

Introduction to GST

Genesis

The idea of a nationwide GST in India was first proposed by the Kelkar Task Force on Indirect taxes in 2000. The objective was to replace the prevailing complex and fragmented tax structure with a unified system to simplify compliance, reduce tax cascading, and promote economic integration. The Empowered Committee of State Finance Ministers prepared a design and roadmap, releasing the First Discussion Paper in 2009. The Constitution Amendment Bill was introduced in 2011 but faced challenges regarding compensation to States and other issues.

After years of deliberation and negotiations between the Central and State Governments, the Constitution (122nd Amendment) Bill, 2014, was introduced in the Parliament. The Bill aimed to amend the Constitution to enable the implementation of GST. The Constitution Amendment Bill was passed by the Lok Sabha in May, 2015. The Bill with certain amendments was finally passed in the Rajya Sabha and thereafter by the Lok Sabha in August, 2016. Further, the Bill has been ratified by the required number of States and has since received the assent of the President on 8th September, 2016 and has been enacted as the 101st Constitution Amendment Act, 2016. The GST Council was notified w.e.f. 12th September, 2016. For assisting the GST Council, the office of the GST Council Secretariat was also established.

The GST Council, consisting of the Union Finance Minister and representatives from all States and Union Territories, was established to make decisions on various aspects of GST, including tax rates, exemptions, and administrative procedures. It played a crucial role in shaping the GST framework in India. On July 1, 2017, GST laws were implemented, replacing a complex web of Central and State taxes. Under the Indian GST, goods and services are categorized into different tax slabs, including 5%, 12%, 18%, and 28%. Some essential commodities are exempted from GST, Gold and job work for diamond attract low rate of taxation. Compensation cess is being levied on demerit goods and certain luxury items .

To prepare for the implementation of GST, extensive efforts were made to build the necessary technological infrastructure and train tax officials and businesses. GST Network (GSTN), a not-for-profit company, was created to provide the IT backbone for the GST system, including taxpayer registration, return filing, and tax payments.

Since its implementation, the Indian GST has undergone various amendments and refinements based on feedback from businesses and the evolving economic scenario. While the GST implementation initially posed challenges for businesses in terms of understanding the new compliance requirements and adapting to the changes, it has gradually settled into the Indian tax landscape.

It can be said that the history of GST in India showcases a monumental shift in the country's tax structure, aiming to create a more unified, efficient, and transparent indirect tax regime for the benefit of businesses and the economy as a whole.

GST and Centre-State Financial Relations

The implementation of GST has brought about a fundamental shift in the financial relations between the Central Government and the State Governments in India. GST is a unified tax system that replaced multiple indirect taxes levied by both the Central and State Governments. Under GST, both the Central and State Governments share the authority to levy and collect taxes on goods and services. This has led to greater harmonization and uniformity in the tax structure across States, promoting economic integration.

The GST system follows a dual structure, comprising Central GST (CGST) and State GST (SGST), levied concurrently by the Central and State governments, respectively. Additionally, an Integrated GST (IGST) is levied on interstate supplies and imports, which is collected by the Central Government but apportioned to the destination state.

In terms of revenue distribution, the GST Council plays a crucial role. It is a joint forum consisting of the Union Finance Minister and representatives from all States and Union Territories. The Council makes decisions on various aspects of GST, including tax rates, exemptions, and revenue sharing between the Central and State Governments. Except for one decision, all decisions of the Council were taken by consensus.

To ensure a smooth transition to the GST regime and address any revenue losses incurred by the States, a compensation mechanism was established. The Central Government was committed to providing compensation to the States for any revenue shortfall during the initial years of GST implementation. This compensation was meant to bridge the gap between the expected revenue growth and the actual revenue collected by the States.

It has fostered greater coordination, reduced tax barriers, and streamlined the tax system, leading to improved efficiency and competitiveness in the Indian economy. The successful implementation of GST relies on a cooperative and consensus-based approach between the Central and State Governments. It has transformed financial relations, ensuring greater coordination and efficiency in the Indian tax system.

Salient Features of GST

Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in India. Here are some of the salient features of GST:

One Nation, One Tax: GST replaced multiple indirect taxes levied by the Central and State Governments, such as excise duty, service tax, value-added tax (VAT), and others. It brought uniformity in the tax structure across India, eliminating the cascading effect of taxes.

Dual Structure: GST operates under a dual structure, comprising the Central GST (CGST) levied by the Central Government and the State GST (SGST) levied by the State Governments. In the case of Inter-state transactions, Integrated GST (IGST) is applicable, which is collected by the Central Government and apportioned to the respective State. Import of goods or services would be treated as inter-state supplies and would be subject to IGST in addition to the applicable customs duties.

Destination-based Tax: GST is a destination-based tax, levied at each stage of the supply chain, from the manufacturer to the consumer. It is applied to the value addition at each stage, allowing for the seamless flow of credits and reducing the tax burden on the end consumer.

Input Tax Credit (ITC): GST allows for the utilization of input tax credit, wherein businesses can claim credit for the tax paid on inputs used in the production or provision of goods and services. This helps avoid double taxation and reduces the overall tax liability.

GST would apply on all goods and services except Alcohol for human consumption. GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural Gas) would be applicable from a date to be recommended by the GSTC. Tobacco and tobacco products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products. Exports are zero-rated supplies. Thus, goods or services that are exported would not suffer input taxes or taxes on finished products.

Threshold Exemption: Small businesses with a turnover below a specified threshold (currently, the threshold is 20 lakhs for supplier of services/both goods & services and 40 lakhs for supplier of goods (Intra-State) in India) are exempt from GST. For some special category states, the threshold varies between 10-20 lakhs for suppliers of goods and/or services except for Jammu & Kashmir, Himachal Pradesh and Assam where the threshold is 20 lakhs for supplier of services/both goods & services and 40 lakhs for supplier of goods (Intra-State). This threshold helps in reducing the compliance burden on small-scale businesses.

Composition Scheme: The composition scheme is available for small taxpayers with a turnover below a prescribed limit (currently 1.5 crores and 75 lakhs for special category state). Under this scheme, businesses are required to pay a fixed percentage of their turnover as GST and have simplified compliance requirements.

Online Compliance: GST introduced an online portal, the Goods and Services Tax Network (GSTN), for registration, filing of returns, payment of taxes, and other compliance-related activities. It streamlined the process and made it easier for taxpayers to fulfil their obligations.

Anti-Profiteering Measures: To ensure that the benefits of GST are passed on to the consumers, the government established the National Anti-Profiteering Authority (NAA). The NAA monitored and ensured that businesses do not engage in unfair pricing practices and profiteering due to the implementation of GST. All GST anti-profiteering complaints are now dealt by the Competition Commission of India (CCI) from December 1, 2022.

Increased Compliance and Transparency: GST aims to enhance tax compliance by bringing more businesses into the formal economy. The transparent nature of the tax system, with the

digitization of processes and electronic records, helps in curbing tax evasion and increasing transparency.

Sector-specific Exemptions: Certain sectors, such as healthcare, education, and basic necessities like food grains, are given either exempted from GST or have reduced tax rates to ensure affordability and accessibility.

Accounts would be settled periodically between the Centre and the States to ensure that the credit of SGST used for payment of IGST is transferred by the Exporting State to the Centre. Similarly, IGST used for payment of SGST would be transferred by the Centre to the Importing State. Further, the SGST portion of IGST collected on B2C supplies would also be transferred by the Centre to the destination State. The transfer of funds would be carried out on the basis of information contained in the returns filed by the taxpayers.

It's important to note that the GST framework is subject to changes and amendments are passed based on the evolving needs of the economy and the Government's policy decisions.

Central Board of Indirect Taxes & Customs (CBIC) (erstwhile Central Board of Excise & Customs - CBEC) is a part of the Department of Revenue under the Ministry of Finance, Government of India. It deals with the tasks of formulation of policy concerning levy and collection of Customs, Central Excise duties, Central Goods & Services Tax and IGST, prevention of smuggling and administration of matters relating to Customs, Central Excise, Central Goods & Services Tax, IGST and Narcotics to the extent under CBIC's purview.

In order to implement GST, Constitutional (122nd Amendment) Bill (CAB for short) was introduced in the Parliament and passed by Rajya Sabha on 03rd August, 2016 and Lok Sabha on 08th August, 2016. The CAB was passed by more than 15 states and thereafter Hon'ble President gave assent to "The Constitution (One Hundred And First Amendment) Act, 2016" on 8th of September, 2016. Since then the GST council and been notified bringing into existence the Constitutional body to decide issues relating to GST.

On September 16, 2016, Government of India issued notifications bringing into effect all the sections of CAB setting firmly into motion the rolling out of GST. This notification sets out an outer limit of time of one year, that is till 15-9-2017 for bringing into effect GST.

GST COUNCIL

As per Article 279A (1) of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A. The notification for bringing into force Article 279A with effect from 12th September, 2016 was issued on 10th September, 2016.

As per Article 279A of the amended Constitution, the GST Council which will be a joint forum of the Centre and the States, shall consist of the following members: -

- Union Finance Minister - Chairperson
- b) The Union Minister of State, in-charge of Revenue of finance - Member
- c) The Minister In-charge of finance or taxation or any other Minister nominated by each State Government - Members

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.

The Union Cabinet under the Chairmanship of Prime Minister Shri Narendra Modi approved setting up of GST Council on 12th September, 2016 and also setting up its Secretariat as per the following details:

- (a) Creation of the GST Council as per Article 279A of the amended Constitution;
- (b) Creation of the GST Council Secretariat, with its office at New Delhi;
- (c) Appointment of the Secretary (Revenue) as the Ex-officio Secretary to the GST Council;
- (d) Inclusion of the Chairperson, Central Board of Excise and Customs (CBEC), as a permanent invitee (non-voting) to all proceedings of the GST Council;
- (e) Create one post of Additional Secretary to the GST Council in the GST Council Secretariat (at the level of Additional Secretary to the Government of India), and four posts of Commissioner in the GST Council Secretariat (at the level of Joint Secretary to the Government of India). The Cabinet also decided to provide for adequate funds for meeting the recurring and non-recurring expenses of the GST Council Secretariat, the entire cost for which shall be borne by the Central Government. The GST Council Secretariat shall be manned by officers taken on deputation from both the Central and State Governments.

GST Network

Goods and Services Tax Network (GSTN) has built Indirect Taxation platform for GST to help taxpayers in India to prepare, file returns, make payments of indirect tax liabilities and do other compliances. It provides IT infrastructure and services to the Central and State Governments, taxpayers and other stakeholders for implementation of the Goods and Services Tax (GST) in India.

The GST System Project is a unique and complex IT initiative as it established for the first time a uniform interface for the taxpayer under indirect taxes through a common and shared IT infrastructure between the Centre and States. The Centre and State indirect tax administrations which used to work under different laws, regulations, procedures and formats and consequently the IT systems worked as independent sites, were integrated into one system with uniform formats and interfaces for taxpayers and other external stakeholders. GSTN provides a strong IT Infrastructure and Service back bone which enables capture, processing and exchange of information amongst the stakeholders (including taxpayers, States and Central Governments, Accounting Offices, Banks and RBI).

- GST is a Destination based consumption tax
- Both Union Govt. and State Govt./Union Territory tax concurrently in GST regime
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- Supply can be –
 - Inter-State or Intra-state
 - Inward or Outward
 - B2B or B2C
 - Taxable
 - Exempt
 - Nil rated
 - Zero rated
 - Non-taxable
- Supply can either be under Forward charge mechanism (FCM) or under Reverse charge mechanism (RCM)
- A person can either be registered as a Regular Taxpayer or a Composite tax payer
- Threshold for registration is Rs.40 lakhs for goods and Rs.20 lakhs for services. A few smaller states have a lesser threshold limits
- Input Tax Credit is available to a Regular Tax Payer for inward supply of Capital goods, inputs and input services upon fulfilment of certain conditions
- A Regular Taxpayer file monthly returns and discharge his tax liability on monthly basis whereas a Composite tax payer file return on quarterly basis and also pay tax on quarterly basis
- Tax Rates are 0%, 1%, 2%, 3%, 5%, 12%, 18% or 28%
- Maximum GST rate can be 40%
- A Regular taxpayer raise an Invoice for outward supply and a Composite tax payer raise a Bill of Supply
- A recipient discharge tax liability under reverse charge mechanism for a few specific services like legal services, security services, car hiring etc. and raise a Self-invoice.

Source –

- a. <https://gstcouncil.gov.in>
- b. <https://gstn.org.in>
- c. <https://www.cbic.gov.in>