

An Insight of GST in India



[Volume I]



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

www.icmai.in



An Insight of Goods & Services Tax (GST) in India

October 2015

GST - media to achieve mission of

MAKE IN INDIA

- through ease of doing business

(Volume I - Text)

Publications by the Institute on Goods & Services Tax (GST) in India:

- (1) Concept Paper on Goods & Services Tax - September 2009 (issued prior to the First Discussion Paper issued by the Government of India on November 2009)
- (2) Implementation of GST in India - a Technical Guide - April 2010
- (3) Insight of GST in India - 2nd Concept Paper by the Institute (as on date) - October,2015

Contents prepared by the:

Tax Research Department

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

taxresearch@icmai.in

Prepared under the guidance of :

Taxation Committee

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Issued by:

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

www.icmai.in



16th October, 2015

MESSAGE

It gives me immense pleasure to know that Institute of Cost Accountants of India is coming up with a publication titled "An Insight into GST in India".

I find from the title sketch that the book deals with how GST in India works as a tool to empower economic growth and functions as an engine for generation of employment in India. This publication captures the best practices of GST especially "Place of Supply Rules" and how such practices can be tailored to fit into the Indian context.

I hope the publication being published by the Institute would help in dissemination of information on the relevance and importance of GST in India – as an important factor to facilitate ease of doing business in India and benefit the consumers at large.

I wish all success for this publication.

(Arun Jaitley)

Mr. P. V. Bhattad,
President,
Institute of Cost Accountants of India,
CMA, Bhawan, 3,
Institutional Area, Lodi Road,
New Delhi – 110 003



Bashir Ahmed

IAS (Retd.)

(Former Commissioner of Commercial Tax (J&K))

Advisor

THE EMPOWERED COMMITTEE OF
STATE FINANCE MINISTERS
(CONSTITUTED BY GOVERNMENT OF INDIA)
C-406, DELHI SECRETARIAT,
I.P. ESTATE, NEW DELHI - 110 002
TEL : 2339 2433, FAX : 2339 2181
E-mail : vatcouncil@yahoo.com

The Institute of cost accountants of India is a statutory body and is responsible for regulation and management of Accountancy. It has been doing an outstanding job in its field of responsibility.

I am glad that institute is bringing out a publication "An Insight of Goods and Services Tax in India". GST will be the most comprehensive reform in the field of Indirect Taxes since our independence. I am sure that this publication will be able to spread awareness among the stakeholders regarding the various aspects of the GST, which is necessary for the successful implementation of this new tax regime.

I wish the institute and Shr. A.B. Nawal, Chairman taxation committee of the Institute all success in this endeavour.


Bashir Ahmed 15/10/15



Sumit Dutt Majumdar

Former Chairman – Central Board of Excise & Customs &
Author of Book “GST in India”

FOREWARD

The Institute of Cost Accountants of India is a well-known organization, that has been prescribing various Cost Accounting Standards, which help the Revenue Authorities for arriving at fair assessment under different Indirect Tax Laws. I am confident that, even under Goods and Services Tax (GST Regime), the Institute will continue to support the stake holders with much greater responsibility. I also envisaged the CMAs to be facilitators to the Stake Holders for being GST compliant.

The publication by the Institute titled, “An Insight of GST in India” attempts to sketch an outline of the various elements of GST including its structure, proposed model, taxes to be subsumed, tax mechanism, valuation of goods and services, interstate movements of goods and services etc. Although the GST laws, rules and procedures have not yet been put in the public domain, this publication has envisaged the probable business processes and dealt with the critical aspects of Registration, Returns, Place of Supply of Goods & Services Rules etc. It has also covered the expected impact of GST on various sectors and has made a comparative analysis of different situations in the Pre-GST & Post-GST Era.

In short, the Institute has done an excellent job in bringing out this publication. I congratulate the Institute in general and CMA A. B. Nawal - Chairman, Taxation Committee in particular for this work, which would be of great help to the Tax Payers Community in the GST Regime.

I wish the Institute and CMA A. B. Nawal All the Very Best.

-SD

Sumit Dutt Majumdar

Former Chairman – CBE&C



Message of President

I am pleased to note that the Tax Research Department of the Institute under the guidance of the Taxation Committee has brought out the document titled “Insight into Goods & Services Tax (GST) in India, GST – media to achieve mission of Make in India - through ease of doing business.” GST is expected to ensure seamless and uniform indirect tax regime besides lowering inflation and promoting growth in the long run. GST will subsume central indirect taxes like excise duty, countervailing duty and service tax, also state levies like value added tax, octroi and entry tax, luxury tax.

The Institute is ready to support the Government in its initiatives like ‘Make in India’, Ease of doing business, Smart cities, Infrastructure growth, Agricultural reforms and Swatch Bharat etc. I am fully aware that in order to accomplish this task we have to constantly enhance our competencies and skill sets beyond the conventional cost accounting.

CMA professionals, by virtue of academic knowledge and practical training, are well equipped to play a pivotal role as an advisor and facilitator for due compliances of law relating to goods and services tax to the general business community. CMAs are a preferred source for sharing knowledge to spread tax-literacy and GST-awareness, as the economy is getting geared to shift the tax-incidence from Origin-to-destination principle. CMAs pledge to extend professional expertise for seamless roll-out and effective implementation of GST in India. With the implementation of GST in India CMAs would be in a much more professionally advanced stage as compared to peers. This is only due to the valuation issues which are only possible based on cost information duly authenticated by CMAs.

The role of the Cost & Management Accountants is unique in this respect due to being intimately connected with business activities of entrepreneurs and having in-depth knowledge of primary records including cost records, proper application of all the provisions of the statute towards availing of all Input Tax Credit may be ensured. The Cost & Management Accountants may provide rational and convincing recommendations towards ensuring the Government revenue and protecting all possible slippage of revenue.

I am sure that this document will serve as a base for understanding the concept of GST and its implications on one and all. I complement the efforts of the TRD and Taxation Committee in bringing out this important publication. I request one and all to send constructive suggestions to further improve the text of the document.

(CMA P.V. Bhattad)

15th October 2015



CMA Ashok B Nawal
Chairman – Taxation Committee
The Institute of Cost Accountants of India

PREFACE

Dear Colleagues,

It is my great pleasure and privilege to place before you the title "An Insight in GST in India". This is the first publication on GST of our Institute, which covers all the aspects of GST and GST update till date.

Goods and Services Tax (GST) in India as we are all aware and envisage to be the greatest indirect tax reform in the country post-independence. GST with its embedded element of simplicity in levy and collection of taxes as opposed to multiple / multi-point levy and collection of indirect tax, would remove the tax distortions besides reducing the cost of goods and services in the hands of the final consumer.

Unlike many others, I firmly believe that implementation of GST in India shall boost economic growth and overall development of industries in India. This will be an engine for generation of employment in India as simplicity and transparency under the proposed GST law would definitely promote and motivate investors to Make in India, the prime mission set by our Honorable Prime Minister, Shri Narendra Modiji. Let us all raise to the need of the economy and the Nation at large in smooth implementation of GST in India and to make India the 'destination-country for investment'.

The publication titled "An Insight of GST in India" prepared and published by the Institute articulates an outline of the proposed Goods and Services Tax statute, as envisaged from various discussions, government pronouncements, international best practices and response from trade and industry associations.

The title contents the need for Tax reforms that forms the genesis for introduction of Goods and Services Tax (GST) in India. The tax reform will bring about a transformation in the tax-structure as multi-incident levy would be replaced by single-incidence levy, mitigating tax distortions besides reducing the cost of goods and services in the hands of the final consumer.

The title sketch GST in India as a tool to empower economic growth and an engine for generation of employment in India. It is explained in lucid language with diagrammatic representation, flow chart, illustrations and examples by making a pre and post-GST scenario evaluation.

Institute of Cost Accountants of India considers this as a privilege to propose a draft "Place of Supply Rules" - based on international best practices and discussions in various forums, crafted to the need for Indian economy. Valuation of Taxable Supply without consideration have been much emphasized upon and would be demonstrated further in our future publications.

The Taxation Committee of the Institute express gratitude to all the well-wishers for their valuable suggestions in the process of making and development of this title. The Institute and its esteemed members pledge to raise to the need of the economy and the Nation at large in smooth implementation of GST in India and to make India the 'destination-country for investment'. Let us all join hands together to introduce the simplified and transparent tax structure through the proposed GST law which would definitely promote and motivate investors to Make in India, the prime mission set by our Honorable Prime Minister, Shri Narendra Modiji.

CMAs would be a major facilitator to spread GST awareness amongst the mass besides transforming them to be GST compliant.

Our Institute had been prescribing various Cost Accounting Standards, which had helped the both the Revenue Authorities and Tax Payers for arriving at fair assessment under indirect tax laws. The Taxation Committee of the Institute is mandated to serve the needs of the society and CMAs would be a major facilitator to spread GST awareness amongst the mass besides transforming them to be GST compliant.

It is always preached by the Institute that 'cost information is the only relevant information available to both tax administrators and tax payers for making fair assessment under tax laws ". In India, with the mandatory prescription of maintenance of cost records and cost audits thereunder, as specified, will facilitate the both the tax administrators and tax payers to bring about certainty and fair tax assessment/adjudication.

This book will be certainly useful for the members and the Institute to be familiar with forthcoming GST law. Our members will act as a Facilitator between all the stake holders, Govt., Tax Payer and ultimate Consumer. We will ensure 100% statutory compliances, seamless flow of Input Tax Credit, smooth & efficient tax collection mechanism and also will ensure the benefit of GST will be passed on in the hands of consumer.

We will be continuously updating this publication no sooner draft GST Act is made in public domain and any further enactments whenever take place. Valuable suggestions and constructive feedback from users and readers would be highly appreciated, gratefully acknowledged and suitably incorporated.

I express my sincere thanks to CMA Chiranjib Das, Joint Director, Tax Research Dept(TRD), CMA Amit Dey, CA Satendra Gupta, CS and other colleagues of TRD. I also express my gratitude for kind messages sent by **Shri. Arun Jaitely, Minister of Finance, Corporate Affairs and Information & Broadcasting India**, Shri. Bashir Ahmed - Advisor Empowered Committee of State Finance Commissioner, Shri Sumit Dutt Majumdar - Former Chairman, CBEC., Shri. Upender Gupta, Commissioner, GST and Member of Taxation Committee of Institute of Cost Accountants of India and Shri. P V Bhattad, Hon. President of Institute of Cost Accountants of India.

I am thankful to my colleagues in the Council for reposing confidence on me to serve the profession as Chairman of the Taxation Committee.

I wish all success for CMAs and students of the Institute and look forward for many more technical publications post-implementation of GST in India.

Thank You.

Contents

Part-A	Topics	Pg.No.
1.	Indirect Taxation - Present Structure and Challenges	10
2.	Make in India - in a cost-effective way	13
3.	Ease of doing Business in India	16
4.	Tax REFORMS in India	22
5.	Goods and Services Tax (GST) in India	24
	5.1 Introduction	24
	5.2 Relevance of GST	25
	5.3 Principle of Equity	27
	5.4 Common Economic Market (CEM) - Post GST	28
	5.5 GST Model - Internationally	29
	5.6 Proposed GST Model for India	30
	5.6.1 Goods & Services Tax (GST) in India - Type of GST	31
	5.6.2 Goods & Services Tax (GST) in India - Why Consumption Type of GST ?	31
	5.6.3: Goods & Services Tax (GST) in India- Why Destination-based instead of Origin-based ?	32
	5.7 GST Coverage	33
	5.7.1 Coverage in General	33
	5.7.2 Amendments made to the Seventh Schedule to the Constitution	34
	5.8: Taxes to be subsumed post-GST	35
	5.8.1 : Principles for subsuming taxes under Goods & Services Tax (GST) in India	36
	5.8.2: Other Indirect Taxes to continue post-GST	36
	5.8.3: Additional Tax - Tax Cascade continues	36
	5.9 Tax Mechanism - Levy and Chargeability	37
	5.9.1 : Rate structure for Levy and Chargeability:	38
	5.9.2. Threshold Limit	38
	5.9.3. Composition Scheme / Compounded Levy Scheme	40
	5.10 Valuation of Goods and Services	42
	5.10.1 Valuation of goods and services for a consideration	42
	5.10.2 Valuation of goods and services without a consideration	43
	5.10.2.1 Captive Consumption - CAS 4 Certification	44
	5.10.2.2 Stock Transfer	48
	5.10.2.3.Valuation of Stock Transfer for GST levy (Suggested)	50

5.10.3 Works Contract	52
5.10.3.1 Elements of Cost of Works Contract	53
5.10.3.2. Determination of Cost of Works Contract	54
5.10.3.3. Explanations to the context of Works Contract	55
5.10.3.4 Determination of Cost of Sale portion and Service portion under Works Contract	57
5.10.4: Job work	60
5.10.5: Consignment Sale	66
5.11 IGST Model - Taxation of Inter-State Sales / Supplies	67
5.11.1 Present Taxation of Inter-State Sales	67
5.11.2 Proposed Taxation of Inter-State Sales	67
5.11.3 Requirements of IGST Model	68
5.11.4 Working of IGST Model	68
5.11.5 Pre-GST (i.e. Present Scenario)	70
5.11.6 Post- GST (Proposed Scenario)	71
5.11.7 Comparative Analysis : Inter-State Supply	71
5.11.8 Advantages of IGST Model - for Tax payers	72
5.11.9 Advantages of IGST Model - for Tax Administrators	72
5.11.10 : Import	72
5.11.10.1 A diagrammatic representation of GST treatment of imported goods (as envisaged)	74
5.11.10.2 A diagrammatic representation of "Imports and Supplies through Agents" (as envisaged)	75
5.12.Export	76
5.13 Capital Goods	76
5.14 Place of Supply Rules - Suggested	76
5.14.1 To determine where supply is to be taxed	77
5.14.2 Important Concepts in GST	78
5.14.3 Place of Supply Rules - Service	82
5.14.4 Place of Supply Rules - Goods	93
5.15 GST Network (GSTN)	93
5.16 GST Registration Process (Inserted - Report Of The Joint Committee On Business Processes For GST On GST Registration - Empowered Committee Of State Finance Ministers (New Delhi-July, 2015)	94
5.17 GST Payment Process (Inserted - Report Of The Joint Committee On Business Processes For GST On GST Payment Process - Empowered Committee Of State Finance Ministers (New Delhi-April,	95

	2015)	
	5.18 GST Return Mechanism (Inserted - Report Of The Joint Committee On Business Processes For GST On GST Return - Empowered Committee Of State Finance Ministers (New Delhi-October, 2015)	95
	5.18.1 Tax Payer and Periodicity of Returns	95
	5.18.2 Components of GST -1 Return (suggested)	95
	5.18.3 Process of Filing of GST -1 Return	96
	5.19 GST Refund Mechanism (Inserted - Report Of The Joint Committee On Business Processes For GST On GST Refund Process - Empowered Committee Of State Finance Ministers (New Delhi-August, 2015)	96
	5.20 Administration, Audit and Adjudication : in post - GST era	97
	5.21 Accounting Entries	98
	5.21.1 Accounting Entries - Financial Records	98
	5.21.2. Accounting Entries - Integrated Accounting	110
	5.22 Business Segments - Impact analysis	117
	5.23 Challenges before Government & Transitional Issues in GST	134
	5.24 Pre- GST and Post- GST - Comparative Analysis	142
	5.24.1. Goods manufactured, Raw material purchased within the state and Finished goods sold within the state	142
	5.24.2. Goods manufactured, Raw material purchased within the state and finished goods sold outside the state in India	144
	5.24.3. Goods manufactured, Raw material purchased from outside the state and Finished goods sold within the state	145
	5.24.4. Goods manufactured, Raw material purchased from outside the state and Finished goods sold outside the state	146
	5.24.5. Goods purchased within the state and also sold within the state	147
	5.24.6. Goods purchased within the state and sold outside the state	148
	5.24.7. Goods purchased outside the state and sold within the state	149
	5.24.8. Goods purchased and sold outside the state	150
	5.25 Genesis of GST in India	151

	5.25.1 Flow diagram since inception of GST thought process for implementation in India	151
	5.25.2 GST- Constitutional Development	152
	5.25.3 Constitution of India- Towards GST	152
	5.25.4 GST Rates & Revenue Neutral Rate(RNR)	154
	5.26 International Scenario	156
6.	Impact of GST on various Sectors	183
	6.1 Retail Sector	183
	6.2 IT SECTOR	186
	6.3 E-Commerce	188
	6.4 Food Service Businesses	189
	6.5 Real Estate	190
	6.6 Transport Sector	192
	6.7 Telecommunication	193
	6.8 Financial Services	194
	6.9 FMCG (Fast Moving Consumer Goods)	195
	6.10 Logistics	196
	6.11 Auto Industry	199
	6.12 Pharma Industry	200
	6.13 Petroleum Products	201
	6.14 Tobacco	204
	6.15 Alcohol	206
	6.16 Power	210
	6.17 Textile Sector	211
	6.18 Manufacturing Sector	212
	6.19 Agriculture	214
7.	Recommendations	217
8.	Role of CMA's in GST	219
	References	227
Part-B	Government pronouncements	
	Appendix 1 - Report Of The Joint Committee On Business Processes For GST On GST Refund Process - Empowered Committee Of State Finance Ministers (New Delhi-August, 2015)	
	Appendix 2 - Report Of The Joint Committee On Business Processes For GST On GST Registration - Empowered Committee Of State Finance Ministers (New Delhi-July, 2015)	
	Appendix 3 - Report Of The Joint Committee On Business Processes For GST On GST Payment Process - Empowered Committee Of State Finance Ministers (New Delhi-April, 2015)	
	Appendix 4 - Report Of The Joint Committee On Business Processes For GST On GST Return - Empowered Committee Of State Finance Ministers (New Delhi-October, 2015)	

An Insight of Goods & Services Tax (GST) in India

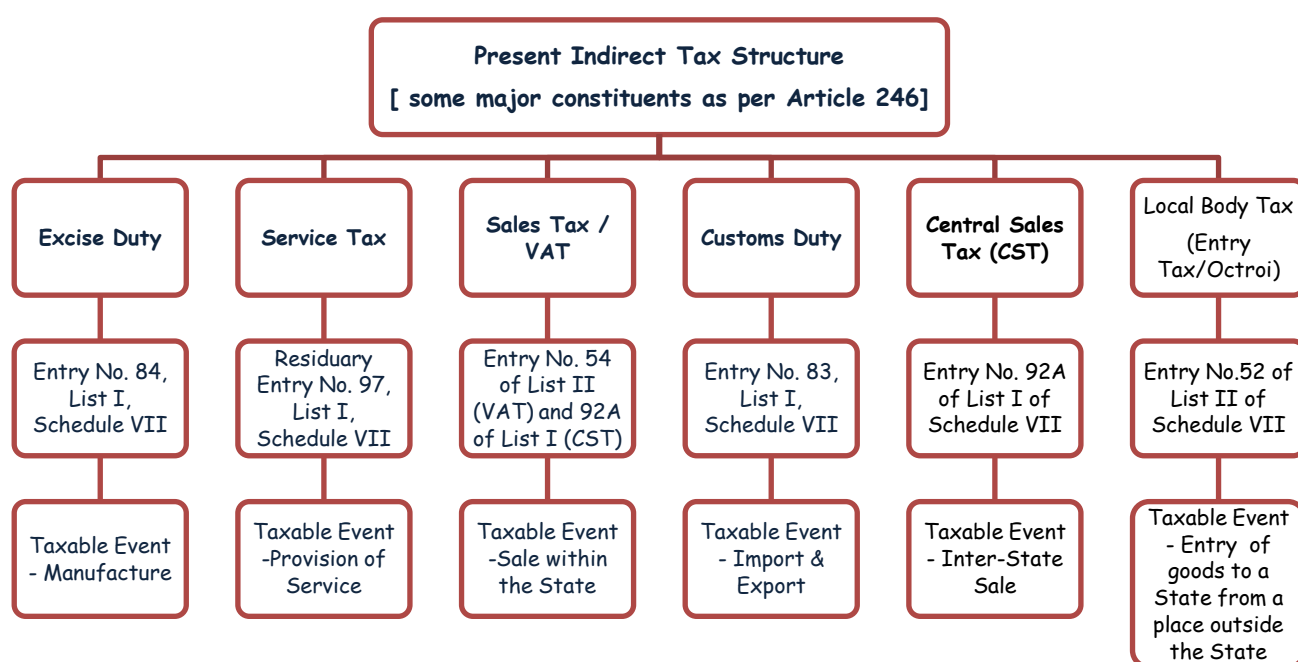
Appendix 5 - Select Committee Report on 122 nd Constitutional Amendment Bill	
Comparative Study of Select Committee Report & Original 122nd Constitutional Amendment Bill	
Appendix 6 - The Constitution (122 nd Amendment) Bill, 2014	
Salient features of 122nd Constitutional Amendment Bill (GST)	
Analysis of 122nd Constitutional Amendment Bill (GST)	
Appendix 7 - IT Strategy for GST	
Appendix 8 - Seventy Third Report of Parliamentary Standing Committee on Finance (2012-13) on Constitution 115 th Amendment) Bill, 2011	
Appendix 9 - Taxation on Service Based on a Negative List of Services Concept Paper for Public Debate	
Appendix 10 - Revised Concept Paper on Taxation of Services Based on Negative List	
Appendix 11 - The Constitution (115 th Amendment) Bill, 2011	
Appendix 12 - Relevant Extract of TAGUP Report	
Appendix 13 - Extract of Task Force Report of 13 th Finance Commission on GST	
Appendix 14 - Comments of the Department of Revenue (DOR) on First Discussion Paper on GST	
Appendix 15 - First Discussion Paper on Goods and Service Tax in India	
Appendix 16 - Working Paper [No. 1 /2009 - DEA] on GST - GST Reforms and Inter-Governmental Consideration In India	

Chapter 1

Indirect Taxation - present structure and existing challenges

The framework for levy of indirect taxes under the Constitutional provisions in India vide Article 246, Seventh Schedule empowers both the Central Government and the State Governments to levy and collect applicable taxable-event based indirect taxes on transactions of goods and/or services. The taxable event varies from the point of manufacture or sale or provision of services or imports/exports. The existing indirect tax laws are origin-based tax, structured to levy and collect at the point of happening of the prescribed taxable event.

A diagrammatic representation of major components/constituents of Indirect Taxes are as follows:



The various tax laws are levied and collected as follows:

Tax	Taxable Event	Levied by	Collected by
Central Excise Duty	Manufacture of Goods in India (excluding goods manufactured in SEZ in India)	CG	CG
Service Tax	Provision of Service in Taxable Territory	CG	CG
Sales Tax/ VAT	Sale of goods within the State	SG	SG
Customs Duty	Import into India from a place outside India or Export from India to a place outside India	CG	CG
Central Sales Tax (CST)	Sale of goods Inter-State (i.e. from one State to another State)	CG	SG
Local Body Tax (Entry Tax/Octroi)	Entry of goods to a State from a place outside the State	SG	SG

where, CG = Central Government; SG = State Government

The challenges embedded within the existing structure of Indirect Taxation in India leads to creation of obstacles and has an effect there under in the form of :

Challenges - nature	Leads to	Effect
☐ different tax rates on same product under existing VAT / Sales Tax under different States	Different prices due to different rates of tax levied and collected on the same commodity in the different states	no common economic market i.e. absence of integrated market
☐ not leveraging economies of scale	☐ Potential decrease in productivity and lower production ☐ Industries unable to gain the low-cost advantage	☐ Fixed overhead costs getting absorbed on lower scale of production ☐ Leverage for cost reduction through effective use of technology is not available to industries due to low economics of scale ☐ higher cost of production for goods and services
☐ uncertainty in tax laws	☐ Constitutional pluralism ☐ Contradictory provisions ☐ Subordinate legislations - Rules or Notifications or Circular in some cases tends to override the provisions of the mother Act ☐ multiplicity of taxes	☐ mystic aura of interpretation ☐ increase in litigation ☐ uncertainty for business / industries and Assessors under different tax laws ☐ multiplicity of compliance ☐ high compliance cost
☐ high litigation - arising out of issues majority relating to classification and valuation	☐ higher compliance cost	☐ anti-business tax environment

The present structure of taxation for goods and/or services in India :

- ☐ characterised as a cascading and distorted imposition of tax on production resulting in wrong allocation of resources and decreasing trend of productivity and declining the pace of economic growth.

- ❑ issues relating to double taxation - arising out of bifurcation of goods and services and differential treatment especially in the context of taxation of intangibles.
- ❑ inhibits voluntary compliance and leads to a narrow Tax/GDP ratio due to a narrow tax base.

Fiscal Federalism In India

India has a federal form of government and hence a federal finance system. The essence of federal form of government is that the Centre and the State Governments should be independent of each provided with sources of raising adequate revenues to discharge the functions entrusted to it. For the successful operation of the federal form of government, financial independence and adequacy form the backbone.

The federal character of public finance in India has its origin as far as the seventies of the last century. Although at that time the country had a unitary form of government, some division of functions and financial powers between the Center and the state was found administratively desirable. Ever since then the arrangements have been revised and improved from time to time.

Fiscal federalism entails the division of responsibilities in respect of taxation and public expenditure among the different layers of the government, namely the Center, the states and the local bodies.

Fiscal federalism helps governmental organization to realize cost efficiency by economies of scale in providing public services, which correspond most closely to the preference of the people. From the point of view of economy, it creates a unified common market, which promotes greater economic activity.

Backed by the constitutional powers enshrined to levy duty/tax on transaction concurrently but independently, there has been instability and uncertainty in related indirect tax laws, which therefore calls for a REFORM in the levy and collection of indirect taxes, especially as regards taxation of goods and/or services.

It therefore becomes imperative for the economy to shift towards introduction of Value Added Tax (VAT) or commonly used acronym it is known as Goods and Services Tax (GST) which would:

- ❑ to reduce/mitigate the cascading effect
- ❑ bring about uniformity across the tax horizon
- ❑ ensure certainty and equity through efficient tax laws.

GST has continued to spread across the world, international trade in goods and services has expanded rapidly in an increasingly globalized economy. GST in India is the POWER to EMPOWER SUSTAINABLE GROWTH to achieve the MAKE-IN-INDIA Mission.

Chapter 2

Make in India : In a cost-effective way

Under the dynamic leadership of Prime Minister Shri Narendra Modi, the Mission of "Make in India" was launched on September 25th, 2014.

The Mission to accomplish investors to "Make in India" is a major new national program designed to transform India into a global manufacturing hub.

The steps to achieve the goal are:

- ❑ FROM INTENT TO ACTION.
- FROM IDEALS TO RESULTS.
- FROM RED TAPE TO RED CARPET.

The mandate is to cut down red tapism to spur investment and transform India into a vibrant economy.

Sectors under the Make in India Mission:

There are 25 (twenty five) Sectors selected on priority :

automobile	automobile components	aviation	bio-technology
chemicals	construction	defence manufacturing	electrical machinery
electronic systems	food processing	IT and BPM	Leather
media and entertainment	mining	oil and gas	Pharmaceuticals
ports and shipping	railways	renewable energy	roads and highways
space	textiles and garments	thermal power	tourism and hospitality
wellness			

Make in India - a Mission - to meet the national requirements besides achieving global standards

The Mission of Make in India program has an objective to:

- ❖ facilitate investment;
- ❖ foster innovation;
- ❖ enhance skill development ;
- ❖ protect intellectual property ;
- ❖ build best-in-class manufacturing infrastructure.

Make in India - Policies

The policies presently getting executed relates to :

Policies	Explanation
New Initiatives	The Make in India program includes major new initiatives designed to facilitate investment, foster innovation, protect intellectual property, and build best-in-class manufacturing infrastructure.
Foreign Direct Investment	India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top 3 attractive destinations for inbound investments. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly.
Intellectual Property Facts	❑ The Indian government has taken several initiatives to create a conducive environment for the protection of intellectual property rights of innovators and creators by bringing about changes at legislative and policy level. ❑ In addition, specific focus has been placed on improved service delivery by upgrading infrastructure, building capacity and using state-of-the-art technology in the functioning of intellectual property offices in the country. This measure has resulted in sweeping changes in IP administration within the country.
National Manufacturing (refer National Manufacturing Policy, 2011 published by the Government of India)	❑ The need to raise the global competitiveness of the Indian manufacturing sector is imperative for the country's long-term growth. ❑ The National Manufacturing Policy, 2011 is by far the most comprehensive and significant policy initiative taken by the Government. ❑ The policy is the first of its kind for the manufacturing sector as it addresses areas of regulation, infrastructure, skill development, technology, availability of finance, exit mechanism and other pertinent factors related to the growth of the sector.

[Source : www.makeinindia.com/policy]

Make in India - How to achieve this in Reality?

Based on the initiatives undertaken by the Government under the leadership of our dynamic and visionary Prime Minister, it becomes imperative, to address issues, which contributes in "Winning the "Cost" War.

The soaring prices, spiraling inflation leads to increased cost burden on the consumer, irrespective of for acquisition of goods or use/enjoyment of services or both. There is also a need to spread cost awareness besides increasing financial literacy.

Therefore, it becomes necessary to :

- ☐ revive Manufacturing
- ☐ Gain Global competitiveness
- ☐ Claim global leadership

Make in India - probable outcomes

With the initiatives taken under the mission, the probable outcomes which are perceived to be emerging includes :

Probable outcomes	Impact
sustainable growth and development of domestic industries	☐ An increase in manufacturing sector growth to 12-14% per annum over the medium term. ☐ An increase in the share of manufacturing in the country's Gross Domestic Product from 16% to 25% by 2022. ☐ Enhancing the global competitiveness of the Indian manufacturing sector.
generation of employment opportunities	To create 100 million additional jobs by 2022 in manufacturing sector.
resource mobilisation and its effective utilisation	An increase in domestic value addition and technological depth in manufacturing.
increase in earning potential of people	Increase in potential purchasing power due to probable decrease in cost
increase in potential purchasing power of people	Increase in consumption due to increase in savings
increase in consumption	Increase in demand
stability and sustainable growth and development of economy	Ensuring sustainability of growth, particularly with regard to environment. Creation of appropriate skill sets among rural migrants and the urban poor for inclusive growth.
higher degree of financial literacy	Transparency, wider tax base, increase in tax literacy through participation under the proposed GST regime for compliance and avail benefit of seamless ITC.

Hence, to achieve the National Mission of "Make in India" - in a cost effective way, there is a need to prescribe measures which facilitates "Ease of doing business in India".

Chapter 3

Ease of doing Business in India

To encourage investors to Make in India, it is necessary to establish an investor-friendly environment to facilitate 'ease of doing business in India'.

The measures may range from simplicity in commencement of business through effective governance for transparency. The objectives are :

- ❖ to establish investor-friendly tax-environment
- ❖ to increase in the degree of certainty for assessment under tax laws in India
- ❖ to reduce cost of doing business in India
- ❖ to facilitate ease in compliance procedures

A comparative statistical analysis representing the indicators for 'starting business in India' at a particular State is as follows:

Indicator	State in India (name not mentioned)	South Asia	OECD
Procedures to be followed (numbers)	13	7.9	4.8
Time required (in days)	30.0	16.0	9.2
Cost (% of income per capita)	16.3	14.6	3.4
Paid-in minimum capital (% of income per capita)	111.2	14.2	8.8

[Source: <http://www.doingbusiness.org/data/exploreeconomies/india>]

It is observed from the statistics that the environment is not investor-friendly, hence, the probable and potential investors would decide on the issue of setting up business in India, as it hampers them economically.

To cater to the emerging need of investors, the Government of India has already initiated some notable steps, which are as follows:

- ❑ Timelines will be defined for all clearances.
- ❑ Central & State governments to provide exemptions from rules and regulations related to labour, environment etc. subject to the fulfillment of certain conditions.
- ❑ Mechanisms for the cooperation of public or private institutions with government inspection services under the overall control of statutory authorities to be developed.
- ❑ Process of clearances by centre and state authorities to be progressively web-enabled.
- ❑ A combined application form and a common register to be developed.

- ☐ The submission of multiple returns for different departments will be replaced by one simplified monthly/quarterly return.
- ☐ A single window clearance for units in NIMZ (National Investment and Manufacturing Zones)
- ☐ Ease in environment approvals.

Besides the broad-based measures, the following measures are initiated under some of the important provisions of indirect tax laws, which are as follows:

- ❖ Customs (besides some other Industry specific measures)
 - ☐ 24 x 7 Customs clearance w.e.f. 31.12.2014
 - ☐ Single Window Project- online message exchange
 - ☐ Special Notified Zone for trading of rough diamond
 - ☐ Adoption of Digital Signature
 - ☐ Reduction in mandatory documents for imports and exports
 - ☐ Setting up of Customs Clearance Facilitation Committee (CCFC)
 - ☐ Rationalisation of penal provisions
 - ☐ Withdrawal of prosecution in certain circumstances
- ❖ Central Excise (besides some other Industry specific measures)
 - ☐ reduction in number of levies
 - ☐ registration in two days
 - ☐ Digital Signature and preserving records in electronic form
 - ☐ electronic payment of duty
 - ☐ Time limit for taking CENVAT (increased to 1 yr from 6 months)
 - ☐ Direct dispatch of goods by registered dealer from seller to customer's premises
 - ☐ Rationalisation of penal provisions
 - ☐ Payment of arrears in instalments
 - ☐ Withdrawal of prosecution in certain circumstances
- ❖ Service Tax (besides some other Industry specific measures)
 - ☐ reduction in number of levies
 - ☐ registration in two days
 - ☐ simplification in procedure for availment of CENVAT Credit in certain cases
 - ☐ Rationalisation of penal provisions
 - ☐ Digital signature and preservation of records in electronic form
 - ☐ Withdrawal of prosecution in certain cases
 - ☐ Re-credit of Reversed CENVAT Credit - if export proceeds received within one year from the specified period of reversal
 - ☐ Reverse Charge mechanism - POT will be the payment date or three months from the date of invoice, whichever is earlier - for more certainty in determination of POT

Hence, to facilitate 'ease of doing business in India' there is a need for TAX REFORMS.

- Reference to the Report on "Assessment of State Implementation of Business Reforms" by World Bank Study Group, September 2015

A wide range of forecasts indicate that, by 2020, India will be home to 1.35 billion people, of whom 906 million will be of working age. These 906 million will need jobs to sustain India's growth, and these jobs can only be provided by the sustained growth of the manufacturing and service sectors in India.

The challenge ahead, therefore, is to create the jobs to employ India's rapidly growing youth base, and the only means of doing so is to catalyze increased private investment in India. Today's investment equals tomorrow's jobs, and so the Government of India has embarked on the ambitious Make in India initiative to create jobs.

But attracting investment means that the environment for investment must be made friendly. According to the World Bank's Enterprise Survey, businesses in India rank corruption as the number one constraint to growth, ahead of factors like electricity, access to finance and access to land. Corruption arises due to lack of a transparent and effective regulatory framework; this is highlighted in a wide range of global analytics. India ranks 142 out of 189 economies in the World Bank's Doing Business 2015 report, the second worst performing economy in South Asia. The World Economic Forum's Global Competitiveness Report ranks India as 71 out of 144 economies. India is ranked at 93rd on irregular payments and bribes, 59th on burden of government regulation, and 57th on the efficiency of the legal framework in settling disputes.

Therefore, improving India's regulatory framework for business is a key prerequisite for increasing investment in India and thereby creating jobs. The Government of India has already embarked on an ambitious agenda to improve India's Doing Business rank to 50 by 2017; however, this effort will only address a small subset of the regulatory burden on investors. Doing Business reforms will only address central regulations, and regulations in Mumbai and Delhi; the rest of the country must also improve simultaneously if we are to convert our reforms into results.

The World Bank has made an extensive study on the existing environment which facilitates trade and commerce in the country. In 2014, the Prime Minister of India, Shri Narendra Modi, requested the World Bank Group to support India's efforts to enhance India's competitiveness and increase manufactured exports. The growth of business in India requires concerted action on several fronts - infrastructure, capital markets, trade facilitation and skills - but the stark reality is that India remains a difficult place to do business. A disproportionately high regulatory burden is borne by businesses in India today.

The World Bank Group also stands committed to support States in their efforts to further improve the regulatory framework for business, and to help build bridges between States and the Centre to share knowledge, best practices and promote both competitive and cooperative federalism going forward.

- ❖ This difficult regulatory burden is exemplified by India's current rank of 142 among 189 nations in the World Bank's Doing Business 2015 study.
- ❖ India does not feature in the top 100 countries on 8 of the study's 10 indicators,
- ❖ In Getting Credit and Protecting Minority Investors India is ranked 7th and 32nd respectively
- ❖ On Dealing with Construction Permits and Enforcing Contracts, India ranks among the bottom 10 economies in the world.

Thus the need of the day is reform, and the reforms must be led by the Government at both Central and State levels.

The Government of India has embarked on reforms focused on improving India's performance in the World Bank's Doing Business rankings. These efforts, among other things, focus on implementing reforms relating to starting a business, resolving insolvency, enforcing contracts, and trading across borders.

While efforts at improving India's ranking in the Doing Business Report do cover some of the regulatory issues pertaining to state governments, much more is required to be done at state governments' level to achieve the Prime Minister's vision of making India an easy place to do business. A majority of the regulatory burden imposed on business is due to the plethora of laws, rules, regulations and procedures enforced by the States. This gives rise to a wide number of registrations, licenses and NOCs that businesses must obtain and file compliance returns on.

On 29th December 2014, Chief Secretaries of States participating in the "Make in India" workshop finalized a 98-point Action Plan on "Ease of Doing Business" and subsequently it was decided that an evaluation will be conducted to assess progress by June 2015. This report captures the findings of the evaluation of this unique exercise, and ranks States in terms of their implementation of the 98-point action plan. We are pleased to support the Government of India in undertaking this unique endeavor, because it takes a "competitive federalism" approach to business reform. The World Bank Group also stands committed to support States in their efforts to further improve the regulatory framework for business, and to help build bridges between States and the Centre to share knowledge, best practices and promote both competitive and cooperative federalism going forward.

In its latest report titled "**Assessment of State Implementation of Business Reforms - September 2015**", the World Bank has evaluated the present environment in the form of a score card to take stock of what reforms have happened, and to identify the way forward for States. The report highlights the innovations and achievements on individual reforms, so that States can easily identify counterparts who have achieved the reforms, and can reach out to learn directly from their peers. I would urge all stakeholders to support this exchange of information, knowledge and best practice between States.

The assessment has also given rise to competition among States and UTs to undertake reforms. The high priority given to this initiative is indicated by the support and ownership of the reform agenda at the highest levels of State Government. We hope that this report will allow States to understand how they have performed, but, more importantly, to learn about some good practices already being implemented across India that can be readily customized and adopted. Most States have expressed an interest to not only compete, but also to collaborate and learn from each other's experience.

Many States have already embarked on ambitious reform programs or expanded their ongoing reform efforts since the announcement of the 98-point action plan. Various process streamlining and technology interventions have been undertaken in the areas of commercial taxes (time-bound VAT/ CST registrations, online mechanisms for payments and returns of various taxes etc.), labour (self-certification mechanisms for integrated returns and inspections, development of online labour management systems etc.) and environment (exemption of a number of green industries from approvals/ consents, implementation of consent management systems etc.).

On a long journey, these are the first steps in the right direction. There are still a multitude of reforms that need to be undertaken and implemented effectively. On average, only 32% of the proposed reforms have been implemented across the country. The implementation of reforms regarding inspection and enforcement of contracts, which necessitate medium term actions, stands at less than 20%.

This report contains detailed analysis on each of the 285 questions studied in the assessment, and outlines which States are leading on each. The report further provides a two page summary on each State, with highlights on their achievements as well as indications on where they need to focus going forward.

The results of the assessment indicate that States have wholeheartedly embraced the challenge placed upon them to focus on further streamlining the regulatory burden on business in India. To quote one of the Chief Secretaries, "The study provides a good benchmark for initiating work towards enabling/ facilitating ease of doing business. Sustained and time bound efforts would need to be undertaken to make this a long-term success".

It is important to ensure that reforms are actually being felt by the beneficiaries, the private sector. Global experience indicates that there may be a gap between what is provided for on paper, and what is actually implemented on the ground. The degree of implementation may also vary across firms and jurisdictions. The supply response to the reforms may therefore be muted when such gaps exist. Additionally, most reforms that have been implemented by States in response to the Action Plan have been implemented between March and June, 2015. It is critical that these reforms be properly communicated, monitored and evaluated, to ensure that the impact of the reforms are being felt on the ground. The last chapter of the report provides some suggestions on methods to engage the private sector.

The methodology for this assessment is appended with this report as Appendix I and II. The report assesses implementation status of reform measures across the following eight areas

Sl. No	Area
1	Setting up a business
2	Allotment of land and obtaining construction permit
3	Complying with environment procedures
4	Complying with labour regulations
5	Obtaining infrastructure related utilities
6	Registering and complying with tax procedures
7	Carrying out inspections
8	Enforcing contracts

In the long run, effective reform involves a sustained and knowledge-based process that requires benchmarking, consultation and sharing of information. This report is inspired by the notion that "What gets measured gets done", and is therefore is intended to trigger a participatory and knowledge-driven reform process.

[Contents of this write-up adapted from the stated Report only]

Chapter 4

TAX REFORMS IN INDIA

Indian Economy is characterised by the presence of a distorted indirect tax structure leading to the biggest obstacle/hindrance to investors/ industries for doing business in India. Hence, it shall be hampering the growth of the industries and contradict the National Program of 'Make in India'. Efforts undertaken by the Government of India are aimed to increase the degree of trust-worthiness for investors on Indian socio-economic scenario.

In order to create an investor-friendly tax-environment, there is a need for TAX REFORMS in India.

Tax Reforms - Need

The need for Tax REFORMS in India arises out of the following factors:

Factors	Impact
❑ to bring about certainty in tax laws	Reduced litigation, higher degree of compliance. This would also bring in more element of trust and faith between the tax administrator and the tax payer. There shall be higher degree of transparency.
❑ to establish a tax system that is	
❖ economically efficient	Tax efficiency minimizes the cost of complying with the tax laws by reducing its administrative burden and by minimizing any distortions in the economy caused by the existing tax policy.
❖ neutral in its application	No differentiation between rich and poor. No differentiation between goods and services across the tax horizon .
❖ distributionally attractive	Shift towards GST would be lead to allow the tax credit to flow across the value chain. There would be a seamless transfer of tax credits. Hence, tax would not be a cost in the hands of the tax payer (i.e. the business entity)
❖ simple to administer	With the abolition of multi-point and multi-dimensional taxation with differential taxable events, there would be more simplicity in the tax law, hence

	would be simpler to administer.
❖ tax design	Well designed destination-based value added tax on all goods and services is the most elegant method of eliminating distortions and taxing consumption
❖ infrastructure	To establish a strong infrastructure which allows the operational machinery in the tax administration to render best services to the tax payer
❖ degree of harmonization	An attempt towards implementation of a flawless GST would be contributing to absolute harmonization of the tax base, tax rates and tax infrastructure (i.e. the administration and compliance system) across Centre and all States.

Tax REFORMS - Objectives

The objectives which are aimed to be achieved through Tax REFORMS in India are :

- ❖ The incidence of tax falls only on domestic consumption;
- ❖ The efficiency and equity of the system is optimized;
- ❖ There should be no export of taxes across taxing jurisdictions;
- ❖ The Indian market should be integrated into a single common market;
- ❖ It enhances the cause of cooperative federalism.

[as per Report of the Task Force on Goods and Services Tax, 13th Finance Commission]

The following measures are undertaken by the Government of India in the areas of Direct Tax reforms:

- ☐ Abolition of Wealth Tax as per Finance Act, 2015
- ☐ Simplification of MAT provisions and direction for non-application of the clause
- ☐ Prescribing *Black Money* (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.
- ☐ Amnesty window for declaration of undisclosed foreign income and assets

The high tax-cost structure is a deterrent towards attraction of investors. Hence, there is a need for Tax REFORM, both in the Direct Tax and Indirect Tax Laws in India.

The need for reforms under Indirect Taxation is more necessary for its inherent adverse attributes. The REFORM can only be brought in through introduction of Goods and Services Tax (GST) in India.

Chapter 5

Goods and Services Tax (GST) in India

5.1 Introduction

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. Analysis of the tax levy can be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy.

Even though the country has moved on the path of tax reforms since mid 1980s yet there are various issues which need to be restructured so as to boost productivity and international competitiveness of the Indian exporters.

- ❑ Sales of services to consumers are not appropriately taxed with many types of services escaping the tax net.
- ❑ Intermediate purchases of inputs by the business firms do not get full offset and part of non-offset taxes may get added up in prices quoted for exports thus making exporters less competitive in world markets (Poddar and Ahmad, 2009)

The proposed reform on moving to a 'goods and services tax' would impact the national economy, international trade, firms and consumers.

- ❑ GST is a tax on both goods and services across the supply chain/Value Chain.
- ❑ It is levied at every stage of supply/Value Addition.
- ❑ The GST on Inputs (known as ITC - Input Tax Credit) is generally available as credit for set-off against the GST on the output supply.

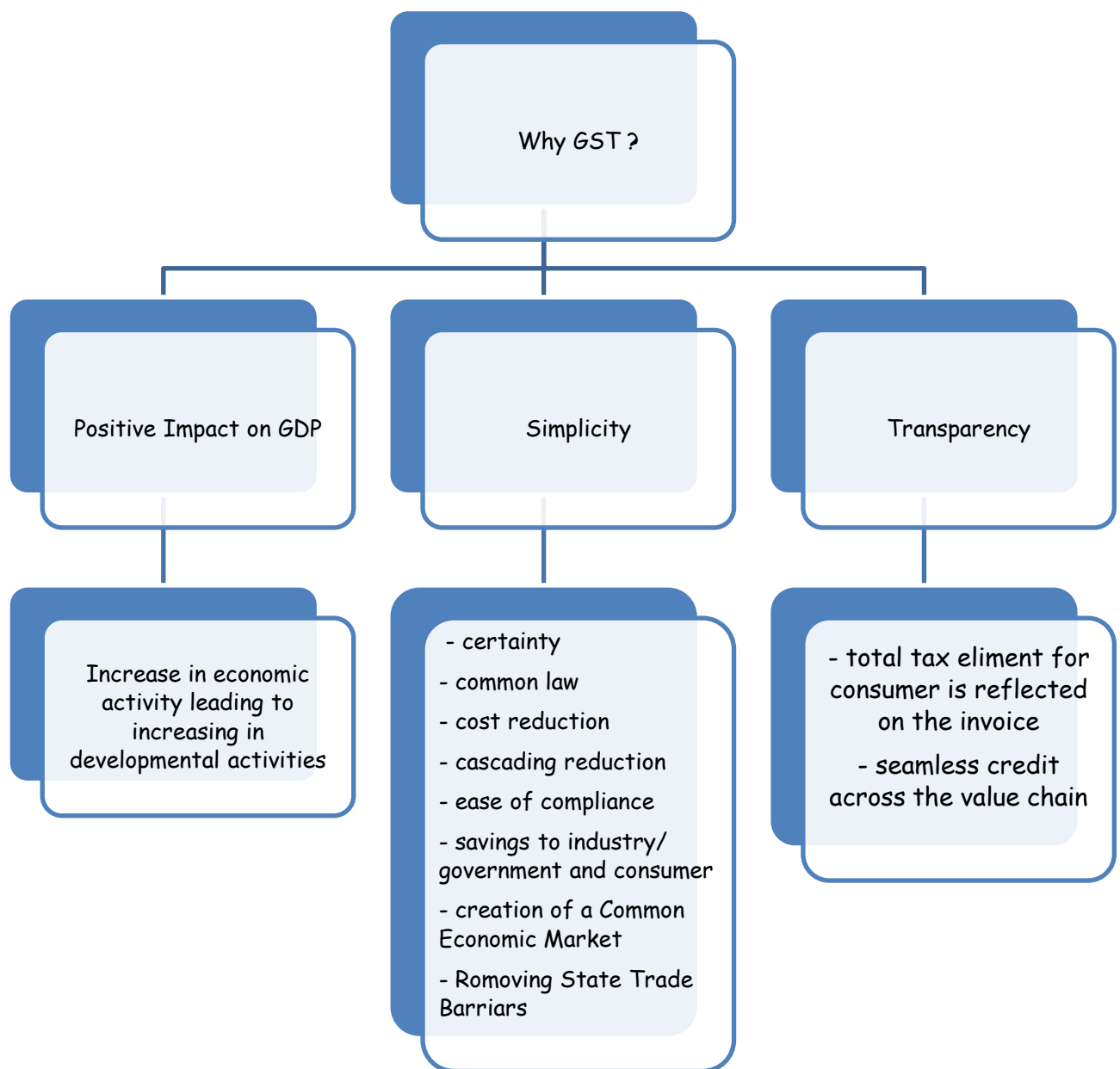
New Article 366(12A) of the Indian Constitution, defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

New Article 366(26A) defines service to mean anything other than goods.

Existing Article 366(12) defines goods to include all materials, commodities and articles.

Goods and Services Tax (GST) in India is proposed to be the maiden REFORM (and not an amendment) in the existing indirect taxation structure. The proposed GST is a long pending and much awaited tax reform which India which is hoped to iron out the wrinkles in the existing indirect taxation system. This comprehensive tax policy is expected to be one of the most important contributor to the India growth story.

5.2 Relevance of GST



Goods & Service Tax (GST) or VAT serves the purpose to impose a broad-based tax on final consumption by households. Hence, GST is a comprehensive tax levy on supply of goods and services.

- ❑ Both Government and Industry are keen to implement GST
- ❑ Governments are looking at increasing the tax base and tax collections (i.e. increase revenue buoyancy) through GST
- ❑ State is looking at GST as a window for taxing services
- ❑ Centre is looking at GST to go beyond the point of manufacture
- ❑ Industry wants GST to eliminate the cascading effect of taxes
- ❑ Harmonization of taxes

GST would also address issues of development through greater interaction between VAT/GST systems, along with growing risks of double taxation and unintended non-taxation in the absence of international VAT/GST coordination. Basic principles of VAT/GST are generally same across the tax jurisdictions in so far as they are designed to tax final consumption in the jurisdiction where it occurs according to the destination principle. The fundamental proposition is that GST/VAT is a tax on final consumption and hence the burden should not rest on the business.

GST/VAT prescribes that the tax should be collected at every stage of value addition. Each business entity/tax payer in the supply chain should take integral part in the process of controlling and collecting the tax, remitting the proportion of tax corresponding to its margin, i.e. on the difference between GST imposed on its taxed inputs/supplies and the GST imposed on its taxed outputs/supplies. This design of tax structure, ensures the neutrality of the tax. As a result, the GST thereby "flows through the business" to tax supplies made to final consumers, hence gives its essential character in domestic trade/supplies as an economically neutral tax.

The proposed reform through introduction of GST would bring about a sea-change in the legal provisions for imposing duty/tax liability in stages of manufacture, sale (inter-state/intra-state) of goods, rendering of services and shall stand replaced with the place of supply, where the final consumption/enjoyment and use of goods/services were made. Hence, this revolutionary reform is necessary to be introduced to perceive the following benefits for the intended stakeholders:

(A) To Trade

- ❖ Reduction in multiplicity of taxes
- ❖ Mitigation of cascading/ double taxation
- ❖ More efficient neutralization of taxes especially for exports
- ❖ Development of Common National Market or Common Economic Market
- ❖ Simpler tax regime with fewer rates and exemptions

- ❖ Increase in 'cost competitiveness' for domestic industries with reduction in tax cost and also reduced cost of compliance

(B) To Government

- ❖ Simpler tax system
- ❖ Broadening tax base
- ❖ Improved compliance and revenue collections
- ❖ Efficient use of resources
- ❖ Investments out of savings by consumers - due to mitigation of cascading effect, contributes to increase in availability of funds out of savings of consumer - which may be used for financing developmental activities

(C) To Consumer

- ❖ Reduction in cost of goods and services due to elimination of cascading effect of taxes
- ❖ Increase in purchasing power and real income
- ❖ Increase in savings due to decrease in cost
- ❖ Increase in investments due to increase in savings

5.3 Principle of Equity

It is desirable for Indian economy to become more competitive and efficient in its resource usage. Apart from various other policy instruments, India must pursue taxation policies that would maximise its economic efficiency and minimise distortions and impediments to efficient allocation of resources, specialisation, capital formation and international trade.

Equity can be brought in and established through a good taxation system. Equity can be classified as (a) horizontal and (b) vertical.

While vertical equity is based on high marginal rates of taxation, both in direct and indirect taxes, horizontal equity relies on simple and transparent broad-based taxes with low variance across the states.

There will be no distinction between goods and services for the purpose of tax with a common legislation applicable to both.

Since, the proposed GST would be broad-based with low variance across the States in India, there shall arise benefits of horizontal equity.

Further that, it should be an inclusive growth across all the state in India. Presently tax is collected by the state where it is originated where as GST is a destination based consumption tax, hence more revenue will flow to the state where consumption is more and therefore such revenue can be utilised for

developing infrastructure so that there will be multiple growth of industry & service across all the state.

5.4 Common Economic Market (CEM) - Post GST

Common Economic Market has been generally understood to mean 'group formed by countries/states within a geographical area to promote duty free trade and free movement of labour and capital among its members'.

Example: European Union.

"The concept of a common market involves the elimination of all obstacles to intra-community trade in order to merge the national markets into a single market bring about conditions as close as possible to those of a genuine internal market" - Court of Justice Ruling in Case 15/81, Netherlands

Common Economic Market - characteristics:

- ☐ free movement of goods
- ☐ free movement of salaried and non-salaried workers
- ☐ freedom of establishment of persons and companies in the territory of any member state
- ☐ free capital movements for business or personal purposes

Common Economic Market - advantages:

- ☐ living standard of people expected to go up due to free flow of goods and services within the region
- ☐ no tariff and non-tariff barriers, trade in Common market partners - increasing the gains from trade from that source
- ☐ through more straight forward access to larger markets (the whole Single Market) firms can operate at a larger scale, production in most efficient in scale (bigger often equals cheaper) and scope (the same production inputs might be used for multiple purposes)

***Key theme of CEM is "Freedom of Trade"
- which would lead to 'Ease of doing business in India"
and
motivate investors to set up industrial / business units to "MAKE IN
INDIA"***

Note: Article 301 of the Indian Constitution provides for freedom of trade and commerce.

5.5 GST Models - Internationally

Goods & Services Tax (GST) is implemented by about 160 countries in the world. France being the first country to implement GST in 1960.

There are various models of GST followed across the World. They are stated with salient features associated therein:

GST Model	Main Features	Applicable in Countries
National GST	Tax levied by Centre with provisions for revenue sharing with Provinces/States	Australia, China
State GST	Tax levied by Provinces/States	USA
Non-concurrent Dual GST	GST on Goods levied by State & on Services levied by Centre	
Concurrent Dual GST	Tax levied by Centre & State on both Goods & Services	Brazil & Canada "India's Proposed Model"
Quebec Model	Separate legislation for Federal/ Provinces - Tax collection, Administration, Enforcements, etc. by Provinces	

A statistical analysis of countries implemented GST with rates of taxes:

Sr. No.	Region	No. of Countries	Tax Rate (Range)
1.	ASEAN-(Thailand & Philippines)	7	7-12%
2.	Asia-(Iran & Tajikstan)	19	5-20%
3.	Europe-(Jersey & Hungary)	53	5-27%
4.	Oceania-(Niue & New Zealand)	7	5-15%
5.	Africa-(Nigeria & Gambia)	44	5-40%
6.	South America-(Brazil & Uruguay)	11	10-22%
7.	Caribbean, Central & North America (Canada & Barbados)	19	5-17.5%
	Total No. of Countries	160	

[Source: "Countries implementing VAT or GST"]

5.6 Proposed GST Model for India

India is opting for "Concurrent Dual GST" model. The need for a Dual-GST model is based on the following premise:

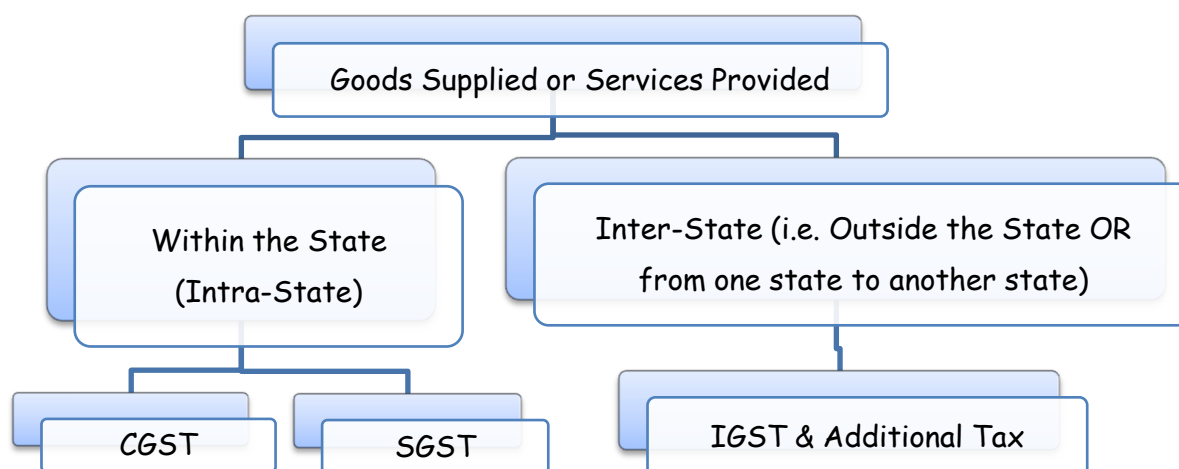
- ❖ At existing framework, both levels of Government i.e. Centre and State, as per Constitution holds concurrent powers to levy tax domestic goods and services;
- ❖ The proposed Concurrent Dual-GST model would be a dual levy imposed concurrently by the Centre and the States, but independently;
- ❖ Both the Centre and State will operate over a common base, i.e. the base for levy and imposition of duty/tax liability would be identical.

To understand the operating procedure of "Concurrent Dual GST Model" we have to consider the tax/taxes which shall be levied as per place of supply of goods and services .

- ❖ CGST - Central Goods and Service Tax
- ❖ SGST - State Goods and Service Tax
- ❖ IGST - Integrated Goods and Service Tax

Additional Tax (upto 1%) to be levied in case of inter-state supply of goods, which is a non-vatable item. Hence, no input credit available on such.

Now we will try to understand when each of these will be levied by the below chart:



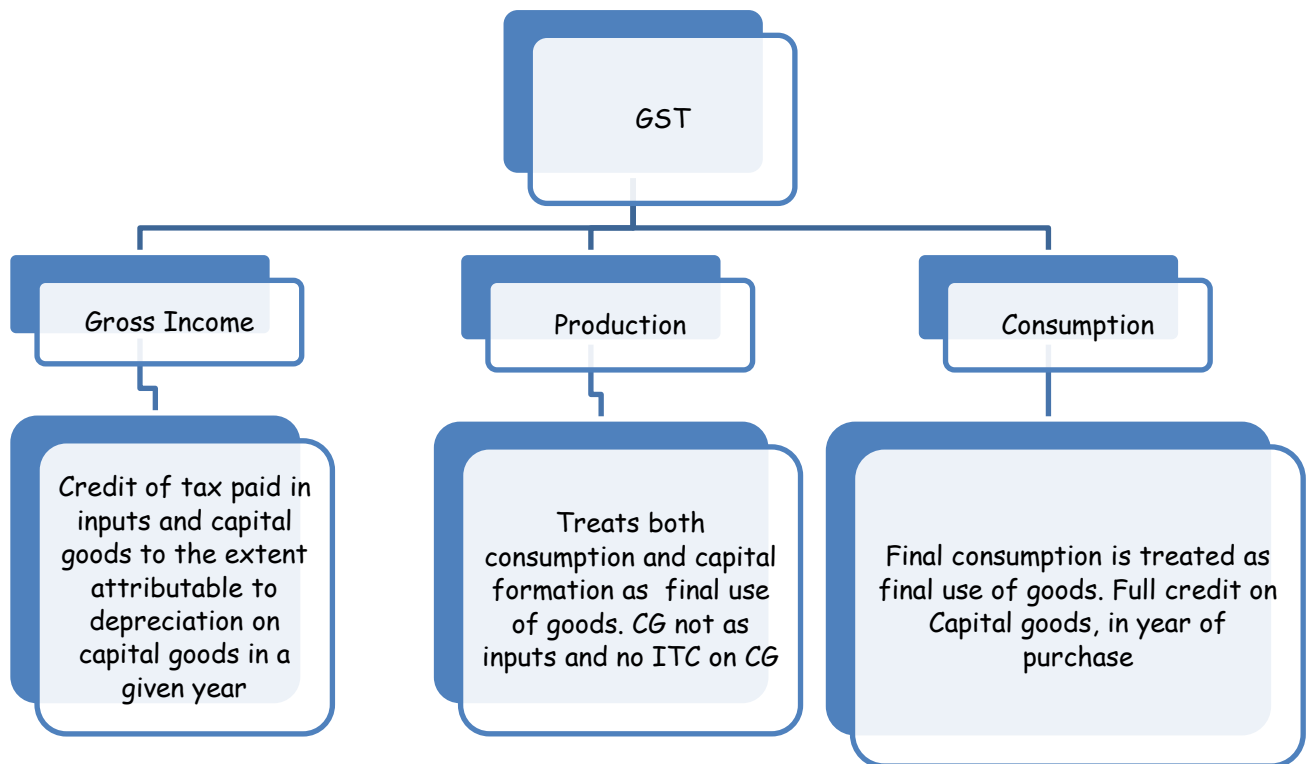
A summary of levy and the imposing and collecting authority:

Nature of Levy	To be levied by	To be paid to the account of
CGST	Central Government on Intra-State Supply of Goods and/ or Services	CG
SGST	State Government Intra State Supply of Goods and/ or Services	SG
IGST = CGST + SGST	Central Government on Inter-State Supply of Goods and/ or Services	CG
Additional Tax	Central Government on Inter-state supply of goods, but the net proceeds to be assigned to the States from where supply originates	CG

5.6.1 Goods & Services Tax (GST) in India - Type of GST

To arrive at the method / type of GST, one must remember/recall the three methods applied for computation of National Income of a country. They are Income Method, Production Method and Expenditure (or Consumption) Method.

GST can also be classified in similar types - Gross Income, Production and Consumption. The diagram demonstrates the type of GST and its corresponding features.



India is proposed to follow and apply the 'Consumption -type GST'.

5.6.2 Goods & Services Tax (GST) in India - Why Consumption Type of GST ?

Indian is proposed to follow the destination based, consumption type of GST. The reason for adoption of consumption type GST are:

- ❖ most favoured tax base from both the perspective of economic neutrality and ease of administration
- ❖ restricts tax burden to final consumption goods
- ❖ no distinction drawn between capital goods and other inputs and no depreciation need to be computed
- ❖ consumption is argued to be a broad measure of the ability to pay taxes, much like income
- ❖ it excludes savings from the base, hence does not discourage investment

From the perspective of economic growth, both income and product type have an anti-investment bias. This is more significant in countries that impose substantial income taxes. Hence, consumption type GST is adopted.

5.6.3: Goods & Services Tax (GST) in India- Why Destination-based instead of Origin-based ?

There is a common saying that GST in India is a 'destination-based consumption tax'. To justify the features and related advantages of destination based consumption tax, we shall have to understand the 'origin-based GST' and its relevance in comparison.

Origin based- GST	Destination based- GST
is imposed on the value added of all taxable products that are <u>produced domestically</u>	is imposed on the value added of all taxable products that are <u>consumed domestically</u>
Location of Production	Location of Consumption
Imports are not taxed but Exports are taxed under origin principle in an open economy	Exports are not taxes but imports are taxed under destination principle in an open economy

Note: In closed economy, both are same, the question of taxation of either imports or exports does not arise at all.

OECD VAT guidelines support the adoption of the "Destination Principle" for supplies of services and intangibles. This guideline support the universal adoption of the 'destination principle' as a means of reducing both potential double taxation (i.e. supplies being taxed in both the source and destination) and potential under taxation (i.e. supplies not being taxed in either the source or the destination).

Destination based Consumption type GST should be adopted as it contributes towards increased international competitiveness and sustainability of domestic industries.

Illustration:

Mr. A manufactures goods. He bought goods for Rs. 1,20,000 and incurred expenses of Rs. 10,000. These manufactured goods were sold for Rs. 145,000. Say, CGST rate 10% & SGST rate 10%. Compute Sale Price.

Solution:

Intra-state sale		Inter-state sale	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Cost of Goods	1,20,000	Cost of Goods	1,20,000
Add: Expenses	10,000	Add: Expenses	10,000
Add: Profit (= SP - TC)	15,000	Add: Profit (= SP - TC)	15,000
Sales	1,45,000	Sales	1,45,000
SGST @ 10%	14,500	IGST @ 20%	29,000
CGST @ 10%	14,500	Additional Tax @ 1%	1,450
Sales Price	1,74,000	Sales Price	1,75,450

5.7: GST Coverage:

5.7.1. : Coverage in general

The proposed GST in India would include **All Goods & Services** except:

- ☐ Industrial incentives to be converted into investment link cash subsidy
- ☐ Special Industrial Area Schemes to be also converted into investment based through their validity period
- ☐ Around 99 items presently exempted under VAT may continue in GST regime without any scope to change any list.
- ☐ Common list of exemption for CGST & SGST
- ☐ Transactions which are below threshold limits

It is also advised that there should not be exemption except in following cases:

- ☐ All public services of Government (Central, State and Municipal / Panchayati Raj) including Civil Administration, Health Services & Formal Education Services provided by Government Schools & Colleges, Defence, Para-Military, Police, Intelligence & Government Departments.
- ☐ However, Public Services will not include Railways, Post & Telegraph, other Commercial Departments, Public Sector Enterprises, Banks & Insurance, Health & Education Services.
- ☐ Any service transactions between an employer and employee either as a service provider, recipient or vice versa;
- ☐ Any unprocessed food article which is covered under the public distribution system should be exempt regardless of the outlet through which it is sold
- ☐ Education services provided by an educational institution to its students, faculty and Staff --- Currently exempt under Mega Notification
- ☐ Health care services provided by a clinical establishment, authorised medical practitioner.

GST to include - Real Estate sector

- ❖ Land development
- ❖ Construction on own land and sale of flats
- ❖ Construction on land under Development Agreement and sale of Apartments thereon
- ❖ Maintenance
- ❖ Rent
- ❖ Brokerage

Service Tax under GST whereas stamp duty under list II of Schedule VII to be subsumed when ?? Should Land be included ?

❑ **GST to include - Vehicle, Goods & passengers sector :**

- ❖ Tours and tourism
- ❖ Rent a cab
- ❖ Air / Rail / Sea Travel
- ❖ Road Transport (Inter / Intra State)
- ❖ Transport Services + Agents

Should these be included?

- ❖ Non AC-Taxis & Buses.

❑ **GST to include - Financial services**

- ❖ Banks / Financial Institutions and various services offered by them including interest
- ❖ Credit Society / Co-operative Bank and service offered by them
- ❖ Foreign Exchange Services including transactions
- ❖ Inter Corporate Deposits / Term loans / Group Companies Transactions / Personal Borrowing appear in Personal Balance Sheet
- ❖ Agricultural Loan
- ❖ NBFCs / Leasing Transactions / Mutual Fund / Shares / Investment Based Link Schemes / Stock Markets /
- ❖ Brokers and Sub Broker / Portfolio Management
- ❖ Risk Management Services
- ❖ Chit Funds / Bhissis and auctions thereof
- ❖ Money Lenders (licensed and unlicensed)
- ❖ Scheme like gold loans or market linked schemes

5.7.2 : Amendments made to the Seventh Schedule to the Constitution

- ❖ **Petroleum products** would be subject to GST only from a date specified by the GST Council. Appropriate amendments made in the Seventh Schedule to the Constitution in List I (Union List) and in List II (State list) Centre & State will continue to levy excise duty on
 - ❖ petroleum crude,
 - ❖ high speed diesel,
 - ❖ motor spirit (commonly known as 'petrol'),
 - ❖ natural gas,
 - ❖ aviation turbine fuel,
 - ❖ tobacco and tobacco products

Note: States shall not have the power to tax sale of these goods in the course of inter-State trade or commerce or sale in the course of international trade or commerce.

Note: New Entry 84, List-I & 54, List-II are very limited in scope and confined to petroleum and alcoholic liquor for human consumption.

Note: Entry 51 of the State List which enables excise duty on alcoholic liquor for human consumption continues.

5.8: Taxes to be subsumed post-GST

This Bill specified that following Central indirect taxes and levies could be subsumed in GST:

1. Central Excise Duty,
2. Additional Excise Duties,
3. Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act. 1955,
4. Service Tax,
5. Additional Customs Duty commonly known as Countervailing Duty (CVD),
6. Special Additional Duty of Customs (SAD),
7. Central Surcharges and Cesses excluding those applicable to income-tax, customs duties and to excise duties so far as they relate to goods outside the purview of the goods and services tax.

This Bill specified that following State indirect taxes and levies would be subsumed in GST:

1. State VAT/Sales Tax,
2. Entertainment tax (unless it is levied by the local bodies),
3. Luxury Tax,
4. Taxes on lottery,
5. Betting and gambling.
6. Tax on advertisements,
7. State Cesses and Surcharges insofar as they relate to supply of goods and services; and
8. Entry Tax, not levied by local bodies.

5.8.1 : Principles for subsuming taxes under Goods & Services Tax (GST) in India

- (a) Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services.
- (b) Taxes or levies to be subsumed should be part of the transaction chain which commences with import/manufacture/production of goods or provision of services at one end and the consumption of goods and services at the other.
- (c) The sub-summation should result in free flow of tax credit at the intra and inter State levels.
- (d) Any tax/fee/charge which is in the nature of a user charge for supply of goods & services should not be subsumed under the GST.

5.8.2: Other Indirect Taxes to continue post-GST

- ❖ Basic Custom Duty (Component of custom duty)
- ❖ Taxes on transactions in stock exchange (STT)
- ❖ Taxes on Lands & Building
- ❖ Taxes on mineral rights
- ❖ Duties of excise on alcoholic liquors, opium, Indian hemp, etc
- ❖ Stamp Duty (Clarification needed for different type of stamp duty)
- ❖ Taxes on professions, trades, employments
- ❖ Taxes on vehicles (subject to entry 35 of list III)
- ❖ Tolls
- ❖ Taxes on goods and passengers carried by road or on inland waterways

5.8.3: Additional Tax – Tax Cascade continues

As per 122nd Constitution Amendment Bill 2014, vide Clause 18(1) has proposed levy of an Additional Tax on supply of goods, not exceeding one percent, in the course of inter-state trade or commerce shall, notwithstanding anything contained in clause (1) of Article 269A, be levied and collected by the Government of India for a period of two years or such other period as the Goods and Services Tax Council may recommend, and such tax shall be assigned to the States in the manner provided in clause 18(2).

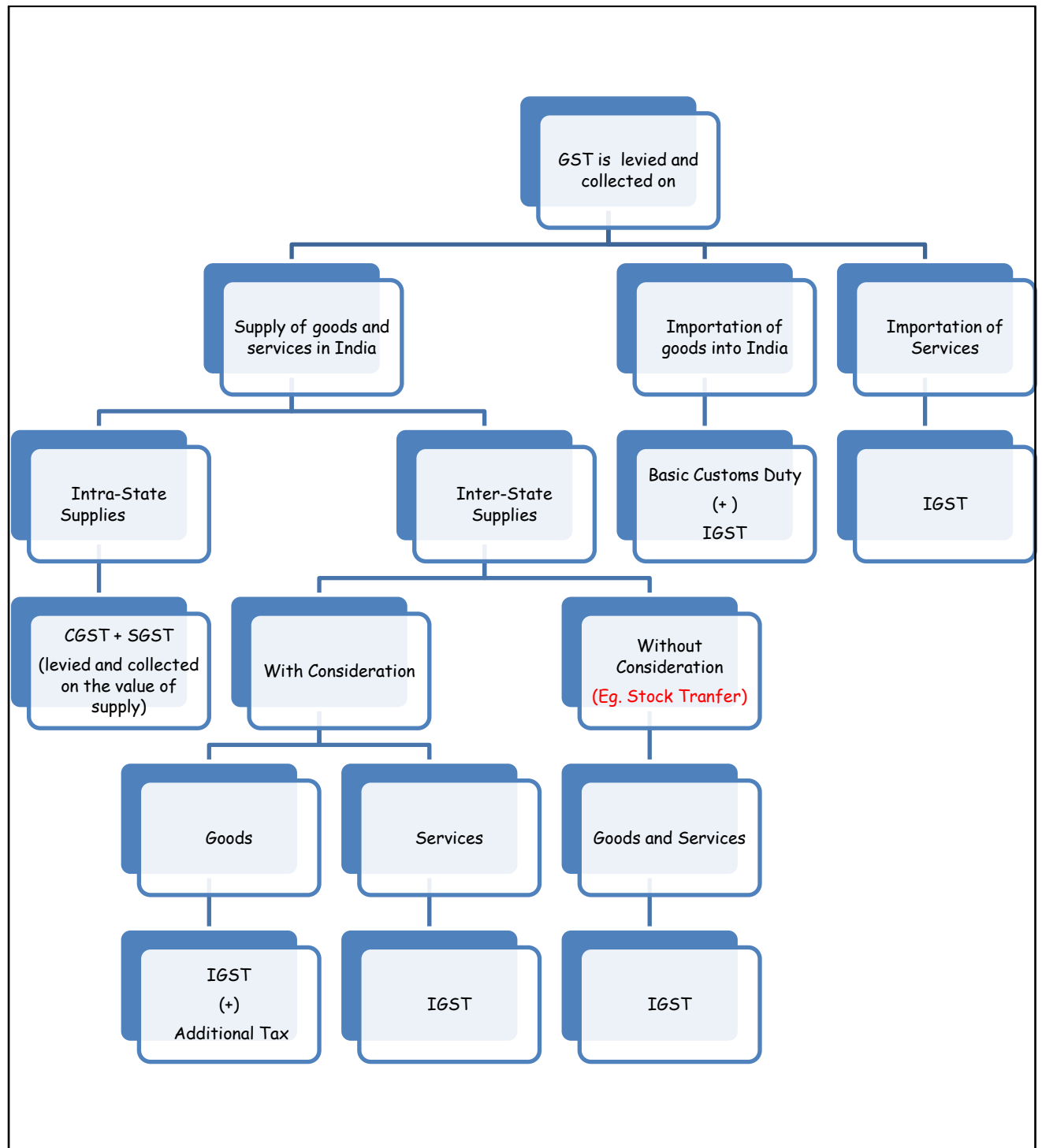
Vide Clause 18(2), the net proceeds of additional tax on supply of goods in any financial year. except the proceeds attributable to the Union territories, shall not form part of the Consolidated Fund of India and be deemed to have been assigned to the States from where the supply originates.

The introduction of the 1% ADT will have several and far-reaching consequences.

It is evident that levy of 1% ADT is not in the best interests of overall trade and would be an impediment in achieving the goal of enabling business decisions neutral of tax impact. It would be worthwhile to revisit the need for imposing this levy, despite various compulsions, as it is distorting the entire framework and defeating the objective of landmark transformational reform to convert whole of India as a single market.

5.9 Tax Mechanism - Levy and Chargeability

The following are the proposals on GST mechanism.



5.9.1 : Rate structure for Levy and Chargeability:

- ❑ Rates for CGST and SGST should be common across the states and shared between Central & State.
- ❑ There is no proper rate spelt till date, however, there are different rates suggested by different bodies.
- ❑ 4 rate structure for goods proposed:-
 - ❖ Standard Rate
 - ❖ Lower Rate - necessary items
 - ❖ Special Rate - precious metals
 - ❖ Exempted Items
- ❑ Exempted List to be finalized considering the goods and services of national importance and local importance.
- ❑ Exports of Goods and Services to be Zero-rated.

5.9.2. Threshold Limit

Threshold limits (under indirect taxation) are synonymous to basic exemption limits or the maximum amount not chargeable to tax (under direct taxation). Under indirect taxation structure, threshold limits are the financial parameters of 'turnover' beyond which the 'tax payer' shall be liable for tax compliance.

The objectives behind threshold limit are:

- (a) to reduce cost of administering of large number of tax payers;
- (b) relieve small tax payers from compliance cost and compliance administration;
- (c) give advantage to small tax payers over large enterprises on account of lower tax incidence.

Threshold Limits under GST by Empowered Committee:

- ❖ Gross Annual turnover of Rs.10 lacs both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly states in North-Eastern Region and Special Category States)
- ❖ Threshold limits for CGST for goods Rs.1.5 crores and Rs.10 lacs for services are suggested

[However, Limit for CGST, SGST & IGST may remain same in the GST law]

Threshold Limits under GST by Task Force Report of Thirteenth Finance Commission:

- ❖ Uniform threshold limits for both CGST and SGST for all manufacturers, traders and service providers at Rs.10 lacs
- ❖ existing exemption of Rs.150 lacs of turnover for small scale industries should not be continued under the GST framework.

[Perhaps, this limit may enhanced to 25 Lacs for CGST,SGST & IGST]

	Turnover	First Discussion Paper		Task Force Report	
		CGST	SGST	CGST	SGST
Goods	Below Rs.10 lacs*	Nil	Nil	Nil	Nil
	Between Rs.10-150 lacs*	Nil	Leviable	Leviable	Leviable
	Above Rs.150 lacs*	Leviable	Leviable	Leviable	Leviable
Services	Below Rs.10 lacs*	Nil	Nil	Nil	Nil
	Between Rs. 10 lacs and Rs."Y" lacs*	Nil	Leviable	Leviable	Leviable
	Above Rs."Y" lacs*	Leviable	Leviable	Leviable	Leviable

[* However, as per recent discussion going on, Threshold Limit for Goods & services it may extend to 25 Lacs]

As per the 122nd Constitutional Amendment Bill,2014

As per the Bill, the Goods and Services Tax (GST) Council shall make recommendation to the Union and the States on the threshold limit of turnover below which goods and services may be exempted from goods and services tax.

GST imposition:

The State Finance Ministers resolved to lower the threshold limit for imposing GST from Rs.25 lacs to Rs.10 lacs and asked the Centre to include the provision for GST compensation in the Constitution Amendment Bill.

The Empowered Committee of State Finance Ministers on GST recommended to the Centre that states be given the legal powers to collect tax from businesses within an annual turnover of upto Rs.1.5 crores.

About dual control, Empowered Committee decided to recommend to the Central Government that for threshold limit of Rs.1.5 crores, Centre will not interfere in assessment, in audit, in other matters. It will be left exclusively to the States. But officials from the Centre insisted that only administrative control will be given to the States.

The States insisted that legal powers should also be given to the states to the extent of Rs.1.5 crores so far as CGST is concerned. The issue of dual control of traders - by both Centre and State in GST structure, would be that tax payers with annual turnover over Rs.1.5 crores would be taxed by the centre, which will later disburse to states their share.

Those with turnover below Rs.1.5 crores would pay their taxes to the states, which would subsequently pass on to the Centre its due share.

As per the recommendation, GST would not be imposed on businesses with annual turnover of less than Rs.10 lacs.

5.9.3. Composition Scheme / Compounded Levy Scheme

Small dealers with annual aggregate turnover of goods and services between Rs.10 Lacs – Rs. 40 Lacs may be allowed to opt for a compounded levy of 1%, each towards CGST and SGST, thereby 2% GST would be charged for compounded levy scheme.

Certain high value goods comprising of:

- (a) gold, silver and platinum ornaments;
- (b) precious stones; and
- (c) bullions

Are prone to smuggling due to high tax incidence. Therefore, it is recommended that dealers in such high value items may, without the ceiling of Rs. 40 Lacs, also be allowed to opt for the compounded levy of 1%, each towards CGST and SGST.

No benefit of input credit would be extended to dealers opting for compounded levy scheme. Taxpayers opting for the compounded levy may be required to pay their taxes and file their returns on a quarterly basis.

However, Empowered Committee of State finance ministers are of the view that 0.5% be the rate for compounding scheme of SGST and also the limit of compounded levy scheme be Rs.50 Lacs.

Note - The limit of Rs.40 Lacs is based on the consideration that dealers with turnover of Rs.40 Lacs or more are subject to tax audit under the Income Tax Act, 1961 and therefore they would suffer from many additional burden in terms of documentation under the GST.

News Update: 21 July, 2010 Speech of Finance Minister at the Meeting with the Empowered Committee of State Finance Ministers

We have extracted the below from speech of Finance Minister, Shri Pranab Mukherjee delivered at the meeting of the Empowered Committee of State Finance Ministers:

"the threshold for compounding for small dealers should also be uniform under CGST and SGST whether it is fixed at Rs. 50 lacs of turnover per annum or Rs.1 crore per

annum. Of course, we must not lose sight of one of the critical deliverables of GST viz. that it should result in considerable simplification for small dealers so that compliance is easy and assured.

In short Finance Minister stated that threshold for compounding for small dealers should also be uniform under CGST and SGST whether it is fixed at Rs. 50 lacs of turnover per annum or Rs.1 crore per annum.

Comments of the Department of Revenue on the First Discussion Paper on GST

Centre may also have a Composition Scheme up to gross turnover limit of Rs.50 lakh, if threshold for registration is kept as Rs. 10 lakh. The floor rate of 0.5% will be for SGST alone, in case Centre also brings a Composition Scheme for small assesses. The Centre may leave the administration of Compounding Scheme, both for CGST and SGST to the States.

GST Constitutional Amendment Bill, 2011

Bill was silent with respect to the compounded levy scheme.

Report of the Parliamentary Standing Committee on Constitutional Bill, 2011

This report of the parliamentary standing committee does not discuss anything about compounded levy scheme.

Summary:

Availing the benefits of tax compliance under the composition scheme is backed by restrictions of non-availability of ITC. Under the composition scheme, levy is made on the turnover of the tax payer.

- ❑ Uniform composition scheme across the state up to the turnover between Rs. 10 lacs to Rs. 40 lacs with minimum composition SGST & CGST @ 1% each.
- ❑ However, Department of Revenue may even consider proposing the limit of Rs. 50 lacs turnover with minimum composition GST @ 0.5% for un-registered dealer and registered dealer Rs. 1 Crore with composition rate of @ 0.5% and CGST rate may be different.
- ❑ However, it is understood that all state govt. agreed to have common threshold limit for CGST & SGST to 25 Lacs & common composition scheme will be upto 75 lacs @ 1%.

- ❑ However, the above composition scheme & Threshold limit will not apply to the taxpayer (dealer) engaged in intra state supplies.

5.10 Valuation of Goods and Services

The issue of valuation of Goods and Services shall be of prime importance under the proposed GST era.

The valuation of goods and services needs to be made when :

- ❖ when made for a consideration
- ❖ when made without any consideration

5.10.1 Valuation of goods and services for a consideration

At present there are number of valuation dispute where clearance are made to the related party, therefore, there are specific rule in Central Excise Act t levy excise duty on the price at which goods are sold to the related party. Similarly sec 4A has been inserted & number of products has been included for determination of valuation of such goods & excise duty is payable on MRP less abetment %. Therefore evasion of Excise duty through valuation mechanism is curtailed. However in GST, tax are going to be collected at each value addition stage/supply chain, there will not be any need for valuation rules related to related party transactions & similarly MRP will continue as per The Legal Metrology Act.

Valuation of goods and services for a consideration shall have the following factors to be considered:

- ❖ When Consideration is not Sole Consideration for 'supply'.
- ❖ When free Goods or Services are supplied.
- ❖ Related Party Transactions.

Illustration — When GST is shown separately in the Tax Invoice:

Sagar purchased goods and made payment of Rs. 1,000 (taxes extra) to Rajat. CGST rate 10% & SGST rate 10%. Then what will be cum-tax price (supply outside the state or within the state)

Solution:

Value of goods sold is Rs. 1.000

Intra-state sale		Inter-state sale	
Particulars	Rs.	Particulars	Rs.
Assessable Value	1000	Assessable Value	1000
SGST @ 10%	100	IGST @ 20%	200
CGST @ 10%	100	Additional Tax @ 1%	10

Price for consumer	1200	Price for consumer	1210
Tax Component or Tax Cost	200	Tax Component or Tax	210

Illustration— If GST (i.e. the tax component) is not shown separately in the Tax Invoice

Anil purchased goods and made payment of Rs. 1,000 inclusive of Tax to Sourav. Rate of SGST @ 10%, CGST @ 10% & Additional Tax @ 1%.

Solution:

Bill amount is Rs. 1,000 and GST (i.e. the tax component) is not shown separately. So, tax payable amount can be calculated by the following formula which is as follows:

Assessable Value = CUM TAX PRICE / (1+ RATE OF TAX)

Assume that Assessable Value is equal to "X"

Intra-state sale		Inter-state sale	
Particulars	Rs.	Particulars	Rs.
Assessable Value	X	Assessable Value	X
SGST @ 10%	0.10X	IGST @ 20%	0.20X
CGST @ 10%	0.10X	Additional Tax @ 1%	0.01X
Cum Tax Price	1.20X	Cum Tax Price	1.21X
Now, applying the above formula, Assessable Value = Cum Tax Price / (1+ Rate of Tax) $X = 1,000 / (1+0.20)$ $X = \text{Rs. } 833.33$ Thus, Assessable Value is Rs. 893 and SGST @10% is Rs. 83.33 & CGST @10% is Rs. 83.33		Now, applying the above formula, Assessable Value = Cum Tax Price / (1+ Rate of Tax) $X = 1,000 / (1+0.21)$ $X = \text{Rs. } 826.45$ Thus, Assessable Value is Rs. 826.45 and IGST @ 20% is Rs. 165.29 & Additional Tax @ 1% is 8.26.	

5.10.2 Valuation of goods and services without a consideration

Valuation of goods and services without any consideration shall arise in the following circumstances.

- ❖ Captive Consumption.
- ❖ Stock Transfer.
- ❖ Consignment Sale.
- ❖ Goods sold but not supplied / cleared from factory.
- ❖ Depot Sales.
- ❖ Job Work.
- ❖ Repairs / Testing / Calibration.
- ❖ Loan Transactions.

- ❖ Free Gifts / Sample.
- ❖ Free of Cost Supplies (Goods / Services), Engineering, Development, Art Work, Design Work, Dies, Tools, Drawing, by Customer / Own Unit.
- ❖ Intangibles.

Some of them are explained hereunder:

5.10.2.1: Captive Consumption

Captive Consumption should continue to be valued as per CAS-4 issued by the Institute and duly authenticated by a Cost Accountant only as per the existing applicable provisions of the Central Excise duty. The computation format as per CAS-4 is reproduced hereunder for ease of reference:

Statement showing Valuation of Captive Consumption for GST levy

		Qty	
Q1	Quantity Produced (Unit of Measure)		
Q2	Quantity Despatched (Unit of Measure)		
	Particulars	Total Cost (Rs)	Cost/unit (Rs)
1.	Material Consumed		
2.	Direct Wages and Salaries		
3.	Direct Expenses		
4.	Works Overheads		
5.	Quality Control Cost		
6.	Research & Development Cost		
7.	Administrative Overheads (relating to production activity)		
8.	Total (1 to 7)		
9.	Add : Opening stock of Work - in -Progress		
10.	Less : Closing stock of Work -in- Progress		
11.	Total (8+9-10)		
12.	Less : Credit for Recoveries/Scrap/By-Products / misc income		
13.	Packing cost		
14.	Cost of production (11 - 12 + 13)		
15.	Add: Inputs received free of cost		
16.	Add: Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost		
17.	Cost of Production for goods produced for captive consumption (14 + 15 + 16)		
18.	Add : Opening stock of finished goods		
19.	Less : Closing stock of finished goods		
20.	Cost of production for goods despatched (17 + 18 - 19)		

	Calculation of Taxable amount of Captive Consumption	Amount
20	Cost of production for goods despatched	
21	Add Distribution Overhead (related to goods transferred) - Packing Exp	
22	Add Loading/Unloading Charges Higher of : Actual Expenditure or Standard (say 1% of Manufacturing Cost)	
23	Add Transportation Cost (From the manufacturing unit to the destination branch) Higher of: Actual Expenditure or Standard (say 5% of Manufacturing Cost)	
24	Add Transit Insurance (Insurance proportionate upto the Destination Branch Higher of: Actual Expenditure or Standard (say 1.125% of Manufacturing Cost)	
25	Total Taxable amount for Captive Consumption (20 to 24)	

Practical steps involved in the preparation of Process Account where there are both Opening Stock and Closing Stock of Work-in-progress and Average Method is used

Step 1 → Prepare Statement of Equivalent Production as follows:

Output	Units	Material		Labour		Overheads	
		% Comp- letion	Units	% Comp- letion	Units	% Comp- letion	Units
A. Units t/f to next process		100	.....	100	.....	100	.....
B. Closing WIP							
C. Abnormal Loss							
D. Eq. Units [A + B + C]							

Step 2 → Prepare Statement of cost per Equivalent unit as follows:

Particulars	Cost of Opening WIP ₹	Current Cost ₹	Total Cost ₹	Equivalent Units	Cost Per Equivalent Unit ₹
Net Material Cost*					
Labour Cost					
Overheads					
					

* Net Material Cost = material Cost - scrap value of normal Loss

Step 3 → Prepare Statement of Equivalent as follows:

Particulars	Elements	Equivalent Units	Cost per Equivalent Unit ₹	Cost of Equivalent Unit ₹	Total ₹
Units t/f to next Process	Material	.....	.....	.....	.....
Closing WIP	Labour	.....	.....	.....	.....
	Overhead	.....	.....	.....	.....
Abnormal Loss	Material	.....	.....	.....	.....
	Labour	.....	.....	.....	.....
	Overhead	.....	.....	.....	.....

Step 4 → Prepare Process Account as follows:

Particulars	Units	₹	Particulars	Units	₹
To Opening WIP			By Normal Loss	.....	.....
To Direct Material			By Abnormal Loss	.....	.....
To Direct Labour			By Process II A/c (Transfer to next process)	.....	.....
To Overheads			By Closing WIP	.....	.....
					

Example:

- (i) Normal loss may be expressed as percentage of Current Input, Total Input, Production or Units Processed. For example Opening WIP 2000 units, Units Introduced 53,000 units, Closing WIP 5000 units, Normal Loss 5%

$$\begin{aligned} \text{(a) Normal Loss (as \% of Current Input)} &= \text{Units Introduced} \times \text{Normal Loss \%} \\ &= 53,000 \text{ units} \times 5\% = 2650 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{(b) Normal Loss (as \% of Total Input)} &= (\text{Opening WIP} + \text{Units Introduced}) \times \text{Normal Loss \%} \\ &= (2000 \text{ units} + 53,000 \text{ units}) \times 5\% = 2750 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{(c) Normal Loss (as \% of Production or Units Processed)} &= (\text{Opening WIP} + \text{Units Introduced} \\ &\quad - \text{Closing WIP}) \times \text{Normal Loss \%} \\ &= (2000 \text{ units} + 53,000 \text{ units} - 5,000 \text{ units}) \times 5\% \\ &= 2,500 \text{ units} \end{aligned}$$

- (ii) Normal Loss is not added to equivalent production. However, the realizable value of normal loss is deducted from the cost of materials so as to calculate the net materials cost which is used as basis for calculating the material cost per equivalent unit.
- (iii) Abnormal Loss is added to equivalent production on the basis of degree of completion in respect of each element of cost. Unless the degree of completion is specified, it may be assumed that abnormal loss units are 100% complete in respect of all elements of cost.
- (iv) Abnormal Gain is deducted to obtain equivalent production. Abnormal gain units are always taken as 100% complete in respect of all elements of cost.

Practical steps involved in the preparation of Second process Account under FIFO Method

Step 1 → Prepare Statement of Equivalent Production, Cost per Equivalent Unit and Evaluation as follows:

Output	Units	Cost of Previous Process		Cost Incurred in Current Process					
				Material		Labour		Overheads	
		%	Eq. Units	%	Eq. Units	%	Eq. Units	%	Eq. Units
A. Opening WIP		-	-						
B. Completely processed (Unit T/f - OS)		100	.....	100	.....	100	.....	100	.....
C. Closing WIP		100	.....	.....	.....	.....	.....	.....	.....
D. Abnormal Loss		100	.....	.....	.....	.....	.....	.....	.....
E. Eq. Units (A+B+C+D)									
F. Total Cost Element wise									
G. Cost per Eq. Unit (F/E)									
Cost Apportionment									
H. Opening WIP (A × G)									
I. C. Processed (B × G)									
J. Closing WIP (C × G)									
k. Abnormal Loss (D × G)									

Step 2 → Prepare Process Account as Follows:

Particulars	Units	₹		Units	₹
To Opening WIP			By Normal Loss A/c	.....	.....
To Process I A/c (T/f)			By abnormal Loss A/c	.....	.....
To Materials			By Process III A/c		
To labour			(T/f to next	.....	.....
To Overhead			process)	.....	.....
			By Closing WIP	.....	.....

Notes:

- (i) In examination Normal loss may be expressed as percentage of Current Input, Total Input. Production or Units Processed. For example Opening WIP 2000 units, Units Introduced 53,000 units, Closing WIP 5000 units, Normal Loss 5%
- (a) Normal Loss (as % of Current Input) = Units Introduced × Normal Loss %
 $= 53,000 \text{ units} \times 5\% = 2650 \text{ units}$
- (b) Normal Loss (as % of Total Input) = (Opening WIP + Units Introduced) × Normal Loss %
 $= (2000 \text{ units} + 53,000 \text{ units}) \times 5\% = 2750 \text{ units}$
- (c) Normal Loss (as % of Production or Units Processed) = (Opening WIP + Units Introduced

$$\begin{aligned}
 &= \text{Closing WIP} \times \text{Normal Loss \%} \\
 &= (2000 \text{ units} + 53,000 \text{ units} - 5,000 \text{ units}) \times 5\% \\
 &= 2,500 \text{ units}
 \end{aligned}$$

- (ii) Normal Loss is not added to equivalent production. However, the realizable value of normal loss is deducted from the **Cost of Previous Process** so as to calculate the Net Cost of Previous Process which is used as basis for calculating the Cost of Previous Process per equivalent unit
- (iii) Abnormal Loss is added to equivalent production on the basis of degree of completion in respect of each element of cost. Unless the degree of completion is specified, it may be assumed that abnormal loss units are 100% complete in respect of all elements of cost.
- (iv) Abnormal gain is deducted to obtain equivalent production. Abnormal gain units are always taken as 100% complete in respect of all elements of cost.

Practical Steps involved in the preparation of Second Process Account under Average Method

Step 1 → Prepare Statement of Equivalent Production Cost per Equivalent unit and Evaluation as follows:

Output	Units	Cost of Previous Process		Cost Incurred in Current Process					
				Material		Labour		Overheads	
		%	Eq. Units	%	Eq. Units	%	Eq. Units	%	Eq. Units
A. Units T/f		100	.....	100	.....	100	.....	100	.....
B. Closing Stock									
C. Abnormal Loss									
D. Equivalent units									
E. Total Cost									

5.10.2.2: Stock Transfer

In Proposed GST:

- ❖ Article 269A refers to GST on supplies in the course of inter-State trade or commerce which includes stock transfer.
- ❖ Stock transfer would be treated as supply and GST will be levied on it because definition of GST does not refer to consideration.
- ❖ Model law would determine method of valuation for stock transfer. Currently, excise law through Rule 7 provides for valuation in respect of stock transfers

In Existing System:

- ❖ In the current system stock transfers are exempted under Section 6A of the CST Act.

- ❖ Input tax reversal to the extent of 5%.
- ❖ Excise Duty is payable on stock transfer.

Illustration: Goods manufactured in West Bengal and transferred to Maharashtra Depot and sold in Maharashtra. (Assuming Octroi in Maharashtra is 5%, Maharashtra VAT is 12.5%, IGST rate is 20%, Additional Tax 1% and in both the cases profit is taken as same 2,50,000)

Existing System		Proposed GST System	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Stock transfer value	10,00,000	(a) Stock transfer value	10,00,000	10,00,000	10,00,000	10,00,000
(b) Excise duty @ 12.5%	1,25,000	(b) IGST	120000	160000	200,000	266800
(c) CST	Nil	(c) Octroi	Nil	Nil	Nil	Nil
(d) Stock Transfer value including Excise duty	11,25,000	(d) Profit (say)	2,50,000	2,50,000	2,50,000	2,50,000
(e) Octroi @ 5%	56,250	(e) Sale Price	12,50,000	12,50,000	12,50,000	12,50,000
(f) Landed Cost	11,81,250	(f) CGST	62,500 (@5%)	1,00,000 (@8%)	1,25,000 (@10%)	1,59,625 (@12.77%)
(g) Credit (Cash Flow Savings)	Nil	(g) SGST	87500 (@7%)	1,00,000 (@8%)	1,25,000 (@10%)	1,73,875 (@13.91%)
(h) Profit (say)	2,50,000	(h) Balance of IGST Credit (b) is available after payment of CGST (b-f)	57,500	60,000	75,000	1,07,175
(i) Sale Price	14,31,250	(i) Net SGST paid to the Govt. after (g-h)	30,000	40,000	50,000	66,700
(j) MVAT @ 12.5% (say)	1,78,906					
(k) No Credit available for payment of MVAT.						

Note: In proposed GST model taxpayer may bear tax outflow at the time of stock transfer but taxpayer can tax full credit at the time of actual sale.

Benefit to the Stakeholders continues to be the same.

Stock Transfer - Challenges in IGST:

- Zero CST Vs. 20% IGST + 1% Additional tax.
- Since the depot is part of the same organisation huge cash outflows on stock transfers. Even though depot can avail IGST credit, the set off can happen only on sale which may not be immediate. Assuming goods are sold directly to customer without stock transfer, IGST of 20% and 1% new tax would be recovered from the customer within a normal credit period.

- Dealers' ability or willingness to hold stock.
- Relevance of depot/godowns.

Valuation of Stock Transfer would be a major challenge. There shall have to an absolute dependence on Material Accounting and/or reliance on Cost records to arrive at the proper Valuation of 'stock transfer'. It is strongly recommended that the valuation of stock transfer be certified by "Cost Accountant" only, as it is under the existing provisions of the Central Excise Rules. This is recommended to be made in line with CAS-4 Certification.

A suggested format is prescribed which is in line with the 'Cost Auditing Standards' mandated u/s 148(3) of the Companies Act, 2013, having concurrence to the Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards (CASs) issued by the Institute.

5.10.2.3 : Statement showing Valuation of Stock Transfer (FG) for GST levy :

	Name of the Taxpayer (Manufacturer)					
	GSTN					
	Address of the Taxpayer					
	HSN Code					
	GSTN of Supplier (From where physical goods supplied)					
	Address of the Supplying Unit					
	GSTN of Recipient					
	Address of the Recipient Unit					
A	Quantitative Information		Unit	Quantity		
1	Normal/Installed Capacity					
2	Production					
3	Captive Consumption					
4	Production as %age of Normal/Installed Capacity					
B	Cost Information	Unit	Quantity	Rate	Amount	Cost per Unit
	Materials (specify)					
1	A.					
	B.					
	C.					
	D					
	Total Materials Consumed					

2	Process Materials					
3	Utilities					
4	Direct Employee Cost					
5	Direct Expenses					
6	Consumable Stores and Spares					
7	Repairs and Maintenance Cost					
8	Quality Control Cost					
9	Research & Development Cost					
10	Technical Know-how Fee/Royalty, if any					
11	Depreciation/Amortization					
12	Other Manufacturing Overheads a. Other Factory OH b. Administrative OH related to production					
13	Total(1 to 12)					
14	Add/Less Work-in-Progress Adjustments					
15	Less Credit for Recoveries , if any					
16	Packing Cost					
17	Cost of Inputs Received Free or at concessional value from the buyer of the excisable good					
18	Manufacturing Cost (13 to 17)					

C	Calculation of Taxable amount of Stock Transfer	Amount
18	Manufacturing Cost (from table B)	
19	Add Distribution Overhead (related to goods transferred) - Packing Exp	
20	Add Profit (If Manufacturing Unit transferred WIP/FG including Profit elements)	
21	Add Loading/Unloading Charges Higher of : Actual Expenditure or Standard (say 1% of Manufacturing Cost)	
22	Add Transportation Cost (From the manufacturing unit to the destination branch) Higher of: Actual Expenditure or Standard (say 5% of Manufacturing Cost)	
23	Add Transit Insurance (Insurance proportionate upto the Destination Branch) Higher of: Actual Expenditure or Standard (say 1.125% of Manufacturing Cost)	
24	Total Taxable amount for Stock Transfer (18 to 23)	

Note:

- (1) The %age based on Manufacturing Cost are suggestive in nature.
- (2) The Manufacturing Cost is as per CAS-22 issued by the Institute.

5.10.3: Works Contract

Works contracts can straddle three taxable activities as per the current law. There is of course supply of goods. Then, due to the very nature of the contract, there is supply of services. Further, if in the process of completing the works contract a new commodity comes into existence, there is the taxable event of manufacture.

As of now, the supply of goods is taxable in the form of Value Added Tax (VAT), while the services element is taxable as service tax. If a new commodity comes into existence, in the process of executing a works contract, then, at least in theory, Central Excise duty may be levied. Hence, different aspects of the same activity have a potential to be taxed by different statutes.

Present Status

At present, State VAT laws have specific provisions for taxing works contracts. To avoid taxing the services element, these laws and associated rules provide for either separation of labour and materials or percentage deductions in transaction value.

Another method is of prescription of a lower rate of tax in a composition/lump sum scheme for works contracts. The Central statute of service tax has also provided for similar treatment to avoid taxation of sale of goods as part of a works contract.

As far as Central Excise is concerned, the law seeks to preclude the applicability of service tax wherever the activity amounts to manufacture. In case the works contract leads to an immovable property coming into existence, the operation of Central Excise levy anyway is out of question, as it is only goods which can be taxed. The actual picture on the ground is however not as clear. Disputes on taxability and taxable value for the three competing taxes still refuse to fade away.

Opportunity in GST

Taxes on works contracts assume significance for the real estate/construction industry and those engaged in erection, commissioning and installation of plant and machinery. In these activities, apart from taxability, the concepts of right to use, credit of capital goods, and usage of consumables also come into play giving rise to various tax consequences.

With the probable introduction of GST in India, it is expected that simplification and consolidation of taxes would lead to multitude of case laws and legislative history on works contracts becoming irrelevant.

The overarching concept in a GST is one of supply which subsumes the concepts of sale of goods, provision of services and manufacture. If States and the Central Government share the powers of taxing services and goods, the separation instituted between provision of services and sale of goods, for segregation of taxing powers, will become redundant.

The elaborate schema of deductions and credits for taxing works contracts may slide into history. This of course is based on the premise that GST will have a simple structure and goods as well as services will be taxed on a uniform rate. Multiplicity of rates in goods or services in GST may lead us to retread the path of componentising

works contracts for the purpose of tax which, in turn, will lead to complexity of interpretation as well as implementation.

Valuation of Works Contract has continued to be a major challenge and burning issue of litigation. There shall have to an absolute dependence on both cost elements relating to goods and services to arrive at the value of works contract. It is strongly recommended that the valuation of works contract be certified by "Cost Accountant" only, as it is under the existing provisions of the Central Excise Rules.

A suggested format is prescribed which is in line with the 'Cost Auditing Standards' mandated u/s 148(3) of the Companies Act, 2013, having concurrence to the Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards (CASs) issued by the Institute.

More over considering proposed place of supply rule & forth coming discussion on ITC credit, there may be an impact of Cascading effect of Tax.

Example: X Ltd. is an event management company, Head office is in West Bengal got a offer to organise an event in Gujrat. By organising that event they have taken goods as well as service from a company Y.

As per proposed PoPs rule, Place of Provision would be place where event has organised i.e. Gujrat and as because Y Ltd. & that event both are in the same state, Y will raised a bill by charging SGST & CGST to X Ltd. But as because X Ltd. is West Bengal based company, it will able to utilise CGST part but not SGST part, so cost will go up because unutilised portion of SGST.

This issue need to be focused by the Govt & associates to nullify cascading effect.

5.10.3.1. ELEMENTS OF COST OF WORKS CONTRACT

If GST rate for Goods & services will not same then perhaps liability will be discharged by the following cost accounting principles.

Cost of Works contract shall include all direct and indirect costs which are attributable or related to the works and may include cost of material, wages, direct expenses, royalty, fees for technical know-how, cost of quality control, cost of employees and cost of utilities, etc.

Accordingly, this suggested procedure for valuation of works contract is to be read in conjunction with the following pronouncements of the Institute for application thereof mutatis mutandis to determine the cost of the work executed or cost of the execution in progress:

- ❖ Overhead (CAS 3)
- ❖ Cost of Production for Captive Consumption (CAS 4)
- ❖ Material Cost (CAS 6)
- ❖ Employee Cost (CAS 7)
- ❖ Cost of Utilities (CAS 8)
- ❖ Direct Expenses (CAS 10)
- ❖ Administrative Overhead (CAS 11)

- ❖ Depreciation and Amortisation (CAS 16)
- ❖ Interest and Financing Charges (CAS 17)
- ❖ Research and Development Costs (CAS 18)
- ❖ Royalty and Technical Know-how Fee (CAS 20)
- ❖ Quality Control (CAS 21)
- ❖ Manufacturing Cost (CAS 22)

5.10.3.2 Determination of Cost of Works Contract

The Cost of each works contract shall be determined which may include with the following components:

Statement showing Cost of Works Contract

Particulars	Total Cost (Rs.)	Total Cost (Rs.)
1. Materials Consumed		
2. Direct employee cost		
3. Direct Expenses (including cost incurred for securing the contract)		
4. Amount paid to the sub-contractors for labour and services		
5. Works Overheads (including Service overheads)		
6. Research & Development Cost, including survey and pre-bid stage		
7. Quality Control expenses		
8. Administrative Overheads		
9. Add: Fair market value of all goods & services supplied in or in relation to the execution of the works contract, whether or not supplied under the same contract or any other contract in inadequate consideration (with or without material).		
10. Less: Subsidy/ Grant		
11. Cost of execution of Works Contract		

NOTE: Above cost structure is only illustrative and not exhaustive.

(i) Inclusion of following cost elements in the value of works contract serves the various purposes declared by the institute.

5.10.3.3. Explanations to the context of Works Contract

(1) Inspection charges and testing charges (PDI)

Where the contractor bears the cost towards inspection and testing of goods prior to their clearance, such costs are includible in the value of the contract. The inspection and testing charges incurred subsequent to the execution of contract (after clearance) if relatable to the execution of such contract shall also be included. The taxes and duties paid in this regard shall also form part thereof.

(2) Warranty Charges

Warranty charges if any paid in respect of plant and machinery as well as equipment used in the contract is includible in the cost of works. Similarly repair charges if any paid shall also form part thereof.

(3) Lease rent of assets

Finance Lease: Under finance lease, assets are acquired. Therefore amount of lease rent relating to such assets for the period used in works contract shall be included in the cost of works contract.

Operating Lease: Under operating lease, assets are taken on lease for a fixed period. Accordingly operating lease charges shall be chargeable to the work on pro-rata basis for the period used for works contract.

(4) Inputs or input services received at inadequate consideration

In case any inputs and input services are received by the contractor from contractee free of cost, fair market value thereof shall be included in the cost of works contract.

(5) Moulds, Tools, Dies & Patterns etc received at inadequate consideration from service receiver

In case any moulds, tools, dies & patterns etc are received by the contractor from contractee for use in work, then cost thereof shall be included in the cost of works contract.

(6) Cost of Transportation

Cost of transportation directly relating to the execution of works contract shall be included in the value of works contract like movement of material by conveyor belt to the respective place of site under the head works overheads.

(7) Cost of Sub-Contract

Cost if any paid to sub-contractor shall be included in the cost of the works contract in so far as the valuation of work made by a contractor. The owner of work need not have regard thereto.

(8) Consultancy, Testing and Inspection charges

Consultancy charges in relation to pre-installation planning, layout design are included in cost of execution of works contract is includible.

Testing charges incurred in relation to execution of works contract should form part of cost of works contract.

Inspection charges incurred in relation to execution of works contract should form part of works contract.

(9) Cost of extra work

During the execution of works contract, if contractor does some extra work under the same contract then the cost incurred in relation to such work shall form part of works contract.

(10) Cost of Equipment or Machinery Imported

If equipment and machineries are imported availing duty exemptions, the amount of exemption available shall be deducted from the cost of equipment and machineries for calculation of different cost under this guideline. Cost of equipment and machineries shall be included under pro-rata basis.

(ii) The following items of costs are not to be included in determination of Cost of Works Contract:

Cost of additional testing of goods conducted at the request of and borne by the customer, shall not be included while determining the cost of works contract.

(1) Extended warranty charges

Extended warranty charges, if any, collected from contractees are outside the purview of the main contract. Hence, cost of extended warranty shall not be included in the cost of works contract.

(2) Expenses relating to Legal Compliance

Cost of compliance to law of the land need not form part of cost of work.

(3) Wastage, Scrape etc.

Scrap or waste may arise in the course of execution of the work. If such scrap or wastes have any economic value, the realized or realizable value thereof shall be credited to the cost of Work. In case, such scrap or waste do not have ready market nor sold, but captively consumed, value thereof shall also be credited to the cost of work. The expenses incurred for making that usable, the cost of processing shall be deducted from the value of scrap or waste intended to be credited to the cost of the work.

(4) Abnormal and Non-recurring cost

Abnormal and non-recurring cost arising due to unusual or unexpected occurrence of events, such as heavy break down of plants, accident, abnormal idle capacity, abnormal service loss, abnormal scrap and wastage, payments like VRS, retrenchment compensation, lay-off wages etc. shall not form part of cost of Works Contract.

(5) Subsidy or Grant

Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any works contract service shall be deducted for ascertainment of the cost.

(6) Interest and financial charges (CAS 17)

Interest and financial charges being a financial charge shall not be considered to be a part of cost of execution of works contract.

(7) Miscellaneous Income

Miscellaneous income relating to contract arising in the course of execution shall be adjusted against cost of execution, for example, income from sale of empty containers etc.

(8) Liquidated Damage

Generally, liquidated damages are arises due to delayed in completion of contract, fulfilment of performance guarantee parameters of contract etc. Any amount incurred by contractee or contractor for non-fulfilment of terms of contract shall not forms part of cost of works contract.

(9) Cost of Works Contract in the event of Amalgamation

During the execution of works contract if any amalgamation activity is taken place, then the cost of works contract, in case of project sold, in the hand of amalgamated company shall be the all cost incurred till date for the execution of works contract including any committed cost which are non-recoverable like advance given to supplier of material and/or sub-contractor etc.,

(10) Contingent liability arising out of execution of works contract

Where the Contractor is not directly or indirectly, required to meet any liability shall not part of cost because occurrence of contingent liabilities is upon happening of any event as is dealt with by AS 29.

5.10.3.4 DETERMINATION OF COST OF SALE PORTION & SERVICE PORTION UNDER WORKS CONTRACT

(i) Cost of works Contract for sale portion shall have to be determined as below:

Cost of Property in goods transfer = Cost of goods whose property is transferred in execution of works contract

Statement of Cost of property transfer under Works Contract -

Particulars	Total Cost (Rs.)	Total Cost (Rs.)
1. Materials Consumed		
2. Direct Expenses (including cost incurred for securing the contract)		
3. Utilities		
4. Consumable stores and spares		
5. Technical know-how relating to property		
6. Works Overheads - Depreciation - Hiring Charges of Plant & Machinery etc. - Repair & Maintenance - Other		
7. Research & Development Cost, including survey and pre-bid stage		
8. Internal Overheads (relating to the service		

deliverable at Contractor premises)		
9. External Overheads (Applicable when service is provided at a different location)		
10. Total (1 to 9)		
11. Less: Credit for incidental reimbursement of out of location cost including realization from sale of scrape & wastage		
12. Cost of Provision of works contract activity (10 - 11)		
13. Add: Difference in fair market value of materials supplied from outside or furnished by Contractee or any person on his behalf less amount realized for the same from contractor.		
14. Add: Amortized cost of Moulds, Tools, Dies & Patterns etc. received free of cost.		
15. Cost of Performance of Works Contract (12 + 13 + 14)		
16. Add: Profit @10% (as per CAS 4)		
Value of Works Contract		

(ii) Cost of Works Contract for service portion shall have to be determined as given below:

Determination of Cost of service portion in the execution of a works contract

Statement of Cost of property transfer under Works Contract -

Particulars	Total Cost (Rs.)	Total Cost (Rs.)
1. Direct Wages and Salaries (Labour charges for execution of the works contract)		
2. Amount paid to the sub-contractors for labour and services		

3. Charges for planning, designing and architect's fees		
4. Direct Expenses (including cost incurred for securing the contract)		
5. Utilities		
6. Consumable stores and spares		
7. Technical know-how		
8. Overheads - Service overhead - Hiring Charges of Plant & Machinery etc. - Administration overhead - Other overheads		
9. Quantity Control Cost		
10. Research & Development Cost, including survey and pre-bid stage		
11. Cost of Provision of works contract activity (1 - 10)		
12. Add: Difference in fair market value of service provided from outside or furnished by Contractee or any person on his behalf less amount realized for the same from contractor.		
13. Cost of Performance of Works Contract (11 + 12)		

Presentation

Cost statement shall present following information:

- ❖ Types of contract and value of contract as per contract deed should be presently separately.
- ❖ Cost information relating to various elements of Cost shall be presented separately.

Disclosures

Disclosure shall be made only where material, significant and quantifiable: -

- (i) Details of payment made to related parties;

- (ii) Details of expenses incurred in foreign exchange;
- (iii) Any subsidy/Grant/Incentive and any such payment reduced from cost of works contract;
- (iv) Details of amount of abnormal expenditure incurred.

Any change in the cost accounting principles and methods applied for the measurement and assignment of the cost of works contract during the period covered by the cost statement which has a material effect on the cost of works contract. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

5.10.4: Job work

Job work is understood as the processing or working on goods supplied by the principal so as to complete a part or whole of the process. The work may be the initial process, intermediate process, assembly, packing or any other completion process. The goods sent for job work maybe raw material, component parts, semi-finished goods and even finished goods. The resultant goods could also be a variation of the same or the complete product. Examples of common job works are slitting, machining, welding, painting, electroplating, assembly, powder coating etc.

1. Provision under Central Excise and Service Tax:

A. Meaning of Job work under Central Excise

Job work is defined in Notification No. 214/86 dated 25.03.1986 and under Rule 2(n) of the Cenvat Credit Rules, 2004

"Job work" means processing or working upon of raw materials or semi-finished goods supplied to the job worker/ so as to complete a part or whole of the process resulting in the manufacture or finishing of an article or any operation which is essential for the aforesaid process.

If one were to go by the definition of the term "job work", it is evident the raw materials have to be supplied by another person. In *Prestige Engineering India Ltd v CCE Meerut*, - 1994 (9) TMI 66, the Supreme Court held that when the job worker contributed his own material to the goods supplied by the customer and engaged in manufacturing, the activity was not one of job work. However, minor additions by the job worker would not take away the fact that the activity was one of job work.

B. Job Work and Manufacture (under Central Excise)

Since excise duty is on 'manufacture', duty liability arises only when the goods are manufactured during job work. The test as to whether the process amounts to manufacture or not would be determined as per section 2(f) of Central Excise Act, 1944 which defines manufacture as including any process incidental or ancillary to the completion of the manufactured product..... Various decision of the Supreme Court have arrived at a conclusion that where the product undergoes a change whereby a new article having a distinctive name, character or use emerges or not from the said process in manufacture (Honourable Supreme Court in *Delhi Cloth and General Mills Co. Ltd Vs UOI* 1962 (10) TMI 1 - SUPREME COURT OF INDIA)

C. Liability under Central Excise and Service Tax

- **Process amount to manufacture:** If the process undertaken by the job worker amounts to manufacture/ deemed manufacture as per the definition or decided case laws, the job worker would be liable to pay duty of excise on the goods so manufactured. Alternatively, the principal manufacturer who has supplied the goods for job work may furnish a declaration under Notification No. 214/86 dated 25.03.1986 (which exempts goods manufactured by a job worker from duty of excise) based on which job worker would not be required to charge duty of excise. The goods must be used in manufacturing process by principal manufacturer which should result in a dutiable product being manufactured on which duty of excise is being charged. The activity undertaken by job worker would not be liable to service tax also as any process amounting to manufacture or production of goods is covered by Negative list.
- **Process does not amount to manufacture:** Where the processing undertaken by the job worker does not amount to manufacture, the said job worker could be liable to service tax. But before determining the same, one need to examine the exemption provided in Notification No. 25/2012 ST 20.06.2012 (called as Mega Exemption Notification). As per the said Notification, **job work in relation of any goods on which appropriate duty is payable by the principal manufacturer, is exempted.** Appropriate duty means "duty payable on manufacture or production under a Central Act or a State Act, but shall not include 'Nil' rate of duty or duty wholly exempt". It means that if the duty is charged on final product by principal manufacturer, there is no liability on job worker to charge service tax. On the contrary, if appropriate duty is not paid by principal manufacturer, the job worker would be liable to charge service tax.

D. Valuation

Prior to 2007 valuation of job work was as per the ratio of Ujagar Prints 1989 (1) TMI 124, It was held by Supreme Court that in respect of goods manufactured on job-work basis, assessable value would be the job charges (including the profit of the job-worker if not already included in the job-charges) plus the cost of the materials used in the manufacture of the item (including the cost of the materials supplied free of cost to the job-worker).

Rule 10A had been introduced in Central Excise Valuation (Determination of Price of Excisable goods) Rule 2000, in respect of the goods produced or manufactured by Job Worker which provides for valuation as follows:

- **Goods directly sold from job worker premise:** Where the goods are sold by the raw material supplier/principal manufacturer from the factory of job worker - the value would have to be the transaction value of the goods so sold by the raw material supplier/principal. This will apply only when the raw material supplier and the buyer of the goods are not related and price is the sole consideration for the sale and the goods are sold for delivery at the time of removal from the job worker's factory.

Illustration: Let the value of raw materials supplied by principal be Rs. 1,00,000 and the job workers conversion cost be Rs. 15,000 and his profit margin be Rs. 5,000. If the principal sells the goods processed by the job worker at Rs. 1,50,000. Then assessable

value would be Rs. 1,50,000 (that is the price charged by the principal for sale of the processed goods).

- **Goods not sold from job worker premise:** In a case where the goods are not sold by the principal manufacturer at the time of removal of goods from the factory of job-worker, but are transferred to some other place from where the said goods are to be sold after their clearance from the factory of the job worker - the normal transaction value of such goods sold from such other place at or about the same time has to be adopted. This, in other words follows the principle of depot based valuation under Central Excise applicable where goods are cleared to depots of manufacturers and sold therefrom. Where such goods are not sold at or about the same time, then the normal transaction value of such goods at the time nearest to the time of removal of said goods from the factory of job worker is to be adopted. The cost of transport from the premises where from the goods are sold, to the place of delivery, would not be included in assessable value.

Valuation under service tax would be on gross amount charged towards labour charges. Where the nature of work undertaken is works contract, value would be arrived at as per options provided under Rule 2A of Service Tax (Determination of Value) Rules, 2006.

2. Provisions under CST/VAT Act:

A. Interstate job work: The goods may be sent outside state for job work. In the absence of any sale, there would be no liability on principal manufacturer to charge CST. The material may be sent along with a declaration that the goods have been sent on job work.

The work undertaken by job worker may or may not involve use of material. Where no material is used, there is no liability to charge CST as there is no transfer of property involved. When the job worker uses materials there would be a transfer of property in goods involved and the transaction would be taxable. The taxability would depend upon the following:

a. Material Billed separately: This would be a divisible contract in which job worker would charge the applicable CST on the materials transferred by him. He would also bill pure labour charges. In such cases the work order, purchase order or contract should be clear on the values ascribed towards the material and labour. It is advisable to keep the valuation of each of the components in such bifurcated contract near to the reality.

b. Composite Billing: In this case the value of material would be included in the total amount. This is called works contract. The material portion would be liable to CST. The various State governments have specified some deemed deduction for labour where the works contract or cannot arrive at the actual value of goods. The example could be annual maintenance contracts, galvanizing, electroplating, powder coating, painting of components, re-melting of scrap zinc/ brass etc. These transactions are liable for tax deduction at source when they provide services to the specified institutions.

Similarly, there could be contracts such as painting of portrait etc. in which some consumables are used. In these cases though there is a material transfer, the activity has been understood clearly to be service by the Court's by applying dominant motive test and consequently there is no liability to charge CST.

B. Job work within state: Where principal manufacturer and job worker are located within same state, there would be no liability on principal manufacturer to charge VAT in the absence of sales. The liability charge VAT would be same as discussed above in case of interstate job works.

3. Applicability of GST on job work

Having discussed the impact under Central Excise, Service Tax and CST/VAT, now we shall discuss the taxability under proposed GST regime. Job work strategy of caring operation through job worker need to be redesign considering the GST burden on supply of goods to the job worker.

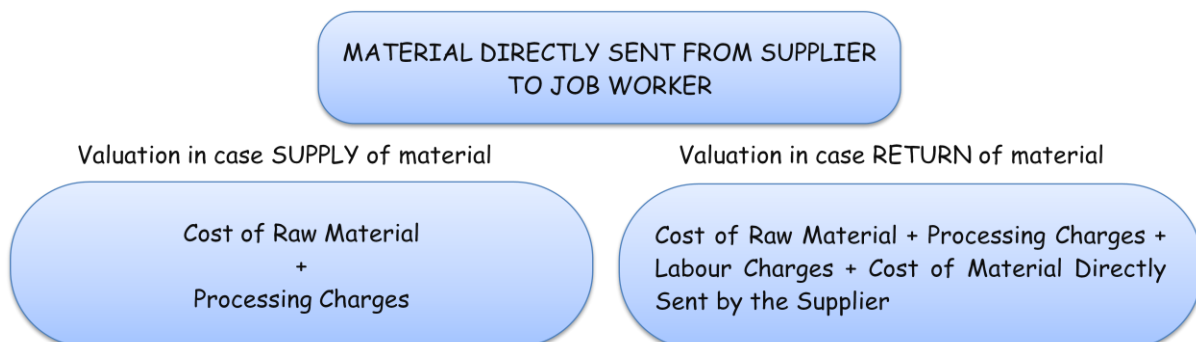
The taxable events under present laws are manufacture (Central Excise), provision of service (Service Tax) and sale (CST/VAT) respectively for applicability of different kind of taxes. Under proposed GST regime, all these concepts would lose relevance and the taxable event would only be "supply of goods" and "supply of services". The goods supplied by principal supplier to job worker would be supply of goods chargeable to CGST/SGST in case of intra state job work and IGST, in case of inter- state job work. The job worker would be entitled to take the credit of tax charged by principal supplier. When the goods would be supplied back by job worker, he is also required to charge the tax in the same manner as charged by principal supplier. Following could be certain aspects which would be relevant under GST:

- **Valuation:** Supply of goods by principal supplier to job worker would be on account of other than sales. Now the question arises as to on what value the principal supplier is required to charge GST as the principal supplier is not going to receive any consideration from job worker towards such supply. One possible option could be the price to be arrived at based on intrinsic value of goods. This can be arrived at by taking the price of comparable goods. Another option could be wherein tax to be charged on the cost of product being supplied which could be determined based on cost accounting record. Similarly, job worker may charge duty based on intrinsic value of goods in the form in which it is supplied by him after processing. This can be done based on the price at which supplied by principal supplier + his job work charges (including material and labour).
- **Nature of taxes and credit:** In case of job work within state, both principal supplier and job worker would be required to charge CGST and SGST. In case of inter-state movement, IGST would be charged. The tax charged by one party would be eligible as credit to another which may be adjusted against discharging their output liability.
- **Treatment of additional 1 % tax:** In case of interstate supply of goods, additional 1% tax would also be levied for initial 2 years. However, it is proposed not to levy this tax where supply of goods is made without consideration. Hence, principal supplier would not be required to charge this additional tax on supply of goods to job worker. Similarly, the job worker needs not to charge this tax to the extent material supplied by principal supplier. However, he has added certain material from his sources, there would be transfer of property in goods to that extent and this supply may be liable to additional tax of 1%. The tax so charged will not be admissible as credit to the principal supplier.

- **Tax on supply of capital goods:** There would be no distinction between capital goods and other goods in the GST regime. Hence, the supply of capital goods by principal supplier will also entail levy of GST on the value of goods supplied. The value could be arrived at the book value/intrinsic value/value of similar goods etc. Where the value of capital goods supplied is very large, this is likely to result in substantial cash outflow by principal supplier. The tax so charged though would be available as credit to job worker but it may be possible that the liability of job worker on output is very less due to which the same may remain unutilised for very long period.
- **Requirement of submission of forms:** Under present law, the principal supplier and job worker is required to transfer the material on the basis of Annexure -II challan, delivery challan, forms under CST/VAT Act etc. All these requirements are expected to be done away under proposed GST regime. Though there could be some documentary evidence/format which may be prescribed to capture the transactions other than of supply.
- **Booking of revenue in books of account:** The distinction between supply and sale will continue in the post GST regime also. All supply may not be considered sales. As the transaction would not be on account of sale, it shall not be recorded as revenue in the books of principal supplier as well as job worker as revenue can be booked only when there is transfer of property in goods which is guided by Accounting Standards issued by ICAI. If all supplies are treated as revenue in the books of account, the revenue would be inflated in the books of both principal supplier as well as job worker which would be incorrect. It could be possible that separate series of invoice/documentary evidence may be permitted to record such transaction so that these can be distinguished from sale.

Note: Treatment of Additional Tax in case of Job Work

Principle supplier would not be required to charge this Additional Tax on supply of goods. Similarly, the Job Worker needs not to charge this tax to the extent material supplied by principle supplier. However if job worker add certain material from his source, there would be transfer of property in goods to that extent and this supply may be liable to Additional Tax of 1%.



Type of Work	Valuation in case Supply of material	Valuation in case return of material
Pure Job Work	Cost of Raw material + processing charges	Cost of Raw material + processing charges + Labour charges
Material supplied to the job worker	Cost of Raw material + processing charges	Cost of Raw material + processing charges + Labour charges + Cost of Material supplied to Job Worker
Material added by the job worker	Cost of Raw material + processing charges	Cost of Raw material + processing charges + Labour charges + Cost of Material added by Job Worker
Material directly sent from supplier to job worker	Cost of Raw material + processing charges	Cost of Raw material + processing charges + Labour charges + Cost of Material directly sent by the supplier

Probable Issues: Since goods supplied to job worker will not be exempted the following issues need to be adjusted:

1. Impact of works contract
2. Registration of each job worker, otherwise there will be impact of GST in cost
3. Job Worker includes any person undertaking process, repairs, re-publishing, testing, calibration etc. For each supplies against each operation GST will be charged & Job work will be able to take the ITC credit otherwise it will be a item of cost.

5.10.5:Consignment Sale

Illustration 1

Mr. X, the consignor, manufactured in West Bengal and consigned goods to Mr. Y of Maharashtra:

Purchase of Raw Material 1000 Kgs Product 'C' valued ₹ 8,00,000. Other manufacturing cost like Labour and overhead is ₹2,00,000 for manufacturing of 1,000 kg of Product 'D'. While sending the goods to Mr. X incurred ₹30,000 for transportation, ₹10,000 for Insurance, ₹ 5,000 for loading and ₹ 5,000 for unloading expenses. 50 kgs are lost - in-transit of which 20 kgs are normal. Mr. X recorded ₹ 50,000 from the Insurance Company.

Mr. Y received remaining goods in good condition. He incurred ₹ 40,000 for advertisement and other miscellaneous expenses and ₹ 25,000 for godown rent. All the goods were sold by the consignee.

Determine the value of goods sent on consignment. He also reported that ₹10,000 were provide bad (Assuming Octroi in Maharashtra is 5%, Maharashtra VAT is 12.5%, IGST rate is 20%, Additional Tax 1% and in both the cases profit is taken as same 2,50,000).

Solution:

Existing System	Units (kg)	Amount (₹)	Proposed CGST 10% SGST 10%	Units (kg)	Amount (₹)
(a) Manufacturing cost of goods Consigned (8,00,000 + 2,00,000)	1,000	10,00,000	(a) Manufacturing cost of goods Consigned (8,00,000 + 2,00,000)	1,000	10,00,000
(b) Excise duty @ 12.5%		1,25,000	(b) Transportation cost		30,000
(c) CST		Nil	(c) Insurance cost		10,000
(d) Consignment value including Excise duty	1,000	11,25,000	(d) Loading Expenses		5,000
(e) Octroi @ 5%		56,250		1,000	10,45,000
	1,000	11,81,250	Less: Normal Loss	20	
Less: Normal Loss	20		Less: Abnormal Loss	30	31,990
			$[10,45,000 \div (1,000-20)] \times 30$		
Less: Abnormal Loss	30	36,161		950	10,13,010
(f) Landed Cost	950	11,45,089	Add: Loading Expenses		5,000
(g) Credit (Cash Flow Savings)		Nil	(e) Consignment Value	950	10,18,010
(h) Profit (say)		2,50,000	(f) IGST (CGST+SGST)		203,602
(i) Sale Price	950	13,95,089	(g) Landed cost to the consignee	950	10,18,010
(j) VAT @ 12.5% (say)		1,74,386	(h) Octroi		Nil
(k) Cost to the Customer	950	15,69,475	(i) Profit (say)		2,50,000
			(j) Sale Price	950	12,68,010
			(k) CGST		1,26,801 (@10%)
			(l) SGST		1,26,801 (@10%)
			(m) Cost to the Customer		15,21,612
			(n) Balance of IGST Credit (f) is available after payment of CGST (f-k)		76,801
			(o) Net SGST paid to the Govt. after (l-n)		50,000

Note: In proposed GST model taxpayer may bear tax outflow at the time of stock transfer but taxpayer can tax full credit at the time of actual sale.

Benefit to the Stakeholders continues to be the same.

5.11 IGST Model - Taxation of Inter-State Sales / Supplies

IGST Model has been evolved to tax inter-state supplies. This is a unique feature of the Indian Version of GST.

5.11.1 Present Taxation of Inter-State Sales

- ☐ Centre levies CST on Inter-State Sales - Article 269 r/w Entry 92A of List I - Central levy but collected and retained by originating state
- ☐ Entry Tax levied by importing state - Article 246 r/w Entry 52 of List II
- ☐ Some % of Input Tax Credit availed on goods used in exported goods - retained by Exporting State
- ☐ Forms used for accounting and verification of inter-state movement of goods
- ☐ Verification at Border Check posts
- ☐ ITC of CST/ Entry Tax not allowed to buying dealer

5.11.2 Proposed Taxation of Inter-State Sales

- ☐ Centre to levy and collect IGST on supplies of goods or services in the course of inter-state trade or commerce including imports - proposed Article 269A
- ☐ Centre to levy non-vatable Additional Tax not exceeding 1% on inter-state supply of goods- to be collected & retained by originating state
- ☐ IGST applicable to
 - ❖ Inter-state supplies of goods or services in India
 - ❖ Import of goods or services
 - ❖ ITC of IGST allowed to buying dealer
 - ❖ ITC of Additional Tax not allowed to buying dealer
 - ❖ Place of Supply of goods or services Rules to be framed

5.11.3 Requirements of IGST Model

- ☐ Uniform e-Registration
- ☐ Common e-return for CGST, SGST, IGST
- ☐ Common periodicity of returns for a class of dealers
- ☐ Uniform cut-off date for filing of returns
- ☐ Mandatory reporting of sales and purchases invoice details prior to or along with filing of e-return
- ☐ system based verification of returns on monthly basis
- ☐ system based validation/consistency checks on the ITC availed, utilized and Tax payments

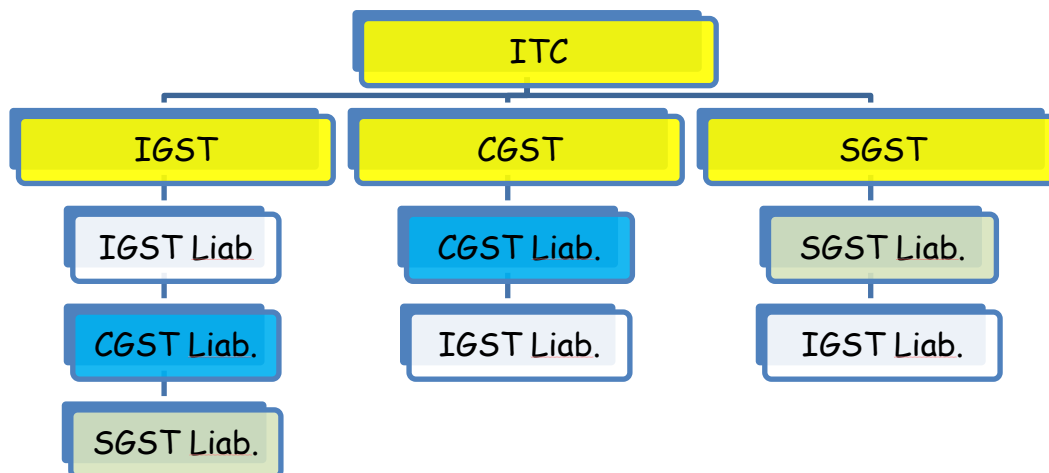
5.11.4 Working of IGST Model

- ❖ Tax payments by suppliers in Exporting State
- ❖ ITC availed by importing dealers
- ❖ Input Tax Credit (ITC) utilization

ITC utilization under the proposed GST structure:

Goods and Service Tax (GST) is embedded with the mechanism of allowing tax credit available at every point of procurement of goods and services. The Input Tax Credit (ITC) available with the Tax Payer shall be utilized for payment of Output Tax Liability levied and determined on the value at the prescribed rate/s on the basis of 'place of supply of goods and services'.

The procedure for availing the ITC is represented as follows:



- ❖ This means that ITC of IGST to be utilized for payment of IGST liability then CGST liability and thereafter SGST liability.
- ❖ ITC of CGST to be utilized for payment of CGST liability and then IGST Liability
- ❖ ITC of SGST to be utilized for payment of SGST Liability and then IGST Liability.

There shall be no cross utilization between CGST & SGST.

Gist: CGST can be set off against CGST & IGST but cannot be set off with SGST

SGST can be set off against SGST & IGST but cannot be set off with CGST

IGST can be set off with both CGST & SGST

Note-1: If there is any excess or unutilized SGST, CGST, IGST it may not be refundable except in case of export or supplies to SEZ.

Note-2: Separate set of books have to be maintained to claim input tax credit.

Note-3: Additional tax levied in case of Inter-State Sale is a non-vatable item, hence cannot be set off with any of these GST.

Case 1: A trader has paid CGST & SGST at the time of purchase of goods within the state and subsequently he is going to sell the goods within the state then he has to pay CGST & SGST. At the time of payment of CGST, he can claim the set off of CGST (input) credit and also at the time of payment of SGST, he can claim the set off of SGST (input) credit. But CGST (input) credit cannot be set off with SGST and vice versa.

Case 2: A trader has paid CGST & SGST at the time of purchase goods within the state and subsequently he is going to sell the goods outside the state then he has to pay IGST & Additional Tax. At the time of payment of IGST he can claim the set off of CGST&SGST (input) credit.

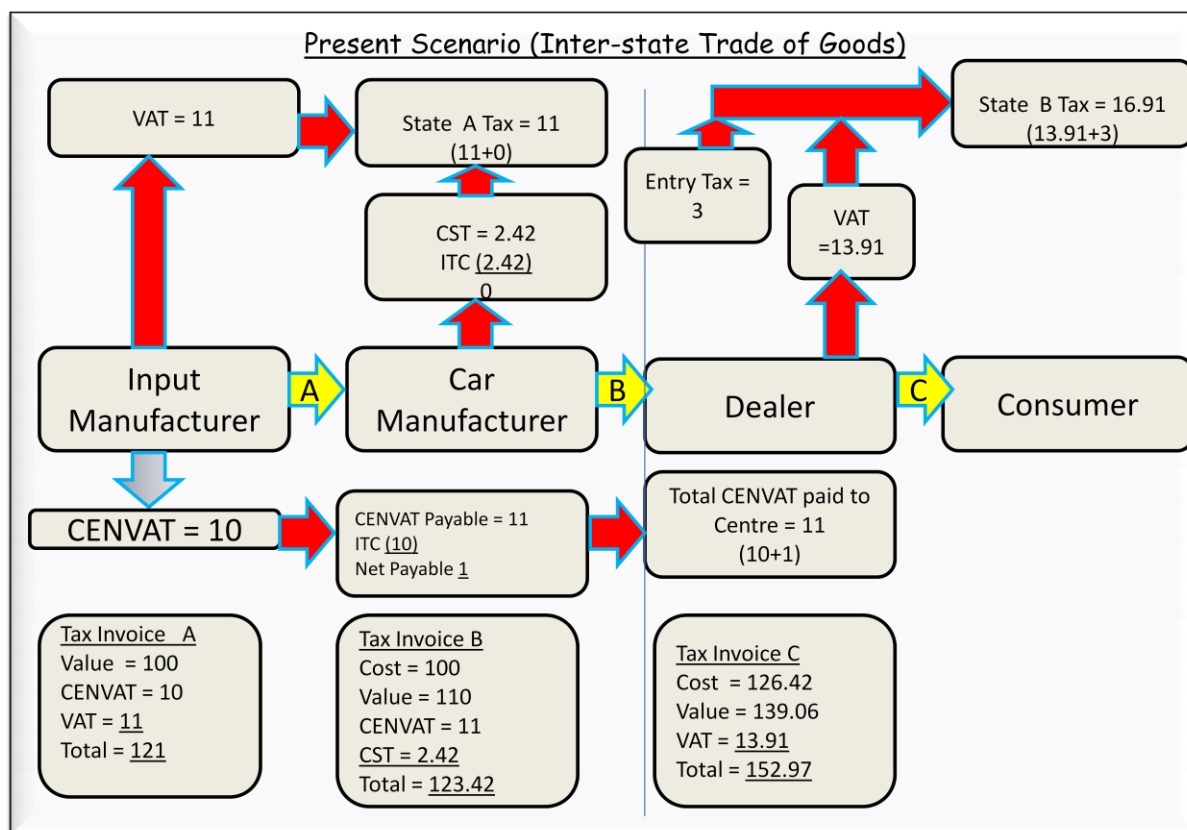
Case 3: A trader has paid IGST & Additional Tax at the time of purchase goods from outside the state and subsequently he is going to sell the goods within the state then he has to pay CGST & SGST. At the time of payment of CGST & SGST he can claim the set off IGST (input) credit. Input credit of additional tax is not available and it wouldn't be set off with any.

Case 4: A trader has paid IGST & Additional Tax at the time of purchase goods from outside the state and subsequently he is going to sell to outside the state so he has to pay IGST & Additional Tax. At the time of payment of IGST he can set off the earlier IGST credit. Input credit of additional tax is not available and it wouldn't be set off with any taxes.

Working of IGST Model - revenue sharing mechanism between Centre and States

- ❖ Credit of SGST used for payment of IGST - to be transferred by Exporting State to the Centre
- ❖ Credit of IGST used for payment of SGST - to be transferred by Centre to Importing State
- ❖ Inter-Governmental Transfers to take place at the end of the Tax Period
- ❖ Central Government to act as a Clearing House and transfer the funds across the States

5.11.5 Pre-GST (i.e. Present Scenario)

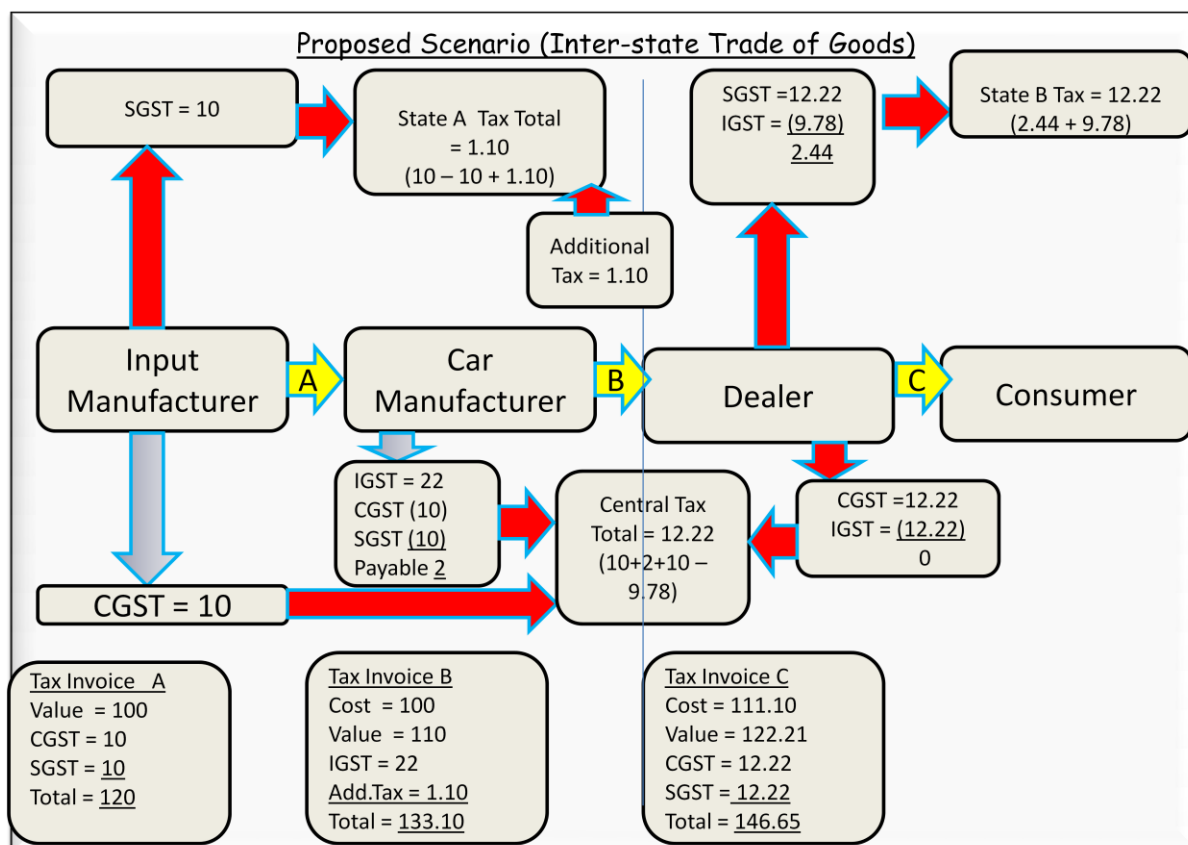


Note: Assumptions underlying the above :

CENVAT = 10% ; Value Addition = 10% ; VAT = 10% ; CST = 2% ; ITC = Input Tax Credit

The final price to be paid by the Consumer is Rs.152.97

5.11.6 Post- GST (Proposed Scenario)



Note: Assumptions underlying the above :

CGST = 10%; SGST = 10%; Additional Tax = 1%; IGST = CGST + SGST + 20%; ITC = Input Tax Credit

The final price to be paid by the Consumer is Rs.146.65

5.11.7 Comparative Analysis : Inter-State Supply

Sl.No	Particulars	Present (Rs.)	Proposed (Rs.)
1	Initial Value	121.00	120.00
2	Centre's Tax	11.00	12.22
3	State (A)'s Tax	11.00	1.10
4	State (B)'s Tax	16.91	12.22
5	States Total Tax (Row 3 + Row 4)	(11.00 + 16.91) = 27.91	(1.10 + 12.22) = 13.32
6	Total Tax paid to Govt. (Row 2 + Row 5)	38.91	25.54
7	Non-vatable tax borne by business	25.00	1.10
8	Total Tax paid by Consumer	13.91	24.44
9	Final Value paid by Consumer	152.97	146.65

Note: The tax component increases due to transparency in post-GST scenario but the final value to be paid by the consumer decreases.

5.11.8 Advantages of IGST Model – for Tax payers

- ☐ uninterrupted ITC chain on inter-state for dealers located across States
- ☐ No refund claim for suppliers in exporting State, as ITC is utilized for payment of Tax Liability
- ☐ No substantial blockage of funds for the inter-state supplier or buyer
- ☐ No cascading as full ITC of IGST paid by supplier allowed to buyer
- ☐ Model Handles "B2B" and "B2C" transactions

5.11.9 Advantages of IGST Model – for Tax Administrators

- ☐ upfront tax payments by suppliers in exporting state
- ☐ no refund claims on account of inter-state supplies
- ☐ tax gets transferred to importing state in accordance with destination principle
- ☐ self-monitored model
- ☐ result in improved compliance levels
- ☐ effective fund settlement mechanism between the centre and the state

5.11.10 : Import

In Existing System:

At the time of Goods purchased from outside India then in existing tax structure there are several tax which are levied in a systematic manner, those are Basic Custom Duty, Countervailing Duty(CVD), Special Additional Duty (SAD), Education & Higher Education Cess.

In Proposed GST:

Explanation to Article 269A provides that supply of goods or of services or both in the course of import into the territory of India shall be deemed to be a supply of goods or services or both in the course of inter-State trade or commerce. So IGST will be levied in the case of Import. But there wouldn't be any additional tax.

Existing System		Proposed System	
Assessable value	100	Assessable value	100
Basic Custom Duty - 10%	10	Basic Custom Duty 10%	10
Value	110	Value	110
CVD 12%	13.2	IGST (assumed @ 20% with a cascade on BCD)	22
Education cess on CVD	Nil		
S&HE Cess 1%	Nil		

Customs Duty for cess	23.2		
Customs Education Cess 2%	0.46		
Customs S&HE Cess 1%	0.23		
Value for SAD	123.89		
SAD @ 4%	4.96		
Total Duty	28.85	Total Duty	32

Imported by Manufacturer:

Existing System		Proposed System	
Landed cost including BCD	110	Landed cost including BCD	110
Cenvat credit - CVD	13.2	IGST credit	22
Cenvat credit - SAD	4.96		

Imported by Trader:

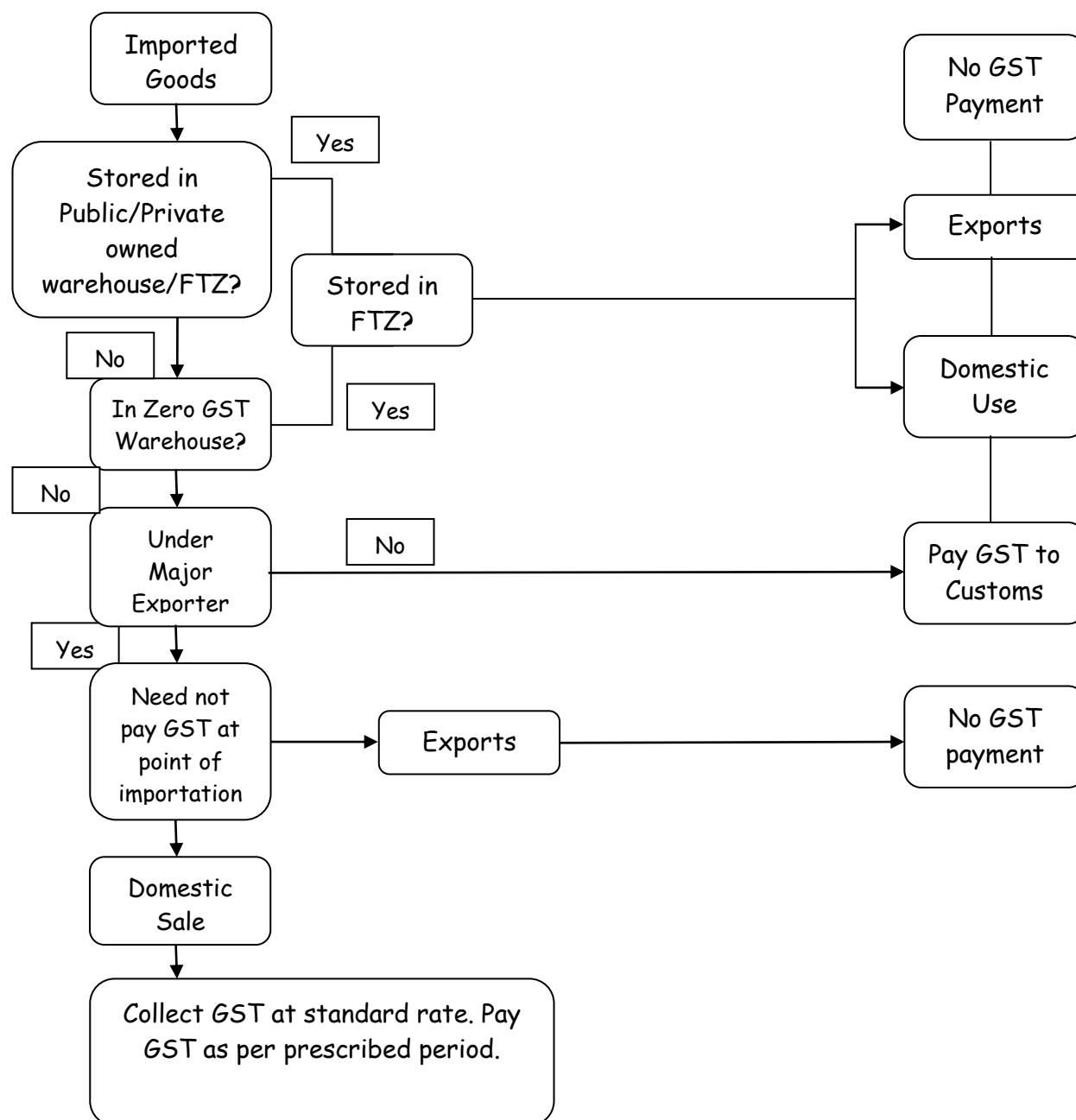
Existing System		Proposed System	
Landed cost including BCD, CVD & SAD	128.85	Landed cost including BCD	110
SAD credit	4.96	IGST credit	22

Conclusion: From the above illustration we can see that in present tax system manufacturer can avail credit of CVD & SAD but trader can utilize only SAD but in proposed GST model irrespective of every taxpayer can avail IGST paid at the time of import.

Import of Services:

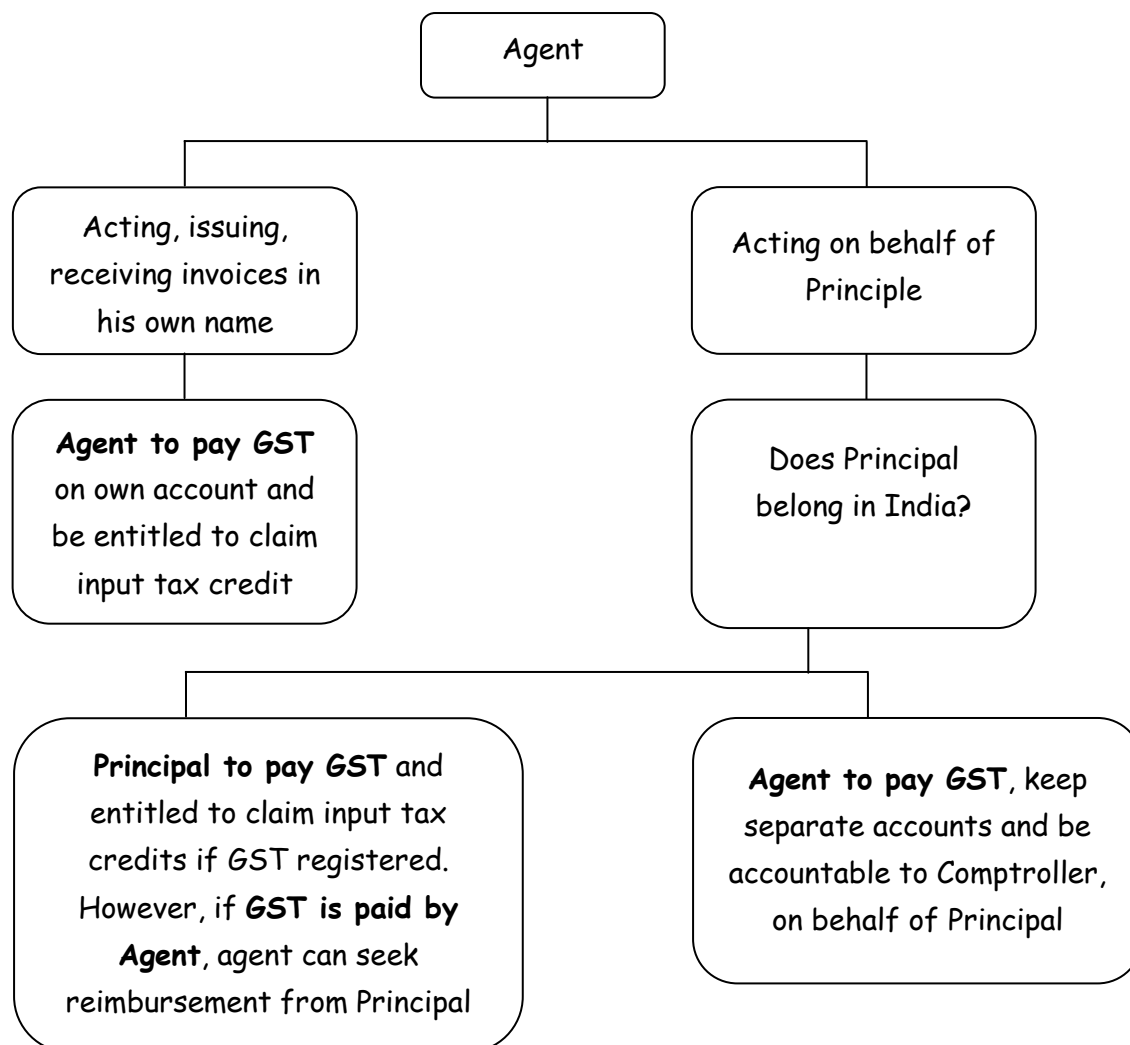
Existing System		Proposed System	
Value	1,00,000	Value	1,00,000
Service tax under RCM	12,360	IGST assumed at 20%	20,000
Cenvat credit	12,360	IGST credit	20,000
Total tax outflow	12,360	Total tax outflow	20,000

5.11.10.1 : A diagrammatic representation on GST treatment of imported goods (as envisaged)



5.11.10.2 - A diagrammatic representation of "Imports and Supplies through Agents"

(as envisaged)



5.12.Export

Export is fully tax free in proposed GST as it is in existing tax system also Supplies to SEZ are also treated as Export. However, such benefit will be allowed to the processing zone of the SEZ's. No benefit to the sales from an SEZ to domestic Tariff area (DTA) will be allowed.

The exporter will be entitled to avail input tax credit of the taxes paid on Purchased of goods used in relation to the said export and the exporter would be allowed to use the credit so availed for set-off against the tax payable on other transactions. In such cases, if the input credit exceeds the tax payable, the exporter will be entitled to claim refund of the excess input credit.

5.13 Capital Goods

The proposed GST Model adopts a consumption-type GST, that is, there should be no distinction between raw materials and capital goods in allowing input tax credit. Full and immediate input credit should be allowed for tax paid (both CGST and SGST) on all purchases of capital goods (including GST on capital goods) in the year in which the capital goods are acquired. Similarly, any kind of transfer of the capital goods at a later stage should also attract GST liability like all other goods and services.

Gist:

- No Distinction between Inputs & Capital Goods
- Full Input Credit on Capital Goods in the year of purchase itself

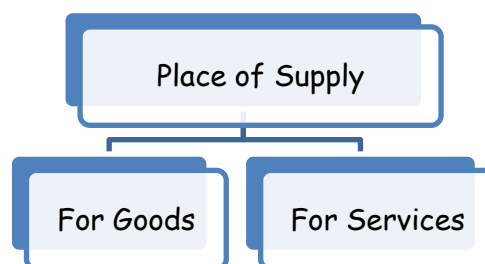
Capital goods are normally defined as follows:-

- any goods which are capitalized for accounting purposes and in accordance with Generally Accepted Accounting Principles (GAAP) and
- written off over several years.

[It is expected that ITC credit on Capital Goods to be allowed, however there are all probabilities that existing practice of allowing ITC credit (50% in first year and balanced 50% in subsequent year) will continue in GST. But principle wise it is against the principle of Consumption type GST.]

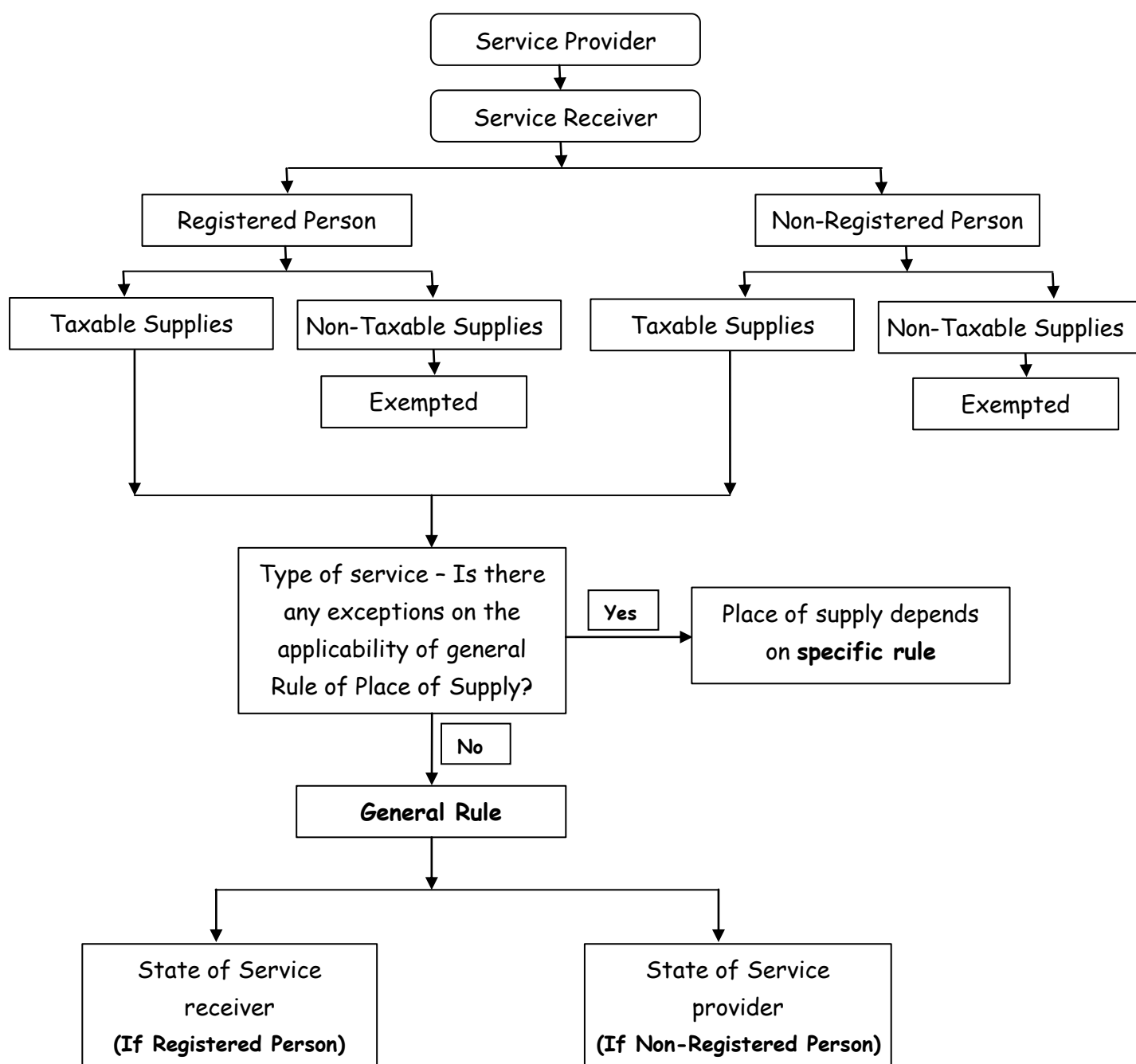
5.14 Place of Supply Rules - Suggested

(compilation is made based on discussion and deliberation at different forums)



[Important for deciding 'appropriate State' to receive tax and place where tax to be paid]

5.14.1: To determine where the supply is to be taxed



5.14.2 Important concepts in GST

Meaning of 'taxable event'

'Taxable event' is that on happening of which the charge is fixed. It is that event, which on its occurrence creates or attracts the liability to tax. Such liability does not accrue at any earlier or later point of time. Even though taxable event happens to be at a particular point of time, the levy and collection of such tax may be postponed for administrative convenience, to a later date

Tax becomes payable when liability to pay tax arises and liability to pay tax arises by the happening of the taxable event

Tax can be imposed only on 'taxable event'. However, all taxable events are not covered in legislative entries in Seventh Schedule to Constitution.

Supply of goods or services is 'taxable event'

Goods and Services Tax means a tax on supply of goods or services, or both, except taxes on supply of alcoholic liquor for human consumption [proposed Article 366(12A) of Constitution of India]

Note that the word used is 'supply' and not 'sale'. 'Consideration' is not required for supply.

Thus, stock transfers, branch transfers will also get covered under GST net. Even free samples will be 'supply' of goods.

Meaning of 'supply'

Supply - provide or furnish (a thing needed), provide, meet or make up for (a deficiency or need etc.) - Concise Oxford Dictionary

Supply - 'Supply' is that which is or can be supplied, available aggregate of things needed or demanded, an amount sufficient for a given use or purpose

'Supply' does not need 'consideration'. Free supplies of goods and service can be subject to GST.

Further, two separate legal entities are not required. One branch or division or depot can 'supply' goods or services to another branch, division or depot.

Meaning of 'goods'

'Goods' include all materials, commodities and articles - Article 366(12) of Constitution of India. This is inclusive definition. It should cover all movable property.

Goods must be movable and marketable. The item must be such that it is capable of being bought or sold. This is the test of 'Marketability'. The goods must be known in the market. Unless this test of marketability is satisfied, these will not be goods. To become 'goods' an article must be something which can ordinarily come to market to be bought and sold.

ARTICLE 366(29A) "tax on the sale or purchase of goods" includes—

- (a) a tax on the transfer, otherwise than in pursuance of a contract, of property in any goods for cash, deferred payment or other valuable consideration;
- (b) a tax on the transfer of property in goods (whether as goods or in some other form) involved in the execution of a works contract;
- (c) a tax on the delivery of goods on hire purchase or any system of payment by instalments;
- (d) a tax on the transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration;
- (e) a tax on the supply of goods by any unincorporated association or body of persons to a member thereof for cash, deferred payment or other valuable consideration;
- (f) a tax on the supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (whether or not intoxicating), where such supply or service, is for cash, deferred payment or other valuable consideration,

and such transfer, delivery or supply of any goods shall be deemed to be a sale of those goods by the person making the transfer, delivery or supply and a purchase of those goods by the person to whom such transfer, delivery or supply is made;]

Meaning of 'service'

"Service" means any activity carried out by a person for another for consideration, and includes a declared service, but shall not include—

- (a) an activity which constitutes merely,— (i) a transfer of title in goods or immovable property, by way of sale, gift or in any other manner; or (ii) a transaction in money or actionable claim;
- (b) a provision of service by an employee to the employer in the course of or in relation to his employment;
- (c) fees taken in any Court or tribunal established under any law for the time being in force.

Explanation 1 — For the removal of doubts, it is hereby declared that nothing contained in this clause shall apply to,— (A) the functions performed by the Members of Parliament, Members of State Legislative, Members of Panchayats, Members of Municipalities and Members of other local authorities who receive any consideration in performing the functions of that office as such member; or (B) the duties performed

by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or (C) the duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or State Governments or local authority and who is not deemed as an employee before the commencement of this section.

Explanation 2— For the purposes of this Chapter,— (a) an unincorporated association or a body of persons, as the case may be, and a member thereof shall be treated as distinct persons; (b) an establishment of a person in the taxable territory and any of his other establishment in a non-taxable territory shall be treated as establishments of distinct persons.

Explanation 3 — A person carrying on a business through a branch or agency or representational office in any territory shall be treated as having an establishment in that territory;

Continuous Supply

Any service which is provided, or agreed to be provided continuously or on recurrent basis under a contract for a **period exceeding a specified time period** with the obligation for payment periodically or from time to time, or where the Central government, by a notification in the official Gazette prescribes provision of a particular service to be a continuous supply of service, whether or not subject to any condition.

Some illustration on 'continuous supply of service' and their place of supply

Services supplied	Place of Supply
(1) Telecommunication services like Internet, Telephone Connection	• Fixed Line - State where fixed line is provided. • Post-paid mobile & internet - State of address of service recipient. • Pre-paid mobile & internet - State of sale of pre-paid vouchers or where pre-payment is received.
(2) Radio and Television Broadcasting services	To Registered persons- • Identifiable State - Each state in proportion to amount attributable to service provided; • Un-identifiable State - Location of registered service receiver.

	To Un-registered persons- • Location of service provider.
(3) Electronically Supplied Services i.e. online services	The place of provision shall be the location where goods are situated at the time of provision of service.
(4) Supply of Electricity or Gas	State where gas or electricity is used and consumed.
(5) Service portion in execution of works contract	State in which such property is located.
(6) Renting of immovable property	State in which such property is located.
(7) Hiring of goods services	State where goods are given for hiring.
(8) Banking Services like Online fund transfer, ATM services etc,	Account Based Banking - Location of service receiver on record of service provider. Non-Account Based Banking - Location of service provider.

Identifiable State - Identifiable state means which state where services are provided and identifiable by service receiver/ service provider.

Un-Identifiable State - Un-identifiable state means which state where services are provided but not identifiable by service receiver/ service provider.

Electronically supplied services

Electronically supplied services includes services relating to website supply, web-hosting, distance maintenance of programs and equipment, supply of software and update thereof, supply of images, text and information, and making available of databases, supply of music, films and games, including games of chance and gambling games, and of political, cultural, artistic, sporting, scientific and entertainment broadcasts and events, and the supply of distance teaching.

5.14.3 Place of Supply Rules - Service

General Rule

- Supply to a registered person or public authority shall be the State of service recipient
- Supply to Non-registered person shall be the State of service provider,

Exception of General Rule - Specific Rule

Type of Service	Proposed Place of Supply	Related Reference
Services in relation/incidental to immovable property including general insurance	State in which such property is located	Rule - 5 [Place of Provisions of Service Rule, 2012]

With exceptions to certain services as notified:

Case 1:

'Immovable property' has not been defined in the Finance Act, 1994. However, in terms of section 4 of the General Clauses Act, 1897, the definition of immovable property provided in section 3(26) of the general clauses will apply, which states as under:

'Immovable property' shall include land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth. It may be noted that the definition is inclusive and thus properties such as buildings and fixed structures on land would be covered by the definition of immovable property. The property must be attached to some part of earth even if underwater."

Place of supply provided directly in relation to an immovable property, including services provided in this regard by experts and estate agents, provision of hotel accommodation by a hotel, inn, guest house, club or campsite, by whatever, name called, grant of rights to use immovable property, services for carrying out or coordination of construction work, including architects or interior decorators, shall be the place where the immovable property is located or intended to be located.

Maintenance of immovable property, security, architectural services, legal services in respect of transfer, renting, survey, hotel accommodation etc. should also be covered under this rule.

Illustration:

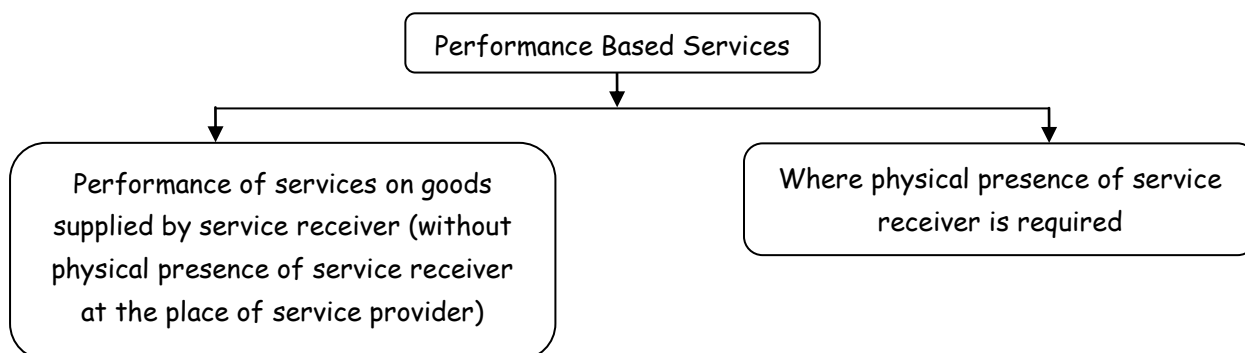
	Location of			Place of Supply	Taxability	Justification
	Service provider	Service recipient	Immovable property			
1.	Delhi	UK	Mumbai	Mumbai	Yes	Service provided in respect of immovable property is at Mumbai. Hence, Service is taxable.
2.	Delhi	UK	Canada	Canada	Yes	Service provided in respect of immovable property is at

An Insight of Goods & Services Tax (GST) in India

					[Zero rated]	Canada. Since this leads to export of services and export being zero rated.
3.	UK	Delhi	Mumbai	Mumbai	Yes	Service provided in respect of immovable property is at Mumbai. Hence, Service is taxable.
4.	UK	Delhi	Canada	Canada	Yes [Zero rated]	Service provided in respect of immovable property is at Canada. Since this leads to export of services and export being zero rated.
5.	Delhi	Mumbai	Chennai	Chennai	Yes	Service provided in respect of immovable property is at Chennai. Hence, Service is taxable.
6.	UK	Canada	Mumbai	Mumbai	Yes	Service provided in respect of immovable property is at Mumbai. Hence, Service is taxable.
7.	UK	Canada	Australia	Australia	No	Service provided in respect of immovable property is at outside India and service provider/service receiver are in also not in India.

Case 2

Type of Service	Place of Supply	Related Reference
Performance based services	State where services are actually performed	Rule - 4 [Place of Provisions of Service Rule, 2012]



Performance of services on goods supplied by service receiver should include services like repairs, reconditioning, storage, warehousing, courier, cargo handling, technical testing, dry cleaning, erection, commissioning, annual maintenance contract.

Services like cosmetic surgery, treatment in beauty parlour, training should be covered under this rule as physical presence of service receiver or person acting on behalf of service receiver is required.

Illustration:

Mr. R of Delhi temporarily imports machinery of Mr. K of Nepal and exports the same after repairs. In this case, repair work done in India would be taxable, as PoPs = Location of service actually performed

	Location of			Place of provision of service (pops)	Taxable	Justification
	Service provider	Service recipient	Place of execution of service			
1.	Delhi	UK	Chennai	Chennai	Yes	Service is performed in Chennai, hence PoPs = Chennai.
2.	Delhi	UK	Canada	Canada	No	Service is performed in Canada i.e. outside India. Hence, service is not taxable.
3.	UK	Delhi	Chennai	Chennai	Yes	Service is performed in Chennai, hence PoPs = Chennai.
4.	UK	Delhi	Canada	Canada	No	Service is performed in Canada i.e. outside India. Hence, service is not taxable.
5.	Delhi	Mumbai	Chennai	Chennai	yes	Service is performed in Chennai, hence PoPs = Chennai.
6.	UK	Canada	Chennai	Chennai	Yes	Service is performed in Chennai, hence PoPs = Chennai.
7.	UK	Canada	Australia	Australia	No	Service is performed in Australia i.e. outside India. Hence, service is not taxable.

Case 3:

Type of Service	Place of Supply	Reference
Services relating to events	State where the event is actually held	Rule - 6 [Place of Provisions of Service Rule, 2012]

Service relating to "EVENTS", should include admission as well as organization of conventions, conferences, exhibitions, fairs, seminars, workshops, weddings, sports and cultural events.

Illustration:

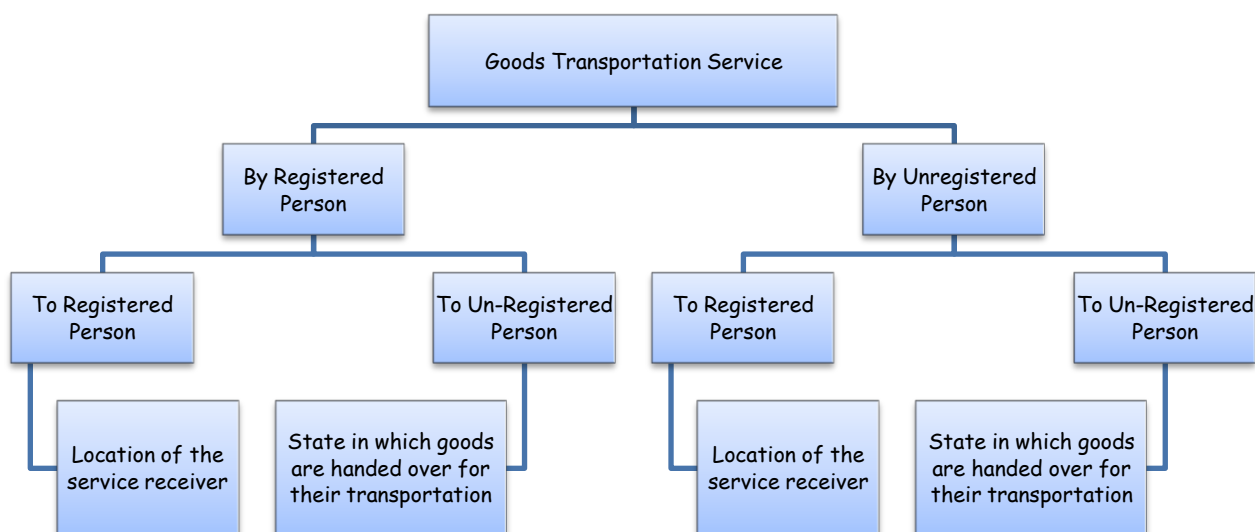
- ❖ An Indian fashion design firm hosts a show at Toronto, Canada. The firm receives the services of a Canadian event organizer. The place of provision of this service is the location of the event hence not taxable in India.
- ❖ A management school located in USA intends to organize a road show in Mumbai and New Delhi for prospective students. Any service provided by an event manager, or the right to entry (say, participation fee for prospective students) will be taxable in India & in that respective state where event take place.

	Location of			Place of provision of service (pops)	Taxable	Justification
	Service provider	Service recipient	Place of execution of event/service			
1.	Delhi	UK	Mumbai	Mumbai	Yes	Place where the service is executed is Mumbai. Hence service is taxable.
2.	Delhi	UK	Canada	Canada	No	Place where the service is executed is Canada i.e. outside India. Hence service is not taxable.
3.	UK	Delhi	Mumbai	Mumbai	Yes	Place where the service is executed is Mumbai. Hence service is taxable.
4.	UK	Delhi	Canada	Canada	No	Place where the service is executed is Canada i.e., outside India. Hence service is not taxable.
5.	Delhi	Chennai	Mumbai	Mumbai	Yes	Place where the service is executed is Mumbai. Hence service is taxable.
6.	UK	Canada	Mumbai	Mumbai	Yes	Place where the service is executed is Mumbai. Hence service is taxable.
7.	UK	Canada	Australia	Australia	No	Occurrence of event is at Australia i.e., outside India and also service provider and service receiver are also not in India.

Case 4:

Type of Service	Place of Supply	Reference
Goods transportation services to registered person	Location of the service provider	Rule - 10 [Place of Provisions of Service Rule,2012]

Registered Person means every person who gets registered himself either voluntarily or compulsorily under the act.



Location of			Place of provision of service (pops)	Taxable	Justification
Service provider	Service recipient (Registered person)	State in which goods are handed over for their transportation			
Delhi	Chennai	Mumbai	Chennai	Yes	As service recipient is a registered person then Location of Service recipient should be Place of Supply

Case 5

Type of Service	Place of Supply	Reference
Goods transportation services to unregistered person	State in which goods are handed over for their transportation	Rule - 10 [Place of Provisions of Service Rule,2012]

Location of			Place of provision of service (pops)	Taxable	Justification
Service provider	Service recipient (un - registered person)	State in which goods are handed over for their transportation			
Kolkata	Chennai	Mumbai	Mumbai	Yes	As service recipient is not a registered person then State in which goods are handed over for their transportation should be Place of Supply

Case 6:

Type of Service	Place of Supply	Reference
Passenger Transportation Service	State where passenger starts journey	Rule - 11 [Place of Provisions of Service Rule,2012]

Passenger transportation service is a shared passenger transport service which is available for use by the general public, as distinct from modes such as buses, train, ship, Aeroplane.

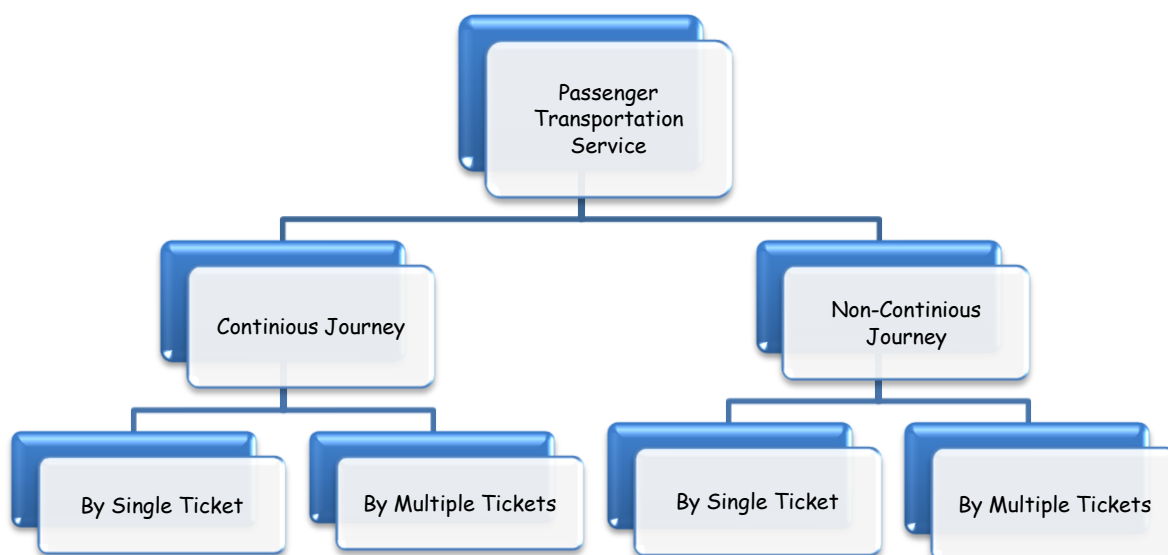


Illustration:

In case of **continuous journey**:

	Journey	Location where start journey	Location where disembarks	POPS - Location where passenger start journey	Taxability	Justification
A	Delhi - Mumbai	Delhi	Mumbai	Delhi	Yes	Delhi being the place from where passenger starts journey.
B	Delhi - UK - Mumbai	Delhi	Mumbai	Delhi	Yes	Delhi being the place from where passenger starts journey.
C	UK - Delhi - UK	UK	UK	UK	No	UK being the place from where passenger starts journey.

In case of **Non-continuous journey**

	Journey	Location where passenger starts journey	Place of provision of service - Location where passenger starts journey	Justification
A	(a) Delhi - Mumbai (b) Mumbai - Chennai	(a) Delhi (b) Mumbai	(a) Delhi (b) Mumbai	(a) Delhi (b) Mumbai being the place from where passenger starts journey.
B	(a) Delhi - J&K (b) J&K - Mumbai	(a) Delhi (b) J&K	(a) Delhi (b) J&K	(a) Delhi (b) J&K being the place from where passenger starts

				journey.
C	(a) Mumbai - Singapore - Bangkok (b) Bangkok - Bali - Delhi	(a) Mumbai (b) Bangkok	(a) Mumbai (b) Bangkok	(a) Mumbai (b) Bangkok being the place from where passenger starts journey.

In case of **Single Ticket** (No stopover)

	Journey	POP	Taxability	Justification
1	Mumbai-Del	Mumbai	Yes	Mumbai being the place from where passenger starts journey.
2	Mumbai-Del-Jaipur	Mumbai	Yes	Mumbai being the place from where passenger starts journey.
3	Mumbai-Del-London-Del-London	Mumbai	Yes	Mumbai being the place from where passenger starts journey.
4	Delhi-London-New York-London-New York	Delhi	Yes	Delhi being the place from where passenger starts journey.
5	Delhi-London-New York	Delhi	Yes	Delhi being the place from where passenger starts journey.
6	New York-London-Del	New York	No	New York being the place from where passenger starts journey.
7	NY-London-Del-Mumbai-Del-London-NY	NY	No	NY being the place from where passenger starts journey.
8	Del-Jammu-Del	Del	Yes	Delhi being the place from where passenger starts journey.

More than one ticket for a journey (issued by a single service provider)

	Journey	POP	Taxability	Justification
1	(a)Del-Bangkok-Del (b)Bangkok-Bali- Bangkok	Del is POP for (a); Bangkok is POP for (b)	(a) is taxable, (b) is not taxable.	(a) Delhi (b) Bangkok being the place from where passenger starts journey.
2	(a)Del-NY-Del (b)NY- Boston- NY	Del is POP for (a); New York is POP for(b)	(a) is taxable. (b) is not taxable	(a) Delhi (b) NY being the place from where passenger starts journey.
3	(a)London- Del-London (b)Del- Chandigarh (c)Chandigarh-Amritsar (d)Amritsar- Del	London is POP for (a);Del is POP for (b); Chandigarh is POP for (c); Amritsar is POP for (d).	(a) is not taxable. (b), (c) and (d) are taxable.	(a) London (b) Delhi (c) Chandigarh (d) Amritsar being the place from where passenger starts journey.
4	(a)Del- Jammu (b) Jammu-Del	Del is POP for (a), Jammu is POP for (b).	(a) is taxable. (b) is not taxable.	(a) Delhi (b) Jammu being the place from where passenger starts journey.
5	(a) Jammu- Del- Jammu (b) Del- Bangkok- Del	Jammu is POP for (a); Del is POP for (b).	(a) is not taxable. (b) is taxable,	(a) Jammu (b) Delhi being the place from where passenger starts journey.

Case 7

Type of Service	Place of Supply	Reference
Services provided on board a conveyance	State of the first scheduled point of departure	Rule - 12 [Place of Provisions of Service Rule,2012]

Any service provided on board a conveyance (aircraft, vessel, rail, or roadways bus) will be covered here. Some example are on board service of movies/music/video/software games on demand, beauty treatment etc. Albeit only when provided against a specific charge, and not supplied as a part of fare.

Illustration:

A video game or a movie on demand is provided as on-board entertainment during the Kolkata-Delhi-Bangkok-Jakarta flight. The place of provision of service will be Bangkok (outside India hence not liable to tax)

If the above service is provided on a Delhi-Kolkata-Bangkok-Jakarta flight, then place of provision will be Delhi (in India hence liable to tax)

	Journey	First point of departure of conveyance	Location where the passenger start journey	POP of service - First point of departure of the conveyance	Taxability
A	Delhi - Mumbai	Delhi	Delhi	Delhi	Yes
B	Delhi - Mumbai -J&K	Delhi	Mumbai	Delhi	Yes
C	Delhi - UK -Mumbai	Delhi	Delhi	Delhi	Yes
D	UK - Delhi -UK	UK	UK	UK	No

Case 8

Type of Service	Place of Supply
Telecom Services	
- Fixed Line	State where fixed line is provided
- Post paid mobile & internet	State of address of service recipient
- Pre paid mobile & internet	State of sale of pre-paid vouchers or where pre-payment is received

Illustration

	Telecom Services recipient	Nature of connection	Place of Supply	Tax to be levied by the State of
A	Kolkata	Fixed line	Kolkata	West Bengal
B	Kolkata	Post Paid mobile and internet	Mumbai	West Bengal (assuming post-paid address of the service recipient is in West Bengal)
C	Kolkata	Pre paid mobile and internet	Punjab - place where pre-paid voucher is purchased by the service recipient	Punjab (being the state of sale of pre-paid voucher or where pre-payment is received)

Case 9

Type of Service	Place of Supply
Board cast services	
- to registered persons in identifiable state	Each state in proportion to amount attributable to service provided
- to registered persons in un-identifiable state	Location of registered service receiver
- to non-registered persons	Location of service provider

Illustration

	Broad cast Services recipient	Total Quantum of Supply	Place of Supply	Tax to be levied by the State of
A	Registered persons in Identifiable States	Rs.10,000	3 States involved: West Bengal (40%) ; Bihar (35%) and Odissa (25%)	West Bengal - 40% = Rs.4,000 Bihar - 35% = Rs.3,500 Odissa - 25% = Rs.2,500
B	Registered persons in un-identifiable states	Rs.2,000	State could not be identified during the course of supply of services	State in which the Service Receiver is registered
C	Non-registered persons from Rajasthan	Rs.3,000	Punjab - being the location of service provider	Punjab (being the state of location of service provider)

Case 10

Type of Service	Place of Supply
Advertisement services to Central Govt., State Govt. Or local authority	Each state in proportion to amount attributable to service provided

Illustration

	Advertisement Services recipient	Total Quantum of Supply	Place of Supply	Tax to be levied by the State of
A	Advertisement services to Govt	Rs.10,000	CG = 45% State A - 35% State B - 20%	CG = Rs.4,500 (Delhi) State A = Rs.3,500 State B = Rs.2,000

Case 11

Type of Service	Place of Supply
Legal Services	
- involving representations	Location of forum at which the litigation is going on
- involving representation to unregistered persons	Location of service provider

Illustration

	Legal Services	Total Quantum of Supply	Place of Supply	Tax to be levied by the State of
A	Representation at an appellate forum at Chennai for a client (being registered person) of Pune	Rs.10,000	Chennai	Tamilnadu (State / location of the forum where the litigation is in progress)
B	Representation for legal services at Chennai to unregistered person of Pune, provided by service provider of West Bengal	Rs.2,000	Chennai	West Bengal (being the state/ location of the service provider)

Case 12

Type of Service	Place of Supply
Banking & other financial services	
- Account based	Location of service receiver on record of service provider
- Non-account based	Location of service provider

Illustration

	Banking and other financial services availed in	State of the Account Holder	Place of Supply	Tax to be levied by the State of
A	Bihar - Account based services	West Bengal	West Bengal	West Bengal - being the location of service receiver on record of service provider
B	Bihar - Non-Account based services	West Bengal	Bihar	Bihar - being the location of service provider

Case 13

Type of Service	Place of Supply
Insurance services	
- to Registered Person	Location of service receiver
- to Non-registered Person	Location of service receiver on record of service provider

Illustration:

	Insurance services	Location of Service Receiver	Place of Supply	Tax to be levied by the State of
A	To Registered Persons	West Bengal	West Bengal	West Bengal - being the location of service receiver
B	To Non-registered persons	West Bengal	Bihar	West Bengal - being the location of service receiver on record of Service Provider

5.14.4 Place of Supply Rules - Goods

(compilation is made based on discussion and deliberation at different forums)

Type of Goods	Place of Supply
With movement of goods	State where goods are delivered to the receiver
Without movement of goods	State where goods are located at the time
Goods Installed	State in which installation has actually taken place
Goods on board a conveyance	State where goods are taken on board
Electricity or Gas	State where gas or electricity is used and consumed

5.15 GST Network (GSTN)

The GST framework and monitoring would rest upon the GSTN and automated system for ease of compliance and effective governance.

- ☐ GSTN incorporated on 28.03.2013 as Section 25 Private Limited Company with authorized equity of Rs. 10 Crores
- ☐ Strategic control to remain with Government
- ☐ A self-sustaining revenue model -to levy user charges for availing services from-
 - ❖ tax payers
 - ❖ tax authorities
- ☐ Exclusive national agency responsible for delivering integrated Tax related services involving multiple authorities
- ☐ Equity Holders:

- ❖ Central Government - 24.5%
- ❖ EC and all States together-24.5%
- ❖ Non-Government Institutions (Financial Institutions) -51%
- ❑ GST Common Portal to be set-up before GST roll out
- ❑ Common Portal to function as pass-through portal for dealers to -
 - ❖ submit registration application
 - ❖ file returns
 - ❖ make tax payments
- ❑ Registration, return & payment information to be passed on to Central & concerned State tax authorities.
- ❑ GSTN to develop back-end modules like Assessment, Audit, Refunds. Appeal Enforcement & tax payer profiling utility, etc. - as part of Cafeteria Services.
- ❑ Statutory functions like assessment, enforcement of tax laws, settlement of disputes etc. to be performed by the respective tax authorities only.

GSTN to provide various services:

- ❖ Common Registration, Return filing & e-Payment for tax payers.
- ❖ Integration of Common GST Portal with existing tax administration systems of Central / State Governments & other stake holders.
- ❖ Facilitate, implement and set standards for providing services to tax payers through common GST Portal.
- ❖ Build efficient & convenient interfaces with tax payers to increase tax compliance.
- ❖ Assist tax authorities in plugging tax evasion & improving transparency of tax administration system.
- ❖ Carry out research, study best practices & provide training to the stakeholders.
- ❖ Deliver any other service of relevance to Government & other stakeholders.

5.16 Registration

REPT
OF
THE JOINT COMMITTEE ON BUSINESS PROCESSES FOR GST
ON
GST REGISTRATION
EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS

New Delhi

July, 2015

(Refer Appendix - 2)

5.17 GST Payment Process

REPRT
OF
THE JOINT COMMITTEE ON BUSINESS PROCESSES FOR GST
ON
GST PAYMENT PROCESS
EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS
New Delhi
April, 2015

(Refer Appendix - 3)

5.18 GST Return

REPRT
OF
THE JOINT COMMITTEE ON BUSINESS PROCESSES FOR GST
ON
GST RETURN
EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS
New Delhi
October, 2015

(Refer Appendix - 4)

5.18.1 Tax Payer and Periodicity of Returns

Tax Payer is classified as :

- ☐ Regular Tax payer
- ☐ Casual Tax Payer
- ☐ Compounding Tax Payer

Periodicity of Returns is proposed as follows:

Monthly	20th of the succeeding month	Say for the month of September 2015 - return to be submitted within 20th October,2015
Quarterly	10th of the succeeding quarter	Say for the 1st quarter of the financial year 2015-16, i.e. period ended 30th June,2015, return to be submitted within 10th July ,2015
Annual / Yearly	31st December following the end of the Financial year in which it was filed	Say for the financial year ended 31.03.2015, the return to be submitted within 31.12.2015

5.18.2 Components of GST -1 Return (suggested)

The proposed GST brings about simplicity and uniformity. A uniform return, titled GST-1 is to be filled in and submitted by the Tax Payer.

Components which should form part of the GST-1 Return format:

- ☐ Registration Details.
- ☐ Period of the Return.
- ☐ Inter-State & Intra-State Supplies details - Invoice wise details to be given, however, exemptions will be given for lower invoice value.
- ☐ Purchase details.
- ☐ HSN Code for goods - Mandatory.
- ☐ Accounting Code for Services - Mandatory.
- ☐ Gross & Net Tax Liability under CGST, SGST, IGST, and Additional Tax.
- ☐ Interest, Penalty, Fee etc.
- ☐ Details of Input Tax Credit.
- ☐ Reconciliation for unmatched / mismatched credits

5.18.3 Process of Filing of GST -1 Return

- ☐ One common e-return for each location for CGST, SGST, IGST and Additional Tax on Inter-state Supply of Goods.
- ☐ Self or through authorized representative / Facilitating Centre (FC) / TRP.
- ☐ Online & offline option on GST Portal.
- ☐ Option of Periodically Updation.
- ☐ Auto fill information (where information is already available with the GST portal).
- ☐ E-Tool and utilities available.
- ☐ Revision of return may be restricted.
- ☐ Annual Return based on Financial Records.

5.19 GST Refund Mechanisms

REPT
OF
THE JOINT COMMITTEE ON BUSINESS PROCESSES FOR GST
ON
REFUND PROCESS
EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS

New Delhi

August, 2015

(Refer Appendix - 1)

5.20: Administration, Audit and Adjudication : in post - GST era

The GST framework is depending upon the robust GSTN. Interface between the Tax Payer and the Tax Administrator for compliance would be governed through the IT-enabled system.

- ☐ The Central Board of Excise & Customs (CBEC) through the DGGST (Directorate General of Goods and Services Tax) shall be responsible for implementing the CGST and the State Tax Administrations will be separately responsible for implementing the SGST.
- ☐ The Central Government shall establish a Common IT Infrastructure, which will serve the needs of both CGST and SGST. (GST Network - GSTN).
- ☐ The basis for division could be turnover or any other criteria which is considered reasonable so that the compliance and administrative burden is minimized.
- ☐ The administration of this levy should be based on audited accounts and not on the basis of any form of physical controls.
- ☐ Uniform Procedures for CGST and SGST.
- ☐ PAN based Taxpayer Identification Number.
- ☐ The unit of taxation for GST should be the persons as defined under the Income Tax Act.
- ☐ Establishing Taxpayers Information Network (TIN).
- ☐ TIN will be shared between Centre and States.
- ☐ The GST registration number should be Permanent Account Number (PAN) - based.
- ☐ The various tax administrative functions such as assessment, enforcement, scrutiny and audit should be undertaken by the CBEC in respect of the CGST and by the State tax administration in respect of the SGST subject to recommendation on small-scale industries.
- ☐ The jurisdiction between the CBEC and the State Administration may be divided between the two in such manner that the interface of the taxpayer is confined to one tax administration only, to note the above point is contradictory to this.
- ☐ In order to inspire confidence of the Small Scale Industry in the new GST framework, the scrutiny / audit of the small scale industry should be conducted only by the State Tax Administration.
- ☐ Common Appellate Authority as the tax base is common.
- ☐ Authority for Advance Ruling will also be common.
- ☐ Dispute Resolution Scheme will also be common.
- ☐ Best international practices should be embedded in the CGST, in respect of laws relating to levy of penalties, and circumstances and method of prosecution.

- ❑ No authority should have power to make preventive detention for the purpose of CGST and SGST.
- ❑ Upto 1.5 Crore, assessment of CGST & SGST will be done by State Govt. where the registration takes place. If there are any dispute related to CGST then it will refer to CBEC officials to initiate further action

5.21: Accounting Entries

5.21.1 Accounting Entries - Financial Records

Accountants will play a major role in implementation of GST all over India, as they will bear the 100% responsibility of maintaining books of accounts on day-to-day basis. So now we are going to discussed all accounting entries pertaining to purchase, sale & supply of goods or services or both.

Case- I - Purchase and Sale of Goods & Services - within the State

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Purchase of Goods - within the State		
	Purchase A/c .....Dr.	100000	
	Input CGST A/c .....Dr.	10000	
	Input SGST A/c .....Dr.	10000	
	To Creditors A/c.		120000
	(Being Goods Purchased on Credit. CGST @ 10% & SGST @ 10%)		
2.	Sale of Goods - within the State		
	Debtors A/c .....Dr.	180000	
	To sales A/c .....Dr.		150000
	To Output CGST A/c		15000
	To Output SGST A/c		15000
	(Being Goods Sold on Credit. CGST @ 10% & SGST @ 10%)		
3.	Received Services - within the state		
	Consultancy Service A/c .....Dr.	2000	
	Telephone/Internet Service A/c .....Dr.	3000	
	Input CGST A/c .....Dr.	500	
	Input SGST A/c .....Dr.	500	
	To Bank A/c		6000
	(Being Service Received & Payment made through Bank.		

	CGST @ 10% & SGST @ 10%)														
4.	Purchase of Capital Goods - within the State Capital Goods A/cDr. 10000 Input CGST A/cDr. 1000 Input SGST A/cDr. 1000 To Creditors A/c (Being Capital Goods Purchased on Credit, CGST @ 10% & SGST @ 10%)		12000												
Balance remaining in account															
<table><tr><td>Particulars</td><td>Input</td><td>Output</td></tr><tr><td>IGST</td><td>0</td><td>0</td></tr><tr><td>CGST</td><td>11500</td><td>15000</td></tr><tr><td>SGST</td><td>11500</td><td>15000</td></tr></table>				Particulars	Input	Output	IGST	0	0	CGST	11500	15000	SGST	11500	15000
Particulars	Input	Output													
IGST	0	0													
CGST	11500	15000													
SGST	11500	15000													
5.	Adjustment Entry for Input Tax Output CGSTDr. 11500 Output SGSTDr. 11500 To Input CGST To Input SGST (Being Input tax adjusted against Output tax)		11500 11500												
6.	Payment of Tax Output CGST A/cDr. 3500 Output SGST A/cDr. 3500 To Bank (Being Outstanding Output Tax paid Through Bank)		7000												

Case - II - Purchase of Goods & Services - within the State & Sale - outside the state

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Purchase of Goods - within the State Purchase A/c .....Dr. 100000 Input CGST A/c .....Dr. 10000 Input SGST A/c .....Dr. 10000		

	To Creditors A/c. (Being Goods Purchased on Credit. CGST @ 10% & SGST @ 10%)		120000												
2.	Sale of Goods - outside the State Debtors A/cDr. To Sales A/c To Output IGST A/c To Additional Tax (1%) A/c (Being Goods Sold on Credit. CGST @ 10% & SGST @ 10%)	181500	150000 30000 1500												
3.	Received Services - within the state Consultancy Service A/cDr. Telephone/Internet Service A/cDr. Input CGST A/cDr. Input SGST A/cDr. To Bank A/c (Being Service Received & payment made through Bank. CGST @ 10% & SGST @ 10%)	2000 3000 500 500	6000												
4.	Purchase Capital Goods - within the State Capital Goods A/cDr. Input CGST A/cDr. Input SGST A/cDr. To Creditors A/c (Being Capital Goods Purchased on Credit. CGST @ 10% & SGST @ 10%)	10000 1000 1000	12000												
Balance remaining in account															
<table><tr><td>Particulars</td><td>Input</td><td>Output</td></tr><tr><td>IGST</td><td>0</td><td>30000</td></tr><tr><td>CGST</td><td>11500</td><td>0</td></tr><tr><td>SGST</td><td>11500</td><td>0</td></tr></table>				Particulars	Input	Output	IGST	0	30000	CGST	11500	0	SGST	11500	0
Particulars	Input	Output													
IGST	0	30000													
CGST	11500	0													
SGST	11500	0													
5.	Adjustment Entry for Input Tax Output IGST A/cDr. To Input CGST (Being Input tax adjusted against Output tax)	11500	11500												

6.	Adjustment Entry for Input Tax Output IGST A/c .....Dr. To Input SGST (Being Input tax adjusted against Output tax)	11500	11500
7.	Payment of Tax Output IGST A/c .....Dr. Additional Tax (1%) A/c.....Dr. To Bank (Being Outstanding Output Tax paid Through Bank)	7000 1500	8500

Case - III - Purchase of Goods & Services - outside the State and Sale - within the state

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Purchase of Goods - outside the State Purchase A/c .....Dr. Input IGST A/c .....Dr. Additional Tax (1%) A/c.....Dr. To Creditors A/c. (Being Goods Purchased on Credit. IGST = 20% [CGST @ 10% + SGST @ 10%])	100000 20000 1000	121000
2.	Sale of Goods - within the State Debtors A/c .....Dr. To sales A/c To Output CGST A/c To Output SGST A/c (Being Goods Sold on Credit. CGST @ 10% & SGST @ 10%)	180000	150000 15000 15000
3.	Received Services - outside the state Consultancy Service A/c .....Dr. Telephone/Internet Service A/c.....Dr. Input IGST A/c .....Dr. To Bank A/c (Being Service Received & payment made through Bank.	2000 3000 1000	6000

	IGST = 20% [CGST @ 10% + SGST @ 10%])														
4.	Purchase of Capital Goods - outside the State Capital Goods A/cDr. Input IGST A/cDr. Additional Tax (1%) A/c.....Dr. To Creditors A/c (Being Capital Goods Purchased on Credit. IGST = 20% [CGST @ 10% + SGST @ 10%])	10000 2000 100	12100												
Balance remaining in account															
<table><tr><td>Particulars</td><td>Input</td><td>Output</td></tr><tr><td>IGST</td><td>23000</td><td>0</td></tr><tr><td>CGST</td><td>0</td><td>15000</td></tr><tr><td>SGST</td><td>0</td><td>15000</td></tr></table>				Particulars	Input	Output	IGST	23000	0	CGST	0	15000	SGST	0	15000
Particulars	Input	Output													
IGST	23000	0													
CGST	0	15000													
SGST	0	15000													
5.	Adjustment Entry for Input Tax Output CGST A/cDr. To Input IGST (Being Input tax adjusted against Output tax)	15000	15000												
6.	Adjustment Entry for Input Tax Output SGST A/cDr. To Input IGST (Being Input tax adjusted against Output tax)	8000	8000												
7.	Payment of Tax Output CGST A/cDr. Output SGST A/cDr. To Bank (Being Outstanding Output Tax paid Through Bank)	0 7000	7000												

Case - IV - Purchase and Sale of Goods & Services - outside the state

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Purchase of Goods - outside the State Purchase A/c .....Dr. Input IGST A/c .....Dr.	100000 20000	

	Additional Tax (1%) A/c.....Dr. To Creditors A/c. (Being Goods Purchased on Credit. IGST = 20% [CGST @ 10% + SGST @ 10%])	1000	121000												
2.	Sale of Goods - outside the State Debtors A/cDr. To sales A/c To Output IGST A/c To Additional Tax (1%) A/c (Being Goods Sold on Credit. IGST = 20% [CGST @ 10% + SGST @ 10%])	180000	150000 30000 1500												
3.	Received Services - outside the state Consultancy Service A/cDr. Telephone/Internet Service A/c.....Dr. Input IGST A/cDr. To Bank A/c (Being Service Received & payment made through Bank. IGST = 20% [CGST @ 10% + SGST @ 10%])	2000 3000 1000	6000												
4.	Purchase of Capital Goods - outside the State Capital Goods A/cDr. Input IGST A/cDr. Additional Tax (1%) A/c.....Dr. To Creditors A/c (Being Capital Goods Purchased on Credit. IGST = 20% [CGST @ 10% + SGST @ 10%])	10000 2000 100	12100												
	Balance remaining in account <table><tr><td>Particulars</td><td>Input</td><td>Output</td></tr><tr><td>IGST</td><td>23000</td><td>30000</td></tr><tr><td>CGST</td><td>0</td><td>0</td></tr><tr><td>SGST</td><td>0</td><td>0</td></tr></table>	Particulars	Input	Output	IGST	23000	30000	CGST	0	0	SGST	0	0		
Particulars	Input	Output													
IGST	23000	30000													
CGST	0	0													
SGST	0	0													
5.	Adjustment Entry for Input Tax Output IGST A/cDr. To Input IGST (Being Input tax adjusted against Output tax)	23000	23000												

6.	Payment of Tax Output IGST A/c .....Dr. Additional Tax (1%) A/c.....Dr. To Bank (Being Outstanding Output Tax paid Through Bank)	7000 1500	8500
-----------	---	--------------	------

Case - V - Received goods & services - within and outside the State. Sale of services and goods - within and outside the State

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Purchase of Goods - outside the State Purchase A/c .....Dr. Input IGST A/c .....Dr. Additional Tax (1%) A/c.....Dr. To Creditors A/c. (Being Goods Purchased on Credit. IGST = 20% [CGST @ 10% + SGST @ 10%])	100000 20000 1000	121000
2.	Purchase of Goods - within the State Purchase A/c .....Dr. Input CGST A/c .....Dr. Input SGST A/c .....Dr. To Creditors A/c. (Being Goods Purchased on Credit. CGST @ 10% & SGST @ 10%)	50000 5000 5000	60000
3.	Sale of Goods - outside the State Debtors A/c .....Dr. To sales A/c To Output IGST A/c To Additional Tax (1%) A/c (Being Goods Sold on Credit. IGST = 20% [CGST @ 10% + SGST @ 10%])	180000	150000 30000 1500
4.	Sale of Goods - within the State Debtors A/c .....Dr.	90000	

	To sales A/c To Output CGST A/c To Output SGST A/c (Being Goods Sold on Credit. CGST @ 10% & SGST @ 10%)		75000 7500 7500
5.	Received Services - outside the state Consultancy Service A/c .....Dr. Telephone/Internet Service A/c.....Dr. Input IGST A/c .....Dr. To Bank A/c (Being Service Received & payment made through Bank. IGST = 20% [CGST @ 10% + SGST @ 10%])	20000 30000 10000	60000
6.	Received Services from within the state Consultancy Service A/c.....Dr. Telephone/Internet Service A/c.....Dr. Input CGST A/c .....Dr. Input SGST A/c .....Dr. To Bank A/c (Being Service Received & payment made through bank. CGST @ 10% & SGST @ 10%)	2000 3000 500 500	6000
7.	Purchase of Capital Goods - outside the State Capital Goods A/c .....Dr. Input IGST A/c .....Dr. Additional Tax (1%) A/c.....Dr. To Creditors A/c (Being Capital Goods Purchased on Credit. IGST = 20% [CGST @ 10% + SGST @ 10%])	9000 1800 90	10890
8.	Purchase of Capital Goods - within the State Capital Goods A/c .....Dr. Input CGST A/c .....Dr. Input SGST A/c .....Dr. To Creditors A/c (Being Capital Goods Purchased on Credit. CGST@10% & SGST@10%)	10000 1000 1000	12000

Balance remaining in account			
Particulars		Input	Output
IGST		31800	30000
CGST		6500	7500
SGST		6500	7500

9.	Adjustment Entry for Input Tax Output CGST A/c .....Dr. To Input CGST (Being Input tax adjusted against Output tax)	6500	6500
10.	Adjustment Entry for Input Tax Output SGST A/c .....Dr. To Input SGST (Being Input tax adjusted against Output tax)	6500	6500
11.	Adjustment Entry for Input Tax Output IGST A/c .....Dr. To Input IGST (Being Input tax adjusted against Output tax)	30000	30000

Balance remaining in account			
Particulars		Input	Output
IGST		1800	0
CGST		0	1000
SGST		0	1000

12.	Adjustment Entry for Input Tax Output CGST A/c .....Dr. To Input IGST (Being Input tax adjusted against Output tax)	1000	1000
13.	Adjustment Entry for Input Tax Output SGST A/c .....Dr. To Input IGST (Being Input tax adjusted against Output tax)	800	800
14.	Payment of Tax Output SGST A/c .....Dr.	200	

	Additional Tax (1%) A/c.....Dr.	1500	
	To Bank		1700
	(Being Outstanding Output Tax paid Through Bank)		

Miscellaneous Entries:

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Purchase return, if Purchase was made within the State Creditors A/c.....Dr. To Purchase A/c To Input CGST A/c To Input SGST A/c (Being purchases Return of Rs.25000. CGST @ 10% & SGST @ 10%)	30000	25000 2500 2500
2.	Purchase return, if Purchase was made - outside the state Creditors A/c.....Dr. To Purchase A/c To Input IGST A/c To Additional Tax (1%) A/c (Being Purchased Return of Rs. 25000. IGST = 20% [CGST @ 10% + SGST @ 10%]))	30250	25000 5000 250
3.	Sales return, if sales was made - with the state Sales A/c.....Dr. Outside CGST A/c.....Dr. Outside SGST A/c.....Dr. To Debtors A/c (Being Sales Return of Rs. 25000. CGST @ 10% & SGST @ 10%)	25000 2500 2500	30000
4.	Sales Return, if Sales was made - outside the state Sales A/c.....Dr. Output IGST A/c.....Dr. Additional Tax (1%) A/c.....Dr. To Debtors A/c (Being Sales Return of Rs. 25000. IGST = 20% [CGST @ 10% + SGST @ 10%]))	25000 5000 250	30250

Accounting Entries – Job Work in the Books of Principle Supplier

Case- I – Purchase and transfer the Goods to Job Worker – within the State

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Purchase of Goods – within the State Purchase A/c .....Dr. Input CGST A/c .....Dr. Input SGST A/c .....Dr. To Creditors A/c. (Being Goods Purchased on Credit. CGST @ 10% & SGST @ 10%)	100000 10000 10000	120000
2.	Goods Transferred to Job Work – within the State Job work account A/C.....Dr. To Stock A/c To SGST A/c To CGST A/c (Being goods transferred to Job worker. CGST @ 10% & SGST @ 10%)	120000	100000 10000 10000
3.	WIP/FG Returned from Job Work- within the State WIP/FG A/C .....Dr. Input CGST A/c .....Dr. Input SGST A/c .....Dr. To Job Work A/c (Being Service Received & Payment made through Bank. CGST @ 10% & SGST @ 10%)	200000 20000 20000	240000
4.	Payment to Job Worker Job Work A/C.....Dr To Bank A/c (Being amount paid to Job worker)	120000	120000

Particulars	Input	Output
IGST	0	0
CGST	30000	10000
SGST	30000	10000

Case- II - Purchase from outside the state and transfer the Goods to Job Worker - within the State

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Purchase of Goods - outside the State Purchase A/c .....Dr. Input IGST A/c .....Dr. Additional Tax (1%) A/c.....Dr. To Creditors A/c. (Being Goods Purchased on Credit. IGST @ 20%)	100000 20000 1000	121000
2.	Goods Transferred to Job Work - within the State Job work account A/C.....Dr. To Stock A/c To SGST A/c To CGST A/c (Being goods transferred to Job worker. CGST @ 10% & SGST @ 10%)	120000	100000 10000 10000
3.	WIP/FG Returned from Job Work- within the State WIP/FG A/C .....Dr. Input CGST A/c .....Dr. Input SGST A/c .....Dr. To Job Work A/c (Being Service Received & Payment made through Bank. CGST @ 10% & SGST @ 10%)	200000 20000 20000	240000
4.	Payment to Job Worker Job Work A/C.....Dr To Bank A/c	120000	120000

Particulars	Input	Output
IGST	20000	0
CGST	20000	10000
SGST	20000	10000

5.21.2 Accounting Entries - Integrated Accounting : Interfacing Cost Records and Financial Records - for simplicity

The following table shows the comparative journal entries in financial accounts, cost accounts and integrated accounting:

Sl. No	Transaction	Financial Accounts	Cost Accounts	Integrated Accounts
(i)	Credit purchase of Material	Purchases A/c Dr To, Creditors A/c	Material Control A/c Dr To, General Ledger A/c	Material Control A/c Dr To, Creditors
(ii)	Cash purchase of materials	Purchases A/c Dr To, Bank / Cash. A/c	Material Control A/c Dr To, General Ledger A/c	Material Control A/c Dr To, Cash
(iii)	Purchase of special material for direct use in job	Purchases A/c Dr To, Cash / Creditors. A/c	WIP Control A/c Dr To, General Ledger Adj A/c	WIP Control A/c Dr To, Cash or Creditors A/c
(iv)	Purchase of materials for repairs	Purchases A/c Dr To, Cash/Creditors. A/c	Factory OH control A/c Dr To, General Ledger Adj A/c	Factory OH control A/c Dr To, Cash / Creditors A/c
(v)	Materials returned to suppliers	Creditors A/c Dr To, Purchases A/c	General Ledger Control A/c. Dr To Material control A/c	Creditors A/c Dr To, Material Control A/c
(vi)	Payments to creditors for supplies made	Creditors A/c Dr To, Cash A/c	No Entry	Creditors A/c Dr To, Cash A/c
(vii)	Issue of direct materials to production shops	No Entry	WIP Control A/c Dr To, Materials Control A/c	WIP Control A/c Dr To, Materials Control A/c
(viii)	Issue of indirect materials to production shops	No Entry	Factory OH Control A/c Dr To, Material Control A/c	Factory OH control A/c Dr To, Material Control A/c
(ix)	Return of direct materials to stores	No Entry	Material Control A/c Dr To, WIP Control A/c	Material Control A/c Dr To, WIP Control A/c
(x)	Return of indirect materials to stores	No Entry	Material Control A/c Dr To, Factory Overheads A/c	Material Control A/c Dr To, Factory Overheads A/c
(xi)	Materials transferred from one Job to another	No Entry	No Entry	No Entry
(xii)	Adjustment of normal depreciation in material stocks	No Entry	Factory Overheads Control A/c Dr To, Material Control A/c	Factory Overheads Control A/c Dr To, Material Control A/c
(xiii)	Adjustment of normal surplus in material stocks	No Entry	Material Control a/c Dr To, Factory OH Control A/c	Material Control A/c Dr To, Factory OH Control A/c
(xiv)	Payment of wages & Salaries	Wages & Salaries A/c Dr To Cash / Bank A/c	Wages Control A/c Dr To, General Ledger A/c	Wages & Salaries A/c Dr To, Cash / Bank A/c
(xv)	Analysis of distribution of wages	No Entry	WIP Control A/c Dr POH Control A/c Dr Admin OH Control A/c Dr Selling Dis OH Control A/c Dr To, Wages Control A/c.	WIP Control A/c Dr POH Control A/c Dr Admin OH Control A/c Dr Selling Dis OH Control A/c Dr To, Wages Control A/c.

An Insight of Goods & Services Tax (GST) in India

Sl. No	Transaction	Financial Accounts	Cost Accounts	Integrated Accounts
(xvi)	Payment of Expenses	Expenses A/c Dr To, Cash A/c	POH Control A/c Dr Admin OH Control A/c Dr Selling & Dis OH Control A/c Dr To, General Ledger Adj A/c	POH Control A/c Dr Admin OH Control A/c Dr Selling & Dis OH Control A/c Dr To, Cash A/c
(xvii)	Recording of Depreciation	Depreciation A/c Dr To, Asset A/c	POH Control A/c Dr Admin OH Control A/c Dr Selling & Dis OH Control A/c Dr To, General Ledger Adj A/c	POH Control A/c Dr Admin OH Control A/c Dr Selling & Dis OH Control A/c Dr To, Asset A/c
(xviii)	Absorption of Factory Overheads	No Entry	WIP Control A/c Dr To, Factory Overheads A/c	WIP Control A/c Dr To, Factory Overheads A/c
(xix)	Spoiled / Defective Work	No Entry	Costing Profit & Loss A/c Dr To, WIP Control A/c	Costing Profit & Loss A/c Dr To, WIP Control A/c
(xx)	Recording of Cost of Jobs completed	No Entry	Finished Goods Control A/c Dr To, WIP Control A/c	Finished Goods Control A/c Dr To, WIP Control A/c
(xxi)	Recording of Cost of goods sold	No Entry	Cost of Sales A/c Dr To, Finished goods A/c	Cost of Sales A/c Dr To, Finished goods Control A/c
(xxii)	Recording of sales	Cash/ Debtor A/c Dr To, Sales A/c	General Ledger Control A/c Dr To, Costing P&L A/c	Cash / Debtors A/c Dr To, P&L A/c
(xxiii)	Absorption of Administration Overheads	No Entry	Finished Goods Control A/c Dr To, Admin OH Control A/c	Finished Goods Control A/c Dr To, Admin OH control A/c
(xxiv)	Absorption of Selling Overheads	No Entry	Cost of Sales A/c Dr To, Selling & Dis. Overheads Control A/c	Cost of Sales A/c Dr To, Selling & Dis. OH Control A/c
(xxv)	Under absorption of overheads	No Entry	Costing Profit & Loss A/c Dr To, OH Control A/c	Profit & Loss A/c Dr To, OH control A/c
(xxvi)	Over absorption of overheads	No Entry	OH Control A/c Dr To, Costing P&L A/c	OH Control A/c Dr To, Costing P&L A/c

Illustration 1 :

Journalise the following transactions assuming that cost and financial accounts are integrated:

Particulars	₹
Raw material purchased	40,000
Direct materials issued to production	30,000
Wages paid (30% indirect)	24,000
Wages charged to production	16,800
Manufacturing expenses incurred	19,000

Manufacturing overhead charged to Production	18,000
Selling and distribution cost	4,000
Finished products (at cost)	40,000
Sales	58,000
Closing stock	Nil
Receipts from debtors	13,800
payments to creditors	12,000

Solution:

Journals

	Dr.	Cr.
Particulars	₹	₹
Material Control A/c Dr	40,000	
To, Creditors A/c		40,000
Work In Progress Control A/c Dr	30,000	
To, Material Control A/c		30,000
Wages Control A/c Dr	24,000	
To, Cash A/c		24,000
Factory Overheads Control A/c Dr	7,200	
To, Wages Control A/c		7,200
Work-in-Progress Control A/c Dr	16,800	
To, Wages Control A/c		16,800
Factory Overhead Control A/c Dr	19,000	
To, Cash A/c		19,000
Work-in-Progress Control A/c Dr	18,000	
To, Factory overhead Control A/c		18,000
S & D O.H. Control A/c Dr	4,000	
To, Cash A/c		4,000
Cost of Sales A/c Dr	4,000	
To, Selling & Distribution		

To, Overhead Control A/c		4,000
Finished Goods Control A/c Dr	40,000	
To, Work-in-progress control A/c		40,000
Debtors A/c Dr	58,000	
To, Profit & Loss A/c		58,000
Cash A/c Dr	13,800	
To, Debtors A/c		13,800
Creditors A/c Dr	22,000	
To, Cash A/c		22,000

Illustration 2 :

Messrs Essbee Ltd. maintains Integrated Accounts of Cost and Financial Accounts. From the following details write up Control Accounts of a factory and prepare a Trial Balance.

Particulars	₹
Share Capital	3,00,000
Reserve	2,00,000
Sundry Creditors	5,00,000
Plant and Machinery	5,75,000
Sundry Debtors	2,00,000
Closing Stock	1,50,000
Bank & Cash Balance	75,000

TRANSACTIONS DURING THE YEAR WERE AS FOLLOWS:

Particulars	₹
Stores purchased	10,00,000
stores issued to production	10,50,000
Stores in hand	95,000
Direct wages incurred	6,50,000
Direct wages charged to production	6,00,000
Manufacturing expenses incurred	3,00,000
Manufacturing expenses charged to production	2,75,000
Selling and distribution expenses	1,00,000
Finished stock production (at cost)	18,00,000
Sales at selling price	22,00,000

Closing stock	95,000
Payments to creditors	11,00,000
Receipts from debtors	21,00,000

Solution:

Dr.	Creditors Account		Cr.
Particulars	₹	Particulars	₹
To, Cash A/c	11,00,000	By, Balance b/d	5,00,000
To, Balance c/d	4,00,000	By, Material Control A/c	10,00,000
	15,00,000		15,00,000
		By, Balance b/d	4,00,000

Dr.	Debtors Account		Cr.
Particulars	₹	Particulars	₹
To, Balance b/d	2,00,000	By, Cash A/c	21,00,000
To, P & L A/c	22,00,000	By, Balance c/d	3,00,000
	24,00,000		24,00,000
To, Balance b/d	3,00,000		

Dr.	Material Control A/c (or) Stores Ledger Control Account		Cr.
Particulars	₹	Particulars	₹
To, Balance b/d	1,50,000	By, Work-in-Progress Control A/c	10,50,000
To, Creditors A/c	10,00,000	By, Manufacturing Overhead Control A/c	5,000
		By, Balance c/d	95,000
	11,50,000		11,50,000
To, Balance b/d	95,000		

Dr.	Cash & Bank Account		Cr.
Particulars	₹	Particulars	₹
To, Balance b/d	75,000	By, Wages Control A/c	6,50,000
To, Debtors A/c	21,00,000	By, Manufacturing Overhead Control A/c	3,00,000
		By, Selling and Distribution O.H. Control A/c	1,00,000
		By, Creditors A/c	11,00,000
		By, Balance c/d	25,000

	21,75,000		21,75,000
To, Balance b/d	25,000		

Dr. Work-in-Progress Control Account Cr.

Particulars	₹	Particulars	₹
To, Material Control A/c	10,50,000	By, Fixed Goods Control A/c	18,00,000
To, Wages Control A/c	6,00,000	By, Balance c/d	1,25,000
To, Manufacturing Overhead Control A/c	2,75,000		
	19,25,000		19,25,000
To, Balance b/d	1,25,000		

Dr. Wages Control Account Cr.

Particulars	₹	Particulars	₹
To Cash & Bank A/c	6,50,000	By, Work-in-Progress Control A/c	6,00,000
		By, Manufacturing Overhead Control A/c	50,000
	6,50,000		6,50,000

Dr. Factory or Manufacturing Overhead Control Account Cr.

Particulars	₹	Particulars	₹
To, Cash	3,00,000	By, Work-in-Progress Control A/c	2,75,000
To, Material Control A/c	5,000	By, Profit & Loss A/c	80,000
To, Wages Control A/c	50,000		
	3,55,000		3,55,000

Dr. Selling & Distribution Overhead Control Account Cr.

Particulars	₹	Particulars	₹
To, Cash A/c	1,00,000	By, Cost of Sales A/c	1,00,000
	1,00,000		1,00,000

Dr. Finished Goods Control Account Cr.

Particulars	₹	Particulars	₹
-------------	---	-------------	---

To, Work-in-Progress Control A/c	18,00,000	By, Cost of Sales	17,05,000
		By, Balance c/d	95,000
	18,00,000		18,00,000
To, Balance b/d	95,000		

Dr.		Profit & Loss Account		Cr.	
Particulars	₹	Particulars	₹		
To, Factory Overheads Control A/c	80,000	By, Debtors A/c (Sale)	22,00,000		
To, Cost of Sales	18,05,000				
To, Reserve A/c (Profit)	3,15,000				
	22,00,000		22,00,000		

Dr.		Cost of Sales Account		Cr.	
Particulars	₹	Particulars	₹		
To, Selling & Distribution Control A/c	1,00,000	By, Profit & Loss A/c	18,05,000		
To, Finished Goods Control A/c	17,05,000				
	18,05,000		18,05,000		

Trial Balance as on ...

Particulars	Debit ₹	Credit ₹
Share Capital		3,00,000
Reserves		
(2,00,000 + 3,15,000)		5,15,000
Creditors		4,00,000
Plant & Machinery	5,75,000	
Debtors	3,00,000	
Closing Stock:		
Material	95,000	
Work-in-progress	1,25,000	
Finished goods	95,000	
Cash & bank	25,000	
	12,15,000	12,15,000

5.22 : Business Segments - Impact analysis and Special issues

Post-GST envisages some crucial decisions in analysing business transactions. With the simplicity and uniformity brought in indirect taxation structure through introduction of GST, there shall arise strategic business decisions, based on consumption pattern of a particular state/ region than as compared to taxation incentives offered and made available by any State Government or the Central Government, as the case may be.

Recommendations on GST envisages doing away with exemptions presently offered to business organizations.

Some of the major existing facilities includes:

- ❖ Units located in Uttarakhand & Himachal Pradesh.
- ❖ Units located in Jammu & Kashmir and North Eastern States.
- ❖ Units located in Kutch, Diu Daman & Silvassa.
- ❖ EOU / STP / EHTP / HTP / BTP.
- ❖ Private Bonded Warehouses & Public Bonded Warehouses.
- ❖ Free Trade Warehousing Zones (FTWZ).
- ❖ Special Economic Zones (SEZ).

Highlights of The Foreign Trade Policy 2015-2020

A. SIMPLIFICATION & MERGER OF REWARD SCHEMES

Export from India Schemes:

1. Merchandise Exports from India Scheme (MEIS)

- (a) Earlier there were 5 different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports with different kinds of duty scrips with varying conditions (sector specific or actual user only) attached to their use. Now all these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS) and there would be no conditionality attached to the scrips issued under the scheme. The main features of MEIS, including details of various groups of products supported under MEIS and the country groupings are at Annexure-1.

- (b) Rewards for export of notified goods to notified markets under 'Merchandise Exports from India Scheme (MEIS) shall be payable as percentage of realized FOB value (in free foreign exchange). The debits towards basic customs duty in the transferable reward duty credit scrips would also be allowed adjustment as duty drawback. At present, only the additional duty of customs / excise duty / service tax is allowed adjustment as CENVAT credit or drawback, as per Department of Revenue rules.

2. Service Exports from India Scheme (SEIS)

- (a) Served From India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS). SEIS shall apply to 'Service Providers located in India' instead of 'Indian Service Providers'. Thus SEIS provides for rewards to all Service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider. The list of services and the rates of rewards under SEIS are at Annexure-2.
- (b) The rate of reward under SEIS would be based on net foreign exchange earned. The reward issued as duty credit scrip, would no longer be with actual user condition and will no longer be restricted to usage for specified types of goods but be freely transferable and usable for all types of goods and service tax debits on procurement of services / goods. Debits would be eligible for CENVAT credit or drawback.

3. Chapter -3 Incentives (MEIS & SEIS) to be available for SEZs

It is now proposed to extend Chapter -3 Incentives (MEIS & SEIS) to units located in SEZs also.

4. Duty credit scrips to be freely transferable and usable for payment of custom duty, excise duty and service tax.

- (a) All scrips issued under MEIS and SEIS and the goods imported against these scrips would be fully transferable.
- (b) Scrips issued under Exports from India Schemes can be used for the following:-
 - (i) Payment of customs duty for import of inputs / goods including capital goods, except items listed in Appendix 3A.
 - (ii) Payment of excise duty on domestic procurement of inputs or goods, including capital goods as per DoR notification.
 - (iii) Payment of service tax on procurement of services as per DoR notification.
- (c) Basic Customs Duty paid in cash or through debit under Duty Credit Scrip can be taken back as Duty Drawback as per DoR Rules, if inputs so imported are used for exports.

5. Status Holders

- (a) Business leaders who have excelled in international trade and have successfully contributed to country's foreign trade are proposed to be recognized as Status Holders and given special treatment and privileges to facilitate their trade transactions, in order to reduce their transaction costs and time.
- (b) The nomenclature of Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been changed to One, Two, Three, Four, Five Star Export House.
- (c) The criteria for export performance for recognition of status holder have been changed from Rupees to US dollar earnings. The new criteria is as under:-

Status category	Export Performance FOB / FOR (as converted) Value (in US \$ million) during current and previous two years
One Star Export House	3
Two Star Export House	25
Three Star Export House	100
Four Star Export House	500
Five Star Export House	2000

(d) **Approved Exporter Scheme - Self certification by Status Holders**

Manufacturers who are also Status Holders will be enabled to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under different Preferential Trading Agreements [PTAs], Free Trade Agreements [FTAs], Comprehensive Economic Cooperation Agreements [CECAs] and Comprehensive Economic Partnerships Agreements [CEPAs] which are in operation. They shall be permitted to self-certify the goods as manufactured as per their Industrial Entrepreneur Memorandum (IEM) / Industrial Licence (IL)/ Letter of Intent (LOI).

B. BOOST TO "MAKE IN INDIA"

6. **Reduced Export Obligation (EO) for domestic procurement under EPCG scheme:**

Specific Export Obligation under EPCG scheme, in case capital goods are procured from indigenous manufacturers, which is currently 90% of the normal export obligation (6 times at the duty saved amount) has been reduced to 75%, in order to promote domestic capital goods manufacturing industry.

7. **Higher level of rewards under MEIS for export items with high domestic content and value addition:**

It is proposed to give higher level of rewards to products with high domestic content and value addition, as compared to products with high import content and less value addition.

C. TRADE FACILITATION & EASE OF DOING BUSINESS

8. Online filing of documents/ applications and Paperless trade in 24x7 environment:

- (a) DGFT already provides facility of Online filing of various applications under FTP by the exporters/importers. However, certain documents like Certificates issued by Chartered Accountants/ Company Secretary / Cost Accountant etc. have to be filed in physical forms only. In order to move further towards paperless processing of reward schemes, it has been decided to develop an online procedure to upload digitally signed documents by Chartered Accountant / Company Secretary / Cost Accountant. In the new system, it will be possible to upload online documents like annexure attached to ANF 3B, ANF 3C and ANF 3D, which are at present signed by these signatories and submitted physically.
- (b) Henceforth, hardcopies of applications and specified documents would not be required to be submitted to RA, saving paper as well as cost and time for the exporters. To start with, applications under Chapter 3 & 4 of FTP are being covered (which account for nearly 70% of total applications in DGFT). Applications under Chapter-5 would be taken up in the next phase.
- (c) As a measure of ease of doing business, landing documents of export consignment as proofs for notified market can be digitally uploaded in the following manner:-
 - (i) Any exporter may upload the scanned copy of Bill of Entry under his digital signature.
 - (ii) Status holders falling in the category of Three Star, Four Star or Five Star Export House may upload scanned copies of documents.

9. Online inter-ministerial consultations:

It is proposed to have Online inter-ministerial consultations for approval of export of SCOMET items, Norms fixation, Import Authorisations, Export Authorisation, in a phased manner, with the objective to reduce time for approval. As a result, there would not be any need to submit hard copies of documents for these purposes by the exporters.

10. Simplification of procedures/processes, digitisation and e-governance

- (a) Under EPCG scheme, obtaining and submitting a certificate from an independent Chartered Engineer, confirming the use of spares, tools, refractory and catalysts imported for final redemption of EPCG authorizations has been dispensed with.
- (b) At present, the EPCG Authorisation holders are required to maintain records for 3 years after redemption of Authorisations. Now the EPCG Authorization Holders shall be required to maintain records for a period of two years only. Government's endeavour is to gradually phase out this requirement as the relevant records such

as Shipping Bills, e-BRC are likely to be available in electronic mode which can be archived and retrieved whenever required.

- (c) **Exporter Importer Profile:** Facility has been created to upload documents in Exporter/Importer Profile. There will be no need to submit copies of permanent records/ documents (e.g. IEC, Manufacturing licence, RCMC, PAN etc.) repeatedly with each application, once uploaded.
- (d) **Communication with Exporters/Importers:**
Certain information, like mobile number, e-mail address etc. has been added as mandatory fields, in IEC data base. This information once provided by exporters, would help in better communication with exporters. SMS/ email would be sent to exporters to inform them about issuance of authorisations or status of their applications.
- (e) **Online message exchange with CBDT and MCA:**
It has been decided to have online message exchange with CBDT for PAN data and with Ministry of Corporate Affairs for CIN and DIN data. This integration would obviate the need for seeking information from IEC holders for subsequent amendments/ updation of data in IEC data base.
- (f) **Communication with Committees of DGFT:**
For faster and paperless communication with various committees of DGFT, dedicated email addresses have been provided to each Norms Committee, Import Committee and Pre-Shipment Inspection Agency for faster communication.
- (g) **Online applications for refunds:**
Online filing of application for refund of TED is being introduced for which a new ANF has been created.

11. Forthcoming e-Governance Initiatives

- (a) DGFT is currently working on the following EDI initiatives:
 - (i) Message exchange for transmission of export reward scrips from DGFT to Customs.
 - (ii) Message exchange for transmission of Bills of Entry (import details) from Customs to DGFT.
 - (iii) Online issuance of Export Obligation Discharge Certificate (EODC).
 - (iv) Message exchange with Ministry of Corporate Affairs for CIN & DIN.
 - (v) Message exchange with CBDT for PAN.
 - (vi) Facility to pay application fee using debit card / credit card.
 - (vii) Open API for submission of IEC application.
 - (viii) Mobile applications for FTP

D. Other new Initiatives

12. New initiatives for EOUs, EHTPs and STPs

- (a) EOUs, EHTPs, STPs have been allowed to share infrastructural facilities among themselves. This will enable units to utilize their infrastructural facilities in an optimum way and avoid duplication of efforts and cost to create separate infrastructural facilities in different units.
- (b) Inter unit transfer of goods and services have been allowed among EOUs, EHTPs, STPs, and BTPs. This will facilitate group of those units which source inputs centrally in order to obtain bulk discount. This will reduce cost of transportation, other logistic costs and result in maintaining effective supply chain.
- (c) EOUs have been allowed facility to set up Warehouses near the port of export. This will help in reducing lead time for delivery of goods and will also address the issue of unpredictability of supply orders.
- (d) STP units, EHTP units, software EOUs have been allowed the facility to use all duty free equipment/goods for training purposes. This will help these units in developing skills of their employees.
- (e) 100% EOU units have been allowed facility of supply of spares/ components up to 2% of the value of the manufactured articles to a buyer in domestic market for the purpose of after sale services.
- (f) At present, in a period of 5 years EOU units have to achieve Positive Net Foreign Exchange Earning (NEE) cumulatively. Because of adverse market condition or any ground of genuine hardship, then such period of 5 years for NFE completion can be extended by one year.
- (g) Time period for validity of Letter of Permission (LOP) for EOUs/EHTP/STPI/BTP Units has been revised for faster implementation and monitoring of projects. Now, LOP will have an initial validity of 2 years to enable the unit to construct the plant and install the machinery. Further extension can be granted by the Development Commissioner up to one year. Extension beyond 3 years of the validity of LOP, can be granted, in case unit has completed 2/3rd of activities, including the construction activities.
- (h) At present, EOUs/EHTP/STPI units are permitted to transfer capital goods to other EOUs, EHTPs, STPs, SEZ units. Now a facility has been provided that if such transferred capital goods are rejected by the recipient, then the same can be returned to the supplying unit, without payment of duty.
- (i) A simplified procedure will be provided to fast track the de-bonding / exit of the STP/ EHTP units. This will save time for these units and help in reduction of transaction cost.
- (j) EOUs having physical export turnover of Rs.10 crore and above, have been allowed the facility of fast track clearances of import and domestic procurement. They will be allowed fast tract clearances of goods, for export production, on the basis of

pre- authenticated procurement certificate, issued by customs /central excise authorities. They will not have to seek procurement permission for every import consignment.

13. Facilitating & Encouraging Export of dual use items (SCOMET).

- (a) Validity of SCOMET export authorisation has been extended from the present 12 months to 24 months. It will help industry to plan their activity in an orderly manner and obviate the need to seek revalidation or relaxation from DGFT.
- (b) Authorisation for repeat orders will be considered on automatic basis subject to certain conditions.
- (c) Verification of End User Certificate (EUC) is being simplified if SCOMET item is being exported under Defence Export Offset Policy.
- (c) Outreach programmes will be conducted at different locations to raise awareness among various stakeholders.

14 Facilitating & Encouraging Export of Defence Exports

- (a) Normal export obligation period under advance authorization is 18 months. Export obligation period for export items falling in the category of defence, military store, aerospace and nuclear energy shall be 24 months from the date of issue of authorization or co-terminus with contracted duration of the export order, whichever is later. This provision will help export of defence items and other high technology items.
- (b) A list of military stores requiring NOC of Department of Defence Production has been notified by DGFT recently. A committee has been formed to create ITC (HS) codes for defence and security items for which industrial licenses are issued by DIPP.

15. e-Commerce Exports

- (a) Goods falling in the category of handloom products, books / periodicals, leather footwear, toys and customized fashion garments, having FOB value up to Rs.25000 per consignment (finalized using e-Commerce platform) shall be eligible for benefits under FTP. Such goods can be exported in manual mode through Foreign Post Offices at New Delhi, Mumbai and Chennai.
- (b) Export of such goods under Courier Regulations shall be allowed manually on pilot basis through Airports at Delhi, Mumbai and Chennai as per appropriate amendments in regulations to be made by Department of Revenue. Department of Revenue shall fast track the implementation of EDI mode at courier terminals.

16. Duty Exemption

- (a) Imports against Advance Authorization shall also be eligible for exemption from Transitional Product Specific Safeguard Duty.

- (b) In order to encourage manufacturing of capital goods in India, import under EPCG Authorisation Scheme shall not be eligible for exemption from payment of anti-dumping duty, safeguard duty and transitional product specific safeguard duty.

17. Additional Ports allowed for Export and import

Calicut Airport, Kerala and Arakonam ICD, Tamil Nadu have been notified as registered ports for import and export.

18. Duty Free Tariff Preference (DFTP) Scheme

India has already extended duty free tariff preference to 33 Least Developed Countries (LDCs) across the globe. This is being notified under FTP.

19. Quality complaints and Trade Disputes

- (a) In an endeavour to resolve quality complaints and trade disputes, between exporters and importers, a new chapter, namely, Chapter on Quality Complaints and Trade Disputes has been incorporated in the Foreign Trade Policy.
- (b) For resolving such disputes at a faster pace, a Committee on Quality Complaints and Trade Disputes (CQCTD) is being constituted in 22 offices and would have members from EPCs/FIEOs/APEDA/EICs.

20. Vishakhapatnam and Bhimavaram added as Towns of Export Excellence

Government has already recognized 33 towns as export excellence towns. It has been decided to add Vishakhapatnam and Bhimavaram in Andhra Pradesh as towns of export excellence (Product Category-Seafood)

Annexure-1

I. Merchandise Exports from India Scheme

- (i) Merchandise Exports from India Scheme has replaced 5 different schemes of earlier FTP (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports which had varying conditions (sector specific or actual user only) attached to their use.
- (ii) Now all these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS) and there would be no conditionality attached to the scrips issued under the scheme. Notified goods exported to notified markets would be rewarded on realised FOB value of exports.

A. Country Groups:

Category A: Traditional Markets (30)-European Union (28), USA, Canada.

Category B: Emerging & Focus Markets (139), Africa (55), Latin America and Mexico (45), CIS countries (12), Turkey and West Asian countries (13), ASEAN countries (10), Japan, South Korea, China, Taiwan,

Category C: Other Markets (70).

B. Products supported under MEIS

Level of Support:

Higher rewards have been granted for the following category of products:

- > Agricultural and Village industry products, presently covered under VKGUY.
- > Value added and packaged products.
- > Eco-friendly and green products that create wealth out of waste from agricultural and other waste products that generate additional income for the farmers, while improving the environment.
- > Labour intensive Products with large employment potential and Products with large number of producers and /or exporters.
- > Industrial Products from potential winning sectors.
- > Hi-tech products with high export earning potential.

C. Markets Supported

- > Most Agricultural products supported across the Globe.
- > Industrial and other products supported in Traditional and/or Emerging markets only.

D. High potential products not supported earlier:

Support to 852 Tariff lines that fit in the product criteria but not provided support in the earlier FTP. Includes lines from Fruits, Vegetables, Dairy products, Oils meals, Ayush & Herbal Products, Paper, Paper Board Products.

E. Global support has been granted to the following category:

- > Fruits, Flowers, vegetables
- > Tea Coffee, Spices
- > Cereals preparation, shellac, Essential oils
- > Processed foods,
- > Eco Friendly products that add value to waste
- > Marine Products
- > Handloom, Coir, Jute, products and Technical Textiles, Carpets Handmade. Other Textile and Readymade garments have been supported for European Union, USA, Canada and Japan.
- > Handicraft, Sports Goods
- > Furniture, wood articles

F. Support to major markets have been given to the following product categories

- > Pharmaceuticals, Herbals, Surgicals
- > Industrial Machinery, IC Engine, Machine tools, Parts, Auto Components/Parts
- > Hand Tools, Pumps of All Types
- > Automobiles, Two wheelers, Bicycles, Ships, Planes
- > Chemicals, Plastics
- > Rubber, Ceramic and Glass
- > Leather garments, saddlery items, footwear
- > Steel furniture, Prefabs, Lighters
- > Wood , Paper, Stationary
- > iron, steel, and base metals, products

G. Other sectors supported under MEIS

- > 352 Defence related Product with export of US\$ 17.7B consisting of Core Products (20), Dual Use products (60) ,General Purpose products (272).
- > 283 Pharmaceutical products of Bulk Drugs & Drug Intermediates, Drug Formulations Biologicals, Herbal, Surgicals, and Vaccines.
- > 96 lines of Environment related Goods, Machinery, Equipment's.
- > 49 lines where mandatory BIS standards are prescribed.
- > 7 lines of Technical Textiles.

H. Participation in global value chain of the items falling under the scheme:

- > 1725 lines of Intermediate Goods - These goods become inputs in the manufacturing of other countries and will strengthen backward manufacturing linkages which is vital for India's participation in Global Value Chains.
- > 1109 lines of Capital Goods sector- will also strengthen Manufacturing Base in India.
- > 1730 lines of Consumer Goods sector- We hope a quantum jump in export from this sector with strengthening of Make in India Brand in near future.

I. Technology based analysis:

- > 572 lines-Low skill Technology-intensive manufacturing.
- > 1010 lines-Medium skill Technology-intensive manufacturing.
- > 1309 lines-High Skill Technology-intensive manufacturing.

J. Women Centric Products supported under MEIS

- (a) Women workers constitute 52% of plantation workers-203 lines of Tea Coffee, Spices, Cashew.

- (b) 69% of the aggregate female employment is concentrated in the following sectors:
 - (i) Manufacture of other food products -Jelly Confectionery, tomato ketchup, cooked stuffed pasta, pawa, mudi and the like, gingerbread , papad, pastries and cakes.
 - (ii) Manufacture of wearing apparel-396 lines of Readymade Garments
- (c) Sectors that have a significant proportion of female employment (more than 25%):
 - (i) Agricultural and animal husbandry service activities, except veterinary activities-263 lines of basic Agriculture products.
 - (ii) Manufacture of footwear - 28 Footwear and Leather products.
 - (iii) Consumer Electronics and Electronic Components, watches and clocks -483 lines.

Annexure-2

II. Services Exports from India Scheme

- (i) Served from India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS). SEIS shall apply to 'Service Providers' located in India' instead of 'Indian Service Providers'. Thus SEIS provides for rewards to all Service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider.
- (ii) The rate of reward under SEIS would be based on net foreign exchange earned. The reward issued as duty credit scrip, would no longer be with actual user condition and will no longer be restricted to usage for specified types of goods but be freely transferable and usable for all types of goods and service tax debits on procurement of services/goods. Debits would be eligible for CENVAT credit or drawback.
- (iii) The present rates of reward are 3% and 5%. The list of services and the rates of rewards would be reviewed after 30.9.2015.

SI No	SECTORS	Admissible rate
1	BUSINESS SERVICES	
A	Professional services: Legal services, Accounting, auditing and bookkeeping services, Taxation services, Architectural services , Engineering services, Integrated engineering services, Urban planning and landscape architectural services, Medical and dental services, Veterinary services, Services provided by midwives, nurses, physiotherapists and paramedical personnel.	5%
B	Research and development services: R&D services on natural sciences, R&D services on social sciences and humanities, Interdisciplinary R&D services.	5%
C.	Rental/Leasing services without operators: Relating to ships, Relating to aircraft, Relating to other transport equipment, Relating to other machinery and equipment.	5%
D	Other business services: Advertising services, Market research and public opinion polling services Management consulting service, Services related to management consulting, Technical testing and analysis services, Services incidental to agricultural, hunting and forestry, Services incidental to fishing, Services incidental to mining, Services incidental to manufacturing, Services incidental to energy distribution, Placement and supply services of personnel, Investigation and security, Related scientific and technical consulting services, Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment), Building-cleaning services, Photographic services, Packaging services, Printing, publishing and Convention services.	3%

2	COMMUNICATION SERVICES Audiovisual services: Motion picture and video tape production and distribution service, Motion picture projection service, Radio and television services, Radio and television transmission services, Sound recording.	5%
3	CONSTRUCTION AND RELATED ENGINEERING SERVICES General Construction work for building, General Construction work for Civil Engineering, Installation and assembly work , Building completion and finishing work.	5%
4	EDUCATIONAL SERVICES (Please refer Note 1) Primary education services, Secondary education services, Higher education services, Adult education.	5%
5	ENVIRONMENTAL SERVICES Sewage services, Refuse disposal services, Sanitation and similar services.	5%
6	HEALTH-RELATED AND SOCIAL SERVICES Hospital services	5%
7	TOURISM AND TRAVEL-RELATED SERVICES	
A.	Hotels and Restaurants (including catering)	
a.	Hotel	3%
b.	Restaurants (including catering)	3%
B.	Travel agencies and tour operators services	5%
C.	Tourist guides services	5%
8	RECREATIONAL, CULTURAL AND SPORTING SERVICES (other than audiovisual services) Entertainment services (including theatre, live bands and circus services), News agency services, Libraries, archives, museums and other cultural services, Sporting and other recreational services.	5%
9	TRANSPORT SERVICES (Please refer Note 2)	
A.	Maritime Transport Services Passenger transportation*, Freight transportation* , Rental of vessels with crew *, Maintenance and repair of vessels, Pushing and towing services, Supporting services for maritime transport.	5%
B.	Air transport services: Rental of aircraft with crew, Maintenance and repair of aircraft, Airport Operations and ground handling.	5%

C	Road Transport Services: Passenger transportation, Freight transportation, Rental of Commercial vehicles with operator, Maintenance and repair of road transport equipment, Supporting services for road transport services.	5%
D.	Services Auxiliary To All Modes Of Transport: Cargo-handling services, Storage and warehouse services, Freight transport agency services.	5%

Note:

- (1) Under education services, SEIS shall not be available on Capitation fee.
- (2) *Operations from India by Indian Flag Carriers only is allowed under Maritime transport services.

Relevant excerpts from the Report of the Task Force of 13th FC on GST :

Exhibit 1:

Under the CENVAT, industries set up in the North East, Jammu & Kashmir, Sikkim, Uttaranchal and Himachal Pradesh (hereinafter referred to as 'specified areas') enjoy exemption from payment of CENVAT. This area based exemption creates economic distortions and affect economic viability of units located in non-exempt areas. They are difficult to administer and prone to misuse. Moreover, durability of investment attracted by such measures beyond the exemption period is also doubtful.

Exhibit 2:

"The policy of granting area based exemptions was ill advised. It created a host of distortions. We have to design and introduce subterfuges to neutralize those distortions. But such subterfuges make the tax administration needlessly clumsy and complex and run counter to our declared policy of simplifying the tax system. There is clearly a case for revisiting the whole issue of area based tax exemptions. If their premature withdrawal is not possible for political and business reasons, at the minimum such incentives should not be extended to fresh areas and the ones already in force should be extinguished when their applicability ends."

Exhibit 3:

- ❖ 2.71 Para 3.3.2.(viii) of the draft of "An Approach to the 11th Five Year Plan" has also commented on the undesirability of the area based exemptions. To quote :-
- ❖ "The existing incentive programmes such as those available for the North

East, J&K, Himachal Pradesh and Uttranchal need to be reviewed with a view to assessing their impact on industrialization in these regions. The extension of excise duty exemption to Himachal and Uttranchal has had an adverse impact on industrial investments in both the North Eastern region and the adjacent States. Consideration would need to be given to restricting these incentives to only hilly areas or to replacing these incentives by a special programme for roadways and railway development in these States."

Exhibit 4:

- ❖ **2.74** In view of the above, we recommend that the area based exemption in respect of CENVAT should not be continued under the GST framework. In case it is considered necessary to provide support to industry for balanced regional development, it would be appropriate to provide direct investment linked cash subsidy.

Exhibit 5:

- ❖ **Treatment of Special Economic Zones**
- ❖ **2.75** Since the GST is designed to ensure that all producers and distributors are treated as complete pass-through and exports are zero-rated, there is no case for allowing any form of incentive to the developers of, or units in, the Special Economic Zones. We recommend accordingly.

Note:

(1) Technical issues related to "Business Segments" are not discussed. Institute would be issuing exclusive Concept Paper on impact analysis at various Business segments.

(2) The decision would now rest upon the pronouncements of the GST Law.

Some special issues related to Business Segments:

Segment	Transaction/ segment
Area based exemptions	(1) Area based Exemption Zone - Excise Duty, VAT/CST (a) J& K (b) Uttarakhand & Himachal Pradesh (c) North Eastern States (d) Union Territories (Dadra & Nagar Haveli, Silvassa, Diu & Daman, Andaman & Nikobar, Lakshwadeep)
Other Major Issues	(2) Duty free ware house (public bonded / private bonded) (a) transfer to warehouse without payment of duty (b) sale from warehouse to customer in DTA

	(3) Duty free export warehouses (a) transfer to warehouse (b) diversion of goods for home-consumption
	(4) Free Trade Warehousing Zone (FTWZ) (a) Import to FTWZ (b) Supply of imported goods from FTWZ to DTA (c) Supply to FTWZ (d) Supply from FTWZ to DTA (e) Supply to FTWZ
	(5) Deemed Export (a) For all transactions of Deemed Export (b) EOU to EOU/SEZ (c) DTA to EOU/SEZ (d) DTA to SEZ unit (Physical export) (e) EOU to SEZ unit (Physical export)
	(6) Supply to defence - Exemptions
	(7) Sale in INR to Nepal & Bhutan (a) Sale of Capital Goods - Excise Duty, VAT/CST issues (b) Sale of goods other than Capital Goods - Excise Duty, VAT/CST issues

Present State/ Segment	Duty Exemption & Remission Scheme
Export Promotion	(1) Advance Authorization/ ARO/ Invalidations
	(2) Duty free Import Authorization - Transferable, Non-transferable, pre-export and post-export
	(3) Duty Drawback (DBK) Scheme
	Export Promotional Capital Goods (EPCG) Scheme
	(1) Zero Duty EPCG Scheme
	(2) Concessional 3% Duty EPCG Scheme
	Reward Incentive Schemes in DGFT
	Duty Credit Scrip
Special Economic Zone (SEZ)	(1) Duty Free Imports
	(2) Duty Free Indigenous Procurement

	(3) CST Exemption
	(4) VAT Exemption
	(5) Export benefits like DEPB/DBK
	(6) Supply are counted towards fulfilment of Export obligation
	(7) Services received by SEZ - Service Tax
	(8) DTA Clearance - Import Duties, VAT/CST
	(9) Supplies from SEZ to SEZ/ EOU/EHTP/BTP/STP - Import Duty, VAT/CST
Agro Economical Zone	(1) Duty Free imports - import duties
	(2) EPCG for common service provider in Agri Zone - import duties
	(3) Fuel - Excise Duties
EOU/EHTP/STP/BTP	(1) Status of EOU
	(2) Duty free Imports
	(3) Indigenous procurement
	(4) CST / VAT exemptions
	(5) Export benefits like DBK
	(6) Supply are counted towards fulfilment of Export obligation
	(7) Services received by EOU
	(8) Duty Rate on DTA Sale

5.23 Challenges before Government & Transitional Issues in GST

The framework of GST is more or less clear now. The GST will be a dual tax with both Central and State GST component levied on the same base. Importantly, there will be no distinction between goods and service for the purpose of the tax with a common legislation applicable to both. All goods and services barring a few exceptions will be brought into the GSM base.

However, a number of issues remain to be resolved, which are discussed below:

Constitutional Amendment:

The proposed GST model requires Constitutional Amendments. Amongst other, significant are:

- To shift the taxable event in case of Excise duty from 'manufacture' to 'supply'.
- To allow the States to levy tax on services.
- To authorize the Union Government to impose tax on sale of goods which take place within the State.

The Government introduced the 122nd Constitution Amendment Bill, 2014 - on 19th December 2014 in parliament but before the Bill becomes the law it will have to pass through the arduous process of approval. The procedure for passage of the Bill:

- Approval of the Bill by more than half of total strength of each house of Parliament and with 2/3rd of members present and voting;
- Approval of the Bill by simple majority of State Legislatures (at least 50% of the States to approve) and
- The Bill to get Presidential assent.

One Central GST & 29 States GST:

There will be separate enactments for Central, State and Integrated GST. The CGST will be a common code throughout India. Further, each State will legislate its own enactment to levy and collect the SGST. However, as per the 122nd Constitutional Amendment Bill 2014, GST Council will make recommendations with respect to model GST laws, principles of levy, place of supply etc. The expectation is therefore is that a majority of the provisions will be uniform across the States.

However it still needs to be seen that what degree of uniformity in provisions is being adhered by the States. The uniformity in provisions of SGST is one of the key parameters for successful implementation of industry friendly GST. As far as IGST is concerned, it will require a separate legislation for levy of IGST on Inter-State transactions. The simplicity in provisions of IGST will be of paramount importance for its widespread compliance and reduction of instances of tax evasion.

Uniformity in Provisions - A Necessity:

A present structure of VAT across states lacks uniformity. The differences are there with respect to definition of goods, capital goods, threshold limits, classification, exemptions, and procedures. This leads to increased complexities and unnecessary

litigations for corporate having operations in multiple States. Thus, there is an urgent need to have uniformity in definitions, classification and procedures.

Determination of Taxable Event:

Under the present system of Indirect Taxation like Central Excise Act, a lot of unnecessary litigation has arisen in respect of basic issues such as determination of "taxable event". It is hoped that the GST regime would put the controversy to rest by properly defining the term "taxable event" and other related issues such as "supply of goods" and "rendition of services". In GST regime, the "Taxable event" will be the "supply of goods" or the "supply of services" or both. Hence, the current taxable events such as "manufacture of goods", "sale of goods" and "rendition of services" will not be relevant under the GST regime. It is, therefore, imperative for the Centre and States to clearly define the place of supply rules so as to avoid any future confusion which can become a potential source of litigation.

GST Rates:

Determination of GST rates is one of the thorniest issues which need to be taken care. All the stakeholders are waiting impatiently for getting the clarity on the same. The issues include;

- ❖ Finalising the rate structure — separate RNR for Central GST and State GST.
- ❖ Which tax/duty/cess will finally be subsumed in CGST and SGST respectively.
- ❖ How many rates of tax would be there in GST.
- ❖ Finalization of goods and services that will enjoy exemption, such as, food grains, education, health, etc.

The wish list of industry, economists, tax professionals include uniform rate of CGST and SGST for all goods and services, subsumed of all indirect taxes within the gamut of CGST and SGST and relatively smaller list of exempted goods and services.

However, this issue is still under discussion and no consensus is reached till date.

Registration Issues:

The first discussion paper issued by the Empowered Committee is silent, on this aspect. However, it states that the GST will be implemented through multiple statutes (one for CGST and SGST statutes for every State). Having said this, it not certain whether facility for centralized registration will be available or not, the position in this regard is not clear at present.

The Task Force Report on GST (13th Finance Commission) has advised on uniform CGST registration number for each taxable entity and separate SGST registration number for each state in which the taxable entity operates. The rules of registration are expected to be taxpayer friendly in this regard with appropriate soft landing provisions for the transition phase. The tax Identification Number is linked with Permanent account number and is recommended to be self generated under intimation to the relevant assessing authority. However its country wide implementation is still questionable.

Input Tax Credit - Availment and Utilization:

Under the present structure, the way the CENVAT credit provisions are drafted has led to a lot of litigation concerning availability of CENVAT credit. The provisions related to denial of CENVAT credit for exempted goods and exempted services have also contributed to such litigation. It is hoped that the proposed GST regime would simplify the provisions regarding availability of input tax credit.

The Proposed GST will allow seamless flow of credit across each stage of supply chain from point of manufacture or import to the point of final consumption. The dual GST has two components CGST which is administered by Central government and SGST, which is administered by State government. Since the Central GST and State GST are to be treated separately, in general, 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. Cross utilisation of ITC between the Central GST and the State GST would, in general, not be allowed except under IGST model with respect to inter-state transaction. The essence of GST is seamless uninterrupted flow of credit across various levels of supply chain. Thus, the clarity of rules of availment and utilization will have significant impact on making GST an taxpayer-friendly consumption tax.

Refund of Taxes to Exporters/ 100% EOU'S/SEZ:

In order to ensure that the exporters of goods and services do not export taxes, the current taxation regime provides for a refund of taxes. However, in majority of the cases, such refunds are disputed or granted very late, causing financial hardship to exporters. Thus, it is expected that the proposed GST regime would handle the issues in terms of refund of taxes appropriately.

In the GST regime, the exports are considered as zero rated thus exporters are not liable to pay GST.

Treatment of Stock Transfers:

Stock Transfers are basically of two types:

(a) Stock transfers from one State to another: Under the current system of Indirect Taxation, Inter branch transfers from one branch to another branch in another State is not liable to tax provided the recipient branch furnishes "F Form" to the sending branch. The sending branch is required to furnish these "F Forms" to the concerned Sales Tax Authority. Under the GST regime, Inter-Branch transfers are treated at par with Inter-State Sales. The taxable event will be the supply of goods and therefore the stock transfers will be taxable. Although, full ITC of taxes paid on stock transfer will be available, this will cause financial hardship to dealers as lot of funds will get blocked. This may result in increase in requirement of working capital. The proper provisions as regards to valuation of stock transfer will also be required in the proposed GST.

An Additional tax of one percent (for two years from the date of implementation of GST or such period as recommended by GST Council) is also proposed on Inter-State supply of goods to address the concern, of manufacturing States (this tax would accrue to the State of Origin). Meaning thereby it will also be levied on the stock/

consignment transfers to another State and it is non creditable thereby it will add to, the cost of the product. Stock transfers to branches/consignment agents within the State:

Presently, treatment of these transactions varies from State to State. However, under GST, these transfers might also be subject to tax, unless TIN of transferor and transferee is same.

The provisions of Stock transfer will have significant impact on the industry. It will require them to revisit their supply chain models.

Taxation of Inter State Supply of Services:

Detailed place of supply rules need to be framed for such transactions. Taxation of such supplies will however continue to pose a challenge. Practices currently being followed in the European Union, Canada and Brazil are being studied. Policymakers are also looking at different options of taxing inter State supplies of services based on whether they are Business to Business (B2B) or Business to Customer (B2C).

Treatment of High Sea Sales/E-I/ EII Sales:

No tax is payable under Central Sales Tax on High Sea/E-I/E-II sales provided certain stipulated conditions are satisfied. The fate of these sales transactions is not clear at this point.

Requirement of Training at All Levels:

Since the dual GST is considerably different from the present indirect tax regime, a massive training initiative would be required at both federal and State levels to familiarise the respective administrations with the concepts and procedures of the dual GST. However, the task is not limited to technical training but also extends to a similar effort to re-orient the attitude and approach of the tax administration in order to achieve a fundamental change in mindset.

IT Infrastructure:

A simple system for Inter-State transactions and verification of dealers is essential to ensure tax compliance and check avoidance. Given the volume of such transactions, this system necessarily has to be IT based. The present system Tax Information Exchange System (TINXSYS) does not appear to be fully operational across all States. There are asymmetric benefits to States in putting in place such infrastructure and this appears to be affecting their incentives to do so. The success of GST is highly dependent on availability of technically advanced but user friendly IT infrastructure. The Government has incorporated a company called "Goods and Services Tax Network" (GSTN), which is a quasi-government company. The GSTN has been incorporated to build, set-up and operationalize the GST common portal.

Decision on Elimination of Check Posts:

IGST is designed to avoid check post at State Borders. However, many States have such check posts which results in enormous delays, harassment and corruption. The border check post should be abolished to ensure smooth flow of goods movement.

Assessment under the Dual GST:

At present, dealers are having Multi-State operations, face considerable difficulties as they have to face assessment in various states which is very costly and time consuming. As per first discussion paper also, each State will legislate, levy and administer its own State GST.

The Task Force Report on GST has recommended that Central Board of Excise & Customs (CBEC) shall be responsible for implementing the CGST and the State Tax Administrations will be separately responsible for implementing the SGST. The various tax administrative functions such as assessment, enforcement, scrutiny and audit should be undertaken by the CBEC in respect of the CGST and by the State Tax Administration in respect of the SGST subject to recommendation on small scale industries. The jurisdiction between the CBEC and the State Administration may be divided between the two in such manner that the interface of the taxpayer is confined to one tax administration only. The basis for division could be turnover or any other criteria which is considered reasonable so that the compliance and administrative burden is minimized.

There should be a thorough re-engineering of the departments for the purpose of administration of SGST and the CGST. This is to clearly define the responsibility, accountability and authority of both departments. The day to day operations should be assigned to the States. There may be case that under GST also, a dealer need to face multiple assessments in various States, which will make the life of multi state corporate highly cumbersome and situation is not better off than present situation.

Dispute Resolution and Advance Ruling:

The first discussion paper has suggested that as a part of the exercise on drafting of legislation, rules and procedures for the administration of CGST and SGST, specific provisions would also be made to the issues of dispute resolution and advance ruling. When law would be uniform a common dispute resolution mechanism as well as a mechanism for giving advance rulings would further facilitate trade and industry. The Task Force Report on GST recommends a Common Appellate Authority for both CGST and SGST as the tax base is uniform. No authority should have any power to make preventive detention for the purposes of CGST and SGST.

The GST will be a new statute with nationwide applicability. Thus it is very important:

- To have uniformity of provisions in respect of Dispute resolution and advance ruling in CGST and SGST legislations of all states
- To have Common Appellate Authority.

The decision is of special significance for dealers having operations in multiple States.

Data Migration Issues:

Technology should be used for transition/ migration of data or master records of dealers from the old tax system to new tax system. It should be borne in mind, that it has not been long, when VAT was implemented. Exhaustive details relating to dealers have already been asked for and are available with the department.

Status of Unutilized Transitional Credit:

Going by the precedence at the time of VAT implementation, it is believed that the accumulated ITC and CENVAT will both be allowed, to be carried forward under the GST regime, albeit upon fulfillment of prescribed conditions, if any. Further, there will some items in stock on which currently dealers are not allowed to claim ITC/ CENVAT such as fuel, office equipments, civil work etc. The treatment of those items needs to be properly clarified.

Status of Pending Disputes and Strategy for Their Disposal:

At present Assessments under the various VAT Acts are still pending. It is difficult to foresee what will happen when GST will be implemented. On implementation of GST Dealer will have to deal with three different Acts;

- (I) Old Tax System (e.g. earlier Sales/ Trade Tax Assessments or Appeals etc)
- (II) Value Added Tax
- (III) Proposed GST

A strategy should be developed for clearance of long pending Assessment. Otherwise it would become a complex structure to deal with.

Compensation Package to the States for Losses:

Another big challenge before the Government is to finalize the compensation package for the States in case of loss due to implementation of the GST. States demanded that the Centre should compensate States for any loss of revenue following implementation of the GST. Although the Centre is mulling on a five-year compensation programme, States are of the view that there should not be any time frame for compensation scheme.

Under the GST structure, the tax would be collected by the States where the goods or services are consumed, and hence losses could be heavy for the producer States and the Centre would be required to compensate them for loss of revenue.

The Centre had earlier come out with a similar scheme to compensate States for loss of revenue following implementation of Value Added Tax (VAT), which came into effect from April, 2005. The compensation structure was 100% in the first year, 75% in the second year and 50% in the third year. The compensation is also provided to the States for loss of revenue due reduction in CST.

Further, the recent report of Fourteen Finance Commission has made the following suggestions/recommendations with respect to GST compensation:

- Union may have to initially bear an additional fiscal burden arising due to the GST compensation; this burden is to be treated as an investment which is certain to yield substantial gains to the nation in the medium/ long run.
- The compensation for revenue loss to States, if any, should be 100 per cent compensation in the first, second and third years, 75 per cent compensation in the fourth year and 50 per cent compensation in the fifth and final year.
- Create an autonomous and independent GST Compensation Fund through legislative actions in a manner that it gives reasonable comfort to States, while limiting the period of operation appropriately.

Producing States & Consuming States:

Since, the GST is proposed as a destination based tax, with tax revenues accruing to the consuming states instead of producing/ originating State. The net exporting States will lose their tax revenues to the net consuming States as the tax will be destination based and the CST would be done away with.

Some States like Gujarat and Madhya Pradesh have stated that public investments in infrastructure are a critical factor in inducing and sustaining economic growth. Infrastructure such as roads, power and water supply do not only promote industrial growth, but also agricultural development, services sector, and enhanced quality of life. GST is proposed as a destination based tax, with tax revenues moving to the consuming States. The States which consume the most shall be the importing States and the States like Gujarat which are having a large manufacturing base, will be one of the net exporting States. This will lead to a situation where the net exporting States which have made heavy investments in infrastructure and industrial promotion measures will lose their tax revenues to the net consuming States as the tax will be destination based and the CST would be done away with. There will not be incentive to the net exporting States to invest further in industrial infrastructure. It may be appreciated that this is likely to lead to de-acceleration in public investments in infrastructure, across the States. On the other hand, net exporting States that have already invested heavily in such infrastructure, would be hard pressed to recover the investment from tax revenues. It is required to be examined, whether this is a healthy condition to create. In this connection, the Ministry of Finance stated that there is no scientific data yet available to gauge the impact of the proposed GST on the producing States viz-a-viz consuming States. However, under GST the States which are net importers of goods and services will gain while the States which are net exporters (manufacturing States) may lose on account of destination based IGST. However, this is in consonance with the basic philosophy of the GST that the burden of taxes should not be imposed on non-residents of a State.

A Challenge for Corporate India to be GST ready

- Satya Poddar

Business Standard 1st March 2015

The last few months have witnessed an intense debate on whether GST can be implemented in India, given the nature of our federation. The Centre, on its part, has taken the first step by tabling the Constitutional Amendment Bill (CAB) for GST on December 19, 2014. The FM has now reaffirmed that GST would be rolled out by April 1, 2016.

The intentions are there, but there are miles to go before GST sees the light of day. At a minimum, the CAB needs to be approved by Parliament, a task made difficult by controversies such as the Land Acquisition Bill. It also needs ratification by legislatures in at least 50 per cent of the States.

Following ratification of the CAB, the GST Council has to be created, laws and procedures to be drafted and approved, administrative structures put in place and

issues such as taxable base, GST rates and exemptions ironed out between the Centre and States. The Budget, while reaffirming the Government's plan to implement GST on April 1 2016 does not provide any road map. While it is recognised that the design of the GST can only be decided by the GST Council, the FM would have done well to outline the steps being taken for its timely implementation.

Given the opacity of timelines and rules and procedures, it would be a challenge for corporate India to be GST-ready. GST is an opportunity of migrating to a world-class indirect tax compliance system, one that is fully automated, allows proper assessment of business impacts and determination of tax liabilities, and is flexible to accommodate changes in the tax base, rates and rules and procedures. In the absence of clear laws and procedures, businesses would need to anticipate and develop alternate scenarios for the GST design and assess its impact on their accounting and compliance frameworks, cash flows, organisational structure and IT systems.

Retrograde proposals such as continuation of the Central Sales Tax (CST) in the form of the additional 1 per cent tax in the state of origin will add to the challenges of becoming GST-ready. The Governments are planning to extend the 1 per cent tax on stock transfers (also referred to as consignment transfers), which will compound the challenges. Under this provision, the tax would apply to all Inter-State movement of goods, e.g. raw materials and parts from the source States to the state where the production plant is located, and of the finished goods from the plant to the mother depot and onward to distribution centers.

Even service providers would suffer this tax when they transfer parts and supplies to their central warehouse and remove them for repairs and maintenance work at the client site. Exclusion of real-estate and petroleum sectors from GST purview will also lead to denial of input credit in these sectors and lead to cascading. Compliance under GST would require full automation of the accounting and tax reporting procedures.

All interaction with the Goods and Services Tax Network (GSTN) would be electronic. The transition needs to be managed with teams for coordinating activities of different work streams, anticipating risks and potential roadblocks, and ensuring timely completion of all tasks. Given the manner in which the GST implementation is progressing, the FM faces the daunting task of "aur bahut phool khilane hain".

Summary: Transition Issues in GST

- Transitional Provisions in the GST legislation
- Un-utilised tax credit carried forward under CENVAT and State VAT
- Impact of withdrawing existing product based exemptions
- Taxability of works contract and sub-contractor
- Taxability in case of unregistered dealer
- Treatment of goods sent for job work or for temporary services
- Refund procedures in the case of Exports, supply to SEZ and in the case of large capital investment
- Standardisation of systems and procedures across states and at national level

- Issues related to alignment of Accounting and IT System which can provide required details to avail full input tax credit and avoid tax losses
- Issues related to compliance requirements

5.24 Pre- GST and Post- GST - Comparative Analysis (Present vs. two comparative rate structures)

Following illustrations attempts to depict a clear view the entire concept of GST.

5.24.1. Goods manufactured, Raw material purchased within the state and Finished goods sold within the state

Tax Applicability under Existing Tax System: At the time of Raw material purchased within the state we have paid VAT then manufactured and subsequently sold the finished goods within the state, so we have to pay Excise Duty & VAT

VAT payable will be = Output VAT - Input VAT

Tax Applicability under GST: At the time of Raw material purchased within the state we have paid SGST & CGST and when finished goods sold within the state, we have SGST & CGST payable.

Net SGST payable will be = Output SGST - Input SGST

Net CGST payable will be = Output CGST - Input CGST

(CGST Credit cannot be set off with SGST input & vice versa)

A reference to the following illustration may be made:

A manufacturing organisation purchased raw-material of Rs. 50000 (excluding Taxes) from trader. Other cost like labor and overhead is Rs. 30000 and made a profit of Rs. 20000.

EXISTING		Proposed	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Purchase of Raw Material	50000	(a) Purchase of Raw Material	50000	50000	50000	50000
(b) VAT Paid @ 12.5% (credit available)	6250	(b) CGST paid (Credit Available - not part of cost)	2500 (@ 5%)	4000 (@ 8%)	5000 (@ 10%)	6385 (@ 12.77%)
		(c) SGST paid (Credit Available- not part of cost)	3500 (@ 7%)	4000 (@ 8%)	5000 (@ 10%)	6955 (@13.91%)
(c) Other Manufacturing Cost (Labour, Overhead etc)	30000	(d) Other Manufacturing Cost (Labour, Overhead etc)	30000	30000	30000	30000
(d) Profit (say)	20000	(e) Profit (say)	20000	20000	20000	20000
(e) Sale price (50000+30000+20000)	100000	(f) Sale price (a+d+e)	100000	100000	100000	100000
(f) Excise Duty @ 12.5%	12500	(g) CGST	5000 (@ 5%)	8000 (@ 8%)	10000 (@ 10%)	12770 (@ 12.77%)
(g) Base for VAT calculation	112500	(h) SGST	7000 (@ 7%)	8000 (@ 8%)	10000 (@ 10%)	13910 (@13.91%)

An Insight of Goods & Services Tax (GST) in India

(Sale price + Excise Duty)						
(h) VAT @ 12.5%	14063					
(i) Price to customer (50000+30000+20000+12500+14063)	126563	(i) Price to customer (f+g+h)	112000	116000	120000	126680
(j) VAT Credit availed	6250	(j) Net CGST outflow (after availment of Credit (g-b))	2500	4000	5000	6385
(k) Net Vat payable (14063-6250)	7813	(k) Net SGST outflow (after availment of Credit (h-c))	3500	4000	5000	6955
(l) Total Tax outflow (6250+12500+7813)	26563	(l) Total Tax outflow (b+c+j+k)	12000	16000	20000	26680

Conclusion: From the above illustration we can see that total tax outflow & price to customer in Current Tax System is much higher than propose GST model because of Un-utilization of Credit & Cascading effect in present system.

Benefit to the Consumer	Benefit to the Taxpayer	Benefit to the Government
- Individual customer will be benefitted as prices for Goods & Services are likely to come down due to decrease in Tax cost. - Benefits of economies of scale will pass on from manufacturers/service providers to the ultimate consumer.	- Lower price means more consumption which leads to more production, thereby helping in the growth of the company. - Savings in Cash Flow due to full utilization of all input taxes (except Additional Tax) - Reduction in cascading effect of tax on tax. - Ease of compliance- The idea to bring GST is to make Indirect Tax code simple. - Economies of scale	- Growth in the individual company leads to growth in the Industry which creates more employment opportunities & increase GDP at a large. - The idea to bring GST is to make a chain which is difficult to break and base of tax collection may widen, so that at lower rate better tax maybe collected. - Effective administration because of Consolidation of multiple Centre & State taxes

5.24.2. Goods manufactured, Raw material purchased within the state and finished goods sold outside the state in India

Tax Applicability under Existing Tax System: At the time of Raw material purchased within the state we have paid VAT then manufactured and subsequently sold the finished goods outside the state, so we have to pay Excise Duty & CST

Tax Applicability under GST: At the time of Raw material purchased within the state we have paid SGST & CGST and when finished goods sold outside the state then we have to pay IGST & Additional Tax

Net IGST payable will be = Output IGST - (Input SGST + Input CGST)

(CGST Credit & SGST Credit both can be set off with IGST & vice versa)

A reference to the following illustration may be made:

A manufacturing organisation purchase raw-material of Rs. 50000 (excluding Taxes) within the state. Other cost like labor and overhead is Rs.30000 and Profit is 20000.

EXISTING		PROPOSED	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Purchase of Raw Material	50000	(a) Purchase of Raw Material	50000	50000	50000	50000
(b) VAT Paid @ 12.5% (Credit/Refund available)	6250	(b) CGST paid (Credit Available - not part of cost)	2500 (@5%)	4000 (@8%)	5000 (@10%)	6385 (@12.77%)
		(c) SGST paid @ 10% (Credit Available- not part of cost)	3500 (@7%)	4000 (@8%)	5000 (@10%)	6955 (@13.91%)
(c) Other Manufacturing Cost (Labour, Overhead etc)	30000	(d) Other Manufacturing Cost (Labour, Overhead etc)	30000	30000	30000	30000
(d) Profit (say)	20000	(e) Profit (say)	20000	20000	20000	20000
(e) Sale price (50000+30000+20000)	100000	(f) Sale price (a+d+e)	100000	100000	100000	100000
(f) Excise Duty @ 12.5%	12500	(g) IGST [f × (CGST + SGST)]	12000	16000	20000	26680
(g) Base for CST calculation (Sale price + Excise Duty)	112500	(h) Additional Tax @ 1%	1000	1000	1000	1000
(h) CST @ 2%	2250					
(i) Price to customer	114250	(i) Price to customer	121000	121000	121000	121000
		(j) Net IGST outflow (g-b-c)	6000	8000	10000	13340
(j) Total Tax outflow (12500+2250)	14750	(k) Total Tax outflow (b+c+h+j)	13000	17000	21000	27680

Conclusion: From the above illustration we can see the total tax outflow & price to customer in Current Tax System is bit low than propose GST model but if this type of transaction happen three four times before reaching to the ultimate customer then scenario will be change drastically, because every time taxpayer have to pay tax on tax

and cannot utilize credit of input taxes so ultimately price of the product will be on a higher side.

In the above illustration we are assuming that taxpayer will take full VAT credit or take the refund, then only existing tax comes at a lower side. But if taxpayer won't able to take the credit/refund then tax outflow comes at ₹ 21,922 accordingly price to customer coming up at ₹1,21,922. In the proposed GST model we are hoping that credit mechanism will be so simple that every manufacturer even though small trader will able to take the credit. Seamless credit is one of the objectives of GST.

Benefit to the Stakeholders continues to be the same

5.24.3. Goods manufactured, Raw material purchased from outside the state and Finished goods sold within the state

Tax Applicability under Existing Tax System: At the time of Raw material purchased from outside the state, CST has been paid & sold the finished goods within the state we have to pay Excise Duty & VAT

Tax Applicability under GST: At the time of Raw material purchased from outside the state, IGST & Additional tax has been paid & when sold the goods within the state we have to pay SGST & CGST

Net SGST payable will be = Output SGST - Input IGST

Net CGST payable will be = Output CGST - Input IGST (balanced amount)

(IGST Credit can be set off with SGST as well as CGST & vice versa)

A reference to the following illustration may be made:

A manufacturing organisation purchase raw-material of Rs. 50000 (excluding Taxes). Other cost like labor and overhead is 30000 & made a profit of Rs. 20000.

EXISTING		PROPOSED	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Purchase of Raw Material	50000	(a) Purchase of Raw Material	50000	50000	50000	50000
(b) CST Paid @ 2% (Credit not available)	1000	(b) IGST (CGST+SGST) paid (Credit Available- not part of cost)	6000 (@ 12%)	8000 (@ 16%)	10000 (@ 20%)	13340 (@26.68%)
		(c) Additional Tax @ 1% (Credit not Available - part of cost)	500	500	500	500
(c) Other Manufacturing Cost (Labour, Overhead etc)	30000	(d) Other Manufacturing Cost (Labour, Overhead etc)	30000	30000	30000	30000
(d) Profit (say)	20000	(e) Profit (say)	20000	20000	20000	20000
(e) Sale price (51000+30000+20000+1000)	101000	(f) Sale price (a+c+d+e)	100500	100500	100500	100500
(f) Excise Duty @ 12.5%	12625	(g) CGST	5025 (@ 5%)	8040 (@ 8%)	10050 (@ 10%)	12834 (@12.77%)

(g) Base for VAT calculation (Sale price + Excise Duty)	113625	(h) SGST	7035 (@ 7%)	8040 (@ 8%)	10050 (@ 10%)	13980 (@13.91%)
(h) VAT @ 12.5%	14203					
(i) Price to customer	127828	(i) Price to customer (f+g+h)	112560	116580	120600	127314
		(j) Net CGST outflow (g-b)	0	40	50	0
		(k) Credit Balance of IGST available after adjustment of CGST (b-g)	975	0	0	506
		(l) Net SGST outflow (h-k)	6060	8040	10050	13474
(j) Total Tax outflow (1000+12625+14203)	27828	(m) Total Tax outflow (b+c+j+l)	12560	16580	20600	27314

Conclusion: From the above illustration we can see the total tax outflow & price to customer in Current Tax System is bit higher than propose GST model because of Un-utilization of Credit & Cascading effect in present system.

Benefit to the Stakeholders continues to be the same

5.24.4. Goods manufactured, Raw material purchased from outside the state and Finished goods sold outside the state

Tax Applicability under Existing Tax System: At the time of Raw material purchased from outside the state, CST has been paid & sold the finished goods outside the state then we have to pay Excise Duty & CST

Tax Applicability under GST: At the time of Raw material purchased from outside the state, IGST & Additional tax has been paid & when sold the goods outside the state we have to pay IGST & Additional tax

Net IGST payable will be = Output IGST - Input IGST

A reference to the following illustration may be made:

A manufacturing organisation purchase raw-material of Rs. 50000. (excluding Taxes). Other cost like labor and overhead is 30000 and made a profit of Rs. 20000.

EXISTING		PROPOSED	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Purchase of Raw Material	50000	(a) Purchase of Raw Material	50000	50000	50000	50000
(b) CST Paid @ 2% (Credit not available)	1000	(b) IGST paid (Credit Available- not part of cost)	6000 (@ 12%)	8000 (@ 16%)	10000 (@ 20%)	13340 (@26.68%)
		(c) Additional Tax @ 1% (Credit not Available - part of cost)	500	500	500	500
(c) Other Manufacturing Cost (Labour, Overhead etc)	30000	(d) Other Manufacturing Cost (Labour, Overhead etc)	30000	30000	30000	30000
(d) Profit (say)	20000	(e) Profit (say)	20000	20000	20000	20000
(e) Sale price (50000+30000+20000+1000)	101000	(f) Sale price (a+c+d+e)	100500	100500	100500	100500

An Insight of Goods & Services Tax (GST) in India

(f) Excise Duty @ 12.5%	12625	(g) IGST	12060 (@ 12%)	16080 (@ 16%)	20100 (@ 20%)	26813 (@26.68%)
(g) Base for VAT calculation (Sale price + Excise Duty)	113625	(h) Additional tax @ 1%	1005	1005	1005	1005
(h) CST @ 2%	2273					
(i) Price to customer	115898	(i) Price to customer (f+g+h)	113565	117585	121605	128318
		(j) Net IGST outflow (g-b)	6060	8080	10100	13473
(j) Total Tax outflow (1000+12625+2273)	15898	(k) Total Tax outflow (b+c+h+j)	13565	17585	21605	28318

Conclusion: From the above illustration we can see the total tax outflow & price to customer in Current Tax System is bit low than propose GST model but if this type of transaction happen three four times before reaching to the ultimate customer then scenario will be change drastically, because every time taxpayer have to pay tax on tax and cannot utilize credit of input taxes so ultimately price of the product will be on a higher side.

Benefit to the Stakeholders continues to be the same.

5.24.5. Goods purchased within the state and also sold within the state

Tax Applicability under Existing Tax System: At the time of Goods purchased within the state & also sold goods within the same state we have to pay only VAT

VAT payable will be = Output VAT - Input VAT

Tax Applicability under GST: At the time of Goods purchased within the state & also sold goods within the same state we have to pay SGST & CGST

Net SGST payable will be = Output SGST - Input SGST

Net CGST payable will be = Output CGST - Input CGST

(CGST Credit cannot be set off with SGST input & vice versa)

A reference to the following illustration may be made:

A Trader purchased Goods of Rs. 100000 (excluding Taxes) and made a profit of 20000.

EXISTING		PROPOSED	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Goods Purchased	100000	(a) Goods Purchased	100000	100000	100000	100000
(b) VAT Paid @ 12.5% (credit available)	12500	(b) CGST paid (Credit Available- not part of cost)	5000 (@5%)	8000 (@8%)	10000 (@10%)	12770 (@12.77%)
		(c) SGST paid (Credit Available - not part of cost)	7000 (@7%)	8000 (@8%)	10000 (@10%)	13910 (@13.91%)
(c) Profit (say)	20,000	(d) Profit (say)	20,000	20,000	20,000	20,000
(d) Sale price (100000+20000)	120000	(e) Sale price (a+d)	120000	120000	120000	120000
(e) VAT @ 12.5%	15000	(f) CGST	6000 (@5%)	9600 (@8%)	12000 (@10%)	15324 (@12.77%)
		(g) SGST	8400 (@7%)	9600 (@8%)	12000 (@10%)	16692 (@13.91%)
(f) Price to customer	135000	(h) Price to customer (e+f+g)	134400	139200	144000	152016
(g) Net Vat payable (15000-12500)	2500	(i) Net CGST outflow (f-b)	1000	1600	2000	2554

		(j) Net SGST outflow (g-c)	1400	1600	2000	2782
(h) Total Tax outflow (12500+2500)	15000	(k) Total Tax outflow (b+c+i+j)	14400	19200	24000	32016

Conclusion: In this case impact would be remain same because if there is only VAT transaction then we can take full credit of VAT, the same continues in GST regime in border term.

5.24.6. Goods purchased within the state and sold outside the state

Tax Applicability under Existing Tax System: At the time of Goods purchased within the state we have paid VAT & sold the goods outside the state, we have to pay only CST

Tax Applicability under GST: At the time of Goods purchased within the state, we have paid SGST & CGST & also when goods sold outside the state we have to pay IGST & Additional Tax

Net IGST payable will be = Output IGST - (Input SGST + Input CGST)

(CGST Credit & SGST Credit both can be set off with IGST & vice versa)

A reference to the following illustration may be made:

A Trader purchase Goods of Rs. 100000 (excluding Taxes) and made a profit of Rs. 20000.

EXISTING		PROPOSED	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Goods Purchased	100000	(a) Goods Purchased	100000	100000	100000	100000
(b) VAT Paid @ 12.5% (Credit/Refund available)	12500	(b) CGST paid (Credit Available- not part of cost)	5000 (@5%)	8000 (@8%)	10000 (@10%)	12770 (@12.77%)
		(c) SGST paid (Credit Available - not part of cost)	7000 (@7%)	8000 (@8%)	10000 (@10%)	13910 (@13.91%)
(c) Profit (say)	20000	(d) Profit (say)	20000	20000	20000	20000
(d) Sale price	120000	(e) Sale price (a+d)	120000	120000	120000	120000
(e) CST @ 2%	2400	(f) IGST [e × (CGST+SGST)]	14400 (@ 12%)	19200 (@ 16%)	24000 (@ 20%)	32016 (@26.68%)
		(g) Additional Tax @ 1%	1200	1200	1200	1200
(f) Price to customer	122400	(h) Price to customer (e+f+g)	135600	140400	145200	153216
		(i) Net IGST outflow (f-b-c)	2400	3200	4000	5336
(g) Total Tax outflow (At the payment of CST, used VAT Credit)	Nil	(j) Total Tax outflow (b+c+g+i)	15600	20400	25200	33216

Conclusion: From the above illustration we can see the total tax outflow & price to customer in Current Tax System is bit low than propose GST model but if this type of transaction happen three four times before reaching the goods or services to the hand of customer then scenario will be change automatically because every time taxpayer

have to pay tax on tax and cannot utilize credit of input taxes so ultimately price of the product will be on a higher side.

In the above illustration we are assuming that taxpayer will take full VAT credit or take the refund, then only existing tax comes at a lower side. But if taxpayer won't be able to take the credit/refund then tax outflow comes at 14,900/- accordingly price to customer coming up at 1,14,900/-. In the proposed GST model we are hoping that credit mechanism will be so simple that every manufacturer even though small trader will be able to take the credit. Seamless credit is one of the objective of GST.

Benefit to the Stakeholders continues to be the same.

5.24.7. Goods purchased outside the state and sold within the state

Tax Applicability under Existing Tax System: At the time of Goods purchased outside the state, we have paid CST on input & also sold the goods within the same state so VAT payable.

Tax Applicability under GST: At the time of Goods purchased outside the state we have paid IGST & Additional tax and when goods sold within the state we have to pay SGST & CGST

Net SGST payable will be = Output SGST - Input IGST

Net CGST payable will be = Output CGST - Input IGST (balanced amount)

(IGST Credit can be set off with SGST as well as CGST & vice versa)

(Credit is not available on Additional Tax)

A reference to the following illustration may be made:

A Trader Purchased Goods of Rs. 100000 (excluding Taxes) and made a profit of Rs. 20000.

EXISTING		PROPOSED	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Goods Purchased	100000	(a) Goods Purchased	100000	100000	100000	100000
(b) CST Paid @ 2% (Credit not available)	2000	(b) IGST (CGST+SGST) paid (Credit Available- not part of cost)	12000 (@ 12%)	16000 (@ 16%)	20000 (@ 20%)	26680 (@26.68%)
		(c) Additional Tax @ 1%	1000	1000	1000	1000
(c) Profit (say)	20000	(d) Profit (say)	20000	20000	20000	20000
(d) Sale price (100000+2000+20000)	122000	(e) Sale price (a+c+d)	121000	121000	121000	121000
(e) VAT @ 12.5%	15250	(f) CGST	6050 (@5%)	9680 (@8%)	12100 (@10%)	15452 (@12.77%)
		(g) SGST @ 10%	8470 (@7%)	9680 (@8%)	12100 (@10%)	16831 (@13.91%)
(f) Price to customer	137250	(h) Price to customer (e+f+g)	135520	140360	145200	153283
		(i) Net CGST outflow (f-b)	0	0	0	0
		(j) Balance IGST credit available after utilization of IGST for payment of CGST (b-f)	5950	6320	7900	11228

		(k) Net SGST outflow (g-j)	2520	3360	4200	5603
(g) Total Tax outflow (2000+15250)	17250	(l) Total Tax outflow (b+c+j)	15520	20360	25200	33283

Conclusion: From the above illustration we can see the total tax outflow & price to customer in Current Tax System is bit low than propose GST model but if this type of transaction happen three four times before reaching the goods or services to the hand of customer then scenario will be change automatically because every time taxpayer have to pay tax on tax and cannot utilize credit of input taxes so ultimately price of the product will be on a higher side.

Benefit to the Stakeholders continues to be the same.

5.24.8. Goods purchased and sold outside the state

Tax Applicability under Existing Tax System: At the time of Goods purchased outside the state we have paid CST on input & also sold goods outside the state so again CST payable (Credit is not available on CST input).

Tax Applicability under GST: At the time of Goods purchased outside the state and we have paid IGST & Additional Tax on it & also we sold the goods outside the state, again IGST & Additional Tax payable

Net IGST payable will be = Output IGST - Input IGST

(Credit is not available on Additional Tax)

A reference to the following illustration may be made:

A Trader purchase Goods of Rs. 100000 (excluding Taxes) and made a profit of Rs. 20000.

EXISTING		PROPOSED	CGST 5% SGST 7%	CGST 8% SGST 8%	CGST 10% SGST 10%	CGST 12.77% SGST 13.91%
(a) Goods Purchased	100000	(a) Goods Purchased	100000	100000	100000	100000
(b) CST @2% (Credit not available)	2000	(b) IGST paid (Credit Available- not part of cost)	12000 (@ 12%)	16000 (@ 16%)	20000 (@ 20%)	26680 (@ 26.68%)
		(c) Additional Tax @ 1%	1000	1000	1000	1000
(c) Profit (say)	20000	(d) Profit (say)	20000	20000	20000	20000
(d) Sale price (100000+2000+20000)	122000	(v) Sale price (100000+20000+1000)	121000	121000	121000	121000
(e) CST @ 2%	2440	(e) IGST	14520 (@ 12%)	19360 (@ 16%)	24200 (@ 20%)	32283 (@ 26.68%)
		(f) Additional Tax @ 1%	1210	1210	1210	1210
(f) Price to customer	124440	(g) Price to customer	136730	141570	146410	154493
		(h) Net IGST outflow (e-b)	2520	3360	4200	5603
(g) Total Tax outflow (2000+2440)	4440	(i) Total Tax outflow (b+c+f+h)	16730	21570	26410	34493

Conclusion: From the above illustration we can see the total tax outflow & price to customer in Current Tax System is bit low than propose GST model but if this type of transaction happen three four times before reaching the goods or services to the hand of customer then scenario will be change automatically because every time taxpayer have to pay tax on tax and cannot utilize credit of input taxes so ultimately price of the product will be on a higher side.

Benefit to the Stakeholders continues to be the same.

5.25 Genesis of GST in India

The idea of moving towards the GST was first mooted by the Union Finance Minister Shri P. Chidambaram in his Budget for 2006-07. Initially, it was proposed that GST would be introduced by 1st April, 2010. The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a road map and structure for the GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of the GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, the EC released its First Discussion Paper (FDP) on the GST in November, 2009. This spells out the features of the proposed GST and has formed the basis for discussion between the Centre and the States. On 6th May 2015, 122nd Constitutional Amendment Bill has been passed in Lok Sabha and on 22nd July, 2015 Select Committee of Rajya Sabha submit the Report on 122nd Constitutional Amendment Bill, 2014.

5.25.1 Flow diagram since inception of GST thought process for implementation in India

This represents the process and stages undergone for the proposed implementation of GST in India.

- **1974** - Proforma Invoice Credit
- **1986** - MODVAT Introduced
- **1994** - Service tax Introduced
- **2004** - CENVAT Introduced
- **2003-08** - VAT Implemented across India
- **July 2009** - FM announces GST from 1 April 2010
- **Budget 2012** - Negative list of Services introduced
- **March 2011** - 115 CAB introduced in parliament
- **February 2011** - IT strategy for GST released

- **2010** - Comments by RD on FDP & FM Indicates GST rates
- **15-12-2009** - 13th FC released GST report
- **10-11-2009** - FDP released on GST
- **July 2013** - PSC report tabled
- **April 2014** - 115 CAB lapsed
- **Dec 19 2014** - 122 CAB introduced
- **May 6 2015** - LS pass 122 CAB
- **May 12 2015** - RS sent 122 CAB to SP
- **22nd July, 2015** - Select Committee Report on 122nd Bill, 2014

5.25.2 GST- Constitutional Development

The idea of moving towards the GST was first mooted by the Union Finance Minister Shri P. Chidambaram in his Budget for 2006-07. Initially, it was proposed that GST would be introduced by 1st April, 2010. The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a road map and structure for the GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of the GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, the EC released its First Discussion Paper (FDP) on the GST in November, 2009. This spells out the features of the proposed GST and has formed the basis for discussion between the Centre and the States so far.

5.25.3 Constitution of India- Towards GST

Currently, fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on the sale of goods.

In the case of inter State sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the originating States. As for services, it is the Centre alone that is empowered to levy service tax.

Since the States are not empowered to levy any tax on the sale or purchase of goods in the course of their importation into or exportation from India, the Centre levies and collects this tax as additional duties of customs. This duty counterbalances excise duties, sales tax, State VAT and other taxes levied on the like domestic product.

Introduction of the GST would require amendments in the Constitution so as to concurrently empower the Centre and the States to levy and collect the GST.

Three Enactments are needed before implementing GST

- ❖ Central General sales tax law(CGST): to be enacted by Parliament
- ❖ State General sales tax law(SGST): to be enacted by State Legislature Assembly
- ❖ Integrated General sales tax law(IGST): to be enacted by Parliament

To give Power, To Centre: To Tax sale on movable goods

To states: To tax Services and import of goods & Services

Note: Salient features of GST Constitutional Amendment Bill

[Refer Appendix -5]

Legal Aspect - Article 246A

- Parliament and Legislature of every State would have the power to make laws with respect to Goods and Services Tax (GST)
- Exclusive power to Parliament to make laws with respect to GST - Where the supply of goods / services / both take place in the course of inter-State trade or commerce.
- In respect of petroleum crude, HSD, petrol, natural gas and aviation turbine fuel, Article 246A shall take effect from the date recommended by the GST Council
- Path breaking development in the context of relations between Union and State.
- Article 246A is a non-obstante 246 and 254.
- Article 246 covers the power of the Parliament to legislate in respect of matters in List-I and State legislature in respect of matters in List-II, Seventh Schedule.
- Article 254 deals with inconsistency between laws made by Parliament and laws made by State.
- Article 246A is a new concept where both Parliament and State gets the power to make laws with reference to goods and services tax.

Legal Aspect - Article 269A

- GST on supplies in the course of inter-State trade or commerce to be levied and collected by Government of India.
- The tax shall be apportioned between Union and States as per Parliament Law on the recommendations of the GST Council.

- Supply of goods / services / both in the course of import into India shall be deemed to be supply in the course of inter-State trade or commerce.
- Parliament by law would formulate principles for determining the place of supply and when a supply of goods or services or both takes place in the course of inter-State trade or commerce.
- Inter-State supply of goods and services would be taxed as IGST by the Centre through a new law made by the Parliament.

5.25.4 GST Rates & Revenue Neutral Rate(RNR)

Till now, there has been no official announcement regarding GST rate for India. There is a dispute among State heads and Central government regarding fixation of GST rate.

Structure of Tax

Empowered Committee:

Empowered Committee of State finance Minister's opined that SGST as well CGST for goods should have two-rate tax structure:

- (a) Lower rate — for necessary items and goods of basic importance;
- (b) Standard rate — for other goods in general.

One Tax Rate: For Services

There will also be a special rate for precious metals. They further advised to have only one tax rate for SGST and Centre GST for services. However they remained silent on specified rate.

Tax rates at glance

Particulars	CGST	SGST	GST
Working Paper No. 1/2009-DEA	12%	8%	20%
State Minister (mass goods)	-	8% - 9%	
Task force implementation report (Non-SIN Goods)	5%	7%	12%
RNR	5%	6%	11%
News update	8%	8%	16%

In current scenario there is hardly any indication towards the proposed tax rates, however we expect GST to be around 16% to 18%. But of course government shall try to restrict GST rate to RNR of 11% in view to give benefit to the economy, which would be practically impossible at least in few initial years.

GST Constitutional Amendment Bill, 2014

Goods and Services Tax Council shall make recommendations to the Union and the States on many matters, some of which are:

- The rates including floor rates with bands of goods and services tax
- Any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster.

This is the constitutional bill and it does not throw any light on tentative tax rates under GST regime.

Summary

The GST rates in India are expected to be 12% to 20% for the 1st year, 12% to 18% for the 2nd year and 16% for the 3rd Year and onwards.

Goods / Services	Levy	Rate in 1 st Year	Rate in 2 nd Year	Rate in 3 rd Year
Goods -Lower Rate	CGST	6%	6%	8%
	SGST	6%	6%	8%
Goods -Standard Rate	CGST	10%	9%	8%
	SGST	10%	9%	8%
Services	CGST	8%	8%	8%
	SGST	8%	8%	8%

The Finance Minister has asked the Revenue Department to advance a payment of Rs. 500 crores to States as a compensation of CST.

Determining Factor for RNR

- Present tax rates and collection in absolute numbers:
 - Excise duty, which is levied at various rates, median rate is 12.5%
 - CVD rate on import of goods, median rate is 12.5%
 - Service tax rate, presently 14%
 - State VAT rate, varies from 0% to 20%
 - Collection of the Government from these levies
- Broadening of tax base in GST:
 - Excise duty may be levied on a lower base by the States. Present threshold limit under CENVAT is Rs. 1.5 crores, whereas under GST, it may be between Rs. 10 lacs and 20 lacs,
 - Excise duty would be levied up to retail point instead of at manufacturing point. In GST there is only tax levied term that is "Supply" (which cover manufacture as well as sale)
 - GST will cover more services
 - various exemptions will be withdrawn
 - Number of tax rates will be minimized.

5.26 International Scenario

Australia

A GST rate of 10% will be charged on most goods and services consumed in Australia. You have to include GST in the price you have charged to your customers for goods and services they purchase from you, if you have taken registration under GST. However, you are eligible to claim the credit for the GST you have paid on your business expenses and other inputs (GST credit). You have to pay the difference between GST charged on sales and the GST credits available to the Tax Authority periodically.

There are two types of sales which will be treated differently:

1. Suppliers of GST- Free goods and services will not have to pay GST when they make a sale but they will be entitled to GST credits.
2. Suppliers of input taxed goods and services but do not have to pay GST on sales - GST credits will be entitled to them on their purchases of inputs.

Application of GST:

GST will apply to most businesses. If you are carrying on a business and your annual turnover exceeds \$50,000, you will have to charge GST on your sales that are connected with Australia. However, you will not have to charge GST on sales if you are carrying on a business or an activity as a PAYE employee or as a hobby. If you are not carrying on a business, you will not fall under the GST rules either.

GST Levied on Sales:

Although GST is charged on almost all sales, but there are two types of sales on which GST is not levied:

- (a) Sales of GST-free goods and services and
- (b) Sales of input tax goods and services

GST free goods and services:

The general categories of GST-free goods and services are:

- Medical and other health services, hospital services, residential or community care and medical aids;
- Education courses, course materials, student accommodation;
- Child care services registered under the Childcare Rebate, eligible child care Centres or other child care services
- Exports of goods and services from Australia if exported within 60 days after the earlier of the day payment is received or the invoice is issued;
- Religious services;
- Non-commercial activities of charitable institutions;
- Water and sewerage goods and services;
- Sales of businesses as going concerns;

- Precious metal dealer
- Inwards duty free goods sales to a relevant traveler;
- Sales of freehold interest in land or long-term lease made by a Commonwealth, State or Territory Government;
- Subdivided farm land
- Cars for use by disabled people.

Sell of Input taxed goods and services:

GST will not be charged on their sales; however, you do not obtain GST credits on the purchase of inputs that relate to those sales. Input taxed goods and services will not only be supplied by businesses that operate in the finance, property or precious metals industries. For example, where a trader provides credit to a customer, it will be an input taxed financial service. The general categories of input taxed goods and services include:

- Financial dealings in:
 - money;
 - savings, cheque or deposit accounts;
 - debt or equity securities;
 - a unit trust or an interest in a unit trust;
 - traded futures;
 - an option or warrant relating to a future sale of debt securities, equity securities and unit trusts;
 - a super annuation fund, including the management of a super annuation fund;
 - a life insurance policy or reinsurance relating to a life insurance policy; and
 - a hire purchase agreement, where credit is provided for a separate charge that is disclosed to the recipient;
- Residential premises (other than commercial residential premises such as hotels, etc) by way of lease, hire, or licence other than a lease, hire or licence for at least 50 years;
- sales of real property to be used predominantly for residential accommodation for sale, other than commercial residential purposes or new premises; and
- precious metals at any stage after the metal has been sold by a refiner to an investor.

GST - not apply

If a person is carrying on a business but he does not have a current or projected turnover in excess of \$50,000 then he does not charge GST on sales, nor can he claim credits on his purchases. However, if anyone's turnover is less than \$50,000 but he can choose to apply the GST rules so that he can obtain GST credits.

GST credits on purchases:

GST credits will be entitled on inputs that you purchase in the course of your business unless you sell input taxed goods or services i.e. if you purchase inputs solely for business purposes, you will be entitled to GST credit for the full amount of the GST paid on the input.

If you purchase an input partly for business purposes and partly for private use, or for use in selling input taxed goods and services, you can only obtain a GST credit for the portion that relates to business use. You should review all purchases of inputs to determine whether the inputs are purchased solely for business purposes. Your entitlement to GST credits is reduced where the input is purchased and used partly for non-business purposes or for selling input taxed goods or services.

Payment of GST on sale of goods on which sales tax has been paid

You have stock on hand at 1 July 2015 for which sales tax has been paid, you are entitled to a GST credit for that sales tax. To support your claim for the GST credit, you must identify the exact amount of sales tax that has been paid on your stock. You need to conduct a stock take on 30 June 2015 to match all stock on hand with sales tax invoices to show the amount of stock on which sales tax has been paid and the amount of sales tax paid.

You are also entitled to a refund of "overpaid" sales tax when the sales tax rate on luxury goods drops from 32% to 22% immediately after the GST law is passed by Parliament. This is likely to be some months before the GST comes into effect on 1 July 2015. Again, you need to undertake a stock take to support your claim for the refund.

GST Accounting:

If your turnover is less than \$500,000, you can account for GST on a cash basis. Under this method, you become liable for GST when payment is received from customers. You get the benefit of GST credits when you pay for goods or services purchased.

If your annual turnover is more than \$500,000 you have to account for GST on an accruals basis. Under this "invoice method" you are liable to pay GST when you issue an invoice to a customer or otherwise receive payment from a customer, whichever is earlier. You get the benefit of GST credits when you receive an invoice from a supplier or you pay the supplier.

Changes in the accounting system

Some of the features that should be incorporated into your system (accounting software) include the capability to:

- identify sales on which GST should be charged and the amount of GST to be paid;
- identify whether a GST credit arises on purchase of an input;
- detect any changes in the business use of an input;
- detect any adjustment event involving changes in the price of a sale or purchase (i.e. discounts, returns, bad debts, etc);

- ensure that credit terms with customers and trade terms with suppliers do not jeopardize your cash flow position;
- request tax invoices from suppliers when you make a purchase;
- produce tax invoices and adjustment notes; and
- provide information to flow into the GST return each tax period.

You should consider including GST compliance within your Year 2000 (and Euro) upgrade programs.

Payment of GST to the Tax Office

You will need to pay GST, reduced by GST credits and net adjustments, on a monthly basis if you have annual (either current or projected) turnover of more than \$20 million;

- are going to carry on a business for less than three months;
- have a history of failing to comply with your tax obligations; or
- have an income year different to your financial year (i.e. you balance on a date other than 30 June).

If you do not fall within the above criteria, you can pay GST in quarterly tax periods, or elect to adopt a monthly basis on your preference.

Paperwork for GST

The main documents you need to either complete or obtain include the following.

- GST registration — you should register as soon as possible to avoid the rush
- GST returns — you will need to complete a GST return for every tax period (monthly or quarterly) by the 21st day of the month following the end of the period. The return must show the net amount of GST, which is the GST charged on your sales reduced by your GST credits (matched to tax invoices) and corrected for adjustments (matched to adjustment notes).
- Tax invoices — to obtain the benefit of a GST credit for purchases you need to have supporting documentation in the form of a tax invoice. You can request tax invoices from your suppliers and must give them to your customers on request.
- Adjustment notes — where your use of an input changes or there is some other change in the price of a sale or purchase, you need to make an adjustment to the GST you charged or the GST credits you claimed. These must be substantiated by an adjustment note. Either you or the supplier can issue an adjustment note.

CANADA

Structure:

Tax rate is 5% applicable on all type of goods & services, except certain essentials such as groceries, residential rent, and medical services, and services such as financial services. The tax is levied on each sale. Businesses that purchase goods and services as inputs can

claim "input tax credits" (i.e., they deduct the amount of GST they have collected from the amount of GST that they have paid). This avoids "cascading" (i.e., the application of the GST on the same good or service several times as it passes from business to business on its way to the final consumer). In this way, the tax is effectively borne by the final consumer.

Exported goods are exempt("zero-rated"), while individuals with low incomes can receive a GST rebate calculated in conjunction with their income tax.

In 1997, the provinces of Nova Scotia, New Brunswick and Newfoundland and Labrador and the Government of Canada merged their respective sales taxes into the Harmonized Sales Tax (HST). In those provinces, the current HST rate is 13%. HST is administered by the federal government, with revenues divided among participating governments according to a formula. All other provinces continue to impose a separate sales tax at the retail level only, with the exception of Alberta, which does not have a provincial sales tax. In PEI and Quebec, the provincial taxes include the GST in their base. The three territories of Canada (Yukon, Northwest Territories and Nunavut) do not have territorial sales taxes. The government of Quebec administers both the federal GST and the provincial Quebec Sales Tax (QST). It is the only province to administer the federal tax.

Certain services have the tax added in such a way that the total cost is rounded to the nearest multiple of cents, due to limitations in the collection mechanism; for example, payphone calls are taxed so that the cost is a multiple of 5 cents; calls payable at 35 cents or less are not charged GST as the tax is under 2.5 cents.

Untaxed items:

The tax is a 5% levy on the supply of goods and services that are made in Canada, except certain items that are either "exempt" or "zero-rated":

- For tax-free — i.e., "zero-rated" - sales, GST is charged by suppliers at a rate of 0% so effectively there is no GST collected. However when a supplier makes a zero-rated supply, it is eligible to recover any GST paid on purchases used in making the particular supply. This effectively removes the cascading tax from the particular goods and services.

Common zero-rated items include basic groceries, prescription drugs, inward/ outbound transportation and medical devices. Certain exports of goods and services are also zero-rated.

- For tax-exempt supplies, the supply is not subject to GST and suppliers do not charge tax on their exempt supplies. Furthermore, suppliers that make exempt supplies are not entitled to recover GST paid on inputs acquired for the purposes of making the exempt good or service. Tax-exempt items include long term residential rents, health and dental care, educational services, day-care services, legal aid services and financial services.

GST Registration:

If you provide only GST exempt goods and services, then you need not to register for the GST. Examples of GST exempt goods and services include child-care services, music lessons and used residential housing.

Businesses not to register for the GST if they qualify as a small supplier according to the Canada Revenue Agency (CRA), and are not one of the exceptions to the small supplier rule.

Generally, a small supplier is defined as a sole proprietor, partnership, or corporation whose total taxable revenues before expenses are \$30,000 or less annually. Public service bodies, such as charities, non-profit organizations, municipalities, or universities, qualify as small suppliers if their total taxable revenues before expenses are \$50,000 or less annually.

However, some businesses are required to register for the GST/HST even if they are small suppliers

- Taxi and limousine operators
- And non-resident performers (who sell admissions to seminars and other events)

A dealer has 29 days to apply for GST registration from the day that his business exceeds the small supplier threshold amount.

So if on June 1st revenues go over \$30,000, you have then until June 29th to apply for registration. Note, though, that June 1st would be effective GST registration date and the dealer will be responsible for collecting GST/HST from that date.

Voluntary GST Registration Has Benefits

Even if you do qualify as a small supplier, you may have to register for the GST anyhow to get benefits. No matter what kind of business you're in, you will be paying GST/HST on the taxable goods and services you use in the course of your commercial activities. If you are a GST registrant, you will be able to recover some of the GST you paid out on business purchases back through Input Tax Credits.

As stated above small businesses are not required for the GST in Canada. But even if you don't have to, you may want to register anyhow because of the big advantage of GST registration - Input Tax Credits.

Input Tax Credits are credits you can claim to recover the GST or HST you paid or owe for goods or services you acquired "in the course of (your) commercial activities" (Canada Revenue Agency).

If you don't register for the GST, you have no way of getting back any of the GST HST you paid out. For most small businesses, the amount of GST paid to acquire supplies and services over the course of a year is considerable, so GST registration makes economic sense.

And tax-wise, Input Tax Credits are "stackable". GST Input Tax Credits do not need to be claimed in the reporting period when the purchases were made. You actually have up to four years from the end of the period when the Input Tax Credit could have first been claimed to file the relevant GST Input Tax Credit in most cases.

Consider too, that as a new GST registrant, you may be able to claim Input Tax Credits for the GST or HST you paid or owe on the goods or inventory you have on hand when you register.

GST Input Tax Credits Rule:

The rules for claiming GST Input Tax Credits are very similar to the rules for claiming business expenses on income tax.

According to the Canada Revenue Agency's General Information For GST/HST Registrants' Guide, you may claim Input Tax Credits for operating expenses such as commercial rent, utilities, and office supplies, and for meal and entertainment expenses. You may also claim GST Input Tax Credits for expense reimbursements you pay to your employees or partners. And you can claim Input Tax Credits for capital property as well.

Expenses that Don't Qualify as Input Tax Credits

Some purchases or expenses cannot be used to claim Input tax Credits. The main category of purchases or expenses that can't be used are goods and/or services that you bought or imported for your own use (as opposed to being bought or imported for business consumption).

Some of the other purchases or expenses that don't qualify are:

- taxable goods and services bought or imported to provide exempt goods and services
- some capital property
- "Membership fees or dues to any club whose main purpose is to provide recreation, dining, or sporting facilities" (CRA).

GST Taxable Goods and Services

These are the ones that businesses charge GST/HST on and can claim Input Tax Credits for on their GST returns. Most goods and services fall into this category and you charge and collect 5% GST or 13% HST on the transaction.

Think of buying/selling a toy, a piece of jewelry, gasoline or a hard drive or hotel accommodations or buying or leasing a car. Two goods or services that pertain directly to business and fall into this category that you may not be aware of are franchise fees and advertising (unless the advertising is provided to a non-resident of Canada).

GST Exempt and GST Zero-Rated Goods and Services

As a business, you charge the consumer no GST HST on GST exempt or GST zero-rated goods and services, but the two classes of goods are different when it comes to Input Tax Credits.

With GST exempt goods and services, you do not charge GST/HST and you **cannot** claim Input Tax Credits.

With GST zero-rated goods and services, you charge 0% GST/HST and you **can** claim Input Tax Credits.

GST exempt goods and services include child care services, music lessons, many educational services, and used residential housing. For details on these and more examples, see the Canada Revenue Agency's list of GST exempt goods and services.

Zero-rated goods and services include basic groceries, prescription drugs, and exports.

Bookkeeping for the GST/HST

To correctly calculate your Input Tax Credits and complete your GST Return, you need to be sure that you not only keep track of how much GST or HST you collect and how much GST or HST you pay, but also keep track of your GST/HST by category as well.

Canadian versions of accounting software programs such as Simply Accounting can simplify keeping track of the GST or HST considerably, because the program will automatically track the GST or HST paid on every transaction and produce a GST/HST report.

Obviously, keeping meticulous records is critical if you're going to stay on top of your GST or HST payments and maximize your GST Input Tax Credits. But you need to do that anyhow for income tax purposes. Keeping your GST or HST records updated should be part of your regular bookkeeping procedures.

New Zealand

Goods and services tax (GST) is a tax on most goods and services in New Zealand, most imported goods, and certain imported services. GST is added to the price of taxable goods and services at a rate of 12.5%.

Taxable goods and services:

- Goods include all types of personal and real property, except money.
- Services cover everything other than goods or money, e.g. TV repairs, doctor's services and gardening services.
- Taxable goods and services are part of the business or taxable activity. This means you supply or receive taxable goods and services for a consideration (money, compensation, reward) but not necessarily for profit. Taxable goods and services are referred to as "taxable supplies".

Taxable goods and services don't include:

- Goods and services supplied by businesses that aren't registered for GST, and
- exempt supplies such as:
 - letting or renting a dwelling for use as a private home
 - interest you receive
 - donated goods and services sold by a non-profit body, and
 - certain financial services.

GST-Collection and Payment

If you are registered for GST you collect GST when you make sales and then have to pay it to Inland Revenue Department (IRD) in your subsequent GST Return. Similarly when you make payments of GST you are paying GST out and you can claim this back from IRD in your next GST Return. When your business Financial Statements are prepared the profit and loss items will be exclusive of GST.

Un-registered Dealer

If you are not registered for GST you should not add GST to your charges to customers. You cannot escape paying GST though if you are dealing with a tax registered business as they are compelled to add GST to their charges to you, and you do not have the ability to claim this GST back from IRD as you are not registered. You can, however, claim the full amount of the payments including GST charged by your suppliers in your business Financial Statements.

GST-Registration:

If you expect that your business turnover (sales) for the next 12 months will be S40,000 or more you must register for GST.

GST Number:

The GST Number of sole traders is the same as their personal IRD Number.

GST- Accounting Base:

The major accounting bases for GST are:

Payments basis- you account for GST when a payment is made or received.

Invoice basis- you account for GST when an invoice is issued or any payment is made or received- whichever is earlier.

Most business people go for the payments basis, as this means that the GST payment they make when filing their GST Return is reflected in their cash flow in that they have received the GST from their customers or paid it out to their suppliers

If you choose the Invoice basis and you are operating in a profit situation you could well find that you are paying out GST to the IRD even though you have not received it from your customers (the Invoice Basis means you have to pay GST for the period you charged it on an Invoice to your customers), even if they have not yet paid you for that Invoice.

GST Return

If you are registered for GST you have to file GST returns regularly based on the taxable period, which is the length of time covered by a GST Return, you select. Available periods are: Monthly- usually for large businesses, two monthly, six monthly.

GST- Accounting year

When you register for GST you have the option to align your period end with the year-end balance date end date. It is a good idea to agree to this option, as it will mean that your Accountant will be able to easy reconcile your GST for the year at the same time as

preparation of your yearly Financial Statements, due to the fact that the two dates align with each other.

GST- Tax Invoice for sales

If you are registered for GST you must issue a tax invoice for any supplies you make to another GST registered person. A copy must be kept of all invoices you give to your customers.

GST- Tax Invoice for purchases

You must also receive a tax invoice from your suppliers for all purchases and expenses over \$50.00. It is advisable to request one in all cases, even if the amount is less than \$50.00.

For supplies between \$50.00 and \$1000.00 suppliers need only issue a simplified Tax Invoice. This should show:

- The words "Tax Invoice" in a prominent place.
- The name (or trade name) and GST Registration Number of the supplier.
- The date the Invoice was issued.
- A description of the goods and/or services supplied.
- The total amount for the supply, and a statement that GST is included.

If the supply is more than \$1000.00 suppliers should issue a Tax Invoice which clearly states:

- The words 'Tax Invoice' in a prominent place.
- The name (or trade name) and GST Number of the supplier.
- The name and address of the recipient.
- The date the invoice was issued.
- A description of the goods and/or services supplied.
- The quantity or volume of the goods and/or services supplied, for example liters of petrol, hours of labour
- The amount, excluding GST, charged for the supply, the GST and the total amount payable, or a statement that GST is included in the final price.

GST Rate

When you're registered for GST, you account for GST on everything you sell at a rate of 12.5%. This also applies to business assets that you sell. It also includes grants and wages subsidies from the government and public authorities.

There are certain goods and services you don't charge GST on. These goods and services are either exempt from GST or are zero-rated. This means that GST is charged at zero percent (0%).

Two examples of zero-rated suppliers are:

- The sale of a business on a going concern basis (provided the seller and the buyer are GST registered and it is agreed in writing)

- Exported goods

Some examples of exempt supplies are:

Financial services

- Rent for a private home
- Donated goods supplied by a non-profit organization
- Bank charges

GST on Asset Purchase on deferred payment basis

With reference to assets purchased which are subsequently paid for by loan or hire purchase, you are entitled to claim the full GST on the purchase price in the period in which the asset is acquired. Claiming the GST as you make the payments is not the correct treatment, as if you did this you would be claiming GST on interest paid, which is exempt (as is a financial service) as explained above.

GST on second hand goods

If you're registered for GST you will need to account for GST on secondhand goods supplied to or by you as part of your taxable activity. The same rules for GST apply to secondhand goods as for all other goods liable for GST.

If the seller is not registered for GST there will be no tax invoice presented to you, but you can still claim GST in your GST Return, although regardless of your accounting basis, payment must be made before you can make a claim in the case of second hand goods.

In these cases the purchaser must record the:

- Name and Address of the purchaser
- Date of the purchase
- Description of the goods
- Quantity of the goods
- Price paid

If a registered person buys second hand goods from an unregistered associated person (e.g. family or business association) the GST expense claim is now the lesser of: The GST component of the original cost of the goods to the supplier, or One-ninth of the purchase price, or One-ninth of the open (current) market value.

GST Return

GST Returns are due to be filed and any payments due by the last calendar day of the month following the taxable period end, (with the exception of November taxable period end which is due the following January 15). Penalties and interest are charged by IRD for returns filed late and late or under payments so it is advisable to carry these out by due date.

Singapore

Goods and Services Tax (GST) was introduced in Singapore on April 1, 1994 at 3%, but later increased to 4% on 1 January 2003 and 5% on 1 January 2004. It was raised again to 7% on 1 July 2007. Singapore's GST is a broad-based consumption tax levied on import of goods, as well as nearly all supplies of goods and services. The only exemptions are for the sales and leases of residential properties and most financial services. Export of goods and international services are zero-rated.

Registration

One must register for GST in Singapore, if:

- At the end of a quarter taxable supplies exceed SSI million for a quarter and the immediate past 3 quarters. Quarter refers to March, June, September or December; or
- At any time if taxable supplies are expected to exceed SSI million for the next 12 months.

Application for GST registration should be made within 30 days of becoming liable.

GST registration for companies with annual turnover below \$ 1 million is not mandatory. A company may however choose to register voluntarily if it makes economic sense for them to do so. This really depends on their business scenarios and operations. Some factors to consider include:

- Whether their customers are GST-registered - If their customers are GST-registered, then there is greater reason for a Singapore business to be GST-registered as this will enable their customers to claim the GST incurred.
- Whether their suppliers are GST-registered - If their suppliers are GST-registered, then a Singaporean Company will be incurring GST on the purchases. If they want to claim the GST-incurred, then they may wish to register.
- Whether they have the resources to fulfill the regular GST filing and record-keeping requirements - Companies need to file their GST returns either monthly or quarterly.
They need to ensure that GST invoices are issued to their customers; and to keep proper records of the GST claimed.

Objectives

The GST was introduced as part of a larger tax restructuring exercise to enable Singapore to shift its reliance from direct taxes to indirect taxes. The GST also enables the country to sustain a lower income tax rate.

The government argues that with an ageing population, Singapore's income tax base is expected to decline. With a broad-based GST, the taxation burden will be more evenly spread among the population. Thus, the GST was introduced as part of a larger exercise to put in place a tax structure to see the country into the future.

A value-added tax, like the GST, also has several features that make it attractive. Being a tax on consumption, and not on income, the tax system inherently encourages savings

and investments instead of consumption. The tax also has a self-policing mechanism that discourages evasion, unlike in a retail sales tax system or an income tax system where it would be relatively easier to evade.

Long-term Vision and Timing

The key strategy behind GST implementation is to introduce the tax as a part of a tax reform exercise to broaden the tax base, and not for the purpose of raising revenue. It was with a long term vision that the Government introduced the tax-to put in place a tax structure that would stand the country in good stead for future economic development.

The tax was introduced at a time when Government did not require the additional revenue. Government has been having healthy budget surpluses. The economic outlook in 1993 and 1994 was good. Growth has been strong. Singapore could therefore afford to introduce the tax at a low rate of 3%.

The Government also expressly stated that in the initial years of the GST, the tax collected from the GST would be lower than the revenue loss from the package of tax changes and offsets to assist them to assist the lower income group. Indeed, the Minister for Finance announced during the FY 95 Budget Speech in March 1995 that the GST collection and offset package totaled S\$1.5 billion and \$1.7 billion respectively.

Generous Offsets:

It was expected that GST would be criticized as a regressive tax and that it would affect the lower income group more adversely than the higher income group. To counter this, GST was introduced with a generous package of tax cuts and rebates to nullify the impact of GST on the lower income group. Much care and effort went into designing a wide-ranging package of offsets, which included lower income taxes, lower property taxes, rebates on rental & conservancy charges for public housing, and additional subsidies for health, education and community services. The white paper communicated that for most households, income tax would be reduced by more than the amount of GST they had to pay.

High Exemption Threshold:

A high annual turnover threshold of \$ 1,000,000 was set for the compulsory GST registration of businesses. This ensures that only large businesses which should already have in place a proper accounting and record keeping system are required to register and they should not find compliance burdensome. At this threshold, only 20% of all the businesses in Singapore needed to compulsorily register for GST. Notwithstanding, GST would be collected on a significant portion of the value add created by these businesses. This makes for an effective system as tax can be efficiently collected from a relatively small number of businesses.

Businesses with annual turnover of less than S\$ 1,000,000 include small retailers and the neighborhood shops and hawkers located in public housing estates. Their exemption from registration helps mitigate the impact of GST on the lower income groups, many of whom purchase their daily necessities from these neighborhood shops.

Summary

The timing for implementing a new tax was well chosen by the Government. Government had been having budget surpluses and it could afford to give away sufficient tax and non-tax offsets to cushion the effects of GST. There was also the political will to adhere to a broad-based tax system, and not give in to pressures for multiple exemptions or rates that would complicate the tax system.

Although the time frame for introducing the tax was extremely short, IRAS worked with several agencies rigorously to prepare the business community as well as the general public. Underpinning its work with the business community is the philosophy that GST ought not adversely affect business- that Singapore's international competitiveness should not be compromised as a result of GST. This helped IRAS build trust with the business community and contribute in no small way to the smooth implementation of the new tax.

Other Countries

Bangladesh

1. The standard rate of VAT is 15%.
2. There are reduced rates of 0%-9% and these reduced rates are applicable on certain categories of advertisement, supply of electricity, air conditioned bus services, engineering services, security services, services rendered by construction contractors, audit and accounting firms, consultants, printing presses, architects, interior and graphic designers, immigration advisers, coaching centers, English medium schools, non-government medical and engineering colleges, photo producers, courier and EMS services, specialized doctors, legal advisers; supplies of goods and services through participation in a tender/quotation and for pathological laboratory work, supplies of goods and services by hospitals and petroleum carriers, maintenance and cleaning of building floors/premises, dental medical centers, trading services, land development and construction of apartments, retail sales of furniture and exports of goods and services.
3. Examples of certain supplies which are exempt from VAT:—
 - (a) Certain food items (such as meat, fish, potatoes, vegetable and fruits);
 - (b) Jute and jute goods;
 - (c) Social welfare & cultural training;
 - (d) Rehabilitation services; and
 - (e) Agricultural development.

Cyprus

1. The standard rate of VAT is 15%.
2. There are reduced rates of 8%, 5%, and 0%, and these reduced rates are applicable on certain passenger transportation services; hotel accommodation; restaurant and similar catering services excluding alcohol; non-bottled water;

books; newspapers, magazines, and similar publications; gas; aid to disabled persons; animal feed; fertilizers and insecticides; waste treatment; export of goods; drugs and medicines; and most food items for human consumption.

3. Examples of certain supplies which are exempt from VAT:—
 - (a) Financial services;
 - (b) Postal services;
 - (c) Education;
 - (d) Health care and welfare services; and
 - (e) Cultural services by public bodies or non-profit organizations.

Egypt

1. The standard rate of GST is 10%. There are other rates that vary from 0% to 45%.
2. Examples wherein reduced rates are applicable:—
 - Coffee;
 - All products made of flour, soap, fertilizers, gypsum, and iron bars;
 - Export of goods.
3. Examples wherein increased rates are applicable:—
 - National and international telecommunication services using mobile phones;
 - Motor vehicles of a cylinder capacity less than 1,600cc;
 - Some color televisions; refrigerators or deep freezers; sound recorders; air-conditioning units; cameras; perfumery; cosmetics or toilet preparations and products prepared for the care of hair and skin;
 - Motor vehicles of a cylinder capacity of 1600cc upto 2000cc; motor vehicles for the transport of goods and persons; jeep motor vehicles; camping trailers etc.
 - Motor vehicles of a capacity of more than 2,000cc; and vehicles for trips and camping.

France

1. The standard rate of VAT is 19.6%.
2. There are reduced rates of 5.5%, 2.1%, 0%, and these reduced rates are applicable on food, water, passenger transportation, some pharmaceutical products, books, hotel accommodation, newspapers, medicines for human health when reimbursed by social security, and export of goods and intra-community supplies.
3. Certain supplies of goods and services are exempt from VAT:—
 - Medical supplies;
 - Postal services;

- Education;
- Certain Financial transactions; and
- Insurance services.

Germany

1. The standard rate of VAT is 19%.
2. Reduced rates can be applied on certain examples like on food, plants, animals, books/newspapers, entrance fees to cultural sites, and short distance passenger transport, for cross-border air passenger transport, financial services to non-EU recipients, exports and certain transactions involving ships and aircrafts.

Japan

1. The standard rate of consumption tax is 5%.
2. There is a reduced rate of 0%, and this reduced rate is applicable on sale or leasing of goods as export transactions; sales or leasing of foreign cargoes; international transportation services; services provided to non-residents.
3. Supplies of certain goods and services are exempt from consumption tax, for example, sale and leasing of land; rental of housing; sales of securities, and similar instruments; medical treatment under public medical insurance laws; social welfare activities; school tuition; and examination services.

Korea

1. The standard rate of VAT is 10%.
2. There is a reduced rate of 0% which is applicable on export goods, services rendered outside the Republic of Korea, international transportation by ships and aircraft, other goods, services supplied to earn foreign exchange.
3. Supplies of certain goods and services are exempt from VAT, for example unprocessed foodstuffs, medical and health services, certain educational services, passenger transport services, books, newspapers and magazines, postage stamps. A\K\ public telecommunication services.

Mauritius

1. The standard rate of value-added tax is 15%.
2. There is a reduced rate of 0% which is applicable on export of goods other than exempt goods, sugar, wheat flour, books, booklets, supply of electricity, water, certain pharmaceutical products, international transport of passengers and goods, supplies of services to non-residents
3. Supplies of certain goods and services are exempt from VAT, for example, rice, wheat, bread, butter, milk and cream, medical, hospital and dental services,

educational and training services provided by registered institutions, postal services, cargo handling, and certain residential buildings

New Zealand

1. The standard rate of GST is 12.5%.
2. There is a reduced of 0% which is applicable on certain situations such as the export of goods and services, the supply of a business as a going concern, and the supply of financial services under the business-to-business regime.
3. Supplies of certain goods and services are exempt from GST unless the supplies are zero-rated. Exempt supplies include the supply of financial services, the supply made by non-profit bodies of donated goods and services, the supply of residential accommodation and the supply of fine metals.

Oman

No VAT or GST is applicable in Oman.

Pakistan

1. Indirect taxes in Pakistan include a sales tax and a federal excise duty.
2. The standard rate of sales tax is 16% however, certain goods are subject to sales tax at higher rates of 18.5% and 21%.
3. There is a reduced rate of 0%, which is applicable on, all export of goods, local supplies of raw materials, supplies of specified export sectors, import and local supplies of capital goods.
4. Certain examples of supplies which are exempt from sales tax are agricultural products, unprocessed food items, animals and their meat, fisheries, dairy products, construction materials, computer software, ships, navigation equipments, sale to hospitals and educational non-profit organizations.

Qatar

No indirect tax regime exists in Qatar. However, Qatar does apply a customs duty rate of 5% on most imports

Russia

1. The standard rate of VAT is 18%.
2. There are reduced rates of 10% and 0% and these reduced rates are applicable On food products, specific goods intended for children, books and periodicals, pharmaceutical and other medical products; exports of goods related services, service related to transit of goods through Russia, international passenger transportation and fuel for ships and aircraft.

3. Examples of certain supplies which are exempt from VAT are lease of premises to foreign companies accredited in Russia, medical services and certain medical products, educational services, public transportation, sale of securities, banking and insurance services, rent of apartments, sale of apartments and residential property.

Singapore

1. The standard rate of GST is 7%
2. There is a reduced rate of 0%, which generally applies to export of goods & international services
3. Supplies of certain financial services and sale or lease of residential properties are exempt from GST.

Sri Lanka

1. With effect from 1st January, 2009 in Sri Lanka, the standard rate applicable on VAT is 12%.
2. There is a reduced rate of 0% which is applicable on exports of goods and certain services including international transportation of goods or passengers.

Switzerland

1. The standard rate of VAT is 7.6%.
2. There are reduced rates of 3.6%, 2.4% and 0% and these reduced rates are applicable on hotel accommodation; water in conduits, medications, books, Newspapers, food and non-alcoholic beverages; and exports of goods.
3. Certain supplies are exempt from VAT which are as follows: —
 - Official Postal service,
 - Health and Welfare.
 - Education.
 - Insurance.
 - Finance, and
 - Supply of certain immovable property.

Thailand

1. The standard rate of VAT is 7%.
2. There is a reduced rate of 0% which is applicable on export of goods or services.

Supplies of certain goods and services are exempt from VAT. for example domestic transportation, health care, education, leasing of immovable property, sale of agricultural products, newspapers, magazines and textbooks, services rendered by libraries, museums, and zoos.

United Kingdom

1. The standard rate of value-added tax is 15%-17.5%.
2. There are reduced rates of 5% and 0%, and these reduced rates are applicable on children's car seats, certain contraceptive products, domestic fuel and power renovations/conversions of residential properties; food and animal feed, books and newspapers, prescription drugs and medicines, children's clothes, passenger transport, and exports of goods.

Supplies of certain goods and services are exempt from VAT, for example. financial and insurance services; education services supplied by eligible bodies certain cultural services; betting, gaming, lotteries; subscriptions; and health and welfare.

Vietnam

1. The standard rate of value-added tax is 10%.
2. There are reduced rate of 5% and 0% and these reduced rates are applicable on medical equipment and instruments, fresh foodstuffs, scientific and technical services, manufacturing equipment, machinery for agriculture; and exports of goods and services.
3. Supplies of certain goods and services are exempt from VAT, for example life insurance, financial services, transfer of land use rights, health care services, computer software, printing, publishing and distribution of newspapers, magazines, and certain books.

Zimbabwe: 0% is for specified goods and services (mainly exports). General tax rate in Zimbabwe is 15%.

Bahamas: No indirect taxes are levied in the Bahamas. However, there are significant import duties and excise taxes on goods brought into the country. Such import duties and excise taxes range from 0%-85%.

Hong Kong: No VAT or GST is applicable in Hong Kong.

United Arab Emirates: No VAT or GST applicable in die United Arab Emirates.

Cayman Islands: No VAT or GST is applicable in Cayman Islands.

OECD ANALYSIS

In *M/s Coca Cola India Pvt. Ltd, Pune vs. the Commissioner of Central Excise* Hon'ble High Court of Mumbai observed that the guidelines issued by OECD states that VAT is a consumption tax, which accords with the view taken by the Supreme Court in *All India Federation of Tax Practitioners vs. Union of India*. Though India is not a signatory to OECD Model, it adopts the same model of destination based consumption tax rule. The basic approach adopted by India is to tax services on the destination cum consumption principle, which is in line with international norms. Therefore, in this case Hon'ble Supreme Court observed stated that OECD Guidelines can be safely considered.

Similarly in *M/s ABB Ltd vs. Commissioner of Central Excise & Service Tax*, Larger Bench of CESTAT Bangalore relied on the fundamental concept laid down by the Supreme Court in the *All India Federation of Tax Practitioner* case and the OECD guidelines.

We see that OECD guidelines are at times given due importance by Indian judiciary, thereby we re-produce OECD guidelines as follows;

Basic Principles

Introduction

There are many differences in the way value added taxes are implemented around the world and across OECD countries. Nevertheless, some common core features can be described as follows:

- Value added taxes are taxes on consumption, paid ultimately, by final consumers.
- The tax is levied on a broad base (as opposed to the e.g. excise duties that cover specific products).
- In principle, business should not bear the burden of the tax itself since there are mechanisms in place that allow for a refund of the tax levied on intermediate transactions between firms.
- The system is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales. Each business in the supply chain takes part in the process of controlling and collecting the tax, remitting the proportion of tax corresponding to its margin i.e. on the difference between the VAT paid out to suppliers and the VAT charged to customers. In general, OECD countries with value-added taxes impose the tax at all stages and normally allow immediate deduction of taxes on purchases by all but the final consumer.

These features give value added taxes their main economic characteristic, that of neutrality. The full right to deduction of input tax through the supply chain, with the exception of the final consumer, ensures the neutrality of the tax, whatever the nature of the product, the structure of the distribution chain and the technical means used for its delivery (stores, physical delivery, Internet).

Value added taxes are also neutral towards international trade according to international norms since they are destination based (even if the rule might be different for transactions made within federations or economically integrated areas).

This means that exports are zero-rated and imports are taxed on the same basis and with the same rate as local production. Most of the rules currently in place aim therefore at taxing consumption of goods and services within the jurisdiction where consumption takes place. Practical means implemented to this end are nevertheless diverse across countries, which can, in some instances, lead to double or involuntary non-taxation, and uncertainties for both business and tax administrations.

Sales tax systems, although they work differently in practice, also set out to tax consumption of goods, and to some extent services, within the jurisdiction of consumption. To this end, their implementation also aims at keeping it neutral towards international trade. However, in most sales tax systems businesses do incur irrecoverable sales tax and, if they subsequently export goods, there will be an element of sales tax embedded in the price.

Application to International Transactions

For the International trade in goods there is a commonly held principle that exports should be exempted and imports should be taxed. This is relatively simple to apply, although even line, complexities of globalization mean that problems can arise. However, for the International trade in services and intangibles there are no such commonly held principles. Thus, the variations by governments in the application of consumption taxes to this increasing trade have led to obstacles to business activity and distortions of competition Significant enough to justify the design of common principles. There is also a shared view, both by governments and business that the neutrality principle described above should be kept as an objective in the design and implementation of VAT/GST Guidelines. The following principles aim mainly at ensuring that transactions are taxed only once and in a single, clearly defined jurisdiction in order to avoid uncertainties, double taxation or involuntary non-taxation.

The development of e-commerce in the late 1990s led governments to adopt several principles in the field of consumption taxes. Although they were designed in the context of e-commerce taxation, they remain valid for the more global interaction of consumption tax systems and broadly reflect the philosophy of the existing tax rules in most countries.

Ottawa Framework Conditions specify that the taxation principles that guide governments in relation to conventional commerce should not be different from those applicable to electronic commerce. These principles can be summarized as follows:

(a) Neutrality: Taxation should seek to be neutral and equitable between forms of commerce. Business decisions should be motivated by economic rather than tax considerations. Taxpayers in similar situations carrying out similar transactions should be subject to similar levels of taxation.

(b) Efficiency: Compliance costs for taxpayers and administrative costs for the tax authorities should be minimized as far as possible;

(c) Certainty and simplicity: The tax rules should be clear and simple to understand so that taxpayers can anticipate the tax consequences of a transaction, including knowing when, where and how the tax is to be accounted;

(d) Effectiveness and fairness: Taxation should produce the right amount of tax at

the right time. The potential for tax evasion and avoidance should be minimized while keeping counter-acting measures proportionate to risks involved;

(e) Flexibility: The systems for taxation should be flexible and dynamic to ensure that they keep pace with technological and commercial developments;

Rules for the consumption taxation of cross-border trade should result in taxation in the jurisdiction where consumption takes place and international consensus should be sought on circumstances under which supplies are held to be consumed in a jurisdiction.

As regards value added taxes, an additional principle can be established from the general functioning of those taxes: except where explicitly designed, i.e. when several operations are explicitly exempted (input taxed) like financial services, or excluded from the application of the value added taxes, like operations not effected for consideration, the tax burden should not lie on taxable business but on the final consumer.

Services and Intangibles

The above-mentioned general principles can be adapted to the cross-border trade in services and intangibles as follows, for both business-to-business and business to consumer transactions:

- (i) For consumption tax purposes internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption;
- (ii) The burden of value added taxes themselves should not lie on taxable businesses 'except where explicitly provided for in legislation.

For the purposes of these principles however, any such imposition of value added tax on business should be clear and explicit within the legislative framework for the tax. As with many other taxes, value added taxes impose compliance costs on business. It is not the intention of these principles to suggest that compliance costs should not be borne by business, but rather that, business should not incur irrecoverable value added tax.

Taxation of Services in Electronic Commerce Sectors

Guidelines on the Definition of the Place of Consumption

Introduction:

In 1998, OECD Ministers welcomed a number of Taxation Framework Conditions relating to the consumption taxation of electronic commerce in a cross-border trade environment, including:

- i. In order to prevent double taxation, or unintentional non-taxation, rules for the consumption taxation of cross-border trade should result in taxation in the jurisdiction where consumption takes place.
- ii. For the purpose of consumption taxes, the supply of digitized products should not be treated as a supply of goods.
- iii. Where businesses acquire services and intangible property from a non-resident vendor, consideration should be given to the use of reverse charge, self-assessment, or other equivalent mechanism.

The Guidelines below are intended to achieve the practical application of the Taxation Framework Conditions in order to prevent double taxation or unintentional non-taxation, particularly in the context of international cross-border electronic commerce.

Business-to-business transactions: The place of consumption for cross-border supplies of services and intangible property that are capable of delivery from a remote location made to a non-resident business recipient should be the jurisdiction in which the recipient has located its business presence. In certain circumstances, countries may, however, use a different criterion to determine the actual place of consumption, where the application of this approach would lead to a distortion of competition or avoidance of tax.

Business-to-private consumer transactions: The place of consumption for cross-border supplies of services and intangible property those are capable of delivery from a remote location made to a non-resident private recipient should be the jurisdiction in which the recipient has their usual residence.

Application

In the context of value-added or other general consumption tax systems, these Guidelines are intended to define the place of consumption (and so the place of taxation) for the international cross-border supply of services and intangible property by nonresident vendors/suppliers that are not otherwise registered and are not required to register in the destination jurisdiction under existing mechanisms.

These Guidelines apply to the cross-border supply of services and intangible property, particularly in the context of international cross-border electronic commerce, which are capable of delivery from a remote location.

The Guidelines do not apply to services, which are not capable of direct delivery from a remote location (for example, hotel accommodation, transportation, or vehicle rental). Nor are they applicable in circumstances where the place of consumption may be readily ascertained, as is the case where a service is performed in the physical presence of both the service provider and the customer (for example, hairdressing), or when the place of consumption can more appropriately be determined by reference to a particular criterion (for example, services related to particular immovable property or goods).

Finally, it is recognized that specific types of services, for example, some telecommunications services, may require more specific approaches to determine their place of consumption.

Recommended Approaches to the Practical Application of the Guidelines on the Definition of the Place of Consumption

Introduction:

Three tax collection mechanisms are typically used in consumption tax systems are:

- (i) registration,
- (ii) reverse charge/self-assessment, and

(iii) Collection of tax by customs authorities on importation of tangible goods.

Under a registration system, the vendor of goods and services registers with the tax authority and depending on the design of the tax, either is liable to pay the tax due on the transaction to the tax authority, or collects the tax payable by the customer and remits it to the tax authority.

Under the reverse charge/self assessment system, the customer pays the tax directly to the tax authority.

The third approach, collection of the tax on the importation of tangible goods by customs authorities, is common to virtually all national consumption tax systems where national borders exist for customs purposes.

Since registration and self-assessment/reverse charge mechanisms are currently in use in the majority of consumption tax systems, they represent a logical starting point in determining which approaches are more appropriate to apply in the context of electronic commerce transactions involving cross border supplies of services & intangible property. While emerging technology promises to assist in developing innovative approaches to tax collection, and the global nature of electronic commerce suggest that collaborative approaches between authorities will become increasingly important.

Recommended approaches:

- **Business-to-business transactions:** In the context of cross-border business-to-business transactions (of the type referred to in the Guidelines), it is recommended that in cases where the supplying business is not registered and is not required to be registered for consumption tax in the country of the recipient business, a self-assessment or reverse charge mechanism should be applied where this type of mechanism is consistent with the overall design of the national consumption tax system. In the context of B2B cross-border transactions in services and intangible property the self-assessment/reverse charge mechanism has a number of key advantages. Firstly, it can be made effective since the tax authority in the country of consumption can verify and enforce compliance. Secondly, given that it applies to the customer, the compliance burden on the vendor or provider of the service or intangible product is minimal. Finally, it reduces the revenue risks associated with the collection of tax by non-resident vendors whether or not that vendor's customers are entitled to deduct the tax or recover it through input tax credits.
- **Business-to-consumer transactions:** Effective tax collection in respect of business-to-consumer cross border transactions of services and intangible property presents particular challenges. Member countries recognize that no single option, of those examined as part of the international debate is without significant difficulties. In the medium term, technology-based options offer much potential to support new methods of tax collection. In the interim, where countries consider it necessary, for example because of the potential for distortion of competition or significant present or future revenue loss, a registration system (where consistent with the overall design of the national consumption tax system) should be considered to ensure the collection of tax on B2C transactions. Where countries feel it appropriate to put into effect a registration system in respect of non-resident vendors of services and intangible property not currently

registered and not required to be registered for that country's tax, it is recommended that a number of considerations be taken into account firstly, consistent with the effective and efficient collection of tax, countries should ensure that the potential compliance burden is minimised. For example, countries may wish to consider registration regimes that include simplified registration requirements for non-resident suppliers (including electronic registration and declaration procedures), possibly combined with limitations on the recovery of input tax in order to reduce risks to the tax authority. Secondly, countries should seek to apply registration thresholds in a non-discriminatory manner.

Glossary of Terms

Abbreviations

BIN	Business Identification Number
CENVAT	Central Value Added Tax
CESTAT	Custom Excise & Service Tax Appellate Tribunal
CGST	Central Goods and Service Tax
CVD	Countervailing Duty
DOR	Department of Revenue
FMCG	Fast-moving consumer goods
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GST	Goods and Service Tax
IGST	Integrated Goods and Service Tax
ITC	Input Tax Credit
LPG	Liquefied Petroleum Gas
LST	Local Sales Tax
MODVAT	Modified value added tax
MST	Manufacturer's Sales Tax
OECD	Organization for Economic Co-operation and Development
PAN	Permanent Account Number
RNR	Revenue Neutral Rate
Rs.	Rupees
SAD	Special Additional Duty
SEZ	Special Economic Zone
SGST	State Goods and Service Tax
TIN	Taxpayers Information Network
VAT	Value Added Tax
WIP	Work in Progress

Impact of GST on B2B supplies

- **One tax:** The common base for charging GST for Centre and the state will consist of an amalgamation (subsuming) of several central taxes and state taxes which will enable them to give one tax rather than giving about 16 taxes.
- **Common market:** There will be a common market in the absence of CST and entry tax. At present, goods are being sold mostly within the state in order to avoid paying the CST which is not credited at the stage of manufacture or in course of trading. Good quality products being manufactured in one part of the country will find more market in the farthest part of the country because there will be no CST and no entry tax
- **Distinction between goods and services will go:** In some cases, there is a distinction between goods and services when they are sold as a package. These controversies will go.
- **Invoicing will be simpler:** At present, the invoices are more detailed since taxes on goods and services are written separately for one transaction. With the introduction of GST only one rate will be written (If govt came out with one rate for Goods as well as services).
- **No entry tax:** The Economist November 8, 2014 has reported (page 67) that India's long distance truckers are parked 60 per cent of the time. This also leads to delaying of delivery of goods at destinations. The abolition of entry tax will be a great boon for the movement of goods by road transport.
- **Common exemptions between Centre and states:** Now the exemptions given by the Centre and the states being different, the final price becomes different in different states. In the GST regime, exemptions will be common between the Centre and the states which will make the rates of duty same all over India.
- **Concept of manufacture will go:** Manufacture is a highly complicated concept. It is defined mostly by judgements of Supreme Court and high courts. It is a den of controversy. The concept of manufacture will be replaced by the concept of value added which is numerically measureable and is not controversial.
- **Classification controversies will go:** Now, classification controversies are galore since there are so many rates of duty. This problem will also go if the exemptions are limited.
- **Problem of identification will go:** At present, identifying a commodity like whether it is rubber or resin, paper or board, ash, or dross dominate the proceedings since rates of duty are different. These controversies will be over.
- **Undue enrichment law will go:** At present, there is a law in central excise and service tax which provide for refusing refund of higher duty paid in case the burden of higher rate of tax imposed already has not been passed on to the consumer. This is a highly litigated law which will necessarily have to go because GST will be a combination of so many taxes apart from these two taxes. And these taxes do not have the same provision. Moreover, if the unjust enrichment

of law is made to apply to GST as a whole, the purpose of seamless movement of goods and services will be defeated.

- **Zero rating will be more comprehensive and more easy:** Even without GST, zero rating (giving relief for the input duty) is possible, but it does not give relief for some of the duties. With GST, zero rating will be more comprehensive.
- **Benefits for SMEs:** Once GST is implemented SMEs will no longer be at a tax disadvantage outside their home state. That, coupled with nationwide access that an ecommerce marketplace provides will allow SMEs to compete for business successfully all over India, resulting in business efficiencies, and reduction in middlemen in the supply chain.

Given a uniform tax regime across states, and access to suppliers on a nationwide ecommerce platform, customers too will have much greater choice, can buy directly from manufacturers and enjoy the benefits of lower prices and greater variety.

GST, thus, is going to be a boon for the growth of B2B ecommerce in India.

Chapter 6

Impact of GST on various Sectors

6.1 Retail Sector:

The liberalization of the Central Government's FDI (Foreign Direct Investment) policy on retail in September 2012 was widely hoped as a step that would catalyze investment into the sector. Apart from the high profile IKEA case, results however have not entirely been on expected lines. Multi brand retail players have sought further clarity and relaxation of stringent norms before committing significant financial investment. Approvals for single brand retail trading are coming through gradually as businesses evaluate their investment strategy.

Key issues under the existing law and impact of GST

1. Multiplicity of taxes and resultant cascading effect of taxes:

Presently, the retail sector in India is subject to multiplicity of indirect taxes. In addition to customs duty, which is levied on import of goods, the following are the other key transaction level indirect taxes, levied by the Central Government, which are relevant on the procurement side:

- Excise duty is applicable on goods domestically manufactured in India.
- Service tax is applicable on services received.
- Research and Development Cess is levied on import of technology / know-how under a collaboration arrangement - the applicability of this 'lesser known' cess is laden with ambiguity.

Additionally, the following transaction level indirect taxes, levied by the State Governments, are relevant on the procurement side:

- On every intra-State sale and purchase of goods, the State Governments levy a Value Added Tax ('VAT'). The rates of VAT may vary from State to State.
- On sales/ purchases involving movement of goods from one State to another (inter-State sales), there is a levy of Central Sales Tax ('CST').
- Additionally, several State Governments also levy an entry tax on entry of goods into defined 'local areas' within the State.
- Finally, Octroi / Local Body Tax is levied in several parts of the State of Maharashtra - these are taxes on entry of goods into specified municipal areas.

A primary issue arising from this multiplicity of taxes is its cascading effect across the chain. This is because of the limited ability to set-off amounts paid under one tax against liabilities under other taxes - a consequence of multiple authorities with different jurisdictions levying multiple taxes on different aspects of a business. As a basic principle, credit of amounts paid under Central level taxes is not available against liabilities under State level taxes, and vice versa.

Typically, in the retail sector, trading activity attracts an output tax of VAT. Since VAT accrues to the State Government, the entire host of Central level indirect taxes

becomes a cost in the supply chain and enhances the total indirect tax cost for a retail chain setting up shop in India. For Example, excise duty paid on purchase of goods cannot be offset against VAT payable on intra-State sales.

Even for taxes for which inter se credit / set-off is legally tenable, practical implementation becomes difficult due to stringent norms for credit availment and the rigorous approach of ground level tax authorities. Availability of credit on various inputs and input services is subject to substantiating their direct nexus with the output services / manufacture of goods, which is often contested by the tax authorities. Credit of VAT paid on capital goods is typically not permitted by most States.

A specific mention is also needed for restrictions on credit of various taxes paid on fuel under various State and Central laws. This is surprising since fuel (primarily used by retail sector for captive power generation) is commercially a major input for all kind of goods or services, including retail. Additionally, it is economically significant as fuels are typically subject to levy of higher rate of taxes, both by the Centre as well as most of the States.

Overall, businesses try to adapt to this myriad of indirect taxes and adopt complex supply chains and transaction structures that are essentially driven by tax considerations rather than business imperatives - a clear distortionary impact of taxation. For every retail chain with operations in multiple States, the outlined factors, when combined together, lead to higher tax costs eating into profits in the supply chain. GST is meant to address this inequity.

Impact under GST: GST is a comprehensive tax on manufacture, sale and consumption of goods and services at a national level. GST system in India essentially envisages two taxes - State Level GST and Central Level GST. In principle, credit of GST paid on the procurement of goods and services will be available against the respective GST payable on the output supply of goods or services. Thus, the system envisages continuous flow of credit across all points in the supply chain without any breakage at any point. Most importantly, the focal point of taxation under GST is consumption - it's the ultimate point of consumption where the tax cost sticks.

As a further step towards ensuring that the incidence of the tax falls on the consumption of commodities without any distortionary or cascading effect and the revenue accrues to the State where the final consumer is located, we expect there should be no distinction between raw materials and capital goods in allowing input tax credit in the GST regime. We also expect that fuels should be subjected only to GST (both Central and State) with the benefit of input credit like any other intermediate good.

2. Tax on packing and labelling activities:

The present tax regime in India deems packing and labelling activities for a specified category of goods to be a manufacturing activity and therefore, subject to levy of excise duty. Retail sector which inevitably requires packing, labelling, re-labelling, etc at some level, lays exposed to this levy along with the requirement to undertake various attendant compliances. This issue has been a subject matter of debate in the e-commerce segment and it's only a matter of time that the issue becomes live in other

scenarios. For Example, where a retail chain procures toothpastes and toothbrushes separately in bulk from manufacturers (who would have paid excise duty on such clearance) and initiates a campaign in their stores where a toothpaste and toothbrush are sold together at a discounted price and for this purpose, loosely put together in some sort of a package. Potential levy of taxes on such processes creates challenges for the retail sector under the present indirect tax regime.

Impact under GST: Here too, GST is expected to usher in a solution. GST would be structured on the destination principle. As a result, the tax base will shift to consumption. Under GST regime, tax would be levied on goods or services at the 'point of supply' rather than for undertaking a 'process' (like packing / re-packing etc) in relation to supply of goods. Thus, GST would be applicable only on transactions of supply of goods (and services) in the retail value chain rather than on the processes of packing or labelling that may occur at multiple levels. Overall, no additional taxable event is foreseen under GST for similar packing / labelling activities undertaken by retail chains.

3. Double taxation on property management services:

Property management services including contracts for housekeeping, engineering, maintenance of facilities, form a major input cost for retail outlets. Under the current indirect tax regime, some confusion exists regarding the levy (VAT and/or service tax) as well as taxable base for levy for such contracts.

This stems from the fact that such contracts, while composite in nature, involve relatively lower value of material supply component and a higher focus on the service element. Service tax authorities seek to charge service tax on entire value of such contracts without giving the benefit of abatements available for 'works contract' services. On the other hand, VAT authorities demand VAT on value of goods involved in the execution of such contracts. On account of practical difficulties in substantiating the actual value of materials and services involved for such contracts, application of deemed deduction / abatement schemes often leads to levy of VAT and service tax much higher than actual.

Impact under GST: Such levy of dual taxes on almost the same taxable base is expected to be mitigated under the GST regime where tax is proposed to be levied on 'supply'. It is likely that the difference between goods and services for tax purposes would get dissolved under the GST regime and double taxation issues relating to property management contracts may be avoided.

4. Retail price linked valuation issues:

While the proposed GST regime may prove to be a panacea for few major indirect tax issues experienced by retail chains, however, certain issues may still remain such as the valuation for tax purposes of packaged goods (procured in bulk) which are taxed on Maximum Retail Price ('MRP') basis. Typically, MRP valuation is not attracted is not case of procurement by institutional/ industrial buyers. Only where the pre-packaged goods are procured under the tag of 'intended for retail sale', MRP based valuation usually applies.

Impact under GST: The applicability or otherwise of MRP based valuation in different scenarios is an extensively litigated aspect under customs/ excise laws in India and may continue to challenge under the GST regime as well, unless the Government discontinues MRP based valuation post GST. Similarly, valuation related disputes may continue to arise vis a vis various forms of gift vouchers, discount coupons and other promotional schemes under the GST regime as well.

6.2 IT SECTOR

Goods and Services Tax (GST) is arguably the most talked about fiscal reform in recent times and India appears set to transition into a GST regime in the coming year. To recap, with a view to preserve the fiscal autonomy of the Central as well as State Governments, Indian lawmakers have proposed a "dual GST" structure in terms of which, every supply of goods and services is expected to attract a Central GST as well as State GST. While at a conceptual level this seems simple, here is a look at some key aspects a service provider in the information technology (IT) services sector should evaluate from a GST transition perspective.

As on date, there is no definitive indication on what the GST rate is likely to be. While a combined GST rate of 27 percent is being discussed in the context of goods, some reports indicate that services could attract a lower rate, at least, in the initial years of GST. Be that as it may, it should be reasonable to infer that the GST rate for services is likely to be higher than the current rate of 12.36 percent. In addition to a potential change in tax rate, in pricing services under GST, a service provider may well need to evaluate a reduction in the cost of providing services as well as the ability of the customer to absorb the GST charged on the supply. By way of example, today, an IT service provider is unable to claim credits of value added tax/sales tax incurred in creating his IT infrastructure and the service tax charged by the IT service provider to a customer who is a trader is a cost to such trader.

However, under GST, both the service provider as well as his customer in the above example should be in a position to claim full credit of GST. This may provide a window of opportunity for the service provider to leverage on the tax efficiency and recoup additional profits on the supply. On the other hand, supplies to an end consumer or government or other non-taxable sectors would involve the customer being unable to avail GST credit and hence cause potential pricing pressures. Also, relevant is the cash flow impact a service provider may need to budget for in the light of an increase in the tax pay out on procurements.

While appropriate pricing would undoubtedly be critical, what is expected to be even more critical for service providers in general and IT service providers in particular is the impact of potential decentralized compliances under GST.

Under GST, while an intra-state supply of services is expected to attract Central GST plus State GST, an inter-state supply of service is expected to attract an Integrated GST or IGST (which is a combination of Central GST and State GST). What assumes importance in this scheme of things is identifying the relevant State which can stake claim to the State GST on a supply of services. It is expected that the 'place of supply

of services' shall be determined by a specific set of rules that are somewhat aligned to the rules presently in force for determining the 'place of provision of services' in the context of cross border supply of services into and from India.

Today, most IT service providers have a multi-locational presence with the preferred mode of service tax compliance being on a centralized basis from a single location. An IT service provider enjoys the benefit of availing input service credits, issuing output invoices, discharging service tax liability as well as applying for refunds all on a centralized basis.

As opposed to paying service tax to a single jurisdictional service tax authority, the service provider may well be required to pay GST (State GST, Central GST, IGST, as the case may be) to GST authorities across multiple States. What is presently not clear is whether the rules will provide for the service provider to pay an IGST on such supplies from his location or in effect require for the service provider to obtain a GST registration in each relevant State (especially in the case of services that are taxed based on the location of their performance). Either way, the service provider would need to map the relevant place of supply for each of his supplies and report compliance basis the same. An important related aspect in this regard is for the service provider to ensure that GST credits pertaining to the supplies are captured and availed in the location from where output GST is paid.

The issue of determining the place of supply can be expected to assume more significance in the context of IT services provided to customers with a pan-India presence. Should the concept of centralized supply and billing undergo a change under GST, an IT service provider engaged in ERP systems implementation across branches of a customer in 20 States may well be required to split GST payment across the 20 States. On the reverse side, the same IT service provider procuring software licences for his branches across 6 States may now require to issue 6 purchase orders to his vendor to ensure that appropriate GST is charged on each of the procurements.

Unless simple proxies are fixed for determining the 'place' or State of supply, several complexities could arise in manner of taxation of IT services. A classic case in point being provision of cloud services by an IT company headquartered in one State, from an infrastructure hosted in another State to customers located across multiple other States. It is hoped that clear and specific proxies are prescribed to determine the place of taxation of such services that involve assets and people across different States coming together to service customers in a third State.

While there is some speculation on retaining centralized compliances for Central GST with state-wise compliances being restricted to State GST, maintenance of State-wise books of accounts as well as undergoing audits, investigations and assessments across States (where the service provider has a presence) could enhance the burden of compliances on service providers.

On a related matter, IT service exporters under the Software Technology Park ('STP') scheme, presently burdened with recurring service tax refund claims could well see an increase in the number as well as quantum of such refund claims under GST. With only basic customs duty exemption expected to continue for these exporters, the possibility of State-wise refund claims for Central GST, State GST and IGST for goods as well as

services cannot be ruled out under GST. Should this happen, the very rationale of operating under the STP scheme may need to be re-evaluated.

No discussion on the IT services sector would be complete without a reference to the dual taxation of electronic supplies of software both as goods under the VAT law and as services under the service tax law. While this sector hopes that GST shall put an end to this dual levy regime, the same would be contingent on a clear classification of electronic software supply either as a 'good' or as a 'service'. In the absence thereof, this debate could well continue under GST to the extent the place of supply as well as rate of GST varies for goods and services.

While significant headway is being made towards GST, it is hoped that the proposed methodology of taxation of services is disclosed soon so that service providers are in a position to gear up for the same, and more importantly, where required, engage in a discussion with the lawmaker to ensure a smooth transition into GST.

6.3 E-Commerce

Introduction of the goods and services tax (GST) may be a big positive for the ecommerce industry. With no tax laws in place for the industry currently, tax is imposed based on the understanding of various state governments.

GST when implemented will resolve many supply chain issues surrounding ecommerce. The shipment and returns across the country will be done more efficiently and with lesser paperwork. The efficiency in the supply chain will also mean quicker deliveries. Companies will also be able to execute more efficient supply chain strategies, with warehousing based on strategy rather than tax requirements (like Octroi). More importantly, with a uniform tax structure across India, goods can be priced and margins calculated properly without worrying about where the product is finally shipping.

GST is a single comprehensive tax regime that will be applicable across all states in India on the sale, manufacture and consumption of goods and services. Since the same tax regulation will apply across different states, ecommerce companies (as well as those from other industries) will not have to struggle with the complex regulatory structure that currently prevails in the country. They will also be able to devise strategies in keeping with the GST norms. Let's see how GST would be beneficial in E-Commerce

1) Finally a Tax Structure:

E-Commerce currently faces a identity crisis of sorts (Tax Structure) of policy makers struggle to decide whether to classify it in retail or technology. A single tax will also be of immense use in the movement of goods across state borders. The ecommerce industry, hence, is understandably upbeat about GST.

2) Supply Chain Issues:

GST will resolve many supply chain issues surrounding e-commerce and the increase in efficiency will lead to quicker deliveries. Shipment and returns across the country will be done more efficiently and with lesser paperwork. With the tax standardized there will be no more guessing game in terms of taxes when you cross state borders so

companies will also be able to execute logistic strategies, with warehousing based on strategy rather than being depended on taxes.

3) Easy for new Entrants:

People who found it difficult and expensive to enter who is at ease because of a simplified tax structure and clear norms regarding the same. Small Players of this market have a good chance to explore by expanding their businesses; setting warehouses and transportation system for better delivery of goods because of simplification in interstate goods transfer by implementation of GST.

GST would also help address challenges like the one faced by the Karnataka tax authorities where concerns about tax evasion by Amazon India were brought to the fore. Questions were raised about why Amazon and its sellers were paying no VAT for operating from the company's warehousing facilities on the outskirts of Bangalore. The situation may have been different if clear laws had been formulated for the ecommerce industry. The standoff is more a result of difference in interpretation of the vague laws by Amazon and the state tax authorities.

"Since Amazon operates on the 'marketplace' model and only provides a platform for buyers and sellers to transact (not engaging in any selling directly), its reasoning was that it should not come under the purview of sales tax or VAT (the website gets a commission from sellers for facilitating sales) and that only service tax was applicable to them. On the other hand, its sellers, who were stocking their goods in Amazon's warehousing facility, were designating it as 'an additional place of business' in contravention of the state's VAT rules. The state tax authorities then ordered Amazon to discontinue selling some products from its Bangalore warehouse by cancelling the licenses of about 100 of its sellers. Consequently, the company had no choice but to cancel many orders for those particular products and bear losses," explains Jhalani.

The rollout of GST is likely to simplify the logistics issue for ecommerce companies. Also, the practice of companies to minimise their tax liabilities by finding loopholes in existing sourcing, distribution and warehousing strategies will have to undergo a change.

6.4 Food Service Businesses

Railway Budget has created hopes of better services with the announcement of IRCTC's proposed association with leading food brands like Cafe Coffee Day (CCD), Domino's, Jumbo king and Subway, the Union Budget for 2015-16 played a spoilsport by raising the rate of service tax from 12.36 per cent to 14 per cent. It is a classic case of giving with one hand and taking away the same by another. The general impact of the government action may be depletion in the buying power of consumers for their choicest brands of food and beverages. But implementation of the GST may just counter the negatives of this extra levy.

With increase in the service tax and its coverage area, the Union Finance Ministry expects to garner higher revenues. There is no doubt that the government is desperate to mobilize funds to finance its flagship projects and reduce the mounting fiscal deficit. But the means it has chosen may well spike its objective. By and large, the

increase in service tax at restaurants and cafes may have its bearing on the brands like Bite Foods, Subway, Pizza Hut, Costa Coffee, and Pita Pit, patronized by young crowds with limited purchasing power. Ironically, it will result in lower generation of service tax. It is known wisdom that a lower rate of taxation yields more tax receipts. And yet the government has chosen to go against this golden rule.

The railway's move is indicative of the evolving food preferences of Indian consumers who would now be able to get an interesting and diverse menu to choose such as hot and tasty pizzas on train seats. But the hike in service tax would negatively impact hotels, quick service restaurants (QSRs) and cafes as they operate in an extremely price-sensitive and competitive market. The said increase is expected to give a fillip to inflation across the board, considerably denting the common man's power to spend at eating outlets.

We all know that the service tax was already quite high and its further revision would only lead to consumers shelling out more money on various services, which will reduce their spends on eating out. It will have its adverse imprint on the revenues of food retail companies that thrive on large-scale sale. Also, service tax on freight of food stuff no longer stands exempted; this too will lead to more escalation in food prices.

The budget also proposes to levy service tax on online and mobile advertising which will adversely affect the chain of mobile development start-ups, food tech start-ups advertisers and publishers. All these factors may accentuate price rise in general, discouraging consumer expenditure at food retail outlets.

By not reducing tax and spurring consumption, the government does not seem to be encouraging the growth of food retail industry. However, on a positive note, it proposes to implement the Goods and Services Tax (GST) starting April 2016. The GST will be a comprehensive levy that will do away with multiple taxes. It will allow retail sector to become more tax efficient resulting in lower prices of products. Eventually, it will have a sobering effect on inflation, facilitate industrial growth and improve business climate in the country.

So, with the GST roll out in the pipeline, the increase in service tax for FY 2015-16 may not have any excessively detrimental effect on food service industry in the long run. Also, the industry will continue to thrive upon its growing clientele comprising youngsters and working women, with additional impetus coming from enhanced health consciousness and a booming tourism industry. Having said that, implementation of the GST is a must, not just for cost efficiency, but also operational efficiency for food service businesses in India.

6.5 Real Estate

Real estate industry in India in the recent past has seen a phenomenal growth, not just in the Tier 1 cities, but even Tier 2 and Tier 3 cities and towns. The industry is in the cusp of increased regulations, with bills such as the Real Estate (Regulation and Development) Bill, pending for approval in the side lines. GST is another development that will have a significant impact on this sector.

Even though construction services has been taxable under VAT and service tax for a decade or so, the industry is still plagued with uncertainty on key basic issues that remains unsolved leading to intense litigation, especially on issues like transfer of development rights in land, taxability of joint development agreements, taxable value for goods and services, etc. While it is expected that immovable property transaction, i.e. transfer by way of sale of immovable property after completion, would continue to be outside the purview of GST and be liable only to applicable stamp duties, the proposed shift to the GST regime is expected to usher in the wings of change and wipe the slate clean in a bid for a fresh start on the indirect taxation of all other real estate transactions. However, the foremost thought in everyone's mind is whether GST is indeed the solution to an industry riddled with complex structures and issues.

Today, this industry has two primary levies, Service tax and VAT, with overlap of tax base and constant disputes on the rate of tax, given the multiple options available for discharge of taxes across States. This has resulted in diverse practices being followed by developers, across geographies and even within each State. These issues should be put to rest under the GST regime and the practices and positions should be common across India. Hence, the taxes paid by home buyers across States should more or less be the same.

Presently, home buyers pay service tax and VAT on purchase of residential units when booked prior to their completion. There are also various elements of non-creditable tax costs, like excise duty, customs duty, CST, entry tax, etc paid by the developer on his procurement side, which is inbuilt into the pricing of the units. All these tax costs add upto anywhere between 22%-25% of the price of the units. The proposed GST should replace these multiple taxes with a single tax and should also ensure smooth flow of credits through the chain. Hence, it is widely expected that GST should reduce the construction cost in the hands of the developer and thereby aid in reducing or at least maintaining the current level of prices in the real estate sector. The only damper could however be high GST rates (like the 27% GST rate that is doing the rounds) which will offset any possible gains on incremental credits. Stamp duty is not proposed to be subsumed under GST and hence will continue as it is today.

The Supreme Court's decision in L&T that VAT to be applicable only on construction carried out after agreement of sale was a game changer for VAT and the industry is still grappling with the impact of the same on payment of taxes and availment of credit. This principle could continue to apply even under the GST regime, as there can be a supply of goods and services only from the date the agreements are entered into with the buyers, unless the GST legislation introduces a deeming fiction.

GST should have a significant impact for commercial property developers, who today are burdened with high costs as no credit is available on construction services used for developing a commercial property which is then rented out. It is expected that under the GST regime, there should be a smooth flow of credit and current restriction on construction related credits not being available for offset is expected to be removed. This would help reduce the project costs in the hands of the developer, which should have a positive effect on rentals. If the credit restrictions continue, due to higher GST rates, the project cost are only going to get escalated

further. Additionally, all business entities, including the trading companies should be able to take credit of the GST paid on the rentals, which in turn should help the developer community in negotiating better rentals. To recap, under the current regime, service tax on rentals to traders, is not available as a credit.

SEZ projects should by and large be neutral as the present exemptions on the procurement side should transition into GST as well. It is expected that supplies of goods and services to SEZ developers and units will be zero rated.

Under the GST regime, special focus would be required on the taxability of landlord-developer transactions, especially on the taxation, valuation and timing for payment of taxes on such transactions and also on the liability of landlords for sale of their portion of constructed area before completion of construction.

Overall, GST appears to be a benefactor for the real estate regime, primarily in light of the expected free flow of credit, which should translate into an increase in margin in the hands of the developer. Whether these benefits will percolate into the end customers / users is to be seen, more so because pricing in this sector is more driven by market forces than on costing principles. More importantly, as the GST regime is expected to impart greater transparency through market mechanism, it is imperative that real estate transactions forms an integral part of the proposed GST design.

6.6 Transport Sector

The ambitious Goods and Services Tax (GST) would help the transportation sector in improving its efficiency besides reducing the logistics cost. GST will help transport sector in two areas - logistics cost will come down and two, efficiency will increase both within India and exports. If GST is properly implemented, then it will have a double positive impact on the industry. It has recommended transporters to understand how the new tax regime would impact their businesses and plan their future strategy accordingly.

GST would help unify the market, lower incentive to use tax system loopholes, widen tax base apart from improving the productivity of the overall economy. Noting that medium and heavy commercial vehicle (M&HCV) industry in the domestic market was very volatile, the size of the industry was expected to reach 3.42 lakhs units by 2020 from the present 2.33 lakhs units. Majority of the growth will be due to the cargo segment which accounts for 84 per cent of the M&HCV industry. The M&HCV market has put a lot of pressure on bottom-line of the Original Equipment Manufacturers (OEMs). "Therefore as the market revives the OEMs should move away from discounting policy".

According to a study, Tata Motors holds 57 per cent market share in the overall M&HCV industry. However, it lost market share over the last few years with other OEMs expanding market share like Hinduja Group's flagship Ashok Leyland. Overall, the industry is dominated by Tata Motors and Ashok Leyland with 80 per cent share across majority of segments, the report said.

6.7 Telecommunication

India is one of the biggest telecom markets in the world. It has the third-largest telecom network in the world and the second-largest among the emerging economies. The contribution of the telecommunication sector to the country's economic growth has been significant in the past few years. The sector generated revenues of approximately USD 32 billion in 2007-08, experiencing a growth of over 60 per cent, compared to 2006-07.

According to some studies conducted in this regard, the telecommunications sector will have an approximate 15% share of the GDP by 2014, by far the biggest contributor to the economy. The exponential growth of this sector has also led to setting up of manufacturing facilities in India by major telecommunication equipment and mobile handset manufacturers, all of whom were earlier importing such goods into the country. A direct consequence of all this has been the significant employment generation in the sector. It is therefore fair to suggest that the growth of the telecommunications sector has majorly contributed to expanding the manufacturing base in India and in generating employment. It is important therefore that the Government frame appropriate GST law and rules so as to maintain the growth of such key drivers of the Indian economy as the telecommunications sector.

Now, the sector is characterised by three distinct segments; namely the telecom service providers, the passive infrastructure providers such as the tower companies and the equipment and mobile handset manufacturers.

The GST needs to recognize these segments of the sector and evolve a framework to ensure that the tax passes through the segments and is finally only charged on consumption of telecom services. However, the larger and much more relevant point to be addressed is the appropriate rate of taxation of telecom services and related equipment, including mobile phones.

Before we discuss the appropriate GST regime for the telecom sector, it is worthwhile looking at how the sector is currently treated under the present indirect tax regime.

Service tax on telecom services was introduced for the first time in the year 1994 and since then the telecom sector has grown to be one of the biggest contributors to the Exchequer by way of service taxes. The point to be noted however is that, in addition to the service tax, the sector is currently saddled with several other charges and levies as well, thereby leading to a very high aggregate incidence of taxes and levies. In addition, the sector has been bedevilled with a multiplicity of litigation across the three segments. Indeed, indirect tax related litigation has been the bane of the sector. To illustrate, the passive infrastructure providers have been challenged on the issue of non-availability of credits pertaining to inputs used in the construction of the relevant infrastructure.

More significantly, there has been the continuous and ongoing problem of double taxation of the telecom services themselves, from both a VAT and a service tax standpoint. Specifically, the taxation of SIM cards, prepaid cards etc. has been a problematic area for a very long time.

On the other hand, in order to ensure affordability, the indirect tax incidence on mobile phones has been kept low both at the Central level by way of a low rate Excise duty at 1% and at the State level where mobile phones have been subject to the lower or concessional VAT rate of 4%, although there have been deviations in the recent past in these rates in certain States. These tax incentives have contributed significantly to the policy objective of promoting these services as key social development enablers.

Since the future growth in the telecom sector is likely to happen in rural areas, affordability of services and mobile handsets will continue to play a key role in enabling this growth. Therefore, the proposed GST must take into account the overall policy of ensuring affordability of telecom services, both through an appropriate low rate of tax on services and on mobile phones as also resolve the perennial problem of double taxation.

On the first point, it is imperative to levy GST at an appropriate rate on telecom services. As to what is an appropriate rate is a matter of debate but affordability will be the key. A low tax regime on telecommunication goods incentivises growth of telecom services, as international experience suggests. GST rates on telecom services have consequently been kept low and several countries have provided preferential treatment to the telecom sector in other ways as well.

It is also essential to ensure availability of seamless input tax credits across goods and services for this sector so that the ultimate tax on consumption of such services is kept low. On the second point, of resolving the problem of double taxation etc., one of the challenges in the GST is to determine the situs of taxation for telecom services i.e. the place of supply or use or consumption is difficult to determine. The interconnect usage charges (IUC) and roaming charges are indicative examples of telecom services wherein it is difficult to determine the situs for taxability of such services.

Given the above complexity, it is imperative that clear rules be framed in order to determine the situs of supply or the place of consumption, as the case may be, in order to enable the appropriate GST to be paid out in a simple and efficacious manner without subjecting the industry to possible double taxation, as also high compliance costs.

6.8 Financial Services

Introduction of goods and services tax (GST) is now a certainty. Given that it is a transaction tax it would impact each industry or sector in its own way, as every sector will have some unique features in its business model. As regards the financial services sector, one of the key impact areas would be the treatment of fund-based activities. Currently, all fee-based activities are generally liable to service tax. They include various types of charges or transaction fees levied on a per unit or lump-sum basis. However, income from fund-based activities such as interest, investment and asset financing, proprietor trading etc is largely out of the tax net (except for 10% of the interest earned in a financial leasing transaction). It is expected that GST would be an all-encompassing levy and tax may apply on all services, with a specific list of exclusions. Also, if one looks at some international precedents on what is the definition

of "services", say the EU VAT laws, the term is defined to include all transactions that are not regarded as supply of "goods". Thus, it would be important for fund-based activities to be a part of the list of exclusions to have the effect of continuing the current "no-tax" situation.

Another change expected for service providers in this sector would be the introduction of Place of Supply Rules. These rules are expected to define the taxing jurisdiction of a particular service. One of the features of the dual-GST proposed by the empowered committee is that both the Centre and state governments would levy tax on supply of services. Given this, Place of Supply Rules would help determine the appropriate state to levy GST on a particular service. Another outcome of the dual structure is the requirement to maintain separate credit pools for CGST and SGST. The current input credit mechanism would be replaced by a new system. It is expected that the definition of input would get wider as GST merges several (present) taxes on goods and services. This would mean that the entire case bank on interpretation of current regulations would have to be re-built. With IGST also proposed to be treated as a separate pool, with protocol as to when can credits be used across pools, taxpayer would have to deal with three different streams of credit.

6.9 FMCG (Fast Moving Consumer Goods)

The fast moving consumer goods and retail sector welcomed the Budget proposal to introduce GST from April next year, saying the move will give a big fillip to the FMCG industry. The Budget clearly talks of a long term vision for economic growth, a vision which dreams of better amenities, infrastructure, skill development and jobs. The focus on broad-based growth will benefit the FMCG industry. Along with increased investments in MGNREGA (Mahatma Gandhi National rural employment guarantee act) and social security, a firm roadmap for reduction of corporate taxes, ease of doing business and GST is very reassuring for the long term balanced growth and augurs well for the industry.

The Budget is a sincere effort to address all class of society and bringing the economy back on track. More money is in the hands of the masses by way of social sector schemes like farm credit, rural infrastructure funds allocation, MNREGA allocation and increasing agricultural area and productivity. This Budget proposes a lot of structural changes and avoids the usual high decibel measures like increase in tax exemption limits. I would say that the ease of doing business is the biggest plus. Reaffirmation of the GST roadmap, removal of SAD, relief for the footwear sector and general focus on easing approvals, reduction of tax on royalty from 25 per cent to 10 per cent, reduction of corporate tax, are quite positive.

The hike in service tax to 14 per cent will have a negative impact on the retail sector but hopefully only for an year with GST implementation, it will be short lived. On the long-term, there seems to be a lot of focus on the social aspect with schemes for accident and health insurance and pension which will be very positive for the sector in the long run. With positive consumer sentiments and softening inflation, budget announcements on GST, revision of excise/ custom duty structure, fund allocations for

skill development and rural markets development would ensure long-term consumption boom for the retail sector.

6.10 Logistics

The Indian logistics industry was valued at an estimated US\$ 130 billion in 2012-13. It has grown at a CAGR of over 16 per cent over the last five years. The industry comprises the following main segments:

- Freight and passenger transportation via road, rail, air and water
- Warehousing and cold-storage

Aggregate freight traffic is estimated at about 2-2.3 trillion tone kilometers. Road dominates the mode of freight transport mix and constitutes about 60 per cent of the total freight traffic. Rail and coastal shipping account for about 32 per cent and 7 per cent, respectively, while the share of inland waterways transportation and air is less than 1 per cent each. Warehousing comprises industrial and agricultural storage. Of the total warehousing space of about 1,800 million sq ft, the industrial and agricultural segments constitute about 86 per cent and 14 per cent, respectively.

Impact of GST

India is all set to usher in a game-changing tax reform—the goods and services tax (GST). Apart from creating a unified market across India, GST will help make India's manufacturing competitive by cutting high logistics and warehousing costs. The regulatory reforms proposed in the GST presents a golden opportunity to revisit, rationalize and re-engineer transportation and logistics networks, given the inherent inefficiencies with taxes based on the crossing of administrative boundaries or border checkpoints.

- **Enhancing the Overall Productivity:** Taxation at a national level, rather than by each state, will result in more efficient cross-state transportation, streamlining paperwork for road transporters and bringing down logistics costs. There are long delays at Inter-State checkpoints, as state authorities review and examine freight and apply the relevant taxes and other levies. Truck delays average five-to-seven hours at Inter-State checkpoints. This combined with other delays, keep trucks from moving during 60% of the entire transit time. As much as approx 60% of India's freight moves by road, a fact which leads logistics experts to see GST as critical for India.

High variability and unpredictability in shipments add to logistics cost in the form of higher-than-optimal buffer stocks and lost sales, pushing logistics costs in India to two-to three times global benchmarks, according to the World Bank. Simply halving the delays due to roadblocks, tolls and other stoppages could cut freight cost by some 20-30% and logistics costs by an even higher 30-40%, according to World Bank estimates, this alone can go a long way in boosting the competitiveness of India's key manufacturing sectors by 3-4% of net sales.

- **Change in Business strategies of Logistics and warehousing service providers:** The prevailing complicated tax structure in India meant that logistics decisions,

including the choice of setting up inventory and distribution centers' are taken based on the tax regime such as central sales tax and state value-added tax (VAT) rates, rather than on operational efficiency. Tax optimization and administration is often considered over the operational and logistics efficiency. GST will unleash a new era of developing logistics infrastructure and take investments to the next level. Given that the inefficient and longer supply chains with warehouse in almost every state is fiscally preferred in the existing regime, it is now time to overhaul and compress the entire logistics set-up.

This will lead to changes in logistics requirements of clients, forcing logistics service providers (LSPs) to rethink their business operations, including creating new warehousing and logistics locations and expanding or closing existing warehouses at certain other location. In fact, networks and infrastructure associated with warehousing and logistics hubs are expected to be the most affected in the entire supply chain when GST takes effect.

- **Expansion of Existing Warehouses:** Network and infrastructure related businesses would get drastically realigned, ensuring proximity to manufacturing locations or consumption centers and ultimately resulting in hub-and-spoke models. From the infrastructure perspective the new scenario would reduce the number of warehouse but will increase their sizes, leading to a consolidation of the currently widely spread warehouses across states. This would translate into expansion of some of the existing warehouses, development of new ones and shutting down of several existing set-ups. LSPs and their end-users both would need to re-engineer their supply chains, focusing on optimal locations for warehouses and logistics centers.
- **Emergence of Organised Players:** GST will score over the existing regime in the transportation and logistics industry, where a tendency is seen to engage with the unorganized players for tax considerations. The GST regime will see the emergence of the organized service providers since taxes will no longer be added costs for the businesses. Given the highly fragmented nature of the Indian transportation and logistics industry [the leading 10 listed firms command less than 5% of the overall market], implementation of GST is expected to unleash a plethora of opportunities for companies in the organized sector. Further, the firms in the unorganized sectors, too, would be expected to improve their service levels if they intend to successfully grow in the likely shape up or shape-out competitive landscape. The post-GST regime is, in fact, likely to offer many more unseen opportunities for unorganized entities to tie up or collaborate with established companies. This could ultimately result in a win-win scenario for both the collaborating parties and the industry at large. GST, combined with the dismantling of Inter-State check posts, is the most crucial reform since the economic liberalization in 1991 that can significantly improve domestic and global competitiveness of Indian manufacturing firms.
- **Cash Impact Planning:** Currently, abatements are available to transport service providers under the Service Tax law. These are not likely to continue in the GST regime. Also, the liability to pay tax may shift from the recipient of service to provider of transport service requiring it to pay full taxes on accrual basis. On

account of this, a major impact will be seen on the cash flow for transport service providers who generally operate on marginal profit basis.

Businesses need to quantify the cash impact and realign their working capital strategies to reduce/mitigate the cash flow impact.

- **Place of Supply, Tax Administration and Input Tax Credit:** The most important change will be the transition from the present central tax regime (Service Tax) to the dual GST Regime requiring payment of taxes simultaneously to the Centre & State and the compliances across the country

The Place of supply Rules will govern the state where the tax will be payable on any transaction of Transportation & Logistics. In the case of Warehousing, the place of supply can be defined as the place where warehouse is situated.

On the other hand, for transportation contracts, taxes may be levied by each State through which the goods move, perhaps based on the distance traversed in each State or alternatively in the State from where the journey of transport commences. The latter that is, the State from where the journey of transport commences, would be an ideal basis for taxation. Though being a simplistic model, the same would pose challenges to the transportation service providers such as registration and compliances requirements across all the locations from where the goods are loaded and dispatched.

Also, another challenge envisaged is the ability of the transportation service providers to capture credits in respect of the expenses incurred en-route. Transportation service providers may incur expenses in different States during the journey from one location to another and it will be essential to avail input tax credits on such costs. In the event, appropriate rules are not framed under the GST law for claim of these credits, the transportation sector will have to be ready to absorb the impact on account of these tax costs.

Logistics companies looking for funds to build scale & be GST-ready

Economic Times Nov 20, 2014

An expected roll out of Goods and Service Tax (GST) is pushing privately held logistics companies to look for funds from private equity firms, strategic investors and public listing in order to finance massive expansion in warehouses and fleet. The logistics sector will see a slew of deals in the next one year as international and domestic investors scout for targets, while companies look to unlock value.

Experts say larger companies in will look at a public listing while mid-sized companies will seek strategic or PE funding. Mahindra Logistics and TVS Logistics may rope in institutional investors, which have a shorter timeline than PE firms, are showing interest. "It is true that investor interest has gone up in the past few months. GST is forcing large consolidation in the sector," said TVS Logistics Managing Director R Dinesh.

"We will start thinking of an IPO in about a year," added Dinesh, who is also co-chairman of CII's Institute of Logistics Advisory Council. Mahindra Logistics, backed by Kedaara Capital, is scaling up through acquisitions before getting listed. TVS has an

annual revenue of Rs 2,500 crore, while Mahindra makes Rs 1,750 in top line. Both specialise in auto distribution. Snowman Logistics' successful IPO in August has been a trigger for logistics companies to consider public funds. Logistics' stocks have skyrocketed in the last three months, taking investors as well as companies by surprise.

"This is turning in favour of logistics companies as investors have started regaining interest in them. With the overwhelming response to Snowman logistics, IPO route has rediscovered as one of the emerging option for fund raising, with increasing interest from the institutional investors," said Abhishek Dhanesha, VP-Investment Banking at Systematix Group. In an industry which has been largely dominated by the unorganised sector, professionally-run companies like Future Supply Chain (FSC) and TVS Logistics are in demand. Sources say FSC has started considering giving an exit to current Hong Kong-based private equity firm Fung Capital by getting listed. FSC declined to comment.

"GST will push organized logistics companies to build bigger capacities, for which they will need funds. Private equity firms and strategic investors are happy to invest in these companies to take advantage of the GST opportunity," said Manish Saigal, MD at Alvarez & Marsal, a specialised advisory firm.

Third-party logistics companies, which have a presence both in transportation as well as warehousing business, are most expected to attract investors. Until now, they have largely restricted themselves to freight forwarding, which is an EXIM business. Foreign strategic investors, scouting for a deal in the market, include Japan's NYK and Nippon Express, Europe's FM Logistics, Rhenus Logistics, Panalpina and Damco, according to investment banking sources. KD Logistics MD Kapil Premchandani told ET they have already started a formal process to get in a strategic partner to help them with technology.

It competes with FSC in retail distribution segment But it is not just foreign investors looking at Indian companies. Large firms like FSC and Mahindra are also gobbling up smaller rivals to build scale. It not just helps build scale and be GST ready but also increases their worth in the market.

"There are certain businesses in India that have built scale in the last decade. They might consider some acquisitions themselves. You will see some of the smaller ones happening," said Prahlad Tanwar, director for transport and logistics at KPMG. "Large domestic companies, like international big players, will enhance their capability in certain regions and verticals."

6.11 Auto Industry

The Practice in this industry is to sell vehicles to a dealer network that sells as well as services the vehicles. More than 80% of the sales are generally outside the state of manufacture. The distribution of the vehicles may be by way of direct sales to dealers, currently subjected to CST or by stock transfers to depots and stockyards across the country. Both these models entail a tax cost, which gets embedded in the final price to the customers. Though the rate of CST cannot be set off by the dealer against his VAT liability. Similarly, though stock transfers are not eligible to tax, state VTA laws provide for retention or reduction of input tax credits.

Currently, stock transfers do not attract any tax (other than the loss of input tax credit in the exporting state). It is possible GST would be applicable on all 'supplies' including stock transfers. This would have its own challenges. The valuation of such stock transfers have to be tackled as there would be no sale value available to calculate tax. There could be significant cash flow issues as well. Special transition provisions will be required for the in-movement stock from factory to depot on the date of introduction of GST.

Most of the new investments by auto companies have gone to the states that have offered most competitive tax incentives. Such incentives are largely in the form of subsidies/loan equal to the VAT/CST paid in the state govt. For instance, under the GST regime, the state of manufacture will not collect any existing incentives (in terms of CST exemption/deferral) can continue. Himachal Pradesh etc would also be effected.

One of the reasons for auto component manufacturers to set up units close to OEM plants is to avoid breaking of the VAT credit chain. The removal of CST in the new regime would provide a new opportunity for consolidation of these units into larger units, which would be good for economic efficiency of the sector as a whole.

6.12 Pharma Industry

The Indian Pharmaceuticals Industry (IPI), estimated turnover at 450 billion, ranks fourth globally in terms of volume and is amongst the largest producer of Pharma products in the world along with USA, Japan, Europe and China. The cutting edge that IPI enjoys over most other nations is the cost advantage, given that the cost of labour and overall production is lower in India as compared to other nations. To cite an example, the manufacturing cost of Pharma products in India is nearly half the cost incurred in the US but the multistage taxation in the Pharma Industry i.e. Customs Duty on imports, Central excise duty on manufacture, Central Sales Tax (CST)/VAT on sale of goods. Service tax on provision of services and levies such as entry tax, Octroi, cess by the State or Local municipal corporations/ municipalities is one of the key stumbling blocks in its progress. Levy of multiple taxes, loss of credit of tax paid, compliance and litigation cost associated with the present tax set up are causing problems to the Pharma Industry. Introduction of GST is a positive step and if implemented in the right spirit could result in reduction in transaction cost.

Currently, certain locations such as Himachal Pradesh, Uttaranchal enjoy an excise tax holiday on their manufacturing activities. However, since the output is exempt the tax paid in inputs/capital goods tend to be a cost to those entitles located in such areas. Though, area based exemptions may not continue in the GST era, based on past experience of VAT and on a generic basis, it appears that the presently exempted units may be required to pay GST on their finished goods but, would be entitled to claim refund in order to ensure continuity of GST at every stage. By doing so, the credit chain remains intact and at the same time incentives already agreed by the Centre and the State Government for both Central and State Level GST is passed on to the manufacturers. Such a move would ensure that the various manufacturing hubs of the Pharma Industry in said areas continue manufacturing operations in such locations.

6.13 Petroleum Products

Under the present law entire range of petroleum products is subject to multiple taxation both level i.e. Central level and State level. As a result, the incidence of tax on products essentially used as intermediate inputs cannot be estimated and leads to a cascading effect on downstream products. Consequently, it is necessary to rationalise the tax treatment of petroleum products.

The petroleum products can be classified as follows:

- industrial fuels such as crude oil,
- transportation fuels comprising of HSD, MS and ATF, and
- Household fuels comprising of kerosene and LPG.

While industrial fuels are intermediate inputs, transportation fuels and kerosene ("**Emission Fuels**") are used both as intermediate inputs and in final consumption. The emission fuels generate negative externalities, whose consumption needs to be checked. Therefore, generally, such emission fuels are subject to an excise against which no input tax credit is allowed in respect of inputs (including capital goods) used in the manufacture of such fuels. However, in large number of cases, such emission fuels are also used as intermediates. As a result, the cascading effect of embedded input taxes is significant.

Task Force

Task Force recommended a dual levy of GST and excise on the entire range of emission fuels. As a general rule, no input credit will be allowed to any person in respect of GST on the emission fuels. However, input credit will be allowed in the case of consumption of transportation fuels by the Ministry of Railways, the State Road Transport Corporations, the Airlines, and a dealer trading in these goods. In the case of truckers and taxi operators, the benefit of input tax credit may be allowed through the abatement mechanism only. Further, no input tax credit in respect of excise would be allowed to any other person. Central and the State Governments may determine the appropriate RNR of excise in the case of emission fuels.

Empowered Committee

On the contrary Empowered Committee of State Finance Minister's has opined that 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. Centre & State could also continue its levies Sales.

News Update: 26 January, 2010 The Economic Times New Delhi- Centre pitches for petroleum, alcohol in GST list

Contrary to the views of state governments, the Centre on Monday pitched for including petroleum products and alcohol in the proposed GST regime.

It also wants to subsume within GST the state taxes such as purchase tax, electricity duty and other local taxes and has sought a uniform turnover threshold of Rs. 10 lakh under the proposed tax regime.

Comments of the Department of Revenue on the First Discussion Paper on GST

Keeping crude petroleum and natural gas out of the GST net, this implies that the credit on capital goods, inputs, input & input services going into exploration and extraction would not be available resulting in cascading. Diesel, ATF and motor spirit are derived from a common input, viz., crude petroleum along with other refined products such as naphtha, lubricating oil base stock, etc. Leaving diesel, ATF and motor spirit out of the purview of GST would make it extremely difficult for refineries to apportion the credit on capital goods, input services and inputs. These products are principal inputs for many services such as aviation, road transport, railways, cab operator etc. as such, these may be levied to GST and in selected cases credit of GST paid on these items may be disallowed in order to minimize the possibility of misuse.

GST Constitutional Amendment Bill, 2011

Article 366(12A) — "Goods and services tax" means any tax on supply of goods or services or both except taxes on the supply of the following goods, namely:—

- a. petroleum crude;
- b. high speed diesel;
- c. motor spirit (commonly known as petrol);
- d. natural gas;
- e. aviation turbine fuel; and
- f. alcoholic liquor for human consumption..

This clearly shows that the petroleum products have not been covered under the ambit of GST and these products would be subject to tax under the previous laws only.

Report of Parliamentary Standing Committee on Constitutional Bill, 2011

I. Chairman of Empowered Committee of State Finance Ministers

Chairman of Empowered Committee of State Finance Ministers states that "Most of the States are opposed to the clauses (3) and (4) of this amendment. Clauses (3) and (4) allow the Union Government to take a unilateral decision of restricting the rates of petroleum products and alcoholic liquor for human consumption which may substantially affect the revenues of the States without their consent. In some cases, the Union Government had taken such decisions in past. It bears mention at this stage that the first

three drafts of the Amendment Bill did not contain such a provision which sudden appeared for the first time in the Amendment Bill introduced in the Lok Sabha. In terms of the proposed sub clause (4), such restriction will apply only to goods kept out of the ambit of GST viz. Crude oil, Petrol, Diesel, Aviation Turbine Fuel, Natural gas and alcoholic liquor for human consumption. The previously mentioned items are major revenue earners for the States and any restriction on the authority to tax the same will be inimical to the interests of the States.

II. Empowered Committee of State Finance Ministers

Empowered Committee suggested amendment in Article 286 for doing away with the concept of declared goods in case it is proposed to include petroleum products under the GST and amendment to clause (12A) of Article 366 to delete petroleum product from the list of goods on which GST will not apply.

GST Constitutional Amendment Bill, 2014

Clause 12 of The Constitutional Amendment Bill 2014 introduces article 279A which states as follows:

"279A. Goods and Services Tax Council - The President shall, within sixty days from the date of commencement of the Constitution (One Hundred and Twenty second Amendment) Act, 2014, by order, constitute a Council to be called the Goods and Service Tax Council."

The Goods and Services Tax Council shall make recommendations to the Union and the States on the date on which the goods and services tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.

With this amendment Goods and Service Tax Council has been authorized to recommend the date of applicability of GST on petroleum products.

Clause 17 of The Constitutional Amendment Bill 2014 amends the entry 84 of the union list as follows:

"84. Duties of excise on the following goods manufactured or produced in India, namely:

- a. petroleum crude;
- b. high speed diesel;
- c. motor spirit (commonly known as petrol);
- d. natural gas;
- e. aviation turbine fuel; and
- f. tobacco and tobacco produces."

With this amendment finance ministry has clarified that even after the implementation of GST petroleum products will remain liable to excise duty.

Clause 17 of the Bill 2014 amends the entry 54 of the state list as follows:

"54. Taxes on the sale of petroleum crude, high speed diesel motor spirit (commonly known as petrol), natural gas, aviation turbine fuel and alcoholic liquor for human consumption, but not including sale in the course of inter-state trade or commerce or sale in the course of international trade or commerce of such goods."

This amendment provides that state government be not authorized to levy taxes only inter-state sale of petroleum products and alcoholic liquor for human consumption. This will be applicable mutatis mutandis for international transactions also.

6.14 Tobacco

Tobacco is an agricultural product that can be consumed, used as an organic pesticide, as well as used in some medicines. In consumption it most commonly appears in the forms of smoking, chewing, snuffing, or dipping tobacco. Because of the addictive properties of nicotine tolerance and dependence develop. The World Health Organization reports Tobacco to be the leading preventable cause of death worldwide and estimates that it currently causes 5.4 million deaths per year. Rates of smoking have leveled off or declined in developed countries, however they continue to rise in developing countries.

Two key events affected the Indian tobacco industry is in 2008 the Govt. ban on smoking in public places and the drastic increase in excise duty on unfiltered cigarettes. In October 2008 the government banned smoking in all public places, including bus top, train stations, night clubs, bars and restaurants. Cigars and cigarillos will remain the most dynamic tobacco sector over the forecast period, growing from a small base and spurred by lifestyle changes and rising disposable incomes.

Task Force

Task Force stated that like emission fuels, all tobacco goods are also SIN-goods. Therefore, they again recommend a dual levy of GST and excise on the entire range of these goods.

As a general rule, no input credit will be allowed to any person in respect of GST on these goods since they are predominantly used in final consumption. However, input tax credit would be available in the case of a dealer trading in these goods. Further, no input tax credit in respect of excise would be allowed to any person.

Central and the State Governments may determine the appropriate RNR of excise in the case of these products.

Empowered Committee

On the contrary Empowered Committee of State Finance Minister's has opined that - Tobacco products would be subjected to GST with input tax credit. Centre may levy excise duty on tobacco products over and above GST.

Comments of the Department of Revenue on the First Discussion Paper on GST

Tobacco products should be subjected to GST with input tax credit. Centre may be allowed to levy excise duty on tobacco products over and above GST without input tax credit.

News Updates: 12 December, 2014: The Time of India, Tamil Nadu Govt. tells Centre: Keep tobacco out of GST ambit

Tamil Nadu Govt. continues to oppose implementation of the Goods and Services Tax (GST). At a review meeting of finance and commercial taxes ministers in New Delhi on Thursday, state commercial taxes minister M C Sampath said the Centre should exempt tobacco and tobacco-related products along with fuel and liquor from the ambit of GST that the states could levy taxes on these items.

GST envisages a common market and uniform taxation across the country to facilitate smooth transaction of goods and services but Tamil Nadu and a few other states have been opposing certain proposals fearing a loss of revenue. Tamil Nadu being a manufacturing state is expected to lose Rs. 3,500 crores annually due to scrapping of central its tax (CST) and due to increase in the exemption limits "Tamil Nadu being a manufacturing state, it is expected to lose Rs. 3,500 crores annually due to abolition of the central sales tax (CST). The relevant act should be amended to automatically compensate state for the loss of revenue." said Sampath. Goods of local importance should also "taken out of the purview of GST, he said.

As per the current plan, the loss to Tamil Nadu is intended to be compensated through a devolution formula of the 13th Finance Commission, which suggested a common pool for distribution of funds to states that face erosion in revenue after GST is rolled out. However, in the longer term, this increased dependency on the Centre has profound implications on the administration of a state run on the welfare model.

GST Constitutional Amendment Bill, 2011

Union list present in the seventh schedule has been amended to substitute entry 84 which states as follows:

"Duties of excise on the following goods manufactured or produced in India.

namely:—

- petroleum crude;
- high speed diesel;
- motor spirit (commonly known as petrol);
- natural gas;
- aviation turbine fuel; and
- tobacco and tobacco products"

Introducing such entry indicates that excise duty will continue to be levied on tobacco and tobacco products as leviable under present tax system even after implementation of GST.

Report of Parliamentary Standing Committee on Constitutional Bill, 2011

i. Several States

"Several States like Bihar, Gujarat, Haryana, Jharkhand, Maharashtra, Rajasthan and Tamil Nadu feel that since Central Government has retained the power to tax 'tobacco and tobacco products', therefore, suitable provision should also be made und Entry 54 for States to levy tax on tobacco and tobacco products in addition to GST. In the original Entry 54, after the taxes on sale the word "or purchase" was used and, therefore, several States are of the view that "or purchase" word should be added after 'sale'. States like Odisha, Chattisgarh, Jharkhand and Meghalaya feel that 'coal' should be included in the list while a few States like West Bengal want that 'light diesel oil' should be included, Some States like Karnataka want that 'Natural Gas' should be out of the list."

ii. Empowered Committee of State Finance Ministers

As per the existing provisions of The Constitution (One Hundred and Fifteenth Amendment) Bill, 2011', States can only impose GST on Tobacco and Tobacco Products while the Centre can impose both GST and Excise Duty. Keeping in view the request received from several States and the fact that the States are already levying VAT at very high rate on Tobacco and Tobacco Products, therefore, the States may also be allowed to levy State Excise Duty or any other tax in addition to GST on Tobacco and Tobacco products. This could be achieved by making amendment in Entry 51 in the State List of Seventh Schedule of the- Constitution by incorporating "(c) tobacco and tobacco products."

GST Constitutional Amendment Bill, 2014

Clause 17 of Bill 2014 amends the entry 84 of the union list as follows:—

"84. Duties of excise on the following goods manufactured or produced in India namely:—

- petroleum crude;
- high speed diesel;
- motor spirit (commonly known as petrol);
- natural gas;
- aviation turbine fuel; and
- tobacco and tobacco produces."

With this amendment finance ministry has clarified that even after the implementation of GST aforementioned products will remain liable to excise duty.

6.15 Alcohol

Alcoholic beverages are another where India witnessed substantial foreign investment. Foreign investment in this sector stood at Rs. 7,000 million which about 70% of the total investment made so far. The IMFL (Indian Made Foreign Liquor) primarily comprises wine, vodka, gin, whisky, rum and brandy. Draught beer is a comparatively recent introduction in the Indian market. The Indian beer market is estimated at Rs. 700 crores a year. One of the major advantages for any investor eyeing the Indian liquor market is that India offers enough raw materials like molasses, barely, maize, potatoes, grapes, yeast and hops for the industry.

In 2008, 170 million cases of beer were sold in India. Each Indian consumes about five liters of beer, compared with 25 liters per head in China and 160 liters per head in Czech Republic. In recent years, total liquor consumption has been steadily declining due to changes in social attitude toward alcohol consumption as well as tougher governmental regulation and enforcement.

Task Force

Task Force stated that like emission fuels, alcohol are also SIN-goods. Therefore, they again recommend a dual levy of GST and excise on the entire range of these goods.

As general rule, no input credit will be allowed to any person in respect of GST on these goods since they are predominantly used in final consumption. However, input tax credit would be available in the case of a dealer trading in these goods. Further, no input tax credit in respect of excise would be allowed to any person.

Central and the State Governments may determine the appropriate RNR of excise in these products.

Empowered Committee

On the contrary Empowered Committee of State Finance Minister's has opined that Alcoholic beverages would be kept out of the purview of GST. Sales Tax/VAT could be continued to be levied on alcoholic beverages as per the existing practice. Excise Duty, which is presently levied by the States may not also be affected.

News Update: 26 January, 2010 The Economic Times New Delhi - Centre pitches for petroleum, alcohol in GST list

Contrary to the views of state governments, the Centre on Monday pitched for including petroleum products and alcohol in the proposed GST regime.

It also wants to subsume within GST the state taxes such as purchase tax, electricity duty and other local taxes and has sought a uniform turnover threshold of Rs. 10 lakh under the proposed tax regime.

Comments of the Department of Revenue on the First Discussion Paper on GST

Alcoholic beverages should be brought under the purview of GST in order to remove the cascading effect on GST paid on inputs such as raw material and packaging material. Sales tax/VAT and State excise duty can be charged over and above GST. Similar dispensation should apply to opium, Indian hemp and other narcotic drugs but medicines or toilet preparations containing these substances should attract only GST.

GST Constitutional Amendment Bill, 2011

Article 366(12A) - "Goods and services tax" means any tax on supply of goods or services or both except taxes on the supply of the following goods, namely:—

- petroleum crude;
- high speed diesel;
- motor spirit (commonly known as petrol);
- natural gas;
- aviation turbine fuel; and
- alcoholic liquor for human consumption.

Thereby as the new definition alcoholic liquor for human consumption would not be covered in GST regime. Thereby States will continue to levy tax on intra-State sale of alcoholic liquor for human consumption.

News Update: 19 December, 2014: The Financial express, GST Bill excludes only liquor, proposes all-powerful council

The Constitutional Amendment Bill cleared by the Cabinet on Wednesday excludes only one item — liquor — from the purview of the proposed goods and services tax (GST) and leaves to a statutorily empowered GST council to decide, among other important things, the items on which the tax will apply at any given time.

This means that another amendment to the Constitution will not be required to include petroleum products, real estate transactions and the like in the GST regime, even if the council decides to keep them out initially to accommodate the states' concerns.

A perfect GST, experts have contended, should capture practically all transactions of businesses above a threshold value (defined at a rather low level) and the purchases for actual consumption. The Centre's Bill does not negate this concept, although moving to such a flawless regime could yet prove to be a long and arduous task, given the whims of states and the complexity of India's polity.

The GST council will take decisions by a three-fourths majority, with the Union finance minister representing one-third of the votes cast and all states together representing the remaining two-thirds. This implies that if there is consensus among the Centre and states in the GST council, they could exempt certain products or services from GST. However, the Centre alone, a state alone, or even they together would not be able to effect exemptions.

States have insisted that taxes on petroleum products, a cash cow for all states and from which some of them like Gujarat and Madhya Pradesh mobilise more than 35% of their own tax revenue right now, be kept out of the GST. As inclusion of these products right from the April 2016 launch of GST is practically impossible, the Centre is left with two options: Exempt these products for an initial period of three to four years or keep them in with a zero rate of tax.

Exempting petroleum from GST would mean exploration companies like ONGC and Reliance Industries as well as businesses using petrol, diesel, jet fuel and natural gas as - their inputs would face accumulation of tax credits with little means of using them. On the other hand, if zero GST were levied on petroleum products, they would be treated like exports (which are zero-rated too). This could prompt downstream industries that incur GST on other inputs but not on petroleum to claim tax refunds, a prospect states are not happy with.

Keeping petroleum goods outside GST in the initial stage would mean that both the Centre and states will continue to levy their current taxes on these items — the former excise duty and the latter sales tax/VAT. In the absence of input tax credit, tax cascades will remain largely until these products are brought into GST.

Entry taxes are likely to be kept within GST right from the start.

The Constitutional Bill to be introduced in the current session of Parliament is the first step towards replacing most of central and state taxes (except, in the main, the basic customs duty) with a comprehensive GST.

The Constitution (122nd Amendment) Bill is primarily aimed at allowing the Centre to tax sale of goods whereas it currently taxes manufacturing through excise duty, and states to tax services. Besides, it seeks to empower the proposed GST council to decide all operative aspects of indirect taxes including which of the extant taxes should collapse into GST, the items to be included/exempted, determination and review of tax rates. The council will also recommend the way the Centre's share of taxes on inter-state trade should be shared, whether any special rate of GST should be levied on certain items for a specified period and the way forward for the excise duty exemptions given to businesses in Northeastern states, Jammu and Kashmir, Himachal Pradesh and Uttarakhand.

Report of Parliamentary Standing Committee on Constitutional Bill, 2011

I. Chairman of Empowered Committee of State Finance Ministers

Chairman of Empowered Committee of State Finance Ministers states that "Most of the States are opposed to the clauses (3) and (4) of this amendment. Clauses (3) and (4) allow the Union Government to take a unilateral decision of restricting the rates of petroleum products and alcoholic liquor for human consumption, which may substantially affect the revenues of the States without their consent. In some cases, the Union Government had taken such decisions in past. It bears mention at this stage that the first three drafts of the Amendment Bill did not contain such a provision, which suddenly appeared for the first time in the Amendment Bill introduced in the Lok Sabha. In terms of the proposed sub-clause (4), such restrictions will apply only to goods kept out of the ambit of GST viz. Crude oil, Petrol, Diesel, Aviation Turbine Fuel, Natural gas and alcoholic liquor for human consumption. The aforesaid items are major revenue earners for the States and any restriction on the authority to tax the same will be inimical to the interests of the States.

II. Empowered Committee of State Finance Ministers

Empowered committee suggested amendment in Article 286 for doing away with the concept of declared goods in case it is proposed to include petroleum products under the GST and amendment to clause (12A) of Article 366 to delete petroleum products from the list of goods on which GST will not apply.

GST Constitutional Amendment Bill, 2014

Clause 14

After clause (12), the following clause shall be inserted, namely:—

(12A) "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption.

This clause specifically excludes the alcoholic liquor for human consumption from the ambit of Goods and Services Tax.

Clause 17

For entry 54, the following entry shall be substituted, namely:—

"54. Taxes on the sale of petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas, aviation turbine fuel and alcoholic liquor for human consumption, but not including sale in the course of inter-State trade or commerce or sale in the course of international trade or commerce of such goods."

State can levy tax on all sales except inter-State & international transactions of alcoholic liquor for human consumption.

6.16 Power

Under the present power sector taxation regime, the power sector is subject to multiple taxation. At the Central Government level, power equipments are either exempt from CENVAT or subject to concessional rates. As a result, either no or partial input tax credit is available and the input taxes remain embedded¹ in the cost of the power Equipments. This problem is further compounded by the absence of levy on power generation, distribution or consumption thereby denying input tax credit even for equipments and stores which are subject to CENVAT. Similarly, at the State level, there is no benefit of input tax credit in respect of the State VAT on inputs used in the process of power generation and distribution. The cumulative impact of the taxation regime at both the Central and State level is significant cascading effect of taxes when power is used as an intermediate input. This phenomenon partly explains the cause for high cost of power generation and distribution. As a result, the international competitiveness of Indian industry is significantly undermined.

Power is one of the most important inputs in the process of production of goods and services. Hence, it is necessary to rationalize the taxes levied on power sector so as to ensure that there is flawless flow of input tax credit till final consumer point.

Task Force

In view of the above Task Force recommended that:

- The electricity duty levied by the States should be subsumed in the SGST.
- The tax regime for the power sector should be the same as in the case of any other normal good.
- Article 278 and Article 288 of the Constitution should be amended to enable levy of GST on supply of electricity to Government at all levels like any other normal goods.

The inclusion of the power sector in the GST model would significantly cost of power projects and consequently the cost of generation and dist electricity.

GST Constitutional Amendment Bill, 2011

Nothing specific was found in the Bill 2011 regarding Power Sector.

Report of Parliamentary Standing Committee on Constitutional Bill, Impact of GST on power production

Electricity Duty is not going to be subsumed under GST, thus, there will be no set off available for generation of power. If coal is brought into GST purview, electricity

generated by the coal based thermal power stations will go up adversely affect the industries as well as general consumer.

GST Constitutional Amendment Bill, 2014

Nothing specific was found in the Bill 2014 regarding Power Sector.

6.17 Textile Sector

Since inception of taxes, the decentralized textile industry has tried every stratagem to evade taxes. To tap this, government adopted various options and alternatives like the presumptive system, cost system, concessional rates, machine based duty, etc, to garner revenue from all segments of the industry. But all such attempts were in vain. In this process, the organised sector, which religiously complied with the tax regime, was wounded. Finally, when the government introduced a scheme of optional excise duty in the past, things started settling down, with the industry turning us attention to the areas of expansion neglected to this point.

There are over 22 Lacs power looms running in the country, since a typical power loom factory has eight looms, it means there are around 3 Lacs power loom factories. Besides, there are Lacs of merchants selling cloth who are also to be covered in the tax net of GST.

It can be an enormous mission to ensure tax compliance in this sector. If the predicament of non-compliance continues, the taxpaying sector (Organised Sector) will start losing out to the unorganized segment; thereby growth and development will come to a halt. In addition to this, the value chain for the textile industry is altogether lengthy. 96% of the cloth production is in the decentralised sector, for this reason, there is every possibility of the VAT chain would be broken at the weaving stage because small units may have a turnover below the threshold limit. In such cases, all subsequent purchases of such cloth attract full duty, which might lead to disarray.

News Update: 01 January, 2014: The Hindu, FICCI submits recommendations to boost textile industry

Industry body FICCI has suggested measures like labour reforms and keeping textile industry under the lowest slab of GST to boost the country's textile & clothing industry and raise India's share in world exports.

These recommendations have been submitted to National Manufacturing competitiveness Council Member Secretary Ajay Shankar, who is also the Chairman of Export Group on National Textiles Policy constituted by Government of India.

The measures suggested include providing "dormitories" for ensuring supply of skilled and unskilled labour to the textile factories through a provision in the National Textiles Policy, revisiting excise duty structure on fiber and yarns and bringing down duties on man-made fibers at par with cotton to bring neutrality in the sector.

"The textile industry should be kept in the lowest slab of Goods and Services Tax (GST) as it provides a basic necessity to the masses with large scale employment potential," Chairman of FICCI Textiles Committee Shishir Jaipuria said.

Other measures included setting up of pollution free zones for textile processing to help in increasing textiles exports from India.

A separate scheme in this regard needs to be introduced, which provides additional support of Rs. 5 crores for each Park for setting up Common Effluent Treatment Plant (CETP), Ficci said.

"Assuming India's GDP grows by 7 percent on an average over the 12th five-year plan period (2012–17) as per the estimates of Planning Commission and if the domestic textiles industry also grows by 7 per cent, it would mean that the textiles industry would be a USD 278 billion industry, of which exports would account for USD 145 billion," Ficci said.

As per the 12th Plan working group on textiles and apparel, the textiles sector will create an additional employment of 15 million by 2016-17. Which means the sector can provide 30 million additional jobs by 2023, Ficci said.

Given that textiles & clothing sector is a labour intensive sector, it can provide employment to at least an additional 20 million people from the current 45 million to 65 million by 2023, the industry chamber observed.

Globally, the total textile and apparel trade has grown at a CAGR of 6.7 percent in the last 11 years, being valued at USD 706 billion with major markets being USA, Germany, Japan, China and UK. India has a share of 1 per cent in global exports of textile and apparel, FICCI said.

GST Constitutional Amendment Bill, 2011

Nothing was mentioned regarding textile industry in the Bill 2011.

Report of parliamentary standing committee on constitutional bill, 2011

Ex-Chairman of Thirteenth Finance Commission submitted that "Most of the manufactured goods would be available at relatively low prices especially textiles and readymade garments"

GST Constitutional Amendment Bill, 2014

Nothing was mentioned regarding textile industry in the Bill 2014.

6.18 Manufacturing Sector

India has emerged as one of the world's top ten countries in industrial production as per INIDO's new report titled 'Yearbook of Industrial Statistics 2010'. India surpassed Canada, Brazil and Mexico in 2009 to reach the 9th position from the 12th position it held in 2008. India is ranked second in terms of manufacturing competence, according to report 2010 Global Manufacturing Competitiveness Index', By Deloitte Touche Tohmatsu and the US Council on Competitiveness.

Empowered committee report

First discussion paper on Goods and Service tax in India gave an example of GST working in scenario of manufacturing concern which is as below (Assuming GST rate is 10%)

Table

Stage of Supply Chain	Purchase Value of Input	Value Addition	Value of supply	Rate of GST	GSI on output	ITC	Net GST = GST on Output - ITC
Manufacturer	100	30	130	10%	13	10	13-10=3
Wholesaler	130	20	150	10%	15	13	15-13=2
Retailer	150	10	160	10%	16	15	16-15=1

Manufacturer

Manufacturer makes value addition of Rs. 30 on his purchases worth Rs. 100 of input of goods and services used in the manufacturing process. The manufacturer will then pay net GST of Rs. 3 after setting-off Rs. 10 as GST paid on his inputs (i.e. Input Tax Credit) from gross GST of Rs. 13. The manufacturer sells the goods to the wholesaler.

Wholesaler

When the wholesaler sells the same goods after making value addition of Rs. 20, he pays net GST of only Rs. 2, after setting off of Input Tax Credit of Rs. 13 from the gross GST of Rs. 15 to the manufacturer.

Retailer

When a retailer sells the same goods after a value addition of Rs. 10, he pays net GST of only Re. 1, after setting-off Rs. 15 from his gross GST of Rs. 16 paid to wholesaler.

Thus, the manufacturer, wholesaler and retailer have to pay only Rs. 6 (i.e. 3 + 2 + 1) as GST on the value addition along the entire value chain from the producer to the retailer, after setting-off GST paid at the earlier stages. That is to say final price paid by consumer is Rs. 160 + 10% × 160 = 176.

GST Constitutional Amendment Bill, 2011

Nothing specific was mentioned about manufacturing sector in the Bill 2011

Report of Parliamentary Standing Committee on Constitutional Bill, 2011 Ex-Chairman of Thirteenth Finance Commission

Ex-Chairman of Thirteenth Finance Commission submitted that most of the manufactured goods would be available at relatively low prices especially textiles and readymade garments. The overall prices of all manufacturing sector would decline between 1.22 percent and 2.53 percent.

GST Constitutional Amendment Bill, 2014

Nothing specific was mentioned about manufacturing sector in the Bill 2014.

6.19 Agriculture

Agriculture plays a vital role in the Indian economy. Over 70 per cent of the rural households depend on Agriculture as their principal means of livelihood. Agriculture, along with fisheries and forestry, accounts for one-third of the nation's GDP and is its single largest contributor. Agricultural exports constitute a fifth of the total exports of the country.

With an annual output of 130 MT, India is the largest producer of the milk in the world. It also has the largest milk-producing animal population of over 118 million. However, milk yields per animal are among the lowest in the world.

India is the biggest producer of pulses in the world at 19 MT and their biggest importer 3.5 MT.

India is the second largest producer of sugar in the world and the government has aimed to increase the exports from 1.3 MT in 2013 to an average of 2 MT in 2014 and 2015.

Spice exports from India are expected to reach US\$ 3 billion by 2016-17, on the back of creative marketing strategies, innovative packaging, strength in quality and a strong distribution network. The Indian spices market is pegged at Rs 40,000 crore (US\$ 6.42 billion} annually, of which the branded segment accounts for 15 per cent.

Impact of GST

The main issue in the application of GST to food is the impact it would have on those living at or below subsistence levels. In 2005 data, food accounted for one-third of total private final consumer expenditures. It, without doubt, accounts for an even higher proportion of total expenditures and incomes, for those at the bottom of the income scale. Taxing food could thus have a major impact on the poor. By the same token, a complete exemption for food would significantly shrink the tax base

While formulating the policy of GST on food following should be taken into consideration;

- Food includes a variety of items, including grains and cereals, meat, fish, and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals, and beverages. In most jurisdictions where reduced rates or exemptions are provided for food, their scope is restricted to basic food items for home consumption. However, the definition of such items is always a challenge and invariably gives rise to classification disputes.
- In India, while food is generally exempt from the CENVAT, many of the food items, including food grains and cereals, attract the state VAT at the rate of 4% in many States. However, exemption under the state VAT is restricted to

unprocessed food, e.g., fresh fruits and vegetables, meat and eggs, and coarse grains. Beverages are generally taxable, with the exception of milk.

- In the rural sector, the predominant distribution channels for unprocessed food would be either a direct sale by the farmer to final consumers or through small distributors/retailers. Even where food is within the scope of the GST, such sales may largely remain exempt because of the small business registration threshold.

Introduction of GST will have significant outcome on Agricultural Sector. While the First Discussion paper by Empowered Committee is silent on the issue of inclusion or exclusion of food items within the exemption list within the purview of GST, The Thirteen finance commission task force report on GST recommends exemption of GST on any unprocessed food article which is covered under Public Distribution system regardless of the outlet through which it is sold.

Given that food is currently exempt from the CENVAT, the GST under a single-rate, comprehensive-base model would lead to increased tax burden on food. It would call for some tangible measures to offset the impact on the lower-income households.

It is being discussed to consider a lower rate of GST on food, instead of complete exemption. However the lower rate has following implications:

- If the lower rate were to be 5%, the revenue neutral standard rate would be pushed up. This may be a reasonable compromise, provided all other goods and services are made taxable at the single standard rate of 16%.
- The risk is that the lower rate for food would become the thin edge of the wedge which would create irresistible demands for the opening the door wider.
- An important question is the definition of food that would be eligible for the lower rate. To keep the base broad, and limit the preference to items of consumption by the lower income households, the lower rate should be confined to 'unprocessed' food items (including vegetables, fruit meat, fish, and poultry). Its scope can be further restricted by excluding from the preference food pre-packaged for retail sale. This definition would not be without problems, especially where the processing value added is small. For example, if wheat were taxable at 5% as unprocessed food, but flour taxable at 16% as processed food, it would encourage consumers to buy wheat and then have it processed into flour.

Agricultural prices to rise post GST: Vijay Kelkar

Economic Times Aug 10, 2013

NEW DELHI: Prices of agricultural items and services are expected to rise after implementation of the GST, although the overall inflationary impact of the proposed indirect tax regime will be negative, former Finance Commission Chairman Vijay Kelkar said.

Kelkar told the Parliamentary Standing Committee scrutinising the GST Bill that while prices of agricultural commodities and services are expected to rise, most of the manufactured goods would be available at relatively low prices, especially textiles and readymade garments.

"The prices of agricultural goods would increase between 0.61% and 1.18% whereas the overall prices of all manufacturing sector goods would decline between 1.22% and 2.53%," Kelkar said in a reply to the committee headed by senior BJP leader Yashwant Sinha.

Mr. Kelkar further said the increase in agricultural prices would "benefit millions of farmers" and the urban poor will also benefit from new employment opportunities.

With regard to the food crops, he said, the poor would continue to "remain secured" through the public distribution system.

Mr. Kelkar, who was chairman of the 13th Finance Committee, further said the prices of many other consumer goods, including, sugar, beverages, cotton textiles, wool, silk and textiles are expected to decline.

He added, however, that "overall inflationary impact of GST will be negative through lower prices, lower fiscal deficit and higher output".

He also told the panel that GST will positively impact the common man in many ways. The benefits listed include the overall economic growth leading to new job opportunities (about 20 million high end jobs over a period of time), bring down inflation if GST is levied at the combined rate of 12 per cent and improve governance.

Chapter 7

Recommendations

- ❖ Government should ensure that a basic framework of GST law be common for all state. The definition such as goods, dealer, business, sale, turnover, service, supply etc. should be same for all states. This will facilitate consistent implementation of GST across country.
- ❖ The taxable event should be clearly defined. Under the current excise and service tax laws, there is considerable litigation on basic issues such as taxable event. Under the GST regime it is very important that taxable event like "supply of goods", 'supply of services' are defined in an unambiguous manner.
- ❖ There should be no distinction between goods and services under the GST regime. Distinction between goods and services could lead to overlapping of taxes. The entire purpose of GST is defeated since such a differentiation would not be materially different from the current indirect tax regime prevalent in the country. Further, increasingly, lot of business transactions are executed by way of bundled contracts where there is supply of goods and rendering of services as part of the same transaction which makes the distinction between goods and services rather blurred.
- ❖ An ideal GST should subsume most of the indirect taxes. The proposed GST model does not subsume all taxes and commodities such as petroleum products, liquor, stamp duty, property tax, toll tax, passenger tax, various commodity cesses, motor vehicle tax, airport tax, electricity duty, royalty on mining, pollution cess, petroleum products including natural gas, etc. All the above taxes should be necessarily subsumed In the GST regime to avoid multiple tax levies. One of the foundations of an effective GST implementation is that, the GST should be simple and the tax structure should be transparent without any hidden levies or duty impact.
- ❖ Currently, there is substantial confusion whether services such as rent, construction etc are services or not. Also, whether sale of immovable property attracts state VAT or no has been a matter of substantial litigation under works contracts category. Further, there are registration and stamp duties applicable on sale of immovable property. In this background, taxability of real estate transactions should be clearly spelt out and the availability of input credits should be clearly spelt out to avoid litigation.
- ❖ It is recommended that Export refund mechanism should be simple and fast which will intensify export. The current export refund mechanism is subject to lot of interpretational issues. Further, there are a plethora of export refund schemes. This has resulted in huge refund backlogs for tax authorities and blockage of funds.
- ❖ It is recommended that Railways should include in the GST regime. It will help to track goods which transfer from one state to another as well as chances of tax evasion will decrease. Stamp Duty should also be subsumed under GST. Presently stamp duty taxed concurrently by the Centre and State. It's not clear is it going to subsumed or not. If subsumed under GST then big relief to real estate industry - to claim input tax.

Dr. Vijay Kelkar, Chairman of the 13th Finance Commission, has suggested that activities like housing, construction and railways should be included in the proposed

goods and services tax (GST) to increase the tax base and enhance collections, either immediately or during a subsequent phase. He added that construction sector is a significant contributor to the national economy and housing expenditure dominates the personal consumption expenditure, so the two sectors would increase the tax base. He said that the inclusion of the railway sector in the tax regime will provide a level playing field to road and air transportation sector. The inclusion will also ensure that all inter-State transportation of goods can be tracked through the proposed I.T. network and, in fact, the railways itself would benefit from the inclusion.

- ❖ It is recommended that from the First year onward rate of Goods & Services should be same. This will be as per GST's main objective to make Indirect tax code simple and also this will help to avoid unnecessary complication whether it is Goods or Services Eg: Software, Works Contract. Multiplicity of rates in goods or services in GST may lead to complexity of interpretation as well as implementation.
- ❖ It is recommended that Threshold Limit should be same for Goods as well as services Service. As per the proposed scenario, for CGST govt will come up with different Threshold limit for Goods & Service. If Govt want separate tax rate & threshold limit for goods & services then govt have to come with exhaustive list for identifying goods & service.
- ❖ It is recommended that the rate structure (Exempted goods, Special rated goods, concessional rated goods, standard rated goods, specified rated services) should be common for SGST & CGST, common for both goods and services and common across all states.
- ❖ It is recommended that for units having multiple jurisdictional presences, the legislature may consider continuing the LTU/centralized registration concept for CGST (Eg: Tele-communication companies).

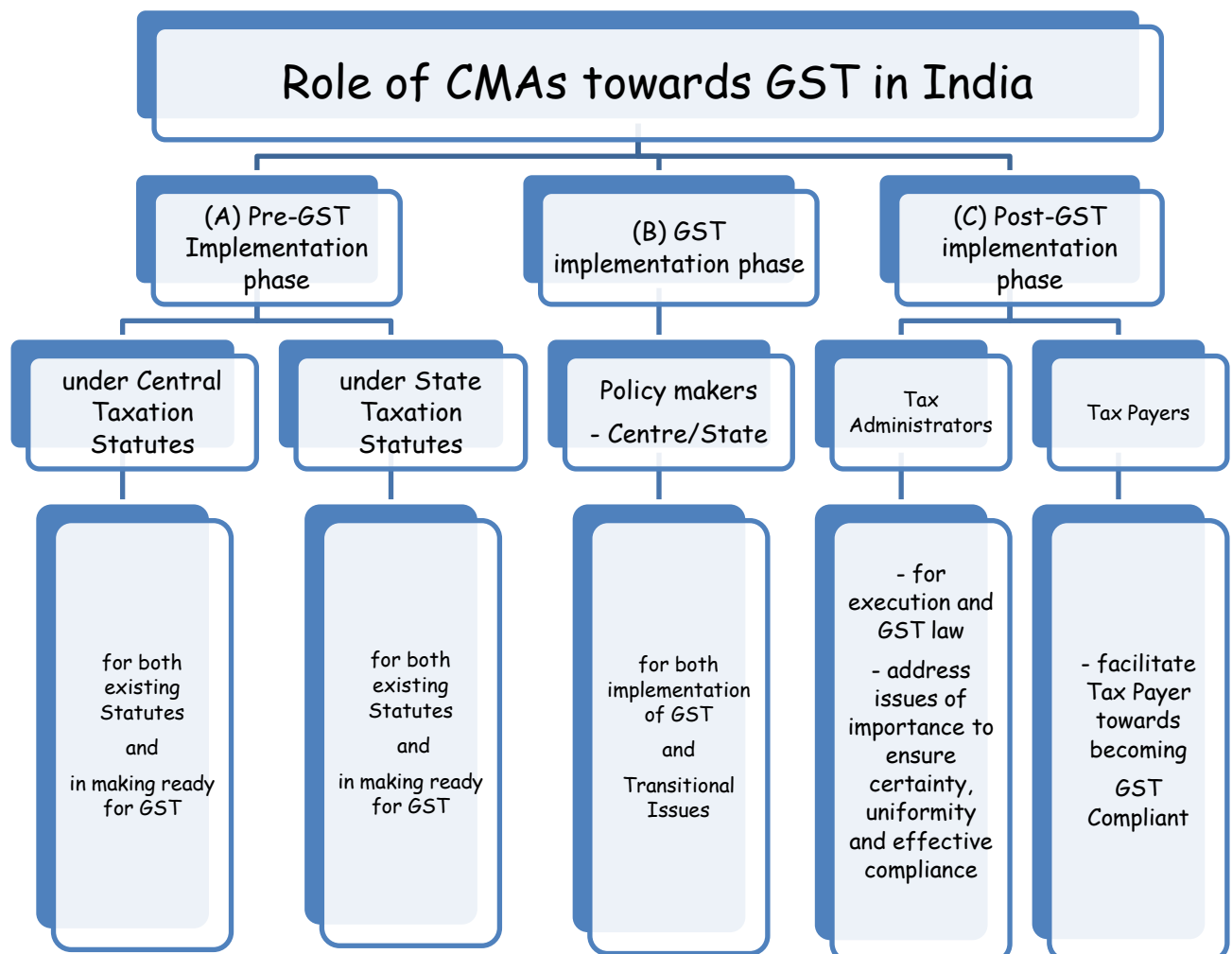
Chapter 8

Role of Cost and Management Accountants

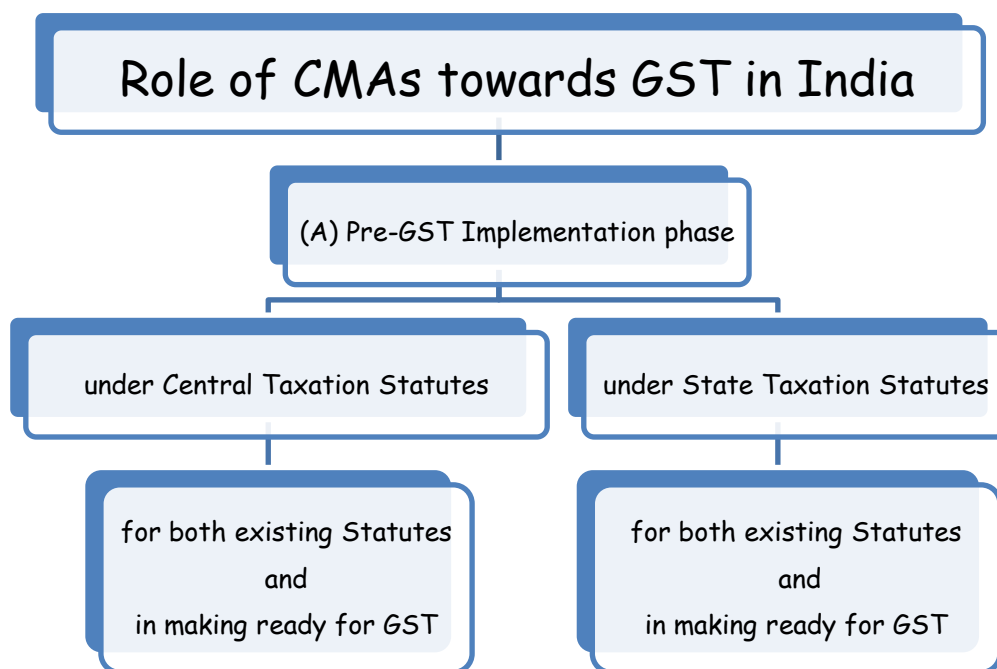
A Cost & Management Accountant is, by virtue of his academic knowledge and practical training, well equipped to play a pivotal role as an advisor and facilitator for due compliances of law relating to goods and services tax to the general business community.

CMAs would be the preferred source of Professionals for sharing the much desired knowledge to spread tax-literacy and GST-awareness, as the economy is getting geared to shift the tax-incidence from Origin-to-destination principle.

The expertise of Cost & Management Accountants (CMAs) are of utmost importance, which may be analysed across three different time periods:



(A) Pre-GST Implementation Phase:



The following are the services offered by the CMAs:

(1) Under the Central Indirect Taxation Statute (under Central Excise, Service Tax and Customs Laws)

(a) Conducting Special Audits Under Central Excise and Service Tax	Cost Accountants are having expertise in conducting Special Audits u/s 14A,14AA of the Central Excise Act,1944 and u/s 72A of the Finance Act,1994 - for valuation of Taxable Services - issuance of guidelines thereunder	(a) Cost Accountants are recognized for their expertise in costing, pricing and valuation. (b) Special Audit u/s 14A, 14AA are also conducted by Cost Accountants. The outcomes of these Special Audits conducted by Cost Accountants has resulted in identifying tax-evasion, raising of demand and collection of duties over the years. (c) Special Audits u/s 72A of the Finance Act,1994 - for valuation of taxable services is also conducted by Cost Accountants. The Cost Accountants are experts and equipped professionals who possess the desired quality and skill set to ascertain cost/ value of services, by application of cost accounting standards, generally accepted cost accounting and cost information/ cost records/ cost audit reports. Even in the absence of Cost Audit Report, the Cost Accountants are capable to derive the Valuation from
--	--	---

		Cost objects, Cost activities and Cost Drivers, having derived from Financial and non-financial information. <u>(d) To check Mis-utilization of CENVAT Credit - under different situations:</u> <i>Cenvat Credit mis-utilization is a common and increasing phenomena, which is a technique for tax evasion. Concerns are raised even by the office of Comptroller & Auditor General (C&AG) in their Annual Reports on Indirect Taxes - Central Excise.</i> <i>A reference is made to Page Nos. 28-34 of "Report of the Comptroller and Auditor General of India for the year ended March 2013 - Compliance Audit, Report No.8 of 2014." vide para nos.:</i> 2.3.1 - Irregular availing of cenvat credit on ineligible inputs/input services 2.3.2 - Incorrect availing of cenvat credit for duty paid on exempted goods 3.3.1 - Failure to detect irregularly availed cenvat credit 3.3.2 - Irregular payment of duty by wrong utilization of cenvat credit 3.4.2 - Non-detection of irregular availing of CENVAT Credit by Internal Audit 3.5.1. - Irregular utilization of CENVAT Credit
(b) Assessable Value for Customs	Issuing guidelines for arriving at the Assessable Value u/r 7 & 8 of Customs (Determination of Value of Imported Goods) Rules,2007	For proper determination of Assessable Value
(c) Conducting Special Audits under Customs	Issuing guidelines for conducting Special Audits u/r 11 of 'Manufacture & Other Operations in Warehouse Regulations,1996'	For proper assessment.

(2) Under the State Indirect Taxation Statute (under VAT and CST)

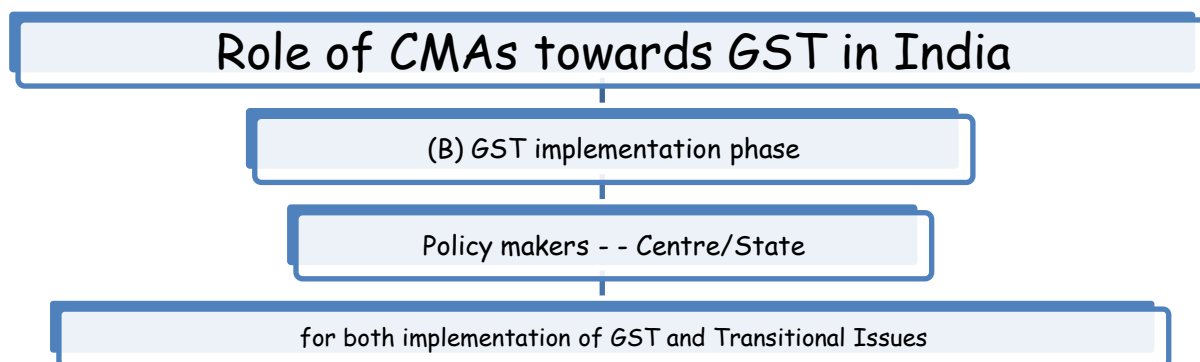
- CMAs are statutorily recognized Auditors for conducting Audits under VAT Laws in different States. Besides conducting Audits, they also facilitate business organizations by making real-time value additions contributing in the value chain/supply chain.

In the post-GST regime, VAT/CST proposed to be replaced with SGST/IGST, Hence, CMAs would continue to play an important role post -GST for both SGST and IGST related issues.

In making ready for GST :

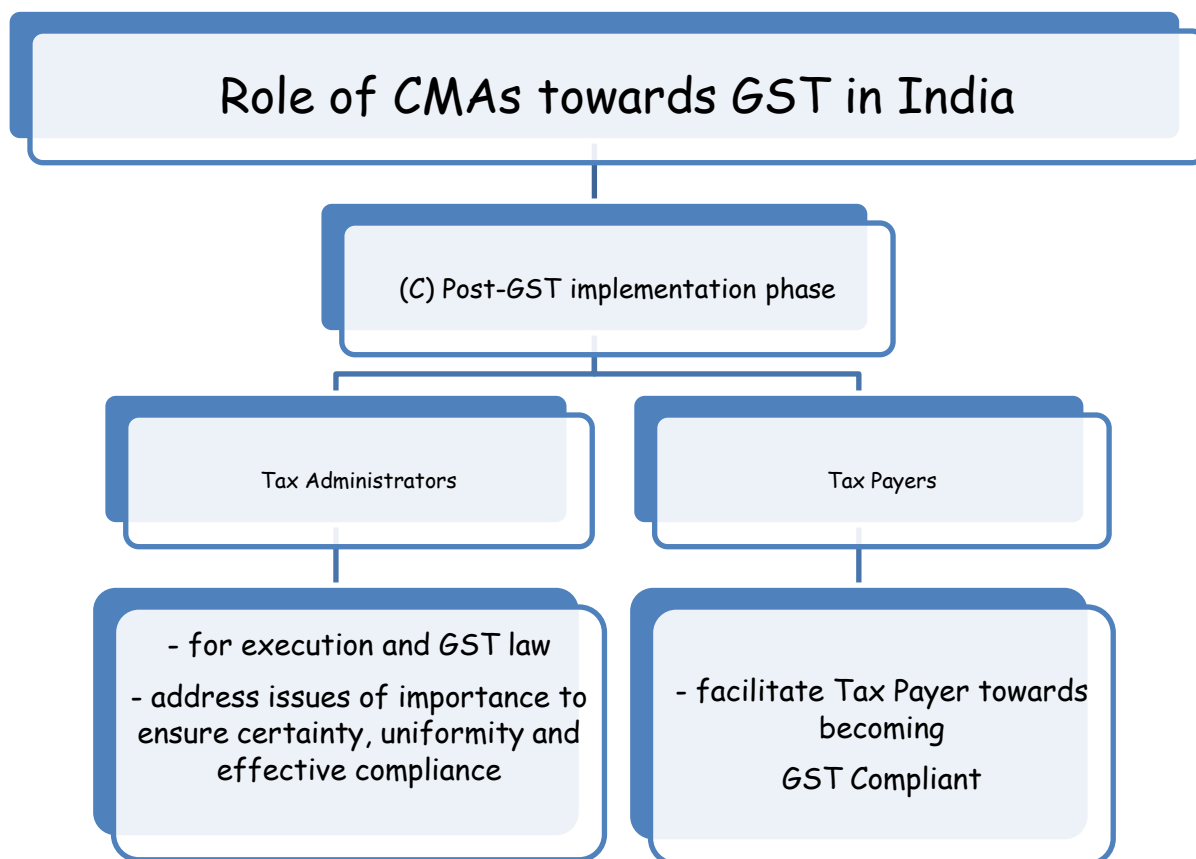
- ❖ Institute is organizing Workshops/ Seminars/ Conferences and associating with various Chambers/ Trade Associations of Commerce and Industries - to make stakeholders ready for GST
- ❖ Consulting with various State Governments, especially with those of Manufacturing/Producing/Origin State to understand and evaluate their issues of concern, which needs to be addressed for implementation of GST in India.
- ❖ Continue to make representations and accord suggestions on International Best Practices on GST and crafting them as per the constitutional framework of India.

(B) GST Implementation Phase:



(i) For implementation of GST	❖ Execution of provisions of laws into relevant actions ❖ Suggesting best practices for implementation ❖ Participate as Technical-knowledge partner to Conduct Workshop/Training for Revenue Officers besides conducting Trainings/Workshops/ Seminars for stakeholders
(ii) To address Transitional issues	❖ Handholding and executing both Tax Payers and in cases for Tax Administrators during the phase of Transition towards GST. ❖ Advising Tax Payers on issues to resolve pending litigations / transitional issues. ❖ Advising on Business restructuring / business remodelling/ business strategies, as the "tax-incentive based business development models" would have to be revisited due to the nature of GST - which is a destination-based consumption tax structure. ❖ Guiding Tax payers on ERP remodelling/ SOP restructuring issues

(C) In the Post-GST Era



The expertise of CMAs may be gainfully engaged by the Revenue Authorities in the major areas which includes:

(1) For the Tax Administration:

Issues	Value addition in activities related to	Justification
(a) Under the proposed GST in India	(a) GST Audit - to decide framework and guidelines for carrying out GST Audit covering Multi-locational units, inter-state supply of goods and services (B2B & B2C), reconciling with GST-1 Return /monthly /periodical return; (b) Preparation of basic guidelines and formats thereof - for integration of relevant information; (c) Guidelines for valuation of various transactions "without consideration" and developing separate Cost Accounting Standards (CASS), which can be	(a) to bring about uniformity in the method of valuation through application of Cost Accounting Standards and Generally Accepted Cost Accounting Principles (b) Principle domain of Cost Accountants (c) Cost Accountants are recognized as Auditors under Central Excise, Service Tax, VAT, Customs, Anti-dumping (d) Use of integrated data base through cost records - for more effective compliance validation/ verification (e) Department shall be assisted by authenticated cost information/ valuation by Cost Accountants (f) To bring about harmony and establish link with Returns under Income Tax Act

	made mandatory; (d) Interface with financial statement/financial audit, cost audit and other statutory audits required under different laws; (e) Exploring common audit format covering GST and Direct Tax, instead of two separate audits, namely GST Audit and Tax Audit; (f) Conducting Nation-wide GST sessions for Officers of CBE&C, as well as Industry and Practitioners	
(b) Developing Valuation Standards for Transactions "without consideration" and developing separate Cost Accounting Standards	a) Valuation of Stock-transfers, special reference to CAS-4 b) Valuation in case of Inter-state dealers(reconciliation, stock transfer, valuation in cases of B-2-B and B-2-C transactions) c) Cost Accounting Standards would be developed to cover these valuation aspects, which is proposed to be made mandatory for compliance	(a) to stem tide of undervaluation/overvaluation leading to evasion of tax (b) Cost Accountants are the only specialized professionals who can verify and authenticate cost information (c) to bring about uniformity and standardization through cost accounting standards prescribed by the Institute, to be made mandatory by the Board.
(c) Methodology of Valuation/ Certification in line with CAS-4 and CAS-5	To establish uniform methodology for proper Valuation of Goods & Services This is an important decision-making element for valuation issues attracting IGST.	Valuation and Certification may be done in accordance with the Generally Accepted Cost Accounting Principles, Cost Accounting Standards and Cost Auditing Standards duly authenticated by CMAs.
(d) Training to Auditors of GST for proper interface with Tax Audits, Financial Records, Cost Records	To make Tax Officers establish a link between GST Returns and cost information, as an anti-evasion and detection tool.	To facilitate in making use of relevant information and cost records for effective assessment from the primary stage of desk review and preparation of audit program, audit note and the like.
(e) Assistance to Audit Team - for effective use of GST Returns for raising proper demand and	Cost Accountants may be engaged as part of the Audit Team	(a) Cost Accountants would be the only preferred Professionals, who may be associated with the Audit Team for in-depth analysis of records by application of cost accounting principles, cost information (b) For effective identification and

collection of duty		making appropriate reference to the information (financial/ non-financial) for making appropriate assessment (c) Quality of Audit Work would increase due to independence of Cost Auditors from Financial Auditors. (d) Propensity for tax-evasion would decrease resulting in proper levy of tax and collection thereon.
--------------------	--	--

(2) For Tax Payers (in post-GST era)

Tax Payers are to be made GST compliant post-GST implementation. CMAs would be playing an important role in hand-holding the Tax Payers for implementation of GST and transforming to be GST compliant.

(i) Restructuring of Business System

Under the proposed GST, taxes would be levied on destination base as compared origin base in the existing excise and VAT law. The business would require restructuring their system to minimise taxation and require the services of CMAs' for the same. The advice from CMAs would also make Tax Payers - to be participators in the development of Common Economic Market or Integrated National/Common Market in India.

(ii) Tax planning and Business Strategy

In order to establish an efficient plan for purchases and supply, a careful study of GST is required. A CMA is competent to analyze the impact of various alternatives and choose the most optimum way of doing business in order to minimize the tax impact.

(iii) Business Advisory services

A CMA is a qualified, competent and knowledgeable professional who can interpret the proposed GST law and may provide required guidance and advisories to the business.

(iv) GST - Procedural Compliances

Like present tax law, taxpayer would be required to do the following under the proposed GST law:

- Registration;
- Filing of Returns;
- Payment of taxes and;
- Assessment etc.

A CMA is well equipped to assist the business entities in ensuring all the above the necessary legal compliances.

(v) Advisory on Records Maintenance and use for GST compliance

GST would require proper record keeping and accounting. Systematic records of credit of input/input service and its proper utilisation is necessary for the success of GST. CMAs' are well equipped to perform such tasks.

(vi) Representations under Dispute resolution machinery post GST

CMAs' are recognized to make representations before the Appellate Tribunals under the Indirect Taxation statutes in India. They would continue to represent even in post-GST.

(vii) Systems Audit and systems development to be GST compliant

There would be a sea-change required in the ERP/SAP or Accounting systems established / to be established. Those systems are to be made GST-compliant. CMAs' would be the facilitator to conduct the systems audit and guide in systems development.

(viii) Assisting Government:

Assisting the government both Central & State for proper implementation of GST law across country. Creating awareness within the general public conducting training courses, seminars, and workshop would go a long way in serving the various stakeholders.

The proposed GST law being a REFORM, with greater degree of simplicity, certainty and transparency, besides the GST Tax payers in India, the investors across the World are looking forward on the degree of success.

CMAs would also be the preferred source of resources/professionals who would be acting/facilitating as a catalyst to place amongst Tax Payers, the most important and powerful tax-resurgence engine for transforming India - the much desired implementation of Goods and Services Tax - so as to ensure and establish investor-friendly tax environment 'ease of doing business in India' thereby motivating Investors-manufacturers to establish business in India to support and achieve the path-breaking goal of "MAKE-IN-INDIA".

CMAs would be facilitating both Tax Administrators and Tax Payers in TRANSFORMING the paradigm shift from a Multi-stage Taxation to a Uniform GST in India.

Role of CMAs in post-GST is unfathomable

...We are prepared to serve the Nation

References:

1	Concept Paper on Goods & Services Tax by the Institute - September 2009
2	First Discussion Paper issued by the Government of India, November 2009
3	Implementation of GST in India -a Technical Guide (issued by the Institute) - April 2010
4	Report of the Task Force on Goods and Services Tax - Thirteenth Finance Commission, 15th December, 2009 and References thereunder
5	Moving to Goods and Services Tax in India: Impact on India's Growth and International Trade - prepared for the Thirteenth Finance Commission, Government of India, by National Council of Applied Economic Research - Final Report, December 2009 and references thereunder
6	Goods and Services Tax in India - Estimating Revenue Implications of the proposed GST, Mukesh C. Purohit and Vishnu Kanta Purohit, Final Report, from Foundation for Public Economics and Policy Research, New Delhi (A study sponsored by the Thirteenth Finance Commission, Government of India)
7	International VAT/GST Guidelines, April 2014
8	Canada VAT/GST Guidelines
9	UK VAT Guidelines
10	Singapore VAT Guidelines
11	Article on 'Changing the rate of GST : Fiscal, Efficiency and Equity considerations
12	Cross Border Supplies of Intangible Services, Rights and Digital Content - Global VAT Guide - June 2014
13	All Annexures referred in Part B of the Contents of this document
14	The IT strategy for GST
15	www.finmin.nic.in - reference to website of the Indirect Taxes - GST
16	News articles - electronic and print media
17	www.google scholar.com
18	The OECD International VAT/GST Guidelines - Presentation Materials in Meetings of OECD Global Forum on VAT - www.oecd.org
19	Reference materials from seminars/ workshops/ discussions organized by various Chambers of Commerce, Trade and Industry
20	GST General Guide for Traders, Inland Revenue Authority of Singapore
21	Guide on Supply, Royal Malaysian Customs, Malaysia Goods and Services Tax (GST)
22	Taxation Policies of European Union
23	Taxation Policies of OECD / Non-OECD Countries under VAT/GST
24	Discussion Drafts for Public Consultation - International VAT/GST Guidelines Guidelines on Place of Taxation for Business to Consumer Supplies of Services and Intangibles - OECD, December 2014- February 2015
25	Websites of Leading Tax Consulting Firms/ Companies within and outside India