

OVERVIEW OF GOODS AND SERVICE TAX (GST)

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GOVERNMENT VIEW ON GST

Empower Committee (EC) of the Government describes GST as

"a further significant improvement – the next logical step -towards a comprehensive indirect tax reforms in the country.

MAJOR INDIRECT TAX REFORMS **IN INDIA**

- **1986 – MODVAT Credit for Inputs**
- **1994 – MODVAT Credit for Capital Goods**
- **2002 – Service tax credit**
- **2004 – Cross- sectoral credit**
- **2005 – VAT**
- **2010 – 2015 – GST – the most awaited !**

Need for GST :

For Trade

- Reduction in **Multiplicity of taxes**
- Mitigation of **cascading/ double taxation**
- Seamless **Tax Credit**
- More efficient **neutralization of taxes** especially for exports
- Development of **common national market**
- Simpler tax regime with **fewer rates and exemptions**

For Government

- Simpler **Tax system**
- **Broadening of tax base**
- Improved **compliance & revenue collections** (tax booster)
- Efficient **use of resources**

Benefits of GST :

For Traders & Manufacturers :

- **One Tax when compared to existing 16 taxes**
- **Common National Market**
- **Distinction between Goods & Services will go**
- **Invoicing will be simpler**
- **No Entry Tax**
- **Common exemption between Centre and State**
- **Big Central Excise tariff will go**
- **Concept of Manufacture will go**
- **Classification controversies will go**
- **Problem of Identification of a Product will go**

ROADMAP TO GST- MEMOIRS....

➤ Budget 2006-07:

Announcement of intent to introduce GST by **1st April 2010**

➤ May, 2007 to September, 2009:

Discussions on roadmap & design between **Empowered Committee of State Finance Ministers (EC) & GOI**

➤ November, 2009:

First Discussion Paper (FDP) released by EC

ROADMAP TO GST- MEMOIRS....

➤ March, 2011:

Constitution (115th Amendment) Bill introduced in LS – Referred to Parliamentary Standing Committee (PSC) – PSC recommended the following

- (i) the speedy implementation of **IGST in lieu of CST,**
- (ii) **uniform rate of GST on both goods and services,**
- (iii) **simple tax structure** with minimal tax rates,
- (iv) **uniform threshold limit** for goods and services both at the Central and State level and
- (v) a **unified appellate and adjudication authority** for dispute settlement.

➔ **Lapsed with dissolution of LS**

ROADMAP TO GST- MEMOIRS....

➤ February, 2013:

Three Committees constituted by EC -

- **Dual Control, Thresholds and Exemptions**
- **RNRs for SGST & CGST and Place of Supply Rules**
- **IGST and GST on Imports**

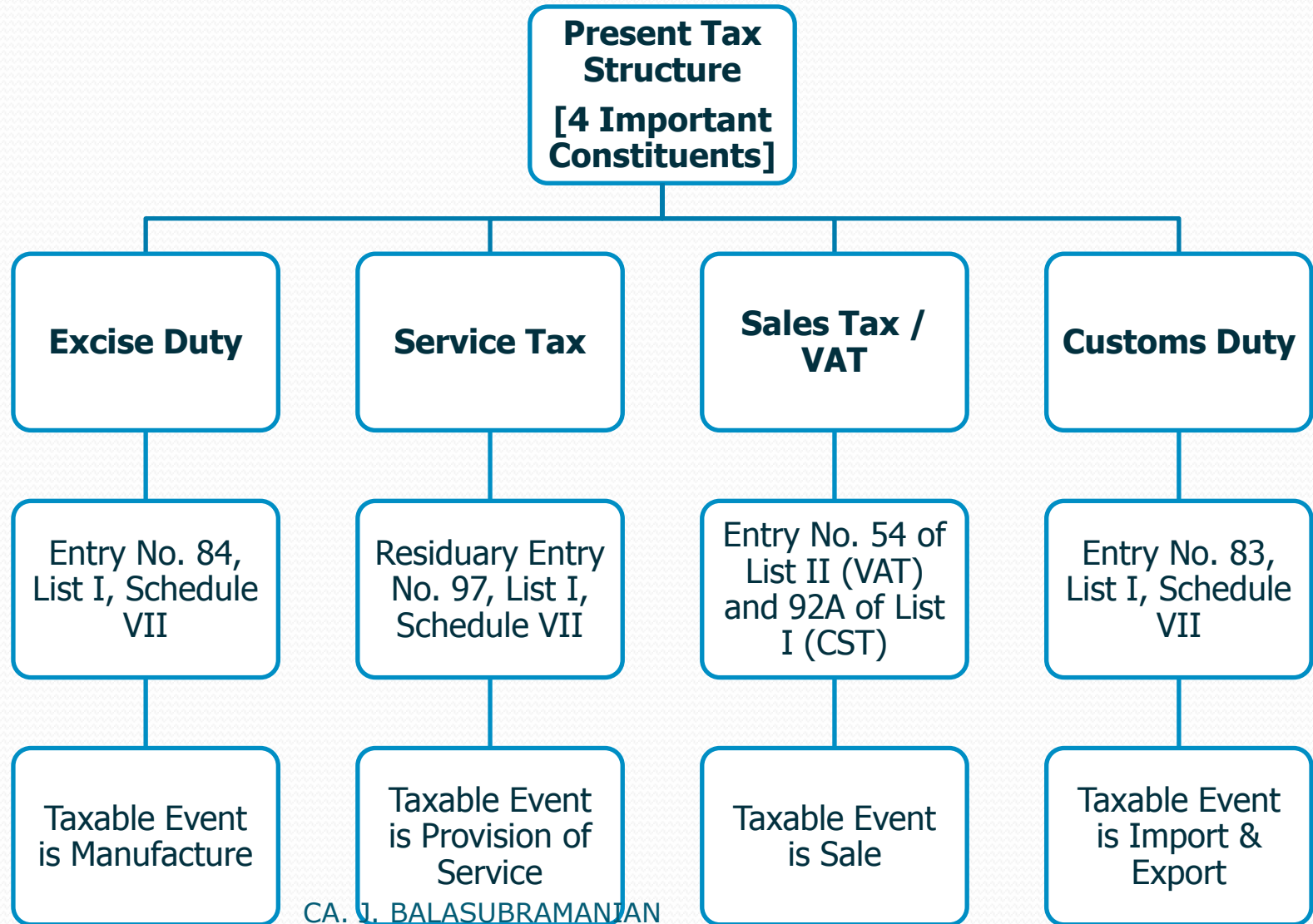
➤ March, 2013 –

GSTN incorporated as a **Section 25 Company** in tie up with NSDL.

➤ December, 2014:

Constitution (122nd Amendment) Bill introduced in LS

Existing Indirect Tax Structure



Modification proposed in GST law as compared to present Indirect Tax Regime:

Central Excise :

- Concept of **Manufacture** will not be there in GST [Sec. 2f (i), (ii)&(iii)]
- Scrapping of **Section 3 & 3A**
- Concept of **Valuation / CENVAT Credit mechanism / Dispute Resolution / removal of goods / Demand / Interest, etc** may find place in GST.

Modification proposed in GST law as compared to present Indirect Tax Regime:

Customs Duty :

- **Basic Customs Duty** would continue
- **CVD** u/s 3(1) of Customs Tariff Act, **SAD** u/s 3(5) → subsumed in **CGST**.
- Classification based on **Harmonised System of Nomenclature (HSN)** may be adopted in **GST**.

Modification proposed in GST law as compared to present Indirect Tax Regime:

VAT :

→ Following will be removed in GST

- Cascading effect of VAT as Sale price included **Central Excise Duty**.
- Multiple rates
- Different rates in different states
- Different definitions
- Border Controls
- Checkpost problems

→ Supplies of goods and importantly **Services** would now be available to the States as **SGST**.

Modification proposed in GST law as compared to present Indirect Tax Regime:

Central Sales Tax (CST) :

- CST will be **phased out completely**
- CST is **part of the cost** as there is **no credit allowed** on CST purchases leading to cascading effect.
- Complex law on **stock transfer and transit sales** so far exempted but is proposed **to be taxable**
- principles of **inter state sales, sales in the course of export / import** with required changes for supplies would be a part of the GST

Modification proposed in GST law as compared to present Indirect Tax Regime:

Service Tax :

→ Unaddressed Issues

- Inclusive definitions
- Cenvat credit disputes
- Ambiguous Valuation Rules
- Reverse charge
- Sale Vs. Service

Works contract / Food items / Software

- Principle of **Place of Provision of Service Rules** will be adapted as **Place of Supply Rules**.
- **Point of Taxation Rules** will also be adapted in GST
- **States can Tax services on all intra state consumption (Exp. Revenue Rs. 150000 Crs)**

OVERVIEW OF GST

➤ **Goods & Service Tax (GST)**

➔ a tax on **supply of goods or services.**

➤ Origin based to **Destination-based Taxation system**

➤ Applies to **all stages of value chain** – primary, secondary & tertiary including retail

➤ Any person, providing or supplying goods or services would be liable to charge GST.

➤ **Additional revenue for States** as they would be eligible for SGST part of **Services** consumed within the State.

OVERVIEW OF GST

- Applies to **all supplies of goods / services** made except :
 - **Exempted goods / services – common list** for CGST & SGST
 - **Goods / services outside the purview of GST**
 - **Transactions below threshold limits**

- **Dual GST** having two concurrent components
 - **Central GST (CGST)** levied & collected by Centre
 - **State GST (SGST)** levied & collected by States

OVERVIEW OF GST

- **CGST and SGST** on **intra-State supplies** of goods / services in India
- **IGST** (CGST + SGST) applicable to
 - **Inter-State supplies of goods / services** in India
 - **Inter-state stock transfers of goods**
 - **Import of goods and services**
- IGST levied & collected by the **Centre**
- A **1% origin based tax** to offset the CST loss would be collected by the Union retained by the States.
- **Export of goods and services – Zero rated**

OVERVIEW OF GST

Taxable Person in GST :

- Covers all types of person carrying on **business activities, i.e. manufacturer, job-worker, trader, importer, exporter, all types of service providers, etc.**
- A **dealer** must get registered under **CGST** as it will make him entitle to claim **ITC of CGST.**
- **Importers** have to register under both **CGST and SGST .**

OVERVIEW OF GST

Taxable Event :

- Taxable event is “ **Supply** ” of Goods & service
- The location of the **supplier and the recipient** within the country is **immaterial** for the purpose of **CGST**.
- **SGST** would be chargeable only when the **supplier and the recipient are both located within the State.**
- **Inter state Supply of goods and services will attract IGST.**

OVERVIEW OF GST

Subsuming of taxes

□ Central GST (CGST)

- ✓ **Central Excise Duty**
- ✓ **Additional Excise Duties**
- ✓ **Excise Duty (Medicinal & Toilet Preparation Act)**
- ✓ **Service Tax**
- ✓ **CVD u/s 3(1) of Customs Tariff Act**
- ✓ **SAD u/s 3(5) of Customs Tariff Act**
- ✓ **National Calamity Contingent Duty (NCCD)**
- ✓ **Surcharges & Cesses**

OVERVIEW OF GST

Subsuming of taxes

□ State GST (SGST)

- ✓ **Value Added Tax (VAT)**
- ✓ **Purchase Tax**
- ✓ **State Excise Duty (except on Alcoholic liquor for human Consumption)**
- ✓ **Entertainment Tax (unless it is levied by the local bodies)**
- ✓ **Luxury Tax**
- ✓ **Octroi**
- ✓ **Entry tax in lieu of Octroi**
- ✓ **Taxes on Lottery, Betting and Gambling**

OVERVIEW OF GST

Taxes not to be subsumed in.....

□ Central GST (CGST)

- ✓ **Basic Customs Duty**
- ✓ **Excise Duty on Tobacco products**
- ✓ **Export Duty**
- ✓ **Specific Cess**
- ✓ **Specific Central Cess like Education and Oil Cess.**

OVERVIEW OF GST

Taxes not to be subsumed in.....

□ State GST (SGST)

- ✓ **Taxes on Alcohol for human consumption**
- ✓ **Toll Tax**
- ✓ **Environment Tax if levied by Local Bodies**
- ✓ **Road Tax**
- ✓ **Property Tax**
- ✓ **Tax on Consumption or Sale of Electricity – Not certain**
- ✓ **Stamp Duty – Not certain**
- ✓ **Petroleum Products**

OVERVIEW OF GST

Illustration for Supply within State:

Basic value charged for supply of goods or services	Rs. 10000
Add : CGST @ 12%	Rs.1200
Add : SGST @ 8%	Rs. 800
Total Price charged for locally supplied goods or Services	Rs. 12000

OVERVIEW OF GST

Integrated GST (IGST) :

- **For all inter-state supply of goods or services**
- **Centre to levy IGST which would be CGST + SGST**
- **Appropriate provision for consignment sale/stock transfer to levy IGST**
- **Inter-state dealer / manufacturer / service provider will pay IGST after adjusting IGST, CGST and SGST credit on purchase**

OVERVIEW OF GST

Integrated GST (IGST) :

Illustration :

- The **seller** in State Tamil Nadu will pay the **IGST** to the Centre, while paying IGST, seller will adjust his lying **IGST/CGST/SGST credit**
- State Tamil Nadu will have to **transfer the credit of SGST** used by the seller for payment of IGST to the Centre
- Buyer in State Karnataka can **use the IGST** to discharge his output tax liability
- Centre has to transfer credit of **IGST used for payment of SGST to State Karnataka**
- A **clearing house** has to be formed for facilitating IGST

OVERVIEW OF GST

Illustration for Inter State Supply :

Basic value charged for supply of goods or services	Rs. 10000
Add : IGST @ 20% (CGST + SGST)	Rs.2000
Total Price charged for locally supplied goods or Services	Rs. 12000

OVERVIEW OF GST

Credit Set – Off

Nature of Tax paid on Purchase	Can be utilized for payment of
CGST	CGST IGST
SGST	SGST IGST
IGST	CGST SGST IGST

OVERVIEW OF GST

GST Rates – based on RNR :

Four rates -

- **Merit rate** - **Essential goods & services** (may be 10%)
- **Standard rate** - **Goods & Services in general** (may be 20%)
- **Special rate** - **Precious Metals** (may be 1%)
- **Nil rate** - **Exempted Goods or Services**

OVERVIEW OF GST

GST on Imports :

- **Both CGST and SGST** would be levied on import of goods and services and the **importer** is liable on the basis of **Reverse Charge Mechanism**
- Tax would be based on **destination principle**
- Tax revenue of **SGST would accrue to the State** where the imported goods / services are consumed
- **Full set-off of GST on imports available**

OVERVIEW OF GST

GST on Exports :

- GST on export would be **zero rated.**
- **Similar benefits** may be given to Special Economic Zones (in processing zones only).
- **No benefit to the sales from an SEZ to Domestic Tariff Area (DTA).**
- GST paid by Exporter on the procurement of goods and services will be **refunded.**

OVERVIEW OF GST

Compounding benefit

- **Interest of small traders and SSI to be protected**
- **Upper ceiling on gross annual turnover and a floor tax rate to be prescribed**
- **Compounding cut off for Goods & Services at Rs. 25 lakhs to Rs.75 Lacs with a floor rate of 0.5% across the States is being discussed**

OVERVIEW OF GST

Threshold Exemptions....

➤ Excise Duty

➔ **Rs. 10 Lacs to Rs. 20 Lacs**

(Turnover of Rs.1.5 crores & above to be administer by Centre and less than Rs.1.5 crores to be administer by States)

➤ VAT

➔ **Rs. 10 Lacs to Rs.20 Lacs**

➤ Service Tax

➔ **Rs. 10 Lacs to Rs.20 Lacs**

OVERVIEW OF GST

➤ Place of Supply Rules (PoS)

- to **determine Place of Supply of goods or services**
- to determine whether the **supplies are intra-State or inter-State**
- **PoS for B2B** is should normally be the **location of recipient of goods or service.**
- PoS Rules for **B2B and B2C is different**
- **Drafting / understanding / implementing PoS Rules** will be **challenging for both Government & Trade !**

122nd CONSTITUTIONAL AMENDMENT BILL

➤ Introduced in LS on **19.12.2014**

➤ **Key Features →**

- **Concurrent jurisdiction** for levy of GST by the Centre and the States
 - proposed **Article 246A**
- Authority for **Centre** to levy & collection of **IGST** on **supplies in the course of inter-State trade or commerce including imports**
 - proposed **Article 269A**
- Authority for Centre to levy **non-vatable Additional Tax**
 - to be retained by **originating State**

122nd CONSTITUTIONAL AMENDMENT BILL

➤ **Key Features →**

- **GST defined *as any tax on supply of goods or services or both other than on alcohol for human consumption***
 - **proposed Article 366(12A)**
- ***Goods includes all materials, commodities & articles***
 - **proposed Article 366 (12)**
- ***Services means anything other than goods***
 - **proposed Article 366 (26A)**

122nd CONSTITUTIONAL AMENDMENT BILL.

➤ Key Features contd.

Goods and Service Tax Council (GSTC):

- ❑ GSTC has to be Constituted as per proposed **Article 279A within 60 days** of the Constitutional Amendments.
- ❑ GSTC consists of **Union FM & Union (MOS) (Rev.) and all State Finance Ministers**
- ❑ **Quorum is 50%** of total members
- ❑ Decision by **3/4th majority** of votes present & voting
- ❑ **Centre** has **1/3rd** weighted votes & **State** has **2/3rd** weighted votes

122nd CONSTITUTIONAL AMENDMENT BILL.

Key Features contd.

- GSTC will recommend on –
 - ❑ **Subsuming of Taxes** on GST
 - ❑ **Exemptions & threshold limit**
 - ❑ **GST rates**
 - ❑ **Model GST Law & procedures**
 - ❑ Date from which GST would be levied on **Petroleum products**
 - ❑ **Changes in Entry** No. 84, 92A of List I and Entry No. 54 of List II
 - ❑ **Compensation for loss of revenue to States** for next 5 years.

Present taxation Vs. GST

- **Structural Difference** → Multiple taxation to Dual GST
- **Place of Taxation** → Origin based to Destination based
- **Excise Duty** → Major change – No Manufacture
- **Basic Customs Duty** → No Change
- **CVD / SAD** → Subsumed in CGST
- **Service Tax** → Subsumed in CGST
- **Central Sales Tax** → To be phased out completely

Present taxation Vs. GST

- **State VAT → Subsumed in SGST**
- **Inter-State Transactions → Subsumed in IGST**
- **Power to levy tax on Manufacture → No more valid**
- **Power to levy tax on Sale of Goods → Concurrent Jurisdiction**
- **Power to levy tax on Provision of Services → Concurrent Jurisdiction**
- **Tax on Import in India → BCD continues & to be subsumed in GST.**

Present taxation Vs. GST

- **Tax on Export of Goods & Services**
→ Zero rated – No change
- **Tax on inter-State Transfer of Goods to Branch or Agent** → Exempt thru' Form F – To be taxable
- **Tax on Transfer of Goods to Branch or Agent within States** → Same BIN not taxable
- **Cross-Levy set-off**
- **Cascading Effect** → Seamless tax credit

Present taxation Vs. GST

- **Transactions against Declaration Forms**
 - ➔ **Forms will be abolished**
- ➔ **Stamp Duty** ➔ **may be subsumed in GST**
- **Tax Base** ➔ **Broadened**
- **Classification of Commodities** ➔ **HSN of Customs to be adopted**
- **Threshold Limit for** ➔
 - **Excise Duty**
 - **VAT**
 - **Service Tax**

Present taxation Vs. GST

- **Registration Number → Single BIN (13 to 15 digit)**
- **Procedure for collection of Tax & Filing of Return → Uniform across the country**
- **Administration → Simpler**
- **Use of Computer Network → Extensive**
- **Nature of present litigations →**
 - **Sale vs. Service**
 - **Classification of goods**
 - **Situs issue between States**
 - **Interpretation of provisions**
 - **Sale vs. Works Contract**
 - **Valuation of Composite Transactions, etc.**

Miles to go.....

- ❑ **122nd Constitution Bill on GST passed in Lok Sabha.**
- ❑ **Bill to be passed in Rajya Sabha with 3/4th Majority.**
- ❑ **Select Committee of Rajya Sabha** submitted report on **22nd July 2015.**
- ❑ Bill to be ratified by at least **50% of the State Legislatures (15 States)**
- ❑ Assent by **President of India**
- ❑ **GST Council (GSTC) to be constituted**
- ❑ GSTC to recommend **GST Law and procedure**
- ❑ **GST Law to be introduced in Parliament/ State legislatures**
- ❑ **Scale up existing IT infrastructure**
- ❑ **Linkage of GSTN Portal with ACES at back end.**

Miles to go.....

- **Key Policy Issues under Discussion –**
 - **Extent of Dual Control**
 - **Rate structure**
 - **Exempted Goods / Services**
 - **Exemption threshold**
 - **Composition threshold**
 - **Role of Centre / States in inter-State Trade**
 - **Place of Supply Rules for Goods / Services**
 - **Mechanics of IGST model**
 - **Account settlement between Centre & States under IGST model**

Expectation of Industry from GST : **Expectation from Central and State Government :**

- ❑ Centre-State interaction for successful GST rollout
- ❑ Constitutional amendments
- ❑ Stability of GST Act and rates
- ❑ Re-engineering of Central and State employees
- ❑ Single authority to deal with
- ❑ Verification Agency
- ❑ MIS amongst Central and State Government Department
- ❑ Creation of IT infrastructure – GST Public Service Offices
- ❑ Training of both Central and State Government Staff

Expectation of Industry from GST :

Expectation from GST Acts :

- ❑ Uniformity in rates of tax, definitions and provisions across the states.
- ❑ Inter-changeable set-off/credit of Central GST and State GST.
- ❑ No SGST on CGST or vice-a-versa
- ❑ Inter-State transactions
- ❑ Uniformity across the States in procedures :
 - ❑ registrations,
 - ❑ preparation of bills,
 - ❑ filing / scrutiny of returns
 - ❑ assessments,
 - ❑ granting of refund,
 - ❑ audit, etc

Challenges for Business Community

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

Role of Professionals

- ❑ **Restructuring of Business System** – to accommodate to the shift tax system from Origin based to destination based.
- ❑ **Tax Planning** – after due interpretation
- ❑ **Advisory Services** with due competence in GST Law
- ❑ **Audit of Books of Accounts** – Mostly Self Assessment will be there – Scope for check on compliance for CAs /CMAs.
- ❑ **Certification work**

Role of Professionals

- ❑ **Procedural Compliance** –
 - ❑ Registration
 - ❑ Filing of Returns
 - ❑ Payment of Tax and
 - ❑ Assessment
- ❑ **Record Keeping**
- ❑ **Negotiation with Suppliers / Vendors** –
after considering the Credit mechanism
- ❑ **Personal Representation** before GST Authorities.



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