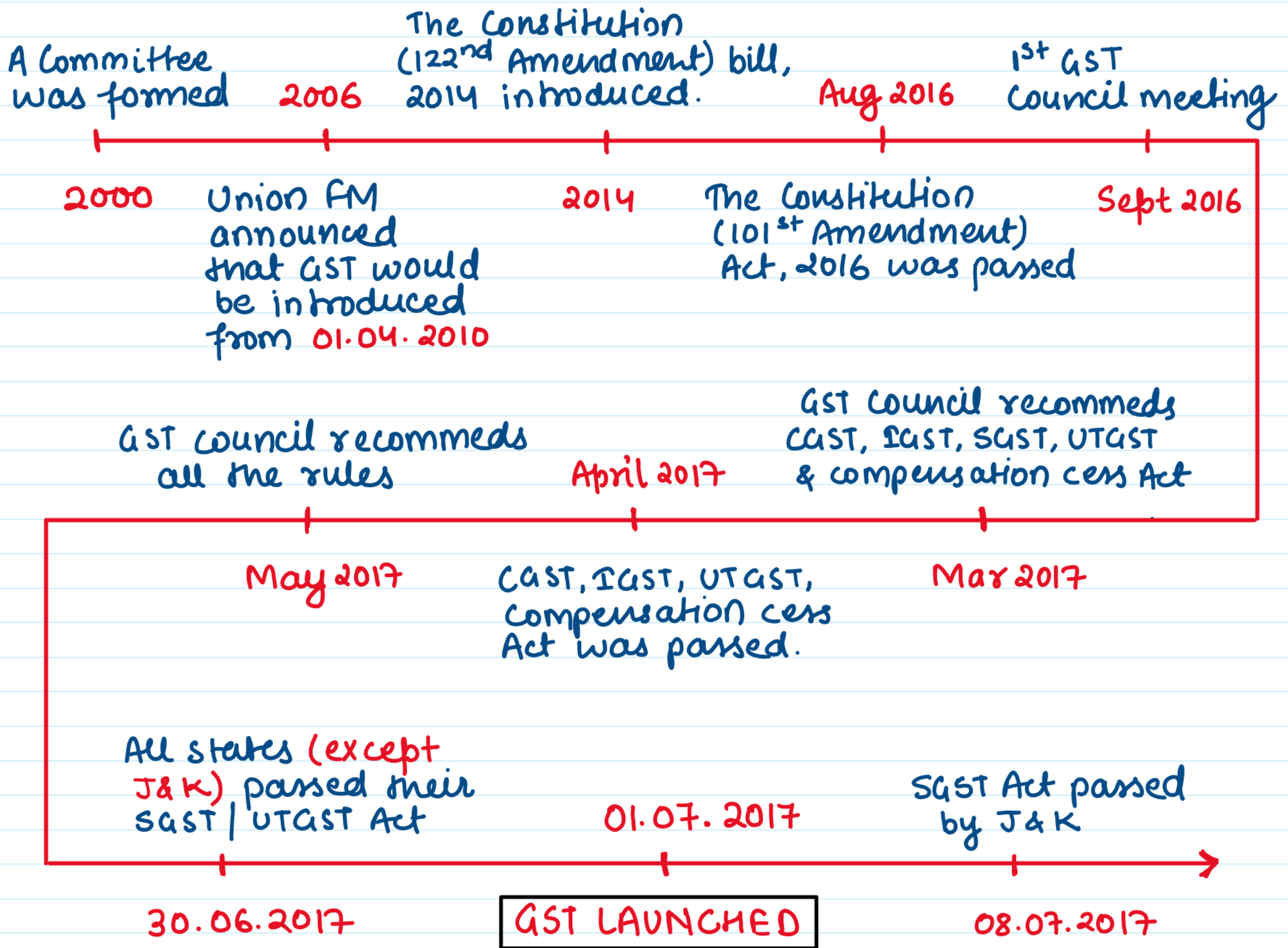




Chapter 1 - GST in India - Introduction



TP:1 Concept of GST

1. **GST is a value added tax:** It means that GST is applicable only on value added at each level in supply chain.

Eg.

<u>Manufactures</u>	
Cost of RM	90
Profit	10
	<hr/>
	100
GST @ 18%	18
	<hr/>
	118

Assume: No GST paid on RM.

GST paid to Govt. = 18

<u>Whoseller</u>	
Cost	100
Profit	10
	<hr/>
	110
GST @ 18%	19.8
	<hr/>
	129.8

GST Input tax Credit (ITC) 18

GST paid to Govt. (19.8 - 18) = 1.8

↓  
i.e. on value added.



2. **Continuous chain of credit**: It means that GST offers credit of tax paid at each stage of supply chain.

Eg. Manufacturer → wholeseller → Retailer

Means **no credit loss** at any stage.

3. **Burden only on final consumer**: GST permits each member of supply chain to take credit of GST paid by them & hence shifts entire burden on final consumer.

Eg.	<u>Manufacturer</u>	<u>wholeseller</u>	<u>Retailer</u>
Cost	90	Cost 100	Cost 110
Profit	<u>10</u>	Profit <u>10</u>	Profit <u>10</u>
	100	110	120
GST @ 18%	<u>18</u>	GST @ 18% <u>19.8</u>	GST @ 18% <u>21.6</u>
	<u>118</u>	<u>129.8</u>	<u>141.6</u>
	GST to Govt. = 18	GST to Govt. = 1.8	GST to Govt. = 1.8

Total GST to Govt. = 18 + 1.8 + 1.8 = **21.6**

4. **No tax on tax (no cascading of taxes)**: Since credit has been given at each step in supply chain, there is no tax on tax.

TP:2 **Need for GST in India**: There were deficiencies in erstwhile VAT system

1. **Certain transactions were taxed as Goods & services or both**

Eg. Software were taxed under VAT (sales tax) as goods & under service tax as services.

2. **No credit of central excise duty (CENVAT) from state VAT** - It leads to cascading of taxes i.e. tax on tax

Eg.	<u>Manufacturer</u>	<u>wholeseller</u>
Cost	90	Cost 112.5
Profit	<u>10</u>	Profit <u>12.5</u>
	100	125
Excise duty @ 12.5%	<u>12.5</u>	VAT @ 14.3% <u>17.88</u>
	<u>112.5</u>	<u>142.88</u>

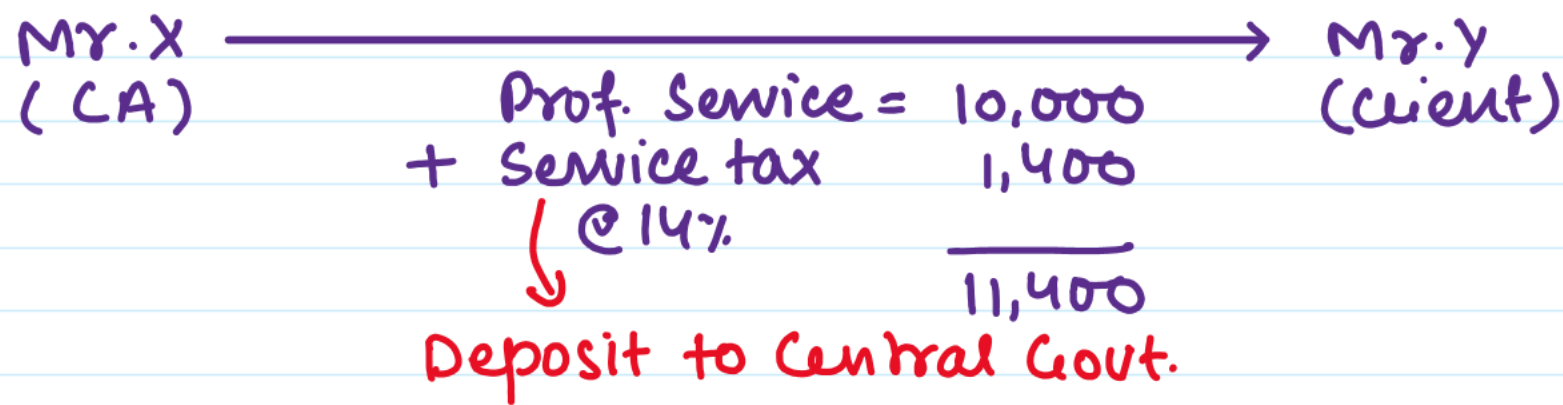
Excise duty paid to Central Govt. = 12.5

VAT (sales tax) paid to State Govt. = 17.88



3. State did not have power to levy tax on services - service tax was a central tax & therefore state govt. were excluded from benefit of service tax

Eg:



4. Credit of CST on Inter-state sell were not available  
↓  
Central Sales tax

Eg:

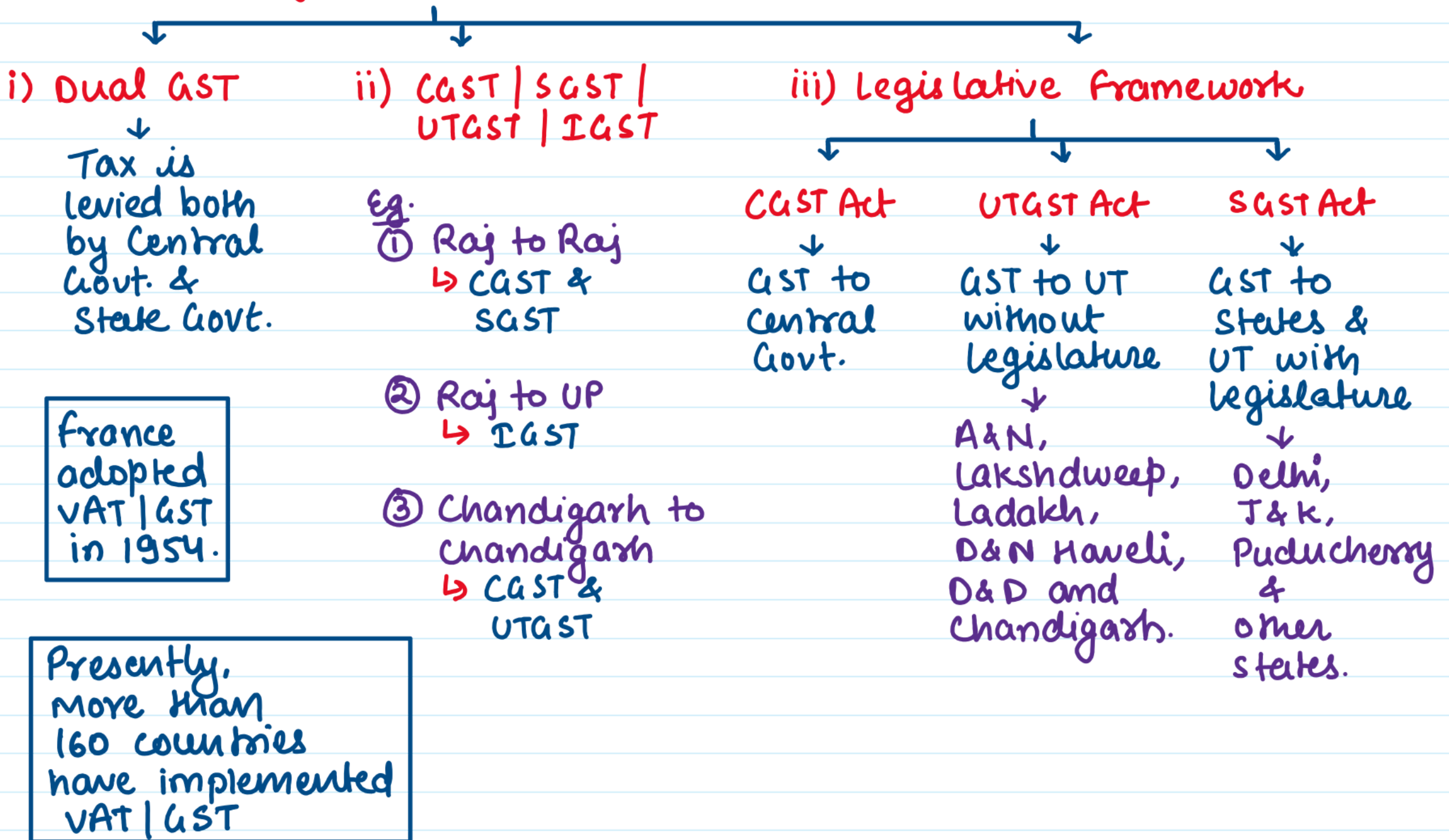
Wholeseller - Rajasthan

Cost	90
Profit	<u>10</u>
	100
CST @ 2%	<u>2</u>
	102
	↳ Paid to Central Govt.

Retailer - Delhi

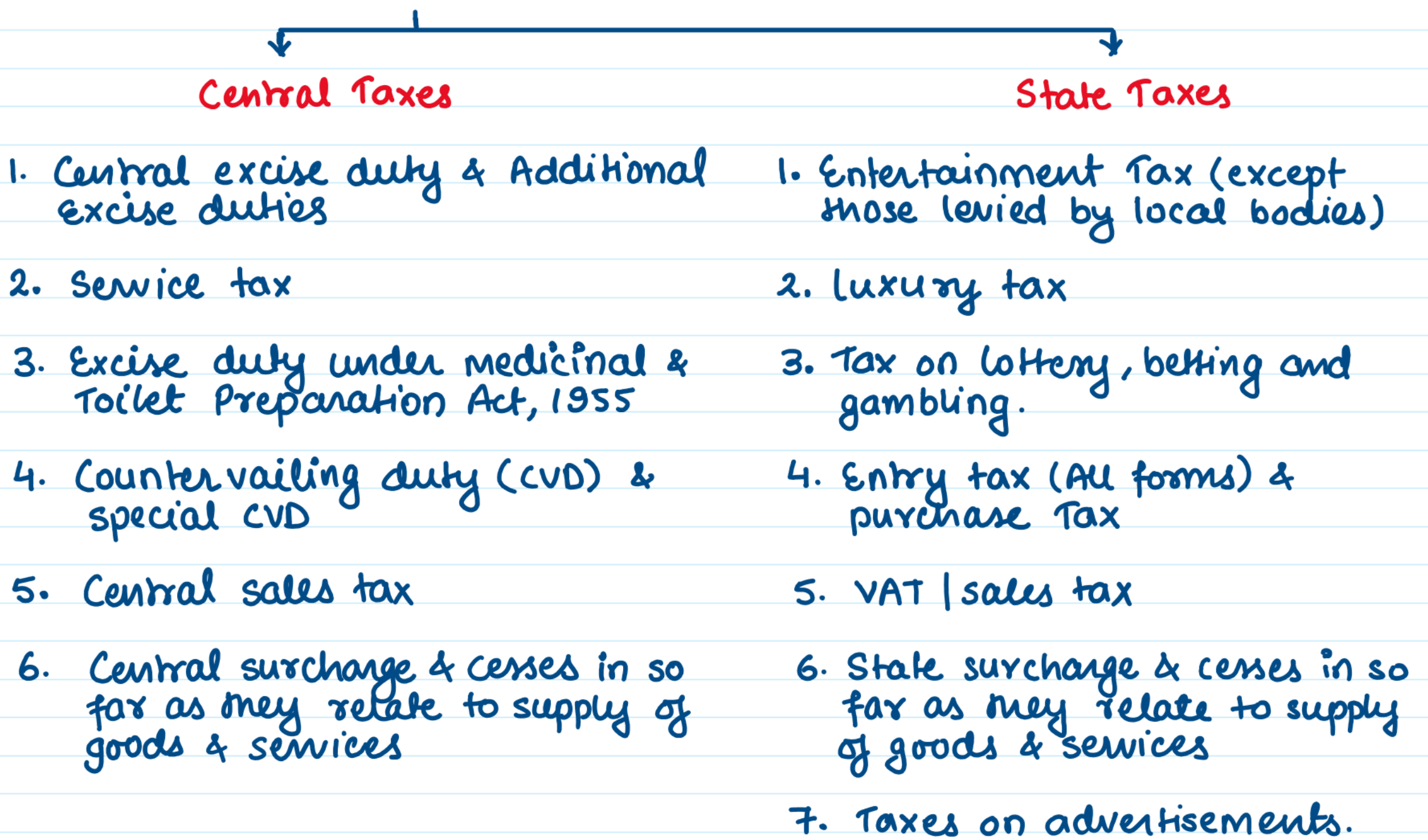
Cost	102
Profit	<u>10</u>
	112
VAT @ 12.5%	<u>14</u>
	126
	↳ Paid to State Govt.

TP:3 Framework of GST in India





## TP:4 Taxed subsumed in GST



## ┌────────── GST ─────────┐

## TP:5 Outside the purview of GST

1. Alcohol for human consumption → State excise duty + VAT | CST
2. Five petroleum products  
i.e. crude oil, diesel, petrol, natural gas and ATF → Central Excise duty + VAT | CST  
(GST council to decide date from which GST will apply)
3. Entertainment tax levied by local bodies → Entertainment tax by local bodies.
4. Tobacco [within purview of GST but excise duty leviable] → GST + Central excise duty
5. Opium, Indian hemp, other narcotic drugs and narcotics → GST + State excise duty
6. Real estate sector [sale or purchase of immovable property] → No GST



## TP:6 Benefits of GST

### ① Benefits to economy

- Creation of unified national market
- Boost to 'Make in India' initiative
- Boost to investments and employment

### ② Simplified tax structure

- Ease of doing business
- Certainty in tax administration

### ③ Easy tax compliance

- Automated procedures with greater use of IT
- Easier tax compliances

### ④ Advantage for trade and industry

- Reduced tax burden on trade & industry
- Mitigation of ill effects of cascading
- Benefits to small traders & entrepreneurs → Increased threshold limit for registration & composition scheme.

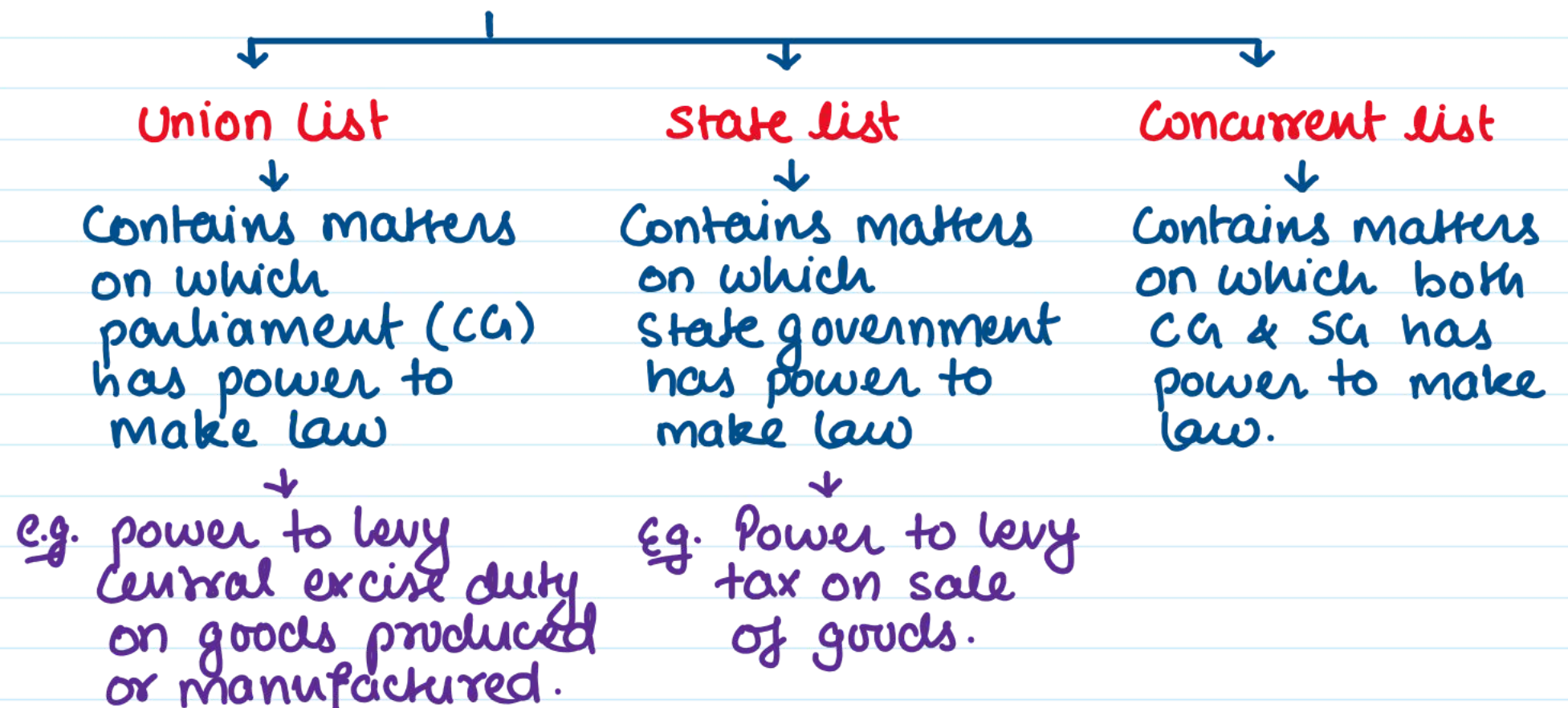
## TP:7 Constitutional Provisions

**Article 265:** No tax shall be levied or collected except by authority of law.

**Article 245:** Parliament may make law for whole or any part of India and State legislature may make law for whole or any part of state.

**Article 246:** It gives the respective authority to union and state governments for levying tax.

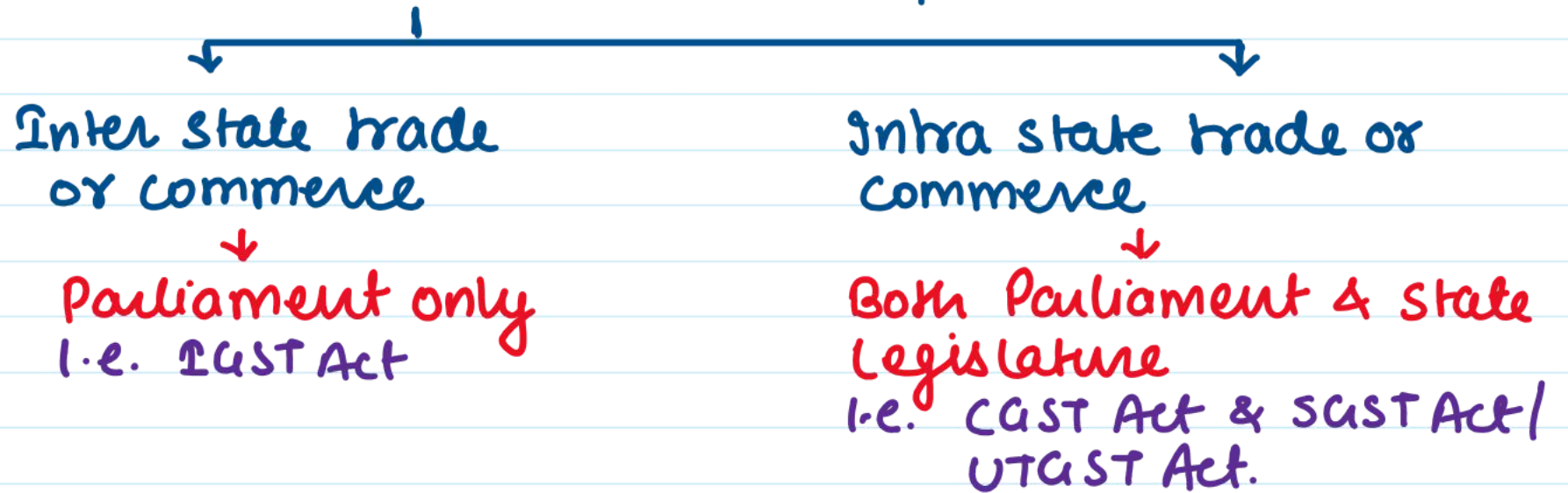
**Seventh Schedule to Article 246:** It contains 3 lists





### Significant amendments made by Constitution (101<sup>st</sup> amendment) Act, 2016:

**Article 246A :** Power to make law with respect to GST on [introduced]



**Article 248 amended :** Article grants residuary powers to parliament (CU) to make laws (including tax) on matters not mentioned in concurrent list or state list.

↳ Article amended to exclude article 246A i.e. CU do not have sole power to make law on GST.

**Article 249 & 250 amended:** Article 249 & 250 provides grants parliament power to make law on matters listed in state list, in national interest or in case of emergency

↳ Article amended to grant power to parliament to make law with respect to GST provided under Article 246A.

**Article 268A :** Under this article, central govt. was empowered to levy tax on services.

↳ It has been omitted.

**Article 269A :** Tax on interstate trade & commerce shall be collected by GOI & shall be apportioned b/w union & state in the manner provided by parliament on recommendation of GST council.

**Article 271 amended :** Parliament has power to increase rate of tax, duties referred in Article 269 & 270.

↳ Article is amended to exclude GST from its purview.

**Article 366:** Definition of 'GST', 'services', 'state', 'Goods' incorporated under this article.

**Article 286 amended :** Article restrains states from framing laws on sale or purchase of goods outside the state or in course of import or export.

↳ Article amended to substitute word 'supply' for sale or purchase & 'goods or services or both' for goods.

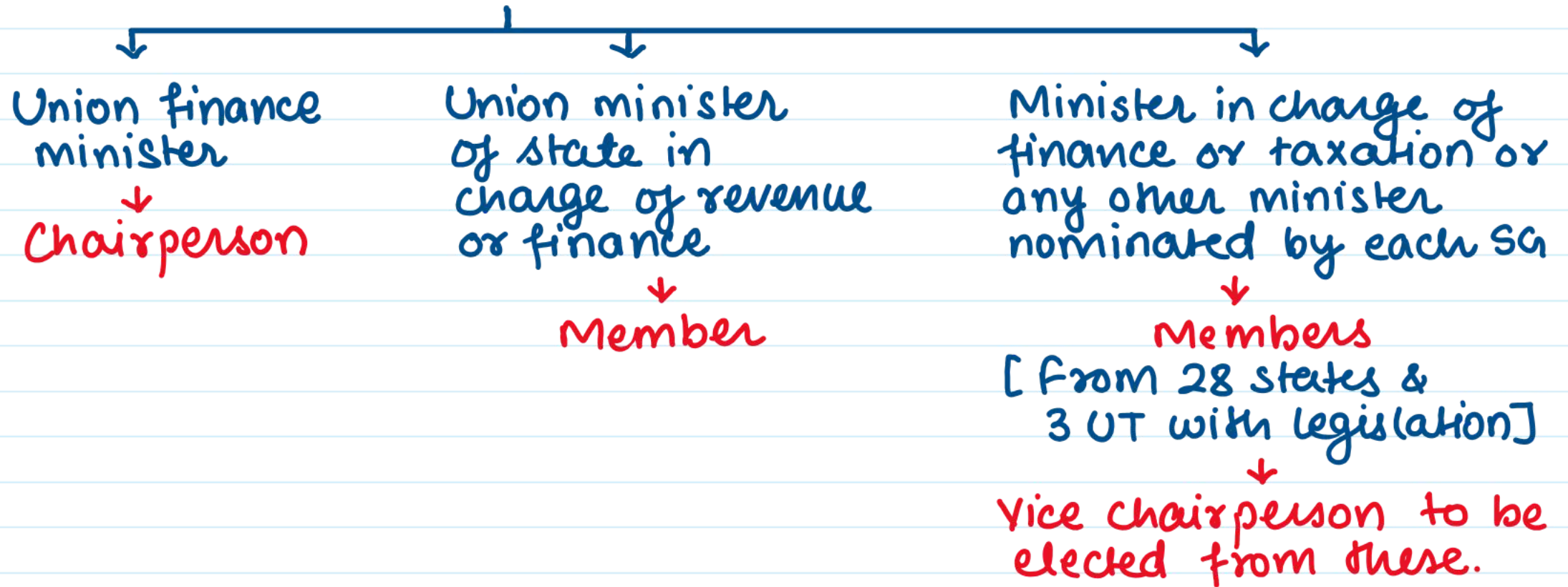


## Article 279A introduced: GST Council

President is empowered to constitute a joint forum of the centre & state namely, 'Goods & Services Tax Council (GST Council)'

↓  
President constituted the GST Council on 15.09.2016

### ① Members of GST Council [33 members]



### ② GST Council shall make recommendations to the Union & the state on -

- a) taxes, cesses & surcharges subsumed in GST
- b) exempted Goods & services
- c) model GST laws, principles of levy, apportionment of GST on inter state trade or commerce under article 269A and principle that govern the place of supply
- d) threshold limit of turnover for exemption
- e) rates of GST
- f) special rate for specified period during any natural calamity or disaster.
- g) special provision with respect to **Special Category States**.

MMTN i) Manipur, ii) Mizoram, iii) Tripura, iv) Nagaland  
MASU v) Meghalaya, vi) Arunachal Pradesh, vii) Sikkim, viii) Uttarakhand  
HAJ ix) Himachal Pradesh, x) Assam, xi) Jammu and Kashmir.

h) Any other matter as council may decide

### ③ GST Council shall recommend date on which GST be levied on 5 petroleum products.

### ④ Quorum of council meeting → One-half of total members i.e. 17 members.



### ⑤ Resolution passed in GST council meeting

i) Decision shall be taken by majority of not less than **three-fourth ( $\frac{3}{4}$ th)** of the **weighted votes** of members present and voted.

ii) weighted votes means

↓  
 vote of **CA** shall have a weightage of  **$\frac{1}{3}$ rd** of total votes cast

↓  
 votes of **all SA** taken together shall have a weightage of  **$\frac{2}{3}$ rd** of total votes cast

Eg. If 24 states are present & 18 states are in favour,  
 then weight of state =  $\frac{2}{3} \times \frac{18}{24} = 50\%$

If Centre is also in favour,  
 then weight of centre =  $\frac{1}{3} \times \frac{1}{1} = 33.33\%$

∴ weighted votes of all members = 83.33%.

**Article 368** : At least  $\frac{2}{3}$ rd majority in each house of parliament  
**amended** & ratification by at least  $\frac{1}{2}$  of the states is required to amend article 279A i.e. GST council.