



**TAMILNADU CHAMBER OF  
COMMERCE & INDUSTRY  
MADURAI**



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## **GOODS & SERVICE TAX (GST) – An introduction :**

### **Introduction :**

Goods & Services Tax (GST) is a tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer's point and service provider's point upto the retailer's level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services as available for set-off on the GST to be paid on the supply of goods and services. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

### **Constitutional validity :**

Though, GST was introduced by the UPA II Government in the year 2011 through 115<sup>th</sup> Constitutional (Amendment) Bill, but lapsed due to technical reasons. Now again, 122<sup>nd</sup> Constitutional Amendment Bill was introduced by Hon'ble Finance Minister Shri. Arun Jaitley in Lok Sabha on 19<sup>th</sup> Dec ` 14 and also got assent of the Lok Sabha and presently pending to be passed in Rajya Sabha. However, the present ruling Government takes enormous steps to introduce GST with effect from 1<sup>st</sup> April 2016. The significant features of 122<sup>nd</sup> Constitutional Amendment bill are as follows :

- **Concurrent jurisdiction** for levy of GST by both Centre and the States (Proposed in **Article 246A**)
- Authority for **Centre** to levy & collection of **IGST** on **supplies in the course of inter-State trade or commerce including imports** (Proposed in **Article 269A** )
- Authority for Centre to levy non-vatable Additional Tax (1%) proposed to be retained by originating State itself. (Proposed in **clause (1) of Article 269A** )

### **Nature of levy :**

Goods & Service Tax is a tax on supply of both goods and services. It replaces the existing system of Origin based system of taxation to **Destination based system of taxation**. For instance, if a dealer in Madurai, Tamil Nadu sells a commodity to another dealer in Bangalore, Karnataka, then as per the existing system of taxation, Central Sales Tax (CST) will be owned by the Origination State (i.e.) Tamil Nadu, but in the proposed GST system the revenue will be owned by the Destination State (i.e.) Karnataka.

### **Important Definitions:**

#### **Goods & Service Tax : (GST)**

As per self-explanatory definition provided in *Article 366(12A) of the 122<sup>nd</sup> Constitutional Amendment Bill*, GST means –

**" any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption "**

As per Article 366(12) of 122<sup>nd</sup> Constitutional Amendment Bill, **Goods includes all materials, commodities and articles.**



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MADURAI CHAPTER



As per Article 366(26A) of 122<sup>nd</sup> Constitutional Amendment Bill, **Service means anything other than goods.**

### Scope of Applicability :

GST applies to all supplies of Goods or Services made either with or without consideration except the following :

- Exempted goods / services
- Goods / services outside the purview of GST
- Transactions below threshold limits

### Taxable Person in GST :

GST covers all types of person carrying on business activities, i.e. manufacturer, job-worker, trader, importer, exporter, all types of service providers, etc.

### Taxable Event in GST :

Taxable Event is "**supply**" of goods and services. **Place of Supply (PoS) Rules** will provide for determining the exact Place where the Supply of Goods and Services was so. PoS Rules will determine whether the supplies are inter-state or intra-state and also the applicability of respective jurisdictional GST.

### Basic Ingredients of GST :

The GST will have 3 components of taxation which are as follows :

- I. Central GST (CGST) levied by the Central Government
- II. State GST (SGST) levied by the State Government
- III. Integrated GST (IGST) levied on Interstate transactions by the Central Government

Thus, by virtue of *Article 246A* of Constitution, the Central Government and State Government is given concurrent jurisdiction and thereby the **Central Government has the power to levy CGST and IGST** and the **State Government has the power to levy SGST.**

### Central GST :

The Central Government has the power to levy and collect **CGST on all intra-state supply** of all goods and services. The following existing Union levies will get subsumed in the proposed CGST :

- ⇒ Central Excise Duty under Central Excise Act, 1994
- ⇒ Additional Excise Duties
- ⇒ Excise Duty levied under Medicinal & Toilet Preparations Act
- ⇒ Service Tax under Finance Act, 1994
- ⇒ CVD (Additional Customs Duty under Sec 3(1) of Customs Tariff Act)
- ⇒ Special Additional Duty of Customs under Sec 3(5) of Customs Tariff Act
- ⇒ National Calamity Contingent Duty (NCCD)
- ⇒ Central Surcharge
- ⇒ Central Cesses



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The following union levies are not going to be subsumed in GST:

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

**State GST :**

The State Government has the power to levy and collect CGST on all intra-state supply of all goods and services. Thus, the State Government has the power to levy tax on supply of services in GST Regime. The following existing State levies will get subsumed in the proposed 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

The following union levies are not going to be subsumed in GST:

- ⇒ Taxes on Liquors
- ⇒ Toll Tax
- ⇒ Environment Tax
- ⇒ Road Tax
- ⇒ Property Tax
- ⇒ Petroleum Products
- ⇒ Tobacco Products

**Integrated GST (IGST) :**

The scope of IGST is that Centre would levy IGST which would be CGST plus SGST on all Inter-State transactions of taxable goods and services. Thus IGST is applicable on the following –

- ⇒ Inter-State supplies of goods / services in India
- ⇒ Inter-state stock transfers of goods
- ⇒ Import of goods and services

**GST Rate Structure :**

The proposed rate structure in GST based on Revenue Neutral Rate are as below :

- **Merit rate** for essential goods & services
- **Standard rate** for goods & services in general
- **Special rate** for precious metals
- **Nil rate** for exempted goods or services



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**Set-off / Credit mechanism in GST :**

As the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as Input Tax Credit (ITC) for the CGST and could be utilized only against the payment of CGST. Same principle applies in case of SGST also. However cross utilization of credit of CGST between goods and services would be allowed. Similarly the same facility of cross utilization of credit between goods and services would be available in case of SGST also. In case of IGST, the Inter-state dealer will pay IGST after adjusting credit of IGST, CGST and SGST paid on purchase. Thus, credit of IGST can be utilized against the liability of CGST, SGST and IGST.

**GST on Imports :**

Based on the destination principle, both CGST and SGST in the form of IGST would be levied on import of goods and services and the importer is liable on the basis of Reverse Charge Mechanism and shall be collected by the Central Government. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State(s) where imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import of goods and services.

**GST on Exports :**

GST on export would be zero rated. Similar benefits may be given to Special Economic Zones but restricted to 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.

**Compounding benefit in GST :**

Limit for composition scheme will be framed for small manufacturers and service providers which is not yet notified. However their rights will be protected.

**Threshold exemption in GST :**

Based on the information available in the media, the common threshold exemption for manufacture / dealer / service provider could be somewhere between Rs.10 Lacs to Rs.20 Lacs.

**Conclusion :**

GST is believed to bring a paradigm shift in the Indirect tax system in India as it can pave way for modernization of tax administration, simple, uniform, common and more transparent tax system and will significantly enhance voluntary compliance in the country. The Empower Committee, the authority for implementation of GST in India, describes GST as "**a further significant improvement – the next logical step – towards a comprehensive indirect tax reforms in the country**". Though, the Government is sternous in bringing GST on 1<sup>st</sup> April 2016, considering the administrative procedures involved in passing GST Bill, it will be a herculean task for the Government, to bring GST in live.

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