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Introduction to GST

Basic information –

GST stands for Goods and Service Tax. GST is a destination based tax on consumption of goods and services. It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer.

It shall amalgamate large number of Central and State Taxes into a single tax. It would mitigate cascading or double taxation and shall make India as one common national market. It is expected that the burden of taxes on goods and services shall get reduced. Introduction of GST would also make Indian products competitive in the domestic and international markets.

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Under present system, tax gets accrued to the place of supplier. But, under GST, the tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

Duties and taxes that will be merged in GST

Central Govt taxes and duties to be merged in GST	**State Govt taxes and duties to be merged in GST**
a) Central Excise duty b) Duties of Excise (Medicinal and Toilet Preparations) c) Additional Duties of Excise (Goods of Special Importance) d) Additional Duties of Excise (Textiles and Textile Products) e) Additional Duties of Customs (commonly known as CVD) f) Special Additional Duty of Customs (SAD) g) Service Tax h) Cesses and surcharges insofar as far as they relate to supply of goods or services	i) State VAT j) Central Sales Tax k) Purchase Tax l) Luxury Tax m) Entry Tax (All forms) n) Entertainment Tax (not levied by the local bodies) o) Taxes on advertisements p) Taxes on lotteries, betting and gambling q) State cesses and surcharges insofar as far as they relate to supply of goods or services

Following duties and taxes are NOT included in GST –

- Central Excise duty on specified petroleum items & tobacco products (these may be included later)
- Basic Customs Duties
- Excise on Liquor
- Property Tax
- Tax on sale / consumption of electricity
- Stamp duties

Example of cascading effect of tax as per present taxation system which will get avoided in GST regime -

Present taxation system example -

Particulars	**Value**	**Tax**
Manufacturing of Goods	100,000	
Add – Excise Duty @ 12.5%	12,500	12,500
Ex-Factory Value	**112,500**	
Add – Vat @ 13.5% (On Rs. 112,500)	15,188	15,188
Taxable amount before Octroi	**127,688**	
Add- Octroi @ 5.5% (On Rs 127,688)	7,023	7,023
Total Amount in the hands of Customer	**134,711**	**34,711**

Percentage of tax to transaction value = 34,711/1,00,000 * 100 = 34.71% (Rs.34,711)
Aggregate of all taxes = 12.5% + 13.5% + 5.5% = 31.50% (Rs.31,500)
Cascading effect of tax i.e. tax on tax = 3.21% (Rs.3,211)

GST taxation system example –

Particulars	**Value**	**Tax**
Value for supply of Goods	100,000	
Add – CGST @ 14%	14,000	14,000
Add – SGST @ 14%	14,000	14,000
Total amount in the hands of customer	**128,000**	**28,000**

Note – above example assumes intra state transaction at highest rate of GST being 28%

Dual Structure–Dual Levy–Dual Control

It would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States/ Union territory would be called the State GST (SGST)/ UTGST. Similarly, Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

Centre will levy and administer CGST & IGST while respective states /UTs will levy and administer SGST/ UTGST .

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.

Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of CENVAT .

While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the State.

Under the GST regime, an Integrated GST (IGST) would be levied and collected by the Centre on inter-State supply of goods and services.

Classification of goods and services –

HSN (Harmonised System of Nomenclature) code shall be used for classifying the goods under the GST regime. Taxpayers whose turnover is above Rs. 1.5 crores but below Rs. 5 crores shall use 2-digit code and the taxpayers whose turnover is Rs. 5 crores and above shall use 4-digit code. Taxpayers whose turnover is below Rs. 1.5 crores are not required to mention HSN Code in their invoices.

Services will be classified as per the Services Accounting Code (SAC)

GST council –

A GST Council would be constituted comprising the Union Finance Minister (who will be the Chairman of the Council), the Minister of State (Revenue) and the State Finance/Taxation Ministers to make recommendations to the Union and the States on

(i) the taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed under GST;

(ii) the goods and services that may be subjected to or exempted from the GST;

(iii) the date on which the GST shall be levied on petroleum crude, high speed diesel, motor sprit (commonly known as petrol), natural gas and aviation turbine fuel;

(iv) model GST laws, principles of levy, apportionment of IGST and the principles that govern the place of supply;

(v) the threshold limit of turnover below which the goods and services may be exempted from GST;

(vi) the rates including floor rates with bands of GST;

(vii) any special rate or rates for a specified period to raise additional resources during any natural calamity or disaster;
(viii) special provision with respect to the North- East States, J&K, Himachal Pradesh and Uttarakhand; and
(ix) any other matter relating to the GST, as the Council may decide.

GSTN - Goods and Service Tax Network (GSTN).

It is a Special Purpose Vehicle called the GSTN has been set up to cater to the needs of GST . The GSTN shall provide a shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders for implementation of GST .

The functions of the GSTN would, inter alia, include:
(i) facilitating registration;
(ii) forwarding the returns to Central and State authorities;
(iii) computation and settlement of IGST;
(iv) matching of tax payment details with banking network;
(v) providing various MIS reports to the Central and the State Governments based on the tax payer return information;
(vi) providing analysis of tax payers' profile; and
(vii) running the matching engine for matching, reversal and reclaim of input tax credit.

The GSTN is developing a common GST portal and applications for registration, payment, return and MIS/ reports. The GSTN would also be integrating the common GST portal with the existing tax administration IT systems and would be building interfaces for tax payers.

Further, the GSTN is developing back-end modules like assessment, audit, refund, appeal etc. for 19 States and UTs (Model II States).

The CBEC and Model I States (15 States) are themselves developing their GST back-end systems. Integration of GST front-end system with back-end systems will have to be completed and tested well in advance for making the transition smooth.

Important FAQ's

What principles were adopted for subsuming the above taxes under GST?

Ans. The various Central, State and Local levies were examined to identify their possibility of being subsumed under GST . While identifying, the following principles were kept in mind: (i) Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services.
(ii) Taxes or levies to be subsumed should be part of the transaction chain which commences with import/ manufacture/ production of goods or provision of services at one end and the consumption of goods and services at the other.
(iii) The subsumation should result in free flow of tax credit in intra and inter-State levels. The taxes, levies and fees that are not specifically related to supply of goods & services should not be subsumed under GST .
(v) Revenue fairness for both the Union and the States individually would need to be attempted.

Which are the commodities proposed to be kept outside the purview of GST?

Ans. Article 366(12A) of the Constitution as amended by 101st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. So alcohol for human consumption is kept out of GST by way of definition of GST in constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out and GST Council shall decide the date from which they shall be included in GST. Furthermore, electricity has been kept out of GST.

What will be the status in respect of taxation of above commodities after introduction of GST?

Ans. The existing taxation system (VAT & Central Excise) will continue in respect of the above commodities.

What will be status of Tobacco and Tobacco products under the GST regime?

Ans. 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.

What type of GST is proposed to be implemented?

Ans. It would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States/ Union territory would be called the State GST (SGST)/ UTGST. Similarly, Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

How a particular transaction of goods and services would be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

Ans. The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of CENVAT . While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the State.

Illustration I: Suppose hypothetically that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for, say Rs. 100, the dealer would charge CGST of Rs. 10 and SGST of Rs. 10 in addition to the basic price of the goods. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not actually pay Rs. 20 (Rs. 10 + Rs. 10) in cash as he would be entitled to setoff this liability against the CGST or SGST paid on his purchases (say, inputs). But for paying CGST he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST . Nor can SGST credit be used for payment of CGST .

Illustration II: Suppose, again hypothetically, that the rate of CGST is 10% and that of SGST is 10%. When an advertising company located in Mumbai supplies advertising services to a company manufacturing soap also located within the State of Maharashtra for, let us say Rs. 100, the ad company would charge CGST of Rs. 10 as well as SGST of Rs. 10 to the basic value of the service. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not again actually pay Rs. 20 (Rs. 10+Rs. 10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his purchase (say, of inputs such as stationery, office equipment, services of an artist etc.). But for paying CGST he would be allowed to use only the credit of CGST paid on its purchase while for SGST he can utilise the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

Is there any provision in GST for tax treatment of goods returned by the recipient?

Ans. Yes, Section 34 deals with such situations. Where the goods supplied are returned by the recipient, the registered person (supplier of goods) may issue to the recipient a credit note containing the prescribed particulars. The details of the credit note shall be declared by the supplier in the returns for the month during which such credit note was issued but not later than September following the end of the year in which such supply was made or the date of filing of the relevant annual return, whichever is earlier. The details of the credit note shall be matched with the corresponding reduction in claim for input tax credit by the recipient in his valid return for the same tax period or any subsequent tax period and the claim for reduction in output tax liability by the supplier that matches with the corresponding reduction in claim for ITC by the recipient shall be finally accepted and communicated to both parties.

What is Anti-Profiteering measure?

Ans. As per section 171 of the CGST/SGST Act, any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way of commensurate reduction in prices. An authority may be constituted by the government to examine whether input tax credits availed by any registered person or the reduction in the tax rate have actually resulted in a commensurate reduction in the price of the goods or services or both supplied by him.