

INTRODUCTION TO GST



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Taxation in India

There are two kind of Taxes in India – **Direct Taxation and Indirect Taxation.**

Direct Taxation is on Income earned by person. Higher the Income higher is the direct taxation and vice versa.

Example :

Co A has annual Income of Rs 15 Lakhs. So Co A will have to pay Rs 4.5 lakhs as Direct Tax (30% of 15 Lakhs)

Co B has annual Income of Rs 1.25 Cr. So Co B will have to pay Rs 37.5 lakhs as Direct Tax (30% of 1.25 Crores)

Indirect Taxation is on sale/supply of goods and services. There is no distinction on Indirect Taxation to be collected

Example

Mr A whose annual income is 15 lakhs is buying an electronic product say TV for Rs 1,00,000. Now VAT on Electronic Product is say 13.5%. Mr A will have to pay 13,500/- as VAT Liability (13.5% of 1,00,000).

Mr B whose annual income is 1.25 Crores is buying same TV for Rs 1,00,000. He too will have to pay only Rs 13,500/- as VAT Liability

Hence Indirect Taxation does not make any distinction according to the Income of the Product.

Taxation in India

DIRECT TAX	INDIRECT TAX
Direct Tax is on Income of the person. Higher the income higher will be the Tax	Indirect Tax is on Goods and Services. Tax is on the product. It is not linked with Income of the person
A person has to bear Direct Tax from his pocket. Say Mr X income is 10 Lakhs and tax comes around 2 lakhs. Now Mr X needs to pay 2 lakhs from his own pocket.	Seller does not pay tax from his pocket. On sales he collects GST from customers and pays it to the government.

Need for Introduction of GST / Advantages of GST

- 1) Cascading Effect of Taxation.
- 2) Multiplicity of Taxes.
- 3) Reduction in Corruption.
- 4) Distinction between Sales and Services.
- 5) Different VAT Rates in Different States.
- 6) India is a Single Market & Elimination of C Form & H Form.
- 7) Higher Threshold for Registration.
- 8) Composition Scheme for Small Business.
- 9) Cross Verification of Credit availed by Assesses.

Need for Introduction of GST Advantages

1) Cascading Effect of Taxation Cont (SET OFF OF EXCISE DUTY PAID AND CENTRAL SALES TAX PAID (CST) WAS NOT ALLOWED AGAINST MVAT LIABILITY.

Existing Regime

Particulars	Manufacturer A	Dealer B	Dealer C	Dealer D
Cost to Dealers	5000	7000	9000	13000
Excise @ 12.5%	625	NA	NA	NA
Total Cost to Dealers	5625	7000	9000	13000
CST @2% on Total Cost	112.5	NA	180	NA
VAT @ 5.5%	NA	385	NA	715
Selling Price (Inclusive Tax)	5737.5	7385	9180	13715
Credit Available	0	0	385	0
Total Tax Paid (Excise + VAT +CST)	737.7	385	0	715
		No Set off of Excise and CST to Dealer B		

Need for Introduction of GST Advantages

1) Cascading Effect of Taxation Cont

GST Regime

Particulars	Manufacturer A	Dealer B	Dealer C	Dealer D
Cost to Manufacturer / Dealers	5000	7000	9000	13000
Add GST @ 18% on Supply of Goods	600	840	1080	1560
Selling Price (with GST)	5600	7840	10080	14560
Credit Available	0	600	840	1080
Total Taxes paid	600	240	240	480

Need for Introduction of GST Advantages

2) Multiplicity of Taxes

Indirect Taxation was divided into two sub-categories

- a) **Central Indirect Taxation** : Excise Duty, Service Tax, CVD
Additional Excise, Central Sales Tax, etc
- b) **State Indirect Taxation** : VAT, Luxury Tax, Purchase Tax,
Entry Tax, Entertainment Tax, Octroi, etc

So when you combine all these taxes you will realize that there are too many taxes to study and comply with which was a major setback for business. So in order **to facilitate ease of business and easy compliances GST was introduced and implemented from 1st July 2017.**

It was not possible for **Start Ups** and **New Business** to comply with all above taxes hence introduction of GST was essential.

Need for Introduction of GST Advantages

3) Corruption Free

- Under GST Law, Obtaining Registration, Filing of GST Returns and Amendment in GST Registration all will be done Online.
- Hence 1 to 1 meet with officers is very less.
- This will amount to reduction of Bribe and Corruptions.

4) Distinction between Sales and Services

There are many transactions where it is difficult to judge whether the transactions entered into are transaction of Sales or of Services. We were not able to judge whether to charge Service Tax or VAT on particular transaction.

Eg 1 : Right to use the software.

- Software is a product hence state have levied VAT on right to use software. Central govt is of opinion it is a service hence notices were issued to charge Service Tax on Software
- Hence there was no clear distinction and we were not able to determine whether to charge Service Tax or VAT.

Eg 2: Indian Railways includes Catering in Train.

Indian Railways were paying Service Tax on Catering. But Department held that VAT should be payable

Need for Introduction of GST Advantages

5) Different VAT Rates in Different States

- Rate of VAT on same items varies from state to state. There is no central authority which can guide about rate of vat to be levied. Hence state had the liberty to charge any rate on any items.
- Also state had liberty to increase vat rate at their discretion. Maharashtra had increased rate of VAT from 5 to 5.5 to 6% in very short period.
- Under GST Regime there is single governing body which will decide rates of gst on products. There will be uniformity on GST Rates on products in each state.

Need for Introduction of GST Advantages

6) India is now a Single Market

- Earlier while selling goods from 1 state to another state we had to issue **C Form**.
- Also for transferring goods from 1 state to another state in our branch we had to issue **F Forms**.
- All such requirements are now abolished under GST.
- This will amount to ease of business.
- Also Rate of Tax (VAT) on Products Sold was separate according to each state. Eg : Goa was charging VAT of 13.5% on TV while Tamil Nadu was charging 12%. So **same products were taxed at different rates in different states**.
- However under GST Law, products will have uniform GST Rate in entire India.

Need for Introduction of GST Advantages

7) Higher Threshold for Registration

- Earlier, in the VAT structure, any business with a turnover of more than Rs 5 lakh (in most states) was liable to pay VAT. Also, service tax was exempted for service providers with a turnover of less than Rs 10 lakh.
- Under GST regime, however, this threshold has been increased to Rs 20 lakh, which exempts many small traders and service providers.

Need for Introduction of GST Advantages

8) Composition Scheme for Small Business

- Under GST, small businesses (with a turnover of Rs 20 Lakhs to 1.5 Cr) can benefit as it gives an option to lower taxes by utilizing the Composition scheme.
- This move has brought down the tax and compliance burden on many small businesses.

9) Cross Verification of Credit availed by Assesses

- Currently it is very difficult for the department to determine whether supplier has issued particular invoice against which credit is availed by the assessee. People were taking fake or incorrect credit and paying less taxes to govt.
- Under GST Regime each invoice will be matched online and than only Credit will be granted to the assessee. Hence chances of fraud and incorrect credit has declined.

Disadvantages of GST

- 1) GST is an online taxation system
- 2) Being GST Compliant
- 3) GST will mean an increase in operational costs
- 4) Increased costs due to software purchase
- 5) SMEs will have a higher tax burden
- 6) GST came into effect in the middle of the financial year
- 7) Compliances_Increase in filing number of Returns
- 8) Concept of Distinct Person under GST

Disadvantages of GST

1) GST is an online taxation system

- Unlike earlier, businesses are now switching from pen and paper invoicing and filing to **online return filing and making payments**. This might be tough for some smaller businesses to adapt to.
- Business owners need to only **upload their invoices, and the software will populate the return forms automatically** with the information from the invoices.
- Any errors in invoices will be clearly identified by the software in real-time, thus increasing efficiency and timeliness.

2) Being GST-compliant

- Small and medium-sized enterprises (SME) who have not yet signed for GST have to quickly grasp the nuances of the GST tax regime.
- They will have **to issue GST-complaint invoices**, be compliant to **digital record-keeping, and of course, file timely returns**.
- This means that the GST-complaint invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes, and others.

Disadvantages of GST

3) GST will mean an increase in operational costs

- As we have already established that GST is changing the way how tax is paid, **businesses will now have to employ tax professionals to be GST-complaint**. This will gradually **increase costs for small businesses** as they will have to bear the additional cost of hiring experts.
- Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

4) Increased costs due to software purchase

- Businesses have to either update their existing accounting or **ERP software to GST-compliant** one or buy a GST software so that they can keep their business going.
- But both the options lead to increased cost of software purchase.
- Also training of employees for an efficient utilization of the new billing software will be added cost.

Disadvantages of GST

5) SMEs will have a higher tax burden

- Smaller businesses, especially in the manufacturing sector will face difficulties under GST.
- Earlier, only businesses whose turnover exceeded Rs 1.5 crore had to pay excise duty. But now any business whose turnover exceeds Rs 20 lakh will have to pay GST.

6) GST came into effect in the middle of the financial year

- As GST was implemented on the **1st of July 2017**, businesses followed the **old tax structure for the first 3 months (April, May, and June), and GST for the rest of the financial year.**
- Businesses may find it hard to get adjusted to the new tax regime, and some of them are running these tax systems parallelly, resulting in confusion and compliance issues.

7) **Compliances** Increase in filing number of Returns

- Every GST Registered dealer has to file multiple GST Returns every month
 - a) GSTR 1 – Outward Supplies – 10th of Every Month
 - b) GSTR 2 – Inward Supplies – 15th of Every Month
 - c) GSTR 3 – Payment of GST – 20th of Every Month

Disadvantages of GST

8) Concept of Distinct Person under GST (Sec 25(2))

- **Distinct persons are persons with different GSTINs belonging to one legal entity (single PAN)**
- It could be situated in two different states or within the same state or in a different country.
- When a supply (**Branch Transfer**) is made between distinct persons during the course of business, it is considered as a supply even when there is no consideration (Schedule I of CGST Act 2017)
- Eg: Mr A has 2 branches. 1st Branch in Delhi State and 2nd Branch is in Goa State. Even though both branches are of Mr A but since states are separate than GST Number shall be separate. Hence Delhi State and Goa State shall be Distinct Persons.

Disadvantages of GST

Case Study: Concept of Distinct Person under GST

Company A is doing business from Maharashtra. It has one establishment in UK. It provided services to UK establishment. Will this be taxable under GST Law?

Ans:

Distinct person can be

- an Establishment in India and an Establishment outside India.
- An Establishment in One state or a Union Territory and an Establishment in another state or Union Territory.
- Different Business Verticals within the State.

Thus Establishment of Maharashtra State and Establishment of UK shall be treated as Distinct Person under GST Law.

Also Service is said to be exported when the following conditions are satisfied:

- Supplier of services is located in India.
- Receiver of services is located outside India.
- Place of supply is outside India.
- Payment for such service is received in convertible foreign exchange.
- **Supplier and receiver of service ARE NOT merely establishments of a distinct person.**

In given Case Study, Establishment of Maharashtra and Establishment of UK are distinct person. Hence such transaction shall **NOT** be treated as Export of Services.

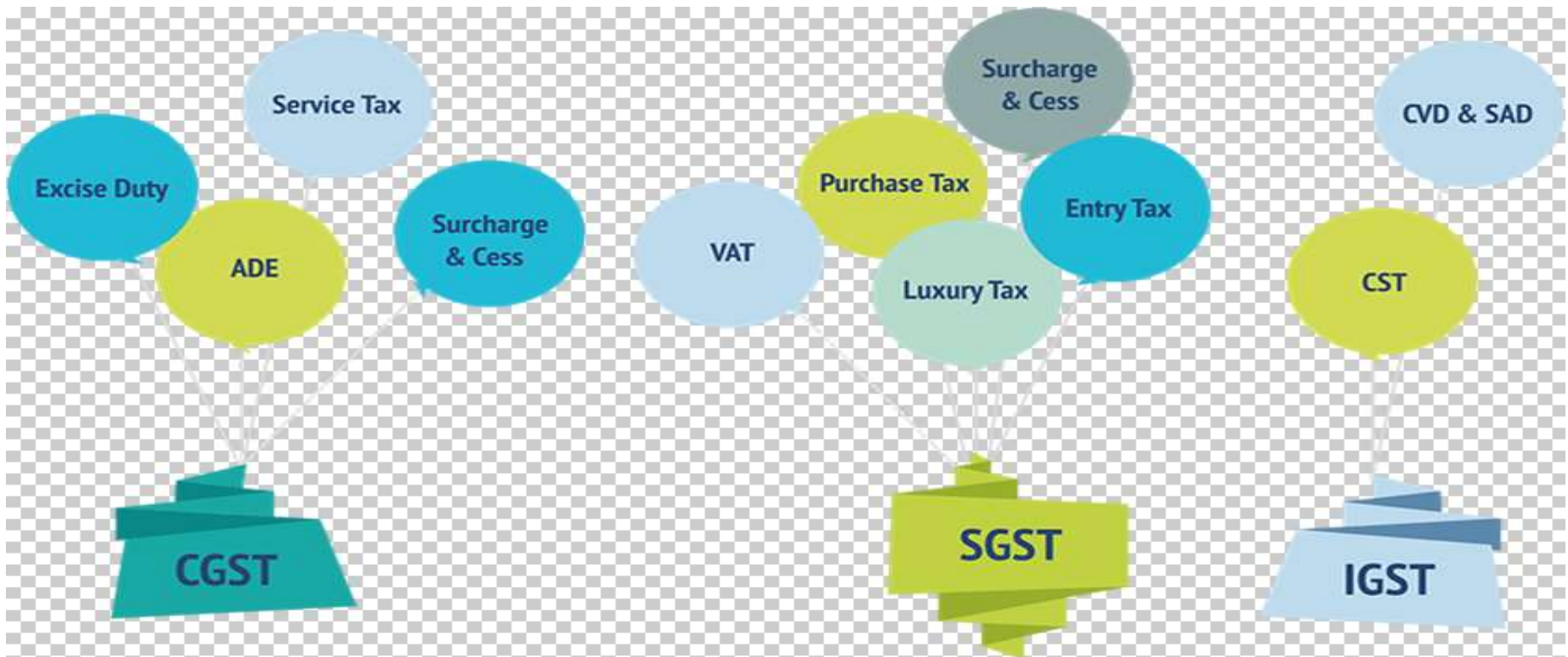
As per Schedule I of CGST Act 2017 (Supply without Consideration) Mr A shall be required to pay GST on such supply by applying Valuation Rules.

Indirect Taxation Prior to GST Regime

- Excise Duty - On Manufacturing - Collected by Central Government
- Service Tax – On Services - Collected by Central Government
- Central Sales Tax – On Sale of Goods outside State : Collected by Central Government
- VAT - On Sale of Goods within State - Collected by Respective State Government

Note:

- On Excise Duty and Service Tax, State did not collect Taxes.
- Similarly on Sale of Goods within the State Centre did not collect Taxes.



Components of GST

There are 3 taxes applicable under GST: **CGST, SGST & IGST.**

- **CGST:** Collected by the Central Government on an Intra-state sale (Eg: Sale from Goa to Goa)
- **SGST:** Collected by the State Government on an intra-state sale (Eg: Sale from Goa to Goa)
- **IGST:** Collected by the Central Government for inter-state sale (Eg: Sale from Goa to UP)

Components of GST

CGST

- > • CGST stands for Central GST
- This is applicable on supplies within the State
- Tax collected will be shared to Centre

SGST

- > • SGST stands for State GST
- This is applicable on supplies within the State
- Tax collected will be shared to State

IGST

- > • IGST stands for Integrated GST
- This is applicable on interstate and import transactions
- Tax collected is shared between Centre and State

GST Inter State and Intra State Sales

What is Interstate Supply?

Under GST, supply of goods or services from **one state to another** would be called as interstate supply. The GST Act defines interstate supply as when the location of the supplier and the place of supply for the customer are in:

- Two different States; or
- Two different Union territories; or
- State and a Union territory.
- In addition to the above, the supply of goods imported into India, till they cross the customs station is also classified as interstate supply. Also, supply of goods or services to or by a Special Economic Zone developer or a Special Economic Zone unit is classified as interstate supply.

What is Intrastate Supply?

- Under GST, supply of goods or services **within the same state or Union territory** is called as intrastate supply.
- However, supply of goods or services to a Special Economic Zone developer or Special Economic Zone unit situated within the same state would not be intrastate supply. As any supply of goods or services to a Special Economic Zone developer or Special Economic Zone unit is classified as interstate supply.

GST Inter State and Intra State Sales

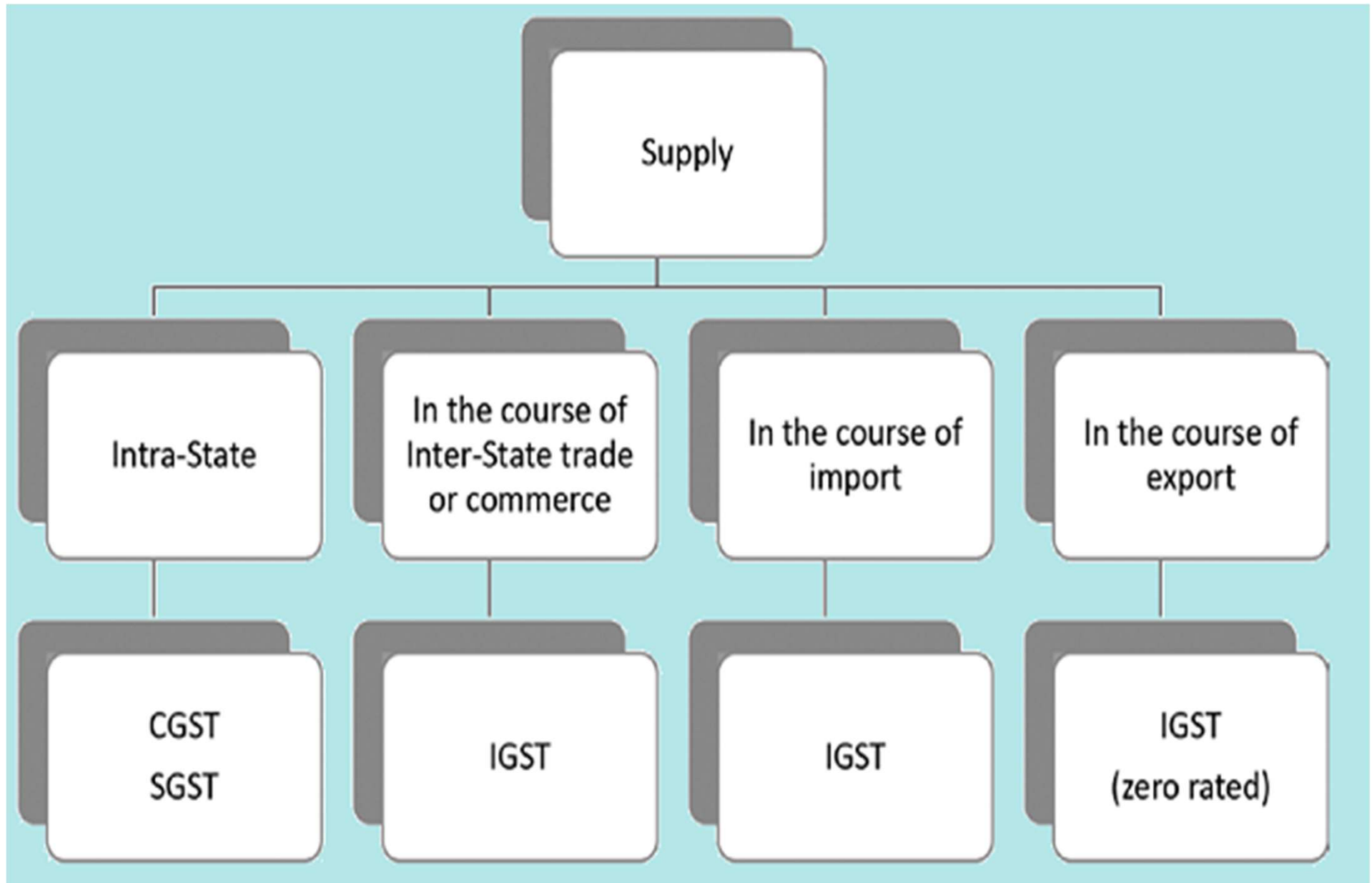
GST Interstate vs Intrastate Supply

- Under GST, interstate supply attracts Integrated Goods and Services Tax (IGST) .
- Intrastate supply attracts both Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST).
- In the case of intrastate supply, the GST rate for the goods or services would remain the same. However, the GST rate and tax amount are divided equally into the two heads namely SGST and CGST.

For example

- If a Rs.1,00,000 worth laptop is sold by an electronics store in Maharashtra to a customer in Karnataka and the applicable GST rate is 18%, then Rs.18000 **IGST** would be applicable.
- If the laptop is sold by an electronics store in Maharashtra to a customer in Maharashtra, then **CGST** or Rs.9000 and **SGST** or Rs.9000 would be applicable.

GST Inter State and Intra State Sales



Features of Constitution Amendment Act (CAA)

- GST is a dual structure of taxation.
- Earlier **only States had power to Levy VAT** on goods sold within the State. **But now both Central and State will have power to levy GST** on the supply of goods within the state.
- Earlier **only Central had power to Levy Service Tax** on Services Provided within or outside the State. **But now both Central and State will have power to levy GST on the supply of services within the state.**
- **Hence there was need to amend the Constitution** of India to give power to States to collect Taxes on Services within the State and to give power to Centre to collect Taxes on Goods sold within the state.
- **Constitution Amendment Act (CAA) required for assigning concurrent powers to Centre and States to levy GST on all supplies.**

Features of Constitution Amendment Act (CAA)

- Concurrent jurisdiction for levy & collection of GST by the Centre & the States – **Article 246A**
- Centre to levy & collect IGST on supplies in the course of inter-State trade or commerce including imports – **Article 269A**
- GST on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas & aviation turbine fuel to be levied from a later date on recommendations of GSTC
- **Compensation for loss of revenue to States for five years on recommendation of GSTC – Clause 19**

GST Compensation Cess

- The GST Bill provides **compensation** to the states for loss of revenue, following the implementation of Goods and Services Tax (GST).
- Such compensation will be provided to a state for a period of **five years** from the date on which the state brings its State GST Act into force.
- The growth rate of revenue for a state during the five-year period is assumed to be **14% per annum**.
- The compensation payable to a state has to be **provisionally calculated and released at the end of every quarter**. Further, an annual calculation of the total revenue has to be performed, which will be audited by the Comptroller and Auditor General of India.
- A cess known as the GST Compensation Cess may be levied on the supply of certain goods and services **Eg : Luxury Cars**, as recommended by the GST Council.

GST Destination Based Taxation System

Indirect taxes can be either origin based or destination based.

- a) Origin based tax (also known as production tax) is levied where goods or services are produced.
- b) Destination based tax (consumption tax) are levied where goods and services are consumed.

GST is said to be destination-based or consumption-based tax. Hence, the place of consumption will decide the State that will collect tax.

The parody behind destination-based taxation is, the producing/selling state gets nothing while the consuming states receive complete share of revenue.

Note : Under destination principle exports will not be taxed but imports will be taxed. Thus if India imports, it will get taxes and revenue will go to Indian government. If it was origin based then tax revenue would have gone to the country that exported goods to India

GST Destination Based Taxation System

Conditions	Destination Based Taxation System	Origin Based Taxation System
Structure	Destination Based tax is the name suggests is the taxation based on destination or consumption of the goods or services.	Origin based tax is levied where goods or services are produced not where consumed
Example	If A in Gujarat produces the goods and sells the goods to B in Rajasthan, then in such case the tax should be levied and collected and should accrue on the goods in the State of Rajasthan and not in the State of Gujarat.	If A in Gujarat produces the goods and sells the goods to B in Rajasthan, then in such case the tax should be levied and collected in the State of Gujarat and not in the State of Rajasthan.
Taxation of Export	Exports would not be taxed and would be zero rated in the territory as tax under this principle is levied in the territory where the goods or services are finally consumed.	Exports would always be taxed in the origin based taxation as tax under this principle is levied on goods or services produced in the territory irrespective of the fact that whether the same is meant for export or domestic consumption
Taxation of Import	Imports would be taxed in the territory where they have been imported as they would be consumed in that territory	Imports would not be taxed in the territory where they have been imported for consumption, as origin based taxation only provides for levy of tax on the goods and services on the basis of territory where they are produced.

GST on PETROL / DIESEL / AVIATION TURBINE FUEL

- a) The total tax (Excise + VAT) incidence on petrol comes to 45-50 per cent and on diesel, it is 35-40 per cent.
- b) Under GST, the total incidence of taxation on a particular good or a service has been kept at the same level as the sum total of central and state levies existing pre-July 1, 2017. This was done by fitting them into one of the four GST tax slabs of 5, 12, 18 and 28 per cent.
- c) For petrol and diesel, the total incidence of present taxation is already beyond the peak rate and if the tax rate was to be kept at just 28 per cent it will result in a big loss of revenue to both centre and states.

GST on Alcoholic Liquor for Human Consumption

- a) GST is not applicable for purchase of beer or liquor in India.
- b) Government will **continue to levy VAT and excise duty on liquor and beer.**
- c) Beer and liquor was not brought under the ambit of GST for two main reasons:
 - To ensure State Governments have a strong source of revenue other than from the GST. Its estimated that the taxes on beer and liquor fetch state governments around 90,000 crores in taxes each year.
 - To keep the prices for beer and liquor high, so as to restrict the consumption of such products.

Case Study

Q1)

Company A has 2 Branches. 1st in Kerela and another in Delhi. It supplies stock from Kerala Branch to Delhi Branch. Company A seeks your advise whether this branch transfer is subjected to GST and also what will be Value of Supply?

Ans:

As per Section 25(2) – Concept of Distinct Person, Company A shall be required to obtain separate GST Number in Kerela and Delhi.

As per Schedule I of CGST Act 2017, Supply between Distinct person shall be subjected to GST even if it is without Consideration.

As per Valuation Rules, Supply shall be valued as follows:

- a) Open Market Value of Such Supply.
- b) if the value of supply is not determinable under clause (a) or clause , the value of supply of goods or services or both of like kind and quality.
- c) Based on Cost as per Rule 30 (Cost of Production + 10% or 110% of Cost of Production.
- d) As per Residual Method as per Rule 31 (Any other Reasonable Value)

VALUTION SHOULD BE DONE IN THIS ORDER ONLY.

Case Study

Q2)

Mr A registered in Maharashtra is supplier of Goods. He sold goods within State of Rs 1,00,000 + 12% GST. He sold goods in Kerela for Rs 5,00,000 + 12% GST. Calculate CGST , SGST, IGST Payable if any ?

Ans:

Particulars	Inter / Intra	Net Value	CGST	SGST	IGST
Supplied within State	Intra State Supply	1,00,000 (12% GST)	6,000	6,000	0
Supplied Outside State	Inter State Supply	5,00,000 (12% GST)	0	0	60,000

Case Study

Q3)

Mr A registered in Maharashtra is supplier of Goods. He sold goods as follows

- a) Supplied within Maharashtra goods of Rs 1,18,000 (GST 18% Inclusive)
- b) Supplied to Goa goods of Rs 2,10,000 (GST 5% Inclusive)
- c) Supplied to Kerala goods of Rs 50,000 (Exclusive of GST) – GST Rate is 18%
- d) Supplied Goods to its branch in Tamil Nadu for free (Open Market Value was Rs 1,00,000 and GST Rate was 18%)

Calculate GST Payable ?

Ans:

Particulars	Inter / Intra	Net Value	CGST	SGST	IGST
Supplied within State	Intra State Supply	1,00,000 (118000 / 118)	9,000	9,000	0
Supplied to Goa State	Inter State Supply	2,00,000 (2,10,000 / 105)	0	0	10,000
Supplied to Kerala State	Inter State Supply	50,000 (GST Rate is 18%)	0	0	9,000
Supplied to Branch in Tamil Nadu	Inter State Supply (Distinct Person)	1,00,000 (GST Rate was 18%)	0	0	18,000