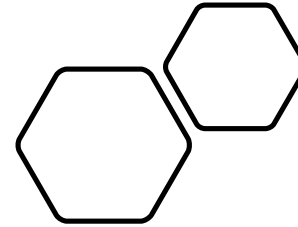
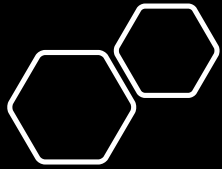


# Goods and Services Tax



SEC-VI Contemporary  
Economic Issues



# INDIRECT TAXATION IN INDIA BEFORE GST

- Article 265 of the Constitution of India provides that no tax shall be levied or collected except by authority of law
- Article 246 of the Constitution, Parliament has exclusive powers to make laws in respect of matters given in Union List
- State Government has the exclusive jurisdiction to legislate on the matters containing in State List
- Both the Central Government and State Governments have concurrent powers to legislate on matters in concurrent list



Before advent of GST, the most important sources of indirect tax revenue for the Union were customs duty, central excise duty and service tax.



Union also levied Central Sales Tax (CST) on inter-State sale and purchase of goods and on inter-State consignments of goods but it was assigned to the states of origin



Most important sources of tax revenue of states were; tax on sale and purchase excise duty on alcoholic liquors, opium and narcotics, Taxes on luxuries, entertainments, amusements, betting and gambling, octroi or entry tax and electricity tax.

# HISTORICAL EVOLUTION OF INDIRECT TAXATION



In post-Independence period, central excise duty was levied on a few commodities which were in the nature of raw materials and intermediate inputs, and consumer goods were outside the net by and large.



Taxation Enquiry Commission (1953-54): recommended that sales tax should be used specifically by the States as a source of revenue.



The power to levy tax on sale and purchase of goods during inter-State trade and commerce was assigned to the Union



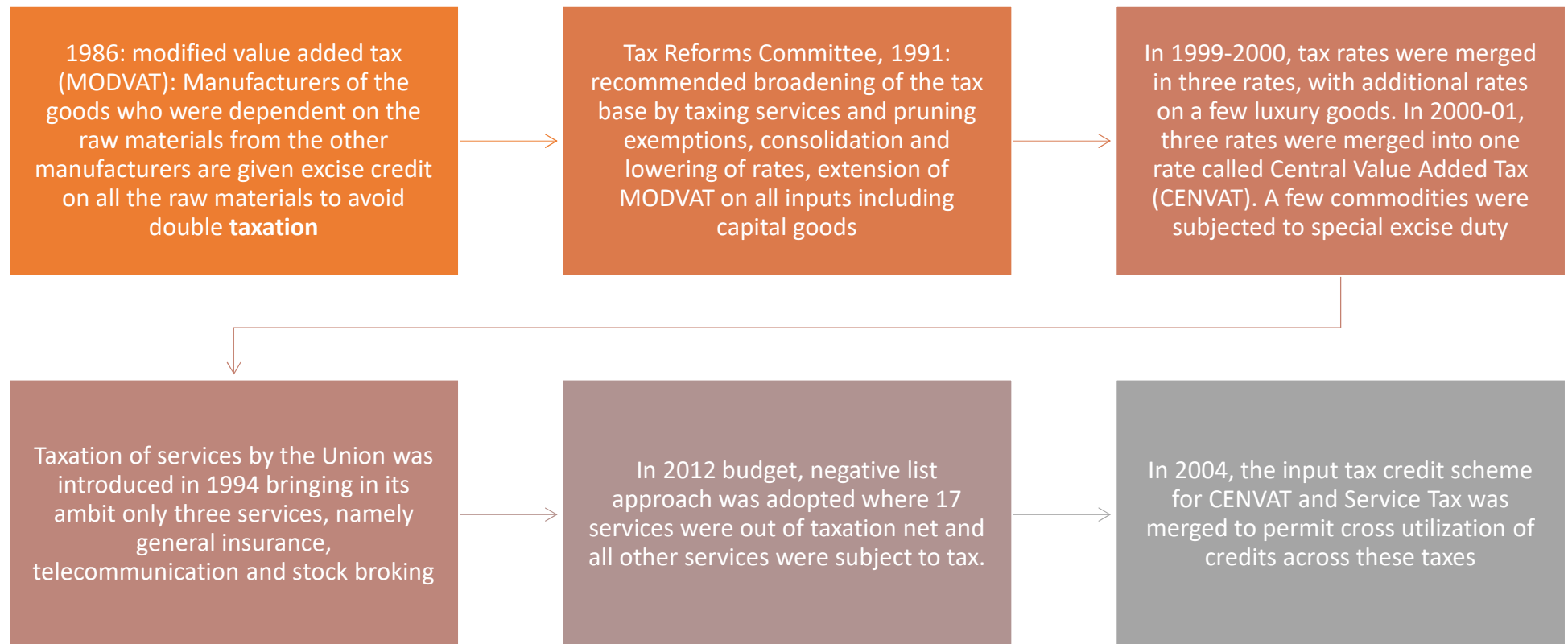
By mid-1970s, central excise duty was extended to most manufactured goods




Central excise duty was levied on unit, called specific duty, and on value, called ad valorem duty

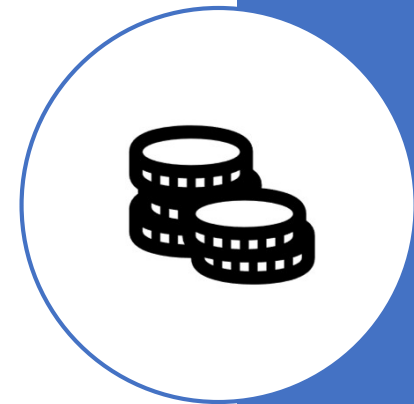


Rates was too many with no offsetting of taxes paid on inputs leading to significant cascading and classification disputes

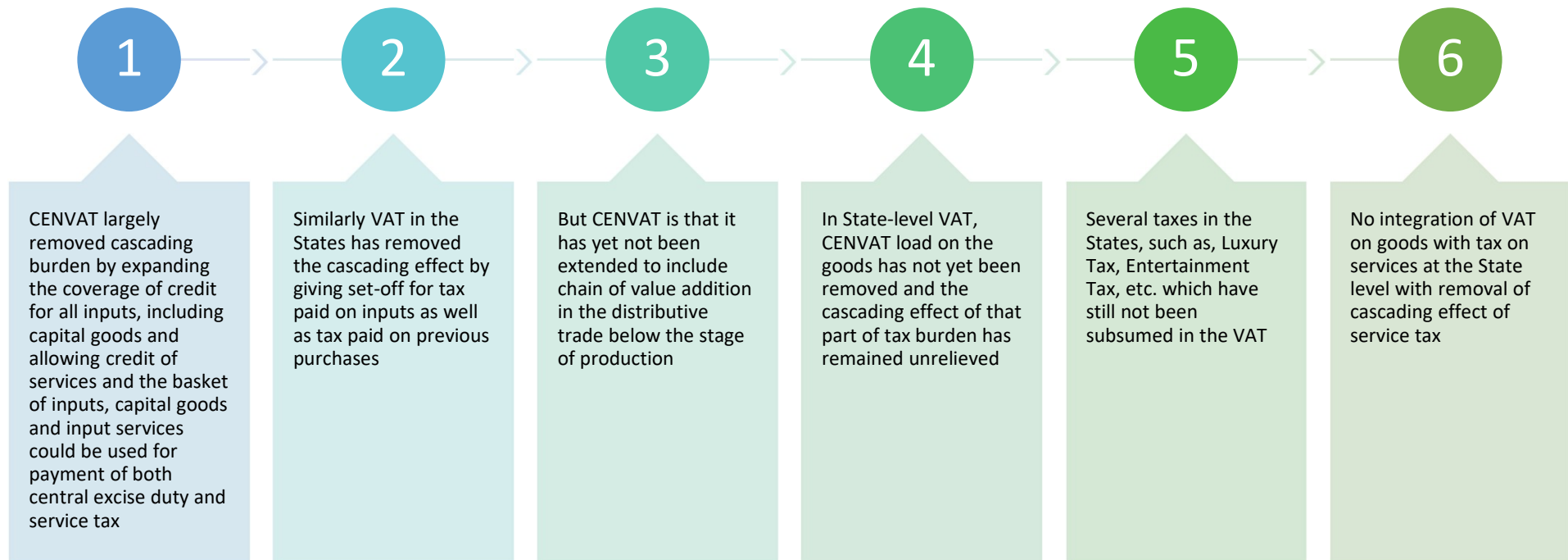


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- Before state level VAT was introduced by States in the first half of the first decade of this century, sales tax was levied in States since independence
  - It was levied by States in an uncoordinated manner the consequences of which were different rates of sales tax on different commodities in different States.
  - Inter-state sales were subjected to levy of Central Sales Tax
  - States had power of taxation over services from the very beginning. States levied tax on advertisements, luxuries, entertainments, amusements, betting and gambling.

- Report on "Reform of Domestic Trade Taxes in India", 1994:
- Replacing sales tax by VAT by moving over to a multistage system of taxation;
- Allowing input tax credits for all inputs, including on machinery and equipment;
- Harmonization and rationalization of tax rates across States with two or three rates within specified bands;
- Pruning of exemptions and concessions except for a basic threshold limit and items like unprocessed food;
- Zero rating of exports, inter-State sales and consignment transfers to registered dealers;
- Taxing inter-State sales to non-registered persons as local sales;
- modernization of tax administration, computerization of operations and simplification of forms and procedures.
- Haryana was the first State to implement VAT, in 2003. Uttar Pradesh was the last State to implement VAT, from 1st January 2008.



# NEED FOR GST IN INDIA





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CST was another source of distortion in terms of its cascading nature. It was also against one of the basic principles of consumption taxes that tax should accrue to the jurisdiction where consumption takes place.

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The national market was fragmented with too many obstacles in free movement of goods necessitated by procedural requirement under VAT and CST.

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Taxation powers on goods was with Central Government but it was limited up to the stage of manufacture and production while States have powers to tax sale and purchase of goods

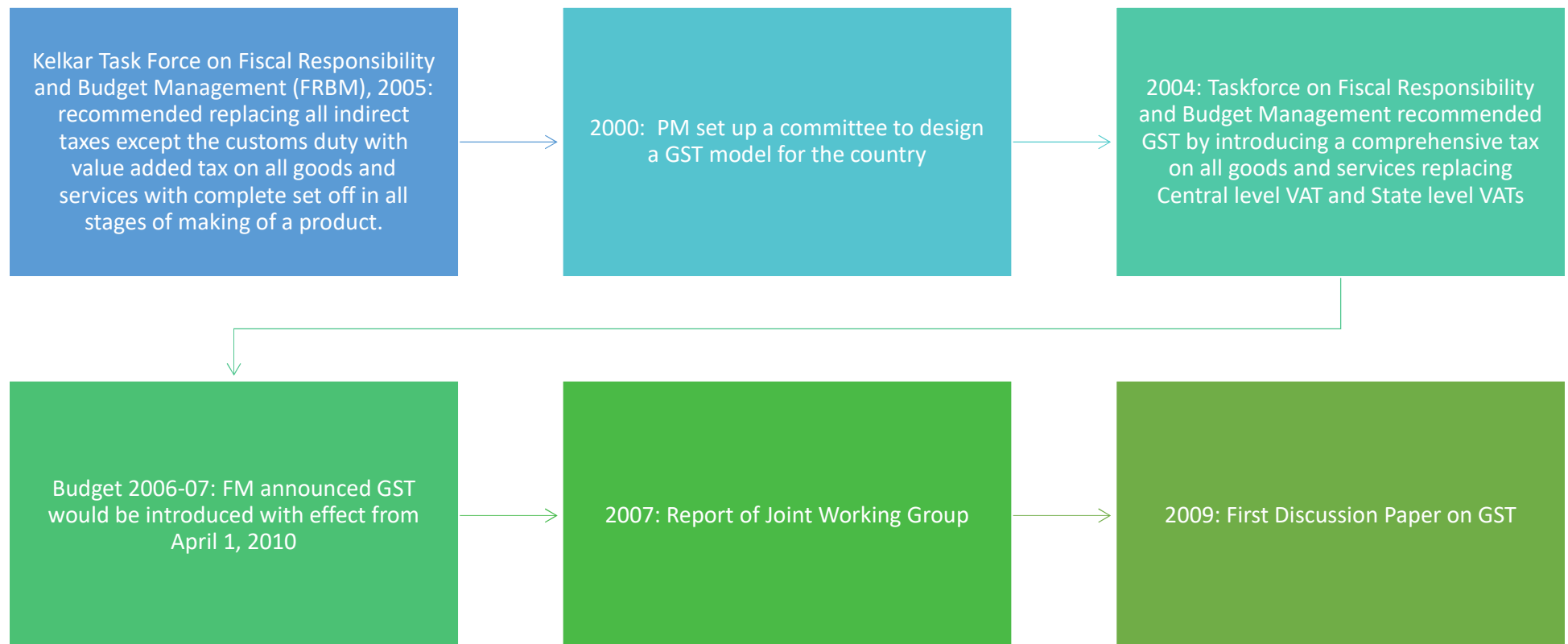
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Centre had powers to tax services and States also had powers to tax certain services specified in clause (29A) of Article 366 of the Constitution

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Led to legal disputes also determination of what constitutes a goods or service is difficult because in modern complex system of production, a product is normally a mixture of goods and services.

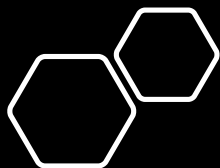
# GST: A HISTORICAL PERSPECTIVE





# CHALLENGES IN DESIGNING GST

- Origin-based versus Destination-based taxation:
- GST is a destination-based consumption tax.
- Tax accrues to the destination place where consumption of the goods or services takes place
- Manufacturing States expressed concerns over the loss of revenue on account of shift from origin-based taxation to destination based taxation
- But to the extent that consumer expenditures are dependent on the level of income of the residents of a State, it is the producing States that stand to gain the most in additional sales tax revenues (even under the destination basis of consumption taxes)



# Rate Structure and Compensation

- Uncertainty about gains in revenue after implementation of GST
- How much the States will gain from tax on services and how much they will lose on account of removal of cascading effect and phasing out of CST.
- Compensation to states during the first five years of implementation of GST
- Revenue Neutral Rate: single rate, which preserves tax revenue at desired (current) levels
- It is a given single rate that gets converted into a whole rate structure, depending on policy choices about exemptions, what commodities to charge at a lower rate and what to charge at a very high rate.



Dispute Settlement: MUMBAI: Goods and Services Tax Council may decide about the modalities to resolve disputes arising out of its recommendations. Goods and Services Tax Appellate Tribunal, a quasi-judicial body that will mediate in indirect tax disputes between states and center



Alcohol and Petroleum products: States unanimously argued for exclusion of these products from the ambit of GST



122nd Amendment Bill: alcoholic liquor for human consumption was kept outside GST and crude petroleum, high speed diesel, motor spirit or petrol, aviation turbine fuel and natural gas were proposed to be brought under GST from a date to be recommended by the Council



Central Government has also retained its power to tax tobacco and tobacco products, though these are also under GST

# GST DESIGN



Dual GST model: tax is levied concurrently by the Centre as well as the States on a common base, i.e. supply of goods or services or both



GST (Central tax / CGST), State GST (State Tax / SGST), UTGST (Union territory tax)



CGST & SGST / UTGST shall be levied on all taxable intra-State supplies



Inter-State supply of goods or services shall be subjected to integrated GST (Integrated tax / IGST)



Centre would levy IGST (Integrated Goods and Service Tax) which would be CGST plus SGST on all inter-State supply of goods or services or both



## Tax Rate

- Four rates namely 5%, 12%, 18% and 28%
- Some goods and services are exempt
- Rate for precious metals and affordable housing are an exception to 'four-tax slab-rule' and the same has been fixed at 3% and 1% respectively
- Unworked diamonds, precious stones, etc. attracts a rate of 0.25%
- A cess over the peak rate of 28% on certain specified luxury and demerit goods, like tobacco and tobacco products, pan masala, aerated water, motor vehicles is imposed to compensate States for any revenue loss on account of implementation of GST





# Compensation to State

- Compensation will be provided to a State for a period of five years from the date on which the State brings its SGST Act into force
- Year 2015-16 will be assumed to be the base year, for calculating the revenue to be protected
- The growth rate of revenue for a State during the five-year period is assumed to be 14% per annum
- The base year tax revenue consists of the states' tax revenues from: (i) State Value Added Tax (VAT), (ii) central sales tax, (iii) entry tax, octroi, local body tax, (iv) taxes on luxuries, (v) taxes on advertisements, etc.
- Revenue among these taxes arising related to supply of alcohol for human consumption, and five specified petroleum products
- GST Compensation Cess is levied on the supply of certain goods and services, as recommended by the GST Council to finance the compensation cess



# E-Way Bill System

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Shift from the earlier —'Departmental Policing Model' to a 'Self Declaration Model'

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Hassle free movement for transporters throughout the country

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Introduced nation-wide for all inter-State movement of goods with effect from 01.04.2018

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Auto calculation of distance based on PIN codes for the generation of e-way bill and blocking the generation of multiple e-way bills against one invoice

01

Supplier must pass on the benefit to the consumer and thereby indulging in illegal profiteering

02

National Anti-profiteering Authority (NAA) to examine the complaints of non-passing the benefit of reduced tax incidence

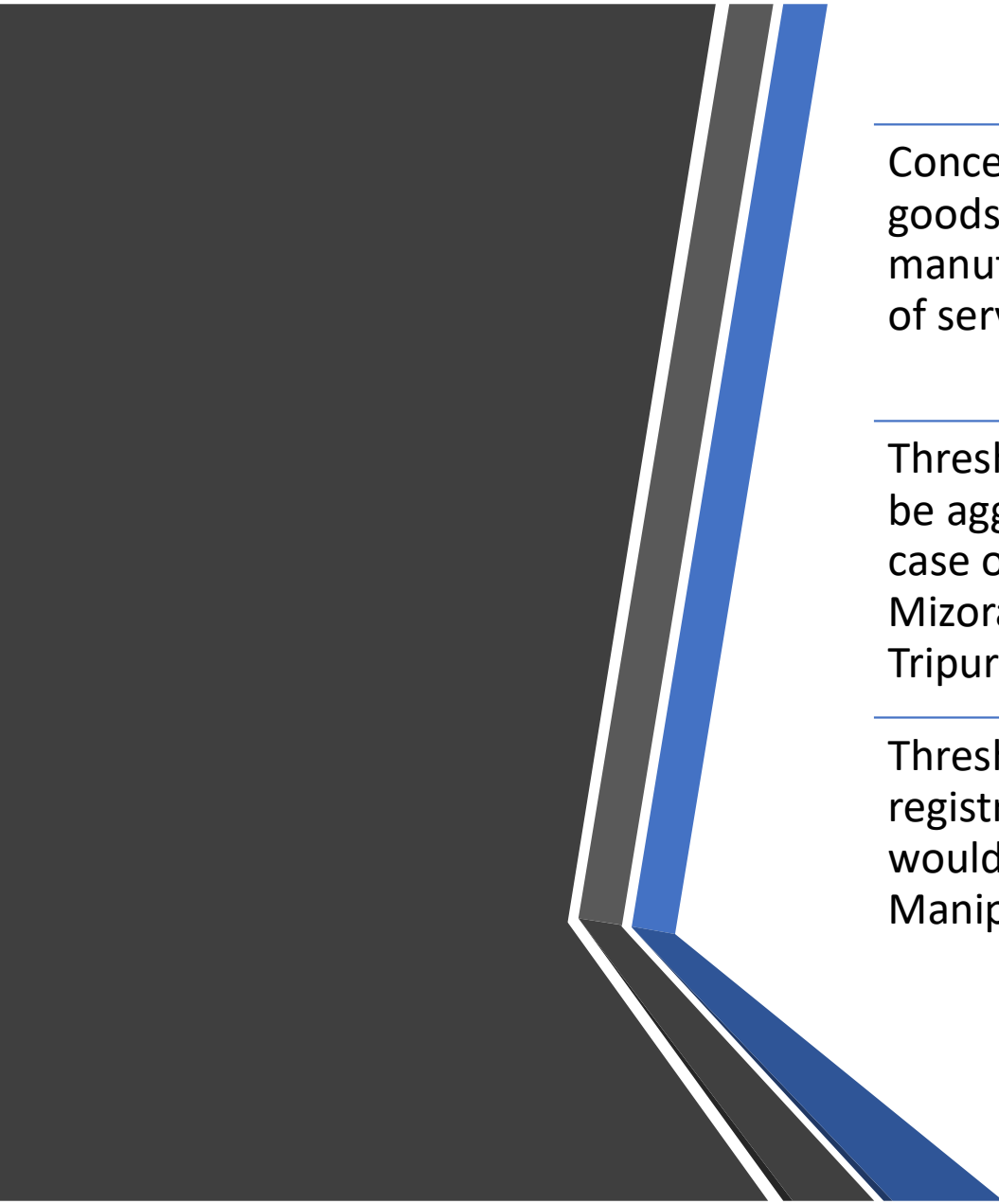
03

Authority may determine whether any reduction in the rate of tax or the benefit of input tax credit has been passed on to the recipient by way of commensurate reduction in prices

04

It can order reduction in prices, imposition of penalty, cancellation of registration and any other decision as may deem fit, after inquiry into the case

## Anti-Profiteering Mechanism



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Concept of Supply: GST would be applicable on supply of goods or services as against the present concept of tax on manufacture of goods or on sale of goods or on provision of services

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Threshold Exemption: For the suppliers of goods would be aggregate turnover Rs. 40 lakhs and Rs. 20 lakhs (in case of States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura and Uttarakhand)

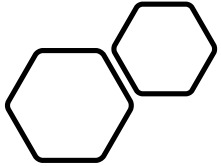
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Threshold limit of aggregate turnover for exemption from registration and payment of GST for suppliers of services would be Rs. 20 lakhs and Rs. 10 lakhs (in case of States of Manipur, Mizoram, Nagaland and Tripura).

# Composition Scheme

For small businessmen being supplier of goods and supplier of restaurant services person with turnover up to Rs. 1.5 crore (Rs. 75 lakhs in States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand) needs to pay tax equal to 1% to 5% on his turnover and needs to file his returns annually with quarterly payment from FY 2019-20

For supplier of services person with turnover up to Rs. 50 lakhs needs to pay tax equal to 6% on his turnover and needs to file his returns annually with quarterly payment from FY 2019-20



Zero rated Supplies: Export of goods and services are zero rated. Supplies to SEZs developers and SEZ units are also zero-rated. The benefit of zero rating can be taken either with payment of integrated tax, or without payment of integrated tax under bond or Letter of Undertaking



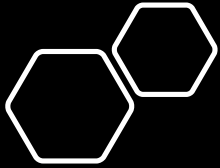
Cross-utilization of ITC: IGST credit can be used for payment of all taxes. CGST credit can be used only for paying CGST or IGST. SGST credit can be used only for paying SGST or IGST



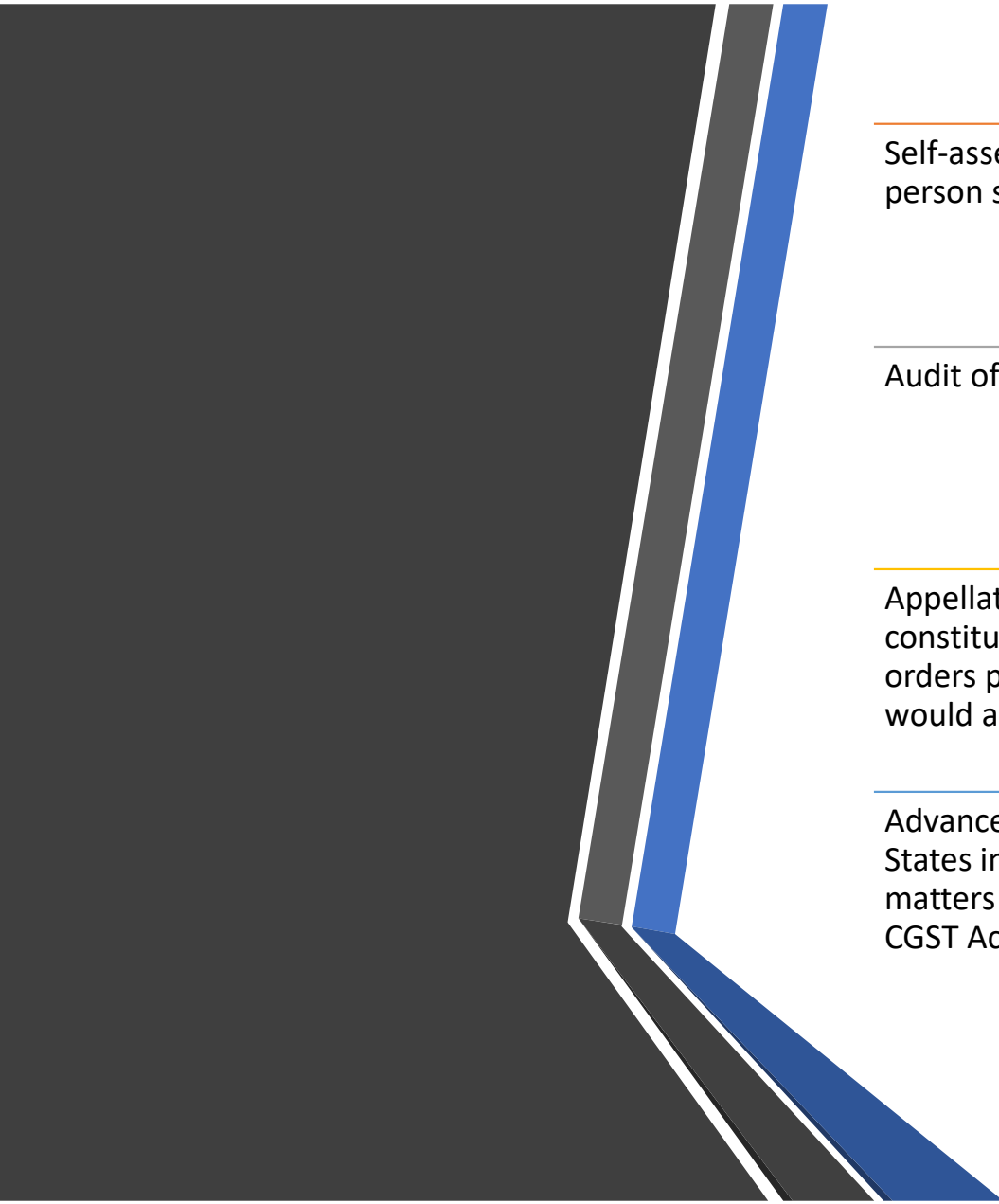
ITC of CGST cannot be used for payment of SGST/UTGST and vice versa



IGST balances shall be exhausted for payment of IGST, CGST or SGST before utilization of CGST or SGST



- Tax Deduction at Source: Obligation on certain persons including government departments, local authorities and government agencies, who are recipients of supply, to deduct tax at the rate of 1% from the payment made or credited to the supplier where total value of supply, under a contract, exceeds two lakh and fifty thousand rupees.
- Refunds: Refund of tax to be sought by taxpayer or by any other person who has borne the incidence of tax within two years from the relevant date. Refund of unutilized ITC also available in zero rated supplies and inverted tax structure
- Tax Collection at Source: Obligation on electronic commerce operators to collect 'tax at source', at such rate not exceeding two per cent of net value of taxable supplies, out of payments to suppliers supplying goods or services through their portals.



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Self-assessment: Self-assessment of the taxes payable by the registered person shall be the norm

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Audit of registered persons shall be conducted on selective basis

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Appellate Tribunal: Goods and Services Tax Appellate Tribunal would be constituted by the Central Government for hearing appeals against the orders passed by the Appellate Authority or the Revisional Authority. States would adopt the provisions relating to Tribunal in respective SGST Act

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Advance Ruling Authority: Advance Ruling Authority would be constituted by States in order to enable the taxpayer to seek a binding clarity on taxation matters from the department. Centre would adopt such authority under CGST Act



# GST: A GAME CHANGER

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Benefits to the exporters:

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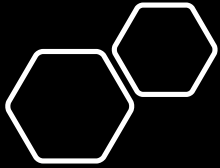
The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services.

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This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports

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Uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cos



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Benefits to small traders and entrepreneur:

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GST has increased the threshold for GST registration for small businesses

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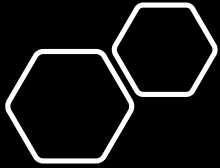
Unlike multiple registrations under different tax regimes earlier, a single registration is needed under GST in one State

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Additional benefit under Composition scheme

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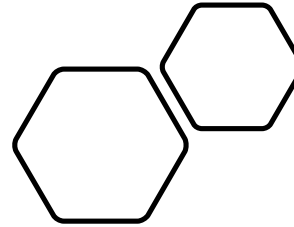
Creation of a seamless national market across the country helps small enterprises will have an opportunity to expand



### Benefits to agriculture and Industry:

Comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST

Widening of tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in industry, trade and agriculture



- Benefits for common consumers:
- The cascading effects of CENVAT, State VAT and service tax will be more comprehensively removed with a continuous chain of set-off from the producer's point to the retailer's point
- Certain major Central and State taxes will also be subsumed in GST and CST will be phased out
- The burden of tax on goods would, in general, fall under GST and that would benefit the consumers

# Promotes Make in India:

- Creates unified common national market for India, giving a boost to foreign investment
- Prevent cascading of taxes and make products cheaper
- Harmonization of laws, procedures and rates of tax
- More efficient neutralization of taxes especially for exports thereby making exports more competitive
- Uniform CGST & SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighboring States and that between intra and inter-State supplies
- Average tax burden on companies is likely to come down

- Video lecture links:
- <https://youtu.be/vgdho27JmFU>
- <https://www.youtube.com/watch?v=N6ogfUIOVNI>