

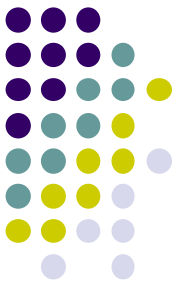
GOODS AND SERVICES TAX

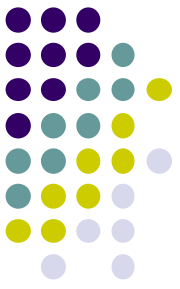
In making...

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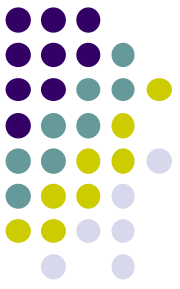
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- Need for GST
- Concept of VAT
- Constitutional Background
- Features of dual GST in India
- Administrative structure
- Expectations
- Challenges
- Business restructuring
- Question Answer

Existing System of Indirect Taxes



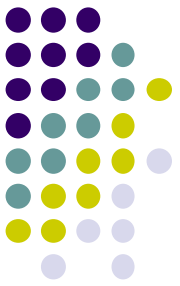
- Customs Duty on Imports
- **Excise Duty on Manufacture of Goods**
- **Service Tax on rendering of services**
- **VAT on sale of goods and deemed sales**
- **Central Sales Tax on Interstate sales**
- Entry Tax, Octroi on entry of goods in state
- Luxury Tax on services in Hotel and Restaurants.
- Entertainment Tax....

What is GST

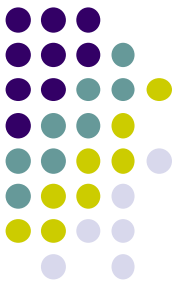


- GST (Goods & Services Tax) is a domestic consumption tax applicable alike on all goods and services. It will eliminate the differential treatment of the manufacturing and service sector. It shall be a multi-stage tax where the ultimate burden shall lie on the consumer.
- The dealer shall charge GST on output and pay GST on inputs. Difference of Output GST and input GST shall be payable as tax. Thus tax is payable only on Value addition with no cascading effects.

Need for GST

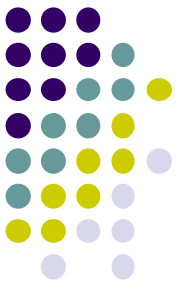


- CENVAT and state VATs clubbed with CST present a grim tax scenario having cascading tax effects.
- The Centre is restrained by the constitution from collecting tax on goods beyond the point of manufacture. Similarly States are restrained by the constitution from levying tax on services and interstate transactions.



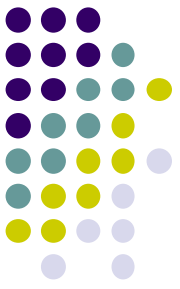
Need for GST

- Neither of the two is a comprehensive tax. With each one encroaching upon the domain of the other, inefficiencies, complexities and duplicity are order of the day.
- 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 operates on a different basis, where service that are specifically prescribed in Finance Act are taxable.



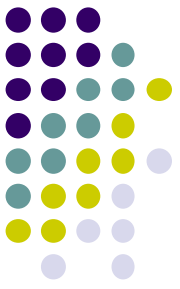
Need for GST

- Nature of complexities vary from taxability to classification to valuation. Some of such burning issues are:
 - Excise on MRP
 - Excise, VAT and Service Tax on Software,
 - VAT & Service tax on:
 - Works Contracts
 - Right to Use and
 - Composite Contracts such as AMC transactions



Need for GST

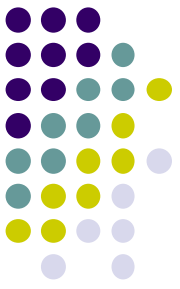
- Information Technology has bridged the communication gaps and redefined the manner of execution of business. Business transactions over Internet know no physical barriers.
- Tangibility is no more a criteria to define goods thereby making copyrights and trade marks as tradable goods.



Need for GST

- Tax cascading effect –
- Central Sales Tax (CST) on inter-state sales, collected by the origin state and for which no credit is allowed by any level of government
- Real estate transactions are outside the scope of both VAT and CENVAT
- The exempt sectors are not allowed to claim any credit for the CENVAT or the service tax paid on their inputs

CONCEPT OF VALUE ADDED TAX STRUCTURE



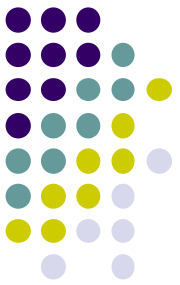
- Single and double entry system of accounting :
Distinguish
- Two Nails Theory : Match
- No entity based exemptions
- Provision of refund for embassies and exporters
SEZs.

CONCEPT OF VALUE ADDED TAX



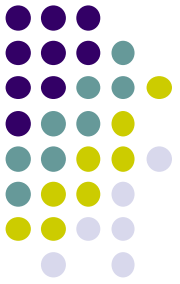
- C.S.T. to be replaced by seamless credit system.
- Uniformity in classification rates & procedures.
- Formulation of a state wide VAT chain.

VAT CONCEPT



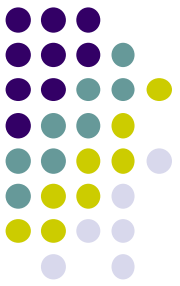
	First seller in state	Second seller	Retailer	Total
Sale Price (Excl. Tax)	100	110	150	
Tax amount 10 %	10	11	15	
Input Credit	0	10	11	
Net Tax	10	1	4	15

COMPUTATION OF TAX

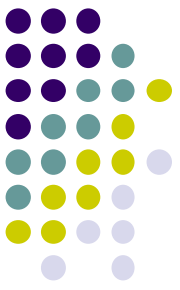


Output Tax in tax period	1,00,000	O
Input Tax Credit in the same period	2,00,000	I
Brought Forward Input Tax Credit	10,000	C
Net Tax (O-I-C)	-1,10,000	Input Tax Credit C/F

CONSTITUTIONAL BACKGROUND



- The powers of the various states and the Central Government to levy, collect and appropriate taxes is derived from the Constitution of India
- List I (Union List) to the Seventh Schedule to the constitution enumerates matters on which Parliament has exclusive power to make laws.



- List II (State List) enumerates matters, exclusively in the domain of the states. Sales Tax on sale / purchase of goods lies in this list.
- List III is the concurrent list.
- Prior to introduction of taxes on services and introduction of VAT, sales tax laws remained complex and disputes on taxation of interstate transactions as also on deemed sales were rampant.
- Constitutional amendments were brought about to tax deemed sales.
- These could not help much as services were constitutionally not taxable.



- Service tax was introduced on limited services such as Share Broking, Communications and Insurance through Finance Act 1994. An independent statute could not be formulated in the absence of inherent powers.
- VAT laws were adopted by states and tended to bring in uniformity. Some relief to industry and higher tax recovery was seen by states. CST was not neutralized as promised. Deemed sales remained a vexed issue.
- In terms of a residuary clause in the List I, the power to tax services could fall upon the central government and the government pounced upon this opportunity.

- Article 268A was inserted in the constitution on May 8th, 2003, subject to ratification by a requisite number of states.

Article 268A provided:

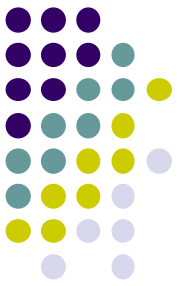
- Taxes on services shall be levied by the GOI and such proceeds shall be collected and appropriated by the Centre and the states. Thus states were lured with a share in the booty.
- Parliament shall have exclusive power to formulate law for collection and appropriation of the proceeds for any financial year, amongst the states and the centre.









- Consequently, entry 92C “Taxes on Services” was inserted in List I.
- After introduction of service tax each transaction becomes liable to tax. But with different authorities to tax different parts of the same transaction the disputes are not going to be resolved. In the present shape of things there are different tax subjects which also lie in different lists as far as the powers to levy and collect taxes are concerned.
- In the absence of a unified power to levy the tax, GST may suffer from irrationalities. Therefore suitable amendment required. States shall be given power to tax services and centre to tax goods.

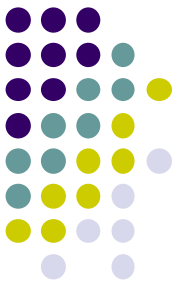
Proposed GST Model



In terms of:

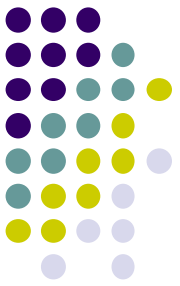
- Various laws that get subsumed in GST 
- Manner of Implementation 
 - Dual Chain vis a vis Single Chain
 - Inter-chain VATability
 - Inter State VATability
- Items included in each chain 
- Rates of taxation.
- Machinery for Levy, Collection & Appropriation of tax. 

Various laws that get subsumed in GST



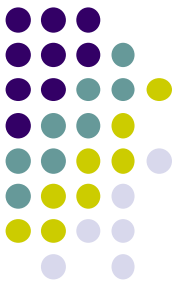
- State Level Taxes
 - VAT on sale of goods and deemed sales
 - Lotteries / Betting/ Gambling
 - Stamp Duty
 - Vehicle Tax / Road Tax / Passenger Tax / Toll Tax
 - Electricity Tax
 - Property Tax
 - Entry Tax / Purchase Tax, Octroi
 - Luxury Tax on services in Hotel and Restaurants.
 - Entertainment Tax
 - Cess and Surcharge

Various laws that get subsumed in GST



- Central Taxes
 - Customs Duty on Imports
 - Central Excise Duty and Additional Excise Duty
 - Additional Customs Duty (CVD)
 - Service Tax on rendering of services
 - Central Sales Tax on Interstate sales
 - Cess and Surcharges





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 Movement of Goods & Services



Integrated GST (IGST) to be levied on inter- State
movement of Goods & Services

IGST = CGST + SGST

To be collected by the Centre

In the Origin State

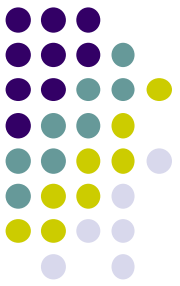
To be passed over to the Destination State

Clearing house mechanism to be adopted

Stock transfers and consignments

Appropriate provisions may be introduced.
Alternatively liability to IGST may arise.

LOCAL INVOICE UNDER DUAL CHAIN



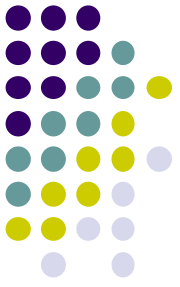
	Rupees
Goods with description Sale Value	100000
Central GST 8%	8000
State GST 12%	12000
Total	120000

INTER STATE TRANSACTION INVOICE UNDER DUAL CHAIN



	Rupees
Goods with description Sale Value	100000
IGST 20%	20000
Total	120000

Dual Chain Impact



**Central GST
(CGST)**

Can be set off against CGST
pertaining to respective state

STATE GST (SGST)

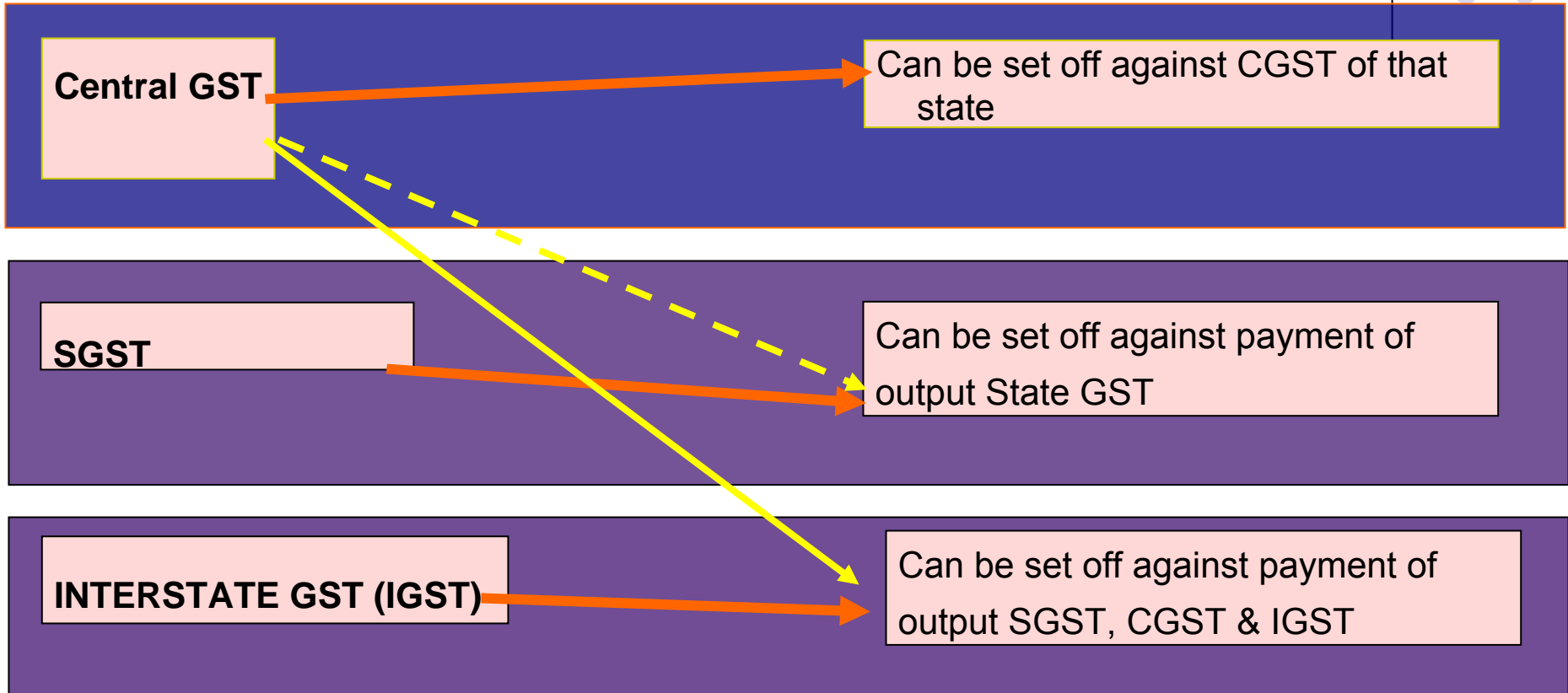
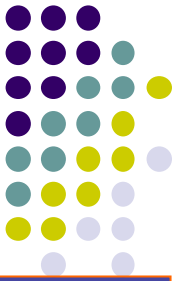
Can be set off against payment of
output State GST

INTERSTATE GST (IGST)

Can be set off against payment of
output SGST, CGST and IGST

 Credit set off possible

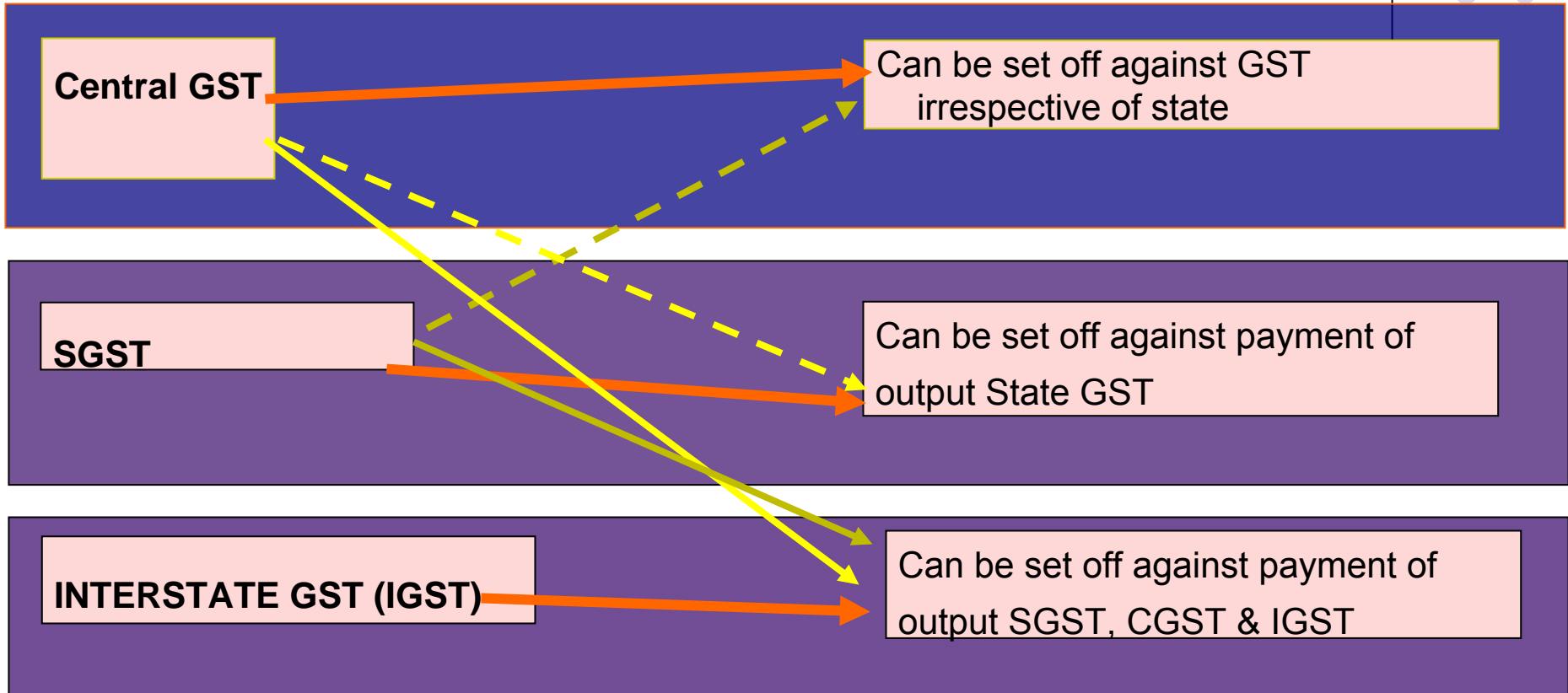
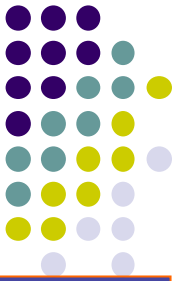
Dual Chain Impact



 Credit set off possible

 Set off not possible

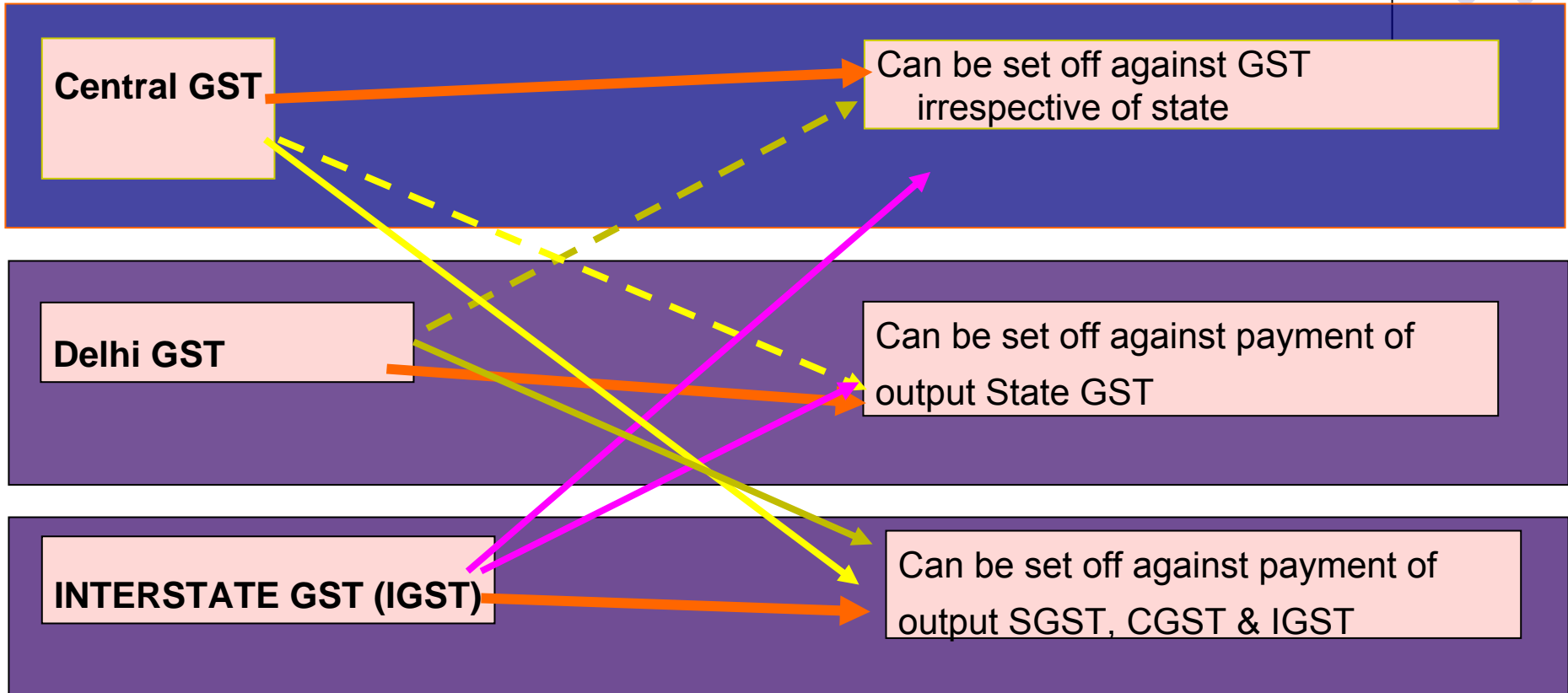
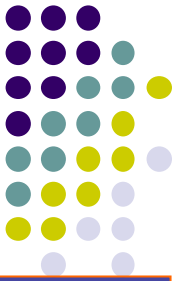
Dual Chain Impact



 Credit set off possible

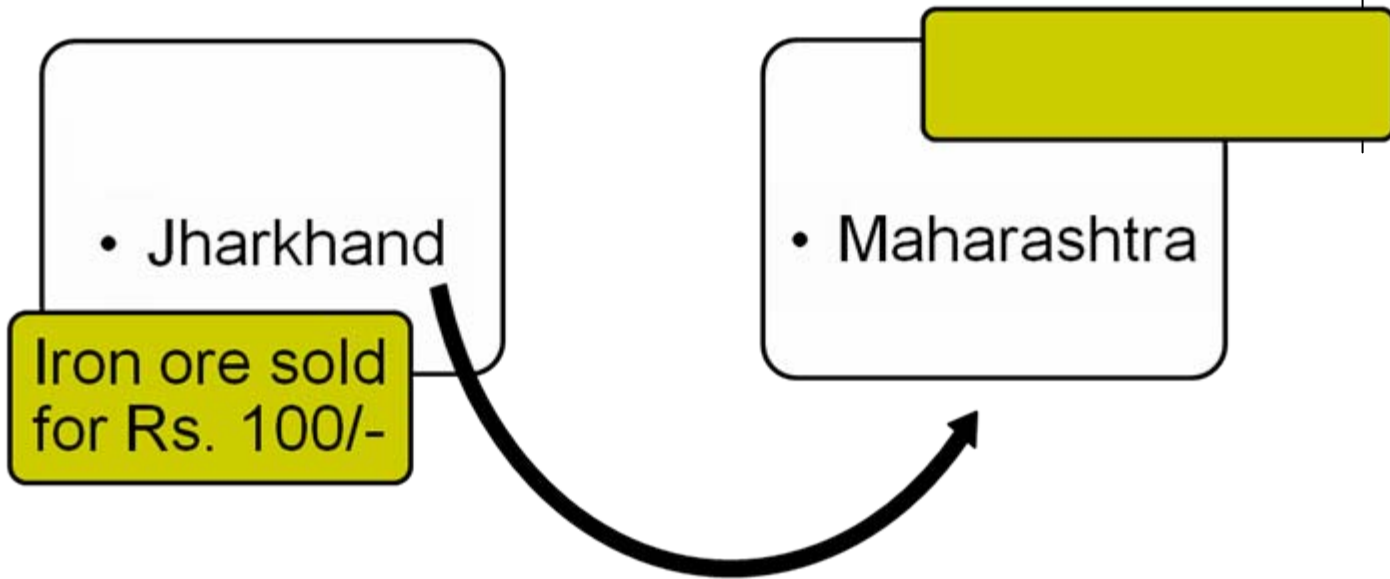
 Set off not possible

Dual Chain Impact



- Red arrow → Credit set off possible
- Dashed red arrow → Set off not possible

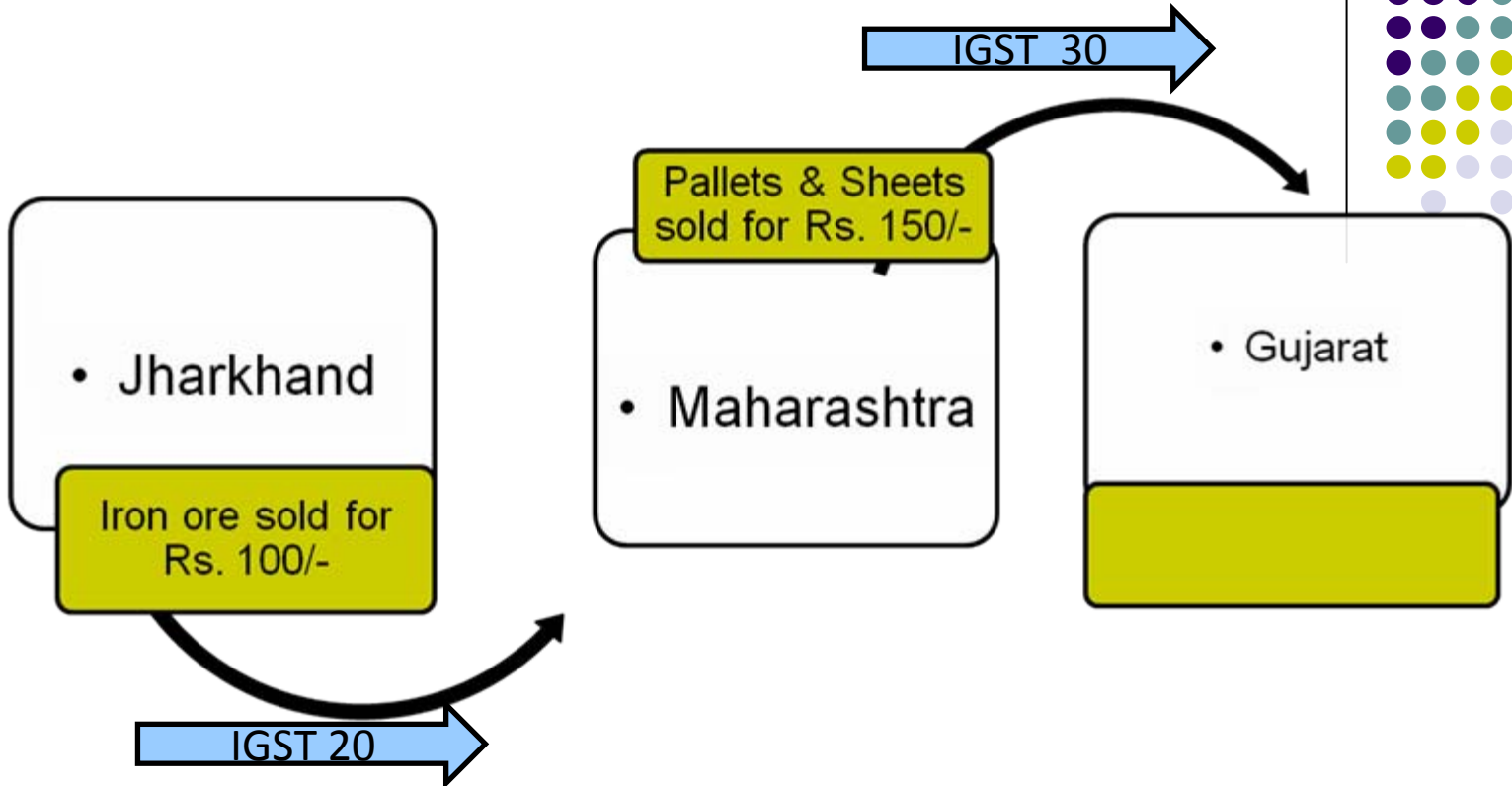
IGST
MODEL



IGST 20

State	Credit Granted	SGST / IGST Collected
• Jharkhand	• 15	• 15
• Maharashtra	• 0	• 20

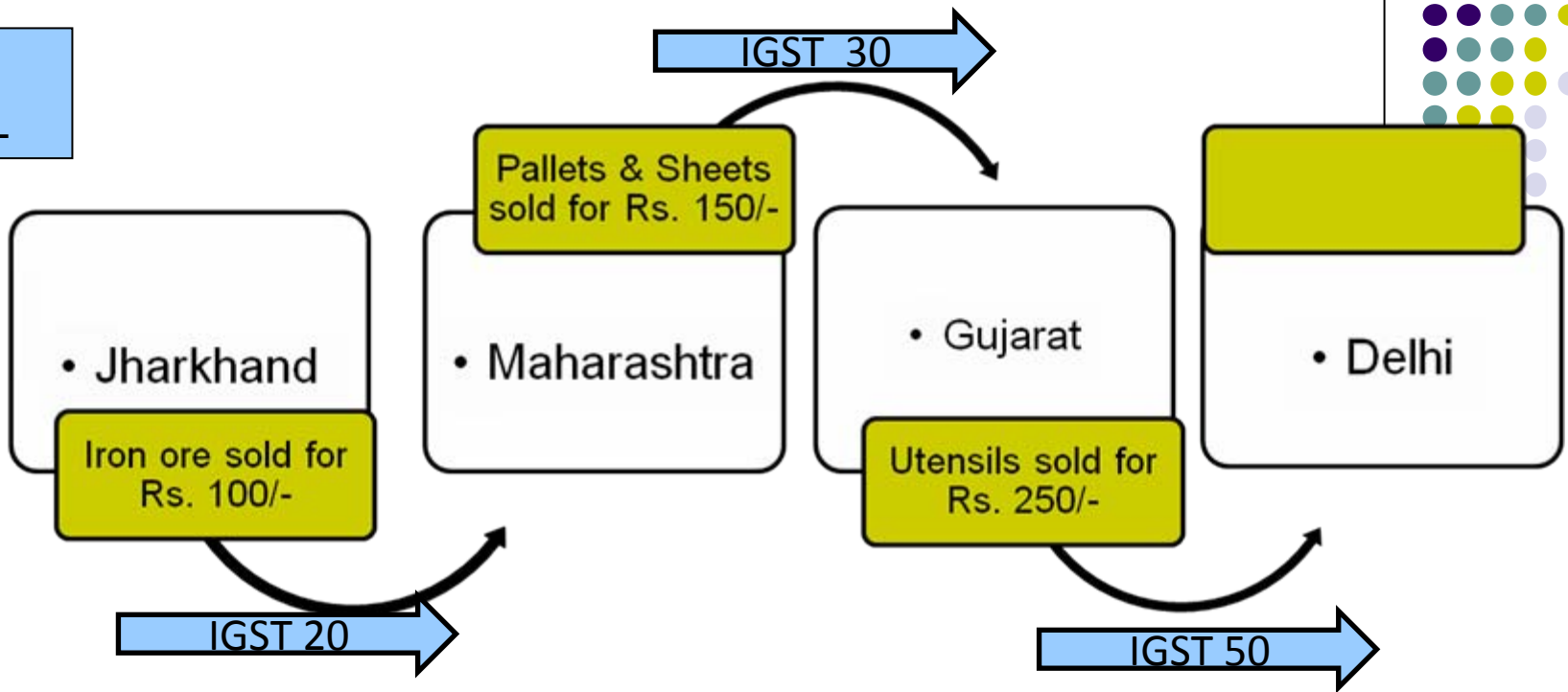
IGST MODEL



State	Credit Granted	IGST Collected
<ul style="list-style-type: none"> • Jharkhand • Maharashtra • Gujarat 	<ul style="list-style-type: none"> • 15 • 20 	<ul style="list-style-type: none"> • 15 • 20 • 30

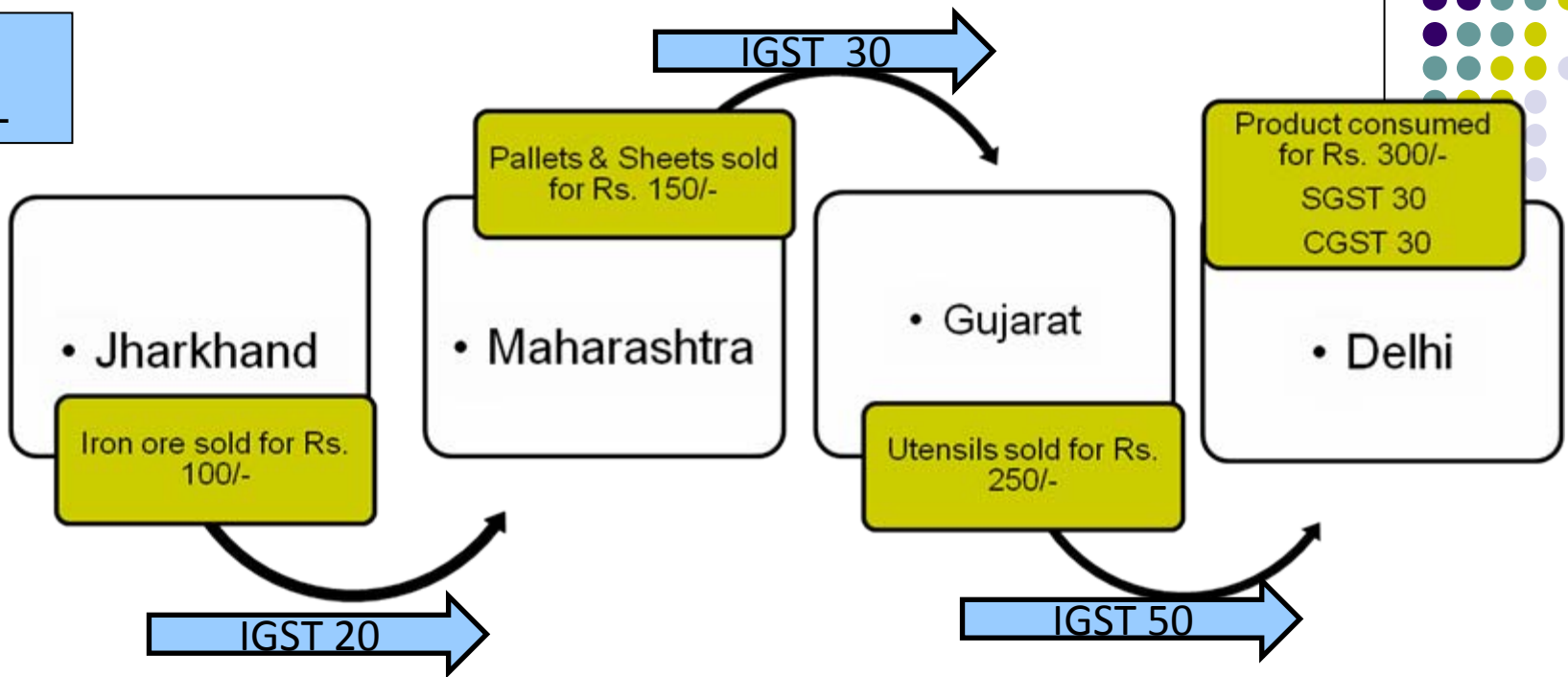


IGST MODEL



State	Credit Granted	IGST Collected
• Jharkhand	• 15	• 15
• Maharashtra	• 20	• 20
• Gujarat	• 30	• 30
• Delhi		• 50

IGST MODEL



State	Credit Granted	Tax Collected
• Jharkhand	• 15	• 15
• Maharashtra	• 20	• 20
• Gujarat	• 30	• 30
• Delhi	• 50	• 50 + 30 + 30

Items included in each chain



- Distinction between Goods and Services must go.
- Economic Transaction must be the criteria.
- But Petroleum products have always been out side VAT and are likely to so continue.
- Tobacco and Liquor may have special treatment
- Basic threshold shall be prescribed at 10L for SGST and 1.5 Cr for CGST. Some states may be favored.
- There is also list of non-creditable goods which is likely to be sustained.
- All services are intended to be taxed at single standard rate.

Items included in each chain

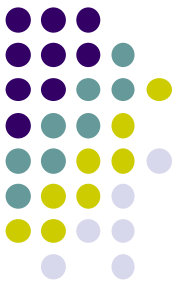


- If states tax all services the criteria for taxation shall be consumption state.
- Rendering of services can not be equated to selling of goods in terms of:
 - Transfer of property.
 - Movement from one state to another.
 - Storage and stocks
- Services are normally produced, delivered and rendered at the same time.
- Thus taxing of service related transactions shall be a nightmarish experience for the states.

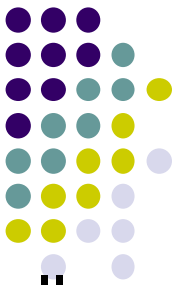


Rates of Tax

- Standard Items-(14 to 16% expected)
- Necessities-(6 to 8% expected)
- Precious Metals-(1% expected)
- Exempted Items-(0%-without ITC)
- Zero Rated-(0% with ITC)
- Services-Standard Rate

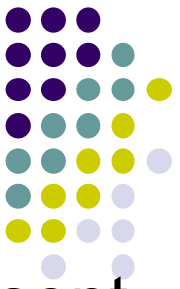


Machinery for Levy, Collection & Appropriation of tax



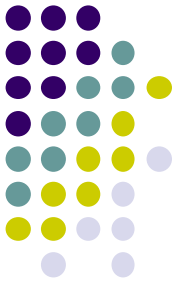
- Both the present administrative machineries shall continue to work
- One CGST and different SGST Acts to be promulgated. However the following definitions may be uniform:
 - Taxable Base
 - Chargeability of tax
 - Taxable Event
 - Taxable Person
 - Valuation Methods
 - Classification of goods and Services
 - Returns
 - Payments
 - ITC Mechanism
 - TIN-PAN Based

Machinery for Levy, Collection & Appropriation of tax



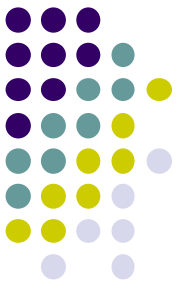
- The rates may be changed only with mutual consent of states.
- Check posts may reduce but not end. Joint check post of entry /exit states may be installed.
- All forms and stationery may be common / uniform. Assessments may be common. Vigilance may be separate.

Conclusion



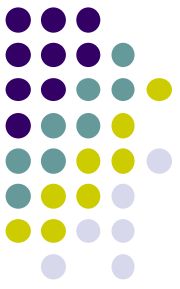
- Sum Up
- Expectations
- Challenges
- Rethinking for Business models

SUM UP



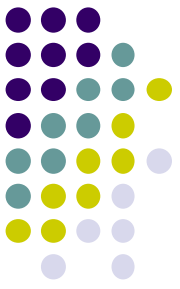
- All indirect taxes to subsume in one taxation law effective April 2011 : GST.
- Taxes on property (stamp duty), road and toll taxes may be retained as direct taxes.
- No other tax on a transaction is levy-able in any other form. Transaction tax – Better terminology
- Discrimination between goods and services should go. Economic transactions to be liable to tax.
- Tax on goods type of transactions to be on varying rates while remaining part, being service type of transaction to be taxed at single rate.

SUM UP



- ◆ Area and person based exemptions to promote a state or region shall go. Provision for refund in eligible cases.
- ◆ GST shall operate in VAT mode.
- ◆ Trade barriers to be removed, so that taxes on all inputs be eligible to credit / setoff against output tax.

SUM UP

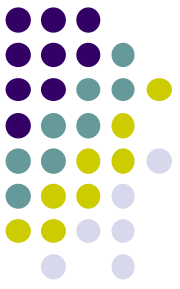


Following agencies are involved in the exercise:

- State Governments through
 - Empowered Committee of State Finance Ministers
 - Commission on centre-state relations
 - Interstate council of India
- Central Government through:
 - Finance Ministry
 - Finance Commission
- Stakeholders (industry) through:
 - NO REPRESENTATION / TAKEN FOR GRANTED

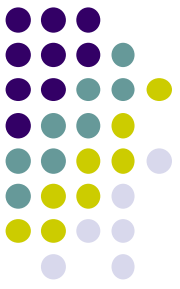
A POLICY CAN BE INFLUENCED ONLY TILL IT IS MALLEABLE

SUM UP



- The Finance Minister had declared April 2010 as implementation date, now being postponed to 2011.
- EC has opted for a dual tax on same base.
- Tax shall be destination / consumption base.
- Requirements for registration in all states can not be ruled out.

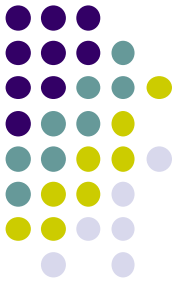
EXPECTATIONS



- Common market across the country.
- Scope for Tax Arbitrage to be nil.
- An equitable redistribution of tax burden on manufacturing and services sector.
- Lower tax rate (15% to 20%) by broadening of tax base and minimization of exemptions.
- Compliance cost must reduce.
- Economic criteria must be basis for investment decisions and taxation should not influence business decisions any more.

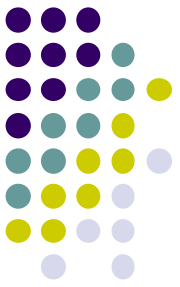
EXPECTATIONS

- GST must promote exports by reducing cascading effect of taxes and should promote employment and consequently spur growth.

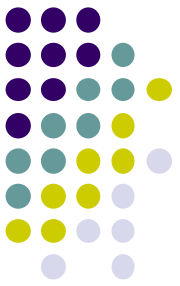


CHALLENGES

- Interstate movement in the absence of CST is a concern.
- Check posts can be reduced but not eliminated.
- Construction sector is not part of concentration at this stage. This sector pays VAT, Service Tax, Stamp Duty etc.
- Negative list for services shall be required.
- Rules to tax services shall be complicated in view of the present complications in export and import of services for service tax purpose.

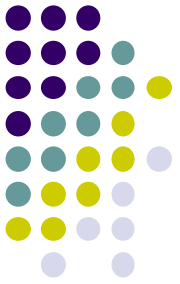


RETHINKING ON BUSINESS MODEL



- Conglomerates like RIL may no more find advantage of size as smaller organizations shall also be able to minimize cascading tax impact.
- Outsourcing shall get a good boost.
- Organizations shall perform only what they are best at.

Thank You



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