GST in India

What is GST

- Goods and Service Tax is the Tax on Goods and services which is leviable at each point of sale or provision of service.

- Seller or service provider can claim the input credit of tax, on sale of goods or providing the services, which he has paid while purchasing the goods or procuring the services.

- GST avoids the cascading effect and the final consumer bear the burden of all tax.

- Generally in such systems exports are zero rated and all the taxes paid while manufacturing and purchasing the goods and services are returned to the exporter to make the export more competitive.

- There are two types of GST, Unified or Single GST and Dual GST In India, dual GST is expected to be proposed wherein Centre and State will be levying on the transactions of the value of Goods or Service.

Why GST

- The consumption system in India is complicated and multi layered with levies both at the federal and State levels.
- Taxes on Goods are levied by the Centre at the manufacturing level through CENVAT, on services through Finance Act and on sales of goods via Central sales Tax Act.
- State levy tax on the sales of the goods independently, under their own laws. Some degree of uniformity has arrived after introduction of VAT.
- GST would replace multiple tax with a single tax which would operate at various stages of supply chain, which would do away cascading effect of multiple taxation.
- GST operates on a negative list, i.e. all goods and services are subject to GST unless specifically exempted. Sales Tax operates on a similar principal, service tax operate on a different basis, where service that are specifically prescribed in Finance Act are taxable.
- GST will ensure a wider tax base and will reduce the extensive number of exempted goods, thereby preventing leakages and ensuring a moderate tax base.
- GST will eliminate the differential treatment of the manufacturing and service sector.
- GST will also bring down the cost of compliances.

Levies under GST

- Central GST (CGST)

  Intra – state sale of goods and provision of services

- State GST (SGST)

  Intra – state sale of goods and provision of services

- Integrated GST (IGST)

  Inter – state sale of goods and provision of services

- GST on imports in the form of CGST & SGST

Inter – State Supplies

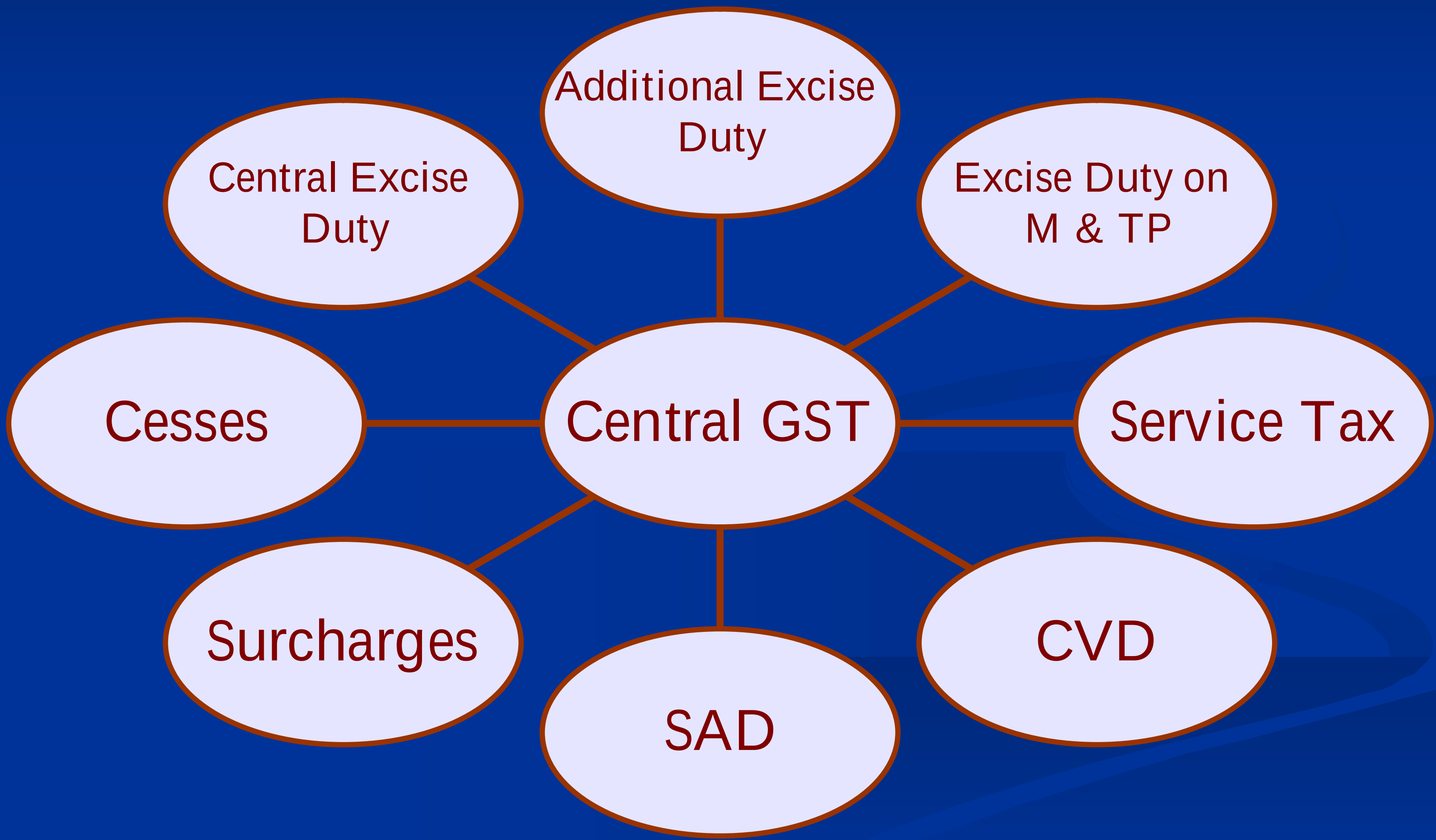
- Integrated GST (IGST) to be levied on inter-State supplies by the Centre
  - IGST will combine CGST and SGST
  - To be collected by the Centre in the Origin State
  - Tax passed over to Destination State via a clearing house mechanism

- Stock transfers and consignments
  - Appropriate provisions to be introduced

Scope of GST

- All goods and services except:
  - Exemptions
    - Industrial incentives to be converted into cash refund schemes
    - Special Industrial Area Schemes will continue through their validity period
  - Goods outside the purview of GST
    - Alcoholic beverages and petroleum products
  - Transactions which are below threshold limits

Taxes to be subsumed into CGST and SGST



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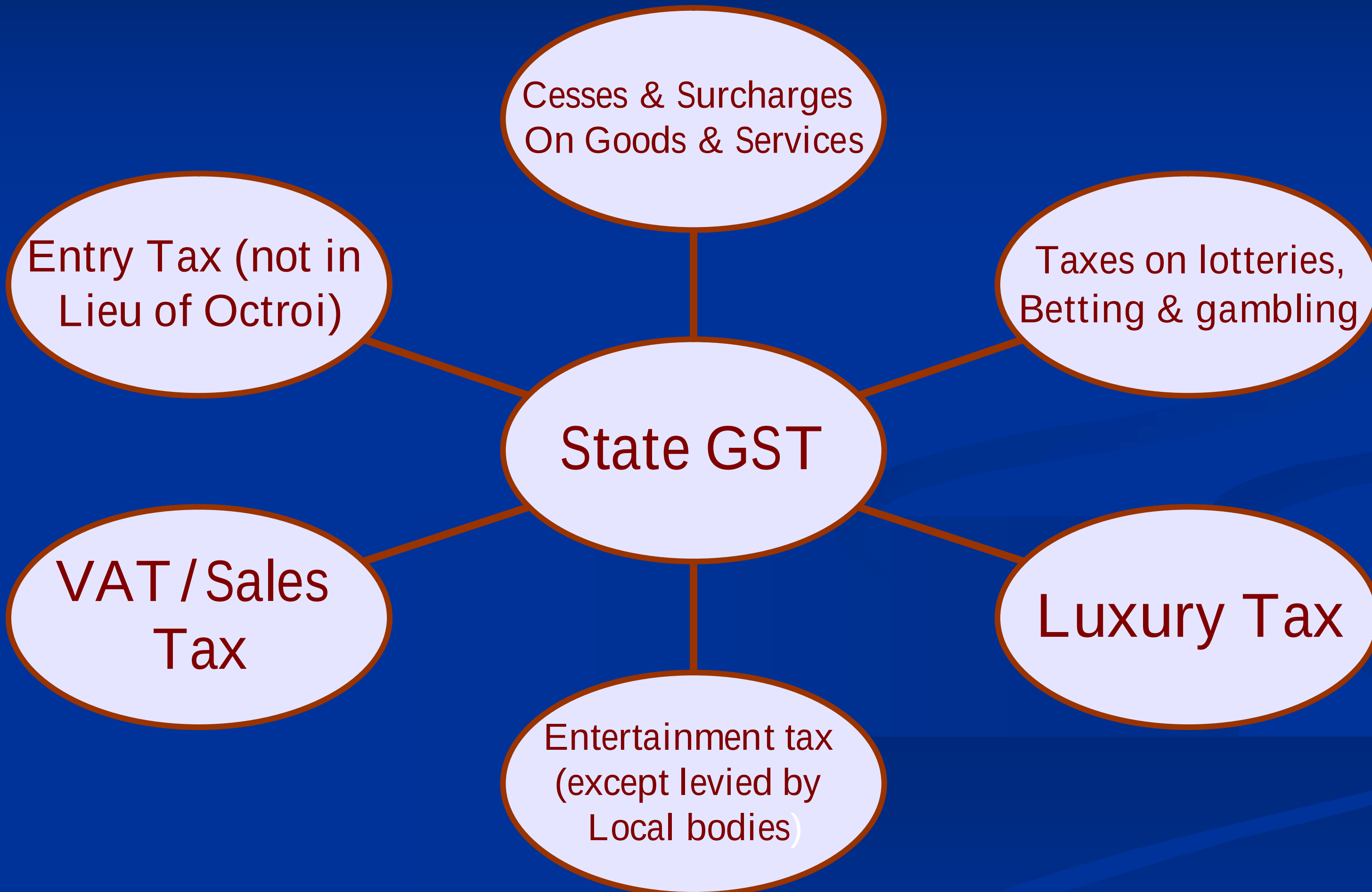
Cesses & Surcharges On Goods & Services
Entry Tax (not in Lieu of Octroi)
Taxes on lotteries, Betting & gambling
State GST
VAT / Sales Tax
Luxury Tax
Entertainment tax (except levied by Local bodies)

How GST Works

- <u>Charging Tax :</u>

  The Dealer charge GST at specified rate of tax on goods and services they supply to customer. The GST payable is included in the price paid by recipient of goods and services. Supplier must deposit this GST with Govt.

- <u>Getting Credit of GST :</u>

  If the recipient of goods and services registered dealer, he would be able to claim the credit of GST paid provided he hold a proper tax invoice.

- <u>Ultimate Burden of Tax on Last Customer :</u>

  Dealer charge GST but does not keep it and pay to the Govt., but get the credit from the ultimate consumer of the goods and services.

- <u>Registration :</u>

  Dealer has to be registered under GST to charge GST and to claim input tax credit and to issue a tax invoice.

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- Tax Period :

  Tax period will be decided by respective law.

- Refunds :

  Dealer is eligible for refund in case of exports, purchase of capital goods, input tax at higher rate than output tax, but subject to provision of law applicable.

- Exempted Goods and Services :

  Certain Goods and Services may be declared as exempted. No credit will be claimed for GST paid on goods and services used for providing such exempted good and services.

- Zero rated goods and services :

  Generally, export of goods and services are zero rated in that case GST paid by exporters are refunded. This is the basic difference between zero rated and exempted goods and services.

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- Tax Invoice :

  Tax invoice is the basic and important document in GST. Dealer registered under GST can issue Tax Invoice and claim credit. Normally Tax Invoice bear following particulars:-

  - Name of supplying dealer
  - His Tax identification number
  - Address and tax invoice number.
  - Name and address of purchasing dealer
  - His tax identification number
  - Address, Description of goods sold and service provided

  Manufacturer get input credit of the taxes paid on all raw material and services.

- Basic Features of Law :

  The basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc would be uniform across these statutes as far as practicable.

System of GST

- Internationally there are 3 systems

a. Invoice System :

In invoice system GST (input) is claimed when invoice is received. It is immaterial whether payment is made or not. Further the GST (Output) is accounted for when invoice is raised. Here also time of receipt of payment is immaterial. In India present system of sales tax on goods is an invoice system of VAT.

Advantage : Input credit can be claimed without making the payment.

Disadvantage : GST has to be paid without receiving the payment.

b. Payment System :

In the payment system, GST (Input) is claimed when payment of purchase is received and the GST (output) is accounted for when the payment is made. In India service tax are based on this payment system since service tax is payable on receipt basis and further Cenvat credit is only allowable when payment of service tax is made.

Advantage : Tax (Output) need not be deposited until payment is received.

Disadvantage : GST (input) can not be claimed without making the payment.

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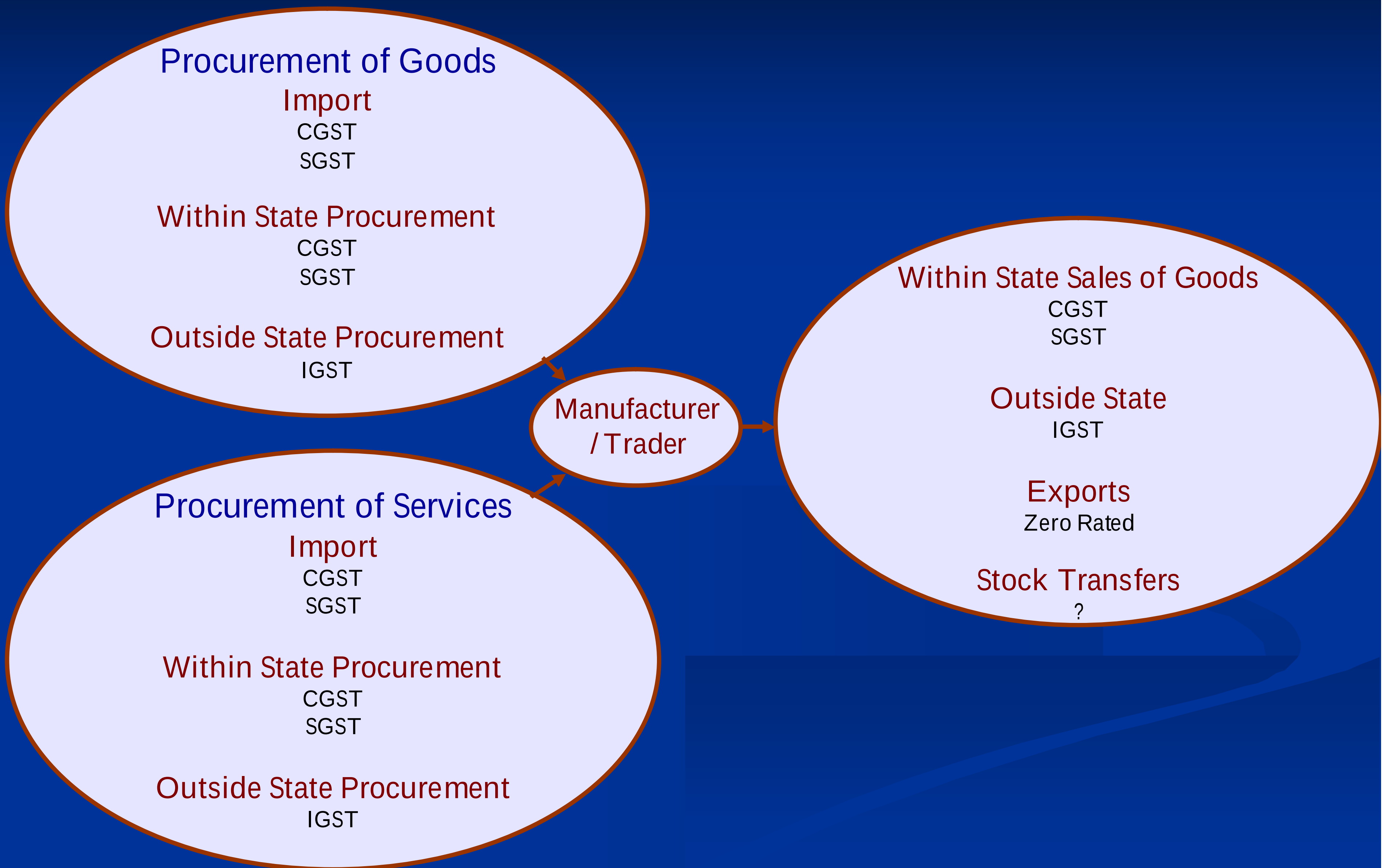
c. Hybrid System :

In Hybrid system GST (Input) is claimed on the basis of invoice and GST (output) is accounted for on the basis of payment, if allowed by the law. In some countries dealers have to put their option for this system or for a reversal of this system before adopting the same.

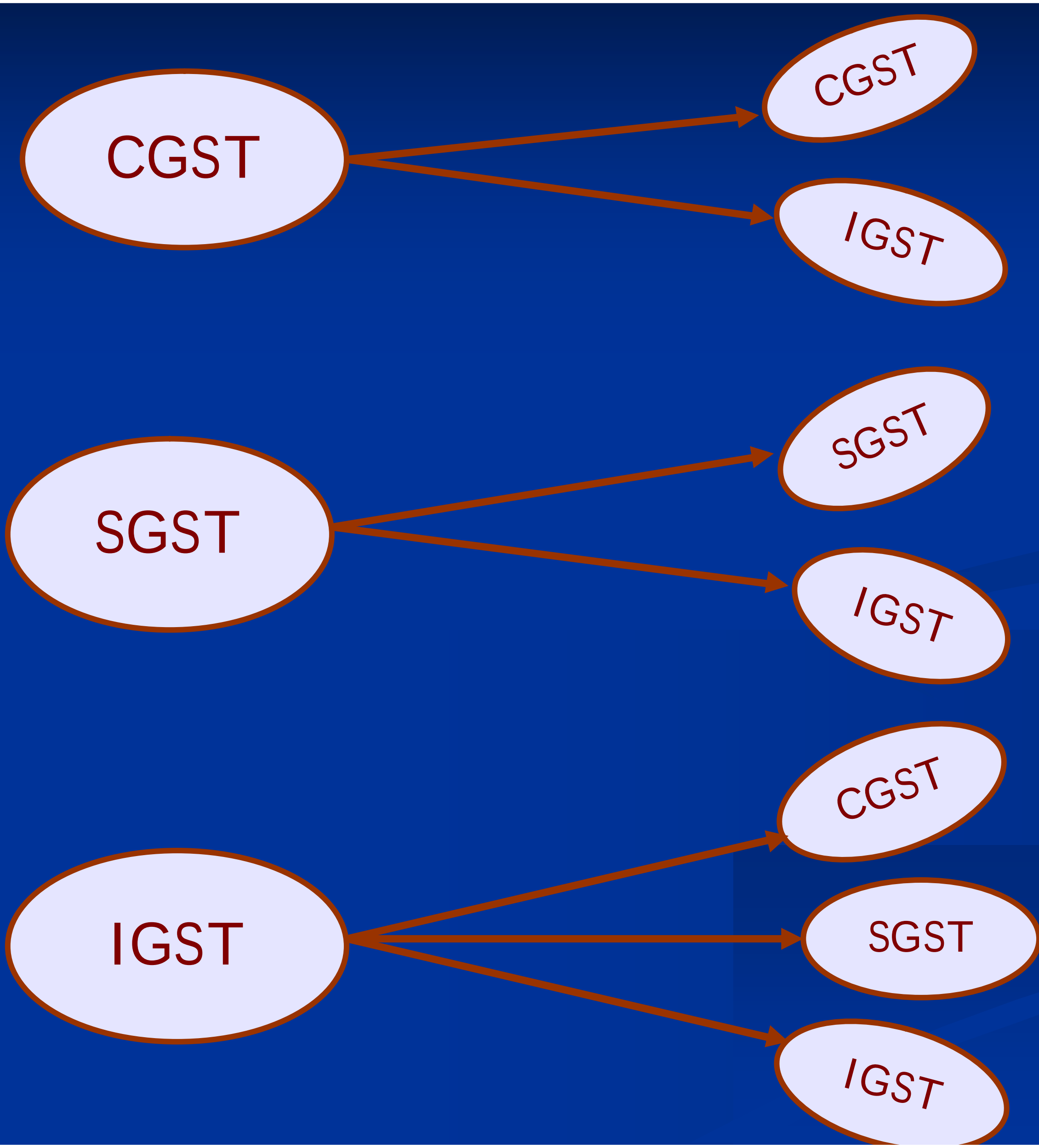
Summary :-

Description	Input Credit	Output Credit
Invoice System	On receipt of Invoice	On issue of invoice
Payment System	On making the payment	On receiving the payment
Hybrid System	At the option of dealer to be declared in advance	At the option of dealer to be declared in advance

Structure of GST



Tax Credit Mechanism



Though cross utilisation of tax credit b/w CGST and SGST is in general not allowed, the IGST mechanism will make these credits fungible

Rate Structure

- Rates for CGST and SGST yet to be decided
  - "Harmonious rate structure"
  - Rates to reflect revenue considerations and acceptability
  - 4 rate structure for goods
    - Standard rate
    - Lower rate – necessary items
    - Special rate – precious metals
    - Exempted items
      - Exempted list under VAT may be retained in initial years
      - Centre may adopt a similar approach
  - Rates to be made known in the course of legislative action
- Exports of goods and services to be zero-rated

Threshold limit

- SGST – Goods and services
  - Rs.10 lakh
- CGST
  - Goods – Rs.1.5 crore
  - Services – Appropriate threshold to be decided
- Composition/compounding schemes – Rs.50 lakh threshold
  - 0.5 floor rate (option to assessee not to avail compounding)

Difference B/w GST & VAT

- As far as tax on goods are concerned there is no difference between VAT and GST as GST is also a form of VAT on Goods and Services.

- At present sales tax, with an exception of CST, is a VAT system and in Service tax the system has also the Cenvat credit system. Hence, both sales tax and service tax are under VAT system in our country.

- In VAT only goods are taxable but in GST the difference would be vanished.

- Overall system of GST is very similar to VAT, which can be considered the first step towards GST.

Diff. GST make to consumers manufacturers and revenues

- CST paid on inter state procurement is not available as a credit.
- Manufacturers cannot take the credit of misc. taxes, such as entry tax, octroi etc. and these become added cost to the supply chain.
- Under GST manufacturers can take the credit of all inputs and capital goods purchased within the state as well as inter state from a registered dealer to set off the output tax on their finished products. Distributors would be able to pass on the burden of duty to their customers.
- This would result in reduction in price of commodities in long run.
- Small businesses would be kept out of the purview of GST. Cost of administration is expected to go down.
- GST promise positive impact on all stakeholder.

FAQs

- Which Country introduced GST first?

  In 1954, GST was introduced for the first time in France. Today this tax has spread across 140 countries.

- How GST will have its impact in the revenue for producing States?

  GST is a consumer based tax and not origin based. Under this structure of GST, the tax will be collected by the states where the goods or services actually consumed.

- Whether Tobacco products would be taxable under GST?

  Tobacco products would be subjected to GST with ITC. Centre may be allowed to levy excise duty on tobacco products over and above GST without ITC.

- How the petroleum products would be taxed?

  petroleum products, i.e. crude, motor spirit (including ATF) and HSD would be kept outside GST as is the prevailing practice in India. Sales Tax could continue to be levied by the States on these products with prevailing floor rate. Similarly, Centre could also continue its levies. A final view whether Natural Gas should be kept outside the GST will be taken after further deliberations.

- How the GST would be paid by the assessee ?

  The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST (with identification of the State to whom the tax is to be credited).

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- Who are the dealers registered under GST?

  Manufacturer, Wholesaler, Retailer, Service Provider.

- How will be Inter-State Transactions of Goods and Services be taxed under GST in terms of IGST method ?

  The Empowered Committee has accepted the recommendations of the Working Group of concerned officials of Central and State Governments for adoption of IGST model for taxation of inter-State transaction of Goods and Services. The scope of IGST Model is that Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services. The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds.

To Summarize With

The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing - Jai Hind

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