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GST is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner with exemptions restricted to a minimum.

In keeping with the federal structure of India, it is proposed that GST be levied concurrently by the Centre (CGST) and the States (SGST). It is expected that the base and other essential design features would be common between CGST and SGST, across SGSTs for the individual States. Both CGST and SGST would be levied on the basis of the destination principle. Thus, exports would be zero-rated, and imports would attract the tax in the same manner as domestic goods and services. Inter-State supplies within India would attract an Integrated GST (aggregate of CGST and the SGST of the Destination State).

In addition to the IGST, in respect of supply of goods, an additional tax of up to 1% has been proposed to be levied by the Centre. The revenue from this tax is to be assigned to the origin states. This tax is proposed to be levied for initial two years or such longer period as recommended by the GST Council.

- GST has been envisaged as a more efficient tax system, neutral in its application and distributionally attractive. The advantages of GST are:
    - Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
    - Elimination of multiplicity of taxes and their cascading effects
    - Rationalization of tax structure and simplification of compliance procedures
    - Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
    - Automation of compliance procedures to reduce errors and increase efficiency

Destination principle

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

Taxes to be subsumed

GST would replace most indirect taxes currently in place such as:

Central Taxes

Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955]

Service tax

Additional Customs Duty (CVD)

Special Additional Duty of Customs (SAD)

Central Sales Tax (levied by the Centre and collected by the States)

Central surcharges and cesses (relating to supply of goods and services)

State Taxes

Value Added Tax

Octroi and Entry Tax

Purchase Tax

Luxury Tax

Taxes on lottery, betting & gambling

State cesses and surcharges

Entertainment tax (other than the tax levied by the local bodies)

Central Sales Tax (levied by the Centre and collected by the States)

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The key imperatives for companies are:

- Understand key areas of impact in their business.
- Prepare different scenarios for the design and application of GST.
- Continually track policy development regarding GST and update prepared scenarios.
- Identify any areas of adverse impact and prepare contingency measures.
- Identify issues and concerns needing representations to the authorities and develop a strategy for effective advocacy.

- **What's Out of GST…?**
- Alcoholic liquor for human consumption
  Petroleum crude, high speed diesel, motor spirit (petrol), natural gas and aviation turbine fuel — GST Council will decide until when
- **… AND What's In…?**
- Tobacco, tobacco products. Centre may impose excise duty on tobacco

BIGGEST BENEFIT **is that it will disincentivise tax evasion. If you don't pay tax on what you sell, you don't get credit for taxes on your inputs. Also, you will buy only from those who have already paid taxes on what they are supplying. Result: a lot of currently underground transactions will come over ground.**

LOWER TAX RATES **will follow from GST covering all goods and services, with tax only on value addition and set-offs against taxes on inputs/previous purchases. Right now, we have more tax on fewer items; with GST, there will be less tax on more items. Ideally, no good or service should be tax-exempt, as this will break the input tax chain.**