# GOODS AND SERVICE TAX

Meaning of Federation- A group of states with a Central Government but independence in internal affairs.

India is federal republic.

**1st Phase**

In 2000 Vajpee Government

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Discussion on GST

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By empowered committee

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Headed by Asim Dasgupta (Former Finance Minister of Bengal)

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Prepare GST Model

**2nd Phase**

Palaniappam Chidambaram (P Chidambaram)

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Announcement

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GST will be introduced from 01.04.2010

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Empowered Committee of State finance ministers would work with Central Government to prepare road mad on GST

**AFTER ANNOUNCMENT**

Empowered Committee of State Minister

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Set up a Joint Working Group of 10.05.2007

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Joint Working Group after intensive internal discussion as well as interaction with experts and representations of chamber of commerce and industry, submitted its report to empowered committee on 19.11.2007

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Report was discussed by empowered committee on 08.11.2007

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With observation & modification final version of the empowered committee sent government of India 30.04.2008

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Comments of Government were received on 31.03.2008 were duly considered by empowered committee ( 16.12.2008)

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After discussion with Central and State

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Empowered Committee released FDP (First Discussion Paper) on GST on 10.11.2009

## FIRST DICUSSION PAPER

### 1. INTRODUCTION

- Value added tax at the Central and the State Level
  - ✓ Prior to the introduction of VAT in Central and State level there was a burden of multiple taxation (i.e tax on tax)
  - ✓ Introduction of VAT removed issue of tax on tax
  - ✓ VAT at Central level in terms of MODVAT (1986) and CENVAT in 2002-03
  - ✓ No harmony rate at State level. VAT at State level difficult exercise in federal country like India.
  - ✓ Significant meeting held of all Chief Minister on 16.11.1999 conveyed by Shri Yaswant Sinha on discussion of uniform rate.
  - ✓ After further discussion VAT implication on 01.04.2005

**JUSTIFICATION OF GST**

- Despite success of VAT still shortcoming in VAT both at Central & State level like non-inclusion of central taxes in overall framework example custom duty, surcharge etc.

**2. PREPARATION OF GST**

Empowered Committee of State Minister

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## 3. GST MODEL IN INDIA

**Requirement**

- Easy
- Harmonious rate
- Uphold power of Central Government & State Government

**Feature-** With view of report of Joint Working group & view received from Central Government & State Government at dual GST structure.

a. GST
   I. Central GST
   II. State GST
b. Central GST & State GST applicable to all goods and services except
   I. Exempted goods & service
   II. Outside purview of tax because of below the prescribed limit
c. Central GST will be paid to Central and State GST to State.
d. Central GST input for Central GST and State GST input for State GST except interstate supply of goods & services under IGST model
e. Credit accumulation on account of refund of GST should be avoided by both the Centre & State except such as exports, purchase of capital goods.
f. Uniform procedure for collection of both Central GST & State GST
g. Central GST administration by Central and State GST by State
h. Threshold limit (should be) 10 Lacs in case of State GST and 1.5 crore Central GST.
i. Compounding Scheme should have an upper ceiling limit on gross annual turnover and a floor tax rate with respect to GTI.
j. Periodically return.
k. Allotted a PAN-linked taxpayer indemnification no. 13/15 digit
l. Scrutiny, Assessement, audit etc.

**Central and State to be subsumed under GST**

<u>Principal of subsumed</u>

a. Taxes or levies in nature of indirect taxes
b. Taxes or levies to be subsumed should be part of transaction chain which commences with import/manufacture/production of goods or provisions of services at one end and the consumption of goods and services at the other.
c. Free flow of tax credit in intra and interstate levels.
d. Taxes/levies/fees not specifically related to goods & services not subsumed in GST

| CENTRAL GST | STATE GST |
|---|---|
| Central Excise duty | VAT/Sale Tax |
| Additional Excise duty | Entertainment Tax |
| Excise duty levied under the Medicine of toilet preparation Act | Luxury Tax |
| CVD | Tax on lottery, betting & gambeling |
| SAD | State Cess/Surcharge |
| Service Tax | Entry Tax/Octori |
| Surcharge | |
| Cess | |

**Purchase Tax-**Some state felt that substantial revenue from purchase tax so it should be subsumed under GST

**Tax on items containing Alcohol:-**

- Out of purview of GST
- Continuous with present practice

**Tobacoo:-** Would be subject to GST with ITC

**Tax on Petroleum Products**

- Basket of petroleum product is out of preview of GST
- Sale tax could be levied by State @ floor rate

**INTERSTATE TRANSACTION OF GOODS & SERVICE**

- IGST would be = CGST+SGST
- IGST on value addition- Credit of IGST+CGST+SGST

**ADVANTAGE OF IGST MODEL**

a. Maintenance of uninterrupted ITC chain on inter state transactions.
b. No refund claim, ITC used while paying tax
c. Self monitoring model
d. Computerize
e. Interstate dealer will be e- registered & correspondence with them will be email etc.
f. Business to business and business to consumer model

**GST RATE**

- Standard – lower- for basic goods
- High- for luxury goods