UNIT-3

INTRODUCTION TO GST

Meaning of GST:

The goods and services tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services.

The **goods and services tax** (GST) is a tax on goods and services sold domestically for consumption. The tax is included in the final price and paid by consumers at point of sale and passed to the government by the seller.

INTRODUCTION TO GST:

GST stands for Goods and Services Tax. **Goods and Service Tax** (GST) is a type of tax introduced in India from July 2017. GST is a consumption-based tax ultimately borne by the end consumer of a goods or service. Throughout the value chain, businesses and consumers pay GST on their purchases. However, if the purchase was made by a business for sale to a customer, then the business can claim **input tax credit** to set-off GST liability. Thus, through the use of input tax credit mechanism, the GST liability is pushed to the end-consumer.

CONCEPT OF GST:

- **2000**: In India, the idea of adopting GST was first suggested by the Atal Bihari Vajpayee Government in 2000. The state finance ministers formed an Empowered Committee (EC) to create a structure for GST, based on their experience in designing State VAT. Representatives from the Centre and states were requested to examine various aspects of the GST proposal and create reports on the thresholds, exemptions, taxation of inter-state supplies, and taxation of services. The committee was headed by Asim Dasgupta, the finance minister of West Bengal. Dasgupta chaired the committee till 2011.

- **2004**: A task force that was headed by Vijay L. Kelkar the advisor to the finance ministry, indicated that the existing tax structure had many issues that would be mitigated by the GST system.
- **February 2005**: The finance minister, P. Chidambaram, said that the medium-to-long term goal of the government was to implement a uniform GST structure across the country, covering the whole production-distribution chain. This was discussed in the budget session for the financial year 2005-06.
- **February 2006:** The finance minister set 1 April 2010 as the GST introduction date.
- **November 2006**: Parthasarthy Shome, the advisor to P. Chidambaram, mentioned that states will have to prepare and make reforms for the upcoming GST regime.
- **February 2007**: The 1 April 2010 deadline for GST implementation was retained in the union budget for 2007-08.
- **February 2008**: At the union budget session for 2008-09, the finance minister confirmed that considerable progress was being made in the preparation of the roadmap for GST. The targeted timeline for the implementation was confirmed to be 1 April 2010.
- **July 2009**: Pranab Mukherjee, the new finance minister of India, announced the basic skeleton of the GST system. The 1 April 2010 deadline was being followed then as well.
- **November 2009**: The EC that was headed by Asim Dasgupta put forth the First Discussion Paper (FDP), describing the proposed GST regime. The paper was expected to start a debate that would generate further inputs from stakeholders.
- **February 2010**: The government introduced the mission-mode project that laid the foundation for GST. This project, with a budgetary outlay of

Rs.1,133 crore, computerised commercial taxes in states. Following this, the implementation of GST was pushed by one year.

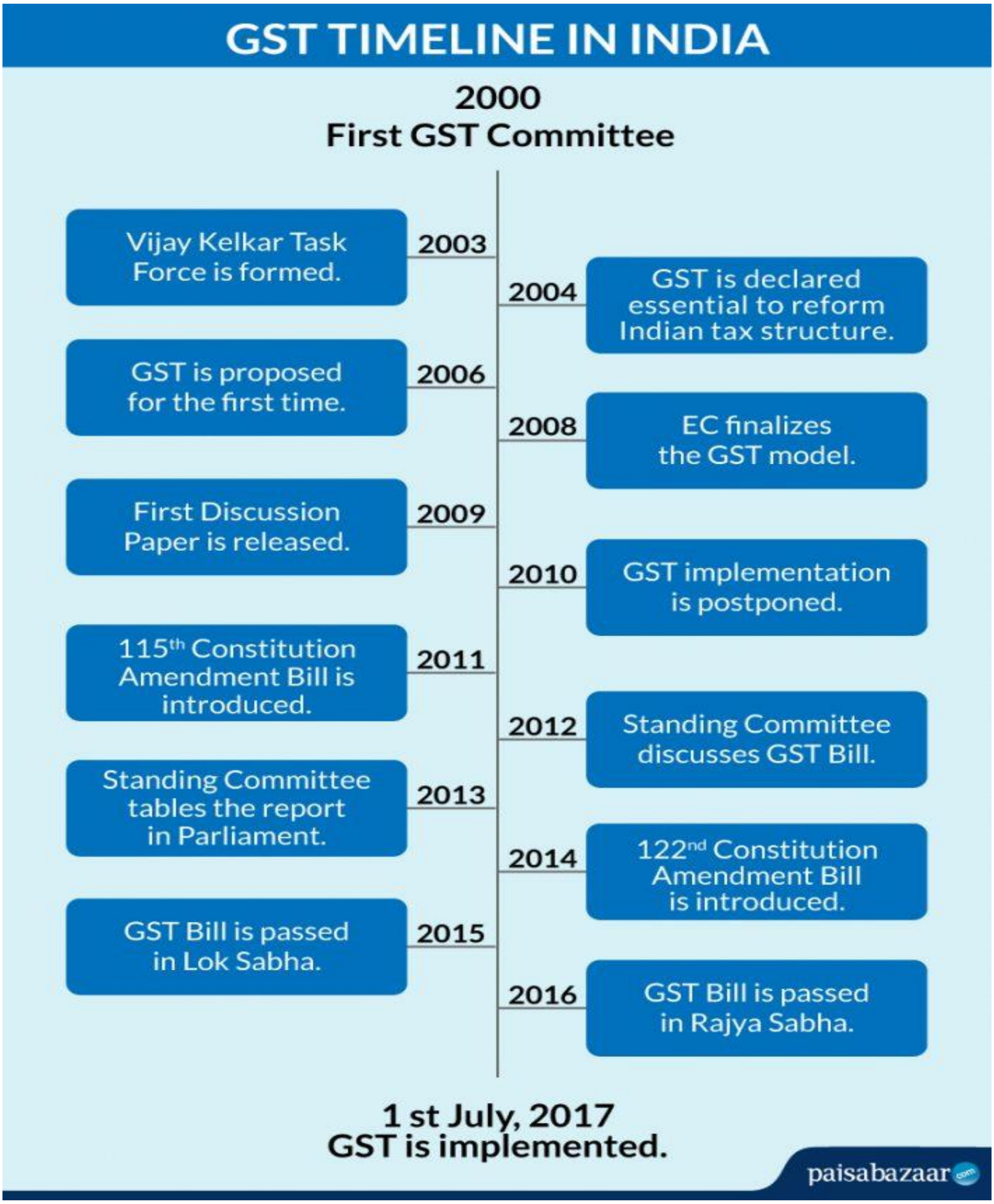
- **March 2011**: The government led by the Congress party puts forth the Constitution (115th Amendment) Bill for the introduction of GST. Following protest by the opposition party, the Bill was sent to a standing committee for a detailed examination.
- **June 2012**: The standing committee starts discussion on the Bill. Opposition parties raise concerns over the 279B clause that offers additional powers to the Centre over the GST dispute authority.
- **November 2012**: P. Chidambaram and the finance ministers of states hold meetings and set the deadline for resolution of issues as 31 December 2012.
- **February 2013**: The finance minister, during the budget session, announces that the government will provide Rs.9,000 crore as compensation to states. He also appeals to the state finance ministers to work in association with the government for the implementation of the indirect tax reform.
- **August 2013**: The report created by the standing committee is submitted to the parliament. The panel approves the regulation with few amendments to the provisions for the tax structure and the mechanism of resolution.
- **October 2013**: The state of Gujarat opposes the Bill, as it would have to bear a loss of Rs.14,000 crore per annum, owing to the destination-based taxation rule.
- **May 2014**: The Constitution Amendment Bill lapses. This is the same year that Narendra Modi was voted into power at the Centre.
- **December 2014**: India’s new finance minister, Arun Jaitley, submits the Constitution (122nd Amendment) Bill, 2014 in the parliament. The

opposition demanded that the Bill be sent for discussion to the standing committee.

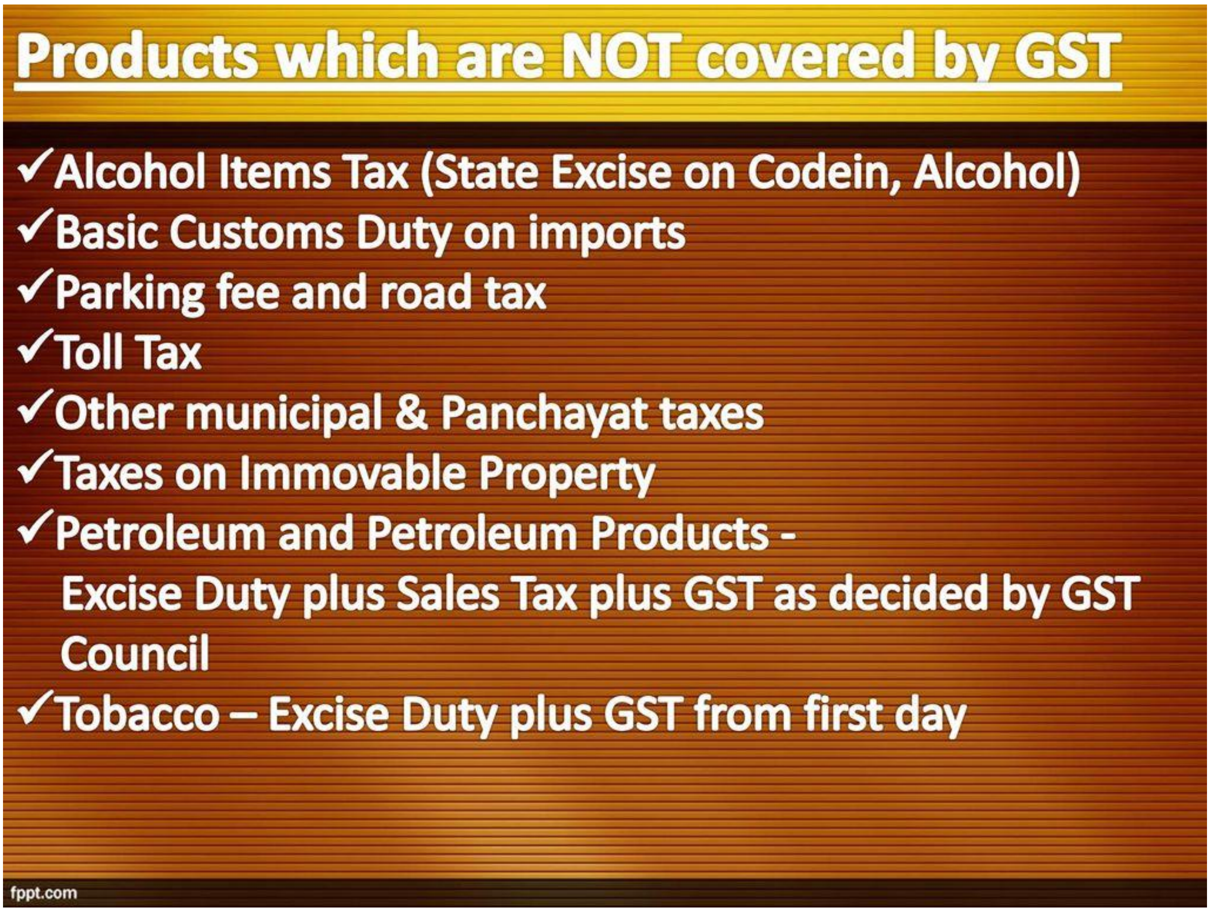
- **February 2015**: Jaitley, in his budget speech, indicated that the government is looking to implement the GST system by 1 April 2016.
- **May 2015**: The Lok Sabha passes the Constitution Amendment Bill. Jaitley also announced that petroleum would be kept out of the ambit of GST for the time being.
- **August 2015**: The Bill is not passed in the Rajya Sabha. Jaitley mentions that the disruption had no specific cause.
- **March 2016**: Jaitley says that he is in agreement with the Congress's demand for the GST rate not to be set above 18%. But he is not inclined to fix the rate at 18%. In the future if the Government, in an unforeseen emergency, is required to raise the tax rate, it would have to take the permission of the parliament. So, a fixed rate of tax is ruled out.
- **June 2016**: The Ministry of Finance releases the draft model law on GST to the public, expecting suggestions and views.
- **August 2016**: The Congress-led opposition finally agrees to the Government's proposal on the four broad amendments to the Bill. The Bill was passed in the Rajya Sabha.
- **September 2016**: The Honourable President of India gives his consent for the Constitution Amendment Bill to become an Act.
- **2017**: Four Bills related to GST become Act, following approval in the parliament and the President's assent:
    - Central GST Bill
    - Integrated GST Bill
    - Union Territory GST Bill
    - GST (Compensation to States) Bill

The GST Council also finalised on the GST rates and GST rules. The Government declares that the GST Bill will be applicable from 1 July 2017, following a short delay that is attributed to legal issues.

<u>GENESIS OF GST IN INDIA</u>



GOODS NOT COVERED IN GST



NEED OF GST:

The GST is levied in the state where goods and services are consumed (and not where they are manufactured), which makes it a destination-based tax. It is charged at every point of sale and is included in the price that a consumer pays when purchasing a product.

1. In simple words, GST works as a replacement for several indirect taxes levied by the central and state government, making India a unified market.

2. Certain goods and services are exempted from GST and they are instead subjected to a state's existing levies such as the value added tax (VAT)–a tax paid at every stage of value addition in the supply chain. These levies are paid at each stage of the production process by the consumer.

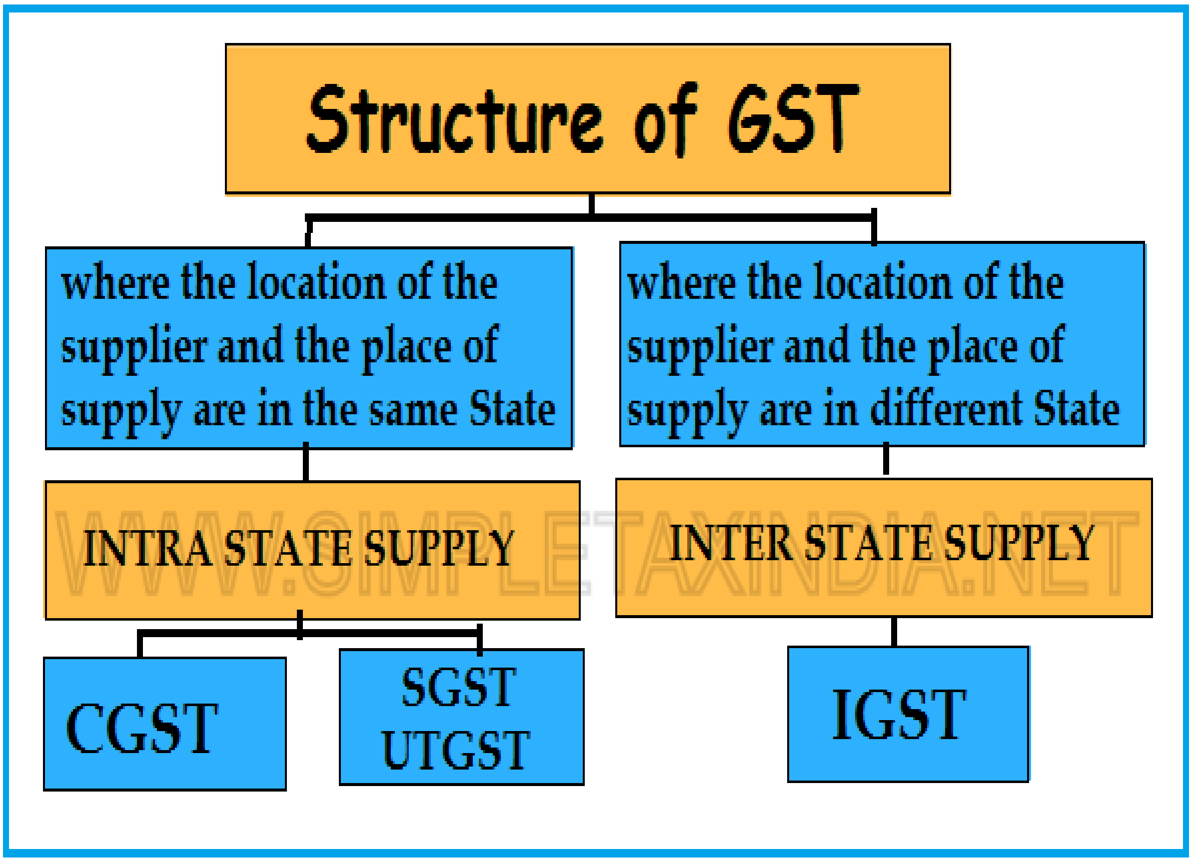
3. GST on petroleum crude, high-speed diesel, motor spirit, natural gas and aviation turbine fuel have been postponed and are currently covered under the Centre's excise duties and VAT.

4. GST offers both national and international benefits:

- Nationally, it eases the job of the manufacturer by clubbing different taxes into one and boosts economic unification.
- Internationally, it brings India at par with the global market by following a
- universally-accepted tax regime.

5. GST comes with certain relaxations and exemptions that one can avail after the fulfilment of necessary criteria. An example of this incentive is tax credit, which is the amount that certain taxpayers have the liberty to remove from the tax they owe.

STRUCTURE OF GST



FEATURES OF GST

I. It would be a dual GST with the Centre and the States simultaneously levying it on a common base.

II. It would replace the following taxes currently levied and collected by the Centre:

(a) Central Excise Duty

(b) The Excise Duty levied under the Medicinal and Toiletries Preparation Act

(c) Additional Duties of Excise (Goods of Special Importance)

(d) Additional Duties of Excise (Textiles and Textile Products)

(e) Additional Duties of Customs (commonly known as CVD)

(f) Service Tax

(g) Cesses and Surcharges.

BENEFITS OF GST

TYPES OF GST:

1. Integrated Goods and Services Tax (IGST)
2. State Goods and Services Tax (SGST)
3. Central Goods and Services Tax (CGST)
4. Union Territory Goods and Services Tax (UTGST)

Additionally, the government has fixed different taxation rates under each, which will be applicable to the payment of tax for goods and/or services rendered.

1. Integrated Goods and Services Tax or IGST

The Integrated Goods and Services Tax or IGST is a tax under the GST regime that is applied on the interstate (between 2 states) supply of goods and/or services as well as on imports and exports. The IGST is governed by the IGST Act. Under IGST, the body responsible for collecting the taxes is the Central Government. After the collection of taxes, it is further divided among the respective states by the Central Government. For instance, if a trader from West Bengal has sold goods to a customer in Karnataka worth Rs.5,000, then IGST will be applicable as the transaction is an interstate transaction. If the rate of GST charged on the goods is 18%, the trader will charge Rs.5,900 for the goods. The IGST collected is Rs.900, which will be going to the Central Government.

2. State Goods and Services Tax or SGST

The State Goods and Services Tax or SGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. In the case of an intrastate supply of goods and/or services, both State GST and Central GST are levied. However, the State GST or SGST is levied by the state on the goods and/or services that are purchased or sold within the state. It is governed by the SGST Act. The revenue earned through SGST is solely claimed by the respective state government. For instance, if a trader from West Bengal has sold goods to a customer in West Bengal worth Rs.5,000, then the GST applicable on the transaction will be partly CGST and partly SGST. If the rate of GST charged is 18%, it will be divided equally in the form of 9% CGST and 9% SGST. The total amount to be charged by the trader, in this case, will be Rs.5,900. Out of the revenue earned from GST under the head of SGST, i.e., Rs.450, will go to the West Bengal state government in the form of SGST.

3. Central Goods and Services Tax or CGST

Just like State GST, the Central Goods and Services Tax of CGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. The CGST is governed by the CGST Act. The revenue earned from CGST is collected by the Central Government. As mentioned in the above instance, if a trader from West Bengal has sold goods to a customer in West Bengal worth Rs.5,000, then the GST applicable on the transaction will be partly CGST and partly SGST. If the rate of GST charged is 18%, it will be divided equally in the form of 9% CGST and 9% SGST. The total amount to be charged by the trader, in this case, will be Rs.5,900. Out of the revenue earned from GST under the head of CGST, i.e., Rs.450, will go to the Central Government in the form of CGST.

4. Union Territory Goods and Services Tax or UTGST

The Union Territory Goods and Services Tax or UTGST is the counterpart of State Goods and Services Tax (SGST) which is levied on the supply of goods and/or services in the Union Territories (UTs) of India. The UTGST is applicable on the supply of goods and/or services in Andaman and Nicobar Islands, Chandigarh, Daman Diu, Dadra, and Nagar Haveli, and Lakshadweep. The UTGST is governed by the UTGST Act. The revenue earned from UTGST is collected by the Union Territory government. The UTGST is a replacement for the SGST in Union Territories. Thus, the UTGST will be levied in addition to the CGST in Union Territories

ADVANTAGES OF GST:

- GST eliminates the cascading effect of tax.
- Higher threshold for registration.
- Composition scheme for small businesses.
- Simple and easy online procedure.
- The number of compliances is lesser.
- Defined treatment for E-commerce operators.
- Improved efficiency of logistics.
- Unorganized sector is regulated under GST

DISADVANTAGES OF GST:

- Increased Cost due to Software Purchase
- Not being GST-Compliant can attract penalties
- GST will mean an increase in operational cost
- Adapting to a complete online taxation system
- Smaller Business will have a higher tax burden

OBJECTIVES OF GST:

- One Country – One Tax
- Consumption based tax instead of Manufacturing
- Uniform GST Registration, payment and Input tax Credit
- To eliminate the cascading effect of Indirect taxes on single transaction
- Subsume all indirect taxes at Centre and State Level under
- Reduce tax evasion and corruption
- Increase productivity
- Increase Tax to GDP Ratio and revenue surplus
- Increase Compliance
- Reducing economic distortions

GST MODEL:

Name	Explanation	Levied By	When?
CGST	Central Goods and Service Tax	Central Government	On INTRA State supply of Goods and Services.
SGST/ UTGST	Sate Goods and Service Tax / Union Territory Goods and Service Tax	State/ Union Territories	On INTRA State supply of Goods and Services.
IGST	Integrated Goods and Service Tax	Central Government	On INTER State supply of Goods and Services.

FRAMEWORK OF GST IN INDIA:

1. CGST (Central Goods and Service Tax): CGST is a tax levied on Intra State supplies of both goods and services by the Central Government and will be governed by the CGST Act. SGST will also be levied on the same Intra State supply but will be governed by the State Government.

2. SGST (Sate Goods and Service Tax): SGST is a tax levied on Intra State supplies of both goods and services by the State Government and will be governed by the SGST Act. As explained above, CGST will also be levied on the same Intra State supply but will be governed by the Central Government.

3. UTGST (Union Territory Goods and Services Tax): UTGST is just the way similar to SGST. The only difference is that the tax revenue goes to the treasury for respective administration of union territory where the goods or services have finally been consumed. There is a key difference between union territory and states. The Union Territory directly comes under the supervision of the Central Government and does not have its own elected government as in case of States.

Currently, there are 8 union territories in India:

- Lakshadweep
- Dadra and Nagar Haveli and Daman and Diu
- Andaman and Nicobar Islands
- Delhi
- Puducherry
- Ladakh
- Jammu & Kashmir

4.**<u>IGST (Integrated Goods & Service Tax):</u>** Under GST, IGST is a tax levied on all Inter-State supplies of goods and/or services and will be governed by the IGST Act. IGST will be applicable on any supply of goods and/or services in both cases of import into India and export from India.

UNIT-3

PROBLEMS OF GST:

Question:1

For the following transaction within Delhi, fill in the blanks to find the amount of bill:

MRP = Rs. 12,000, Discount % = 30%, GST = 18%

Discount =

Selling price (discounted value) =

CGST =

SGST =

IGST =

Amount of Bill =

Solution:

MRP = Rs. 12,000, Discount % = 30%, GST = 18%

12,000*30/100= Rs.3600

Discount = 30% of 12,000 = **Rs.3600**

Selling price (discounted value) = **12000 - 3600 = Rs. 8400**

CGST = **9% of 8400 = Rs. 756**

SGST = **9% of 8400 = Rs. 756**

IGST = 0

Amount of Bill = Selling price + CGST + SGST = **8400 + 756 + 756 = Rs. 9912**

Question:2

'M/s. Real Paint' sold 2 tins of lustre paint and taxable value of each tin is Rs 2800. If the rate of GST is 28%, then find the amount of CGST and SGST charged in the tax invoice.

Solution:

Total taxable value of 2 tins of lustre paint = **Rs 2,800 × 2 = Rs 5,600**

Rate of GST = 28%

∴ Rate of CGST = Rate of SGST = **14**%

Amount of CGST charged = Amount of SGST charged **= 14/100*5,600=Rs.784**

Thus, the amount of CGST charged is Rs 784 and the amount of SGST charged is Rs 784 in the tax invoice.

Question:3

An article is marked at ₹ 15000. A dealer sells it to a consumer at 10% profit. If the rate of GST is 12%, find:

(i) the selling price (excluding tax) of the article.

(ii) the amount of tax (under GST) paid by the consumer.

(iii) the total amount paid by the consumer.

Solution:

(i) Marked price of the article = ₹15000

When sold at 10% profit

Profit = (10/100) x ₹15000 = **₹1500**

Thus, the selling price (excluding tax) = ₹15000 + ₹1500 = **₹16500**

(ii) The rate of GST is 12%

Thus, the amount of tax (GST) paid by the consumer would be

= (12/100) x ₹16500

= ₹1980

(iii) Therefore, the total amount paid by the consumer = Selling price + GST

= ₹16500 + ₹1980

= ₹18480

Question:4

A manufacture sells a T.V to a dealer for Rs.18000 and the dealer sells it to a consumer at a profit of Rs 1500. If the sales are intra state and the rate of G.S.T is 12 %, Find:

(i) The amount of GST paid by the dealer to the State Government.

(ii) The amount of GST received by the Central Government.

(iii) The amount of GST received by the State Government.

(iv) The amount that the consumer pays for the TV.

Solution:

It is a case of intra-state transaction of goods and services.

SGST = CGST = ½ GST

Given:

Manufacturer sells T.V to a dealer = **₹ 18000**

Amount of GST collected by manufacturer from dealer,

CGST – SGST = 6% of 18000

= (6/100) × 18000

= ₹ 1080

So, Manufacturer will pay ₹ 1080 as CGST and ₹ 1080 as SGST

CP of a TV for dealer = ₹ 18000

Profit = ₹ 1500

Selling Price of a TV for dealer to customer =Cost Price + Profit = ₹ 18000 + ₹1500

= ₹ 19500

Amount of GST collected by dealer from customer,

CGST = SGST = 6% of ₹ 19500

= (6/100) × 19500

= ₹ 1170

(i) Amount of GST paid by the dealer to the State Government.

₹ 1170 – ₹ 1080 = ₹ 90

(ii) Amount of GST received by the Central Government.

CGST paid by manufacturer + CGST paid by dealer = ₹ 1080 + ₹ 90

= ₹ 1170

(iii) Amount of GST received by the State Government.

SGST paid by manufacturer + SGST paid by dealer = ₹ 1080 + ₹ 90

= ₹ 1170

(iv) Amount that the consumer pays for the TV.

CP of TV + CGST paid by customer + SGST paid by customer

= ₹19500 + ₹1170 + ₹ 1170 = ₹ 21840