GST: Perception in a Lucid Manner

Introduction:

We had been desperately waiting for GST i.e. Goods & Service Tax & finally the government has released the first discussion paper on GST. The purpose of implementing GST is to have a uniform indirect tax structure in India. Today there is Excise on manufacturing, VAT on trading of goods & service tax on providing services. GST is a combination of all the tax kind. It is a single tax for all activities i.e. manufacturing, trading & services.

Government has finally released a discussion paper on GST & it should be kept very clear in mind that this is not the final law. This is just a draft which has been kept open to public for their understanding & for getting suggestions on the draft.

Model of GST:

There would be a dual model on GST. To be precise GST would be divided into 2 parts: Central Goods & Service Tax (CGST) & State Goods & Service Tax (SGST). From the title it's quite clear that the Central government shall be empowered to collect CGST while the state government shall be empowered to collect SGST.

Constitutional Background:

Under the prevailing constitution of India the Central government is empowered to collect tax on services, on goods up to the stage of production & on import of goods & services i.e. the central government has the power to collect Service Tax, excise & customs. While the state is empowered to collect tax on trading of goods i.e. VAT, sales tax etc.

Hence for implementation of GST an amendment to the constitution shall be required so as to enable the central & the state government with the powers to collect GST. For this there shall be multiple statues (one for CGST and SGST statute for every State)

Why such a dual model is required?

The central & state governments have been assigned with distinct responsibilities like development, literacy, education etc. and for performing such responsibilities both will be given distinct powers to raise revenue (i.e. tax) through appropriate legislations.

Hence to keep a uniformity of indirect tax laws & to raise revenue such a dual structure is essential.

Exemption Limit:

Basic exemption limit under SGST would be Rs. 10,00,000 for both goods & service while the under CGST would be Rs. 1.5 crores for goods & appropriately high for services. The limit for services under CGST has not been suggested as yet. Hence the same will be provided when the legislation gets enacted.

Rates of Tax:

Goods: there will be 3 rates as specified below:

a. Lower rate for necessary goods.
b. Standard rate for other goods.
c. Higher rates for precious metals

- For goods there may be a dual rate structure for goods, however for services there would be a single rate under CGST & SGST.
- Exports would be zero rated as is currently under excise & service tax.
- GST shall be levied on import of goods & services & 100% set off such GST paid shall be allowed.

What would be the components of CGST & SGST?

There are other indirect taxes prevailing at Central, State & local level. Such indirect taxes shall be subsumed (i.e. absorbed or included) under CGST & SGST respectively as the case may be. However it is very important to note that the taxes so subsumed should be taxes on supply of goods or on the supply of service or it should be forming part of the transaction chain.

- Following central taxes shall be subsumed under CGST:

a. Central Excise Duty
b. Additional Excise Duties
c. The Excise Duty levied under the Medicinal and Toiletries Preparation Act
d. Service Tax
e. Additional Customs Duty, commonly known as Countervailing Duty (CVD)
f. Special Additional Duty of Customs - 4% (SAD)
g. Surcharges
h. Cesses.

- Following state taxes shall be subsumed under SGST:

a. VAT / Sales tax
b. Entertainment tax (unless it is levied by the local bodies).
c. Luxury tax
d. Taxes on lottery, betting and gambling.
e. State Cesses and Surcharges in so far as they relate to supply of goods and services.
f. Entry tax not in lieu of Octroi.

GST on interstate transactions:

For inter-state transaction on goods & service an innovative model called Integrated Goods & Service Tax (IGST) shall be applied which shall be governed by Central. One can say this is the 3rd tax after CGST & SGST.

Input Credit:

As CGST & SGST are 2 different tax structure the input credit arising from the same cannot be used inter-alia i.e. input credit of SGST can be set off only against SGST liability. The same is the case for CGST. However the input credit of IGST paid can be set off against IGST, CGST & SGST.

Miscellaneous:

- Returns would have to be filed to both SGST & CGST authorities.
- A PAN linked taxpayer identification number would be provide which would be of 13/15 digits.