



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

Goods & Services Tax (GST) Certification Course

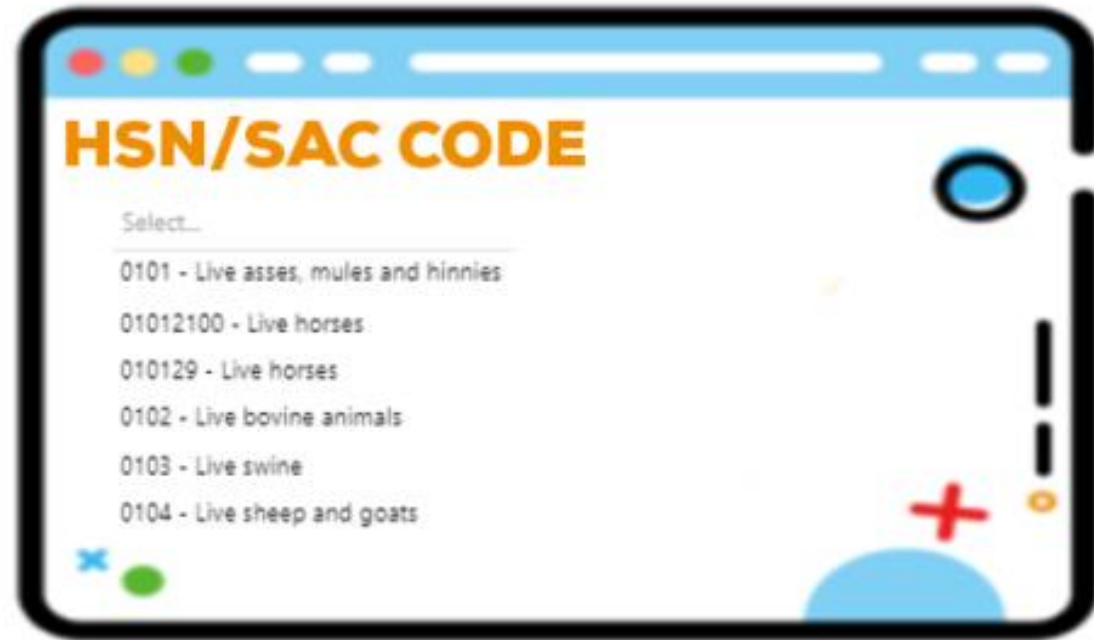
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The presentation has been prepared to provide an overview of the applicable law pertaining to the subject matter. For detailed insight and for better understanding, its is advised to refer to relevant provisions in the Act and the related rules & notifications.

HSN/ SAC Code



What is HSN/ SAC Code?

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- 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.

HSN/ SAC Code under GST

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- 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

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- 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

Using HSN/ SAC Code

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- 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.

Thank You

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**KEEP
CALM
&
FOLLOW
THE RULES**