

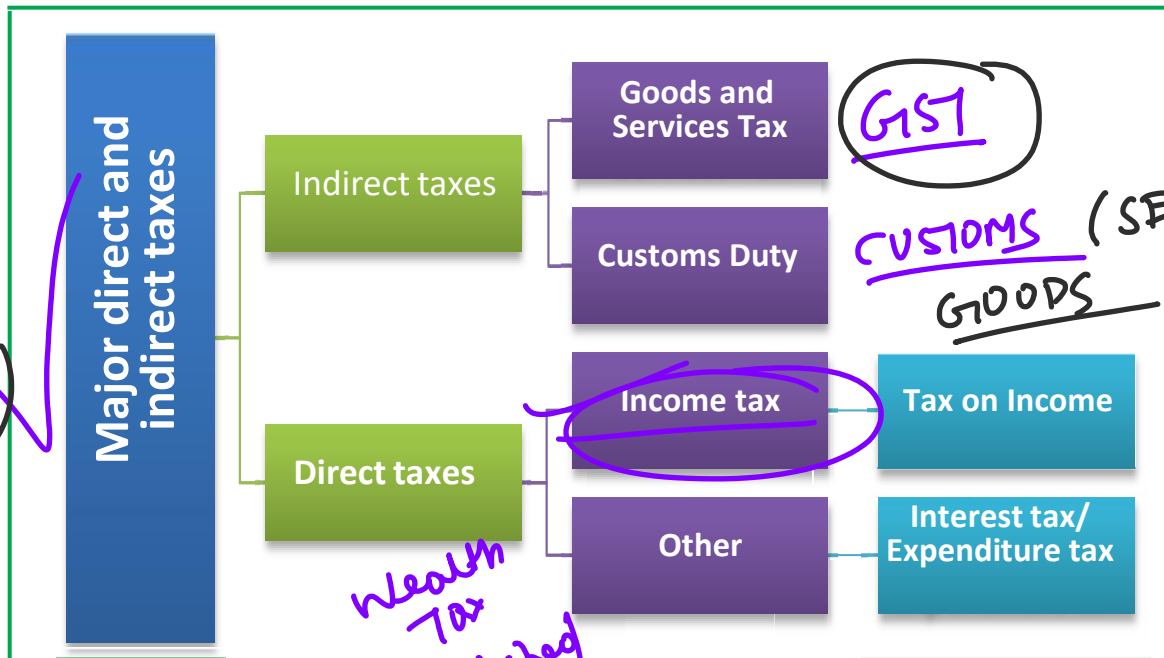
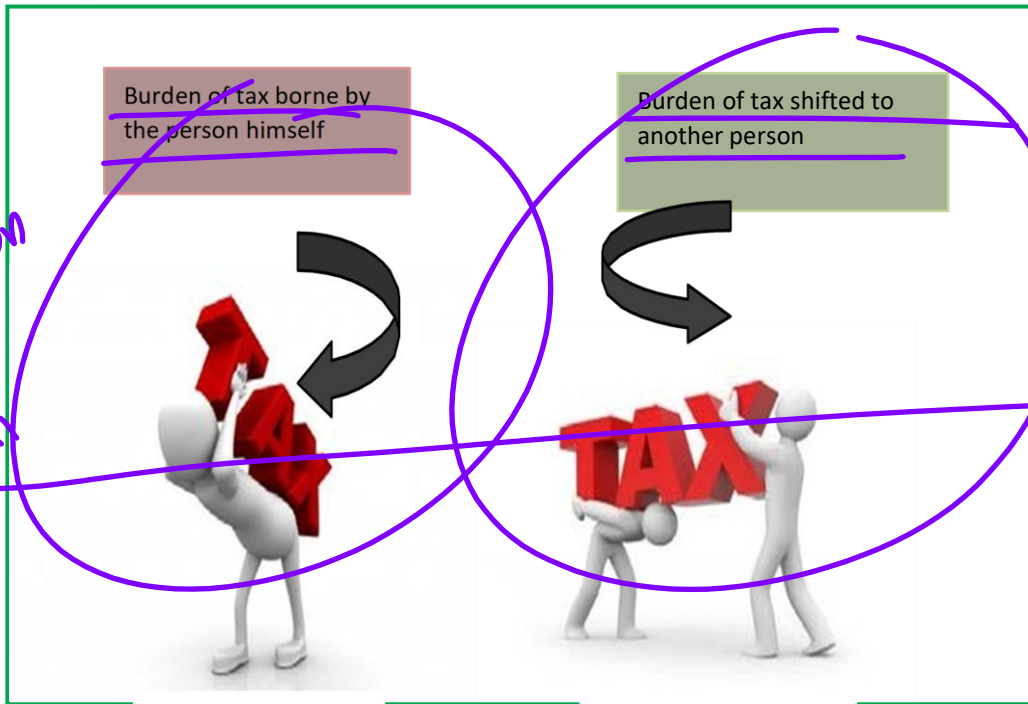
CHAPTER 1

OVERVIEW OF GST

CHAPTER OVERVIEW

S.L. NO	TOPIC
1 ✓	STRUCTURE OF TAXATION IN INDIA
2 ✓	FEATURES OF INDIRECT TAX
3 ✓	<u>PRE-GST SCENARIO OF INDIRECT TAX IN INDIA</u>
4 ✓	<u>GENESIS AND HISTORY OF GST</u>
5 ✓	<u>NEED & PRINCIPLES OF GST</u> <i>VAT/ED/SEP</i>
6 ✓	<u>CHALLENGES FACED IN EXISTING TAX STRUCTURE</u>
7 ✓	<u>TAXES <u>SUBSUMED</u> & <u>NOT SUBSUMED</u> IN GST</u>
8 ✓	<u>GST IN INDIA & TYPES OF TAXES IN GST</u> <i>THEORY</i>
9 ✓	<u>ILLUSTRATIONS ON SUPPLY</u>
10 ✓	<u>BENEFITS OF GST</u> <i>S</i>

STRUCTURE OF TAXATION IN INDIA



FEATURES OF INDIRECT TAXES

(1) An important source of revenue: Indirect taxes are a major source of tax revenues for Governments worldwide and continue to grow as more countries move to consumption-oriented tax regimes. In India, indirect taxes contribute more than 50% of the total tax revenues of Central and State Governments.

(2) Tax on commodities and services: It is levied on commodities at the time of manufacture or purchase or sale or import/export thereof. Hence, it is also known as commodity taxation. It is also levied on provision of services.

Destination

SERVICE TAX

450

10,000 - GST

(3) Shifting of burden: There is a clear shifting of tax burden in respect of indirect taxes. For example, GST paid by the supplier of the goods is recovered from the buyer by including the tax in the cost of the commodity.

(4) No perception of direct pinch: Since, value of indirect taxes is generally inbuilt in price of commodity, most of the time the tax payer pays the same without actually knowing that he is paying tax to the Government. Thus, tax payer does not perceive a direct pinch while paying indirect taxes.

(5) Inflationary: Tax imposed on commodities and services causes an all-round price spiral. In other words, indirect taxation directly affects the prices of commodities and services and leads to inflationary trend.

(6) Wider tax base: Unlike direct taxes, the indirect taxes have a wide tax base. Majority of the products or services are subject to indirect taxes with low thresholds.

Compensation less

(7) Promotes social welfare: High taxes are imposed on the consumption of harmful products (also known as 'sin goods') such as alcoholic products, tobacco products etc. This not only checks their consumption but also enables the State to collect substantial revenue.

(8) Regressive in nature: Generally, the indirect taxes are regressive in nature. The rich and the poor have to pay the same rate of indirect taxes on certain commodities of mass consumption. This may further increase the income disparities between the rich and the poor.

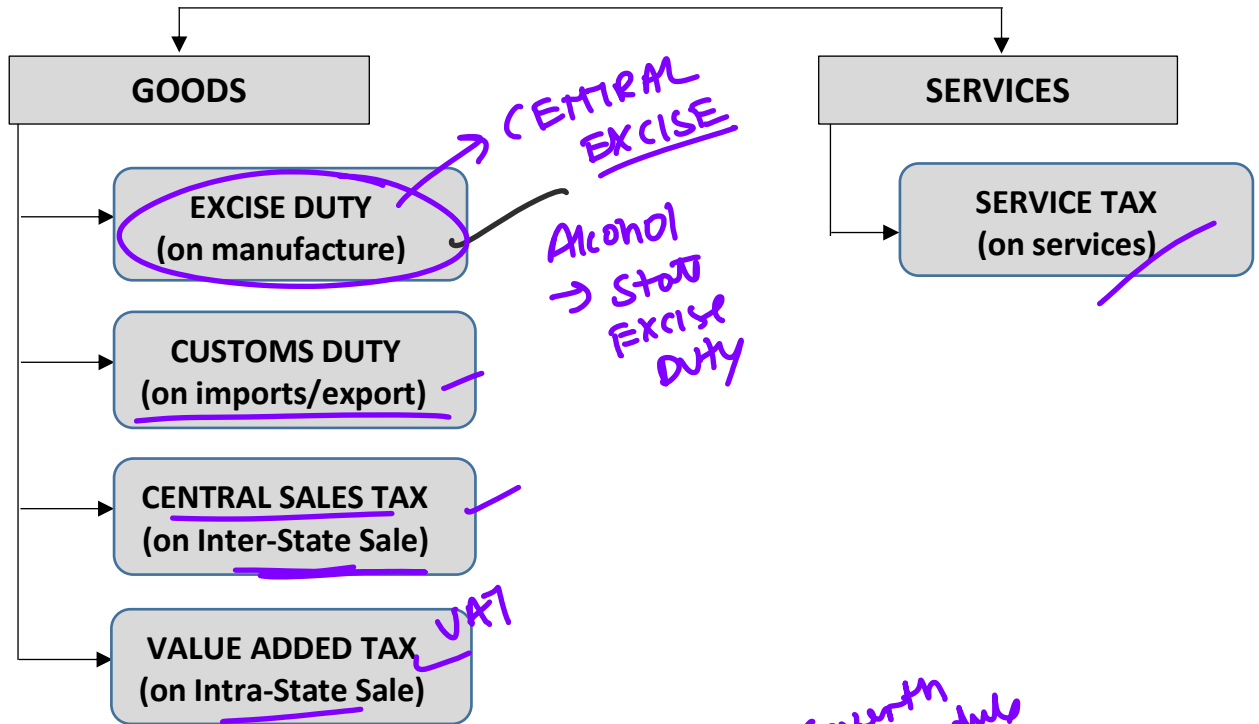
$$\begin{array}{r} \text{NIL} \\ \hline 2,10,000 \end{array}$$

$$\begin{array}{r} 51 \\ \hline 275 \end{array}$$

$$\begin{array}{r} 20 \\ 5 \\ \hline 25 \end{array}$$

$$\begin{array}{r} 3 \\ 714 \\ \hline 717 \end{array}$$

PRE-GST SCENARIO OF INDIRECT TAX IN INDIA



The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State. **Article 246** of the Indian Constitution, distributes legislative powers including taxation, between the Parliament of India and the State Legislatures.

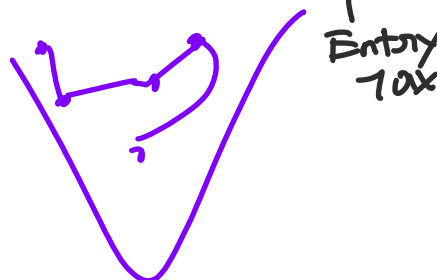
In the previous tax regime, the Centre had the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States had the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre had the power to levy a tax (the Central Sales Tax) but, the tax was collected and retained entirely by the States. As for services, it was the Centre alone that was empowered to levy service tax.

SERVICE -> Central

*Mfg -> Central (Except Alcohol)
 Sale -> State (Intra state)
 State (Inter state)*

<u>TAXES LEVIED BY CENTRAL GOVERNMENT</u>	<u>TAXES LEVIED BY STATE GOVERNMENT</u>
Central Excise, Customs and Service tax	Value Added Tax (VAT) and CST were the major taxes along with Octroi, Entertainment Tax etc.

*PARLIAMENT
 (CST) -> 1 Act
 Collection State*



GENESIS OF GST IN INDIA

The idea of national Goods and Services Tax (GST) was mooted by Kelkar Task Force in 2004. The Task Force strongly recommended fully integrated 'GST' on national basis

France was the first country to implement GST in 1954. Within 62 years of its advent, about 160 countries across the world have adopted GST because this tax has the capacity to raise revenue in the most transparent and neutral manner. GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, CST, luxury tax, entertainment tax, entry tax, etc.

HISTORY OF GST IN INDIA

YEAR	ACTIVITY
2003	Suggestion by Kelkar Task Force for GST based on VAT principle
Feb, 2007	Announcement made by the then Hon'ble Union Finance Minister in the Budget (2007-08) that GST would be introduced with effect from April 01, 2010.
Sept, 2009	The Empowered Committee (EC) decided to constitute a Working Group to give their recommendations on GST
Nov, 2009	Empowered Committee released its FIRST DISCUSSION PAPER on GST, based on inputs from Government(s) of Centre and States
March, 2011	The Constitution (115th Amendment) Bill, 2011 to give concurrent taxing powers to the Union and States was introduced in Lok Sabha which was lapsed in 2014 and was replaced with the Constitution (122nd Amendment) Bill, 2014 .
Nov, 2012	A " Committee on GST Design ", consisting of the officials of the Government of India, State Governments and Empowered Committee (EC) was constituted.
Jan, 2013	The Empowered Committee deliberated on the proposed design including the Constitution (115th) Amendment Bill and submitted the report
March, 2013	Goods and Services Tax Network (GSTN) as special purpose vehicle setup by the Government, being a private limited company, was incorporated to provide IT infrastructure and services to the Central and State Government(s), tax payers and other stakeholders for implementation of the Goods and Services Tax
Aug, 2013	The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined by the Ministry in consultation with the Legislative Department and the Draft Amendment Bill was suitably revised.
Sept, 2013	The final draft Constitutional Amendment Bill incorporating the above stated changes was sent to the Empowered Committee(EC) for consideration

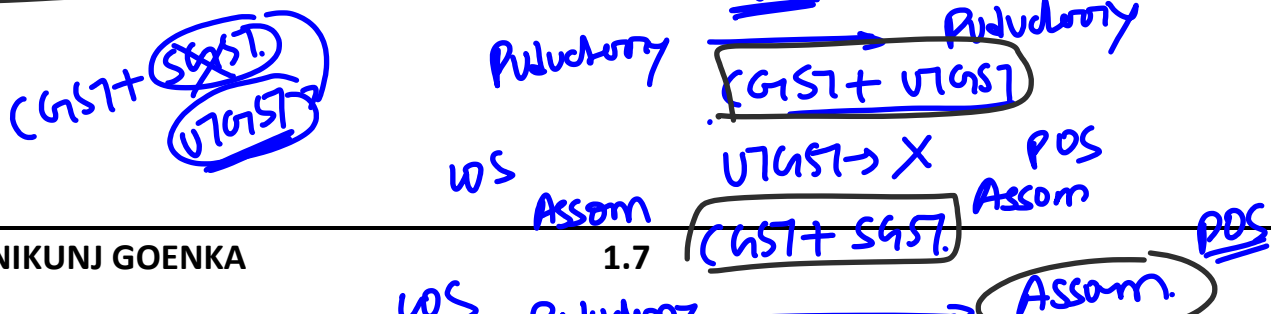
Nov, 2013	Additional recommendations were incorporated in the draft Constitution (115th Amendment) Bill and the revised draft was again sent to EC for its consideration.
June, 2014	The draft Constitution Amendment Bill in March, 2014 was sent to the Empowered Committee after approval of the new Government. (C+S) 2007-8
Dec, 2014	The Constitution (122 nd Amendment) Bill, 2014 was introduced in the Lok Sabha on 19 December 2014 by the Hon'ble Minister of Finance, Mr. Arun Jaitley.
May, 2015	Constitution Amendment (122nd) Bill was passed by Lok Sabha on 6 May 2015 and referred to 21-member Select Committee of Rajya Sabha
July, 2015	Select Committee submitted its report to Rajya Sabha on July 22, 2015
June, 2016	The Ministry of Finance released draft model law on GST in public domain for views and suggestion.
Aug, 2016	On 3 August, 2016, the Constitution (122 nd Amendment) Bill, 2014 was passed by Rajya Sabha with certain amendments. The changes made by Rajya Sabha were unanimously passed by Lok Sabha, on 8 August, 2016
Sept, 2016	The Bill was adopted by majority of State Legislatures wherein approval of at least 50% of the State Assemblies was required Final assent of Hon'ble President of India was given on 8 th September, 2016
April, 2017	The Parliament passed the following four bills and President has given its Assent on 12 th April 2017 Constitution (101) Amendment Act 2016 (4) (CGST, IGST, UTGST, GST (Cess))
July 2017	GST law made applicable from 1 July 2017 in India (8 July in Jammu & Kashmir) 2017

LAWS OF GST IN INDIA

- (i) Central Goods and Services Tax (CGST) Act, 2017
- (ii) Integrated Goods and Services Tax (IGST) Act, 2017
- (iii) Union Territory Goods and Services Tax (UTGST) Act, 2017
- (iv) Goods and Services Tax (Compensation to States) Act, 2017
- (v) State Goods and Services Tax (SGST) Acts, 2017

117/2017 A265
 PRESIDENT'S GST 11/4/1962
 GOVERNOR
 UT GST

Telangana, Rajasthan, Chhattisgarh, Punjab, Goa and Bihar were among the first ones to pass their respective State GST laws.



BROAD PRINCIPLES OF GST

- (i) GST is a value added tax levied on manufacture, sale and consumption of goods and services SUPPLY
- (ii) Broad-based tax & destination based tax ORIGINAL (Buying stock)
- (iii) Technically paid by suppliers but it is actually funded by consumers
- (iv) Collected through a staged process i.e. a tax on the value added to goods or services at every point in the supply chain
- (v) A tax on consumption of products from business sources, and not on personal or hobby activities
- (vi) Input tax credit is provided throughout the value chain 5/12/18/20
- (vii) Manufacturers, wholesalers, retailers and service providers charge GST at the specified rate on price of the goods and services from consumers and claim input credits for GST paid by them on procurement of goods and services (raw material).
- (viii) Since, only the value added at each stage is taxed under GST, there is no tax on tax or cascading of taxes under GST system. GST does not differentiate between goods and services and thus, the two are taxed at a single rate

NEED OF GST IN INDIA



- (i) Removing the cascading effects of both Central and State taxes by allowing setting-off of taxes throughout the value chain, right from the original producer and service provider's point up to the retailer's level. **NO CASCADING OF TAXES** (tax on tax)
- (ii) GST, as a well-designed value added tax on all goods and services, is the most elegant method to eliminate distortions and to tax consumption.

DISADVANTAGES OF GST

1. In the previous system, many products were exempted from taxation. The GST has a minimal exemption list. Earlier, higher taxes were levied on fewer items, but with GST, lower taxes are levied on almost all items → STATE ED + VAT
2. GST is not applicable on liquor for human consumption. So alcohol rates will not get any advantage of GST.
3. Stamp duty will not fall under the GST regime and will continue to be imposed by states.
4. Few petroleum products still out of GST ambit, there might be a break in supply chain credit. STATE

PURCHASE → GST (C+S)

CHALLENGES FACED IN CURRENT INDIRECT TAX STRUCTURE

- 1) Manufacturer of excisable goods charged excise duty and value added tax (VAT) on intra-State sale of goods. However, the VAT dealer on his subsequent intra-State sale of goods charged VAT (as per prevalent VAT rate as applicable in the respective State) on value comprising of (basic value + excise duty charged by manufacturer + profit by dealer). Further, in respect of tax on services, service tax was payable on all 'services' other than the Negative list of services or otherwise exempted
- 2) Different states were charging VAT at different rates, which were resulting in imbalance of trade between the states.
- 3) Lack of uniformity in terms of registration, due date of payment, return filing assessment procedures, refund mechanism, appellate process etc.

ED was part of the cost to dealer

Example: A business establishment having offices in different states are required to follow the laws of the respective states.

Credit of Excise & SMOY

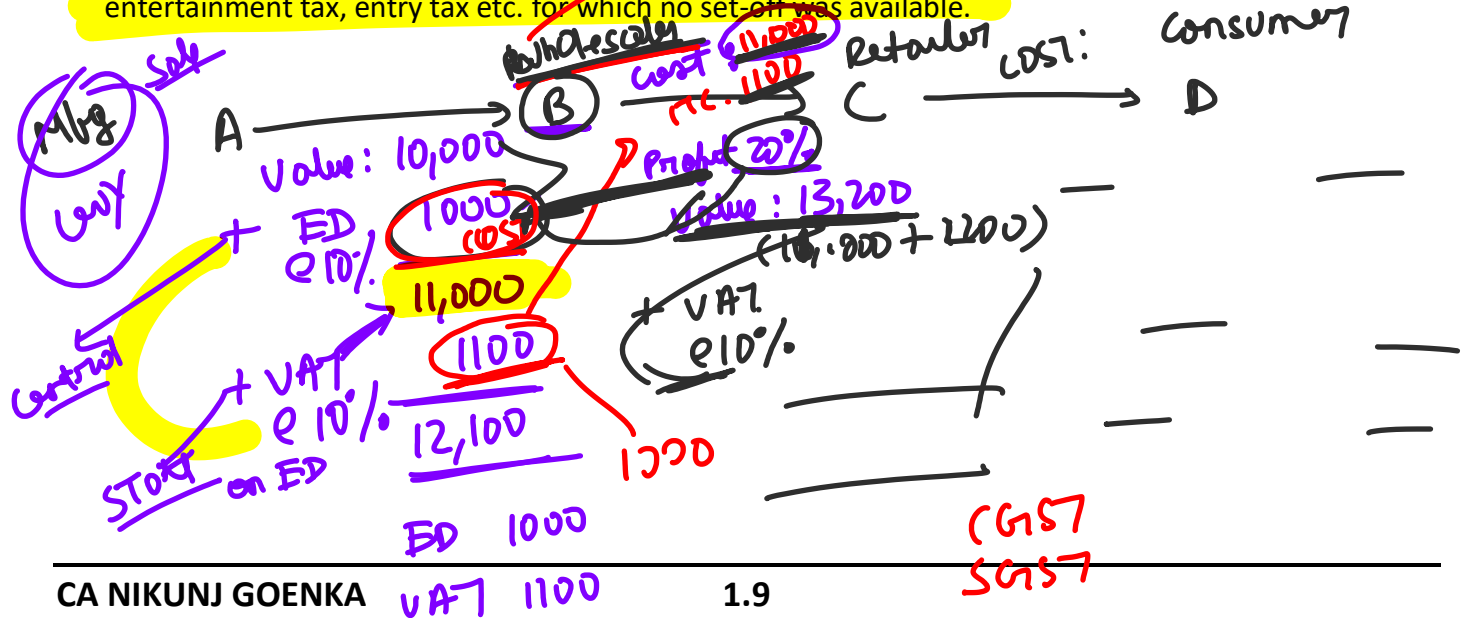
NO ED against VAT

- 4) CENVAT was confined to the — manufacturing stage and did not extend to the distribution chain beyond the factory gate. As such, CENVAT paid on goods could not be adjusted against State VAT payable on subsequent sale of goods.
- 5) State VAT was payable on the value of goods inclusive of CENVAT paid at the manufacturing stage and thus the VAT liability of a dealer used to get inflated by this component without compensatory set-off.
- 6) Inter-State sale of goods was liable to the Central Sales Tax (CST) levied by the Centre and collected by the States. This was an origin-based tax and could not be set-off against VAT in many situations.
- 7) State VAT and CST were not directly applicable to the import of goods on which Special Additional Duties (SAD) of customs were levied at a uniform rate of 4% by the Centre. Input tax credit of these duties was available only to those manufacturing excisable goods. Other importers had to claim refund of this duty as and when they pay VAT on subsequent sales.
- 8) VAT dealers were unable to set-off any Service Tax that they may have paid on their procurement of taxable input services.

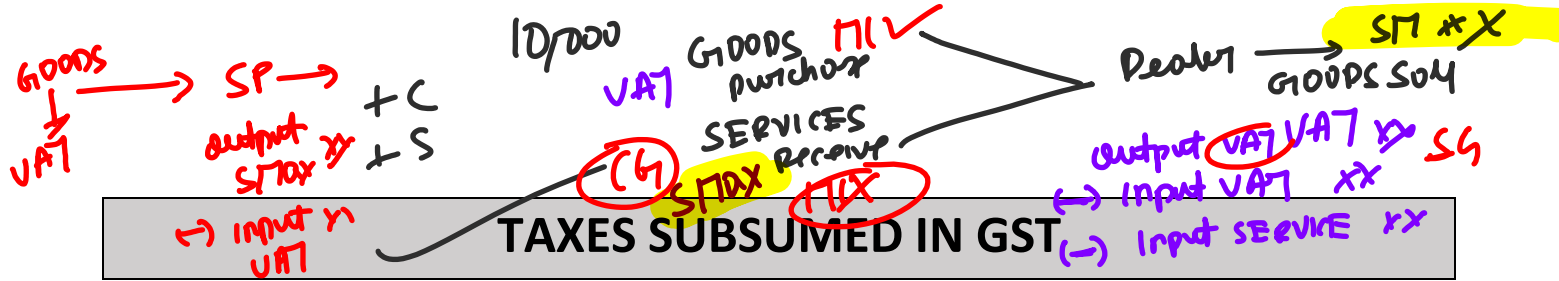
Excise component

- 9) State Governments also levied and collected a variety of other indirect taxes such as luxury tax, entertainment tax, entry tax etc. for which no set-off was available.

NO Rgn → ED X VAT ✓ Sale



CGST
SGST



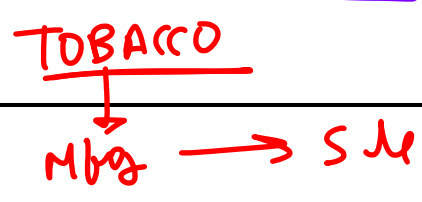
TAXES SUBSUMED IN GST

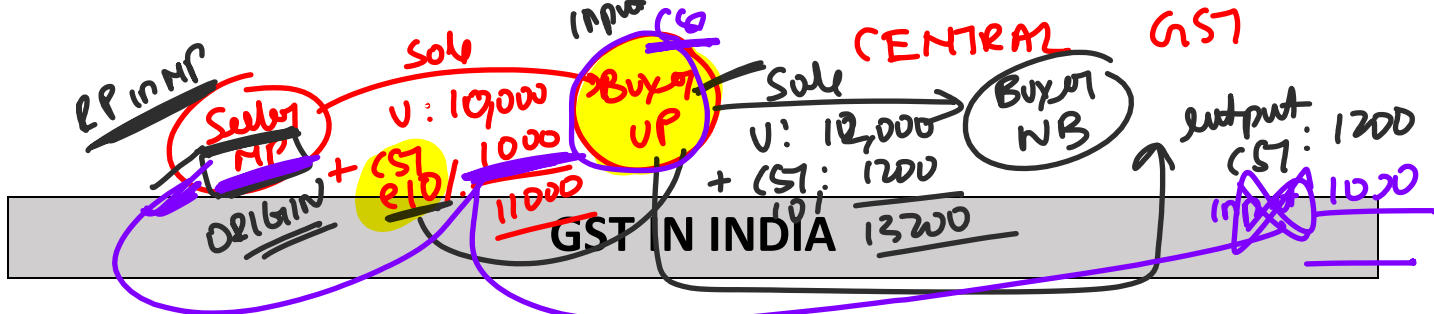
CENTRAL TAXES	STATE TAXES
Central Excise Duty 12.1%	State VAT ✓
<u>Duties of Excise (Medicinal and Toilet Preparations)</u>	Purchase Tax ✓
<u>Additional Duties of Excise (Goods of Special Importance)</u>	Luxury Tax ✓
<u>Additional Duties of Excise (Textiles and Textile Products)</u>	Entry Tax (All forms) ET ✓
<u>Additional Duties of Customs (commonly known as CVD) Countervailing Duty Compensatory EXCISE</u>	<u>Entertainment Tax (except those levied by the local bodies)</u>
<u>Special Additional Duty of Customs (SAD) Compensatory VAT</u>	Taxes on advertisements
Service Tax	Taxes on lotteries, betting and gambling
Central Sales Tax (CST) <u>SBL CGT</u>	<u>State cesses and surcharges in so far as they relate to supply of goods or services</u> → Inter State supply
<u>Cesses and surcharges in so far as they relate to supply of goods or services</u> 4% <u>HEC + Use</u>	IMPORT → CUSTOMS (CGT) ✓

TAXES THAT ARE NOT SUBSUMED IN GST

- Following products are outside the ambit of GST
- Petroleum Products viz petroleum crude, high spirit, diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel P PD-PAM PD-CAM Sec 9(2)
 - Alcoholic Liquor for human consumption
 - Electricity Duty. Elect Act → Formally

- Following taxes continue to be levied on above-mentioned products even post GST.
- Central excise duty continues to be levied on manufacture of tobacco, petroleum crude, diesel, petrol, ATF and natural gas; Tobacco and related products would be subjected to both GST and Excise Duty
 - State excise duty is leviable on manufacture of alcoholic liquor, opium, Indian hemp and narcotics, **NO GST**
 - VAT is leviable on intra-State sale of petroleum crude, diesel, petrol, ATF, natural gas and alcoholic liquor. **5 Petroleum Products**
 - Petroleum crude, diesel, petrol, ATF, natural gas are presently not taxable under GST and alcoholic liquor is outside the ambit of GST.





Basic Principles of GST in India

- (i) GST is a consumption or destination-based tax levied on the basis of the "Destination principle."
- (ii) Comprehensive tax regime covering both goods and services and collected on value-added at each stage of the supply chain.
- (iii) GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services.
Input can be utilised against output

GST is levied on goods and services imposed at each point of SUPPLY

Based on value added principle just like VAT which was levied on intra-state sale

DUAL MODEL OF GST

Dual GST

CGST

The power to levy taxes would be subjectively distributed between Centre and States and there will be separate levies in the form of

- (i) Central Goods and Services Tax (CGST),
- (ii) State Goods and Services Tax (SGST) / Union Territory Goods and Service Tax (UTGST) and
- (iii) Integrated Goods and Services Tax (IGST)

CGST/SGST/UTGST/IGST

enabling the tax credit across these three variants of taxes.

Currently, Brazil and Canada also follow dual GST model.

India has borrowed Canadian Model

OTHER MODELS OF GST

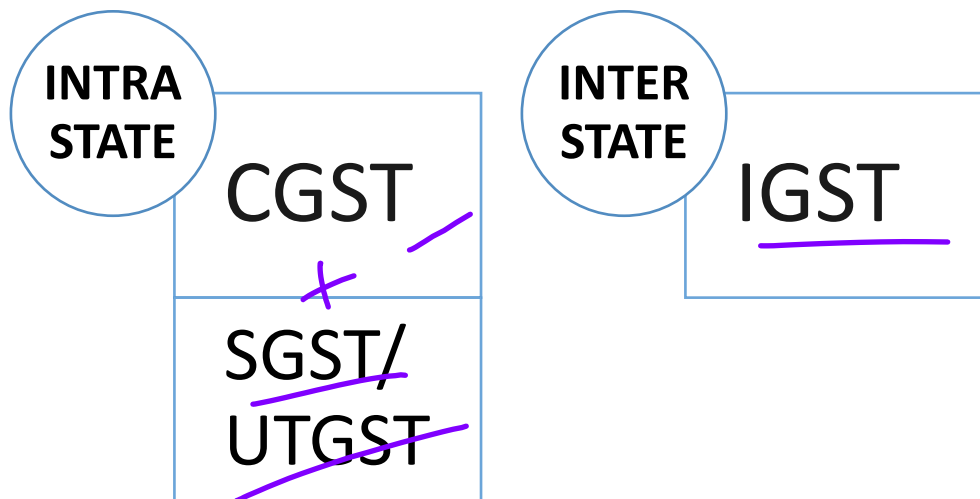
1. **Australian Model** - tax is collected by the Centre and distributed to the States
2. **Canadian Model** - there are three variants of taxes
3. **Kelkar-Shah Model** based on Canada Model - taxes are collected by the Centre however, two different rates of tax are to be levied by the Centre and the States
4. **Bagchi-Poddar Model** - Combination of Central Excise, Service Tax and VAT to make it a common base of GST to be levied both by the Centre and the States separately

TYPES OF SUPPLY

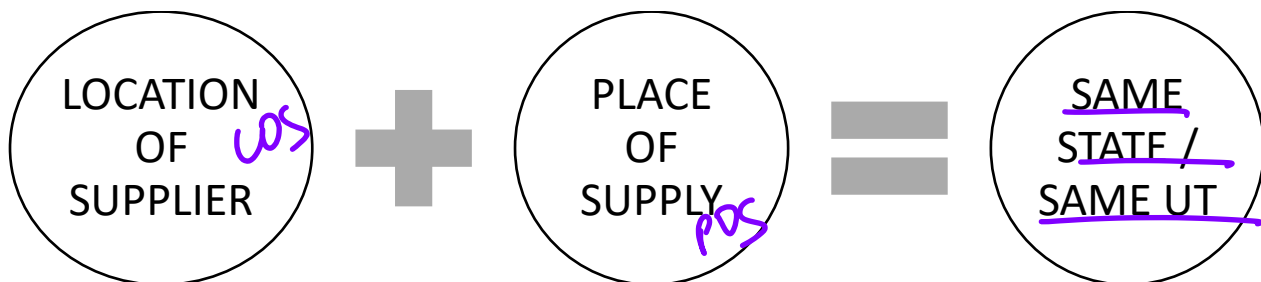
<u>INTRA STATE SUPPLY</u>	<u>CGST</u> levied by CG and <i>Delhi/Puducherry/J&K</i> <u>SGST</u> levied by SG and <u>UT with state legislature</u> and <u>UTGST</u> levied by <u>UT without state legislatures</u>
<u>INTER STATE SUPPLY</u>	<u>IGST</u> levied by <u>CG</u> [CGST+SGST]

They are considered to be states

TYPES OF TAXES UNDER GST



INTRA STATE SUPPLY

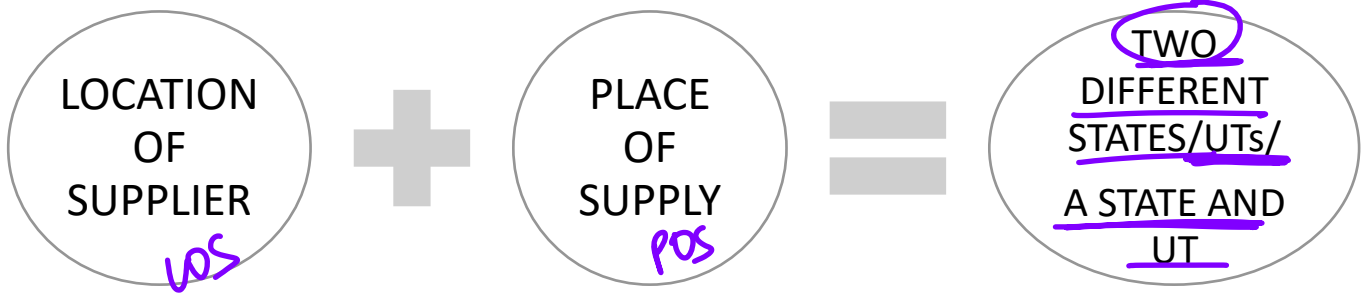


Where the **location of the supplier** and the **place of supply** of goods or services are in the **same State/Union territory**, it is treated as **INTRA-STATE SUPPLY** of goods or services respectively.

CGST and SGST/UTGST is levied on all INTRA-STATE SUPPLIES of goods and/or services

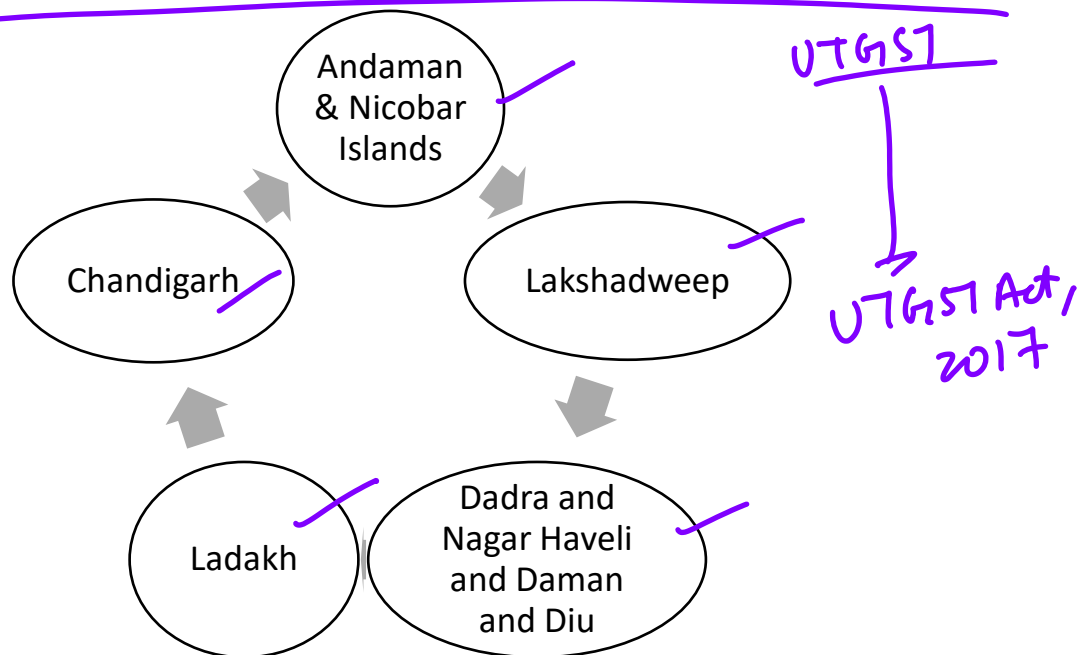
IGST is levied on all INTER-STATE SUPPLIES of goods and/or services.

INTER STATE SUPPLY



Where the location of the supplier and place of supply of goods or services are in (i) two different States or (ii) two different Union Territories or (iii) a State and a Union territory, it is treated as INTER-STATE SUPPLY of goods or services respectively.

LIST OF UNION TERRITORIES WITHOUT STATE LEGISLATURES



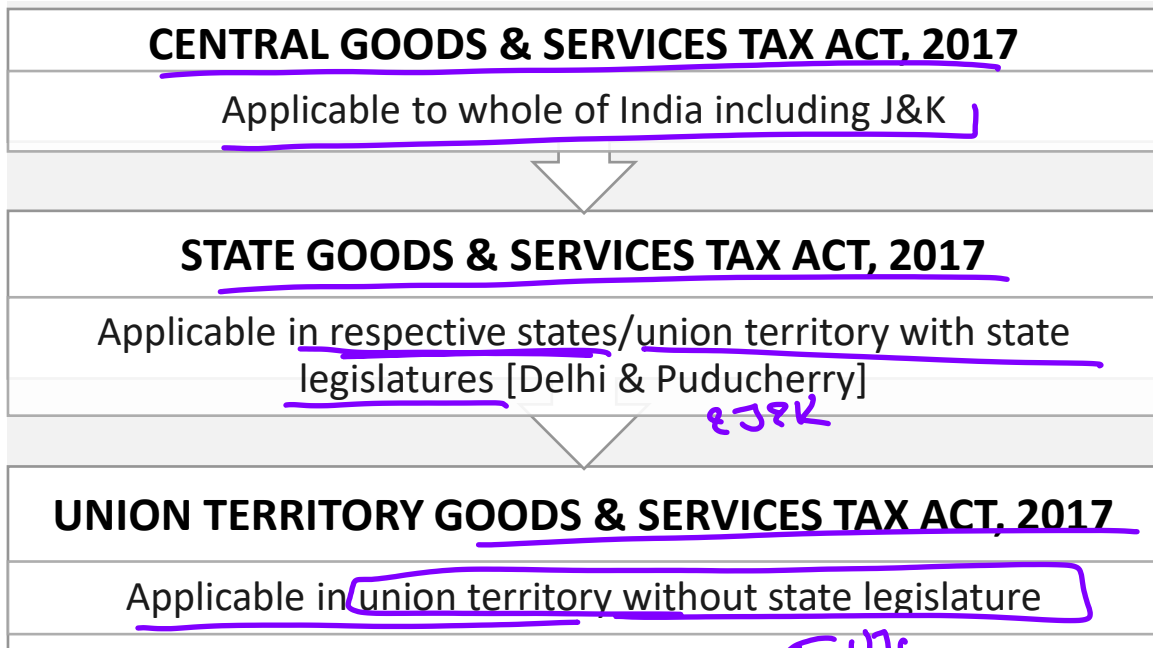
Above mentioned Union Territories are governed by UTGST Act, 2017 for levying UTGST

LIST OF UNION TERRITORIES WITH STATE LEGISLATURES



SGST/
SGST Act
2017

INTRODUCTION TO CGST ACT, 2017 AND SGST/UTGST ACT, 2017



Definition of India: India means

- (a) territory of India as referred to in Article 1 of the Constitution
- (b) its territorial waters, seabed and sub-soil underlying such waters, continental shelf, exclusive economic zone
- (c) the air space above its territory and territorial waters

CLASSIFICATION OF GOODS AND SERVICES

HSN (Harmonized System of Nomenclature) code is used for classifying the goods under the GST.

SAC (Service Accounting Code)

Classification of goods and services

A **new Scheme of Classification of Services** has been devised wherein the services of various descriptions have been classified under various sections, headings and groups. Each group consists of various Service Codes (Tariff). Chapters referred are the Chapters of the First Schedule to the Customs Tariff Act, 1975.

Classification of cut pieces of fabrics under GST (Unstitched Salwar Suits)

It has been represented that before becoming readymade articles or an apparel, the fabric is cut from bundles or thans and sold in that unstitched state. The consumers buy these sets or pieces and get it stitched to their shape and size. Fabrics are classifiable under chapters 50 to 55 of the First Schedule to the Customs Tariff Act, 1975 on the basis of their constituent materials.

Mere cutting and packing of fabrics into pieces of different lengths from bundles or thans, will not change the nature of these goods and such pieces of fabrics would continue to be classifiable under the respective heading as the fabric [Circular No. 13/13/2017 GST dated 27.10.2017].

Sec 22-30

(22/23/24)
✓ Compulsory
✓ liable
✓ Not liable

REGISTRATION

Every supplier of goods and/ or services is required to obtain registration in the State/UT from where he makes the taxable supply if his "aggregate turnover" exceeds ₹ 20 lakhs during a FY. The limit is ₹ 10 lakhs if the person is carrying out business in the Special Category States.

Special Category States are Manipur, Mizoram, Nagaland & Tripura.

20/4/110

A7 →
ALL
APP

M2M7
(SEC 10)

A7 < 150L (1.5TR)

COMPOSITION SCHEME

In GST regime, tax (i.e. CGST and SGST/UTGST for intra-State supplies and IGST for inter-State supplies) is payable by every taxable person and in this regard provisions have been prescribed in the law

For providing relief to small businesses making intra-State supplies, a simpler method of paying taxes and accounting thereof is also prescribed, known as Composition Levy based on prescribed turnover limit.

EXEMPTIONS

TURNOVER X 1.5/5/6

Apart from providing relief to small-scale business, the law also contains provisions for granting exemption from payment of tax on essential goods and/or services (SEC 11)

MANNER OF UTILIZATION OF ITC

INTRA-STATE		INTER-STATE
OUTPUT CGST	OUTPUT SGST	OUTPUT IGST
Credit to be utilized sequentially (i) IGST (ii) CGST	Credit to be utilized sequentially (i) IGST (ii) SGST	Credit to be utilized sequentially (i) IGST (ii) CGST (iii) SGST (only after balance of CGST is not available)
CROSS UTILIZATION OF CGST AND SGST/UTGST IS NOT AVAILABLE		

CG to CG
CG to SG
CG to SG
CG to SG

Output → I
less input → I
input → C
input → I

(containing)
CGST
IGST

Read

PAYMENT
GST USING
ITC

UTILISATION OF INPUT TAX CREDIT [SECTION 49]

SGST/ UTGST to be used for payment of IGST only when credit of CGST is not available [Section 49]

Section 49(5) prescribes the order of utilization of ITC. As per section 49(5)(c) and 49(5)(d), ITC of SGST /UTGST should first be utilized towards payment of SGST /UTGST and the amount remaining, if any, may be utilized towards payment of IGST.

The ITC on account of *SGST /UTGST can be utilized towards payment of IGST only where the balance of the ITC on account of CGST is not available for payment of IGST.*

ITC of IGST to be fully utilised first [Section 49A]

The ITC of CGST, SGST /UTGST should be utilised towards payment of IGST, CGST, SGST /UTGST **only after the ITC of IGST has first been utilised fully towards such payment.**

Order of utilization of ITC [Section 49B]

Section 49B provides that the Government may, on the recommendations of the Council, prescribe the order and manner in Rule 88 of utilization of the ITC of IGST, CGST, SGST /UTGST towards payment of any such tax. Section 49B also starts with a non obstante clause, "Notwithstanding anything contained in this Chapter"

Thus, the provisions of section 49B would prevail over the provisions contained in Chapter X: Payment of Tax. **However, utilization of ITC of CGST for payment of SGST /UTGST and vice versa will not be prescribed.**

Mechanism prescribed for utilisation of ITC [Rule 88A]

The newly inserted rule 88A allows utilization of ITC of IGST towards the payment of CGST and SGST /UTGST **in any order** subject to the condition that the entire ITC of IGST is completely exhausted first before the ITC of CGST or SGST /UTGST can be utilized.

The new rule provides as under:

- (i) ITC of IGST should first be utilized towards payment of IGST.
- (ii) Remaining ITC of IGST, if any, can be utilized towards the payment of CGST and SGST /UTGST in any order, i.e. ITC of IGST can be first utilized either against CGST or SGST.
- (iii) ITC of CGST, SGST /UTGST can be utilized towards payment of IGST, CGST, SGST /UTGST only after the ITC of IGST has first been utilized fully.

Flowchart to understand the process of utilization of ITC

ITC on account of	Output IGST	Output CGST	Output SGST
IGST	(I)	(II) – In any order and in any proportion	
(III) ITC on account of IGST to be completely exhausted mandatorily			
CGST	(V)	(IV)	Not permitted
SGST	(VII)	Not permitted	(VI)

ALWAYS check Input IGST first & whether any balance of input I is remaining

Input IGST B 1 =

Illustration

Head	Output liability	Input Tax Credit
IGST	1000	1300
CGST	300	200
SGST/UTGST	300	200
Total	1600	1700

Input I = 10,000

Output Input X

1800

F → CGST 2000

(300)
(100) (200) (100)
(150) (100) (200)
(100) ITC clb
(100) payow

Option 1:

ITC on account of	Discharge of output IGST	Discharge of Output CGST	Discharge of Output SGST	Balance of ITC
IGST	1000	200	100	0
ITC on account of IGST has been completely exhausted				
CGST	0	100	Not permitted	100
SGST	0	Not permitted	200	0
Total	1000	300	300	100

200

100

Option 2:

ITC on account of	Discharge of output IGST	Discharge of Output CGST	Discharge of Output SGST	Balance of ITC
IGST	1000	100	200	0
ITC on account of IGST has been completely exhausted				
CGST	0	200	Not permitted	0
SGST	0	Not permitted	100	100
Total	1000	300	300	100

IGST → 200 SGST

SGST

Handwritten note: *व्यवहार*

Handwritten notes: *Seller MP*, *Goods*, *Buyer JP*, *16% ST*, *CGT*, *CST*, *SH*

SEAMLESS FLOW OF CREDIT

Since GST is destination based, consumption tax, revenue of SGST ordinarily accrues to consuming States. The inter-State supplier in exporting State is allowed to set off available credit of IGST, CGST and SGST/UTGST (in that order) against the IGST payable on inter-State supply made by him.

The buyer in importing State is allowed to avail credit of IGST paid on inter-State purchase made by him. Accordingly, under GST regime there is a seamless credit flow in case of inter-State supplies too.

The revenue of inter-State sale does not accrue to exporting State and exporting State transfers to the Centre the credit of SGST/UTGST used in payment of IGST.

The Centre transfers to importing State credit of IGST used in payment of SGST/UTGST. Thus, the inter-State trade of goods and services (IGST) needed a robust settlement mechanism amongst the States and the Centre.

Handwritten example: *input SGST → 1000*, *WB (A) 10,000 → (B) BIHAR*, *18% + 16% 1800*

COMMON PORTAL

Common GST Electronic Portal – www.gst.gov.in – a website managed by Goods and Services Tax Network (GSTN) to establish a uniform interface for taxpayer and a common and shared IT infrastructure between the Centre and States. A common GST system provides linkage to all State/ UT Commercial Tax Departments, Central Tax authorities, Taxpayers, Banks and other stakeholders.

FUNCTIONS OF THE GSTN



GSPs/ASPs

GSTN has selected certain IT, ITeS and financial technology companies, to be called GST Suvridha Providers (GSPs). GSPs develop applications to be used by **GSPs / ASPs** taxpayers for interacting with the GSTN. They act as a single stop shop for GST related services. GSPs may take help of Application Service Providers (ASPs) who act as a link between taxpayers and GSPs.

10/5/2017

ILLUSTRATION ON INTRA-STATE SUPPLY

In case of local supply of goods/ services, the supplier would charge dual GST i.e., CGST and SGST at specified rates on the supply.

SUPPLY OF GOODS/ SERVICES BY A TO B

	Amount (in ₹)
Value charged for supply of goods/services	10,000
Add: CGST @ 9%	900
Add: SGST @ 9%	<u>900</u>
Total price charged by A from B for local supply of goods/ services	<u>11,800</u>

The CGST & SGST charged on B for supply of goods/services will be remitted by A to the appropriate account of the Central and State Government respectively. A is the first stage supplier of goods/services and hence, does not have credit of CGST, SGST or IGST.

SUPPLY OF GOODS/SERVICES BY B TO C – VALUE ADDITION @ 20%

B will avail credit of CGST and SGST paid by him on the purchase of goods/ services and will utilise such credit for being set off against the CGST and SGST payable on the supply of goods/services made by him to C.

	Amount (in ₹)
Value charged for supply of goods/ services (₹10,000 x 120%)	12,000
Add: CGST @ 9%	1080
Add: SGST @ 9%	<u>1080</u>
Total price charged by B from C for local supply of goods/ services	<u>14160</u>

COMPUTATION OF CGST, SGST PAYABLE BY B TO GOVERNMENT

	Amount (in ₹)
CGST payable	1080
Less: Credit of CGST	<u>900</u>
CGST payable to Central Government	<u>180</u>
SGST payable	1080
Less: Credit of SGST	<u>900</u>
SGST payable to State Government	<u>180</u>

Note: Rates of CGST and SGST have been assumed to be 9% each for the sake of simplicity.

STATEMENT OF REVENUE EARNED BY CENTRAL AND STATE GOVERNMENT

Transaction	Revenue to Central Government (₹)	Revenue to State Government (₹)
Supply of goods/services by A to B	900	900
Supply of goods/services by B to C	180	180
Total	1080	1080

ILLUSTRATION ON INTER-STATE SUPPLY

SUPPLY OF GOODS/SERVICES BY X OF STATE 1 TO A OF STATE 1

	Amount (in ₹)
Value charged for supply of goods/services	10,000
<i>Add: CGST @ 9%</i>	900
<i>Add: SGST @ 9%</i>	<u>900</u>
Total price charged by X from A for intra-State supply of goods/services	<u>11,800</u>

X is the first stage supplier of goods/services and hence, does not have any credit of CGST, SGST or IGST.

SUPPLY OF GOODS/SERVICES BY A OF STATE 1 TO B OF STATE 2 – VALUE ADDITION @ 20%

	Amount (in ₹)
Value charged for supply of goods/services (₹10,000 x 120%)	12,000
<i>Add: IGST @ 18%</i>	<u>2,160</u>
Total price charged by A from B for inter-State supply of goods/services	<u>14,160</u>

COMPUTATION OF IGST PAYABLE TO GOVERNMENT

	Amount (in ₹)
IGST payable	2,160
<i>Less: Credit of CGST</i>	900
<i>Less: Credit of SGST</i>	<u>900</u>
IGST payable to Central Government	<u>360</u>

The IGST charged on B of State 2 for supply of goods/services will be remitted by A of State 1 to the appropriate account of the Central Government. State 1 (Exporting State) will transfer SGST credit of ₹ 900 utilised in the payment of IGST to the Central Government.

**SUPPLY OF GOODS/SERVICES BY B OF STATE 2 TO C OF STATE 2 – VALUE ADDITION
@ 20%**

B will avail credit of IGST paid by him on the purchase of goods/services and will utilise such credit for being set off against the CGST and SGST payable on the local supply of goods/services made by him to C.

	Amount (in ₹)
Value charged for supply of goods/ services (₹12,000 x 120%)	14,400
Add: CGST @ 9%	1,296
Add: SGST @ 9%	<u>1,296</u>
Total price charged by B from C for local supply of goods/services	<u>16,992</u>

COMPUTATION OF CGST, SGST PAYABLE TO GOVERNMENT

	Amount (in ₹)
CGST payable	1,296
Less: Credit of IGST	<u>1,296</u>
CGST payable to Central Government	<u>Nil</u>
SGST payable	1,296
Less: Credit of IGST (₹ 2,160 - ₹ 1,296)	864
SGST payable to State Government	432

The Central Government will transfer IGST credit of ₹ 864 utilised in the payment of SGST to State 2 (Importing State).

STATEMENT OF REVENUE EARNED BY CENTRAL AND STATE GOVERNMENTS

Transaction	Revenue to Central Government (₹)	Revenue to Government of State 1 (₹)	Revenue to Government of State 2 (₹)
Supply of goods/services by X to A	900	900	
Supply of goods/services by A to B	360		
Transfer by State 1 to Centre	900	(900)	
Supply of goods/services by B to C			432
Transfer by Centre to State2	(864)		864
Total	1,296	Nil	1,296

BENEFITS OF GST

1. **Eliminates cascading effect of taxation:** By subsuming most of Central & State taxes into a single tax and by allowing a set-off of prior-stage taxes for transactions across entire value chain, it would mitigate ill effects of cascading, improve competitiveness and improve liquidity of the businesses
2. **Elimination of multiple taxes and double taxation:** GST has subsumed majority of existing indirect tax levies both at Central and State level into one tax i.e., GST is leviable uniformly on goods and services. This will make doing business easier and will also tackle highly disputed issues relating to double taxation of a transaction as both goods and services.
3. **Boost to 'Make in India' initiative:** GST will give major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market.
4. **Buoyancy to the Government Revenue:** GST is expected to bring buoyancy to Government Revenue by widening the tax base and improving the taxpayer compliance.