



GOODS AND SERVICES TAX IN INDIA

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ROAD MAP OF GST



Proud To Be Indian

Executive summary

PRE-GST INDIRECT TAX STRUCTURE IN INDIA

TAX CREDIT UNDER PRE-GST TAX SYSTEM

- Taxes on goods
- Taxes on services

WHY WE NEED GST

LAWS TO IMPLEMENT GST

OVERVIEW OF GST IN INDIA

BASIS OF CHARGE

- WHAT IS TO BE TAXED
- WHO IS TO BE TAXED
- WHEN IS TO BE TAXED
- VALUE OF SUPPLY
- RATES OF TAX
- REVERSE CHARGE
- TAX CREDIT UTILIZATION
- GST WORKING
- GST WORKING VS. PRE GST WORKING

PRE-GST INDIRECT TAX STRUCTURE IN INDIA



Prior to introduction of Goods and Services Tax in India, goods were taxed differently and services were taxed differently.

The basis of taxing goods varied from manufacture to sale including Right to use goods.

Services were taxed on basis of provision thereof and on reverse charge.

Multiple taxes were levied on goods and services by the Central government and State governments.



Taxes on Goods

Central government and state governments levied taxes on goods.

Taxes on Services

Central government levied tax on services.

TAX CREDIT UNDER PRE-GST TAX SYSTEM

Tax credit of taxes levied on goods

Input tax credit of VAT paid on local purchases within a state was allowed against tax payable on local VAT sales .

Tax credit of services levied on goods

Cenvat credit was permitted within services.

No cross credit of tax on goods with services

Except the cross credit of excise duty with service tax and vice versa, cross utilization of credit of goods to services and vice-versa was not permitted.

TAXES ON GOODS

| <i>Tax/duty</i> | <i>Nature of tax</i> | <i>Basis of charge</i> |
|---|----------------------|---|
| Taxes levied by Central government on goods | | |
| Excise duty | Central Tax | Charged on removal of manufactured goods, includes Additional Duties and (CVD). |
| Central sales tax | Central Tax | Sale in the course of interstate trade or commerce. |
| Taxes levied by State government(s) on goods | | |
| Value Added Tax | State tax | Sale of goods within a state. |
| Entry tax | State tax | Entry of goods in specified areas. |
| Purchase tax | State tax | Purchase of goods from persons not liable to tax. |
| Cess & surcharge | State tax | State cesses and surcharges relating to goods and services. |

TAXES ON SERVICES



TAXES ON SERVICES

| <i>Tax/duty</i> | <i>Nature of tax</i> | <i>Basis of charge</i> |
|--|----------------------|--|
| Taxes levied by Central government on Services | | |
| Service tax | Central Tax | Provision of service. |
| Taxes levied by State government(s) on Services | | |
| Luxury tax | State tax | Services in hotel etc. |
| Tax on advertisement | State tax | Levied on Advertisement. |
| Taxes on lotteries, gambling & betting activities | State tax | On lottery, gambling and betting activities. |



Limitations of Pre-GST Indirect Tax structure

Diverse tax laws

Restricted tax credit

Cascading effect

Multiple taxes

Restriction on States to tax services

Undue litigation

Complex administrative set-up

Why we need GST

To rationalize and simplify indirect tax structure

To elimination of cascading tax effect

To ensure seamless tax credit through out supply To ensure uniform tax rates through out country

To treat and tax Goods and services alike

To unify multiple central and state government taxes on goods and services into one tax

To ensure better tax compliance

Golden hand shake between the Government & all stakeholders

Goods and Services Tax in India is a golden hand shake between the Central Government and the State Government (including Union Territories) wherein both have agreed to subsume number of taxes levied on goods or services and levy in place a unified tax i.e. Goods and Services Tax (GST).

Taxes subsumed in GST

| <i>Central taxes to be subsumed</i> | <i>State taxes to be subsumed</i> |
|---|---|
| Central Excise Duty | State VAT |
| Duties of Excise (Medicinal and Toilet Preparations) | Entertainment and Amusement Tax (except levied by local bodies) |
| Additional Duties of Excise (Goods of Special Importance) | Entry tax (all forms) |
| Additional Duties of Excise (Textile and Textile Products) | Purchase tax |
| Additional Duties of Custom (CVD) | Luxury tax |
| Special Additional Duty of Customs (SAD) | Taxes on lottery, betting and gambling |
| Service Tax | Taxes on advertisements |
| Central Sales Tax | - |

Laws to implements GST in India

The Government of India implements Goods and Services Tax by four Laws:

(i) Central Goods and Services Tax Bill, 2017

(ii) The Union Territory Goods And Services Tax Bill, 2017

(iv) The Integrated Goods And Services Tax Bill, 2017

(iv) State Goods And Services Tax Bill, 2017 [Yet to be passed by all state legislatures]

OVERVIEW OF GST IN INDIA

Dual GST with powers of concurrent levy & dual administration

Both Central government, state governments and Union territories shall have concurrent powers to administer the Goods and Services Tax in India. CGST and IGST shall be administered by the Central Government. UTGST shall also be administered by the Central government through the administrator. The SGST shall be administered by state government(s).

Basis of charge of tax

Central government and the State governments shall simultaneously levy GST on a common base i.e. supply.

The Central Government shall have the jurisdiction to levy:

Central Tax- On every intrastate supply of goods or services or both.

Integrated Tax - On every interstate supply of goods or services or both.

The Union Territories shall have the jurisdiction to levy:

Union Territory Tax -On every intrastate supply of goods or services or both.

The State Government(s) shall have the jurisdiction to levy:

State Tax - On every intrastate supply of goods or services or both.

WHAT IS TO BE TAXED

Goods and Services tax shall be levied on (i) Goods; or (ii) services; or (iii) goods and services both, i.e. a mix of goods and services.

Goods

Goods means every kind of movable property other than money and securities but includes actionable claims, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under the contract of supply.

Services

Services mean anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.

WHO IS TO BE TAXED

Taxable person is liable to pay Goods and Services Tax.

Taxable person

Taxable person means a person who is registered or liable to be registered under section 22 or section 24.

Taxable person is:

(i) a person;

(ii) The person is registered or liable to be registered under section 22 or section 24 of CGST Act, 2017.

WHEN IS TO BE TAXED?

GST shall be levied on supply of goods or services or both.

Supply has been classified in two categories:

- (i) Intra-state supply of goods or services or both
- (ii) Inter-state supply of goods or services or both

The jurisdiction to levy tax under different GST laws on basis of supply:

CGST/UTGST/SGST- On every Intra-state supply of goods or services or both

IGST- On every Inter-state supply of goods or services or both

Value of supply

Value of supply is transaction value i.e. the price actually paid or payable provided supplier and recipient are not related and price is the sole consideration.

Value of supply to include:

any taxes, duties, cess, fee or charges other than levied under GST Laws, incidental expenses, interest or late fee.

Value of supply not to include: Discount

Rates of tax

| <i>Goods and/ or services</i> | <i>Schedule</i> | <i>Rate of Tax</i> |
|--------------------------------------|------------------------|---------------------------|
| Essential goods | | Exempt |
| | | 5% |
| | | 12% |
| Services | | *18% |
| | | 28% |
| Zero rated supplies | | 0% Nil rate |

Reverse charge

‘Reverse charge’ means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both under sub-section (3) or sub-section (4) of section 9 or sub-section (4) or sub-section (5) of section 5 of the Integrated Goods and Services Tax Act.

In case of the goods or services liable to reverse charge, tax shall be paid by the recipient of goods or services or both.

Summary of tax credit utilization

| <i>Tax credit</i> | <i>Utilization permitted for liability</i> |
|-------------------|--|
| CGST | CGST IGST |
| SGST | SGST IGST |
| IGST | IGST CGST SGST |

GST Working

| | Manufacturer | Distributor | Wholesaler | Retailer | Total | Consumer |
|--------------------------|--------------|-------------|------------|----------|-------|----------|
| Purchase value of inputs | 100 | 120 | 150 | 160 | - | 165 |
| Supply value | 120 | 150 | 160 | 165 | - | - |
| Value addition | 20 | 30 | 10 | 5 | 65 | - |
| *GST Rate 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| GST Payable (Output tax) | 24 | 30 | 32 | 33 | 119 | **33 |
| Input tax credit | 20 | 24 | 30 | 32 | 106 | - |
| Net GST (Payable) | 4 | 6 | 2 | 1 | 13 | ***33 |

* GST working...contd

Notes:

*Assumed CGST@10% & SGST @ 10%)

** GST borne by the customer is Rs.33/- i.e. 20% on Rs.165 the price at which goods are sold to the customer.

*** Equals to GST borne by all (from manufacturer to retailer) in supply chain from manufacturer to retailer. Manufacturer bears Rs. 4/-, Distributor Rs. 6/-, Wholesaler Rs. 2/-and the Retailer Rs. 1/- and the total GST in supply chain comes to Rs.13/- (4+6+2+1) which is also equal to GST @ 20% on total value addition during the supply chain Rs. 65/-(165-100) i.e. Rs.13/- as stated above.

Each person in supply chain bears GST on his value addition, the customer shall bear GST borne by each person in supply chain i.e. Rs. 13/- plus the initial input tax credit availed by the first person in chain i.e. manufacturer Rs. 20/-. Therefore, total GST incidence on customer shall be Rs.33 (Rs. 13+ Rs. 20) = Rs. 33/-. In other words customer shall bear GST charged by the last supplier i.e. the retailer Rs.33/-.

* GST working...contd

Assumptions:

- * Cost of production of manufacturer Rs. 1,00,000/-
- * VAT/GST paid by manufacturer on inputs Rs. 5,950/-
- * Excise Duty 16%
- * VAT 12.5%
- * CST 2%
- * Profit margin 10% before tax by manufacturer, 8% before tax by distributor, 5% before tax by whole seller and 3% before tax by retailer.
- * Rates of Central GST 12% and State GST 8%.

Supply chain and tax under VAT

| S.No. | Particulars | Manufacturer | Distributor | Wholesaler | Retailer |
|-------|--|--------------|-------------|------------|----------|
| 1. | Cost of production / Purchase price | 1,00,000 | 1,37,600 | 1,51,234 | 1,60,070 |
| 2. | Profit margin | 10,000 | 11,008 | 7,562 | 4,801 |
| 3. | Price before taxes (1+2) | 1,10,000 | 1,48,608 | 1,58,796 | 1,64,871 |
| 4. | Central Excise Duty @16% | 17,600 | NIL | NIL | NIL |
| 5. | VAT 12.5% on (3+4) | 15,950 | 18,576 | 19,850 | 20,609 |
| 6. | Input tax credit | 5,950 | 15,950 | 18,576 | 19,850 |
| 7. | Net VAT (5 minus 6) | 10,000 | 2,626 | 1,274 | 759 |
| 8. | Sale price (3+4+7) | 1,37,600 | 1,51,234 | 1,60,070 | 1,65,630 |
| | Price to customer | - | - | - | 1,65,630 |

Supply chain and tax under GST

| | | Manufacturer | Distributor | Wholesaler | Retailer |
|-----|--|--------------|-------------|------------|----------|
| 1. | Cost of production / Purchase price | 1,00,000 | 1,26,050 | 1,41,360 | 1,50,887 |
| 2. | Profit margin | 10,000 | 10,084 | 7,068 | 4,527 |
| 3. | Price before taxes (1+2) | 1,10,000 | 1,36,134 | 1,48,428 | 1,55,414 |
| 4. | Central GST @ 12% | 13,200 | 16,336 | 17,811 | 18,650 |
| 5. | State GST @8% | 8,800 | 10,890 | 11,874 | 12,433 |
| 6. | Total GST (4+5) | 22,000 | 27, 226 | 82,685 | 31083 |
| 7. | Input tax credit GST | 5,950 | 22,000 | 27,226 | 29,685 |
| 8. | Net GST (6-7) | 16,050 | 5,226 | 2,459 | 1,398 |
| 9. | Sale price (3+7) | 1,26,050 | 1,41,360 | 1,50,887 | 1,56,812 |
| 10. | Price to customer | - | - | - | 1,56,812 |

GST LEADS TO WIN-WIN SITUATION

- * VAT regime the ultimate price charged from customer is Rs. 1,65,630/- whereas under the GST regime the price to be charged from customer shall be Rs. 1,56,812/- resulting in a saving of Rs. 8,818/- to the customer.
- * Total net VAT collection is Rs. 14,659/- (10,000 + 2,626 + 1,274 + 759) whereas the net GST collection shall be Rs. 25,133/- (16,050 + 5,226 + 2,459 + 1,398).
- * Under GST regime both consumers as well as the Government(s) gain. GST as compared to VAT therefore offers a win-win situation to all stake holders. And this is the justification for migrating to GST.

GST - an indispensable law

Why we need to know GST?

- GST shall replace several indirect taxes.
- It shall be levied on supply all goods or services or both.
- Almost all things in world are either goods or services or mix of two.
- GST transition itself is very important for existing business, trade and Industry in terms of correct claim of input tax credit.
- GST levy and collection provisions are deep and complex.
- GST compliance is also complex. Several returns are to be compiled.
- Existing stock and record requirement need to be aligned to maximize input tax credit.

GST - an indispensable law

- The penalties for default and non-compliance of GST laws are high and deter to learn and comply with.
- Prosecution may also be initiated for grave defaults.

So the cost of ignorance and non-compliance is higher than cost of compliance.

So Decide to:

- (i) Get to know GST;
- (ii) Learn GST; and
- (iii) Maximize Compliance

GST - an indispensable law

Thank You

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