeholders
- Deliver any other service of relevance to Government & other stakeholders

# How far are we from GST ?

# Recent Developments and Next Steps

- The Government aims to roll out GST from 1 April 2016
- Constitution Amendment already passed and referred to standing committee (submitted report)
  - ✓ 1% additional tax on inter state supply of goods for initial 2 years.
  - ✓ Petroleum products may be part of GST but may not be included in the initial few years
  - ✓ All Entry taxes to be subsumed
  - ✓ Alcohol would be outside the GST framework
- Standing Committee submitted its report and now it has to be passed in Rajya Sabha.
- 50% of the states have to ratify the Bill
- Enactment of GST legislations along with Rules both by Central Government and State Governments
- The GST Council, a constitutional body, to be set up
- Last, but most important, the IT backbone will be operationalized

# Key Enablers for Implementation of GST

- Well defined Place of Supply rules including for e-commerce businesses
- Uniform exemption list, threshold, rates of tax
- Uniform e-registration
- Uniform cut-off dates for payment of taxes
- Common e-return of CGST, SGST and IGST
- Common periodicity for filing returns
- System based validation/consistency checks
- Online services of GST Network
- Simple tax administration
- Facilitation Centres
- Effective fund settlement mechanism between the Centre and the States



Thank You



Are you  
ready  
for  
GST?

**AHMED & AHMED**  
TAX AND COMMERCIAL LAW ATTORNEYS

Address: Chhondani Building,  
Kathrikkadavu Junction, KK Road, Cochin

Mail ID: [shameem@ahmedlaws.in](mailto:shameem@ahmedlaws.in)  
[www.ahmedlaws.in](http://www.ahmedlaws.in)

Contact No:

Landline : 0484 2339299, 3362083    Mobile :  
+91 974737 4868

- Service Tax
- Excise and Custom
- Corporate Agreements
- Company Law
- FEMA
- Labour Law
- Consumer Laws
- Value Added Tax
- Commercial Laws
- Technology Agreements
- Foreign Direct Investment
- Intellectual Property Laws
- Food Safety Laws

# Global Scenario

## GST - A preferred tax structure

- Globally, 160 countries have introduced GST/VAT
- GST rates in major world economies

Rate	Countries
<10 %	Australia, Canada, Indonesia, Japan, Malaysia, Philippines, Singapore, Taiwan
11-20%	Austria, China, France, Mexico, Russia, South Africa, U.K. Germany
20% >	Denmark, Finland, Belgium, Poland, Sweden, Italy

- GST had inflationary impact initially, in long run it leads to price reduction
- Proposed GST model is based on Dual GST followed by Canada & Brazil