GST

What's upcoming

Background on GST

- What is GST
- Necessity of GST
- How goods will be classified
- How it is to be implemented
- What is the implication of GST

What is GST

- GST – Goods and Service Tax
- Broad, Single and Comprehensive Tax
- Consolidation of major Indirect Taxes
- Tax on Value Addition
- Destination based multi-point Tax

Necessity of GST

- Tax Cascading
- Levy of Excise Duty on manufacturing point
- Complexity in determining the nature of transaction – Sale vs. Service
- Inability of States to levy tax on services
- Lack of Uniformity in Provisions and Rates
- Fixation of situs – Local Sale vs. Central Sale
- Interpretational Issues
- Narrow Base
- Complexities in Administration

How good will be classified

- By introducing Article 246A in the Constitution
- GST is proposed to have single rate for all the Goods and Services
- Difference in rate would be for SGST (State GST) and CGST (Central GST)
- No requirement of classification

How it is to be implemented

- GST will be implemented at pan India basis with harmonious rates and structure except for few transactions
- Petrol and Petroleum products will be kept outside the ambit of GST till a notified date
- After the same, GST will be applicable on it
- Liquor for human consumption is to be kept outside the scope of GST

What is the implication of GST

- Reduction in Cost
- Rise in GDP
- Favourable for Business
- Simplification and Standardization
- Single Administration
- Minimum No. of Floor Rates i.e. Max 2
- Replacing 36 Statues (1 Centre + 35 States and UT)

GST Globally

- More than 100 countries have introduced GST or Federal VAT or HST (Harmonized Sales Tax)
- GST rates globally varies from 5% in Taiwan, Japan and Malaysia to 25% in Denmark
- Different counties have opted different models of GST

From Dreams to Reality

- In 2006, announcement of the intent to introduce GST by 01.04.2010
- In Nov' 09, First Discussion Paper (FDP) released by EC on which Comments were provided by Government of India

- In Jun'10, Three sub-working Groups constituted by Government
- In Mar'11, Constitution (115th Amendment) Bill introduced in Parliament

- In Nov'12, Committee on GST Design constituted by EC
- Feb'13 - Three Committees constituted by EC

- In Mar'13- GSTN Incorporated as Section 25 Company
- June 2013- Committee constituted by EC to draft model GST Law

- August 2013- Standing Committee on Finance submitted Report
- April 2014- Committee constituted by EC to examine business processes under GST
- December 2014- 122nd Constitutional Amendment bill introduced in Parliament

THE CONSTITUTION AMENDMENT) BILL, 2014

- **Insertion of Article 246A**:
  - It gives power to legislature of Every State, to make laws w.r.t. GST
  - It gives Parliament exclusive power to make law w.r.t. GST in course of inter-state supply of goods or services or both

- **Insertion of Article 269A**:
  - GST on Inter-State Trade and commerce as well as import will be charged by GOI. The proceeds will be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council
  - Parliament may formulate principles for determining place of supply of goods or service or both take place in course of inter-state transactions.

THE CONSTITUTION AMENDMENT) BILL, 2014

.....continued

- **Insertion of Article 279A**:
  - Constitution of Goods and Service Tax Council
  - Recommendation in respect of exemption, model, rates, threshold limit, floor rates and special rates, etc.
  - It gives Parliament exclusive power to make law w.r.t. GST in course of inter-state supply of goods or services or both

- **Insertion of Article 269A**:
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THE CONSTITUTION AMENDMENT) BILL, 2014

.....continued

- **Additional Tax on supply of goods in course of Inter-State Trade or Commerce**:
  - An additional tax on supply of Goods, not exceeding 1% to be levied
  - For a period of 2 years or such period as may be proposed by GST Council
  - The additional tax collected will be assigned to the state from where supply originates
  - Parliament may, by law, formulate the principles for determining the place of origin from where supply of goods or services or both take place.
- **Compensation to states for loss of revenue on account of introduction of goods and service tax**:
  - On recommendation of GST Council, Parliament may provide for compensation to the states for loss of Revenue on account of implementation of GST for such period as suggested by GST Council but not exceeding 5 years.
  - The compensation is expected to be on tapering basis i.e. 100% in first 3 years, 75% in the 4^{th} year and 50% in the 5^{th} year

Present Structure of Indirect Tax

- Indirect Tax
  - Excise Duty
    - List I
      Taxable Event is Manufacture
      Rate = 12%
  - Service Tax
    - List I
      Taxable Event is Provision of Service
      Rate = 12.36%
  - Sales Tax / VAT
    - List II
      Taxable Event is Sales
      Rate = 5, 12 & 20%
  - Custom Duty
    - List I
      Taxable Event is Import / Export
      Rate = As per Schedule

Proposed Structure of Indirect Tax

Proposed Structure of GST

Intra State taxable Supply	Excise and Service Tax will be known as CGST	State VAT and other Taxes to be known as SGST
Inter State Taxable Supply	CST will be known as Integrated GST (IGST)	Aggregate of CGST and SGST
Import from Outside India	Custom Duty	In place of CVD and SAD, IGST will be charged

Advance Feature of GST

- BIN to be basis for levy and collection
- BIN will be of 13 digit, 1^{st} 10 being PAN
- CGST and SGST credit cannot be utilized against IGST Liability, but vice versa is allowed
- Common Tax period is proposed
- Refund only in case of export or zero rate goods

Current Structure

Particulars	Indirect Tax		Total
	Excise	Haryana VAT / CST	
Manufacturer (Haryana) to Wholesaler (G1- Gujarat)			
Cost of Production			90,000
Input Excise on Raw Material (Assumed)	5,600	2,000	-
Add: Profit Margin			10,000
Base Price			1,00,000
Add: IDT	12,000	2,240	14,240
Less : Input Credit	5,600	0	
Tax Payable	6,400	2,240	
Sale Price			1,14,240

Current Structure(...continued)

Particulars	Indirect Tax		Total
	Excise	Gujarat VAT / CST	
Wholesaler (G1- Gujarat) to Retailer (G2 – Gujarat)			
Cost of Production			1,14,240
Input Tax Credit	-	-	-
Add: Profit Margin			10,000
Base Price			1,24,240
Add: IDT	-	18,636	18,636
Less : Input Credit	-	-	-
Tax Payable	-	18,636	18,636
Sale Price			1,42,876

What all will go in GST Bag

Central Taxes

Excise Duty

CVD, SAD

Service Tax

CST

Various Surcharge Levied by Union

GST

State Taxes

VAT, Purchase Tax

Entertainment Tax

Luxury Tax

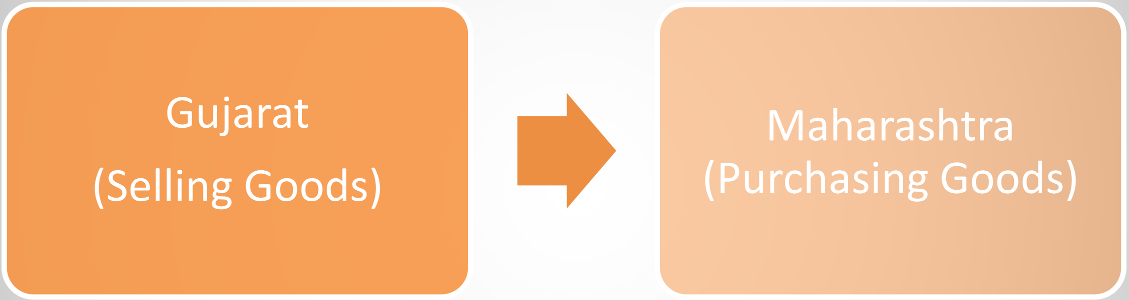
Octroi and Entry Tax

Luxury Tax

GST

GST - Destination based Tax

- Destination (=consumption) will be the point of revenue for the State



- As the Dealer of Maharashtra will claim Input Credit, the tax on above transaction will go to Maharashtra
- To have fair play, it is proposed that 1% additional non-vatable tax to be charged in case of inter-state trade

What goes into whose Checklist

- Facsimile of Current VAT & CST Collection Method
- States to monitor BIN having T/o of Goods >= 1.5 Crore
- Centre to monitor BIN having T/o of Service >= 1.5 Crore
- Centre and States to monitor BIN having T/o>1.5 Crore

Collection and Payment of Tax – Inter-State

- Prepaid Method
  - Vendor levy and collect destination SGST
  - Vendor Pay the SGST to destination State (without claiming Input Credit)
  - Purchaser is allowed Credit on the basis of the payment and return
  - Seller will be allowed Input Credit of CGST and SGST by Refund or Carried forward of Input Credit

Collection and Payment of Tax – Inter-State (...continued)

- Post Paid GST (TDS) Method
  - Seller will enter details of the sale and purchase
  - Purchase will also enter the details and confirm details entered by seller through DSC
  - Buyer will deposit tax electronically and generate TDS Certificate, which will appear against the TIN of Seller
  - State Government will grant permission for Zero rated / exempt transactions
  - Separate Rules for B2C transactions
  - Involves considerable refunds in the selling State

Collection and Payment of Tax – Inter-State (...continued)

- Demat C Form
  - Seller will enter details of the sale and purchase
  - Purchase will also enter the details and confirm details entered by seller through DSC
  - State Government will grant permission
  - On permission being received, system will generate Demat C Form
  - Seller will use this Demat C Form for claiming exemption in his state

Collection and Payment of Tax – Inter-State (...continued)

- Reverse Charge Model in Demat C Form
  - Zero rating of inter-State transactions in the selling State.
  - Levy of SGST in the purchasing State using “Reverse Charge Method.
  - Claim of credit by the purchaser in his State for the amount of tax paid by him.
  - Issue of Demat Form C by the buying State Authorities to buyer.
  - Submission of Form C by the buyer to the seller for claiming exemption by the later in his State

Collection and Payment of Tax – Inter-State (...continued)

- IGST
  - Seller in the origin State will charge IGST [(CGST+SGST) on ISS transactions, by whatever name called], which will be aggregate of CGST & SGST, i.e., IGST (CGST + SGST)
  - Inter-State Seller shall use his input IGST, input CGST and input SGST for payment of IGST liability.
  - Inter-State Buyer shall avail input tax credit on the basis of tax invoice for payment of his own IGST, CGST or SGST
  - The seller and the buyer shall report these transactions in their respective returns
  - As GST is a destination based Tax, amount paid by seller (including input credit) in his state will be remitted to destination state
  - IGST Credit can be utilized for for payment of IGST, CGST and SGST in sequence by Importing dealer / buyer for supplies made by him.

Model of GST

- SGST
  - Only State would levy tax on all transactions
- CGST
  - Centre to levy and collect tax on all transaction.
- IGST (SGST + CGST)
  - Centre to levy and collect tax on all transaction. Proceeds to be distributed among Union and states – Article 269A

Proposed Structure

Particulars	GST		Total
	CGST @ 12%	SGST @ 8%	
Manufacturer (Haryana) to Wholesaler (G1- Gujarat)			
Cost of Production			90,000
Input GST on Raw Material	6,000	4,000	-
Add: Profit Margin			10,000
Base Price			1,00,000
Add: GST	12,000	8,000	20,000
Less : Input GST	6,000	4,000	
GST Payable	6,000	4,000	
Sale Price			1,20,000

Proposed Structure (...continued)

Particulars	GST		Total
	CGST @ 12%	SGST @ 8%	
Wholesaler (G1- Gujarat) to Retailer (G2-Maharashtra)			
Cost of Goods to G2			1,00,000
Input GST	12,000	8,000	-
Add: Profit Margin			10,000
Base Price			1,10,000
Add: GST	13,200	8,800	22,000
Less : Input GST	12,000	8,000	
GST Payable	1,200	800	
Sale Price To Retailer G2			1,32,000

Revenue Neutral Rate

- RNR is the rate at which tax revenue remains the same despite giving credit of duty paid on inputs and other factors
- RNR for Centre is 5% and of the States is 6.3%
- Taking into account some leakages, the combined RNR could be around 12%

Let's Welcome GST

Thank You

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