E-Filing of Returns

GST-Introduction to Basic Concepts

This Module covers some basic concepts of GST. These topics cover about half of the topics of unit IV of E-Filing of Returns. At this stage, the objective is to give introductory knowledge of GST to the students for understanding the E-filing of GST Returns, therefore topics are covered in brief with optimal explanation wherever required.

Contents

Introduction to Basic Concepts of GST

What is GST?

GST is a single **value added tax** levied on the "supply" of goods or services or both from the manufactures or service provider to the final consumer. Unlike pre-GST indirect tax system, GST does not differentiate between the goods and services and thus, the two are taxed at a single rate.

GST offers a **comprehensive and continuous chain of tax credits** at the each subsequent stage of value addition thereby taxing only the value addition at each stage of supply chain and removing the cascading effect (i.e. tax on tax), the major problem of pre-GST taxation.

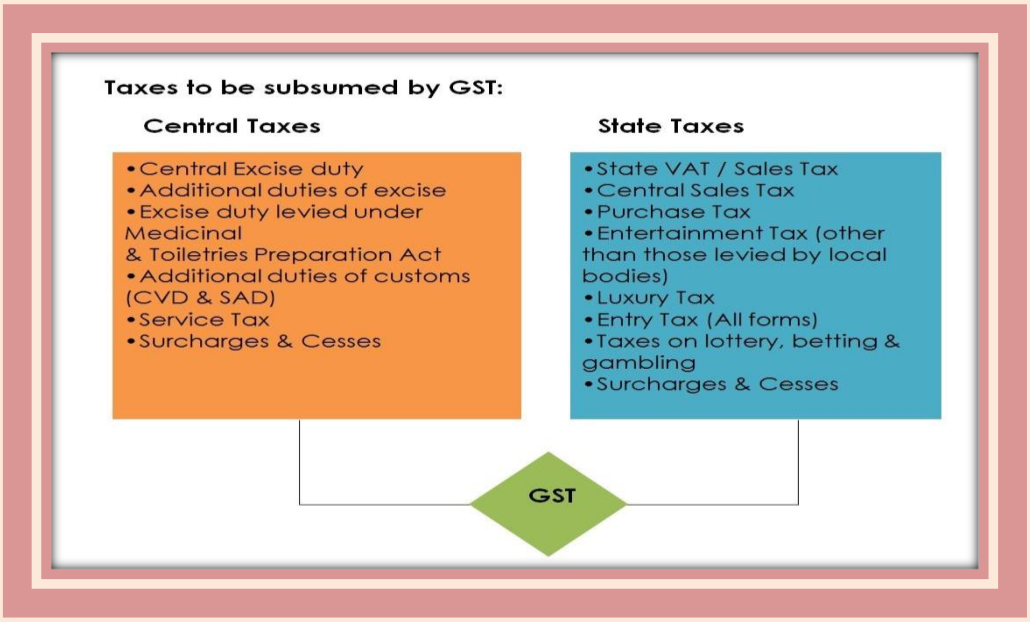
In this system, the final consumer bears only the GST charged by the dealer in value chain, with set-off benefits at all the previous stages. It is based on the principle of **Destination Based Taxation** which means GST is levied on the consumption of supplies at the destination thereof or as the case may be at the point of consumption.

The supplier at each stage is permitted to avail credit of GST paid on purchase of goods and services and can set off the credit of GST against GST payable on goods and services supplied by him thus , only **final consumer bears the GST charged** by the last supplier in supply chain.

> ***GST was implemented with effect from 1st July, 2017. However, It was extended to Jammu & Kashmir on 8th July, 2017.***

Taxes Subsumed in GST

GST has subsumed several central and state taxes like Central excise duty, Service Tax, State VAT, Central Sales Tax, Luxury Tax, Entry Tax, Entertainment tax etc. GST has brought uniformity of tax rates and structure and removed the cascading effect. Therefore, it is popularly known as ONE TAX-ONE NATION.



Single tax in place of several central and state taxes brings ease of tax compliance and helps in broadening the indirect tax base. Moreover, these changes envisage improving competiveness of Indian producers and thereby boosting exports.

Points for Consideration:

- Direct tax like income tax, corporate tax and capital gain tax will not be affected by GST. Exports are treated as Zero rated supply under GST. Imports are subject to Custom Laws.
- GST is applicable on all goods and services except Alcohol for human consumption. Alcoholic liquor is still subject to State Excise Duty.
- Tobacco and Tobacco products are subject to GST as well as Excise duty.

- There are five specified products such as Crude oil, Petrol, Diesel, ATF & Natural Gas, they are presently not taxed under GST. On these products GST would be applicable from a date notified on the recommendations of the GST council.
- Power to levy entertainment tax still remains with local bodies.

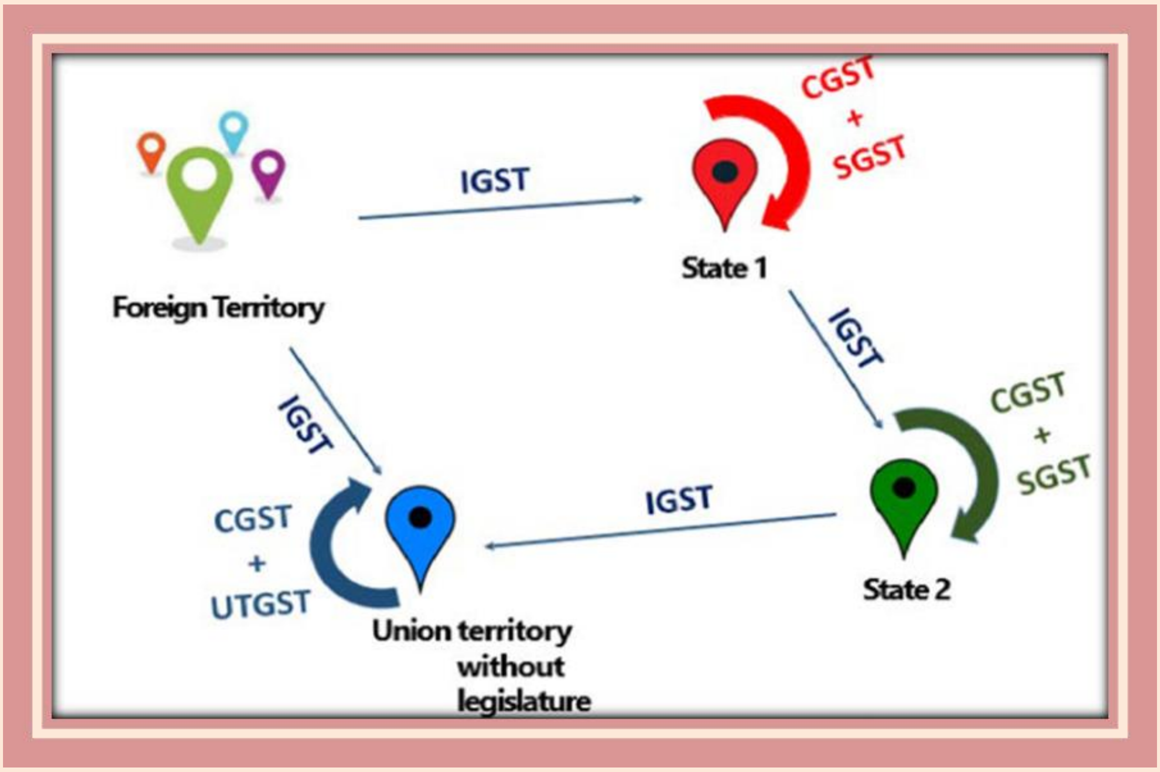
Dual GST in India

Power to levy GST has been conferred by the article 246A of the Constitution which was introduced by the Constitutional (101st Amendment) Act, 2016.

India has adopted a Dual GST model in view of the federal structure of the country; consequently Centre and States simultaneously levy GST on taxable supply which takes place within a state or union territory. Centre has the power to levy tax on all inter-state supplies and states are empowered to levy tax on intra- state supply of goods and services.

CGST Act, 2017 and IGST Act, 2017 empowered the Central Government to levy CGST(Central GST) and IGST(integrated GST) whereas SGST Act, 2017 empowered States Government and Government of Union Territories having their own legislation (Delhi and Puducherry) to levy SGST (State GST). However, Union Territories without legislation are empowered by the UTGST Act, 2017 to levy UTGST (Union Territory GST) instead of SGST. Andaman and Nicobar, Lakshadweep, Dadra Nagar Haveli, Daman and Diu and Chandigarh are the union territories governed by UTGST Act 2017.

On intra-state transactions, CGST and SGST (or UTGST) are levied simultaneously across the value chain whereas on inter-state transactions, IGST is levied by the Central government. *(Note: Levy of GST is further explained under ITC topic)*

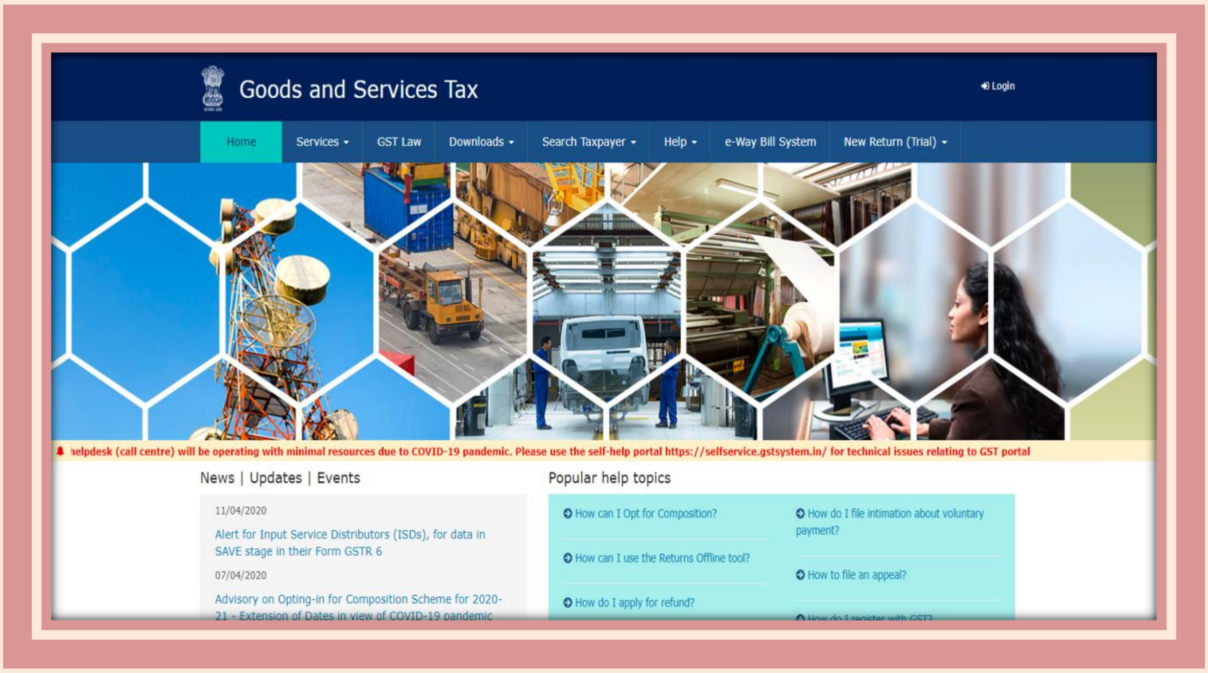


GST Network- GST Administration in India

For the administration of GST, Government has established a Common GST Electronic Portal –www.gst.gov.in managed by Goods and Service Tax Network –GSTN. It creates a uniform interface for the tax payer and a shared IT infrastructure between the Centre and the States. Thus this portal does away the practice of compliance with multiples authorities and makes the compliance easier.

The functions of GSTN includes facilitating registration; forwarding the returns to central and state authorities; computing and settlement of IGST; matching of tax payment details with the banking network; providing various MIS reports the Central and State Governments etc.

GSTN is a section 25 company (under the provisions of section 8 of Companies Act, 2013) Private players own 51% share in the GSTN, and rest is owned by the government. The authorized capital of the GSTN is Rs. 10 crore, of which 49% of shares are divided equally between the Central and State Government and the remaining is with the private players.



State Compensation Cess

GST Compensation Cess is an additional tax levied on the value of intra-state and inter-state supply of the following goods (or/and services) by the registered person (other than covered under composition scheme):

- Pan masala
- Aerated waters
- Tobacco and Tobacco products
- Coal, briquettes and solid made from coal or lignite
- Motor cars and other motor vehicles
- Any other supplies as modified from time to time

The Kerala flood cess is a tax implemented by the Kerala government on intra-state movement of certain goods and services to the final customers. The tax is applicable from the beginning of August 2019 and will be applied for the 2 years, till July 2021. This flood cess has been established to raise funds required for the relief and rehabilitation of those affected by the flood in the state.

As the GST is a consumption based tax, many states which are heavy on manufacturing faced loss of revenue. While implementing GST, Central government has promised to pay compensation to the states If it losses revenue because of abolition of pre-GST taxes for five years. To compensate such states, GST (Compensation to states) Act, 2017 was enacted which empower the government to collect an additional tax and collection from it is distributed among the states.

Reverse Charge Mechanism

GST is normally payable by the supplier of good/services. In some cases, however, the recipient is liable to pay tax on behalf of supplier (which is payable by supplier in normal situation).

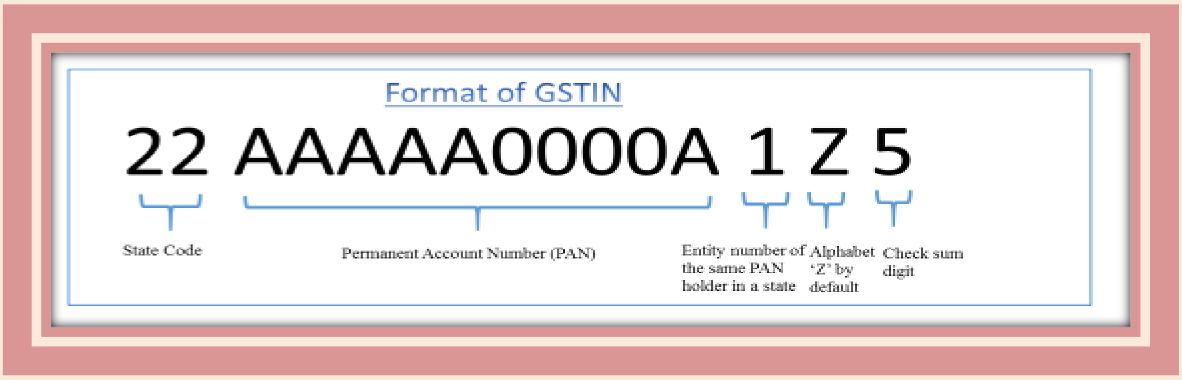
There are two types of reverse charge scenario provided in law. First is dependent on the nature of supply and /or nature of supplier. This scenario is covered by section 9(3) which contains a list of such supply and/or supplier. Second scenario is covered by section 9(4) which states that GST shall be paid under RCM if supplier is not a registered person and he supplies taxable goods/services to a registered recipient.

Points for Consideration:

- *If tax is payable under RCM, it has to be paid by cash (via internet banking). Input tax credit available in account cannot be utilised to pay GST liability under RCM.*
- *Once tax is paid by the recipient on input under RCM, input tax credit is available to him (if he is otherwise eligible for input tax credit).*

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 certain threshold limits during a previous FY. Registration under GST is PAN based. Under section 22, Registration is required for each state separately where the taxable person has manufacturing/trading/ service units. For each registration, a separate GST registration number (i.e. GSTIN) of 15 digits is allotted by tax authority.



Specified Threshold Limits for Registration under section 22:-

States with threshold limit of ₹ 10 lakh for both goods and services	States with threshold limit of ₹ 20 lakh for both goods and services	States with threshold limit of ₹ 20 lakh for services and ₹ 40 lakh for goods**
•Manipur •Mizoram •Nagaland •Tripura	•Arunachal Pradesh •Meghalaya •Sikkim •Uttarakhand •Puducherry •Telangana	•Jammu and Kashmir •Assam •Himachal Pradesh •All other States

** *Person engaged exclusively in intra-state supply of goods and not engaged in making supplys of ice-cram, pan masala or tabocco goods.*

Note – Above threshold limits are applicable with effect from April 1, 2019.

Input Tax Credit

Input Tax Credit (ITC) is considered to be the backbone of GST regime. In fact, it is the ITC system which makes GST a tax on value added in real sense. ITC ensures the **seamless flow of credit** of tax on goods and services across the entire supply chain with some exceptions like supplies made by composition suppliers and supply of exempted goods and/ or services.

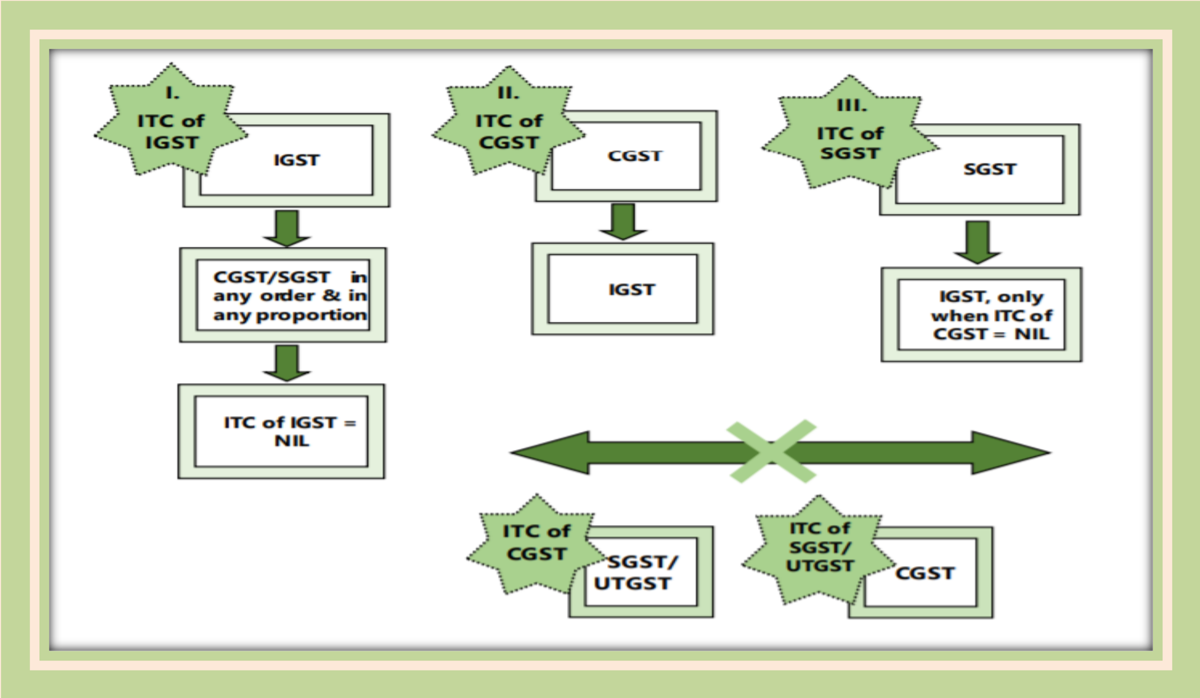
In simple terms ITC is tax paid by a registered dealer on purchase of goods and/or services which can be claimed against the liability of tax payable on sale of goods and/ or services.

Conditions for availing Input Tax Credit (Sec 16(2))

1. Possession of Tax Invoice or debit Note.
2. Recipient of Goods and services.
3. Payment of Tax to government.
4. Filing of Valid returns.

For example, Mr X a registered trader paid GST amounting to Rs. 900 on inward supply of goods used as inputs. He sold these goods with some value addition and charged GST of Rs. 1,000 on outward supply from customer. According to the concept of ITC, his net liability of GST will be Rs. 100 (i.e. Rs. 1000-Rs. 900) as he can claim the credit of input tax while meeting his output tax liability. This mechanism is called utilization of ITC.

Manner of utilisation of ITC



Input Tax Credit (ITC) of CGST and SGST/UTGST is available throughout the supply chain but subject to the following rules:

- CGST credit is first applied to set off output CGST and then IGST. But only after Input Tax credit available on account of IGST ha been fully utilised
- SGST/UTGST credit is first applied to set off SGST/UTGST and then IGST. The ITC of SGST will be utilised towards payment of IGST only where balance of ITC of CGST is not available for payment of IGST
- IGST credit is first applied to set off IGST and then CGST and SGST/UTGST in any order.

Thus cross utilisation of credit of CGST and SGST/UTGST is not possible, i.e. CGST credit cannot be utilised for payment of SGST/UTGST and SGST/UTGST credit cannot be utilised for payment of CGST. However, cross utilisation is allowed between CGST/SGST/UTGST and IGST, i.e. credit of IGST can be utilised for the payment of CGST/SGST/UTGST and vice versa.

Note: Refer to illustrations for more understanding of ITC set off mechanism. These are not for examination purpose.

Composition Scheme

Composition Scheme is an optional

Composition levy (popularly known as Composition Scheme) is an alternative method of levy GST for small taxpayer whose turnover is less than certain threshold limits. This scheme is available to the suppliers of goods / restaurant service (other than serving alcoholic liquor).

Specified threshold limits for Composition Scheme:-

Rs. 75 lakh

- **Eligible registered person in: Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttrakhand**

Rs. 1.5 crore

- **Eligible registered person in any State other than given above**

Note – Above threshold limits are applicable with effect from April 1, 2019.

Alternative Composition Scheme

A service provider (except restaurant service provider) cannot opt for the aforesaid Composition Scheme. As a result, such tax payer is unable to opt for the Composition Scheme even if his turnover from supply of services is very small as compared to the supply of goods. With a view to enable such taxpayer to avail the benefit of Composition Scheme, GST Council (in its 32nd meeting held on Jan 10, 2019) has extended the scope of Composition Scheme to service providers who have turnover up to Rs. 50 lakh during the previous FY. Under this scheme, the service provider shall be liable to pay GST @6% of turnover.

Objectives of Composition Scheme

The objective of Composition Scheme is to bring simplicity and to reduce the compliance cost for the small taxpayers. Taxpayers, under this scheme, are provided with certain relaxations. Like, composition dealers are required to pay GST quarterly basis instead of monthly basis and submit return annually instead of monthly (or quarterly).

Major Conditions and Restrictions

The person exercising option for Composition Scheme shall comply with the following conditions-

- He is not engaged in making any inter-state outward supply of goods.
- He will have to pay tax under reverse charge mechanism if any inward supply is covered under RCM scheme.
- He shall mention the words "composition taxable person" on every notice or signboard displayed at a prominent place at his place of business.
- He is not permitted to collect GST from the customers. He will have to pay GST out of the sale proceeds.
- He cannot avail the benefit of input tax credit.
- He shall issue '**Bill of Supply'** instead of tax invoice. He shall mention at the top of words "Composition taxable person, not eligible to collect tax on supplies".
- He is not engaged in supply of goods through an e-commerce operator.

Advantages and Disadvantages

Advantages	**Disadvantages**
Less complexity as returns is required to be submitted quarterly and tax is deposited annually instead of monthly as submitted by regular taxpayers.	A Composition dealer has limited territory for business as he cannot make inter-state supply.
Less number of records is required to maintain.	Tax burden has to be borne by the supplier as composition dealer cannot collect tax from final customers.
Tax is paid at a flat rate of turnover irrespective of type of goods and services.	Composition dealer cannot supply through e-commerce portal.
It ensures high liquidity in the business as money doesn't block much in the taxes.	Input credit tax is not available to Composition dealer.

ITC set-off mechanism with Illustration

Illustration-1 (Intra- state Supply)

Stage I- Supply of goods by Mr. X (of Delhi) to Mr. Y (of Delhi).

	Amount (in Rs.)
Value of goods	20,000
Add: CGST @ 9%	1,800
Add: SGST@ 9%	1,800
Total price charged by Mr. X from Mr. Y	**23,600**

Net GST payable by seller (Mr. X) to the Government:

	Amount (in Rs.)
CGST payable	1,800
Less: Credit of CGST*	Nil
Net CGST payable	**1,800**
SGST payable	1,800
Less: Credit of SGST*	Nil
Net SGCT payable	**1,800**

**Since Mr. X is the first stage supplier of goods, he does not have ITC of SGST/CGST*.

Stage II -Supply of goods by Mr. Y (of Delhi) to Mr. Z (of Delhi) –Assuming 20% value addition made by Mr. Y)

	Amount (in Rs.)
Value of goods (20000*120%)	24,000
Add: CGST @ 9%	2,160
Add: SGST@ 9%	2,160
Total price charged by Mr. Y from Mr. Z	**28,320**

Net GST payable by seller (Mr. Y) to the Government:

	Amount (in Rs.)
CGST payable	2,160
Less: Credit of CGST	1,800
Net CGST payable	**360**
SGST payable	2,160
Less: Credit of SGST	1,800
Net SGCT payable	**360**

Statement of revenue earned by state and central government

Transaction	Central Govt.	State Govt.
Mr. X to Mr. Y	1,800	1,800
Mr. Y to Mr. Z	360	360
Total	2,160	2,160

Thus in the above example, Z (final consumer of the goods) paid GST of Rs. 4, 320, the tax on the cost of final goods (CGST+SGST=18* 24000 Rs.) and intermediate suppliers Mr. Y paid GST of Rs. 720, the GST on value addition made by him (CGST+SGST=18*2000 Rs.).

Illustration-2
(Inter-State Supply)

In case of sale of goods and/or services from one state to another state, Integrated Goods and Service tax (IGST) is applicable. In order to understand the set- off mechanism, it is pertinent to understand the following points:

- The exporting state will transfer to the centre the credit of SGST used by dealer in setting off IGST liability.
- The importing dealer will claim credit of IGST while discharging his SGST liability in his own state.
- The centre will transfer to the importing state the credit of IGST used by dealer in setting off SGST liability.

Stage I -Supply of goods by Mr. A (of Punjab) to Mr. B (of Punjab).

	Amount (in Rs.)
Value of goods	20,000
Add: CGST @ 9%	1,800
Add: SGST@ 9%	1,800
Total price charged by Mr. A from Mr. B	**23,600**

Net GST payable by seller (Mr. A) to the Government:

	Amount (in Rs.)
CGST payable	1,800
Less: Credit of CGST*	Nil
Net CGST payable to Central Govt.	**1,800**
SGST payable	1,800
Less: Credit of SGST*	Nil
Net SGST payable to Punjab Govt.	**1,800**

**Since Mr. A is the first stage supplier of goods, he does not have ITC of SGST/CGST.*

Stage II-Supply of goods by Mr. B (of Punjab) to Mr. X (of Gujarat)- Assuming 20% value addition by Mr. B

	Amount (in Rs.)
Value of goods (20000x120%)	24,000
Add: IGST @ 18%	4,320
Total price charged by Mr. B from Mr. X	**28,320**

Net GST payable by seller (Mr. B) to the Government:

	Amount (in Rs.)
IGST payable	4,320
Less: Credit of CGST	1,800
Less: Credit of SGST	1,800
Net IGST payable to centre	**720**

Note: Exporting state (Punjab) will transfer SGST credit of Rs. 1,800 utilized in the setting off of IGST liability to the central government.

Stage III -Supply of goods by Mr. X (of Gujarat) to Mr. Y (of Gujarat) Assuming 20% value addition by Mr. X)

	Amount (in Rs.)
Value of goods (24000x120%)	28,800
Add: CGST @ 9%	2,592
Add: SGST@ 9%	2,592
Total price charged by Mr. X from Mr. Y	**33,984**

Net GST payable by seller (Mr. X) to the Government:

	Amount (in Rs.)
CGST payable	2,592
Less: Credit of IGST*	2,592
Net CGST payable to centre	**Nil**
SGST payable	2,592
Less: Credit of IGST (4,320-2,592)	1,728
Net SGCT payable to Gujarat Govt.	**864**

**Assuming Mr. Y has no credit of SGST and CGST in his account.*

Note: Central Government will transfer IGST credit of Rs. 1,728 utilized in setting- off SGST liability to Gujarat (importing state).

Statement of revenue earned by state and central government

Transaction	Centre	Punjab	Gujarat
Mr. A (Punjab) to Mr. B (Punjab)	1,800	1,800	-
Mr. B(Punjab) to Mr. X (Gujarat)	720		
T/f of SGST credit by Punjab to Centre	1,800	(1,800)	
Mr. X (Gujarat) to Mr. Y (Gujarat)			864
Transfer of IGST credit by centre to Gujarat.	(1,728)		1,728
Total	2,592	Nil	2,592

Since the GST is based on the principal of destination based tax, It can be noticed from the above table that the manufacturing state- Punjab received no revenue and the consumption state –Gujarat earned revenue its share of revenue as SGST.

Illustration-3

Mr Rakesh has the following balances in Input Tax Credit for utilization towards GST on outward supplies

1. IGST-1,10,000
2. CGST- Rs 3,30,000
3. SGS- Rs 3,25,000

The following is the output GST payable as per electronic liability register:

S.no.	Output GST Payable	Amount (in Rs)
1.	IGST	1,75,000
2.	CGST	2,90,000
3.	SGST	2,90,000

Show the calculations for ITC in the above question.

Solution

Step 1:- As Input IGST will be firstly applied for payment of output IGST and remaining balance can be used towards payment of CGST and SGST in any order.

Here, **Output IGST = Rs1,75,000 and Input IGST =Rs1,10,000**
So, there is no balance in Input IGST after setting off output IGST to be applied towards CGST and SGST. But we have an ***output IGST balance*** of =Rs.1,75,000-Rs.1,10,000=***Rs65,000***

Step 2:- As Input CGST is first applied to set off output CGST and then IGST. But only after Input Tax credit available on account of IGST has been fully utilized.

Input CGST= Rs 3,30,000 and Output CGST=Rs2,90,000

a) After applying input CGST for setting off Output CGST the **balancing amount of Input CGST** is (Rs3,30,000-Rs2,90,000) **Rs40,000** which will be applied towards setting off remaining balance of output IGST left after utilizing Input IGST i.e.65,000.(From Step 1 above)

b) So now we have a ***balance of 25,000 in output IGST*** (Rs65,000-Rs40,000)

Step -3 SGST credit is first applied to set off SGST and then IGST. The ITC of SGST will be utilised towards payment of IGST only where balance of ITC of CGST is not available for payment of IGST
Input SGST= Rs3,25,000 and Output SGST=Rs2,90,000

a) **Balance Input SGST** after setting off output SGST = 3,25,000-2,90,000=**RS35,000**
b) So here we will have a remaining balance of input SGST which is used for payment of remaining balance of output IGST, after that ultimate ***balance in Input SGST is*** (Input SGST balance in step 3)35,000-(Output IGST balance from step 2)25,000=***Rs10,000***.

This Input tax credit of Rs10,000 can be carried forward to the next period.