

OVERVIEW OF GOODS & SERVICES TAX (GST)

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GST – Biggest Tax Reform

JOURNEY OF GST IN INDIA – UPTO 2014

S. N.	Event	Year	
1	Announcement of intent to introduce GST by April 2010 – Budget 2006-07	Feb. 2006	P. Chidambaram
2	Study Paper on GST released	2007	Dr. Shome
3	1 st Discussion Paper released by EC	Nov. 2009	Chairman – Dr. Asim Dasgupta
4	Comments of GOI on 1 st Discussion Paper	Jan. 2010	
5	115 th CAB introduced in Parliament	Mar. 2011	Pranab Mukherjee
6	Committee on GST Design constituted by EC	Nov. 2012	

JOURNEY OF GST IN INDIA – UPTO 2014

S. N.	Event	Year	
7	3 Committees formed by EC - Dual Control, thresholds & exemptions - RNRs for SGST & CGST and Place of Supply Rules - IGST & GST on imports	Feb. 2013	
8	GSTN incorporated as Section 25 company	Mar. 2013	
9	Committee constituted by EC to draft model GST law	Jun. 2013	
10	Standing Committee of Finance submitted report to Parliament	Aug. 2013	Chairman – Yashwant Sinha
11	Lapsing of 115 th CAB (after 3 years)	Mar. 2014	

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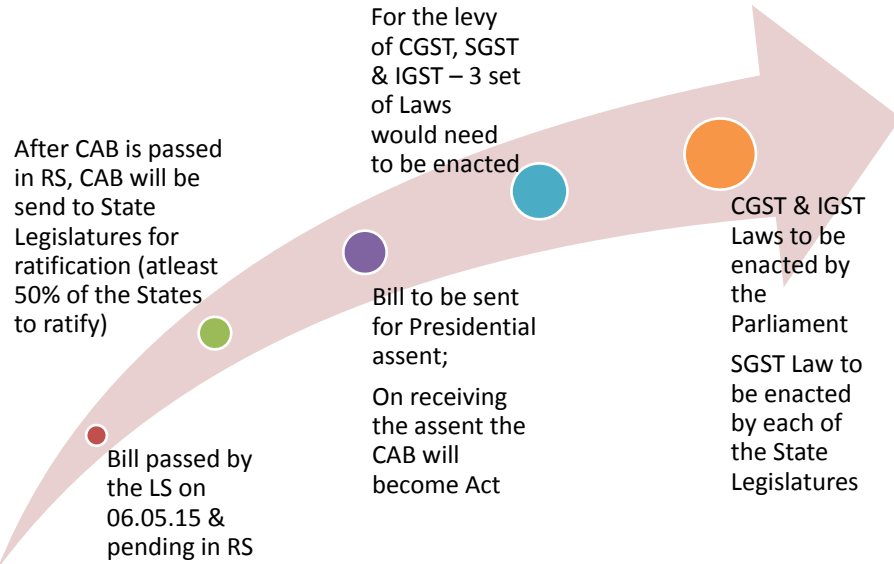
JOURNEY OF GST IN INDIA – FROM 2014

S. N.	Event	Year	
1	122 nd Constitution Amendment Bill (CAB) introduced in Parliament	Dec 2014	Arun Jaitley
2	CAB passed by Lok Sabha	May 2015	
3	CAB referred to 21 Members Select Committee	May 2015	Chairman – Bhupendra Yadav
4	Report of the Select Committee presented to Rajya Sabha	July 2015	
5	CAB could not placed before Rajya Sabha in monsoon session & special session, expected in Winter Session	July / Aug / Sept 2015	

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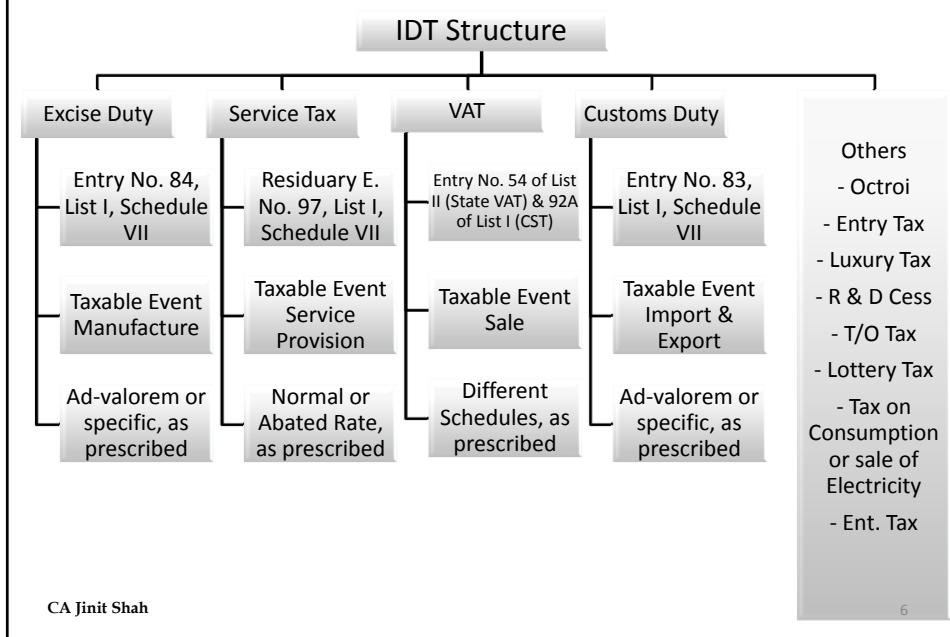
Roadmap for implementation of GST



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Present IDT Structure



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Challenges in Current Structure

Cascading of Taxes

Sales Vs. Services

Local Sales Vs. Central Sales

Complexities in Compliances



Multiple levies at different rates in different States / Central level

Lack of uniformity in Provisions & Interpretational issues

SP not eligible for VAT credit
Traders not eligible for Cenvat credit

Narrow Base

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GST in India: Key features

time to change

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Key Advantages of a GST system

- Reduction in multiple types of taxes on goods & services
 - ↳ GST proposed to be a simpler and rational tax structure with improved administration
 - ↳ Ease of administration (common administration) with updated and enhanced IT/technological framework
 - ↳ Effective rates of tax maybe one or two floor rates
- Common base for levy of GST (as against cascading)
 - ↳ For example: At present VAT is payable on transaction value plus Excise duty
- Reduced cascading effect due to cross tax credit mechanism under GST
 - ↳ Issues arise in current system because of retention of VAT input tax credit for inter state stock transfers / non availability of Cenvat Credit to Traders

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Key Advantages of a GST system

- Non creditable CST to be done away with – reducing costs (1% origin based tax could be cost)
- For Govt.: Increased tax collections due to wider tax base and better compliance. Reduces administration cost of Government.
- For Consumer: Reduction in taxes if Govt. tax collection increases – rate reduction possible. Reduction in compliance costs.

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Key Features - Taxes to be Subsumed

Central taxes

- ▶ Additional Customs Duty (in lieu of Excise Duty)
- ▶ Central Excise Duty
- ▶ Special Additional Customs Duty
- ▶ Service Tax
- ▶ Central Sales Tax
- ▶ Central surcharges and cesses relating to supply of goods & services

State taxes

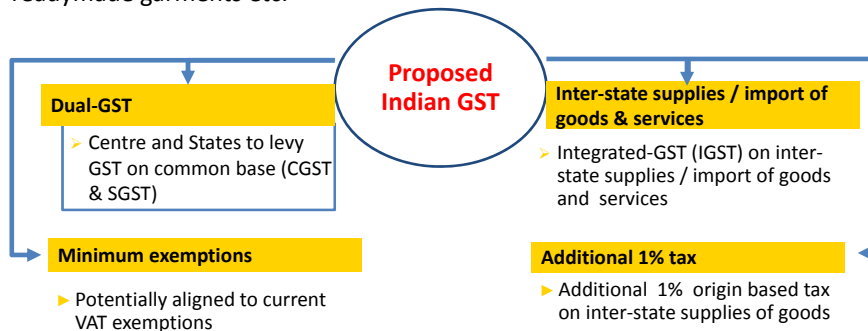
- ▶ State-VAT (sales tax)
- ▶ Purchase tax
- ▶ State Entry Tax
- ▶ Luxury tax
- ▶ Taxes on Lottery, Betting & Gambling

Exclusions (will continue)

- | | |
|---|---|
| <ul style="list-style-type: none"> ▶ Basic Customs Duty ▶ Octroi / Local Body Tax ▶ Stamp Duties ▶ Electricity Duty | <ul style="list-style-type: none"> ▶ Other taxes: ▶ Tax on alcoholic liquor for human consumption ▶ Petroleum products – levy of GST to be made effective at a future date ▶ Tax on entertainment and amusement levied and collected by Municipal authorities |
|---|---|

Key Features – Proposed GST Model

- ▶ Ideally it should be one GST rate on all goods and services across India with few exemptions for basic necessities and reduced rate for some goods and services like readymade garments etc.



Key Features – Proposed GST Model

- Destination Based Taxation
- Applicable on supplies (as against manufacture, sale or provision of service) of goods & services, except
 - ↳ Exempted goods or services
 - ↳ Goods or Services outside the purview of GST
 - ↳ Transactions below threshold limits
- Dual GST having two components -
 - ↳ Central GST (CGST) levied & collected by the Centre
 - ↳ State GST (SGST) levied & collected by the State
- CGST & SGST on intra-state supplies of goods or services or both

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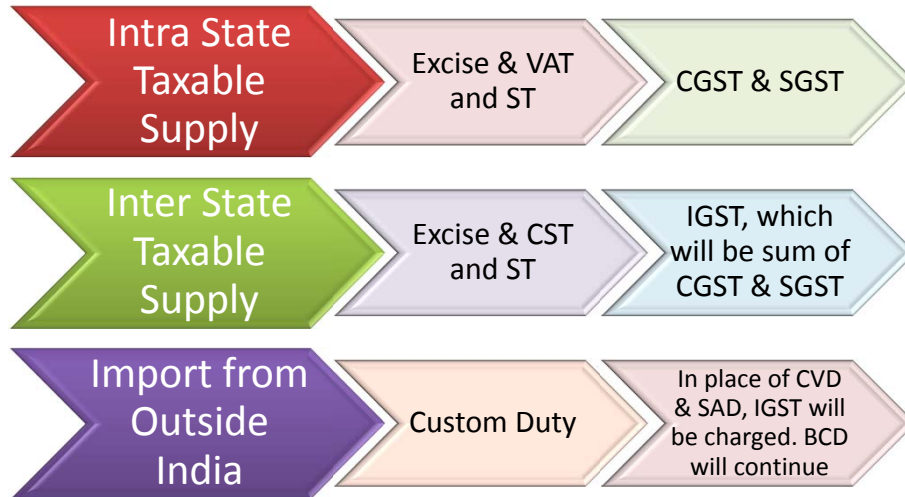
Key Features – Proposed GST Model

- Integrated GST (IGST) on inter-state supplies of goods or services or both levied & collected by the Centre. IGST applicable to -
 - ↳ Import of goods or services
 - ↳ Inter-state supplies, including stock transfers
- Additional Tax @1% on Inter State Supply of Goods by the State of Origin & Non-Cenvatable
- All Goods or Services likely to be covered under GST, except
 - ↳ Alcohol for human consumption – State Excise plus VAT
 - ↳ Electricity – Electricity Duty
 - ↳ Real Estate – Stamp Duty plus Property Tax
 - ↳ Petroleum & Petroleum Products (to be brought under GST from the date to be notified on recommendation of GST Council)
- Tobacco Products under GST with Central Excise Duty.

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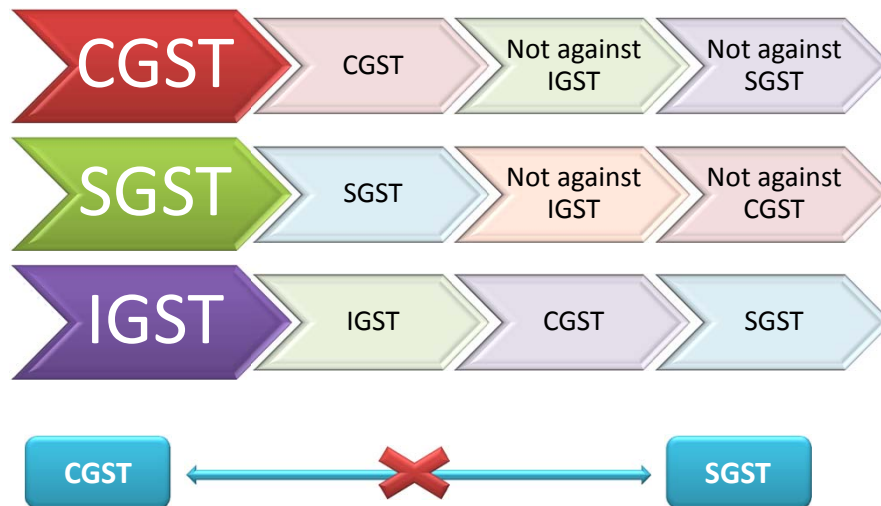
Key Features - Proposed IDT Structure



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KEY FEATURES – CREDIT UNDER PROPOSED GST MODEL



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[Transaction illustration for supply of Goods](#)

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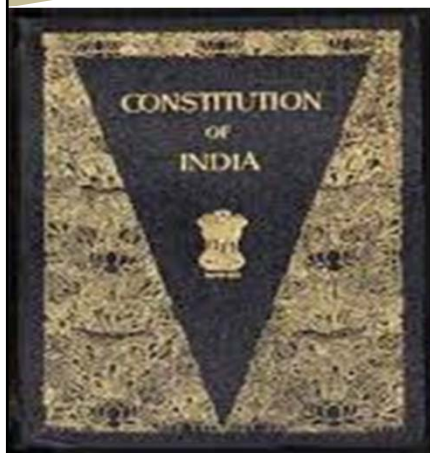
Revenue Neutral Rate (RNR)

What is RNR?	Rate which will give at-least the same level of revenue, which the Centre & States are presently earning from Indirect Taxes.
How to achieve?	To achieve this rate analysis is required of GDP, Consumer Consumptions, exclusions & desired level of collection of Centre / State.
Layman language	<p>Say, India desires to collect Rs. 65,000 Crores of revenue from Indirect Taxes. The total Consumer expenditure on purchases / services are Rs. 6,50,000 Crores, then to achieve the same level of taxes , rate needed is 10%.</p> <p>Further, suppose products like Petroleum, Tobacco & Electricity are excluded from tax regime & consumer expenditure on these are Rs. 2,00,000 Crores then rate needed is 14.45%</p>

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122nd CAB: Key features



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KEY FEATURES – GST 122nd CAB

- ⇒ GST defined in 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 alcoholic liquor for human consumption.
- ⇒ Supply not defined – what would be covered in supply?

Goods	Services
<ul style="list-style-type: none"> ➤ Defined in Article 366(12) ➤ “Goods includes all materials, commodities, and articles” ➤ Specific exclusions for money, shares, stocks, etc. ought to be provided for in GST Laws. 	<ul style="list-style-type: none"> ➤ Defined in Article 366(26A) ➤ “Anything other than goods” ➤ Services defined as “anything....” – too wide & vague ➤ Specific exclusion for immovable property, sale of business, etc. ought to be provided for in GST Laws.

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KEY FEATURES – GST 122nd CAB

S. N.	Modifications	122 nd CAB	Comments
1	<u>Exclusions from GST</u> a) Petroleum Products (Crude, HSD, MS, Natural Gas & ATF) b) Electricity c) Alcohol for human consumption	Shall not be subject to levy of GST till a date has been notified on the basis of recommendation of the GST Council Excluded Excluded	<ul style="list-style-type: none"> ⇒ Till such date current indirect taxes will be applicable ⇒ Will break the credit chain

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KEY FEATURES – GST 122nd CAB

S. N.	Modifications	122 nd CAB	Comments
2	<p><u>State is defined in Article 366(26B)</u> State with reference to articles 246A, 268, 269, 269A and 279A includes a Union territory with Legislature.</p>	Will cover 29 States & 2 UTs with Legislature	What about other 5 UTs without Legislature – Andaman & Nicobar, Chandigarh, Dadra & Nagar Haveli, Daman & Diu and Lakshwadeep

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KEY FEATURES – GST 122nd CAB

S. N.	Modifications	122 nd CAB	Comments
3	<p><u>Additional Tax upto 1%</u> Arrangement for assignment of additional tax on supply of goods to States for 2 years or such other period recommended by the Council</p>	<ul style="list-style-type: none"> ⇒ To be levied & collected by Centre & assigned to originating States ⇒ Non-creditable ⇒ Limited for 2 years or as recommended by GST Council 	<ul style="list-style-type: none"> ⇒ Against basic principles of GST ⇒ Not applicable to supply of Services ⇒ Manufacturing States concerned over revenue loss
4	<p><u>Compensation to States</u> Centre to compensate States for 5 years for possible revenue loss due to implementation of GST</p>	<ul style="list-style-type: none"> ⇒ 100% for 1st 3 years ⇒ 75% for 4th year ⇒ 50% for 5th year 	<ul style="list-style-type: none"> ⇒ Specifically included in CAB due to lack of trust between Centre & States

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KEY FEATURES – GST 122nd CAB

S. N.	Modifications	122 nd CAB	Comments
5	<u>GST Council</u> A. Composition of Members ⇒ Union FM (as Chairperson) ⇒ Union Minister of State in charge of Revenue ⇒ Minister in charge of Finance or Taxation or any other Minister nominated by each State Government	⇒ The President, shall within 60 days from the date of commencement of the 122 nd CAB, constitute a Council to be called the Goods and Services Tax Council. ⇒ Members will choose one amongst 3 rd bullet above as Vice-Chairperson of Council	⇒ Powers limited to making recommendations on key GST aspects only

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KEY FEATURES – GST 122nd CAB

S. N.	Modifications	122 nd CAB	Comments
5	<u>GST Council</u> B. Functions: to make recommendations on – ⇒ taxes, cesses & surcharges which may be subsumed in the GST; ⇒ goods & services that may be subjected to, or exempted from the GST; ⇒ model GST Laws, principles of levy, apportionment of IGST & the principles that govern the place of supply; ⇒ threshold limit of turnover; ⇒ rates including floor rates with bands of GST; ⇒ any special rate/(s) for a specified period, to raise additional resources during any natural calamity or disaster; ⇒ any other matter relating to GST, as the Council may decide.	⇒ Powers limited to making recommendations on key GST aspects only	⇒ While Centre & States are not bound by recommendations of GST Council, recommendations cannot be altogether ignored as such.

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Summary of Discussion

S. N.	Particulars	Present	GST (Proposed)
1	Structural Difference	<ul style="list-style-type: none"> ⇒ Two separate VAT systems at two levels – Centre & State & ITC under one is not available as set off against the other. ⇒ Tax on services under separate legislation by Centre. ⇒ No comprehensive taxation of services at State level. Few services are taxed under separate enactments. ⇒ Imports in India are not subjected to State VAT. 	<ul style="list-style-type: none"> ⇒ Dual tax with both CGST & SGST on the same base. Thus, all goods & services (barring few) will be under GST base. ⇒ Theoretically, no distinction between goods & services for taxation, with common legislation applicable to both. ⇒ It will allow seamless tax credit amongst Excise Duty, Service Tax & VAT.

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Summary of Discussion

S. N.	Particulars	Present	GST (Proposed)
2	Excise Duty	⇒ Imposed by Centre. Taxable event – manufacture.	⇒ To be subsumed in CGST & SGST. Taxable event – Supply.
3	Service Tax	⇒ Imposed by Centre. Taxable event – provision of service.	⇒ To be subsumed in CGST & SGST. Taxable event – Supply.
4	Basic Custom Duty	⇒ Imposed by Centre. Taxable event – import.	⇒ No change
	CVD / SAD	⇒ Imposed by Centre. Taxable event – import.	⇒ To be subsumed in IGST. Taxable event – import.
5	Central Sales Tax	⇒ Imposed by Centre. Collection assigned to States. Taxable event – Sale / movement.	⇒ To be subsumed in IGST + Additional Tax @1%
	State VAT	⇒ Imposed by States. Taxable event – Sale.	⇒ To be subsumed in SGST. Taxable event – Supply.

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Summary of Discussion

S. N.	Particulars	Present	GST (Proposed)
6	Tax on inter-state transfer of goods to Branch of Agent	⇒ Exempt against Form F.	⇒ To be taxable.
7	Tax on transfer of goods to Branch or Agent within State	⇒ Generally exempt, depending upon State procedure.	⇒ Might be taxable, unless BIN or transferor & transferee is same.
8	Cross levy set-off	⇒ Excise Duty & Service Tax cross set-off allowed	⇒ No cross set-off between CGST & SGST
9	Threshold limits		
	Excise Duty	⇒ Rs. 1.50 Crores	⇒ Maybe at Rs. 25 Lakhs
	Service Tax	⇒ Rs. 10 Lakhs	⇒ Maybe at Rs. 25 Lakhs
	VAT	⇒ Rs. 5 to 10 Lakhs	⇒ Maybe at Rs. 25 Lakhs

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Summary of Discussion

S. N.	Particulars	Present	GST (Proposed)
10	Registration	⇒ Simple TIN. Some States: PAN based	⇒ PAN based GSTIN
11	Use of Computer	⇒ Just started by the States, very minimum	⇒ Extensive, necessity for implementation of GST
12	Nature of Litigations	<ul style="list-style-type: none"> ⇒ Sale Vs. Service ⇒ Classification of Goods ⇒ Situs issue: between States ⇒ Interpretation of Provisions ⇒ Sale Vs. Works Contract ⇒ Valuation of Composite Transactions, etc. 	⇒ May be reduced, provided GST Legislations are properly drafted.

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GSTN, Reports of JC on Business Processes, Common Qs & Other Relevant Updates in GST

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GST NETWORK (GSTN)

GSTN is a Section 25 Company to provide shared infrastructure and services to Centre & State Governments for administrating GST

Platform for tax payers for compliances – registrations, payments, returns, refunds, etc.

Facilitate Governments in processing of registrations, returns, refunds, audit, assessment, recovery, etc.

GSTN Shareholders

49% - Centre, States, UTs & EC

51% - LIC Housing Finance, ICICI Bank, HDFC Bank, NSE Strategic Investment Corporation

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GST NETWORK

A Step Forward

Leading IT companies such as TCS, WIPRO, Tech Mahindra and Microsoft had bid



Infosys has bid ₹ 1380 crore for the contract



Goods and Services Tax Network (GSTN), a non-profit company, has been set up to oversee the IT backbone

WHAT DOES IT MEAN

A strong tech backbone is needed for GST to be successful



Government pressing ahead with nuts and bolts of GST



Infosys has bagged the contract...The company will develop the system and operate it for five years

NAVIN KUMAR

Chairman of the Goods and Services Tax Network

GST – Key Industries

INDUSTRY	CURRENTLY	POSSIBLY
Manufacturing	On Stock transfers no CST applicable subject to collection of Form F	1% additional tax – non-creditable Working capital impact due to 1% additional tax as cost will increase due to no credit facility
Real Estate	Taxation of free supplies by developers – no VAT since no sale of goods Development Rights (DR) – No VAT & Service Tax	Free Supplies may be subject to tax Services defined as anything other than goods – so will ST be applicable on DR?

GST – Key Industries

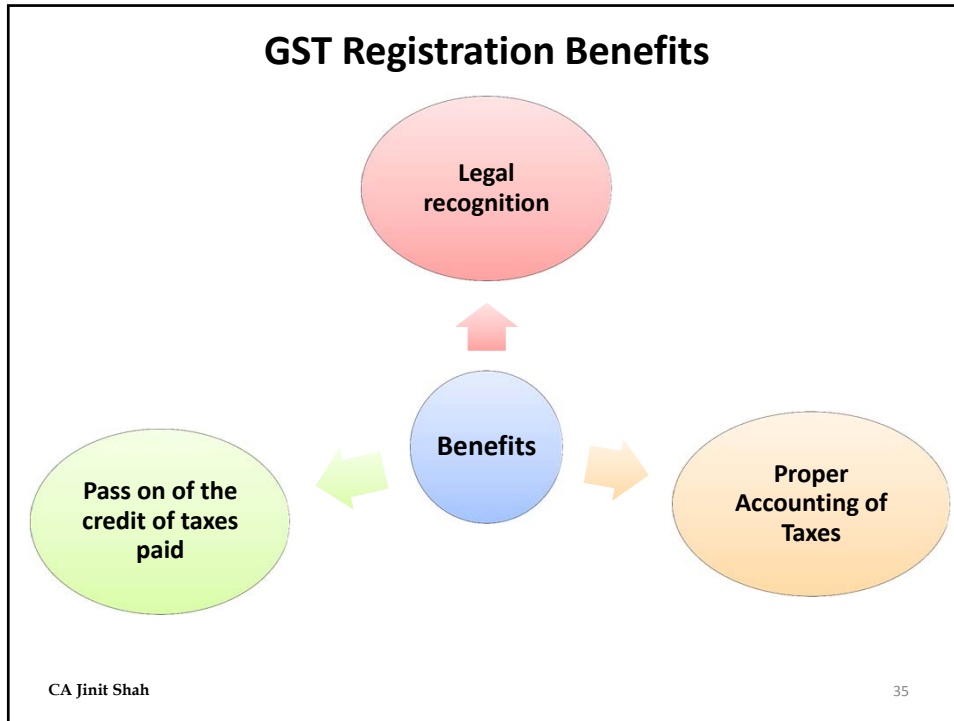
INDUSTRY	CURRENTLY	POSSIBLY
Works Contract	<p>Under VAT – on value of goods sold VAT is applicable. Value of Labour, services, etc. deductible or composition rate payable</p> <p>Under ST – on service portion ST is payable. Option available to pay on abated value.</p>	<p>Works Contract not defined in GST in 122nd CAB.</p> <ul style="list-style-type: none"> ➤ May be treated as distinct supply of goods and services ➤ May be treated as composite supply and hence may be considered as Supply of Services.

Report of Joint Committee

Report of the Joint Committee on Business Processes for GST on



GST Registration
GST Payment Process
GST Refund Processes



Key Features of GST Registration

Sr. No.	Particulars	Features
1	Threshold of Gross Annual Turnover including exports & exempted supplies	<ul style="list-style-type: none"> ⇒ Calculated on All India basis ⇒ Crossed threshold or new business ⇒ Effective date of registration ⇒ ITC ⇒ Specific provision ⇒ Voluntary registration
2	Compounding Turnover Concept	<ul style="list-style-type: none"> ⇒ Relatively higher threshold of G.A.T. ⇒ Pay tax at a specified %age of T/O ⇒ Cannot collect tax nor claim ITC ⇒ Validity
3	Inter-State Supplies and / or liable under reverse charge	<ul style="list-style-type: none"> ⇒ Irrespective of T/O ⇒ Personal Consumption – if Law provides
4	Input Service Distributor (ISD)	<ul style="list-style-type: none"> ⇒ May continue if GST Law so provides ⇒ Obtain GSTIN
5	Existing registered persons	<ul style="list-style-type: none"> ⇒ Will be subsumed in GST ⇒ Allotted GSTIN voluntarily

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Key Features of GST Registration

Sr. No.	Particulars	Features
6	Enforcement Cases	<ul style="list-style-type: none"> ⇒ Tax authorities may suo-moto grant ⇒ Initially temporary – later PAN based
7	State-wise Registration	<ul style="list-style-type: none"> ⇒ For each State taxable person will be required to take separate registration ⇒ Centralized Registration???
8	Multiple Registrations within one State to business verticals	<ul style="list-style-type: none"> ⇒ Maybe permitted - subject to all the verticals being on the same scheme of tax treatment (?) – if GST Law so provides
9	Casual Dealers	<ul style="list-style-type: none"> ⇒ Supplier not registered on regular basis ⇒ Desires to do business in a particular State for a limited period ⇒ Period of registration ⇒ Estimated supplies ⇒ Self-assess & pay advance tax – nature of deposit

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Other Features of GST Registration

⇒ Structure of Registration Number

⇒ Procedure for registration number

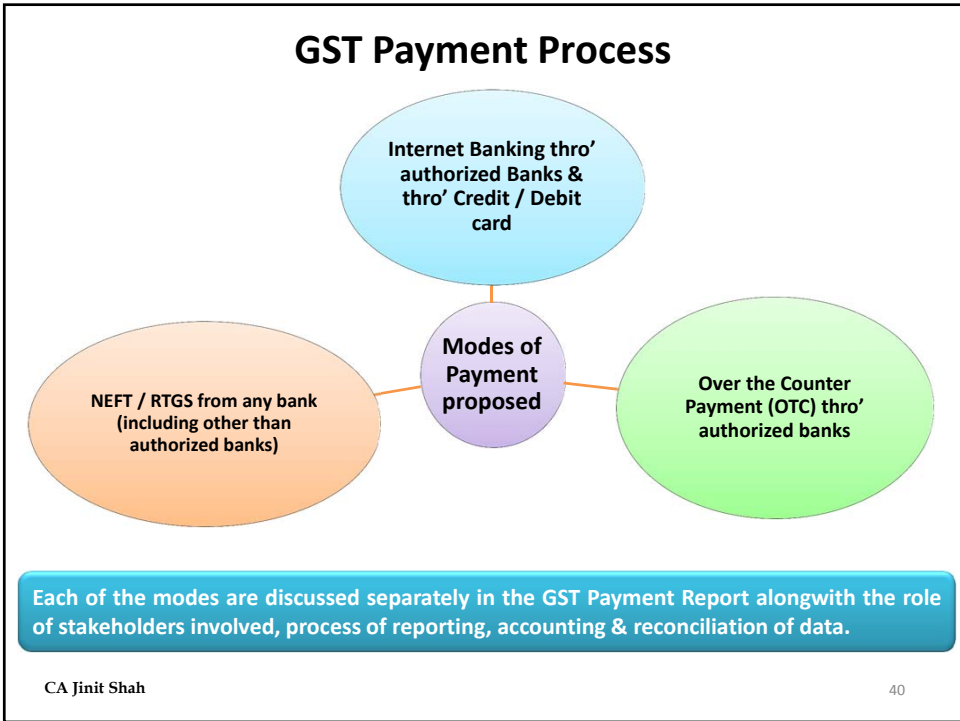
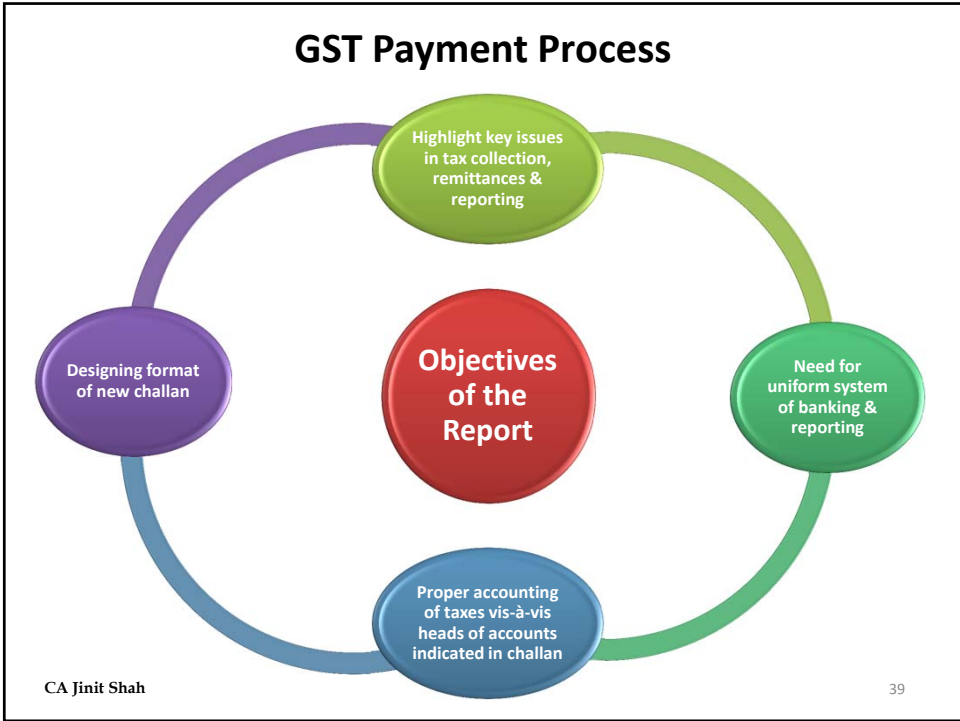
- New Applicants
- Migration of existing applicants
- Registration of Compounding Dealers
- Amendments in Registration
- Cancellation / Surrender of Registration

⇒ Various Forms

- Application for Registration under GST
- Application for Surrender of Registration under GST
- Application to opt for Composition Scheme
- Application for withdrawal from Composition Scheme
- Application for Amendment/(s)

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GST Refund Processes

Specific situations under which Refunds will arise in GST

- | | |
|-----|--|
| (A) | Excess payment of tax due to mistake or inadvertence |
| (B) | Export (including deemed export) of goods / services under claim of rebate or Refund of accumulated input credit of duty / tax when goods / services are exported |
| (C) | Finalization of provisional assessment |
| (D) | Refund of pre-deposit for filing appeal including refund arising in pursuance of an appellate authority's order (when the appeal is decided in favor of appellant) |
| (E) | Payment of duty / tax during investigation but no / less liability arises at the time of finalization of investigation / adjudication |

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GST Refund Processes

Specific situations under which Refunds will arise in GST

- | | |
|-----|--|
| (F) | Refund of tax payment on purchases made by Embassies or UN bodies |
| (G) | Credit accumulation due to output being tax exempt or nil-rated |
| (H) | Credit accumulation due to inverted duty structure i.e. due to tax rate differential between output & inputs |
| (I) | Year-end or volume based incentives provided by the supplier through credit notes |
| (J) | Tax refunds for International Tourists |

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Centre circulates model GST Laws among States

Source: Business Standard as on 12.10.2015 ([www.business-standard.com/article/ economy-policy/centre-circulates-model-gst-laws-among-states-115101200236_1.html](http://www.business-standard.com/article/economy-policy/centre-circulates-model-gst-laws-among-states-115101200236_1.html))

- The Centre & States have completed the drafting of model GST Law as well as iGST Law – will be put in public domain by early November

The Empowered Committee of State Finance Ministers likely to meet in October end to discuss the legislations – CGST, SGST & iGST

- CGST will be framed based on the model GST Law & States will draft its own SGST based on draft model Law, with minor variation

The drafts will put up on website by 1st week of November for Trade & Industry to give their views

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Few serious Issues in GST

- Article 246A will confer power on Parliament and every state legislature to levy goods and service tax. Thus, we are likely to have one parliamentary law and about 29 state laws that levy GST.
- The basic feature of any GST is a seamless system of taxation where all duties on all inputs (whether goods or services) are set off against the duties payable on the final product.
- Administration of Central GST with Centre & State GST with respective States. Taxpayer to file periodic returns to both Central GST Authority & to concerned State GST Authorities. (Source: LS Secretariat: Research & Information Division)
- The GST is bound to lead to serious difficulties, because it seeks to treat unequal states equally.
- Imports may become cheaper, hampering Make in India.

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Role of Professionals

- Tracking of GST Developments
- Review of draft legislation & impact analysis
- Industry preparedness - issues related to industry
- Review of final legislation & impact analysis
- Implementation assistance
- Post implementation support
- Tax Planning & Business Restructuring
- Record Keeping
- Departmental Audit

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