

Highlights of Proposed GST structures in India

Dual GST Model

While a single, unified GST would have been a preferred option, in keeping with our federal structure a concurrent dual GST model has been envisaged, with a Central Goods and Services Tax (CGST) and States Goods and Services Tax (SGST) being levied, in parallel, on the taxable value of every transaction through the supply chain.

The dual GST model would give adequate flexibility to the States to levy taxes on a comprehensive base of goods and services at all points in the supply chain. Thus, fiscal autonomy of the States would be maintained.

It is proposed that GST will be destination based, i.e., in case of inter-State transaction no tax will be applicable in the originating State and tax will be payable in the State of consumption.

GST Administration

The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.

GST would have three components –

- Central GST (CGST) – to be administered by the Centre
- State GST (SGST) – to be administered by the State Governments
- Inter-State GST (iGST) - to be levied on inter-State trade and administered and collected by the Centre. The proceeds would be transferred accordingly.

GST Legislation

A separate legislation would be drafted for Central GST. Each State would have its own legislation to levy and collect SGST.

Highlights of Proposed GST structures in India

The basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.

Accounts and GST Credit

The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST (with identification of the State to whom the tax is to be credited).

Full input credit system would operate in parallel for the Central GST and the State GST. Taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.

A taxpayer or exporter would have to maintain separate details in books of account for utilization or refund of credit. Further, the rules for taking and utilization of credit for the Central GST and the State GST would be aligned.

Cross utilization of input tax credit for goods and services would be allowed. However, no credit between CGST and SGST would be permitted, except in the case of inter-State supply of goods and services under the IGST model.

Credit Accumulation

The White Paper on GST states that refund/adjustment of accumulated credit should be completed in a time bound manner.

However, ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc.

Collection Procedures

To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.

Bimal Jain

FCA, ACS, B.Com (Hons)

Highlights of Proposed GST structures in India

Threshold Level

A uniform threshold is envisaged, at both Centre and State levels, of a gross annual turnover of Rs 10 lakh for goods and services. Adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime would be given.

Keeping in view the interest of small traders and small scale industries and to avoid dual control, the States also considered that the threshold for Central GST for goods may be kept at Rs.1.5 crore and the threshold for Central GST for services may also be appropriately high.

At present, the threshold for central excise and service tax is Rs 1.5 crore and Rs 10 lakh respectively. Threshold for VAT payment varies from Rs 2 lakh to Rs 10 lakh in different States.

Compounding Scheme

It is proposed to have a compounding scheme, where businesses work contractors, dealers and hotels with a gross annual turnover of Rs 50 lakh can opt to pay GST at the compounded rate. The floor rate has been proposed at 0.5%.

Periodical Returns /PAN Based ID

The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.

Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

Assessment & Scrutiny

Office: 650, Pocket –V, Mayur Vihar, Phase –I, Delhi – 110 091 (India)

Mobile: +91 98106 04563/ 98107 11270 email: bimaljain@hotmail.com

Highlights of Proposed GST structures in India

Functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

Taxes to be Subsumed

The taxes proposed to be subsumed in Central GST are:

- Central Excise Duty
- Additional Excise Duties
- The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- Service Tax
- Additional Customs Duty (CVD)
- Special Additional Duty of Customs - 4% (SAD)
- Surcharges, and
- Cesses.
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Following State taxes and levies would be, to begin with, subsumed under GST:

- VAT / Sales tax
- Entertainment tax (unless levied by the local bodies).
- Luxury tax
- Taxes on lottery, betting and gambling.
- State Cesses and Surcharges relating to supply of goods and services.
- Entry tax not in lieu of Octroi.

There is lack of consensus about the inclusion of **purchase tax**. Further, the Paper is silent about the levies of **stamp duty, toll tax, passenger tax and road tax**. It is expected that these would not be subsumed under the dual GST.

Alcoholic beverages would be kept out of the purview of GST. Sales Tax/VAT would continue to be levied as per the existing practice. Excise Duty, which is presently being levied by the States may not be also affected.

Tobacco products would be subjected to GST with ITC. Centre may be allowed to levy excise duty on tobacco products over and above GST without ITC.

Highlights of Proposed GST structures in India

The basket of **petroleum products**, i.e. crude, motor spirit (including ATF) and HSD would be kept outside GST as is the prevailing practice in India. A final view whether **Natural Gas** should be kept outside the GST will be taken after further deliberations.

Taxation of Services

Both the Centre and the States will have concurrent power to levy tax on all goods and services.

In the case of States, the principle for taxation of intra-State and inter-State has been formulated by a Working Group.

For inter-State transactions, model of Integrated GST will be adopted by appropriately aligning and integrating CGST and SGST.

IGST Model

The IGST model seeks to address Business to Business (B2B) and Business to Consumer (B2C) transactions; transaction in services; and intra-State transactions.

The scope of the model is as follows:

- Centre to levy IGST on all inter-State transactions.
- IGST equal to CGST + SGST.
- Appropriate provisions to be made for consignment or stock transfer of goods and services.
- Inter-State Seller to pay IGST on value addition after adjusting available credit of IGST, CGST, SGST on his purchases.
- Exporting State to transfer to Centre the credit of SGST used in payment of IGST
- Importing dealer to claim credit of IGST while discharging his output tax liability in his own State.
- Centre to transfer to the importing State the credit of IGST used in payment of SGST.

The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds.

The advantages perceived from the IGST Model are:

Office: 650, Pocket –V, Mayur Vihar, Phase –I, Delhi – 110 091 (India)

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- Maintenance of uninterrupted ITC chain on inter- State transactions.
- No upfront payment of tax or substantial blockage of funds for the inter-State seller or buyer.
- No refund claim in exporting State, as ITC is used up while paying the tax.
- Self monitoring model.
- Level of computerization is limited to inter-State dealers and Central and State Governments should be able to computerize their processes expeditiously.
- As all inter-State dealers will be e-registered and correspondence with them will be by e-mail, the compliance level will improve substantially.
- Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

GST Rate Structure

A two-rate structure has been decided –a lower rate for necessary items and goods of basic importance and a standard rate for goods in general.

There will be a special rate for precious metals and a list of exempted items.

For CGST relating to goods, a two-rate structure, with conformity in the levels of rate under the SGST may be adopted.

For taxation of services, there may be a single rate for both CGST and SGST.

The exact value of the SGST and CGST rates, including the rate for services, will be made known duly in course of appropriate legislative actions.

Exemptions

It is being discussed whether the exempted list under VAT regime including Goods of Local Importance may be retained in the exempted list under State GST in the initial years. A similar approach towards exempted list under the CGST is under consideration.

Exports and Imports

Bimal Jain

FCA, ACS, B.Com (Hons)

Highlights of Proposed GST structures in India

Exports would be zero-rated. Similar benefits to be given only to the processing zones of the SEZs. No benefit to the sales from an SEZ to Domestic Tariff Area (DTA) will be allowed.

With necessary Constitutional Amendments, both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed.

Full and complete set-off will be available on the GST paid on import on goods and services.

Industrial Incentives /Special Industrial Area Scheme

After the introduction of GST, the tax exemptions, remissions etc. related to industrial incentives would be converted, if needed, into cash refund schemes after collection of tax, so that the GST scheme on the basis of a continuous chain of set-offs is not disturbed.

Special Industrial Area Schemes - exemptions, remissions etc. would continue up to legitimate expiry time both for the Centre and the States.

Any new exemption, remission etc. or continuation of earlier exemption, remission etc. would not be allowed.

In such cases, the Central and the State Governments could provide reimbursement after collecting GST.

IT Infrastructure

The major responsibilities of IT infrastructural requirement will be shared by the Central Government through the use of its own IT infrastructure facility.

The issues of tying up the State Infrastructure facilities with the Central facilities as well as further improvement of the States' own IT infrastructure, including TINXSYS, to be addressed expeditiously and in a time bound manner.

Constitutional Amendments, Legislations & Rules

Office: 650, Pocket –V, Mayur Vihar, Phase –I, Delhi – 110 091 (India)

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A Joint Working Group has been constituted to prepare a draft legislation for Constitutional Amendment, draft legislation for CGST, a suitable Model Legislation for SGST and rules and procedures for CGST and SGST.

Simultaneous steps initiated for drafting of legislation for IGST and rules and procedures.

The issues of **dispute resolution and advance ruling** would also be addressed.

Harmonious structure/States' autonomy

A mechanism for upholding the need for a harmonious structure for GST along with the concern for the States' autonomy in a federal structure would be worked out.

Compensation to States

Compensation to States for losses that might emerge during the process of implementation of GST for the next five years would be comprehensively taken care of in the recommendations of the Thirteenth Finance Commission.

The payment of this compensation will need to be ensured in terms of special grants to be released to the States duly in every month on the basis of neutrally monitored mechanism.

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