First Discussion Paper on Goods and Services Tax In India

HIGH LIGHTS

Introduction of Goods and Services (GST) – Important Milestones

- Announcement on the introduction of GST by the Union Finance Minister in the Union Budget 2007-2008
- Empowered Committee of State Finance Ministers given the responsibility for preparing GST Road Map
- Submission of views of Empowered Committee (EC) to the Government of India (GoI) on 30th April 2008
- Receipt of comments of Government of India on the Draft GST Report on 12th December 2008
- Discussion in the EC on the comments of Government of India on 16th December 2008 and follow up steps.
- Release of First Discussion Paper on GST by the EC on 10th November 2009

What is GST?

- A tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer's point and service provider's point upto the retailer's/cosumer's level.
- Essentially a tax only on value addition at each stage.
- The GST paid on the purchase of goods and services is available for set-off.
- The final consumer has to bear only the GST charged by the last dealer in the supply chain.

Shortcomings of Central and State VAT Structure – shortcomings of CENVAT

- Non- inclusion of several central taxes like Additional Customs Duty, Surcharge, etc.
- Does not capture the value added chain below the manufacturing level.

Shortcomings of State VAT

- Several Indirect Taxes like Luxury Tax, Entertainment Tax, etc., have not yet been subsumed for set-off
- CENVAT load on goods & services remains included in the value of goods on which VAT is improved thus contributing to cascading effect.
- Central Sales Tax (CST) has not been fully phased out.

Justification for GST -In GST

- The cascading effects of both CENVAT and Service Tax would be removed with set-off.
- A continuous chain of set-off from original producer's point and service provider's point to the retailer's/consumer's level would be established which will reduce the burden of all cascading effects.
- Several important Central & State Indirect Taxes would be subsumed.
- Cascading effect of CST would be removed as it will be phased out.

Thus GST is not simply VAT plus Service Tax but an improvement over the present system of VAT and disjoined Service Tax – a significant step forward in Tax Reforms in India.

Salient Features of the GST Model

- Taxation on Destination Principle
- The GST will have two components – one levied by the Centre referred to as Central GST (CGST) and the other levied by the States referred to as State GST (SGST)
- Dual GST model would be implemented through multiple statutes (one for CGST and a SGST statute for every State).
- Basic features of law such s 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.
- Both Central GST and the State GST would be applicable to all transactions of goods and services, except the exempted goods and services, goods which are outside the purview of GST, and the transactions which are below the threshold limits.

- Central GST and State GST are to be paid to the accounts of the Centre and the States separately.
- Taxes paid against the Central GST will be allowed to be taken as input tax credit (ITC) for payment of Central GST. The same principle will be applicable for the State GST.
- Cross utilization of ITC between the Central GST and the State GST will not be allowed except in the case of inter-State supply of goods and services under the IGST Model.
- A taxpayer or exporter will have to only maintain required details in the same books of account for utilisation or refund of ITC.
- The administration of the Central GST will be by the Centre and the State by the respective States.
- Uniform procedure for collection of both Central GST and State GST may be prescribed.
- Uniform State GST threshold across States recommended of gross annual turn over of Rs.10 lakh both for goods and services for all the States and Union Territories.
- The threshold for Central GST for goods and services will soon be finalized by the Central Government in consultation with the Empowered Committee.
- There will be a Composition/Compounding Scheme with cut-off at Rs.50 lakh of gross annual turnover and a floor rate of 0.5% across the States.
- Option for registration under GST will be available to the taxpayer with turnover below compounding cut-off.
- The taxpayer will have to submit periodic return preferably in a common format to both the Central and the State GST authorities.
- A PAN-linked taxpayer identification number with a total of 13/15 digits will be allotted to each taxpayer for facilitating data exchange and taxpayer compliance.
- Functions such a assessment, enforcement, scrutiny and audit will be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

How GST works

Stage of supply chain	Purchase value of input	Value addition	Value at which supply of goods & services made to next stage	Rate of GST	GST of output	Input Tax Credit	Net GST = CST on output – Input tax credit
Manufacturer	100	30	130	10%	13	10	13-10 = 3
Whole seller	130	20	150	10%	15	13	15-13 = 2
Retailer	150	10	160	10%	16	15	16-15 =1

Central Taxes to be subsumed in GST

- Central Excise Duty
- Additional Excise Duties
- The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- Service Tax
- Additional customs duty, commonly known as countervailing duty (CVD)
- Special Additional Duty of Customs – 4% (SAD)
- Surcharges and
- Cesses

State Taxes to be subsumed in GST

- VAT/Sales Tax
- Entertainment tax (unless it is levied by the local bodies)
- Luxury Tax
- Taxes on lottery, betting and gambling
- State Cesses and Surcharges in so far as they relate to supply of goods and services
- Entry tax not in lieu of Octroi
- Purchase tax: This issue is being discussed in consultation with the Government of India.

Position on Alcohol, Tobacco and Petroleum Products

- Alcoholic beverages would be kept out of GST
- Tobacco products to be subjected to GST with ITC.
- Petroleum Products i.e. crude, motor spirit (including ATF) HSD will be kept outside GST.
- A final view on Natural Gas will be taken after further deliberations.

Taxation of Services

- Both the Centre and the States will have concurrent power to levy tax on all services.
- The principle of taxation of intra-State and inter-State supply of services has been formulated.
- An innovative model of Integrated GST (IGST) will be adopted for inter-State transactions of goods and services.

Model of Inter-State Transactions of Goods and Services

- Centre would levy IGST equal to CGST plus SGST on all inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.
- The supplier will pay IGST after adjusting available credit of IGST, CGST and SGST on his purchases.
- Te exporting State will transfer to the Centre the credit of SGST used in payment of IGST.
- The importing taxpayer will claim ITC of IGST against his output IGST, CGST and SGST tax liability.
- The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

Advantages of IGST Model

- 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 taxpayers.

SGST Rate Structure

- SGST will have a two rate structure.
- A lower rate for necessary items and goods of basic importance and a standard rate for goods in general.
- A special rate for precious metals.
- The exempted list under VAT regime including Goods of Local Importance will be retained in the initial years in the exempted list under State GST.

CGST Rate Structure

- CGST rates for goods may also have a two rate structure, with conformity in the levels of rate under the SGST.
- The GoI may adopt a similar approach towards exempted list as has been done in case of SGST.
- There may be a single rate for services under CGST and SGST
- The exact SGST and CGST rates, including rate of services would be known in course of appropriate legislative actions.

Zero Rating of Exports

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

GST on Imports

- The GST is proposed to be levied on imports 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 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.

Special Industrial Area Scheme

- After the introduction of GST, the tax exemptions, remissions etc., related to industrial incentives will be converted into cash refund schemes for the unexpired period.
- Tax benefits under Special Industrial Area Schemes will 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. will not be allowed. In such cases, the Central and the State Governments could provide reimbursement after collecting GST.

IT Infrastructure

- Major responsibilities of IT infrastructural requirement will be shared by the Central Government through the use of its own IT infrastructure facility.
- The State IT systems will be integrated with the Central IT systems to ensure better tax compliance.

Constitutional Amendments Legislations and Rules for Administration of CGST and SGST

- Constitutional Amendments required for
    - Empowering the States for levy of service tax
    - Empowering GoI for levy of tax on supply of goods
    - GST on imports and
    - Consequential issues
- A Joint Working Group comprising of the officials of the Central and State Governments is working 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 have also been initiated for drafting of a legislation for IGST and rules and procedures.
- The Working Group will also address the issues of dispute resolution and advance ruling.

YOU ARE REQUESTED TO KINDLY SEND YOUR VIEWS/SUGGESTIONS ON THIS DRAFT DISCUSSION PAPER ON OR BEFORE 5TH DECEMBER, 2009, PREFERABLY BY E-MAIL: la@fkcci.in