



**The Institute of
Cost Accountants
of India (ICAI)**

Goods & Services Tax (GST) Certification Course

Disclaimer

2

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The presentation has been prepared to provide an overview of the applicable law pertaining to the subject matter. For detailed insight and for better understanding, its is advised to refer to relevant provisions in the Act and the related rules & notifications.

Supply under GST

What is Supply?

4

- Sec 7(1) of CGST Act states that the expression “supply” includes –
 - all forms of supply of goods or services or both such as sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business.
 - import of services for a consideration whether or not in the course or furtherance of business
 - the activities specified in Schedule I of CGST Act, made or agreed to be made without a consideration
- Sec 7(2) of CGST Act states that the following shall not be treated as a “supply”
 - activities or transactions specified in Schedule III of CGST Act
 - such activities or transactions undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities, as may be notified by the Government on the recommendations of the Council
- Sec 7(3) of CGST Act empowers the Government to notify certain transactions to be treated as supply of goods or supply of services (notified as part of Schedule II of CGST Act).

Some terminologies

5

- *Sec 2(31) of CGST Act* “consideration” in relation to the supply of goods or services or both includes -
 - any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government.
 - the monetary value of any act or forbearance, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government.
 - *Provided that a deposit given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply*

Some terminologies

6

- *Sec 2(17) of CGST Act* “business” includes -
 - any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;
 - any activity or transaction in connection with or incidental or ancillary to sub-clause (a);
 - any activity or transaction in the nature of sub-clause (a), whether or not there is volume, frequency, continuity or regularity of such transaction;
 - supply or acquisition of goods including capital goods and services in connection with commencement or closure of business;
 - provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members;
 - admission, for a consideration, of persons to any premises;
 - services supplied by a person as the holder of an office which has been accepted by him in the course or furtherance of his trade, profession or vocation;
 - services provided by a race club by way of totalisator or a licence to book maker in such club ; and
 - any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities;

Activities treated as Supply even without consideration

7

- Schedule I of CGST Act
 - Permanent transfer or disposal of business assets where input tax credit has been availed on such assets.
 - Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business. Provided that gifts not exceeding fifty thousand rupees in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.
 - Supply of goods -
 - by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or
 - by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.
 - Import of services by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

Activities to be treated as Supply of goods or services

8

- Schedule II of CGST Act
 - Transfer
 - Any transfer of the title in goods is a supply of goods
 - Any transfer of right in goods or of undivided share in goods without the transfer of title thereof, is a supply of services
 - Any transfer of title in goods under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed, is a supply of goods.
 - Land and Building
 - Any lease, tenancy, easement, licence to occupy land is a supply of services.
 - Any lease or letting out of the building including a commercial, industrial or residential complex for business or commerce, either wholly or partly, is a supply of services.
 - Any treatment or process which is applied to another person's goods is a supply of services.

Activities to be treated as Supply of goods or services

9

- Schedule II of CGST Act
 - Transfer of business assets
 - Where goods forming part of the assets of a business are transferred or disposed of by or under the directions of the person carrying on the business so as no longer to form part of those assets, such transfer or disposal is a supply of goods.
 - Where, by or under the direction of a person carrying on a business, goods held or used for the purposes of the business are put to any private use or are used, or made available to any person for use, for any purpose other than a purpose of the business, the usage or making available of such goods is a supply of services.
 - Where any person ceases to be a taxable person, any goods forming part of the assets of any business carried on by him shall be deemed to be supplied by him in the course or furtherance of his business immediately before he ceases to be a taxable person, unless—
 - the business is transferred as a going concern to another person; or
 - the business is carried on by a personal representative who is deemed to be a taxable person.

Activities to be treated as Supply of goods or services

10

- Schedule II of CGST Act
 - Supply of services
 - Renting of immovable property;
 - Construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly, except where the entire consideration has been received after issuance of completion certificate, where required, by the competent authority or after its first occupation, whichever is earlier.
 - Temporary transfer or permitting the use or enjoyment of any intellectual property right.
 - Development, design, programming, customisation, adaptation, upgradation, enhancement, implementation of information technology software;
 - Agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act.
 - transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration.

Activities to be treated as Supply of goods or services

11

- Schedule II of CGST Act
 - Composite supply
 - Works contract
 - Supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration.
 - Supply of goods
 - Supply of goods by any unincorporated association or body of persons to a member thereof for cash, deferred payment or other valuable consideration.

Activities considered neither supply of goods or services

12

- Schedule III of CGST Act
 - Services by an employee to the employer in the course of or in relation to his employment.
 - Services by any court or Tribunal established under any law for the time being in force.
 - Functions performed by
 - the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities
 - the duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or
 - the duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
 - Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
 - Sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.
 - Actionable claims, other than lottery, betting and gambling

Activities considered neither supply of goods or services

13

- Schedule III of CGST Act
 - Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India.
 - Supply of warehoused goods to any person before clearance for home consumption
 - Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.
- Sec 7(2)(b) of CGST Act
 - Activities or transactions undertaken by the Government or any local authority - Services by way of any activity in relation to a function entrusted to a Panchayat under article 243G of the Constitution [or to a Municipality under article 243W of the Constitution.

Some terminologies

14

- “Goods” means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply. *Sec 2(52) of CGST Act*
- “Services” means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged. *Sec 2(102) of CGST Act*

Some terminologies

15

- Nil rated supplies – Not specifically defined under GST. This type of supply attracts a GST of 0%. Input tax credit cannot be claimed on such supplies. Some items which are nil rated include grains, salt, jaggery, etc.
- Exempt supplies – *Sec 2(47) of CGST Act*, “exempt supply” means supply of any goods or services or both which attracts *nil* rate of tax or which may be *wholly exempt* from tax u/s 11 of CGST Act or u/s 6 of IGST Act and *includes* non-taxable supply. This supply includes items which are used for everyday purposes. Since they are basic essentials, they do not attract any GST at all. You will not be able to claim any ITC on such supplies. Some examples include bread, fresh fruits, milk, curd, etc.
- Zero rated supplies – *Sec 16(1) of IGST Act*, “zero rated supply” means any of the following supplies of goods or services or both, namely –
 - Export of goods or services or both; or
 - Supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

Some terminologies

16

- Composite Supply – A supply comprising of two or more goods or services or both, which are naturally bundled and supplied in with each other in the ordinary course of business, one of which is a principal supply. It means that the items are generally sold as a combination and cannot be separated. Tax rate to be charged shall be the rate as applicable to the principal supply.

Goods are packed and transported. The supply of goods, packing materials and transport is a composite supply. Transport cannot be done separately if there are no goods to supply. Thus, the supply of goods is the principal supply.

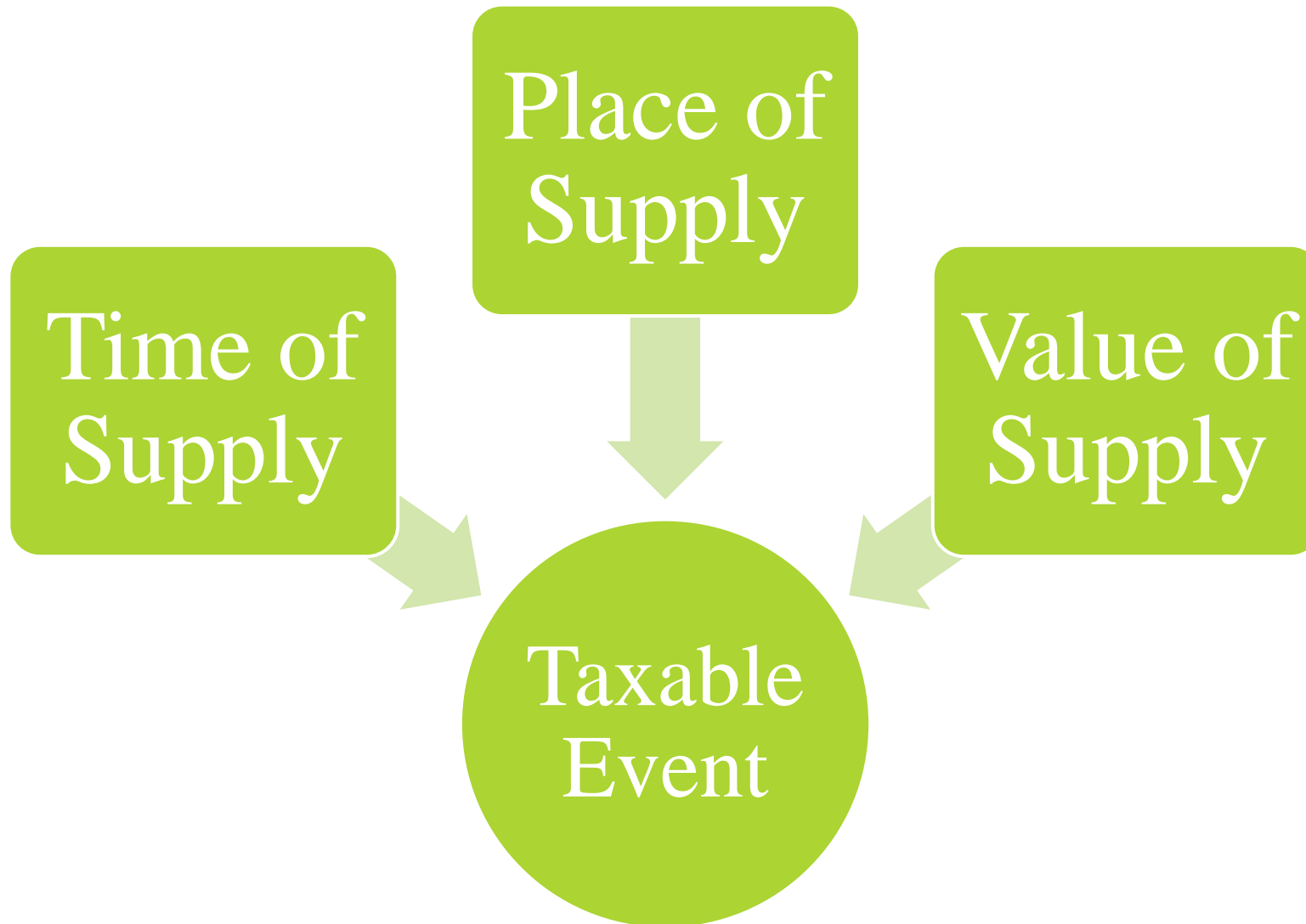
- Mixed Supply – A supply of a combination of two or more goods or services or both made together for a single price. Each of these items can be supplied separately and is not dependent on any other. Tax rate to be charged shall be the tax rate of the item which has the highest rate of tax.

A Diwali gift box consisting of sweets, chocolates, cakes, dry fruits, aerated drink and fruit juices supplied for a single price is a mixed supply. All these items are also sold separately.

Supply & Taxable event

17

- Goods and Services Tax means a tax on supply of goods or services, or both. Note that the word used is “Supply” and not “sale” or “manufacture”.
- Tax becomes payable when liability to pay the tax arises and the liability to pay tax arises by the happening of the taxable event.
- Sec 9(1) of CGST Act is the charging section for tax leviable on supply of goods or services, or both.
- Sec 9(2) of CGST Act states that GST on Petroleum crude, diesel, petrol, natural gas and aviation turbine fuel will be levied from a later date.
- Sec 9(3) and Sec 9(4) of CGST Act deals with provisions related to discharge of tax liability on reverse charge basis.
- Sec 9(5) specifies category of services, the tax on which is to be paid by the Electronic Commerce Operator.
- Sec 11 of CGST Act gives powers to the Government to exempt specific goods or services or both from whole or part of tax leviable thereon.



Time of Supply



- The liability to pay tax on goods or services or both arise at the time of such supply. *Sec 12(1) and Sec 13(1) of CGST Act.*
- “Time of supply” means the point in time when goods or services, or both are considered ‘supplied’. When the seller knows the ‘time’, it helps him identify due date for payment of taxes.

Some terminologies

21

- “Supplier” in relation to any goods or services or both, shall mean the person supplying the said goods or services or both and shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied. *Sec 2(105) of CGST Act*
- *Sec 2(93) of CGST Act*, “Recipient” of supply of goods or services or both, means,
 - where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration
 - where no consideration is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and
 - where no consideration is payable for the supply of a service, the person to whom the service is rendered
- *Sec 2(96) of CGST Act*, “removal” in relation to goods, means,
 - despatch of the goods for delivery by the supplier thereof or by any other person acting on behalf of such supplier; or
 - collection of the goods by the recipient thereof or by any other person acting on behalf of such recipient;

Time of Supply of goods

22

Section 12(2)

Forward Charge

Earliest of,

- Date of issue of invoice
- Due date for issue of invoice u/s 31(1)
- Date on which supplier receives payment *

Section 12(3)

Reverse Charge

Earliest of,

- Date of receipt of goods
- Date of payment as per recipient
- 31st day of invoice issued

Section 12(4)

Issue of Voucher

- If supply identifiable, date of issue of voucher
- In other cases, date of redemption of voucher

Section 12(5)

Residual provision

- If periodical return to be filed, date of return
- In other cases, date on which tax paid

Section 12(6)

Value addition

- Date on which the supplier receives such addition (Interest, late fee, penalty) in value

Time of Supply of goods - Illustrations

23

	Section 12(2)	Invoice date	Removal of goods	Payment entry in supplier's books	Credit in bank account	Time of supply
1	Invoice raised before removal	10-Oct-19	20-Oct-19	26-Oct-19	30-Oct-19	10-Oct-19
2	Advance received	20-Oct-19	20-Oct-19	10-Oct-19	30-Oct-19	20-Oct-19
	Supply involves movement of goods Section 12(2) read with Section 31(1)(a)	Invoice/ document date	Removal of goods	Delivery of goods	Receipt of payment	Time of supply
3	Delayed issue of invoice	26-Oct-19	25-Oct-19	26-Oct-19	26-Oct-19	25-Oct-19
4	Inter-State stock transfer	10-Oct-19	20-Oct-19	26-Oct-19	-	10-Oct-19
5	Advance received, invoice for full amount issued on same day	30-Oct-19	10-Nov-19	14-Nov-19	20-Oct-19	30-Oct-19
					20-Nov-19	30-Oct-19

Time of Supply of goods - Illustrations

24

	Supply other than by involving movement of goods - Section 12(2) read with Section 31(1)(b)	Invoice date	Receipt of invoice by recipient	Delivery of goods	Receipt of payment	Time of supply
6	Delayed issue of invoice	30-Oct-19	05-Nov-19	29-Oct-19	10-Nov-19	29-Oct-19
7	Invoice issued prior to delivery	20-Oct-19	10-Nov-19	26-Oct-19	10-Nov-19	20-Oct-19

	Continuous supply of goods Section 12(2) read with Section 31(4)	Invoice date	Removal of goods	SoA date	Receipt of payment	Time of supply
8	Contract provides for successive statements of account/ successive payments	01-Nov-19	15-Oct-19	05-Nov-19	01-Nov-19	01-Nov-19
			25-Oct-19			
9		11-Dec-19	08-Nov-19	05-Dec-19	11-Dec-19	05-Dec-19
			30-Nov-19			
10		08-Jan-20	14-Dec-19	05-Jan-20	01-Jan-20	01-Jan-20
			23-Dec-19			

Time of Supply of goods - Illustrations

25

	Sale on approval basis Section 12(2) read with Section 31(7)	Removal of goods	Issue of invoice	Accepted by recipient	Receipt of payment	Time of supply
11	Acceptance communicated within 6 months of removal	01-Nov-19	25-Nov-19	15-Nov-19	25-Nov-19	15-Nov-19
12	Amount paid to supplier before informing acceptance	01-Nov-19	25-Nov-19	15-Nov-19	12-Nov-19	15-Nov-19
13	Acceptance not communicated within 6 months of removal	01-Oct-18	15-May-19	15-May-19	02-May-19	01-Apr-19

Time of Supply of goods – Reverse charge

26

	Reverse charge Section 12(3)	Date of invoice issued by supplier	Removal of goods	Receipt of goods	Payment by recipient	Time of supply
1	General	31-Oct-19	31-Oct-19	20-Nov-19	30-Nov-19	20-Nov-19
2	Advance paid	31-Oct-19	31-Oct-19	20-Nov-19	05-Nov-19	05-Nov-19
3	No payment made for the supply	31-Oct-19	30-Dec-19	05-Jan-20	-	30-Nov-19

Time of Supply of services

27

Section 13(2)

Forward Charge

Earliest* of,

- Invoice date or receipt of payment
- Provision of services or receipt of payment
- Receipt of services

Section 13(3)

Reverse Charge

Earliest of,

- Date of payment as per recipient
- 61th day of invoice issued
- Date of entry in the books of recipient

Section 13(4)

Issue of Voucher

- If supply identifiable, date of issue of voucher
- In other cases, date of redemption of voucher

Section 13(5)

Residual provision

- If periodical return to be filed, date of return
- In other cases, date on which tax paid

Section 13(6)

Value addition

- Date on which the supplier receives such addition (Interest, late fee, penalty) in value

Time of Supply of services – Sec 13(2)

28

If invoice issued within prescribed time u/s 31(2) - 30 days (45 days in case of Banking, Insurance, Financial Institution or NBFC company)

- Date of issue of Invoice or Receipt of Payment, whichever is earlier

If invoice not issued within 30 days (45 days in case of Banking, Insurance, Financial Institution or NBFC company)

- Date of provision of service or Receipt of payment, whichever is earlier

If both cases do not apply

- Date on which recipient shows services in his books of accounts

Time of Supply of services - Illustrations

29

	Section 13(2)	Invoice date	Completion of services	Payment entry in supplier's books	Credit in bank account	Time of supply
1	Invoice raised before completion of service	10-Oct-19	20-Oct-19	26-Oct-19	30-Oct-19	10-Oct-19
2	Advance received	20-Oct-19	30-Oct-19	10-Oct-19	20-Oct-19	10-Oct-19

	Section 13(2) read with Section 31(2)	Invoice date	Commencement of service	Completion of service	Receipt of payment	Time of supply
3	Delayed issue of invoice	06-Dec-19	20-Oct-19	16-Nov-19	28-Jan-20	06-Dec-19
4	Advance received, invoice for full amount issued on same day	30-Oct-19	30-Oct-19	30-Dec-19	30-Oct-19	30-Oct-19
					04-Dec-19	30-Oct-19

Time of Supply of services - Illustrations

30

	Continuous supply of services Section 13(2) read with Section 31(5)	Invoice date	Date as per contract	Receipt of payment	Entry of provision of services in books	Time of supply
5	Section 31(5)(a) Contract provides for payments monthly on the 10 th of the month	02-Nov-19	10-Nov-19	15-Nov-19	31-Oct-19	02-Nov-19
		17-Dec-19	10-Dec-19	15-Dec-19	30-Nov-19	10-Dec-19
		10-Jan-20	10-Jan-20	06-Jan-20	31-Dec-19	06-Jan-20
6	Section 31(5)(c) Contract provides for payments on completion of event.	12-Nov-19	10-Nov-19	25-Nov-19	12-Nov-19	10-Nov-19
		24-Apr-19	24-Apr-19	20-Apr-19	24-Apr-19	20-Apr-19

Time of Supply of services – Reverse charge

31

	Reverse charge Section 13(3)	Date of invoice issued by supplier	Date of completion of service	Payment by recipient	Entry of receipt of services in recipient's books	Time of supply
1	General	31-Oct-19	31-Oct-19	20-Nov-19	30-Nov-19	20-Nov-19
2	Advance paid	31-Oct-19	31-Oct-19	05-Nov-19	31-Oct-19	05-Nov-19
3	Delay in payment (Max. 60 days from date of invoice)	31-Oct-19	31-Oct-19	10-Jan-20	31-Oct-19	31-Dec-19

Time of Supply of Voucher – Illustration

32

	Issue of vouchers Section 12(4) & Section 13(4)	Service provided/ goods delivered	Issue of voucher	Redemption of voucher	Last date for acceptance of voucher	Time of supply
1	Voucher issued to a recipient after supply of goods or service, for the same goods/ service - valid for 1 year	01-Nov-18	01-Nov-18	14-Dec-18	30-Oct-19	01-Nov-18
2	Voucher issued to a recipient of machinery along at the time of delivery, for availing repair services [or specific goods] - valid for 1 year	01-Nov-18	01-Nov-18	14-Dec-18	30-Oct-19	01-Nov-18
3	Voucher issued to a recipient after supply of a service, for any other services or goods across India, - valid for 1 year	01-Nov-18	01-Nov-18	14-Dec-18	30-Oct-19	14-Dec-18

Change in rate of tax – Sec 14

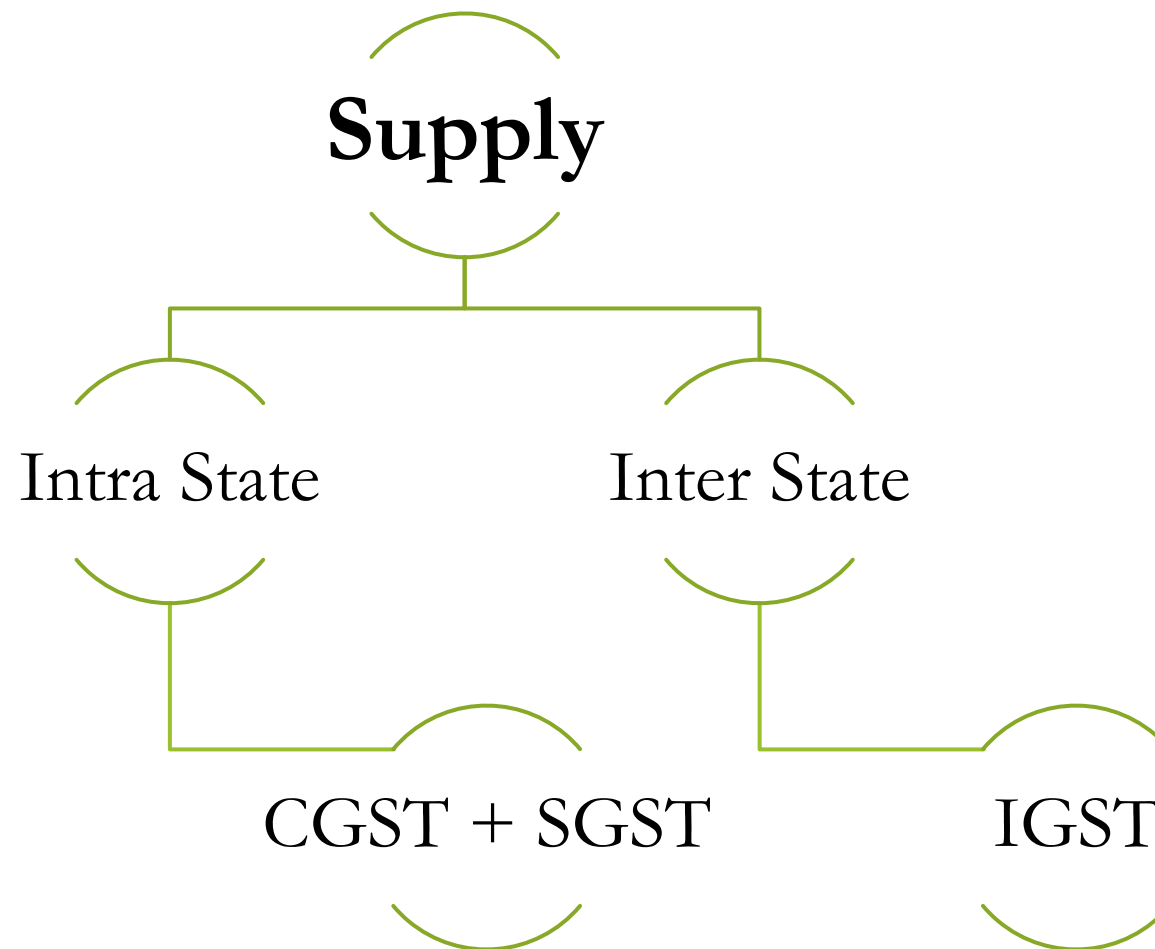
33

Date of supply of goods or services (1)	Date of invoice (2)	Date of receipt of payment (3)	Time of supply * (4)	Rate of tax (5)
Before	After	After	Earlier of (2) and (3)	New
Before	Before	After	(2)	Old
Before	After	Before	(3)	Old
After	Before	After	(3)	New
After	Before	Before	Earlier of (2) and (3)	Old
After	After	Before	(2)	New

Place of Supply



- On the basis of place of supply, we can ascertain whether the supply is in the course of intra-state trade or inter-state trade.
- This in turn shall help in ascertaining whether, on a supply, CGST+SGST is payable or IGST is payable



Sec 7 of IGST Act

- Where the location of the supplier and the place of supply are in—
 - two different States;
 - two different Union territories; or
 - a State and a Union territory,
- Import of goods or services into India
- when the supplier is located in India and the place of supply is outside India
- Supply to or by a Special Economic Zone developer or a Special Economic Zone unit shall be treated as a supply in the course of inter-State trade or commerce.

Sec 8 of IGST Act

- Where the location of the supplier and the place of supply are in the same State or same Union territory shall be treated as intra-State supply.

- *Sec 2(15) of IGST Act*, “location of the supplier of services” means,
 - where a supply is made from a place of business for which the registration has been obtained, the location of such place of business
 - where a supply is made from a place other than the place of business for which registration has been obtained (a fixed establishment elsewhere), the location of such fixed establishment;
 - where a supply is made from more than one establishment, whether the place of business or fixed establishment, the location of the establishment most directly concerned with the provision of the supply; and
 - in absence of such places, the location of the usual place of residence of the supplier;
- *Sec 2(5) of IGST Act*, “export of goods” with its grammatical variations and cognate expressions, means taking goods out of India to a place outside India.

Some terminologies

38

- *Sec 2(6) of IGST Act*, “export of services” means the supply of any service when,
 - the supplier of service is located in India;
 - the recipient of service is located outside India;
 - the place of supply of service is outside India;
 - the payment for such service has been received by the supplier of service in convertible foreign exchange; and
 - the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with Explanation 1 in section 8;
- *Sec 2(10) of IGST Act*, “import of goods” with its grammatical variations and cognate expressions, means bringing goods into India from a place outside India.
- *Sec 2(11) of IGST Act*, “import of services” means the supply of any service, where
 - the supplier of service is located outside India;
 - the recipient of service is located in India; and
 - the place of supply of service is in India;

Place of Supply of goods (domestic)

39

Section 10(1)(a)

Supply involves movement of Goods

Location of goods at the time at which movement terminates for delivery to recipient

Section 10(1)(b)

Goods supplied on direction of third person (buyer)

Principal Place of Business of the third person (i.e., address on Registration Certificate)

Section 10(1)(c)

Supply does not involve movement of goods

Location of goods at the time of delivery to the recipient

Section 10(1)(d)

Goods are assembled or installed at site

Place of installation or assembly

Section 10(1)(e)

Goods supplied on board a conveyance

Location at which such goods are taken on board

Sec 10(2) - Where none of the above rules apply, place of supply would be determined in the manner to be prescribed

Place of Supply of goods - Illustration

40

Section 10(1)(a): Supply involves movement of goods

Particulars	Supplier's factory from where goods are removed	Termination of movement for delivery	Place of supply	Tax Payable
Movement of goods by the supplier (goods dispatched by supplier)	Orissa	Assam	Assam	IGST
Movement of goods by the recipient (goods collected by recipient)	Kerala	Goa	Goa	IGST

Place of Supply of goods - Illustration

41

Section 10(1)(b): Supply involves movement of goods, and delivered to a person on the instruction of a third person

Case	Location of Supplier A	Place of delivery of goods to C	Principal place of buyer B who instructed delivery to C	Place of supply for A	<u>Type of tax payable by A</u>
1	Ahmedabad	Ahmedabad	Amritsar	Amritsar	IGST
2	Ahmedabad	Amritsar	Amritsar	Amritsar	IGST
3	Ahmedabad	Bangalore	Bangalore	Bangalore	IGST
4	Ahmedabad	Chandigarh	Udaipur	Udaipur	IGST

Case	Location of Supplier A	Place of delivery of goods to C	Principal place of buyer B who instructed delivery to C	Place of supply for B	<u>Type of tax payable by B</u>
1	Ahmedabad	Ahmedabad	Amritsar	Ahmedabad	IGST
2	Ahmedabad	Amritsar	Amritsar	Amritsar	CGST + Pun GST
3	Ahmedabad	Bangalore	Bangalore	Bangalore	CGST + Kar GST
4	Ahmedabad	Chandigarh	Udaipur	Chandigarh	IGST

Place of Supply of goods - Illustration

42

Section 10(1)(c): Supply does not involve movement of goods

Particulars	Location of supplier	Location of recipient	Location of goods	Place of supply	Tax Payable
Sale of pre-installed DG Set	Delhi	Bhopal	Bhopal	Bhopal	IGST
Manufacture of moulds by job-worker (supplier), sold to the Principal, but retained in job worker's premises	Tamil Nadu	Kerala	Tamil Nadu	Tamil Nadu	CGST + TN GST
A businessman in Noida (regd. In Sikkim too) has an old car lying unused in his hometown in Sikkim	Sikkim	Sikkim	Sikkim	Sikkim	CGST + Sikkim GST

Place of Supply of goods - Illustration

43

Section 10(1)(d): Supply of goods assembled/ installed at site

Particulars	Location of supplier	Registered office of recipient	Installation/ Assembly Site	Place of supply	Tax Payable
Installation of weigh bridge	Delhi	Bhopal	Bhopal	Bhopal	IGST
Servers supplied and installed at the office of a marketing firm	Karnataka	Goa	Karnataka	Karnataka	CGST + Kar GST
Supply of work-stations	Gujarat	Gujarat	Kerala	Kerala	IGST

Place of Supply of goods - Illustration

44

Section 10(1)(e): Supply of goods supplied on board a conveyance

Particulars	Location of supplier	Loading of goods	Passenger boards at	Place of supply	Tax Payable
Supply of canned aerated drinks on a flight	Punjab	Punjab	Delhi	Punjab	CGST + Punjab GST
Sale of Haldirams mixtures by their sales person during the journey	Pune	Goa	Hyderabad	Goa	IGST
Sale of sunglasses on a ship	Bangalore	Chennai	Cochin	Chennai	IGST

Place of Supply of goods – Import/ Export

45

- ▶ **Export of goods:** Means taking goods out of India to a place outside India;
- ▶ **Import of goods:** Means bringing goods into India from a place outside India;

Section	Situation	Place of supply
11(a)	Goods imported into India	Location of importer
11(b)	Goods exported from India	Location outside India

*Sec 5 of IGST Act provides that **IGST shall be levied** on goods imported into India as per Sec 3 of Customs Tariff Act*

- *Point of taxation - When duties of customs are levied on the said goods*
- *Value - As determined as per Customs Act*

Place of supply of services (domestic)

46

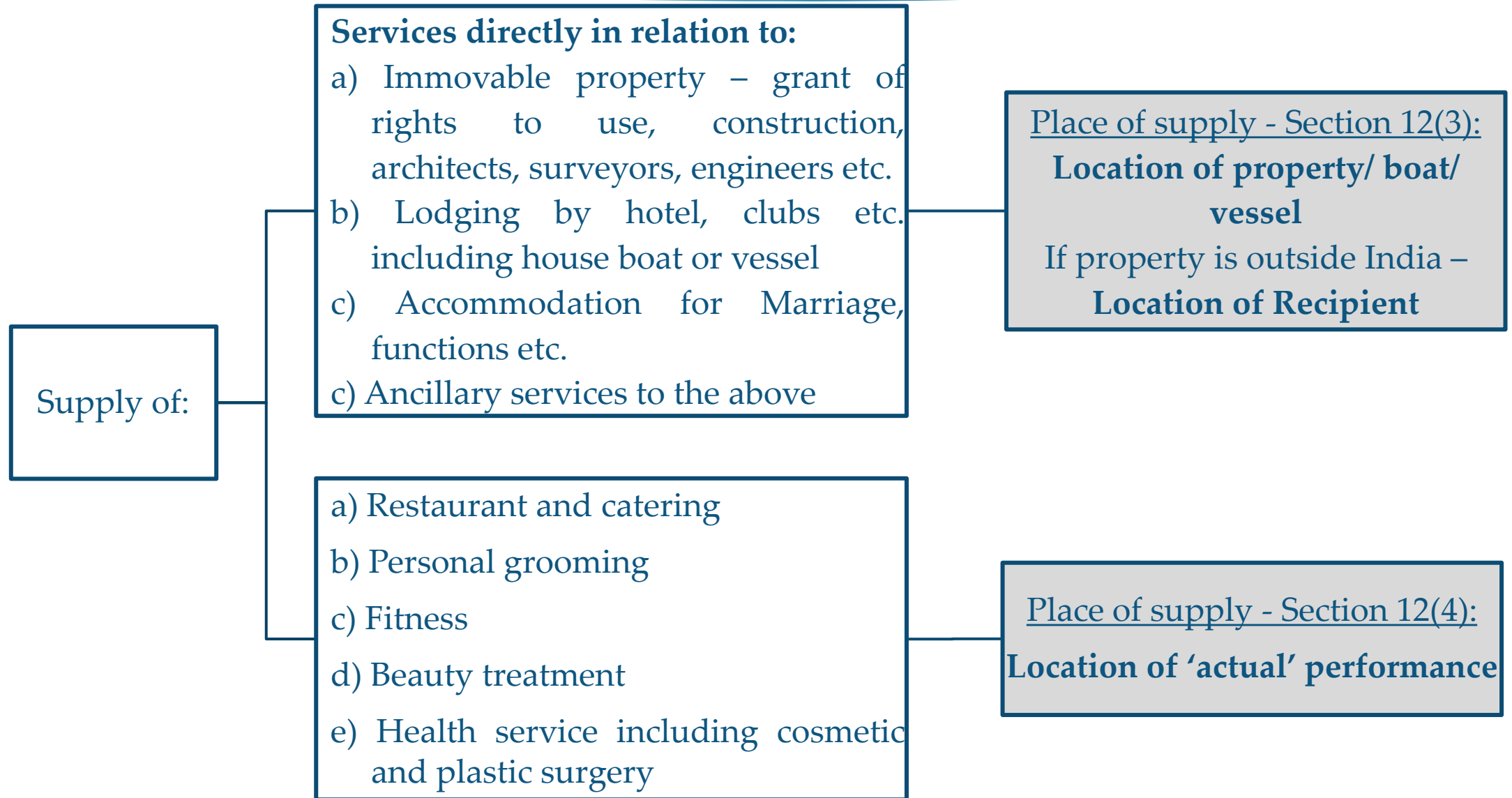
For Supply of any other
Service,
Place of supply is:
(General Rule)

Section 12(2)(a): Registered recipient:
Location of recipient

Section 12(2)(b): Unregistered recipient:
Location of **recipient** if address in supplier's records
Location of **supplier** if address not available

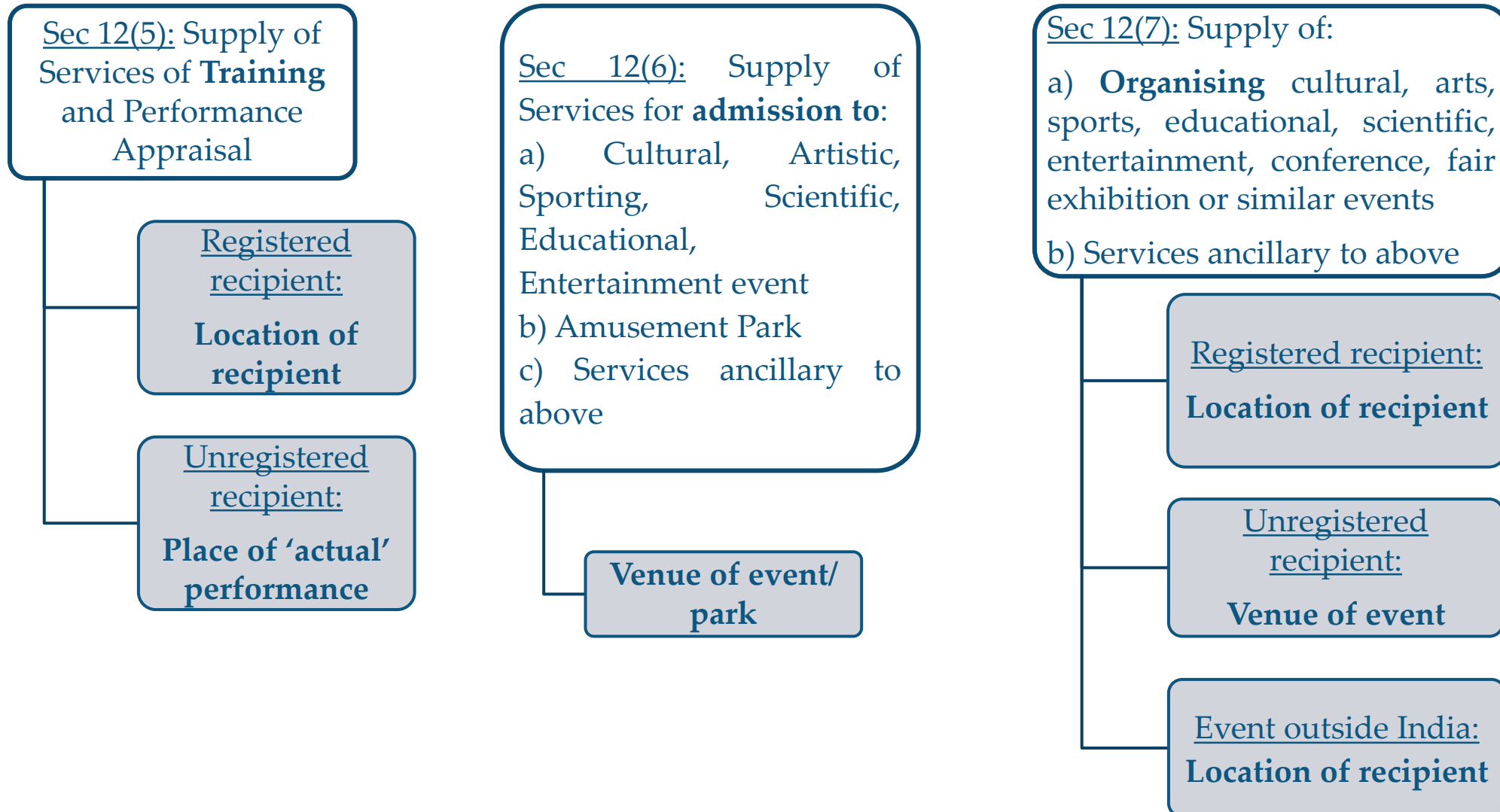
Place of supply of services (domestic)

47



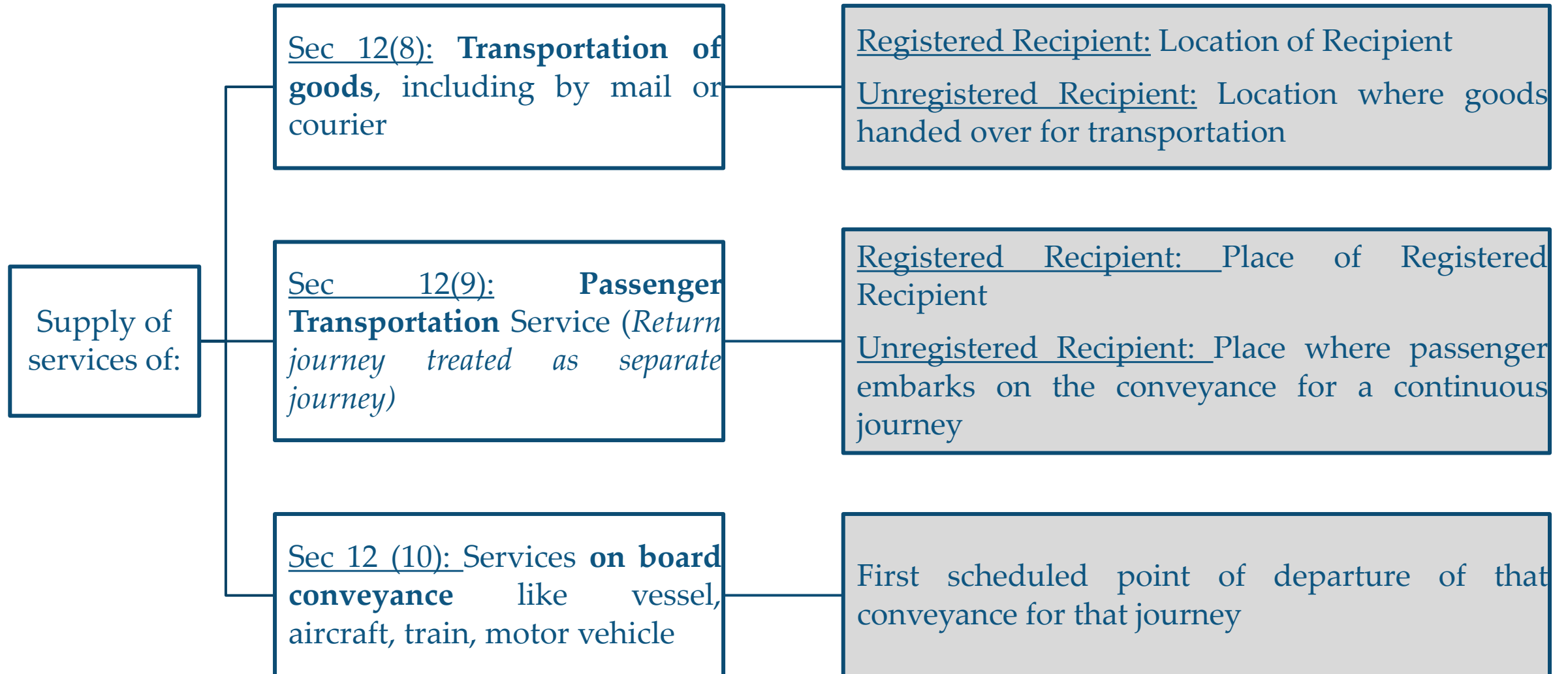
Place of supply of services (domestic)

48



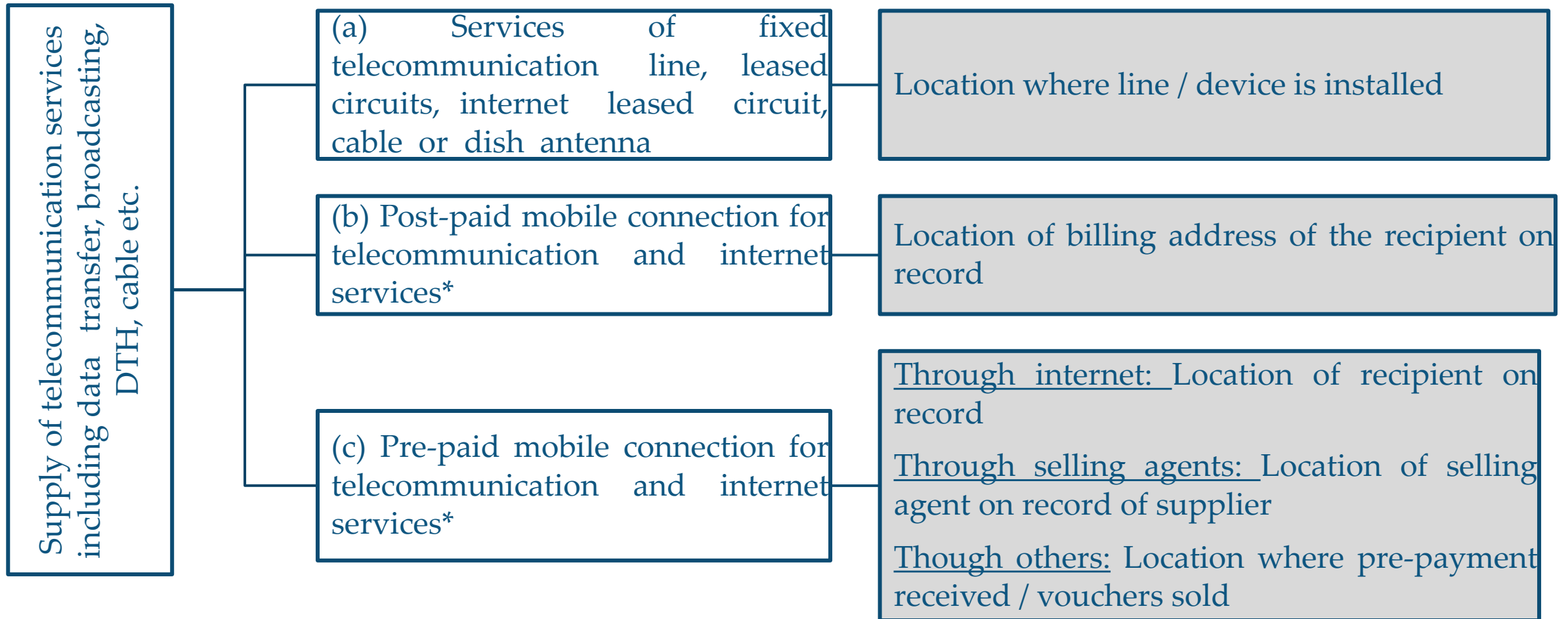
Place of supply of services (domestic)

49



Place of supply of services (domestic)

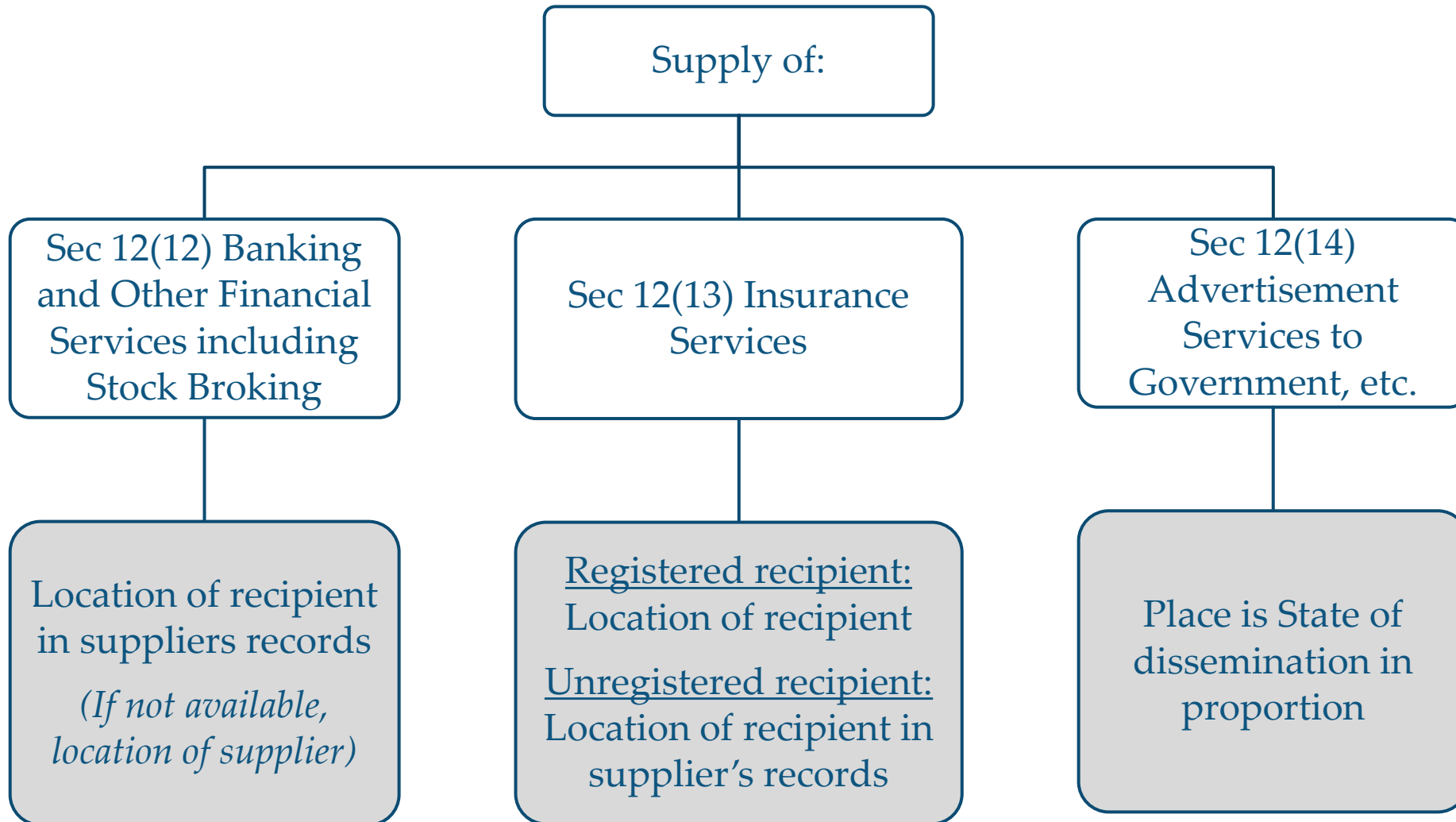
50



- In cases not covered, address of recipient on records shall be the place of supply;
- Where no address of the recipient available in records, location of the supplier shall be the place of supply

Place of supply of services (domestic)

51



Place of supply of services (Outside)

52

Sec 13(3)

Goods required to be made physically available/ physical presence of recipient required

Location where services actually performed

Sec 13(4)

directly in relation to immovable property

Location of such immovable property (or where it is intended to be located)

Sec 13(5)

admission to/ organising event, etc. & ancillary services

Place where the event is actually held

Sec 13(8)

Bank/ FI services to A/c holders, intermediary services, hiring transport (excl aircraft/ vessels) upto 1 month

Location of supplier

Sec 13(9)

Transportation of goods (other than by way of mail/ courier)

Destination of the goods

Place of supply of services (Outside)

53

Sec 13(10)

Passenger
transportation
service

Place where
passenger
embarks on the
conveyance for
a continuous
journey

Sec 13(11)

Service provided
on board a
conveyance

1st scheduled
point of
departure of
that
conveyance
for that
journey

Sec 13(12)

Online information
and database
access or retrieval
services

Location of
recipient

Sec 13(13)

To prevent double
taxation/ non-
taxation/ uniform
application of
rules, Govt has
power to notify
services

Place of
effective use
and enjoyment
of a service

Sec 13(2)

General Rule
(Residual
provision)

Location of
recipient
If not available,
location of
supplier

Value of Supply



**Value of
Goods or Services**

- Determines the value of the supply done, not necessarily the sale value but the 'transaction value'.
- It is important because GST is to be calculated and discharged on the value of the supply. If the value is calculated incorrectly, then the amount of GST charged shall also be incorrect, leading to unwanted complications.

- *Sec 15(1) of CGST Act*, The value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply.
- Chapter IV of CGST Rules, 2017 deals with the provisions relating to determination of value of supply in cases where
 - Value cannot be determined u/s 15(1) of the Act i.e. (i) price is not the sole consideration, (ii) supplier and recipient are related persons
 - In case of supplies through agent, including pure agent
 - In case of notified supplies
 - Residual methods
- Rate of exchange shall be applicable reference rate for that currency as determined by RBI on the date when point of taxation arises as per Sec 12 and Sec 13 of CGST Act

- *Explanation to Section 15 of CGST Act*, the following persons shall be deemed to be “related persons”:
 - Officers / Directors of one another’s business
 - Legally recognised partners in business
 - Employer – Employee
 - A person directly/ indirectly owns/ controls/ holds 25% of shares of both the persons
 - One directly/ indirectly controls the other
 - Both are directly/ indirectly controlled by a third person
 - Together, they directly/ indirectly control a third person
 - Members of the same family
 - Sole agent/ distributor/ concessionaire of the other

Transaction value

INCLUDES (Sec 15(2))

- Any **taxes, duties, cesses, fees and charges levied** under any statute, other than taxes paid under GST regime, charged separately by the supplier.
- **Amount incurred by Recipient** which is liable to be paid by the Supplier.
- **Incidental expenses** like packing, commission etc. or any charges in respect of supply charged by the supplier at the time or before the supply
- **Interest/ late fee/ penalty** for delayed payment of consideration for supply.
- **Subsidies directly linked to price** (excluding Central and State Govt subsidies)

EXCLUDES (Sec 15(3))

- **Discounts**
- Before/ at the time of supply if such discount is duly recorded in the invoice
- After the supply, provided:
 - Agreement establishing discount entered into before / at the time of supply
 - Discount specifically linked to relevant invoices
 - ITC reversed by the recipient to the extent of discount

Valuation Rules – Rule 27

59

- Value of supply of goods or services where consideration is not wholly in money:
 - Open market value of such supply;
 - If the open market value is not available, the sum total of consideration in money and any such further amount in money as is equivalent to the consideration not in money, if such amount is known at the time of supply.
 - If the value of supply is not determinable under clause (a) or clause (b), the value of supply of goods or services or both of like kind and quality.
 - If the value is not determinable under clause (a) or clause (b) or clause (c), the sum total of consideration in money and such further amount in money that is equivalent to consideration not in money as determined by the application of Rule 30 or Rule 31 in that order.

Valuation Rules – Rule 28

60

- Value of supply of goods or services or both between distinct or related persons, other than through an agent.
 - Open market value of such supply;
 - If the open market value is not available, the value of supply of goods or services or both of like kind and quality.
 - If the value is not determinable under clause (a) or clause (b), the value shall be as determined by the application of Rule 30 or Rule 31 in that order.
- *Where the goods are intended for further supply as such by the recipient, the value shall, at the option of the supplier, be an amount equivalent to 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person:*
- *Where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services.*

- Value of supply of goods made or received through an agent:
 - the open market value of the goods being supplied, or at the option of the supplier, be 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person, where the goods are intended for further supply by the said recipient.
 - where the value of a supply is not determinable under clause (a), the same shall be determined by the application of Rule 30 or Rule 31 in that order.

“Agent” means a person, including a factor, broker, commission agent, arhatia, del credere agent, an auctioneer or any other mercantile agent, by whatever name called, who carries on the business of supply or receipt of goods or services or both on behalf of another. *Sec 2(5) of CGST Act*

Valuation Rules – Rule 30/ Rule 31

62

- *Rule 30* - Where value is not determinable by any of the preceding rules, the value shall be 110% of the:
 - cost of production or manufacture or
 - cost of acquisition of such goods or
 - cost of provision of such services.
- *Rule 31* - Where value cannot be determined under any above provision, the same shall be determined using reasonable means consistent with the principles and general provisions of Sec 15 and these Rules.
- In case of supply of services, the supplier may opt for Rule 31, disregarding Rule 30.

Valuation Rules – Rule 31A

63

- Value of supply in case of lottery, betting, gambling and horse racing.
 - The value of supply of lottery shall be deemed to be 100/128 of the face value of ticket or of the price as notified in the Official Gazette by the organising State, whichever is higher.
 - The value of supply of actionable claim in the form of chance to win in betting, gambling or horse racing in a race club shall be 100% of the face value of the bet or the amount paid into the totalisator.

Valuation Rules – Rule 32(2)

64

- Dealing in Forex including money changing (Option, once exercised, shall be valid for the FY)

- **Option 1**

- When exchanged from or/ to INR:

- ▶ Difference of Buying rate/ Selling rate and RBI reference rate X Total units of currency

(If RBI reference rate is not available, value shall be 1% of gross amount of INR received or provided)

- If neither of two currencies exchanged in INR,
 - ▶ the value shall be equal to 1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into INR on that day at the reference rate provided by RBI.

- **Option 2**

- 1% of the gross amount of currency exchanged for an amount up to Rs. 1 Lac, subject to a minimum amount of Rs. 250
- Rs. 1,000 + 0.50% of the gross amount of currency exchanged for an amount exceeding Rs. 1 Lac up to Rs. 10 Lacs
- Rs. 5,500 + 0.10% of the gross amount of currency exchanged above Rs.10 lakhs, subject to a maximum of Rs. 60,000

Valuation Rules – Rule 32(3) & Rule 32(4)

65

- Air Travel Agents [Rule 32(3)]:

- Domestic bookings: 5% of Basic Fare
- International bookings: 10% of Basic Fare

“Basic fare” means that part of the air fare on which commission is normally paid to the air travel agent by the airline.

- Life Insurance Business [Rule 32(4)]:

- Gross premium charged from a policy holder reduced by the amount allocated for investment, or savings on behalf of the policy holder, if such an amount is intimated to the policy holder at the time of supply of service.
- In case of single premium annuity policies other than (a), 10% of single premium charged from the policy holder
- In all other cases, 25% of the premium charged from the policy holder in the first year and 12.5% of the premium charged from the policy holder in subsequent years:

Nothing contained in this sub-rule shall apply where the entire premium paid by the policy holder is only towards the risk cover in life insurance

Valuation Rules – Rule 32(5) & Rule 32(6)

66

- Second Hand Goods [Rule 32(5)]
 - Supply of used goods as such or after such minor processing which does not change the nature of the goods and where no ITC has been availed on purchase of such goods, the value of supply shall be the difference between the selling price and purchase price and where the value of such supply is negative it shall be ignored.
 - In cases the goods are repossessed from an unregistered defaulting borrower, the purchases price shall be deemed to be the purchase price of such goods by the defaulting borrower reduced by 5% for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession.
- Token/ Coupon/ Voucher/ Stamp [Rule 32(6)]
 - The value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) which is redeemable against a supply shall be money value of the goods or services redeemable against such token, voucher, coupon, or stamp.

Valuation Rules – Rule 33

67

- The expenditure or costs incurred by a supplier as a pure agent of the recipient of supply shall be excluded from the value of supply, if all the following conditions are satisfied, namely-
 - the supplier acts as a pure agent of the recipient of the supply, when he makes the payment to the third party on authorisation by such recipient;
 - the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the pure agent to the recipient of service; and
 - the supplies procured by the pure agent from the third party as a pure agent of the recipient of supply are in addition to the services he supplies on his own account.
- Pure agent means a person who-
 - enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure or costs in the course of supply of goods or services or both;
 - neither intends to hold nor holds any title to the goods or services or both so procured or supplied as pure agent of the recipient of supply;
 - does not use for his own interest such goods or services so procured; and
 - receives only the actual amount incurred to procure such goods or services in addition to the amount received for supply he provides on his own account

Valuation Rules – Rule 35

68

- Where Value of Supply is inclusive of IGST/ CGST/ SGST/ UTGST then:

$$\text{Tax Amount} = \frac{\text{Value inclusive of taxes} \times \text{tax rate in \% of IGST or as the case may be CGST, SGST or UTGST}}{(100 + \text{sum of tax rates, as applicable, in \%})}$$

Reverse Charge Mechanism



- Under normal taxation regime, the supplier collects the tax from the buyer and deposits the same after adjusting the tax liability with available input tax credit.
- Under reverse charge mechanism, the liability to discharge the tax liability pertaining to such goods or services or both shifts from the supplier to the recipient.
- In the erstwhile tax regime too, in order to collect tax from numerous unorganised sectors, similar provisions were there. However, there is no concept of partial reverse charge in GST regime.

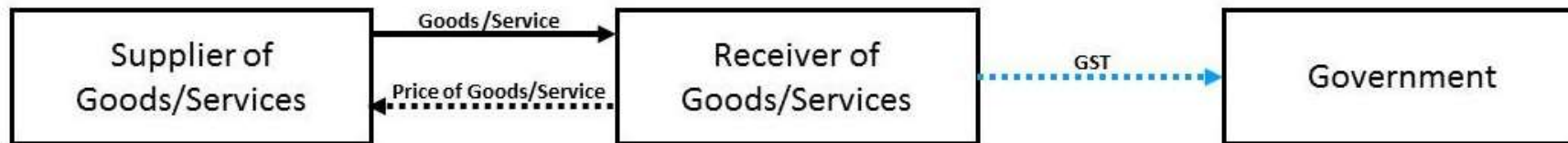
Reverse Charge Mechanism

71

NORMAL GST PAYMENT PROCESS



GST PAYMENT IN CASE OF REVERSE CHARGE



- “Reverse charge” means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both under sub-section (3) or sub-section (4) of section 9, or under sub-section (3) or subsection (4) of section 5 of the Integrated Goods and Services Tax Act. *Sec 2(98) of CGST Act.*
- The Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both. *Sec 9(3) of CGST Act*
- The Government may, on the recommendations of the Council, by notification, specify a class of registered persons who shall, in respect of supply of specified categories of goods or services or both received from an unregistered supplier, pay the tax on reverse charge basis as the recipient of such supply of goods or services or both, and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to such supply of goods or services or both.”. *Sec 9(4) of CGST Act*

- Registration Rules → As per Sec 24 of the CGST Act, 2017, a person who is required to pay tax under reverse charge has to compulsorily register under GST irrespective of the threshold limit of registration.
- Invoicing Rules → In terms of Sec 31(3)(f) of the CGST Act, 2017, a registered person who is liable to pay tax under Sec 9(3) or Sec 9(4) of the CGST Act, shall issue an invoice in respect of goods or services or both received by him from the supplier who is not registered on the date of receipt of goods or services or both. Such registered person shall issue a payment voucher at the time of making payment to the supplier.
- Time of Supply of payment → The liability to pay tax on RCM basis shall arise as per the provisions of time of supply under Sec 12(3) and Sec 13(3) of CGST Act. The liability has to be discharged through cash payment only.
- Input tax credit → GST paid on goods or services under RCM is available as ITC to the registered person provided that such goods or services are used in the course or furtherance of business.

- Compliances to GST laws
 - Every tax invoice has to mention whether the tax in respect of supply in the invoice is payable on reverse charge. Similarly, this also needs to be mentioned in receipt voucher as well as refund voucher, if tax is payable on reverse charge. *Sec 31 of CGST Act read with Rule 46 of CGST Rules*
 - Every registered person is required to keep and maintain records of all supplies attracting payment of tax on reverse charge.
 - Any amount payable under reverse charge shall be paid by debiting the electronic cash ledger. Reverse charge liability cannot be discharged by using input tax credit. However, after discharging reverse charge liability, credit of the same can be taken by the recipient, if he is otherwise eligible.
 - Invoice level information in respect of all supplies attracting reverse charge, rate wise, are to be furnished separately in column 4B of GSTR-1.
 - Advance paid for reverse charge supplies is also leviable to GST. The person making advance payment has to pay tax on reverse charge basis.

Goods notified under RCM

75

Sl No.	Description	Supplier of goods	Recipient of goods
1	Cashew nuts, not shelled or peeled	Agriculturist	Any registered person
2	Bidi wrapper leaves(tendu)	Agriculturist	Any registered person
3	Tobacco leaves	Agriculturist	Any registered person
4	Silk Yarn	Any manufacturer	Any registered person
5	Raw Cotton	Agriculturist	Any registered person
6	Supply of Lottery	State/ UT Govt or any local authority	Lottery distributor or selling agent
7	Used vehicles seized and confiscated goods, old and used goods, waste and scrap	Central Govt. State/ UT Govt, any local authority	Any registered person
8	Priority Sector Lending Certificates	Any registered person	Any registered person

Services notified under RCM

76

Sl No.	Description	Supplier of services	Recipient of services
1	Transportation of goods by road	Goods Transport Agency (GTA)	7 notified recipients
2	Legal services, directly or indirectly	Individual advocate including a senior advocate or firm of advocates.	Any business entity located in the taxable territory
3	Arbitral Services	An Arbitral tribunal	Any business entity located in the taxable territory
4	Sponsorship Services	Any person	Any body corporate or partnership firm located in the taxable territory
5	Government Services except DoPT services, aircraft/ vessel services, goods/ passengers transport	Central Govt, State/ UT Govt or Local Authority	Any business entity located in the taxable territory
6	Services by Govt by way of renting of immovable property	Central Govt, State/ UT Govt or Local Authority	Any registered person

Services notified under RCM

77

Sl No.	Description	Supplier of services	Recipient of services
7	Transfer of development rights or Floor Space Index (FSI) for construction of a project by a promoter.	Any person	Promoter
8	Long term lease of land (30 years or more) against consideration in the form of upfront amount and/or periodic rent for construction of a project	Any person	Promoter
9	Services by the Director	A director of a company	A body corporate located in the taxable territory
10	Insurance Agent services	An insurance agent	Person carrying on insurance business
11	Recovery agent services	A recovery agent	Banking Company, financial Institution, NBFC
12	Copyright Services	Music composer, photographer, artist	The Music company, producer located in the taxable territory.

Services notified under RCM

78

Sl No.	Description	Supplier of services	Recipient of services
13	Supply of services by an author by way of transfer/ permitting use of a copyright	Author	Publisher
14	Reserve Bank services	Members of Overseeing Committee constituted by RBI	Reserve Bank of India
15	Services by DSAs	Individual DSAs	A banking company or NBFC
16	Services provided by Business Facilitator (BF) to a banking company.	Business Facilitator	A banking company, located in the taxable territory
17	Services provided by an agent of Business Correspondent to Business Correspondent	An agent of Business Correspondent (BC).	A business correspondent, located in the taxable territory
18	Security Services (services provided by way of supply of security personnel) by unregistered person	Any person other than a body corporate.	A registered person, located in the taxable territory.

Services notified under RCM

79

Sl No.	Description	Supplier of services	Recipient of services
19	Services provided by way of renting of any motor vehicle designed to carry passengers (including cost of fuel)	Any person, other than a body corporate *	Any body corporate located in the taxable territory
20	Services of lending securities under Securities Lending scheme, 1997 of SEBI	Lender	Borrower
21	Service supplied by any person who is located in a non-taxable territory to any person other than non-taxable online recipient.	Any person located in a non-taxable territory.	Any person located in the taxable territory other than non-taxable online recipient.
22	Services supplied by a person located in non-taxable territory by way of transportation of goods by a vessel from a place outside India up to the Customs Station of clearance in India	A person located in a non-taxable territory	Importer

Supply from unregistered person - RCM

80

Notification [Sec 9(4) of CGST Act & Sec 5(4) of IGST Act]

- In case of projects or construction of apartments falling under affordable scheme or lower tax rate scheme,
 - 80% of goods and services [other than TDR, FSI, long-term lease (premium), Electricity, HSD, Natural Gas etc.] shall be purchased from registered persons. Any shortfall from the 80% threshold, the promoter shall discharge the differential tax on RCM basis at 18%.
 - Capital goods received from unregistered person, the tax to be discharged under RCM at applicable rates by the promoter
- Cement received from unregistered person, the tax to be discharged under RCM at applicable rates by the promoter.

Services by E-Commerce Operator

81

- Following categories of services, the tax on intra-State/ inter-state supplies shall be paid by the E-Commerce Operator [Sec 9(5) of CGST Act & Sec 5(5) of IGST Act]

S1 No.	Description	Supplier of services	Person liable to pay GST
1	Transportation of passengers by a radio-taxi, motorcab, maxicab and motor cycle	Any person	E-Commerce Operator
2	Accommodation in hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes	Unregistered person	E-Commerce Operator
3	Services by way of house- keeping, such as plumbing, carpentering etc.	Unregistred person	E-Commerce Operator

Composition Scheme



What is Composition Scheme?

83

- Composition levy is an alternate method of the levy of GST, designed specifically for small manufacturers, traders and service providers.
- It is a scheme under which there is an option to pay taxes in lieu of the normal rate applicable for the goods and services.
- Person having eligible aggregate turnover* can opt for the scheme. The turnover, for this purpose, is to be seen for the previous financial year.
 - Normal Composition Scheme - Rs. 1.5 Cr per annum/ Rs. 75 lacs for special states
 - 'Alternate' Composition scheme – Rs. 50 Lacs per annum

* Value of interest or discount arrived at due to extending deposits, loans and advances not to be considered while calculating turnover

- Limited compliances
 - Quarterly Return in form GST CMP-08 giving summary of Outward & Inward supplies and tax thereof. Pay the tax by the 18th of the month succeeding the quarter.
 - Return for the financial year in form GSTR-4 and an annual return in form GSTR-9A.
 - No need for maintaining detailed records
 - No need to wait for suppliers to file returns to match ITC etc.
- The person opting for Composition scheme shall not collect any tax from the recipient w.r.t. the supplies made.
- Such person is not entitled for any Input Tax Credit for the inward supplies. Further, he is required to discharge the RCM liability, as applicable.
- As long as the person is within the provisions of the Scheme, there is no need to file fresh intimation for continuation every year.
- The option shall lapse with effect from the day on which the aggregate turnover crosses the threshold limit.

- In case of multiple registrations under the same PAN number, uniformity of opting either as regular registration or registration under Composition scheme for all the entities registered under the said PAN number to be maintained.
- Scheme is applicable on supply of goods and supply of services (with certain caveats)
- Person should not be engaged in supply of goods or services not leviable to GST under the Act.
- Can't make inter-state outward supplies of goods or services.
- Can't supply goods or services through E-Commerce Operator who is required to collect tax at source u/s 52 of the Act.
- Person is not a Casual Taxable Person or a Non-Resident Taxable Person
- Person is not manufacturer of goods or supplier of services as notified by the Government.
- “Bill of Supply” to be issued. “Composition Taxable Person not eligible to collect tax on supplies” to be written on the Bill of Supply issued.

Normal Composition Scheme

86

- Aggregate Turnover* threshold limit – Rs. 1.5 Cr per annum/ Rs. 75 lacs for Special states (to be calculated for previous year)
- May supply Services (other than F&B services, excluding liquor) of value not exceeding 10% of the turnover** in a State in the preceding financial year or Rs. 5 lacs, whichever is higher. **(Value of supply of any exempt services including interest or discount arrived at due to extending deposits, loans and advances not to be considered while calculating turnover)
- Rate of tax applicable
 - Manufacturers – 1% of the turnover
 - F&B services – 5% of the turnover
 - Any other suppliers – 1% of the turnover (excluding the value of exempt supplies)

'Alternate' Composition Scheme

87

- Aggregate Turnover* threshold limit – Rs. 50 Lacs per annum (to be calculated for previous year)
- May supply goods or services or both.
- Rate of tax applicable – 6% of the turnover (excluding the value of interest arrived at due to extending deposits, loans and advances)
- The provisions contained in Chapter II of the CGST Rules shall, *mutatis mutandis*, apply to persons paying tax by availing the benefit of this scheme, except to the extent specified above.
- The turnover threshold for the purpose of determining the tax slab shall be calculated from 1st April of a financial year. Tax, however, shall be payable only on supplies from the date of registration.

Procedure - Registration

88

- In case of migration from erstwhile law on the appointed date, intimation to be provided in form GST CMP-01, prior to the appointed day, but not later than 30 days after the said day.
- In case of new registration, the person may give an option in Part B of form GST REG-01. This shall be deemed to be the intimation to enrol for Composition Scheme.
- Effective date of levy shall be from the date fixed and provided in the Certificate issued in form GST REG-06.
- For the purpose of computing aggregate turnover, supplies from 1st April of a financial year up to the date when the person registers, shall also be considered.
- Liability to pay taxes arises prospectively from the date of registration.

Procedure – Normal to Composition

89

- Intimation in form GST CMP-02 prior to the commencement of the financial year (or the date as notified).
- Details of Input Tax credit relating to inputs held in stock, inputs contained in semi-finished/ finished goods and capital goods in form GST ITC-03 within 60 days from the commencement of the relevant financial year (or the notified date).
- Effective date of levy shall be from the beginning of the financial year.

Procedure – Composition to Normal

90

- Intimation in form GST CMP-04
 - Within 7 days, in case of crossing the turnover threshold limit
 - Prior to date of withdrawal, in case of voluntary withdrawal
- In case the proper officer deem that the person is not eligible for Composition Scheme, show cause notice is issued in form GST CMP-05 to be responded within 15 days of the notice.
- Notice to be responded in form CMP-06 and the proper officer shall pass the order in form GST CMP-07 within 30 days, either accepting the response or denying the option.
- Statement in form GST ITC-01 containing details of the stock of inputs and inputs contained in semi-finished/ finished goods held, to be furnished within 30 days.

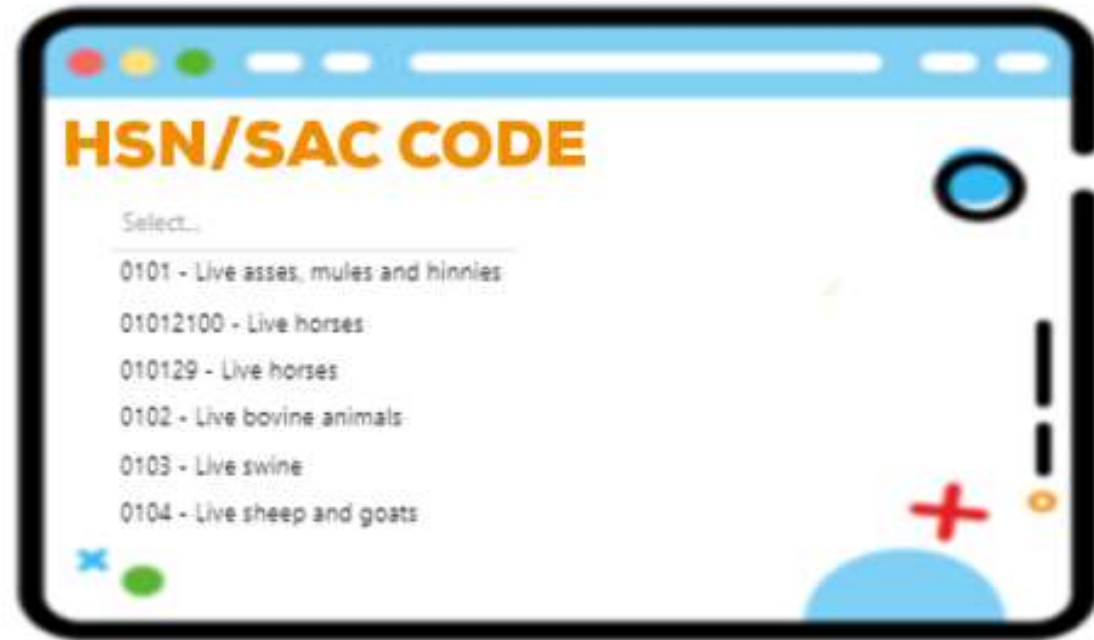
Advantages

- Lesser compliances (Returns, maintaining Books etc.)
- Limited tax liability
- Lower tax rate may help in higher liquidity/ profitability

Disadvantages

- Limited territory to operate.
- No Input Tax Credit available
- Restrictions on businesses to operate on
- Restriction on supplies through E-Commerce Operator

HSN/ SAC Code



What is HSN/ SAC Code?

93

- HSN – Harmonised System of Nomenclature (applicable for Goods)
- SAC – Service Accounting Code (applicable for Services)
- HSN or HS is a multipurpose international product nomenclature developed by the World Customs Organisation (WCO)
- WCO has 183 Members, three-quarters of which are developing countries, are responsible for managing more than 98% of world trade.
- India has been a member of WCO since 1971 and has been using HSN Code since 1986 to classify commodities for Customs and Central Excise.

- Under GST, goods and services is classified on the basis of HSN code and SAC Code respectively.
- The Customs Tariff Act is based on HSN and is used to classify goods under GST. The GST rates are notified on the basis of Customs Tariff.
- Scheme of classification of services, as released by the Government, is used to classify services and the SAC Codes accordingly. GST rates are notified accordingly.
- SAC code has been defined separately for ease of understanding and bifurcating goods and services. Technically, SAC codes is part of the larger HSN universe, but are specified separately.
- Any changes or formulation or addition of new codes in HSN Codes are carried out by DGFT (Directorate General of Foreign Trade) in accordance with the guidelines from the WCO.

- HSN/ SAC code standardises the classification of goods and services, under
 - Section
 - Chapters
 - Headings
 - Sub-headings
- There are 21 sections in HSN Codes, divided in 99 Chapters wherein each chapter defines a specific category of a product.
- The sections and chapters are arranged in order of product's degree of manufacturer or in terms of its technological complexity. For example, natural products appear in the earlier section and items like machinery appears later.
- The section represents the broader classification and the chapter represent a particular class of goods. Further, the chapter is divided into headings and sub headings depending on the different types of goods belonging to the same class.

- It's a 6 digit code where
 - First 2 digits represents the chapter
 - The next 2 digits represents the heading
 - The last 2 digits represents the sub-heading
- Customs and Central Excise added 2 more digits to make the codes more precise, resulting in an eight digit classification for commodities.
- Section XI – Textile and Textile Products
 - Chapter 50 – Silk
 - Heading 03 – Silk Waste
 - Sub-heading 00 – Other silk waste
 - Sub-sub heading 10 – Mulberry silk waste

- Section I (Chapters 1 to 5) - Animals and animal products
- Section II (Chapters 6 to 14) - Vegetable products
- Section III (Chapter 15) - Animal or vegetable fats and oils
- Section IV (Chapters 16 to 24) – Prepared foodstuffs, beverages, spirits, vinegar, and tobacco
- Section V (Chapters 25 to 27) - Mineral products
- Section VI (Chapters 28 to 38) - Chemical and para-chemical products
- Section VII (Chapters 39 to 40) - Plastics and rubber and articles thereof
- Section VIII (Chapters 41 to 43) - Animal hides, skins, leather products
- Section IX (Chapters 44 to 46) - Wood, cork, straw and articles thereof
- Section X (Chapters 47 to 49) - Pulp of wood, paper, paperboard and printed products
- Section XI (Chapters 50 to 63) - Textiles and textile articles

- Section XII (Chapters 64 to 67) - Footwear, headgear, umbrellas, artificial flowers and articles of human hair
- Section XIII (Chapters 68 to 70) - Articles made of minerals, plaster, cement, ceramic and glass products
- Section XIV (Chapter 71) - Precious metals and stones
- Section XV (Chapters 72 to 83) - Base metals and articles thereof
- Section XVI (Chapters 84 to 85) – Machinery, mechanical appliances, electrical equipment, parts and accessories of such articles
- Section XVII (Chapters 86 to 89) - Vehicles, aircraft, vessels, and associated transport equipment
- Section XVIII (Chapters 90 to 92) - Optical, photographic, cinematographic, musical apparatus and equipment; measuring, medical, surgical, and other instruments; and clocks and watches
- Section XIX (Chapter 93) - Arms and ammunitions
- Section XX (Chapters 94 to 96) - Miscellaneous manufactured articles like furniture, toys etc.
- Section XXI (Chapters 97 to 99) – Work of Art, collectors' pieces and antiques, [Chapter 99 – SAC Codes]

- Classification is to be arrived basis tariff entry, section notes and chapter notes provided.
- In case classification is not possible, General Interpretative Rules (GIR) is applied. The rules are applied sequentially.
- Rule 1 – Title of sections, chapters/ sub-chapters are provided for ease of reference only. For legal purposes, refer to headings and sub-headings to drive classification. If the meaning is not clear, refer to trade practices/ parlance, technical or dictionary meanings, BIS or other standards etc.
- Rule 2a - If the goods are incomplete/unfinished and have the characteristics of the finished product, classification is the same as that of the finished product (if the classification is known). The heading shall also include removed/ unassembled or disassembled parts (i.e., SKD/CKD).
- Rule 2b - Any reference to a material or substance includes a reference to mixtures or combinations of that material or substance with other materials or substances. The classification of goods consisting of more than one material or substance shall take place as per Rule 3.

- Rule 3a - Choosing a specific heading is preferred over a general heading. For example, 85.10 is the classification for "shavers, hair clippers and hair removing appliances, with self-contained electric motor". This is a more specific classification for a handheld electric razor than either: 84.67: "tools for working in the hand, pneumatic, hydraulic or with self-contained electric or non-electric motor" or 85.09: "electro-mechanical domestic appliances with self-contained electric motors, other than vacuum cleaners".
- Rule 3b - Mixtures/ composite goods should be classified as per the material or substance that gives them their essential character. Eg. a grooming kit consisting of electric hair clippers (85.10), a comb (96.15) and a brush (96.03) inside a leather case (45.02) should be classified under the electric hair clippers heading (85.10).
- Rule 3c - If two headings are equally suited to the item, choose the heading that appears last in numerical order.
- Rule 4 - If goods cannot be classified per the above rules, they are to be classified according to the goods to which they are most akin. This is essentially a last resort/ remedy to resolve classification.

- Rule 5 - Containers specifically designed for the article and suitable for long-term use will be classified along with that article, if such articles are normally sold along with such cases. For example, a camera case would fall under cameras. Packing materials and containers are also to be classified with the related goods except when the packing is for repetitive use.
- Rule 6 – Sub-headings can be compared only at the same level. If one heading contains 5-6 sub-headings, these sub headings can be compared with each other. However, these sub-headings cannot be compared with sub-headings under a different heading.
- Classification of parts is subject to note in the sections and chapters. Broadly, parts suitable solely for a particular machine generally falls in the same heading number in which the main item falls. However, parts for general use are not to be classified as part of a specific item.

- Under Customs Tariff, Chapter 1-98 is used for goods and Chapter 99 is reserved for services.
- Scheme of classification of services has been notified by Government as per Annexure to Notification 11/2017 – Central Tax (Rate)
- SAC Codes are classified under 5 sections. This forms the third digit in the SAC code
 - Section 5 – Construction Services
 - Section 6 – Distributive Trade services, Accommodation, Food services, Transport services
 - Section 7 – Financial and related services, Real Estate, Rental services
 - Section 8 – Business and production services
 - Section 9 – Community, social & personal services and miscellaneous services

- Each section is divided into heading (fourth digit). They are further divided into group (fifth digit). A further division is made to arrive at the tariff item (sixth digit).
- Chapter 99 – SAC Code
 - Section 6 – Transport services
 - Heading 4 – Passenger Transport Services
 - Group 1 – Local transport and sightseeing transportation services of passengers
 - Tariff item 2 - Taxi services including radio taxi & other similar services

Using HSN/ SAC Code

104

- Vide Notification 12/2017 – Central Tax, the Government has notified the usage of HSN Code for tax invoice as
 - Dealers with turnover of less than Rs 1.5 crores – Not mandatory.
 - Dealers with turnover between Rs 1.5 crores and Rs 5 crores - two-digit HSN codes
 - Dealers with turnover equal to Rs 5 crores and above - four-digit HSN codes
- In the case of imports/exports of goods, HSN codes of eight digits shall be compulsory, as GST has to be compatible with international standards and practices.

Not applicable now

- Vide Notification 78/2020 – Central Tax, w.e.f. 1st April 2021, the Government has notified the usage of HSN Code for tax invoice as
 - Dealers with turnover up to Rs. 5 Cr. – four digits
 - Dealers with turnover equal to Rs 5 crores and above – Six digits
- For dealers with turnover up to Rs. 5 Cr., HSN Code is not mandatory in case of tax invoice issued to unregistered person.
- In the case of imports/exports of goods, HSN codes of eight digits shall be compulsory, as GST has to be compatible with international standards and practices.