

# Goods & Service Tax (GST)

## An Overview



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**Damania & Varaiya**  
Chartered Accountants

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## An Overview



**Are you  
ready  
for  
GST?**

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# GST – Global Scenario

- ❑ More than 140 countries have GST (including EU, Australia, New Zealand, Asia Pacific, Canada). Malaysia last to join the wagon w.e.f 01-04-2015.
- ❑ Most countries have single GST. Brazil and Canada have dual GST. India to have dual GST (SGST & CGST)
- ❑ Standard rate in most countries between 15% to 20%



# Current Indirect Tax Structure in India

## Central

- Custom Duty
- SAD – CVD
- Central Excise
- Service Tax

## State

- VAT / CST
- Luxury Tax
- Entertainment tax by State
- Entry tax by State
- Tax on lottery, betting & gambling

- Each Central levy is through a separate enactment
- State levies are by separate enactments in each State



# Obstructions created by Current Indirect tax Structure

- Taxable events different
- Multiple levies at different rates, in different states and at Central level – many not eligible for set off e.g. CST. Service providers not eligible for vat-set off & vice versa resulting in cascading effect. Even when eligible, reduction therein raises ultimate cost
- Double taxation of various transactions e.g. software – works Contract
- All-round disputes on valuation, classification, set off eligibility
- Compliances with plethora of central & state laws extremely cumbersome & hindrance to business
- High cost & lower competitive strength
- Low GDP



# Hence GST – Single levy wherein taxes will be subsumed

## GST Meaning – Single Levy

**“Any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption.”**

- ❑ GST to be a nationwide comprehensive tax levy on manufacturing & supply of goods as well as on service – on every stage, on the principle of value addition
- ❑ Basis shifted from origin state to destination state
- ❑ **Benefits:**
  - Supposed to be an uninterrupted chain & hence full ITC credit
  - Ease of compliance
  - Ease of administration
  - Eventually reduction in cost
  - Higher competitive strength
  - Higher GDP





# GST

- ❑ Outside purview (**alcohol for human consumption**)
- ❑ Petroleum products (i.e. crude, HSD, petrol, natural gas & ATF)  
Electricity duty – to be brought within GST purview **at later date**
- ❑ Taxes to continue
  - Basic Custom Duty
  - Octroi by local authority
  - Stamp duty
  - Vehicle Tax
  - Electricity duty



# Salient features of GST

- ❑ Single & Comprehensive levy on supply of goods & services simultaneously by Central & State Government i.e. CGST & SGST
- ❑ On Supply & not sale - so branch transfer & consignment transfer covered
- ❑ Composition Scheme provided for
- ❑ **Reverse Charge Mechanism (RCM)** by Centre as well as States for services & goods both





# Salient features of GST

Continued...

- ☐ Barter & Exchange Covered
- ☐ GST on Exports & Imports of goods & services → **IGST on Import**  
Highseas ?
- ☐ Inter state Supply → IGST (Integrated Goods & Service Tax)
- ☐ 1% additional tax on inter state supply of goods but **not services** -  
not creditable – for originating state – 2 years.
- ☐ No declarations required

## GST

Goods &  
Services  
Tax



# Concept of MRP

Legal Metrology Act 2009 – Tax on price required to be declared on package – sale by taxable person to non taxable person



# Input Tax Credit

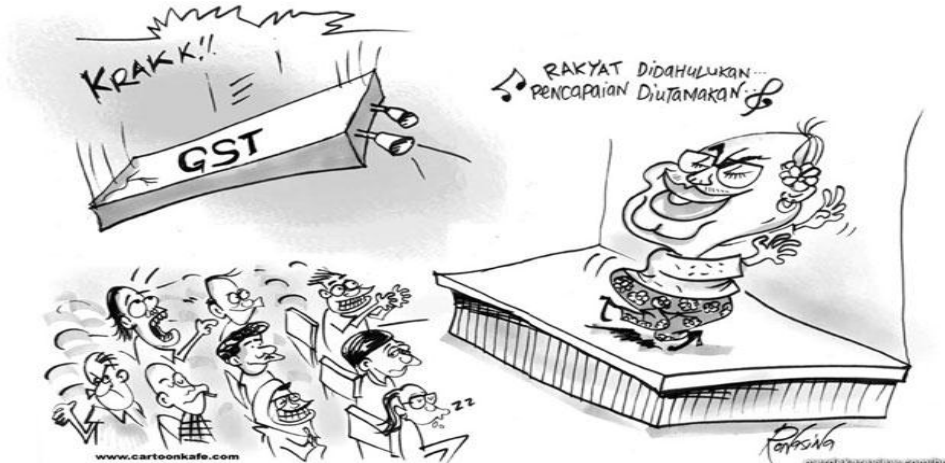
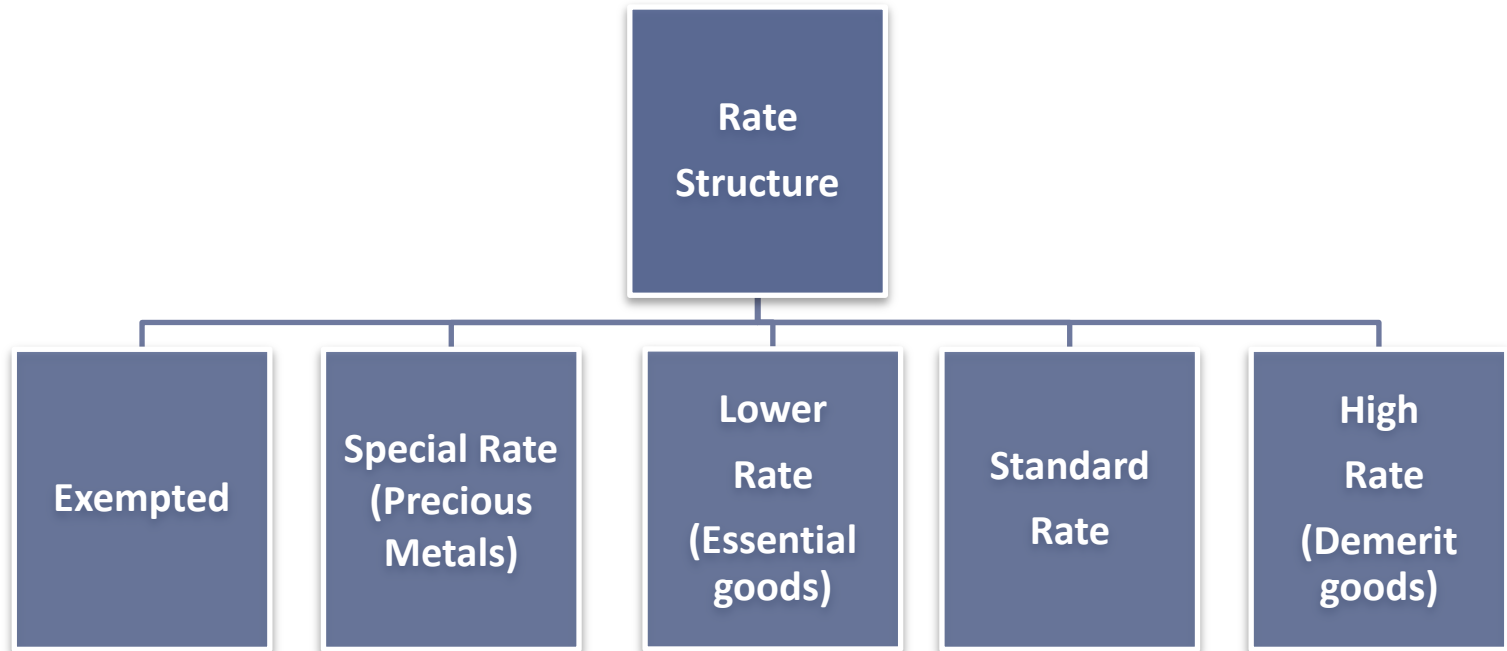
## Condition:

- Tax – invoice
- Receipt of goods / services
- Tax paid in treasury

## Disallowance – main cases:

- Car
- Immovable property
- Goods / services used for private / personal consumption

# Rate Structure



# GST Committee on Revenue Neutral Rate (RNR)

Recommendation in brief:

	RNR	Rate on precious metals	“Low” rate (goods)	“Standard” rate (goods and services)	“High / Demerit” rate
Preferred	15	6	12	16.9	40
		4		17.3	
		2		17.7	
Alternative	15.5	6	12	18.0	40
		4		18.4	
		2		18.9	

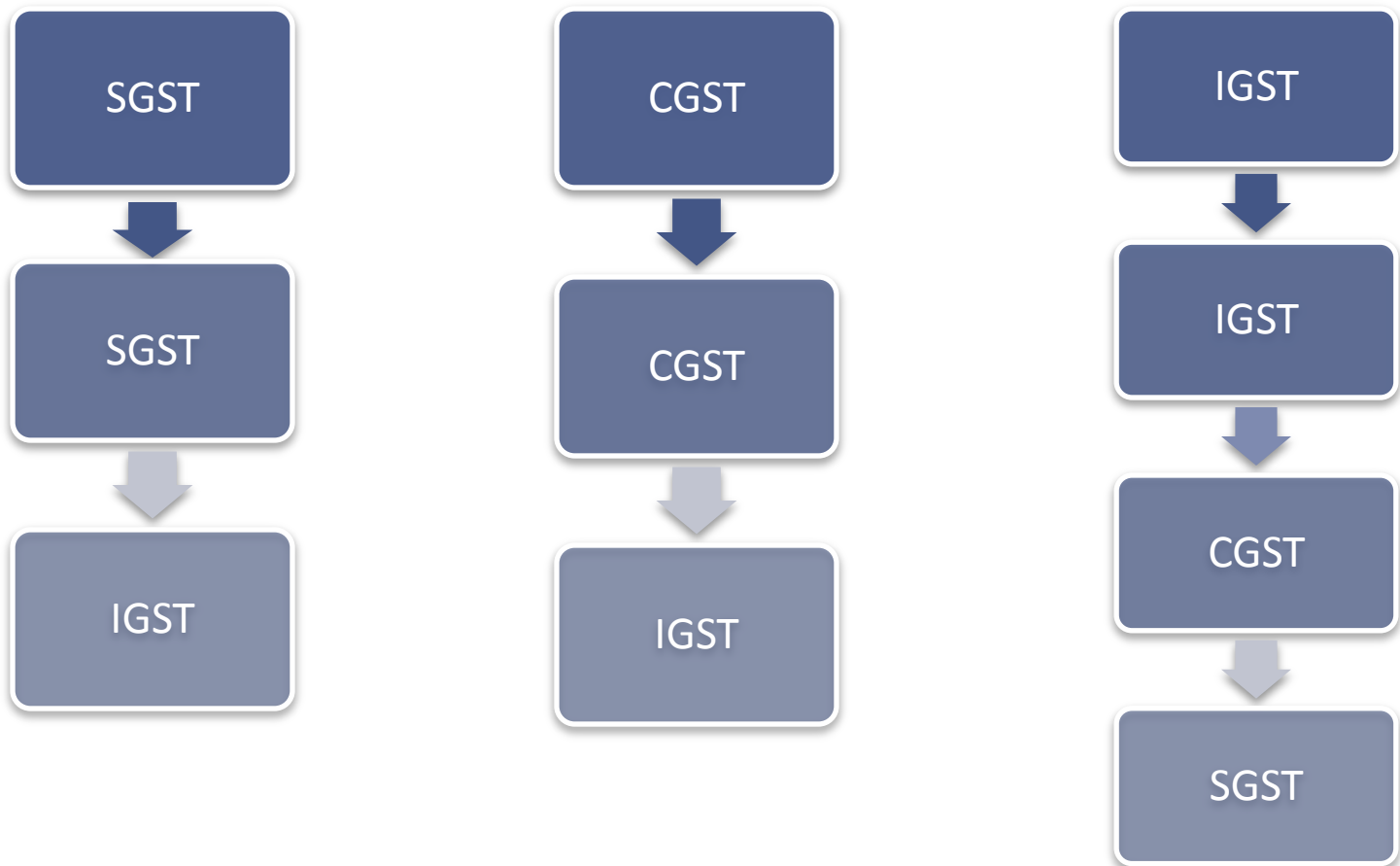
# GST Committee on Revenue Neutral Rate (RNR)

Continued...

- ☐ Exemption list to be restricted to few merit goods e.g. food items
- ☐ Exemption should be common across States & Centre
- ☐ Proposed 1% extra tax on inter state supply of goods should be replaced by GST
- ☐ 40% rate to apply to demerit goods like luxury cars, aerated beverages, tobacco/products, paan masala etc.



# Credit Mechanism





# Way forward – Constitutional Amendment Bill (CAB)

## Rajyasabha:

Passage by more than 50% of members  
and by 2/3 of those present & voting

CAB to be ratified by at least 50% states

President to give assent for enactment of  
CAB

GST council to be formed to recommend  
on key aspects

Central & States to draft GST Acts & Rules

# Way forward - CAB

Continued...

Inviting Public Comment



Central & State to enact GST Acts & Rules



Central & State administration to be framed



Robust GSTN / IT system to be rolled out



Operation of GST Acts & Rules

# CAB

CAB : Passed by Parliament / Awaiting Rajyasabha approval

## Mainly for What:

- To authorise states to tax supply of services
- To authorise centre to tax supply of goods
- To authorise centre to tax inter – state supplies & import
- To set up GST council
- To decide dispute settlement mechanism

## Functions of GST Council – To recommend:

- Which taxes to be subsumed in GST
- Goods & services to be exempted or subjected to tax
- Model GST Law
- Threshold limit
- Rates including floor rates with bands of GST
- Principles of levy & place of supply



# Impact on Cost & Price Structure

- ☐ To recheck these necessary due to :
  - Credit allowance enlargement
  - Increase or decrease in rate of GST
  - Branch transfer for process or distribution & effect on cash flow

This would necessitate policy changes inter alia in following:

- Purchase: Selection of Vendors, Location of Vendors
- Managing inventory:
  - “Just in time” inventory desirable
  - Warehouse to be reduced & have fewer based on centre of gravity of demand
  - Leaner supply chain
- Shrinking number of branches & agents to the extent feasible and appointment of distributors

# Impact on Cost & Price Structure

Continued...

- Reanalysing cost, pricing, budgeting of working capital, credit policy of purchase & sales
- Supply Chain: managing logistics, lead time of customers.
- Robust IT system to be setup
- Consolidation Process
- Stock on cut off date

All these would call for in depth analysis of impact on one's industry/business/profession etc and revamp operations to reduce tax touch points.

# Sectoral issues

- ☐ Manufacturer biggest beneficiary
- ☐ Real Estate
- ☐ Multistate Branches & agents
- ☐ Job work inter state
- ☐ Malls
- ☐ Logistics to grow
- ☐ Electricity Duty



# GSTN - SPV

- ☐ Goods & service tax net work (GSTN)
- ☐ Special purpose vehicle – S.25 Private limited Company incorporated in 2013 by Central and State Government and financial institutions
- ☐ First Experiment

## **Functions:**

- ☐ To provide robust IT infrastructure on PAN India basis
- ☐ To capture & process the information of all suppliers
- ☐ To provide services of registration, return filing, E-payment & check around compliance
- ☐ To provide information inter alia to GST Council.





# Registration Returns - Payment

## ❑ Registration:

- Existing registration under any revenue law of centre or state
- Registration in each state
- More than one registration for separate verticals

## ❑ Returns:

- Combined for SGST + CGST + IGST + Additional Tax
- Ten days – outward supply
- Fifteen days – inward supply
- Twenty days – monthly return

## ❑ Concept of “Compliance Rating”



# Questions



**Thank You**



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