

An Introduction to GST



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GST in India



GOODS AND SERVICE TAX IS A FUTURISTIC TAX WITH THE GOAL OF MAKING INDIA A GLOBAL PARTICIPANT. INDIA HAS WITNESSED SUBSTANTIAL REFORMS IN INDIRECT TAXES OVER THE PAST TWO DECADES. THE GST IS ONE OF THE BIGGEST TAX REFORMS IN INDIA

Components of GST

- **CGST**

It would be levied by the Centre

- **SGST**

It would be levied by the States

Dual GST



- The Basic features of law such as
 - * Chargeability
 - * Definition of Taxable Events
 - * Taxable Person
 - * Measure of levy including valuation provisions
 - * Basis of classification etc.
would be uniform across the statutes as far as practicable

Taxes To be Subsumed

• Central Taxes

- Central Excise Duty
- Additional Excise Duties
- Excise Duty levied under Medicinal & Toiletries Preparation Act
- Service Tax
- Countervailing Duty(CVD)
- Special Additional Duty
- Surcharge
- Cess

• State Taxes

- Value Added Tax
- CST
- Entertainment Tax
- Luxury Tax
- Taxes on Lottery, Betting & Gambling
- State Cess and Surcharges
- Entry Tax not in lieu of Octroi

Taxes that may or may not be subsumed



- Purchase Tax
- Stamp Duty
- Vehicle Tax
- Electricity Duty
- Other Entry Tax and Octroi

Destination Basis



- GST will follow the destination principle ie. Impact of GST would fall on the person finally consuming the commodity. Also tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed.
- GST would be structured on the destination principle, as a result of this, tax will shift from production to consumption whereby imports will be liable to both CGST and SGST and export should be relieved from the burden of GST by zero rating. Consequently, revenue will accrue to the State in which the consumption takes place or deemed to take place

Rate Structure

(SGST as well as CGST of Goods should have two-rate structure)

- **Lower Rate**

- For necessary items and goods of basic importance

- **Standard Rate**

- For other goods in general

Revenue Neutral Rate (RNR)



- Since the GST is primarily intended as an exercise in reforming the consumption tax in India and not an exercise for additional resource mobilisation through discretionary changes, the CGST and SGST rates should be such rates which would yield the same revenue as collected from various taxes which will be subsumed in the CGST and SGST, that is, it should be RNR. That is to say the revenue to Government is same as it is earned prior to introduction of GST.
- Combined RNR ????

Reasons for Delay



- Turnover Threshold Limit
- Purchase Tax
- Compensation for Losses
- Single Rate Structure

Classification of Goods and Services



- GST should be applicable on all transactions of Goods and Services, however different rates for taxability of Goods and Services.
- A registered dealer will be required to collect taxes on every invoice irrespective of whether the supply is for goods or services. Therefore, no classification of goods and services should be provided for in law. This will eliminate all classification disputes.
- “Services” means anything other than goods.

Integrated GST (IGST)



- Under the IGST Model of GST taxation, Centre would levy IGST which would be CGST+SGST on all inter-State transactions of taxable 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.
- IGST apportioned between the Centre and States in the manner as may be prescribed by Parliament by law

Branch Transfers

- IGST would be applicable on every Branch Transfer/Consignment Sales across State
- Reduce Tax Evasion

Additional Tax



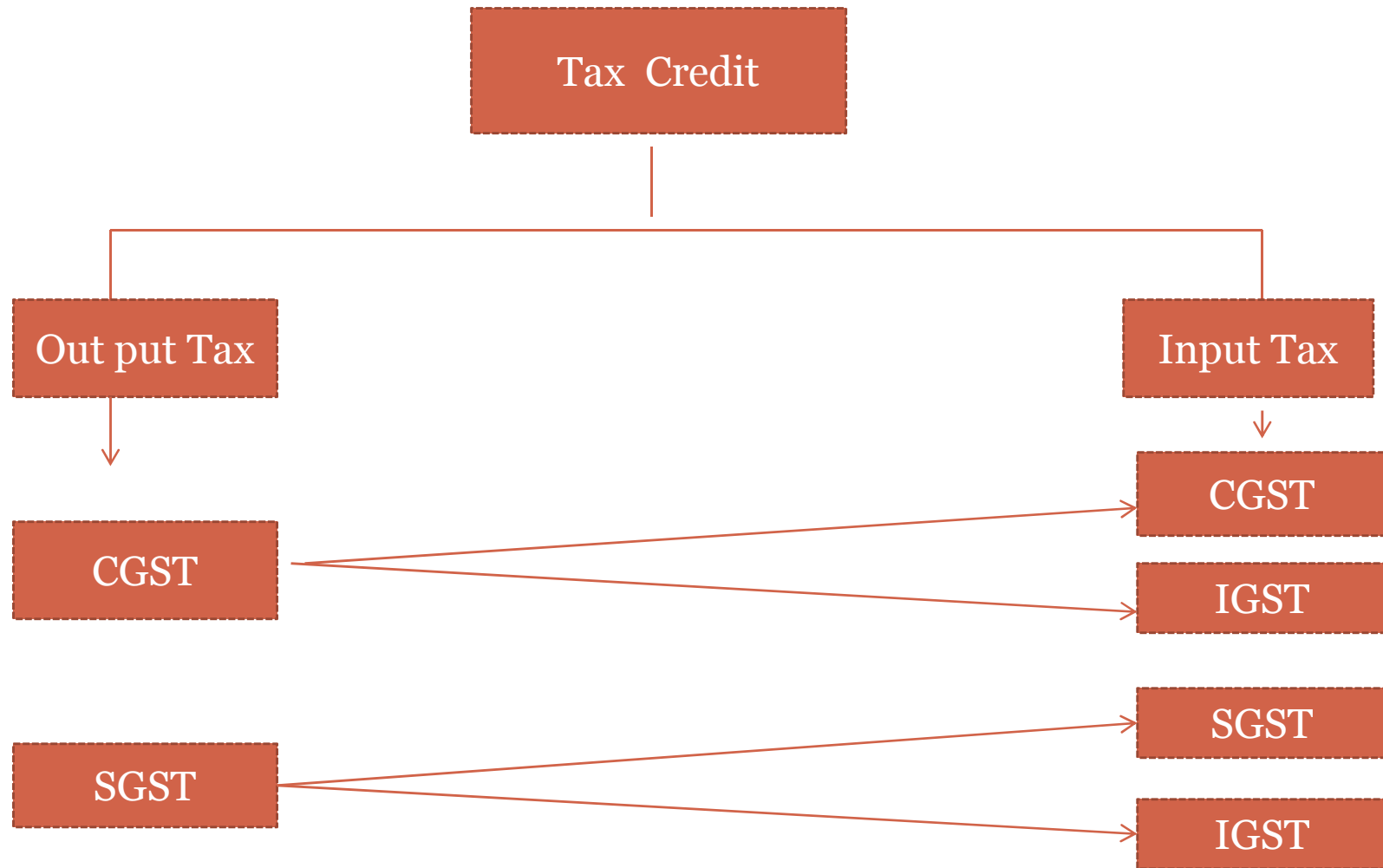
- Additional tax on supply of goods in the course of inter-State shall be levied not exceeding @1%
- Distributed among the States from where the supply originates.
- Additional tax on supply originates from Union Territories shall be form part of Consolidated Fund of India.
- Only for two years.
- No Input tax Credit on such additional tax

Tax Credit

- Taxes paid against SGST shall be allowed to be taken as input tax credit for the SGST and could be utilised only against the payment of SGST

- Taxes paid against CGST shall be allowed to be taken as input tax credit for the CGST and could be utilised only against the payment of CGST

Tax Credit



RATE OF IGST= RATE OF CSGT+RATE OF SGST



TAX CREDIT

OUTPUT TAX

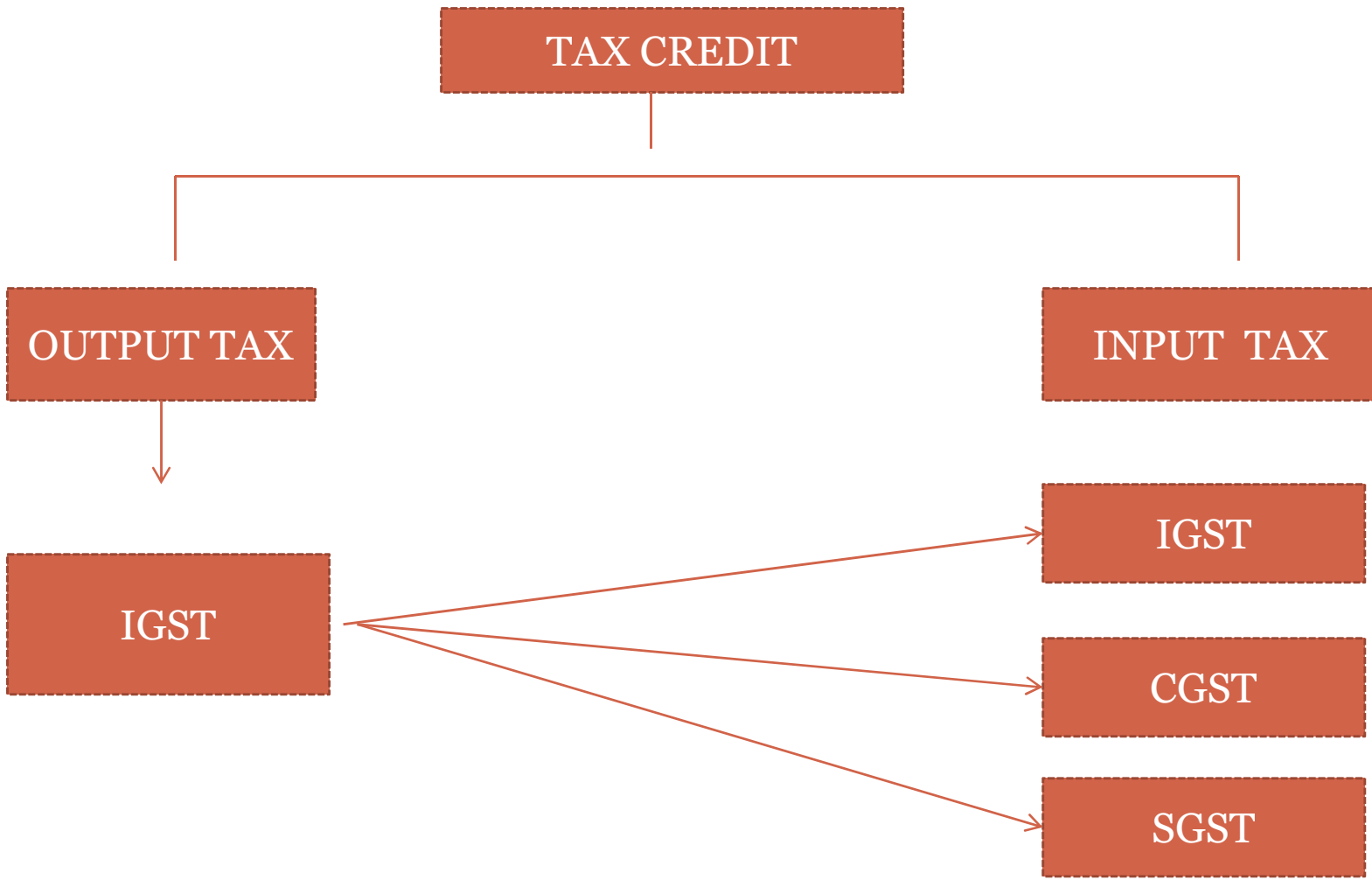
INPUT TAX

IGST

IGST

CGST

SGST



THRESHOLD



Turnover of Goods	Applicable Taxes
Below Rs. 10 Lacs	Neither SGST nor CGST
Between Rs.10 Lacs and Rs.150 Lacs	Only SGST
Above Rs.150 Lacs	Both SGST and CGST
Turnover of Services	Applicable Taxes
Below Rs.10 Lacs	Neither SGST nor CGST
Between Rs.10 Lacs and RS.____*	Only SGST
Above Rs.____*	Both SGST and CGST
*would be appropriately high may be at or around Rs.150 Lacs	

Threshold Limit(Inter-State)



- The threshold exemption should not apply to dealers and service providers who under take Inter-State Supplies.
- The GST Council recommends to the Union and the States on the threshold limit of turnover below which goods and services may be exempted from goods and service tax

IMPORT



- The incidence of tax will follow the destination principle.
- The tax revenue in case of SGST will accrue to the State where the imported goods and services consumed.
- Full and complete set-off will be available on the CGST and SGST paid on imported goods.

Import Taxes



- Even after introduction of GST following duties may not be subsumed under GST regime and they may continue to be levied as usual. These duties are:
 - **Basic Customs Duty**
 - **Anti-Dumping Duty**
 - **Safeguard Duty**

EXPORT



- GST would be structured on the destination principle, as a result, exports would be relieved of the burden of GST by Zero Rating.
- Zero Rating of exports means that when goods are exported, no VAT is charged on the goods.
- VAT paid on the inputs is also refunded.

EXPORT DUTY



- Even after introduction of GST, Export Duty under Customs Act, 1962 may not be subsumed and it will continue to be levied as usual.

EXEMPTIONS

Zero Rating Vs Exemption



ZERO RATING	EXEMPTION
Actual Benefit is given	Theoretical Benefit
Tax Relief at all levels	Tax Relief only at one level
Credit Chain Continues	Credit Chain Broken
No tax on value added at all	Tax on value added of a particular dealer is foregone/exempted

Area Based Exemption



- Numerous Area Based Exemptions (Uttaranchal, Himachal Pradesh etc)
- Under GST regime, Area Based Exemption is not expected to be continued.
- Provide Direct Investment Linked Cash Subsidy

FORMS



~~ER1 and 6~~

~~VAT FORM~~

~~CST FORM~~

~~ST3~~

GST 1

Registration



- The GST Registration Number would be a 12 Digit Alpha Numeric PAN Based Number

Global GST Rates



- **Highest GST Rate @25%**
(Denmark, Hungary, Norway, Sweden)
- **Lowest GST Rate @3%**
(Aruba, French Polynesia, Iran)

12 Benefits of GST



1. One Tax
2. Common Market
3. Distinction Between Goods and Services will go
4. Invoicing will be Simpler
5. No Entry Tax
6. Common Exemptions between Centre and State
7. Big Central Excise Tariff Will Go
8. Concept of Manufacture will go
9. Classification Controversies will go
10. Problem of Identification will go
11. Undue Enrichment Law will
12. Zero Rating will be more Comprehensive & More Easy

The End



Thank You

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