

# Legal Compliance Workshop

## Goods and Services Tax (GST)

Presented by  
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# Presentation Plan

- Why GST ?
- Cascading impact of tax and double taxation
- Trade barriers and Tax evasion
- Why Constitution Amendment ?
- Taxes Subsumed in GST
- Taxes not Subsumed
- Commodities kept outside GST
- GST Overview and Salient Features

# Why GST ?

- To Integrate and harmonize the tax structure and develop a common national market for goods and services - **One Nation One Tax**
- Remove tax barriers between States
- Remove cascading impact of taxes and avoid Double Taxation
- Comprehensive and continuous chain of set-off – **Input Tax Credit**
- Check on tax evasion and widening Tax base
- Rationalise exemptions
- Improve competitiveness of Domestic Industry
- Ease of doing Business

# Taxes Levied on Goods and Services before GST

Tax	On	By
Excise	Manufacture of Goods	Centre
Services	Services provided	Centre
VAT	Sale of Goods within State	States
CST	Inter-state sale of Goods	Levied by Centre, Collected by States
Purchase, Entry	Goods	States

# Trade Barrier

- Different tax rates for same item in States
- CST @ 2% on inter state trade
- CST on intermediate goods moving across states made manufacturing in India less competitive e.g.
  - Raw material from Maharashtra to Andhra 2% CST
  - Processed material from Andhra to TN 2% CST
- Stock transfers – incremental cost of logistics, warehousing and working capital

# Trade Barrier-2

Check post system at State borders Lead to:

- Corruption and Tax evasion
- Increased travel time and resultant costs
- Trucks in India drive 280 km per day as against 800 km per day in US
- 40% of travel time is spent on check points and official stoppages

*(Report on the Revenue Neutral Rate and Structure of Rates for the Goods and Services Tax (GST), December 2015)*

# Cascading Tax

- Two parallel streams of taxation
  - Centre – Excise, Service Tax, Custom duty
  - State - Value Addition Tax (VAT)
- CENVAT-Tax set off only against Excise and Service Tax up to manufacturing. Additional excise and surcharge excluded
- State VAT-No Tax Credit for Excise, Service tax
- No set off for 2% CST either in CENVAT or VAT
- Overall tax burden on goods was estimated at 27%-30%. Excise 12.5%, VAT 14.5%

# Cascading Tax Example

Rs.

	Base Cost	Value addition	Taxable Value	Tax
Cloth purchased 14% VAT	900	100	1000	140
Shirt manufactured 12% Excise	1140	560	1700	204
Whole seller 14% VAT	1904	196	2100	294
Consumer cost	2394			
Material + Value Addition		1756		
Total Taxes				638
Taxes as % of Value Addition	36.33%			



# Double Taxation

## Excise and Service Tax on

- Software
- Drawings and Designs
- Commissioning and installations

## VAT and Service Tax on

- AC Restaurants
- Catering
- Software
- Works contracts
- Right to use of movable goods

Definition of Manufacturing, Goods, Services  
Valuation basis – Production capacity, Transaction value, MRP

# Tax Evasion

Volume of Taxable and Non-Taxable  
Turnover as per -

Report on the Revenue Neutral Rate  
and Structure of Rates for the Goods  
and Services Tax (GST)

# Taxable and Non-Taxable Turnover

Amount in Crore Rs.

State	Taxable Turnover	Non-Taxable Turnover	Ratio of non-taxable to taxable turnover
Maharashtra	3,16,598	2,41,319	76%
Tamil Nadu	2,14,771	1,42,,321	66%
Kerala	2,93,151	44,683	15%
Karnataka	1,86,045	98,300	53%
Andhra Pradesh	60,669	1,60,910	265%
Gujarat	3,04,479	6,51,620	214%
<b>Total</b>	<b>13,75,713</b>	<b>13,39,154</b>	<b>97%</b>

# Why Constitutional Amendment?

- Centre has the powers to levy tax on:
  - Manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.)
  - Import of goods
  - Inter-State sales of goods (but the tax is collected and retained entirely by the States)
  - Services
- States have the powers to levy tax on the sale of goods
- Centre cannot impose any tax on goods beyond manufacturing (Excise) or primary import (Customs) stage, while states do not have the power to tax services and inter state sale

# Constitutional Provisions

## Article 245

- Parliament may make laws for the whole or any part of the territory of India
- Legislature of a State may make laws for the whole or any part of the State

## Article 246

- Parliament has exclusive power to make laws with respect to any of the matters enumerated in **List I “Union List”** in the **Seventh Schedule**
- 99 items including Defence, foreign affairs, banks, currency and coinage, union duties and taxes

# Seventh Schedule

- Legislature of any State has exclusive power to make laws for such State or any part thereof with respect to any of the matters enumerated in **List II - “State List”**.
- 61 items including public order and police, local government, public health, sanitation, agriculture, forest and fisheries, education, State taxes and duties
- Parliament and the Legislature of any State, have power to make laws with respect to any of the matters enumerated in **List III “Concurrent List”**

# Constitution 101<sup>st</sup> Amendment Act

- Deleted Article 268A that empowered Central Govt. to levy Tax on services
- Added Article 246A empowering Parliament and Legislature of every State to make laws with respect to goods and services tax, and
- Empowered Parliament to make laws with respect to supply of goods, or of services, or both in the course of inter-State trade or commerce (including import and export)
- [Amended List I and II](#) in Seventh Schedule

# Amendments in Union List

Entry	Before	After
84	Duties of excise on tobacco and other goods manufactured or produced in India except:(a) alcoholic liquors for human consumption. (b) opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.	Duties of excise on the following goods manufactured or produced in India, namely: (a) petroleum crude; (b) high speed diesel; (c) motor spirit (commonly known as petrol); (d) natural gas; (e) aviation turbine fuel; and (f) tobacco and tobacco products
92	Taxes on the sale or purchase of newspapers and on advertisements published therein	Deleted
92A	Taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce	Deleted
92B	Taxes on the consignment of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of inter-State trade or commerce	Deleted
92C	Taxes on services	Deleted



# Amendments in State List

Entry	Before	After
52	Taxes on the <b>entry of goods</b> into a local area for consumption, use or sale therein	<b>Deleted</b>
54	Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of entry 92A of List I	Taxes on the sale of petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas, aviation turbine fuel and alcoholic liquor for human consumption, but not including sale in the course of inter-State trade or commerce or sale in the course of international trade or commerce of such goods
55	Taxes on advertisements other than advertisements published in the newspapers and advertisements broadcast by radio or television	<b>Deleted</b>
62	Taxes on <b>luxuries</b> , including taxes on entertainments, amusements, <b>betting and gambling</b>	Taxes on entertainments and amusements to the extent levied and collected by a Panchayat or a Municipality or a Regional Council or a District Council

# Existing taxes to be subsumed in GST:

## *Taxes currently levied and collected by the Centre:*

- Central Excise duty
- Duties of Excise (Medicinal and Toilet Preparations)
- Additional Duties of Excise (Goods of Special Importance)
- Additional Duties of Excise (Textiles and Textile Products)
- Additional Duties of Customs (CVD)
- Special Additional Duty of Customs (SAD)
- Service Tax
- Central Surcharges and Cesses so far as they relate to supply of goods and services

# State Taxes to be subsumed

- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entry Tax (all forms)
- Entertainment Tax (except those levied by the Local Bodies)
- Taxes on advertisements
- Taxes on lotteries, betting and gambling
- State Surcharges and Cesses so far as they relate to supply of goods and services

# Taxes not Subsumed

## Central

- Basic Custom Duty
- Anti Dumping Duty
- Export Duty

## State

- Stamp Duty
- Electricity Duty
- Toll Tax
- Passenger Tax

# Commodities kept outside GST

- Alcohol for human consumption
- Petroleum Products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel (ATF)
- Existing taxation system of VAT and Central Excise will continue in respect of the above commodities
- **Tobacco and Tobacco products** are subject to GST and in addition, the Centre has power to levy Central Excise Duty and GST Cess

# GST Rates

- Cap on the Central and State GST rates at 20% each and 40% for IGST
- GST Council finalised a five-tier rate structure at Nil, 5%, 12%, 18%, and 28% for Goods and Services. Special rates 0.25% raw diamond and 3% Gold and Jewellery
- Nil rate for export and unpacked Food items
- 5% rate for items of mass consumption or 'Aam Aadmi' products.
- Standard GST rate of 12% and 18% will be levied on other items.
- Highest slab of 28% will be applicable for white /sin goods

# GST Compensation Cess

- GST Compensation Cess will be levied over and above GST (CGST and SGST/UGST) for which no Input Tax Credit will be available
- Pan Masala - 60%
- Aerated water - 12%
- Tobacco and its products - 61 to 204%
- Coal - Rs. 400 per ton
- Motor Vehicles - 1 to 15 %

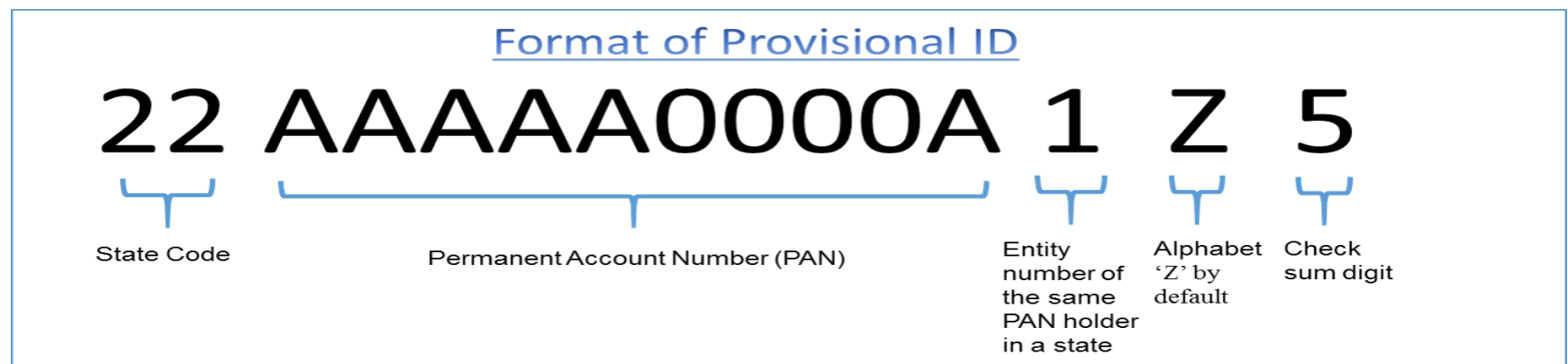
# Registration

- Every supplier shall be liable to be registered in the State from where he makes a taxable supply of goods and/or services if his aggregate turnover in a financial year exceeds threshold
- In case taxpayer supplies goods / services from business establishment in more than one States, he shall be required to be registered in each of the State.
- Person having multiple business verticals in a State may be allowed to obtain a separate registration for each business vertical.



# 15 Digit PAN based ID

- First 2 digits –State Code
- Next 10 digits –PAN
- 13th digit –Entity number of the same PAN holder in a state (ISD or Business Vertical)
- 14th digit –Alphabet ‘Z’ by default
- 15th digit –Check sum digit



# Threshold for Exemption

- Taxpayers with an aggregate annual turnover Rs. 10 lakh in 11 small hill States and Rs. 20 lakh in other States, would be exempt from GST.
- Small States - Assam, Arunanchal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Sikkim, Uttrakhand, Himachal Pradesh, Jammu & Kashmir

# Aggregate turnover?

Aggregate turnover includes the value of:

- all taxable and non-taxable supplies,
- exempt supplies, and
- exports of goods and/or service
- **of all persons having the same PAN,**
- to be computed on all India basis
- excludes:
  - taxes charged under CGST, SGST/UGST and IGST Acts
  - value of supplies on which tax is levied on reverse charge basis, and
  - value of inward supplies

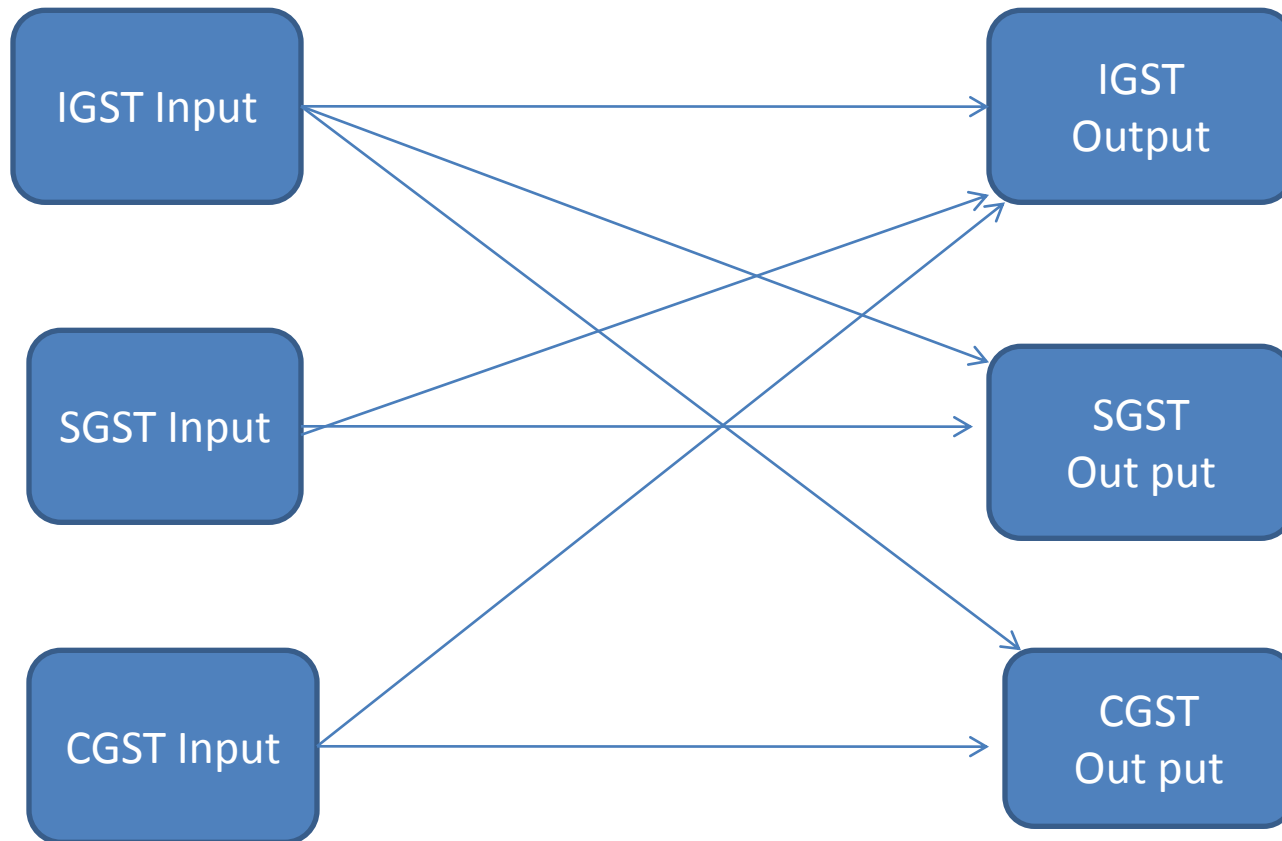
# Composition Scheme

- A registered taxable person, with aggregate turnover up to Rs.75 lakh in a financial year, may opt to pay a composition tax.
- Composition Tax Rate for:
  - Trader 1%
  - Manufacturer 2%
  - Restaurant 5%
- Conditions – No Tax invoice, No Input Tax Credit

# How Input Tax Credit can be utilized?

- Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST paid on inputs may be used only for paying SGST. The two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-State supplies for payment of IGST.
- The permitted combinations are:
  - IGST shall first be utilized towards payment of IGST, CGST and SGST, in that order
  - CGST shall first be utilized towards payment of CGST and then IGST
  - SGST shall first be utilized towards payment of SGST and then IGST
  - Cross-utilization of CGST and SGST credit is not allowed

# Flow of Input Tax Credit



**ITC of SGST is not available for CGST and vice-versa**

# Input Tax Credit under GST

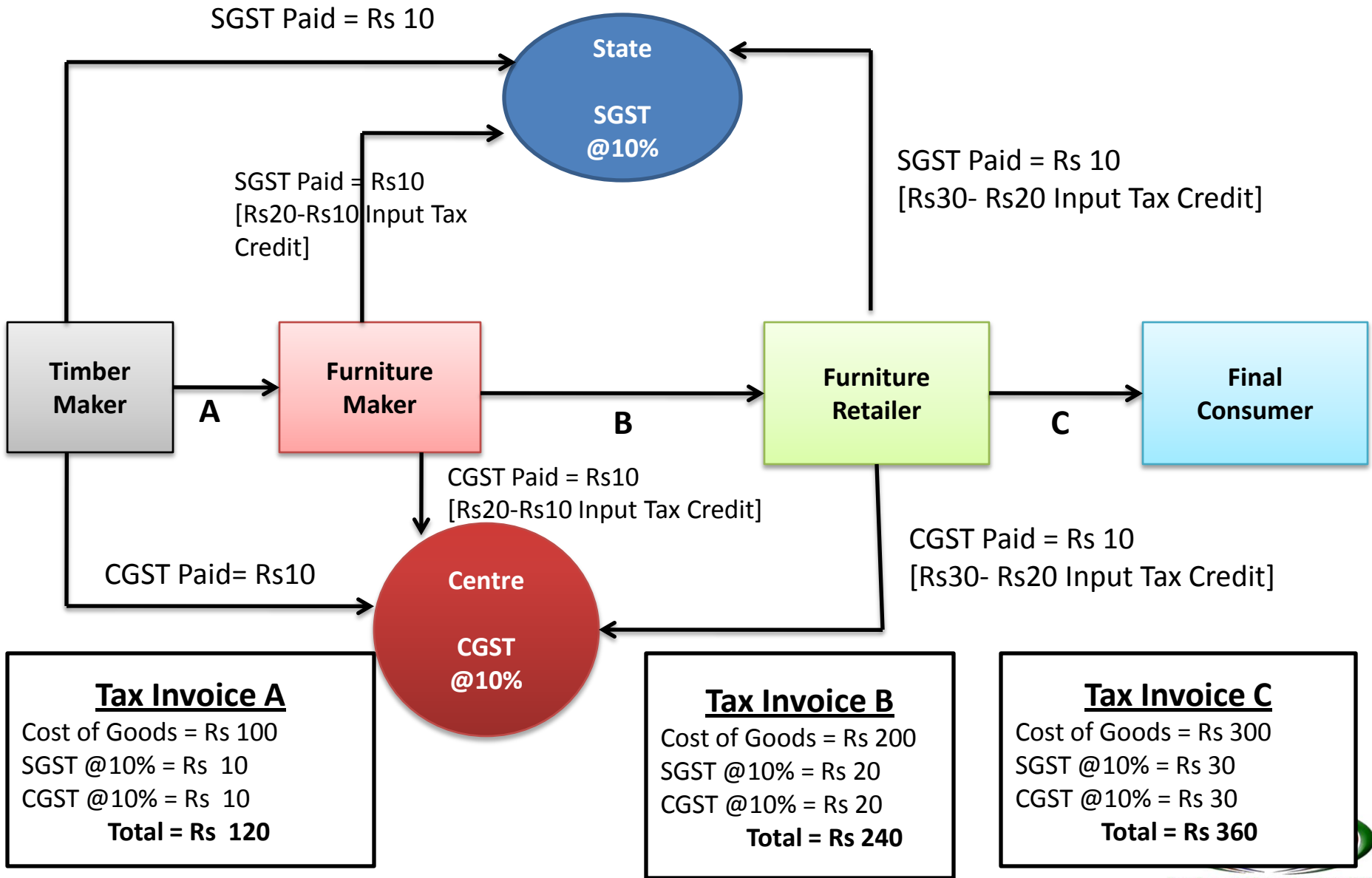
Sr.	Activity	Tax Type	Base Cost	Value Addition	Taxable Value	Amount in Rs.		Invoice Value	Tax Credit	Net Tax Payable
						Tax %	Tax			
1	Yarn Manufacture by A	No	700.0	300	1000.0		0.0	1000.0		
2	Yarn Sale by A	GST	1000.0		1000.0	5	50.0	1050.0	0.0	50.0
3	Cloth Manufacture by B	No	1000.0	500	1500.0		0.0	1500.0		
4	Sale Inter State by B to C	GST	1500.0		1500.0	12	180.0	1680.0	50.0	130.0
5	Shirt Manufacture by C	No	1500.0	500	2000.0		0.0	2000.0		
6	Sale Inter State by C to D	GST	2000.0		2000.0	18	360.0	2360.0	180.0	180.0
7	Sale by D to E	GST	2000.0	100	2100.0	18	378.0	2478.0	360.0	18.0
8	Sale by E to F	GST	2100.0	200	2300.0	18	414.0	2714.0	378.0	36.0
	<b>Total</b>		<b>700.0</b>	<b>1600</b>	<b>2300.0</b>		<b>1382.0</b>	<b>2714.0</b>	<b>968.0</b>	<b>414.0</b>
	<b>Net Tax as % of all Inputs</b>									<b>18.00</b>

# Cascading Impact of Taxes before GST

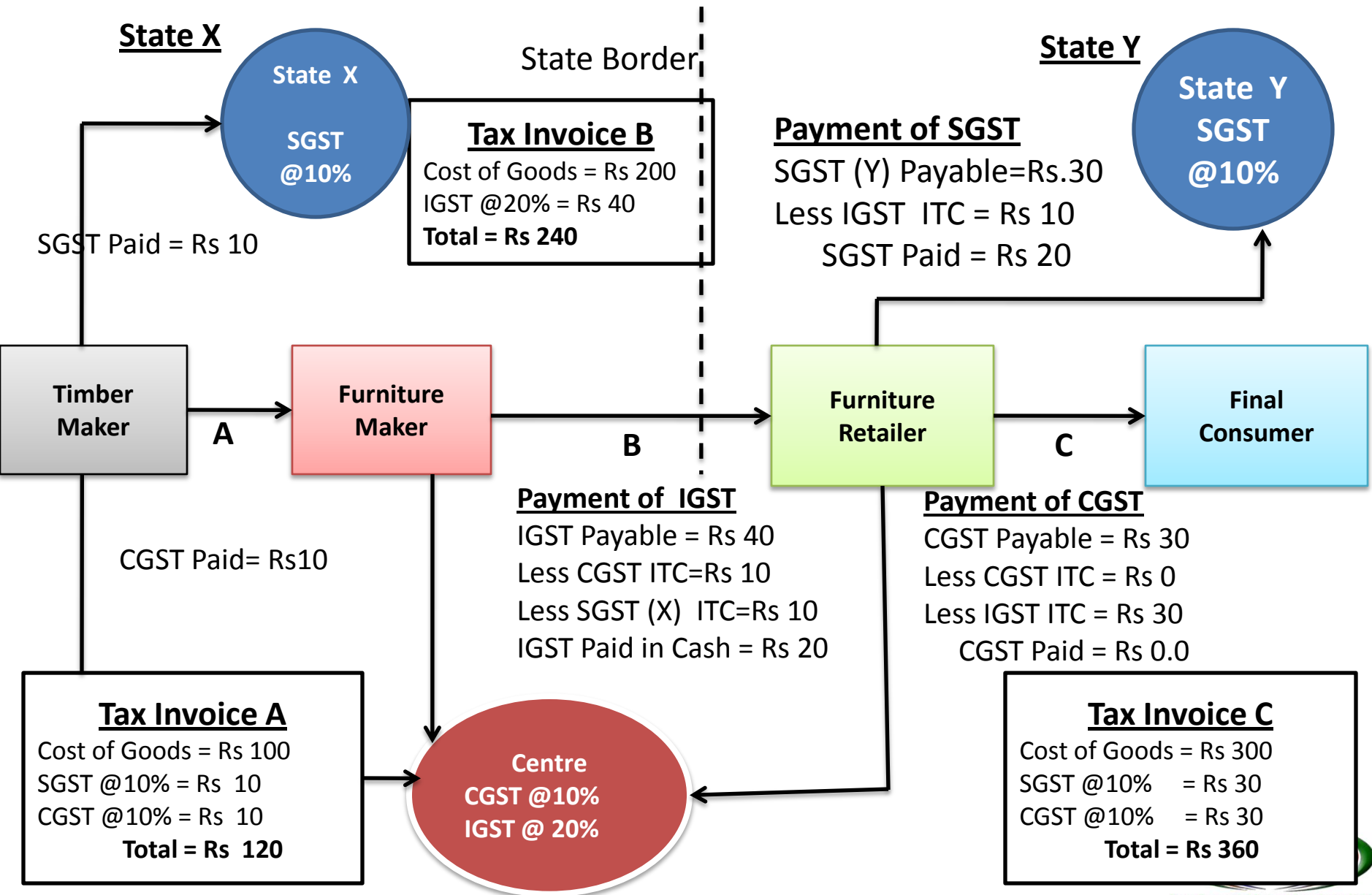
							<i>Amount in Rs.</i>				
Sr.	Activity	Tax Type	Base Cost	Value Added	Taxable Value	Tax %	Tax	Invoice Value	CEN VAT	VAT Credit	Net Tax Payable
1	Yarn Manufacture by A	Excise	700.0	300	1000.0	12.5	125.0	1125.0			125.0
2	Yarn Sale by A to B	VAT	1125.0		1125.0	14	157.5	1282.5			157.5
3	Cloth Manufacture by B	Excise	1282.5	500	1782.5	12.5	222.8	2005.3	125.0		97.8
4	Sale Inter State by B to C	CST	2005.3		2005.3	2	40.1	2045.4			40.1
5	Shirt Manufacture by C	Excise	2045.4	500	2545.4	12.5	318.2	2863.6	222.8		95.4
6	Sale Inter State by C to D	CST	2863.6		2863.6	2	57.3	2920.9			57.3
7	Sale by D to E	VAT	2920.9	100	3020.9	14	422.9	3443.8			422.9
8	Sale by E to F	VAT	3020.9	200	3220.9	14	450.9	3671.8		422.9	28.0
	<b>Total</b>		<b>700.0</b>	<b>1600</b>	<b>2300.0</b>		<b>1794.7</b>	<b>3746.9</b>	<b>347.8</b>	<b>422.9</b>	<b>1024.0</b>
	<b>Net Tax as % of all Inputs</b>			<b>2300</b>							<b>44.52</b>
	Input Tax Credit Lost								<b>573.1</b>		



# GST – Intra (within) State



# GST – Inter (Outside) State (IGST)



# GST - Overview

- GST is a **Destination based tax** on consumption of goods and services as compared to the earlier principle of **origin based** taxation.
- GST is applicable on “supply” of goods or services as compared to the earlier concept of tax on the **manufacture** of goods or on **sale** of goods or on provision of **services**
- Levied at all stages right from manufacturing to final consumption but only **value addition** is taxed

# GST Overview-2

- Credit of taxes paid at previous stages available as setoff
- Burden of tax is to be borne by the final consumer
- Tax Credit to the State of final consumption
- It is dual GST in India, with the Centre and the States simultaneously levying it on a common base.
- Exports taxed at zero-rate for Input Tax Credit

# GST Overview -3

- Harmonized laws, regulations and procedures for levy and collection of tax by Centre and States
- CGST, SGST/UGST and IGST levied at rates mutually agreed upon by the Centre and the States under the aegis of the GST Council (GSTC)
- Import of goods or services is treated as inter-State supplies and is subject to IGST in addition to the applicable customs duties

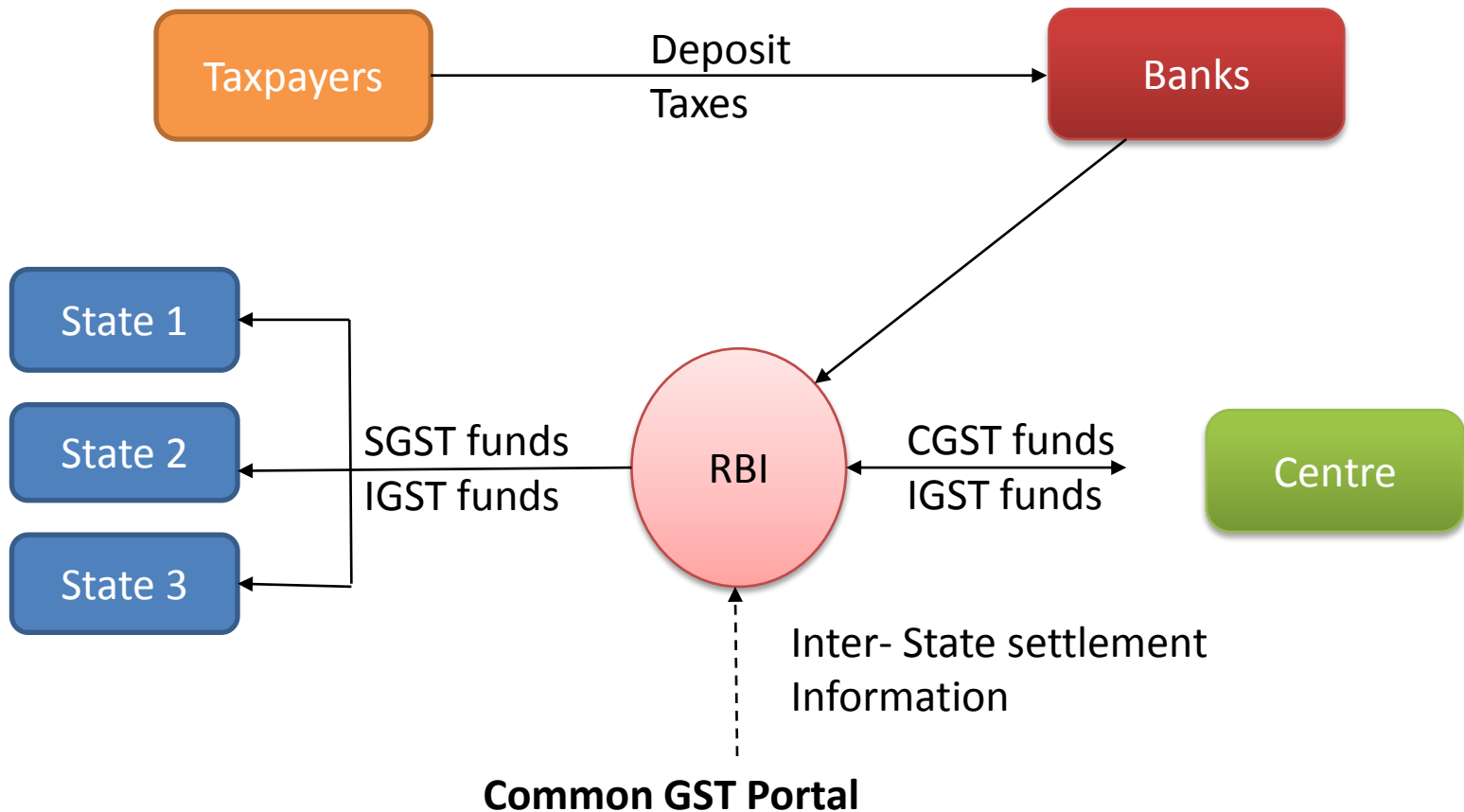
# Inter and Intra State Supply

- Inter-State supply of goods and/or services refers to those transactions where the location of the supplier and the place of supply are in different States
- Intra-State supply of goods and/or services refers to those transactions where the location of the supplier and the place of supply are in the same State.
- States empowered to tax any economic activity in territorial waters up to 12 nautical miles, though it is Union Government's territory

# CGST, SGST and IGST

- GST to be levied by the Centre is called Central GST (**CGST**)
- GST to be levied by the States is called State GST (**SGST**) and **UTGST** by Union Territories.
- Integrated GST (**IGST**) is levied and collected by the Centre on inter-State supply (including stock transfers) of goods or services, so that the credit chain is not disrupted and there is smooth flow of tax credit from one State to another.
- IGST is equivalent to the sum of CGST and SGST

# Funds flow from Taxpayer to States and Centre





जय हिन्द

Jai Hind

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