

Goods and Service Tax- An Analysis

On November 10, 2009 in a landmark development towards indirect tax reform, the empowered committee (EC) released the “First Discussion Paper on GST”. The EC has sought comments from trade and industry on the propositions laid down therein.

The highlights of Discussion Paper on Proposed GST along with there analyses are as follows:

Highlights and Analysis of First Discussion Paper on Proposed GST

GST will redistribute the burden of taxation equitably between manufacturing and services, bringing about a qualitative change in the tax system. It will broaden the tax base and lower tax rates. The distortions will be reduced fostering a common market across the country. The compliance cost will come down and trade & industry will become competitive leading to an increase in exports and lower prices for domestic consumers.

PROPOSED GST MODEL

GST will have two components:

- **Levied by the Centre (Central GST) :**
 - Will be implemented through one statute for Central GST.
 - Paid into the account of the Centre.
 - Administration with the Centre.
- **Levied by the States (State GST) :**
 - Will be implemented through state-specific law, but basic features will not change.
 - Paid into the account of respective states.
 - Administration with respective states.

RATES

There will be two rates for GST – a lower rate for necessary items and standard one for others.

- Special Rates for Precious metals.
- Services to have a single rate.
- Exact rates to be decided later.

THRESHOLD LIMIT

- Rs. 10 lakh gross annual turnover for state GST.
- Central GST at Rs. 1.5 Crore
- Service - High but not proposed

SALIENT POINTS

- There two taxes, state GST and central GST, will be treated separately.
- Input tax credit, or tax paid on inputs, will be allowed only in respect of IGST, central or state.
- Input tax in respect of central GST, for instance, cannot be set off against state GST.
- Will be applicable on all transactions of goods and services except exempt ones, those outside GST and transactions below a threshold to keep smaller traders out and for ease of administration.
- Uniform procedures for collection of both the components.
- Taxpayers to submit returns to both the central and state authorities.
- Each taxpayer will get a PAN-linked identification number for GST.
- Imports would attract both central and state GST.
- Cross-utilisation of credit between goods & services allowed within one vertical, central or state GST.

MAJOR TAXES THAT WOULD BE SUBSUMED.

Central	State
• Central excise • Additional excise • Service tax • Additional Customs duty • Special additional duty on Customs • Surcharges • Cesses	• VAT/Sales tax • Entertainment tax, except those levied by municipal bodies • Luxury tax • Taxes on lottery, betting & gambling • State cesses & surcharge on goods • Entry tax that is not in lieu of octroi

MAJOR CONSTITUTIONAL CHANGES NEEDED

- State will have to get powers to tax services and imports.
- The Centre will need powers to tax on sale of goods.

BENEFIT OF GST

- There will not be any tax-on-tax, leading to lower tax liability.
- General lowering of costs will reduce the cost of goods & services.
- The high threshold will keep small traders out.

INTER-STATE GST

- There will be an inter-state GST, called IGST
- The tax will be levied by the Centre and will be sum of state and central GST.
- A scheme of transfer of credit will ensure uninterrupted input credit chain.

An Analysis

- Ambit of “surcharge & cesses” to be subsumed in GST has not been precisely defined. It remains to be seen whether levies like NCCD, Automobile Cess, R&D Cess, Education Cess, Labour cess, etc. would be subsumed.
- The discussion paper does not specifically mention about the expansion of GST net to real estate transactions. Also, Stamp duty on such transactions is not proposed to be subsumed into GST.
- Fate of some of the other activities/ services which are currently outside the purview of VAT/ Service tax is also not clear at this stage.
- Certain ‘Goods of Local Importance’ may continue to be exempt from SGST. It remains to be seen whether the Centre would also adopt the same/ similar list of goods for exemption from CGST. If not, then there would arise situations where items would attract CGST but not SGST, and vice-versa.
- It may have a substantial impact on services which are currently outside the Service tax net.
- Discussion paper suggests ‘appropriate provisions’ for consignment sales and stock transfers. However, it is not clear whether these transactions would attract IGST in a same manner as inter-state sales.
- It appears that the benefit of zero-rating of GST would not be available for non processing areas in Special Economic Zones.
- In absence of any specific mention of EOU/ STP in the discussion paper, it appears that supplies to such units may not be zero rated. This could have adverse cash flow implications for such units
- The discussion paper is silent on availability or otherwise of credits for various items (which are currently not eligible for credit), such as fuel, office equipment, civil work, etc.
- The discussion paper is silent on the vital aspect of mechanism for protecting existing CST incentive on inter-state sales. This is because inter-state supplies would henceforth be taxed by the destination State (and not the State from where the goods are shipped),
- The Discussion paper does not contain any “transitional provisions” including credit on opening stock, treatment of accumulated cenvat etc.

- o Central sales tax will be phased out in GST regime.
- o The discussion paper is silent on requirements with respect to various statutory forms.
- o The place of “supply of services” rules needs to be framed.

The GST offers a huge challenges and opportunities For this purpose the comprehensive GST impact assessment would need to be carried out. Based on the information available around the structure of dual GST, the potential issues and areas of impact for a particular company could be identified and roadmap can be decided.

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