

[GST – Concept and Design]



**Understanding from the
First discussion paper
released by the Empowered
Committee of State Finance
Ministers on November 10,
2009**

[Understanding GST]

- Brief History
- Need for GST and its benefits
- GST framework
- Levy of Taxes
- Rate of Tax
- Flow of Credit
- Other important features
- Implementation

[Brief History]

- Goods and Services Tax (“GST”) is a norm in more than 150 countries of the world and India is soon to join the guild.
- The start towards a true Value added regime was made with the introduction of MODVAT by the Central government and in the state level taxation with the replacement of sales tax by state Value Added Tax (“VAT”) laws.
- Thereafter, Empowered Committee of State Finance Ministers (“ECSFM”) has set up a Joint Working group which submitted its report on the proposed GST in November 2007.
- The ECSFM deliberated on this report in length and came out with their views before the Central government.
- In response to the comments made by the Central government, the ECSFM reexamined and after much of discussion, examination and consideration, the ECSFM presented the first discussion Paper.
- **India gets its first discussion paper on GST released by the ECSFM on November 10, 2009.**
- The road ahead would include discussions with various representatives of trade, industry and masses to present their views so as to give the GST code its final shape.

[Need for GST]

GST seen as a measure to remove the shortcomings of the present tax structures which are as under:

- Complex
- Cascading effects of taxes
- Multiple tax rates
- Different Tax Models
- Complex compliances



GST – an answer to present problems:

“It should establish a tax system that is economically efficient and neutral in its application, distributionally attractive and simple to administer.”

- *Working Paper No.1/2009 – DEA on GST Reforms and Intergovernmental Considerations in India*

[What is GST]

- GST is the new Goods and Services Tax which will come into effect on the day as notified by the government.
- It is a broad-based, very visible **consumption based tax** and will be levied at a uniform rate on the supply of most goods and services consumed in India.
- GST will replace many existing indirect Central and State taxes such as Central Sales Tax, stamp duty, Excise duty, Service tax etc.
- GST is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service.
- GST shall be a consumption based tax which shall have uniform tax rates, creditable throughout to neutralize the cascading effects of tax and simple in terms of procedural compliance.

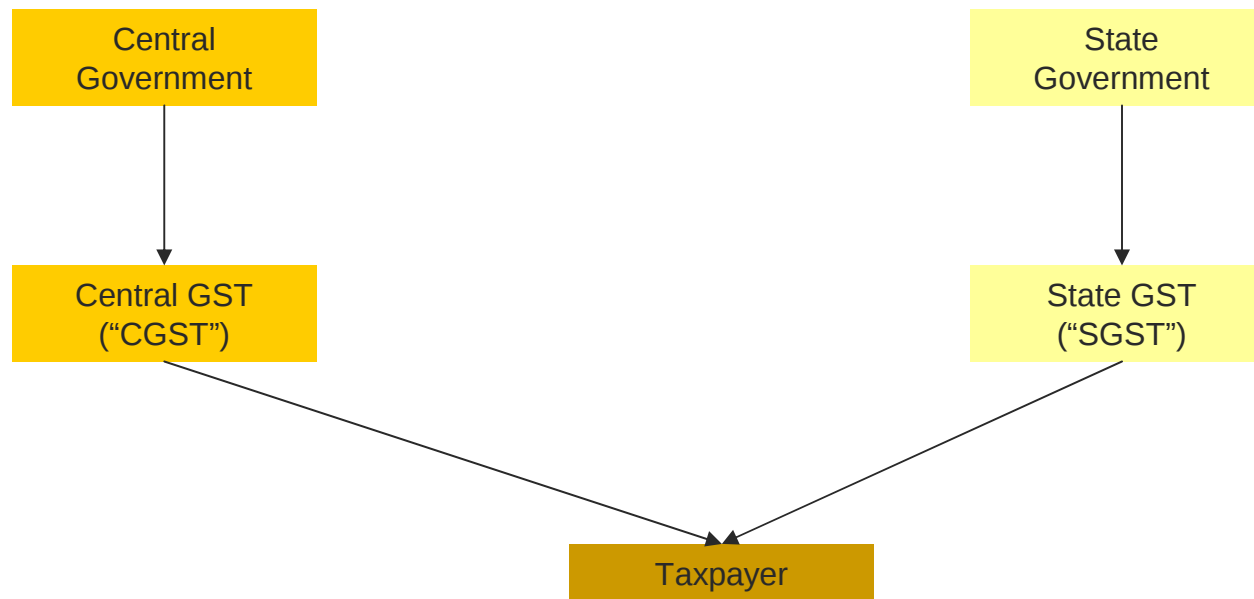
[Benefits of GST]

- **Neutrality:** GST would seek to be neutral and equitable between forms of commerce. Business decisions should be motivated by economic rather than tax considerations.
- **Efficiency:** Compliance costs for taxpayers and administrative costs for the tax authorities would be minimized
- **Certainty and simplicity:** Clear and simple law
- **Effectiveness and fairness:** Less potential for tax evasion and avoidance
- **Flexibility:** Flexible and dynamic system keeping pace with technological and commercial developments;
- **Simple tax structure:** Simple tax structure



[GST – The Framework]

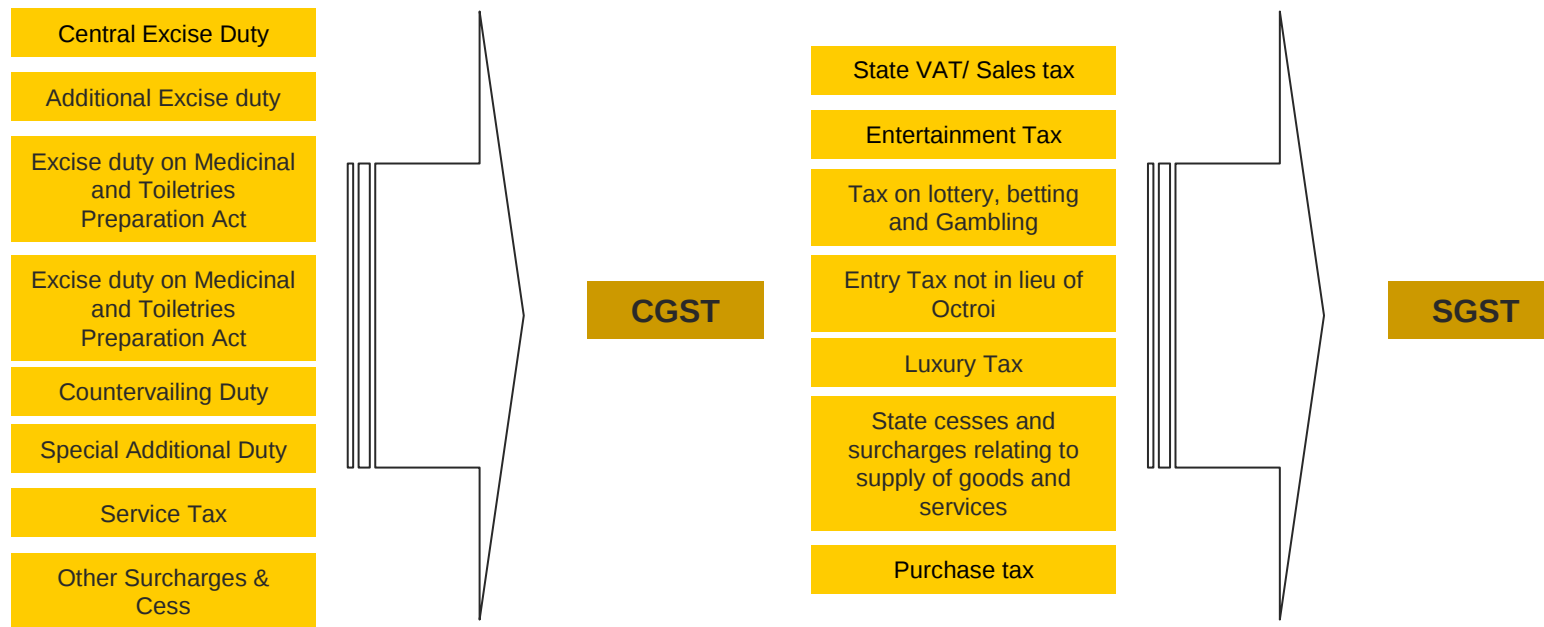
India shall have a dual GST structure with well defined functions and responsibilities of Centre and State.



In respect of inter state transactions, Integrated GST ("IGST") would be levied by the Central government. IGST would be a summation of CGST and SGST.

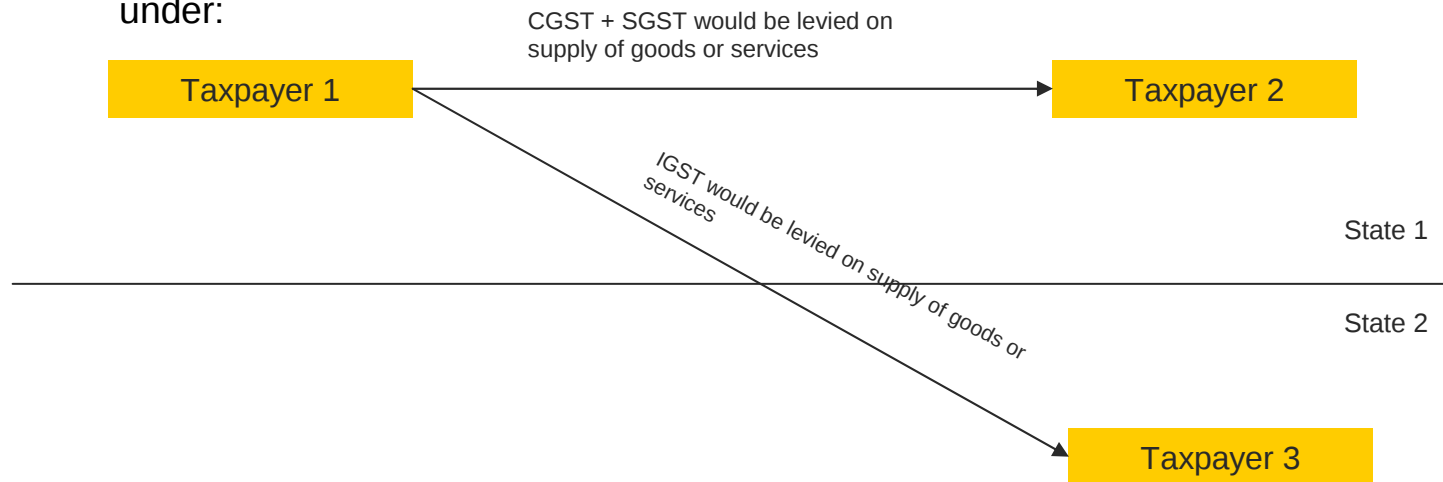
[GST – The Framework]

The present taxes shall be subsumed as follows:



[GST – The Framework]

A Taxpayer would be required to pay the taxes on intrastate and interstate transactions as under:



However, special provisions are proposed to be incorporated for supply of goods and services in form of consignments, stock transfers etc.

[GST – The Framework]

Stage of Supply Chain	Purchase Value of Inputs (net of input GST) (In INR)	Value Addition (In INR)	Value at which supply of goods and services made to next stage (In INR)	Rate of GST	GST on output (In INR)	Input GST credit (In INR)	Net GST = Output GST – Input GST (In INR)
Manufacturer	100	40	140	10%	14 (140*10%)	10 (100*10%)	14-10 = 4
Wholeseller	140	10	150	10%	15 (150*10%)	14 (from manufacture)	15-14 = 1
Retailer	150	10	160	10%	16 (160*10%)	15 (from wholeseller)	16-15 = 1

[Levy of Tax]

- GST shall be charged on consumption basis in the state where the final output is consumed.
- CGST and SGST would be levied on the supply of all goods and services except those which have been exempted or made non taxable under the various statutes
- CGST and SGST would be required to be paid to Central and State governments respectively.
- Imported goods and Services would follow the destination principle and SGST on import would flow to the state where such goods and services are finally consumed
- The threshold limit for small taxpayers has been proposed at 10 Lakhs under SGST and Rs 150 Lakhs under CGST.

[Rate of Tax]

Category for applicability of GST rates	Description of goods and services
I – Nil Rate	Exempted Goods and services
II – Lowest rate	Precious items
III – Lower rate	Necessary items
IV – Standard rate of goods	All other goods
V - Standard rate of services	Services
VI – Exports	Zero rated

- A compounded rate of 0.5% is proposed for taxpayers having an annual turnover less than Rs 50 Lakhs.
- Existing industrial promotional schemes (in form of reduced or nil rates of duties and taxes in certain areas) of Central and State governments to industries to continue till their legitimate expiry time.
- However, no further exemption schemes are suggested. Rather in order to maintain the flow of taxes, benefit in form of cash refunds may be given in future.

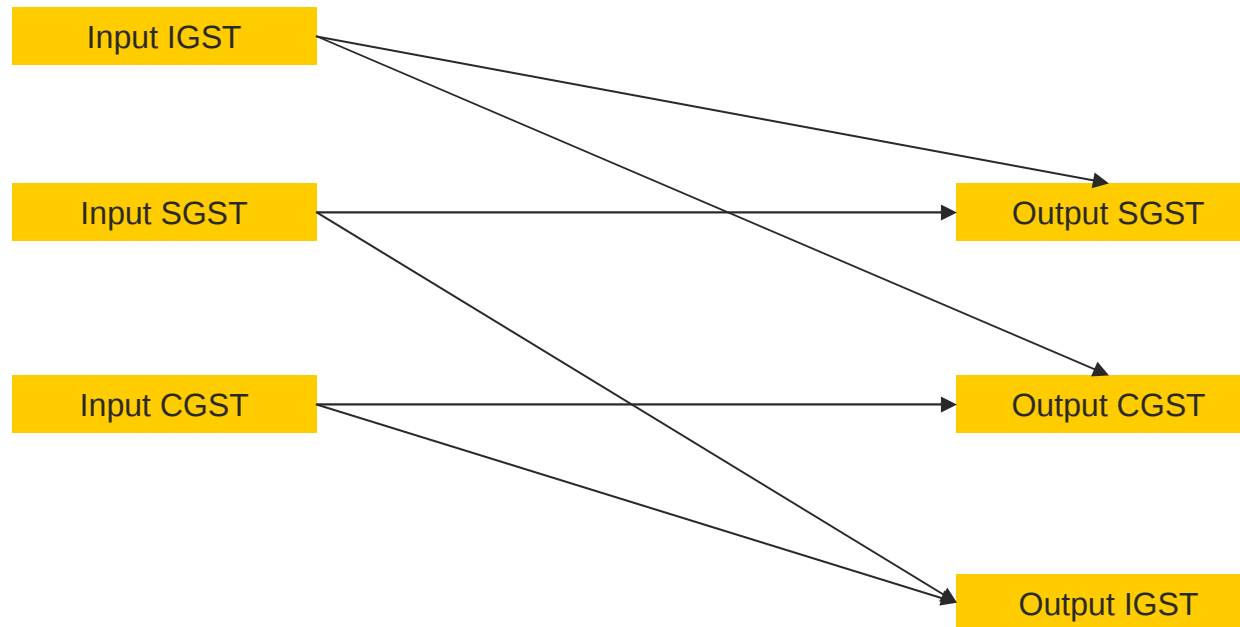
[Rate of Tax]

Rate of VAT / GST around the world at present, some of which are enumerated as under:

Country	Rate of VAT/GST
Australia	10%
Canada	5% Goods and Services Tax, plus Provincial Sales Tax (which varies from 5% to 13%).
China	17%
France	19.60%
Germany	19%
Hong Kong	0%
Pakistan	16%
Russia	18%
Singapore	7% GST
United Kingdom	15%
United States	No national VAT / GST. State tax vary from 5 – 10.25%

It has been suggested that the tax would need to be levied at a combined Centre-State tax rate of 16 percent (8 percent for CGST and 8 % for SGST)

[Flow of Credit]



- Input CGST would be available as credit against output CGST / IGST.
- Input SGST would be available as credit against output SGST / IGST.
- Separate records of credits and utilizations of CGST and SGST would be required to be made by the taxpayer to enjoy all credits.
- Cross utilization of credits among goods and services would be allowed under the GST regime.
- Credit of IGST allowed against output tax levies

[Other Important Points]

- Taxpayer would be required to file periodicals returns in common formats with the respective governments in respect of CGST and SGST.
- Functions like assessments, enforcements, scrutiny and audit shall be undertaken separately by both the governments with an option to share information inter se.
- All interstate taxpayers would be required to be e-registered.
- Mechanisms of dispute resolution and advance ruling shall continue to exist under the proposed tax regime.

[Other Important Points]

Though there are multiple laws, nevertheless, Paper has suggested that uniformity should be maintained across all statutes at least on the following points:

- Chargeability,
- Determination of taxable event,
- Definition of taxable person,
- Classification of goods and services,
- Valuation provisions
- Procedure of collection of taxes
- Uniform threshold limit across all SGST etc to the maximum extent possible

Implementation

- In order to effect the proposed model of GST, government would be required to amend the Constitution to empower the State to levy tax on services and to empower the Centre to levy tax on goods. Also, states are required to be empowered to levy tax on import.
- GST implementation would also require installation of requisite IT infrastructure both at the Central and State level.
- Tax Information Exchange System (TINXSYS) has been developed as a centralized exchange of all interstate dealers spread across the various States and Union territories of India.
- The detail of connectivity of different states to this central system is as depicted in the table:

S. No.	State Name	Connectivity Status
1	Andhra Pradesh	Connected
2	Arunachal Pradesh	Connected
3	Assam	Connected
4	Bihar	Connected
5	Chandigarh	Connected
6	Chattisgarh	Connected
7	Dadra and Nagar Haveli	Not Started
8	Daman and Diu	Not Started
9	Delhi	Connected
10	Goa	Connected

[Implementation]

11	Gujarat	Connected
12	Haryana	Connected
13	Himachal Pradesh	Not Started
14	Jammu and Kashmir	Not Started
15	Jharkhand	Connected
16	Karnataka	Connected
17	Kerala	Connected
18	Madhya Pradesh	Connected
19	Maharashtra	Connected
20	Manipur	Connected
21	Meghalaya	Connected

22	Mizoram	Connected
23	Nagaland	Connected
24	Orissa	Connected
25	Pondicherry	Connected
26	Punjab	Connected
27	Rajasthan	Connected
28	Sikkim	Connected
29	Tamil Nadu	Connected
30	Tripura	Connected
31	Uttar Pradesh	Connected
32	Uttaranchal	Connected
33	West Bengal	Connected

[Implementation]

Other foreseeable hindrance in implementation of proposed GST are as under:

- Taxation of certain basic goods and services like Agricultural products, medical services etc
- Difference in administrative and IT infrastructure among states
- Adaptability by India Inc
- Transitional issues like treatment of accumulated credits, opening stocks, pending litigations etc
- No clarity on Cross border consumption taxation of Digital supplies and intangibles

The answers to the above matter and many more such questions is to be effected by a Joint Working Committee which has been entrusted with the work to draft legislations for Constitution, CGST, SGST etc. and we shall have these answers in due course of time.

[Thank You]

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