

Goods & Services Tax

*By far the most important
tax reform in Indian History.*



E-course on GST

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Certificate Course on Indirect Taxes

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Past-Member of Study Material Research Group of NIRC of ICAI.

Awarded upcoming speaker of the year by NIRC of ICAI in April, 2013.

Written many books including a book on GST(4th edition) published by Bharat Law house.

Over 100 articles published on tax matters(including GST) by TAXMANN, STR, VSTC, Indraprashtha Vyapar, Suchita times, Service Tax Review NIRC Newsletter, The Chartered Accountant Journal etc.

Conducted seminar/workshops for professionals and students on 'GST' for Study circles, Nirc of ICAI, NIRC of ICSI, Young member committee of ICAI, Department of Commerce (Kurukshetra University), VIPS college.

WHY GST

Problem in current indirect tax structure

- **Classification disputes.**
 - **Whether Goods or Services?**
- **No. of Indirect Taxes**
- **No. of authorities for assessment**
- **Procedures, tax rates etc. are not uniform across all states.**
- **Credit 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.

What is “*Tax on Tax*”

Particulars	No Credit	With Credit
Cost of Goods	100	100
Profit of manufacturer	10	10
Cost to manufacturer	110	110
Tax @ 10%	11	11
Sale to Distributor	121	121
Cost to distributor	121	110 (Rs. 11 is credit)
Profit of Distributor	10	10
Cost of Distributor	131	120(Rs. 11 is credit)
Tax @ 10%	13.10	12 (Rs. 12 – Rs11 credit)
Sale to retailer	144.10	132

What is “*Tax on Tax*”

□ $144.10 - 132 = 12.10$

□ Rs. 11 is dead loss for which credit is not available.

□ Rs. 1.10 is tax on tax.

GST – Answer to all problems

A continuous chain of set-off

- ❑ from the **original** producer's point
- ❑ to **point up to the retailer's level**
- ❑ Will eliminate all cascading effects of Taxes.

GST - Aim

- One tax
- One country
- One Rate
- One return
- One payment
- One assessment

History of GST

Government Authority	Report name	Month of issue
Empowered Committee Of State Finance Ministers	A Model Roadmap for Goods and Services tax in India	2008
Department of Economic Affairs Ministry of Finance Government of	GST Reforms and Intergovernmental Consideration.	March 2009
Empowered Committee Of State Finance Ministers	First Discussion Paper On Goods and Services Tax.	November 2009
Task force set up by 13th Finance Commission	Report of task Force – 13th Finance Commission	December 2009

History of GST (cont.)

Government Authority	Report name	Month of issue
National Council of Applied Economic Research	Moving to Goods and Services Tax in : Impact on 's Growth and International Trade	December 2009
Department of Revenue	Comments of Department of Revenue on First Discussion paper	January 2010
Presented in Lok Sabha	Constitutional Amendment Bill, 2011	March, 2011
Parliamentary standing committee	(2012-13) Seventy Third Report Of Parliamentary Standing Committee On Finance On Constitution (One Hundred Fifteenth Amendment) BILL, 2011	7 August, 2013
Presented & passed in Lok Sabha	Constitutional Amendment Bill, 2014	December, 2014

BASIC PROVISION

GST CONSTITUTIONAL AMENDMENT BILL, 2014

Power to levy GST on;

1. goods; and
2. services

Given to CG and SG

Basic provision

- 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.***

TAXES TO BE SUBSUMED

CENTRAL TAXES WOULD BE SUBSUMED IN THE GST

- Central Excise Duty
- Additional Excise Duties
- Excise Duty levied under the Medicinal and Toiletries Preparation Act
- Service Tax
- Additional Customs Duty (CVD)
- Special Additional Duty of Custom
- Central Cesses and Surcharges in so far as they relate to supply of goods and services.

STATE TAXES WOULD BE SUBSUMED IN GST

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

TAX RATE

Revenue neutral rate(RNR)

Task Force Report

11%

Task Force Report

12%

Rajya Sabha Select Committee

has suggested that GST
rate should not go
beyond 20%

A sub-committee of Empowered Committee
of State Finance Ministers on GST

suggested 27%.

But the rate is being reworked by
the sub-committee.

Constitution Amendment Bill, 2014

No Tax rate given.

**But it is clear that we will have multiple rates atleast
in the beginning:**

- 1. Floor Rate**
- 2. General Rate**
- 3. Special rate for precious items like Gold etc.**

We might also have BAND RATE's.

VALUATION

Valuation

Valuation is a matter which will form shape only when the rules are being formed.

In general it will be **consideration paid.**

TAX CREDIT

Tax credit

- CGST shall be allowed to be taken as input tax credit only against the payment of CGST.
- SGST shall be allowed to be taken as input tax credit only against the payment of State GST.
- Cross utilization of credit between Centre and State would not be allowed, except under IGST explained later.

Input credit chart

Particulars	Input CGST	Input SGST
Output CGST	Available	Not available
Output SGST	Not available	Available

Tax credit (Cont.)

- 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 tax 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

Net gst payable=16

EXEMPTIONS

Exemption

- ❖ All **public services of Government** including Civil administration, health services and formal education provided by Government schools and colleges , Defense , Para-military and other government dept.

However, public services **will not include** Railways , post and telegraph , other commercial Departments, Public sector enterprises , banks and Insurance.

- ❖ Any service transaction b/w an **employer and employee** either as a service provider , recipient or vice versa.

Exemption

- Any **unprocessed food** article which is covered under the public distribution system should be exempt regardless of the outlet through which it is sold.
- **Education services** provided by non-governmental schools and colleges.

INTER-STATE TRANSACTIONS

Interstate transactions

- ❖ 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 utilize input IGST, Centre GST and State GST in order to discharge the output IGST.

Example on IGST

ILLUSTRATION:

Seller in DELHI sells goods of value 1000 to a Buyer in GUJRAT. On the inter-state invoice generated by seller, he will charge CGST = 10% & SGST = 10%

Input tax credit lying CGST = 50 & SGST = 70

SOLUTION

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

$$\text{So IGST charged} = 1000 \times 20\% = 200$$

$$\text{Output GST} = 200$$

$$\text{Less: Input CGST} = (50)$$

$$\text{Less: Input SGST} = (70)$$

$$\text{IGST payable in cash} = 80$$

EXPORTS

GST on Exports

- Exports would be ZERO rated.
- Full refund of taxes paid on
 - **inputs,**
 - **input services;&**
 - **capital Goods**would be available.

IMPORTS

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.

ADDITIONAL TAX

Additional Tax

Levy of an additional tax on

- ❑ supply of **goods**, in the course of inter-State trade or commerce
- ❑ to be collected by the Government of India for a period of **2 years**,
- ❑ given to the States from where the supply originates.

Tax cannot exceed 1% of total consideration.

Additional Tax

Supply of Goods – It will include stock transfers also.

No Input Tax Credit will be given.

“supply of goods Originates”

Parliament will formulate the principles for determining the place of origin from where “supply of goods Originates”

TATA steel, Jamshedpur - Supplies steel.

Gujarat - For making base of seats.

Haryana (Gurgaon) – Goes to Maruti factory, for being fitted in CAR.

CAR delivered all over Indian from Gurgaon.

GST COUNCIL

GST Council

GST Council shall make recommendations to the Union and the States on—

1. Principles of levy,
2. Apportionment of IGST;
3. Principles for place of supply rules;
4. Exempted goods and services;
5. Threshold limit of turnover.

GST Council

6. Special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand;
7. Recommend the date on which GST will be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.
8. Any other matter as the Council may decide.

Voting

- One-half of the total number of members shall constitute the quorum at its meetings.
- Every decision of the GST Council shall be taken with the majority of $\frac{3}{4}$ th of all the members present & voting.
 - Center government weightage $\frac{1}{3}$ rd
 - All state government put together $\frac{2}{3}$ rd

PROCEDURAL ASPECTS

Documents for payment of GST

- The payment tax through a combined payment and transaction reporting statement is to be made in **Form no. GST-1**.
- Form no. GST-1 would detail **all business to business transaction** relating to sales.
- Form no. GST-1 should be common for CGST and SGST and it should be mandatory to file this statement electronically on a **monthly** basis while making payments of taxes.

Assessment Agency

There is no clarity on this matter till date. On basis of my informal discussion, We have 3 options:-

Options	Central government	State government
1.	Independent assessments by both.	
2.	Have power to make assessments above certain limits.(e.g.. above turnover of 100 crores.)	Have power to make remaining assessments
3.	Assessments of those assessee who have multiple locations in different states, are made by central government.(e.g.. Reliance, Tata)	Have power to make remaining assessments

THANK YOU

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

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