

Goods & Services Tax

BY FAR THE MOST
IMPORTANT TAX REFORM IN
INDIAN HISTORY

Indian Economy

ECONOMY: World is presently facing recession-II but Indian economy is still growing steadily against all odds.

DIRECT TAX: Policy makers are also trying their best to revamp the direct tax structure in India. New direct tax code (Income Tax Act, 1961 & Wealth Tax Act, 1957 would be scrapped) has been drafted and it may be applicable w.e.f 1 April, 2011.

Indian Economy (Cont.)

INDIRECT TAX: Policy makers are also trying their best to scrap several obsolete indirect tax laws to bring on a single indirect tax as soon as possible. Indian public is aspiring for a composite single tax instead of multiple taxes which are currently applicable.

Problem in current indirect tax structure

- **CENVAT has yet not been extended to include chain of value addition in the distributive trade below the stage of production.**
- **Credit in respect of VAT and CENVAT is still not available against each other.**

Problem in current indirect tax structure

(Cont.)

- CENVAT has also not included several central taxes, such as additional excise duties, additional customs duty, surcharges etc. in the overall framework of CENVAT.
- Several State taxes (e.g. luxury tax, entertainment tax, etc.) have still not been subsumed under VAT and hence credit chain is broken in this respect.

Due to above reasons there is burden of "*tax on tax*" in the existing system of indirect tax laws of India.

GST – Answer to all problems

With the introduction of GST, a continuous chain of set-off from the original producer's point and service provider's point upto the retailer's level would be established, eliminating the burden of all cascading effects including the burden of CENVAT and service tax.

Features

- GST shall have two components:-
 - **Central GST - Levied by the Centre;**
 - and
 - **State GST- Levied by the States.**
- Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration.

Features (contd.)

- Periodical returns to be submitted to both Central GST authority and to the concerned State GST authorities.
- Uniform procedure for collection of Tax would be prescribed in the respective legislation for Central GST and State GST.

Taxes to be Subsumed Under GST

Central Taxes:-

- Central Excise Duty
- Additional Excise Duties
- Excise Duty levied under the Medicinal and Toiletries Preparation Act
- Service Tax
- Additional Customs Duty (CVD)

Taxes to be Subsumed Under GST

- Special Additional Duty of Customs - 4% (SAD)
- Surcharges, and
- Cesses.

Note: Tax on Tobacco products: Tobacco products would be subjected to GST with Input Tax Credit. Centre may be allowed to levy excise over and above GST without Input Tax Credit.

Taxes to be Subsumed Under GST

(cont.)

State Taxes:-

- Value Added Tax / Sales tax
- Entertainment tax, not levied by local bodies
- Luxury tax
- Taxes on lottery, betting and gambling.
- State Cesses and Surcharges in so far as they relate to supply of goods and services.
- Entry tax not in lieu of Octroi.

Taxes which are out of Purview of GST:

- **Basic Customs Duty-** It will continue to be levied under Customs Act, 1962 at the time of importation of goods.
- **Export Duty-** It will continue to be levied under Customs Act, 1962 at the time of exportation of specified goods.
- **Stamp Duty-** It will continue to be levied as per Indian Stamp Act, 1899.

Taxes which are out of Purview of GST: (Cont.)

- **Tax on Petroleum Products-** It is decided that the basket of petroleum products, i.e. crude, motor spirit and HSD would be kept outside GST. Sales Tax and Excise duty would continue.
- **Tax on items containing Alcohol-** Sales Tax/VAT continued to be levied. Excise duty may also continue.

Taxes which may be out of Purview of

GST

- Purchase tax - Issue is being discussed in consultation with the Government of India and several states are contemplating that this tax shall continue to levy other than GST.
- Tax on Natural Gas – It is being decided whether Natural Gas would be outside the purview of GST or not.

Threshold Limits - Goods

Turnover of Goods

- Below Rs. 10 Lacs.
- Between Rs. 10 Lacs and Rs. 150 Lacs
- Above Rs. 150 Lacs

Applicable Taxes

- Neither State GST nor Central GST
- Only State GST
- Both State GST and Central GST

Threshold Limits - Services

Turnover of Services

Applicable Taxes

- | | |
|---|-------------------------------------|
| ▪ Below Rs. 10 Lacs | ▪ Neither State GST nor Central GST |
| ▪ Between Rs. 10 Lacs and (β figure) | ▪ Only State GST |
| ▪ Above β figure | ▪ Both State GST and Central GST |

*Note: Figure β would be appropriately high, may be at or around Rs. 150 Lacs.

GST Rate Structure

- Taxation of Goods- Different Rates
 - Lower Rate for goods of basic importance.
 - Standard Rate for goods in general.
 - Special Rate for Precious Metals.

- Taxation of Services- One Rate

Comment: Tax rates are still not notified as there is no consensus among the states and centre on these rates.

Exemption

- Current Location based tax exemption scheme may be phased out slowly.
- Tax exemptions, remissions etc. related to industrial incentives to be converted into cash refunds schemes after collection of tax so that continuous chain of set-offs in GST scheme is not disturbed.

Comment: List of exempted goods and services are still not notified as there is no consensus among the states and centre. Initially Government may adopt a list of exempted items of local importance similar to VAT regime.

Tax credit

- Taxes paid against Central GST shall be allowed to be taken as input tax credit for Central GST and could be utilized only against the payment of Central GST.
- Taxes paid against State GST shall be allowed to be taken as input tax credit for State GST and could be utilized only against the payment of State GST.

Tax credit (Cont.)

- Cross utilization of credit between Centre and State would not be allowed, except under IGST explained later.
- Problems related to accumulation of credit on account of refunds would be avoided.
- Refund/adjustment of Central GST and State GST would be completed in time bound manner in case of exporters, taxpayers purchasing capital goods and tax payers paying input at higher rate than output tax.

Illustration on Tax Credit

<u>Supplier</u>	<u>Input Cost</u>	<u>Value added</u>	<u>Sale price</u>	<u>Rate of GST</u>	<u>GST - output</u>	<u>Tax credit</u>	<u>Net GST payable</u>
Manufactu rer	100	30	130	10%	13	10	13-10 = 3
Whole seller	130	20	150	10%	15	13	15-13 = 2
Retail Seller	150	10	160	10%	16	15	16-15 = 1

GST on Exports

- Exports would be tax exempt.
- Benefits to be given to SEZ's. However, such benefit will only be allowed to their processing zones.
- No benefit allowed to the sales from an SEZ to Domestic Tariff Area (DTA).

GST on Imports

- Both Central GST & State GST to be levied on import of Goods & Services.
- Full set-off is allowed on GST paid on import of Goods & Services.
- Tax revenue in State GST will accrue to the State where Goods & Services are consumed.

Integrated Goods and Service Tax (IGST)

- ❖ Interstate transactions would be taxed as per a new and innovative model of Integrated GST.
- ❖ Integrated GST would be levied by centre.
- ❖ $IGST = \text{Centre GST} + \text{State GST}$.
- ❖ IGST will apply on all inter-state supplies of taxable goods and services.
- ❖ Person making sale would charge IGST and he can utilise input IGST, Centre GST and State GST in order to discharge the output IGST.

Example on IGST

ILLUSTRATION:

Dealer in state-1 sells goods of value 1000 to a dealer in state-2. On the inter-state invoice generated by dealer in state-1,

CGST = 10% & SGST = 10%

Input tax credit lying CGST = 50 & SGST = 70

SOLUTION

$IGST = CGST(10\%) + SGST(10\%) = 20\%$

So IGST charged = $1000 \times 20\% = 200$

Output GST = 200

Less: Input CGST = (50)

Less: Input SGST = (70)

IGST payable in cash = 80

Fiscal Health of the States

- Dual GST will result in better revenue collection for states with higher consumption of goods and services.
- The backward and less-developed states would see fall in collections. The Centre is expected to put in place a mechanism to compensate states for any revenue loss due to GST.

Miscellaneous:-

- Taxpayer would have to maintain separate details in books of account for utilization or refund of credit.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

Miscellaneous (Cont.)

- The administration of the Central GST would be with the Centre and for the State GST with the States.
- Central GST and State GST are to be paid to the accounts of the Centre and the States separately.

Benefits of GST

- GST structure would be a simple and transparent tax structure;
- Reduction in the number of taxes at the Central and state levels;
- Cut in effective tax rate for many goods;
- Removal of the current cascading effect of taxes; and
- Increased tax collections due to wider tax base and better compliance.

Road Blocks for GST

- Agreement on GST rates among states and Centre.;
- Constitutional amendments empowering states to levy tax on services & empowering centre to levy tax on sales.;
- Compensation to be given by the Centre to States incurring revenue losses on implementation of GST.;

Road Blocks for GST (contd.)

- Drafting & implementation of Centre GST and State GST laws are lagging behind.;
- Final approval and support of industry is a must.;
- It is also a formidable challenge that we have only limited time left for GST to become a reality on 1 April, 2010.; and
- Success of GST would depend upon implementation of IT resources in every nook and corner of the country.

THANK YOU

Your comments and suggestions are of utmost importance and are always welcomed.

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