A PROJECT REPORT ON

"STUDY OF GOODS & SERVICE TAX"

A Project Submitted to

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Bachelor in Commerce (Banking & Finance)

Under the Faculty of Commerce

By

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T.Y.B.B.I (SEMESTER – VI)

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NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle) Sector-19, Airoli, Navi Mumbai, Maharashtra 400708

FEBRUARY, 2024.

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CERTIFICATE

This is to certify that **MS.____**has worked and duly completed his Project work for the degree os Bachelor in Commerce (Banking & Insurance) under the Faculty of Commerce in the subject of **BANKING** and his project is entitled, **"-____"**. Under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and fact reported by her personal finding and investigations.

Guiding Teacher,

ASST. PROF. DR. KISHOR CHAUHAN.

Date of submission:

DECLARATION

I the undersigned **MS.SIDDHI KADAM** here by, declare that the work embodied in this project work titled **"STUDY OF GOODS & SERVICE TAX"**, forms my own contribution to the research work carried out by me under the guidance of **ASST. PROF. DR. KISHOR CHAUHAN** is a result of my own research work and has been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

(name)

Certified by:

ASST. PROF. DR. KISHOR CHAUHAN.

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To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

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TABLE OF CONTENTS

GST

GOODS AND SERVICES TAX

One Nation One Tax

Executive summary

Goods and Service Tax or GST as it is known is all set to be a game changer for the Indian Economy Taxation system. GST evolved an all India One Nation One Tax regime. It has now been more than a decade since 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.

The Union Finance Minister Shri P. Chidambaram, while presenting the Central Budget (2006-2007), announced for the first time a proposal to introduce a national level GST by April 1, 2010. However, GST missed several deadlines and continued to be surrounded by clouds of uncertainty. Since now, the former finance minister of India Arun Jaitley in his budget speech of 2015 has announced time and again that the tax will be introduced on 1 April 2016. In India, there are different indirect taxes applied on goods and services by central and state government. GST is intended to include all these taxes into one tax with seamless Input Tax Credit and charged on both goods and services. Thus, excise duty, special additional duty, service tax, VAT to name a few will get repealed and will be added into GST. For this, GST will have 3 parts CGST, SGST and IGST. The central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST. For the introduction of GST in the above form, the Government needs to get the Constitution Amendment Bill passed so that the proposed objective of subsuming all taxes and allowing states to tax subjects in Union list and vice versa is achieved. However, the Lok Sabha passed the Bill on 6th May 2015 and Rajya Sabha on 3rd August 2016. Subsequent to ratification of the Bill by more than 50% of the States, Constitution (122nd Amendment) Bill, 2014 received the assent of the President on 8thSeptember, 2016 and became Constitution (101st Amendment) Act, 2016, which paved the way for introduction of GST in India.

CHAPTER 1

INTRODUCTION

In the following year, on 27th March 2017, the Central GST legislations - Central Goods and Services Tax Bill, 2017, Integrated Goods and Services Tax Bill, 2017, Union Territory Goods and Services Tax Bill, 2017 and Goods and Services Tax (Compensation to States) Bill, 2017 were introduced in Lok Sabha. Lok Sabha passed these bills on 29th March 2017 and with the receipt of the President's assent on 12th April 2017, the Bills were enacted. The enactment of the Central Acts is being followed by the enactment of the State GST laws by various State Legislatures. Telangana, Rajasthan, Chhattisgarh, Punjab, Goa and Bihar are among the first ones to pass their respective State GST laws.

Government is endeavouring to roll out GST by 1st July 2017, by achieving consensus on all the issues relating thereto. It is geared to attain July 1st deadline for implementation of GST across India. GST is a path breaking indirect tax reform which will create a common national market by dismantling inter-State trade barriers. GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, CST, luxury tax, entertainment tax, entry tax, etc. For successful implementation of GST, it is necessary that the Government at both centre and state levels, agree to merge all their taxes into CGST/SGST. Further, the base for taxation for both has to be the same. The exemptions, abatements etc. under GST need to be common for both centre and all states to avoid litigation. Further exemptions/exclusions should be minimum to avoid break of credit chain. The law needs to provide for single point compliances, absence of multistate audits etc. for the assesses.

Conceptually GST is expected to have numerous benefits like reduction in compliances in the long run since multiple taxes will be replaced with one tax. It is expected to bring down prices and hence the inflation since it will remove the impact of tax on tax and enable seamless credit. It is expected to generate revenue for the country as the tax base will increase as the GST rate will be somewhere around 27% with both goods and services covered. It is also expected to make exports from India competitive and India a preferred destination for foreign investment since GST is a globally accepted tax. France was the first country to implement GST in the year 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. Before the impending GST, addressing issues faced by the financial service industry is important.

1.1 Background of Goods and Service Tax outside India

Goods and Service also known as the Value Added Tax (VAT) or Harmonized Sales Tax. Following are some successfully implemented GST models in other counties:

- **France: -**

• Rate of GST 19.6%

• France was the first country to introduce GST in 1954.

Worldwide, almost 150 countries have introduced GST in one or the other form since now. Most of the countries have a unified GST system. Brazil and Canada follow a dual system vis-à-vis India is going to introduce. In China, GST applies only to goods and the provision of repairs, replacement and processing services.

- **Australia: -**

• Rate of GST 10%

• GST is administered by the Tax office on behalf of the Australian Government, and is

appropriated to the states and territories.

• Every company whose turnover exceeds $75,000 is liable for registration under GST and in

default 1/11th of the income and some amount is form of penalty.

• There are provisions for credit back of GST, submission of returns according to limit decided,

Maintenance of records etc. There they have to keep records for 5 years for the purpose of GST.

➢ Canada: -

• GST is imposed at 5% in Part IX of the Excise Tax Act. GST is levied on goods and services made in Canada except items that are either "exempt" or "zero-rated".

• When, a supplier makes a zero-rated supply, he is eligible to recover any GST paid on purchases but the supplier who makes supply of Exempt goods he is not eligible take input tax credit on purchases for the purpose of making the exempt goods and services.

➢ New Zealand: -

- Rate of GST 12.5%.
- Exceptions are rent collected on residential rental properties, donations and financial services.

1.2 Background of Goods and Service Tax in India

GST is intended to include all these taxes into one tax with seamless Input Tax Credit and charged on both goods and services.

For this, GST will have 3 parts CGST, SGST and IGST. The central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST.

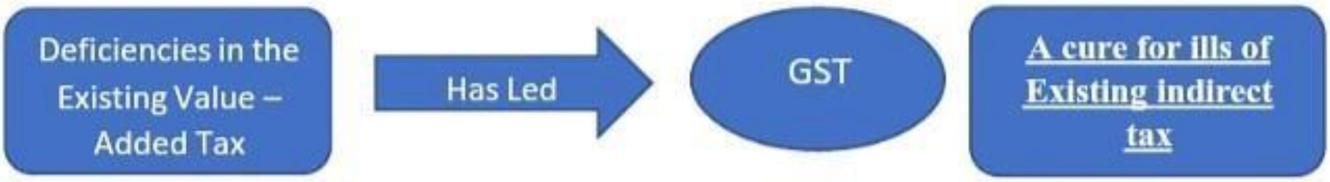
However, the Lok Sabha passed the Bill on 6th May 2015 and Rajya Sabha on 3rd August 2016. Subsequent to ratification of the Bill by more than 50% of the States, Constitution (122nd Amendment) Bill, 2014 received the assent of the President on 8thSeptember, 2016 and became Constitution (101st Amendment) Act, 2016, which paved the way for introduction of GST in India.

1.3 Preparation for GST

The GST will require legislative and constitutional changes. As the time gap between formation and implementation is very less. Therefore, following things need to be done: -

- Constitutional amendment to enable state to levy service tax.
- Centre to tax goods beyond factory Gates.
- Laws of central excise act 1944 and finance act 1994 needs to be replaced.
- Existing VAT laws needs to be repealed.
- It is highly expected that all steps are taken to ensure that no pending
    - work relating to Sales Tax, VAT or other Indirect Taxes remains
    - outstanding before implementation of GST so that everybody can
    - concentrate on new law.
- Central and State Government should be prepared to fulfil the
    - expectations for Trade and Industries.
- Record keeping will have to be changed and IT software will have to be
    - updated in order to comply with GST provisions.
- Trade and Industries will have to rethink market strategies, stock transfer pricing and Godown keeping policies in different states.
- Uniform dispute settlement machinery.
- Adequate training for both tax payers and tax enforcers.

1.4 Need for GST



Deficiencies in the existing Value-Added Taxation

❖ In the present regime, a manufacturer of excisable goods charges 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 charges 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 is payable on taxable services provided. W.e.f. 1 July 2012, service tax is levied on all 'services' other than the Negative list of services as provided under Section 66D of the Finance Act, 1994 or else otherwise exempted vide the Mega Exemption Notification No. 25/2012-ST dated 20 June 2012 ("the Mega Exemption Notification").

❖ Presently, from 1 June 2016, service tax is levied @ 15% [Service tax @ 14%, Swachh Bharat Cess (SBC) @ 0.5% (w.e.f. November 15, 2015) and Krishi Kalyan Cess (KKC) @ 0.5% (w.e.f. June 1, 2016)] on specified services provided by service providers in India.

❖ The existing indirect tax framework in India suffer from various shortcomings. Under the existing indirect tax structure, the various indirect taxes being levied are not necessarily mutually exclusive.

❖ To illustrate, when the goods are manufactured and sold both central excise duty (CENVAT) and State-Level VAT are levied. Though CENVAT and State-Level VAT are essentially value added taxes, set off of one against the credit of another is not possible as CENVAT is a central levy and State-Level VAT is a State levy. Moreover, CENVAT is applicable only at manufacturing level and not at distribution levels. The existing sales tax regime in India is a combination of origin based (Central Sales Tax) and destination based multipoint system of taxation (State-Level VAT). Service tax is also a value added tax and credit across the service tax and the central excise duty is integrated at the central level.

❖Despite the introduction of the principle of taxation of value added in India - at the Central level in the form of CENVAT and at the State level in the form of State VAT – its application has remained piecemeal and fragmented on account of the following reasons.

- No – Inclusion of Several Local levies in state VAT such as Luxury Tax, Entertainment Tax, etc
- Cascading of Taxes on account of (i) levy of Non-VAT able CST and (ii) Inclusion of CENVAT in the value for imposing VAT
- No CENVAT after Manufacturing Stage
- Non – Integration of VAT & Service Tax
- Double Taxation of a Transaction as both Goods & Services

1.5. GST - A cure for ills of Existing indirect tax

- A comprehensive tax structure covering both goods and services viz. Goods and Service Tax (GST) would address these problems. Simultaneous introduction of GST at both Centre and State levels would integrate taxes on goods and services for the purpose of set-off relief and will ensure that both the cascading effects of CENVAT and service tax are removed and a continuous chain of set-off from the original producer's point/ service provider's point up to the retailer's level/consumer's level is established.

- In the GST Regime, the major indirect taxes have been subsumed in the ambit of GST. The present concepts of manufacture or sale of goods or rendering of services are no longer applicable since the tax is now levied on "Supply of Goods and/or services".

CHAPTER 2

RESEARCH METHODOLOGY

The aim of this chapter is to discourse the methods used in the research. It is also a vital component in order to achieve the objectives of the decision, clear, accurate and reliable. In this chapter also, we can see the step is generally adopted to know how to collect analysis and interpretations of data. It covers the aspects of research contrive, research process, population and sampling, data aggregation technique, development of instrumentation and data analysis adopted. The purposes of this chapter are to describe the research methodology of this study, explain the sample selection, describe the procedure used in designing the instrument and collecting the data, and provide an explanation of the statistical procedures used to analyse the data. The research method has been chosen to determine the effect of goods and services tax (GST).

2.1.METHOD OF COLLECTING DATA

- **Primary Data**

  While doing this particular research, primary data was being gathered simply by distributing hard copies of survey questionnaire designed using SPSS to the public. The researchers gathered the data straight and openly by conducting survey, assessment or interviewing people. The questions were set in the purpose to understand the relationship between independent variable (for example: implementation of gst) and dependent variable (for example: consumers' behaviour on spending).

- **Secondary data**

  Moreover, secondary data was also being collected throughout this research. It basically is the data taken out from academic journals as well as articles written by previous authors or experts. For the purpose of our research, secondary data was used in doing our literature review, and we use the data that had previously noted down by past researchers to support the topic in our study.

2.2.OBJECTIVE OF STUDY

The study has following objectives:

1) To cognize the concept of GST

2) To study the features of GST

3) To evaluate the advantages and challenges of GST

4) To furnish information for further research work on GST.

GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set of benefits from the producer's / service provider's point up to the retailer's level where only the final consumer sh7ould bear the tax.

The main objective of the project is to understand about need, requirements, purpose, benefits and backlogs of the GST.

The country will benefit immensely in three ways from the GST:

1. The GST will greatly boost the GDP. Lesser taxes leads, to lower prices of goods and services. Lower prices lead, to increased purchasing power of the consumers. Increased purchasing power leads to more demand of the goods and services. More demands lead to more production. More production leads to Higher GDP. Hence, GST will boost the GDP.

2. The GST will facilitate 'Make in India' by converting the geographical landscape of the country into a single market. Despite being one country, India is a union of 30 or more markets. Too many taxes in the current system like the Central Sales Tax (CST) on inter-state sales of goods; numerous intra-state taxes; and the extensive nature of countervailing duty exemptions, favour imports over domestic production. GST would get rid of the CST and subsume most of the other taxes. And since, it will also be applicable on imports, the major tax factor working against 'making in India' will disappear, greatly boosting the production and in turn exports. This will ultimately help bridge the current account deficit.

3. The GST would improve tax governance in two ways.

   a. like the value added tax (VAT), it is a self-collecting and self-enforcing tax. What it essentially means it that the companies buying supplies from outside parties will insist on tax payment on goods supplied as without this they can't get setoffs on their own final product sales.

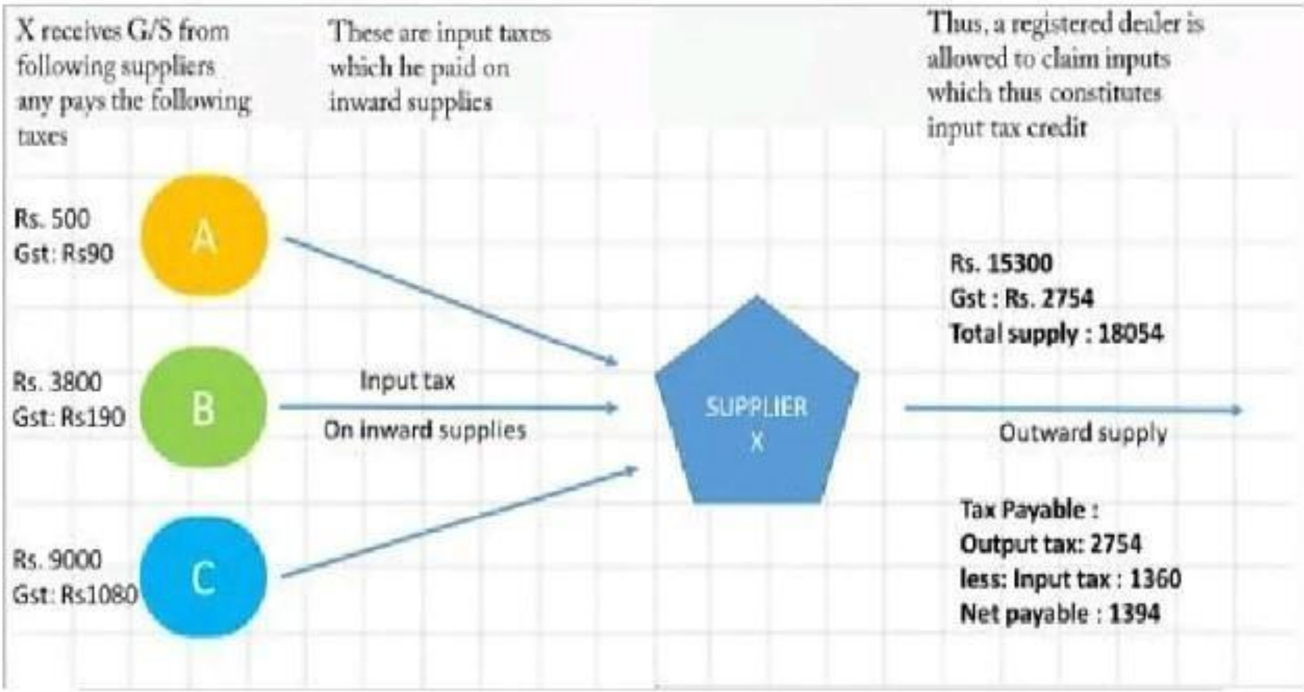
   b. due to the dual monitoring structure of the GST – one by the states and another by the Centre – it is difficult to evade tax. Even if one set of tax authorities overlooks or fails to detect evasion, there is the possibility that the other overseeing authority may not. To reap these benefits, it is important that the GST is well-designed and the revenue-neutral rate is such that protects revenue, simplifies administration, encourages compliance, avoids adding to inflationary pressures, and keeps India in the range of countries with reasonable levels of indirect taxes.

2.3. Some other elementary benefits of GST model in INDIA

- **Uniform GST Registration: -** The model legislation for the introduction of goods and services tax (GST) will have a provision for registration of individuals and companies which pay the tax. The registration will be done through a uniform PAN-linked business identification number. The Department of Revenue in the Ministry of Finance had recently sent a proposal to state governments for making the 10-digit permanent account number (PAN) the starting point for registering GST payees.

- **Input Credit in GST: -** Input Credit Mechanism (ref fig.1) is available to you when you are covered under the GST Act. Which means if you are a manufacturer, supplier, agent, ecommerce operator, aggregator or any of the persons mentioned here, registered under GST, you are eligible to claim INPUT CREDIT for tax paid by you on your purchases.

Figure (1) : Payment and Input Tax Credit Model: -

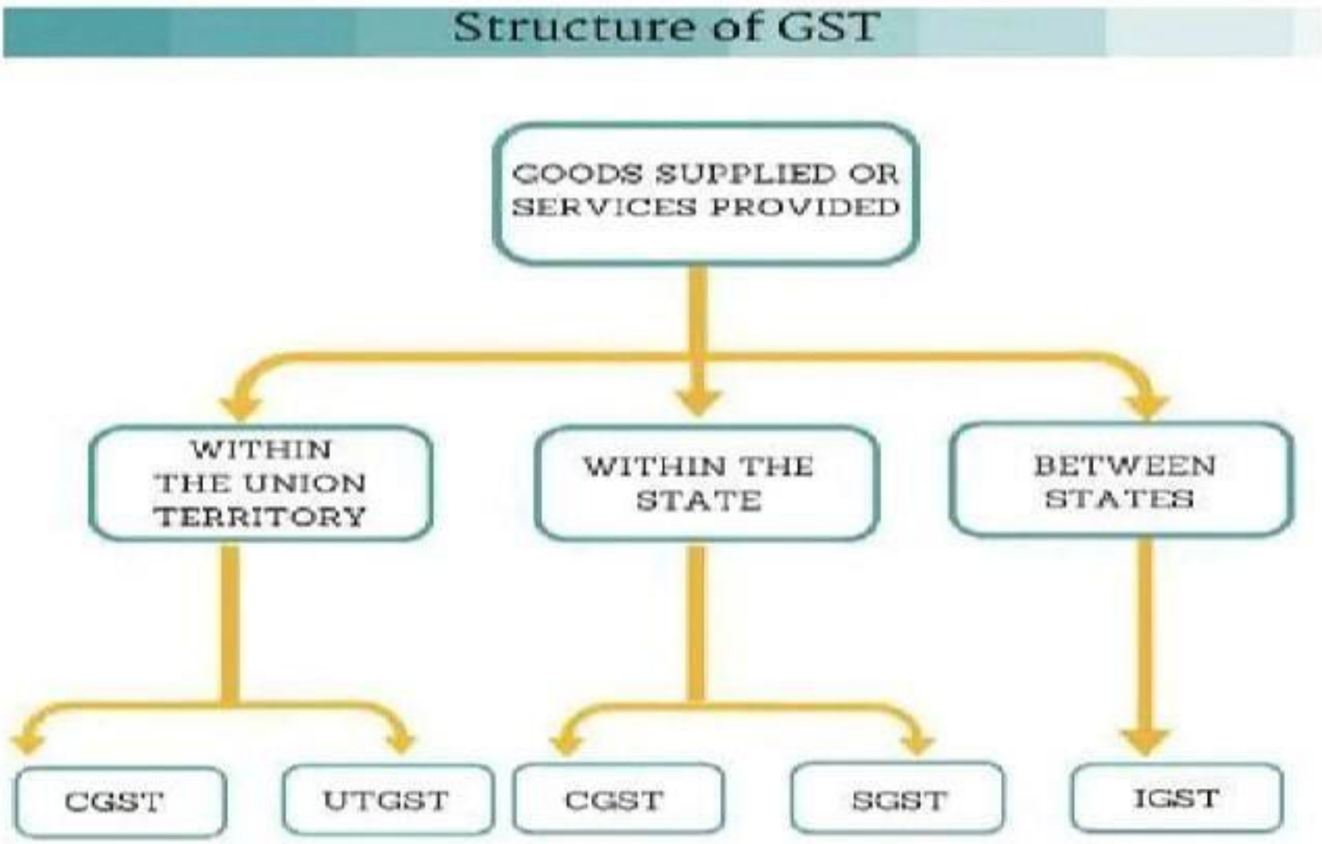


- **Growth of Revenue in States and Union: -** It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point taxation. This will lead to higher amount of revenue to both the states and the union. Reduces transaction costs and unnecessary wastages: - If government works in an efficient mode, it may be also possible that a single registration and a single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of states level with the union.

- **Reduces average tax burdens: -** Under GST mechanism, the cost of tax that consumers have to bear will be certain and it is expected that GST would reduce the average tax burdens on the consumers.

- **Reduces the corruption: -** It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Services. Present CST will be removed and need not to be paid. At present, there is no input tax credit available for CST. There are many indirect taxes in state and central level currently, which will be included by GST. i.e. you need to pay a single GST instead of all of them. Uniformity of tax rates across the states Ensure better compliance due to aggregate tax rate reduces. By reducing the tax burden, the competitiveness of Indian products in international market is expected to increase and there by development of the nation. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

2.4. Simplification of Various Terms of GST



❍ Intra-State Movement: -

An intra-State supply if the goods remain within the same State.

A supply of Services shall be –

(a) An inter-State supply if the service provider and the service recipient are located in different States.

(b) An intra-State supply if the service provider and the service recipient are located in the same State.

❍ Inter- State Movement: -

An inter-State supply if the supply involves the movement of goods from one State to another.

Explanation: Where the movement of goods commences and terminates in the same State it shall not be deemed to be a movement of goods from one State to another by reason merely of the fact that in the course of such movement the goods pass through the territory of any other State.

❍ CGST: -

CGST means Central Goods and Service Tax. CGST is a part of goods and service tax. It is covered under Central Goods and Service Tax Act 2016. Taxes collected under Central Goods and Service tax will be the revenue for central Government. Present Central taxes like Central excise duty, Additional Excise duty, Special Excise Duty, Central Sales Tax, Service Tax etc. will be subsumed under Central Goods and Service Tax.

❍ SGST: -

SGST means State Goods and Service Tax. It is covered under State Goods and service Tax Act 2016. A collection of SGST will be the revenue for State Government. After the introduction of SGST all the state taxes like Value Added Tax, Entertainment Tax, Luxury Tax, Entry Tax etc. will be merged under SGST. For example, if goods are sold or services are provided within the State then SGST will be levied on such transaction.

❍ IGST: -

IGST means Integrated Goods and Service Tax. IGST falls under Integrated Goods and Service Tax Act 2016. Revenue collected from IGST will be divided between Central Government and State Government as per the rates specified by the government. IGST will be charged on transfer of goods and services from one state to another state. Import of Goods and Services will also be deemed to be covered under Inter-state transactions so IGST will be levied on such transactions. For example, if Goods or services are transferred from Rajasthan to Maharashtra then the transaction will attract IGST.

❍ UTGST: -

The full form of UTGST is Union Territory Goods and Service Tax. UTGST is a part of Goods and Service Tax in India. GST under supply of goods and services takes place in Union Territories like Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Delhi (National Capital Territory of Delhi), Lakshadweep, Puducherry etc. is accounted under UTGST. A separate Act is being implemented for Union Territory states to impose and administer GST in India in the name of UTGST Act. Under UTGST Act, the details of GST rates payable against the movement of goods and services in Union territories are explained. The UTGST bill is presented in respective states government to implement as UTGST Act.

The above information is about the meaning of UTGST under GST in India, the mechanism of UTGST under GST system in India and union territory states falls under UTGST.

2.5.SCOPE OF THE GST

The scope of the project limits up to the study of GST under Indirect Tax System. GST shall cover all goods and services, except alcoholic liquor for human consumption, for the levy of goods and services tax. In case of petroleum and petroleum products, it has been provided that these goods shall not be subject to the levy of Goods and Services Tax till a date notified on the recommendation of the Goods and Services Tax Council.

Of Goods and Services Tax Council to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, exemption list and threshold limits. The Council shall function under the Chairmanship of the Union Finance Minister and will have the State Union Minister as its members.

All goods and services are covered under GST Regime except Alcoholic liquor for Human Consumption, Tobacco Products subject to levy of GST and Centre may also levy excise duty GST Council yet to decide the incidence and levy of GST on following;

a) Crude Petroleum

b) High Speed Diesel (HSD)

c)Motor Spirit (Petrol)

d)Natural Gas

e) Aviation Turbine Fuel

CHAPTER 3

LITERATURE REVIEW

The Proposed GST is likely to change the whole Scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrication of taxes imposed by union and states separately. GST will unify all the Indirect taxes under an Umbrella and will create a smooth national market. Experts says that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrated country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

Hooper and Smith (1997): - GST is actually collected at various stages of the production process. Accordingly, there is output tax, a GST tax charges by the suppliers on taxable goods and services and input tax, a tax incurred by businesses on goods and services purchases. It is noted that GST is not a cost to the sellers and would not appear in financial statements as expenditure. Recently, the government initiative to introduce Goods and Services Tax (GST) has been a growing topic of interest in Malaysia. Despite the increasing popularity and success of GST implementation around the world (Hooper & Smith, 1997), Malaysian citizens are not entirely convinced with this new tax scheme. There are debates mainly centred on the advantages and disadvantages derived from the new tax initiative.

Dr. R. Vasanth Gopal (2011) studied: - GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also

As per as India is concerned Agogo Mawuli (May 2014) studied: -

"Goods and Service Tax an Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Ehtisham Ahmed and Satya Poddar (2009) studied : -

"Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simple and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

CHAPTER 4

DATA COLLECTION

4.1. Dual GST Model To be introduced in India

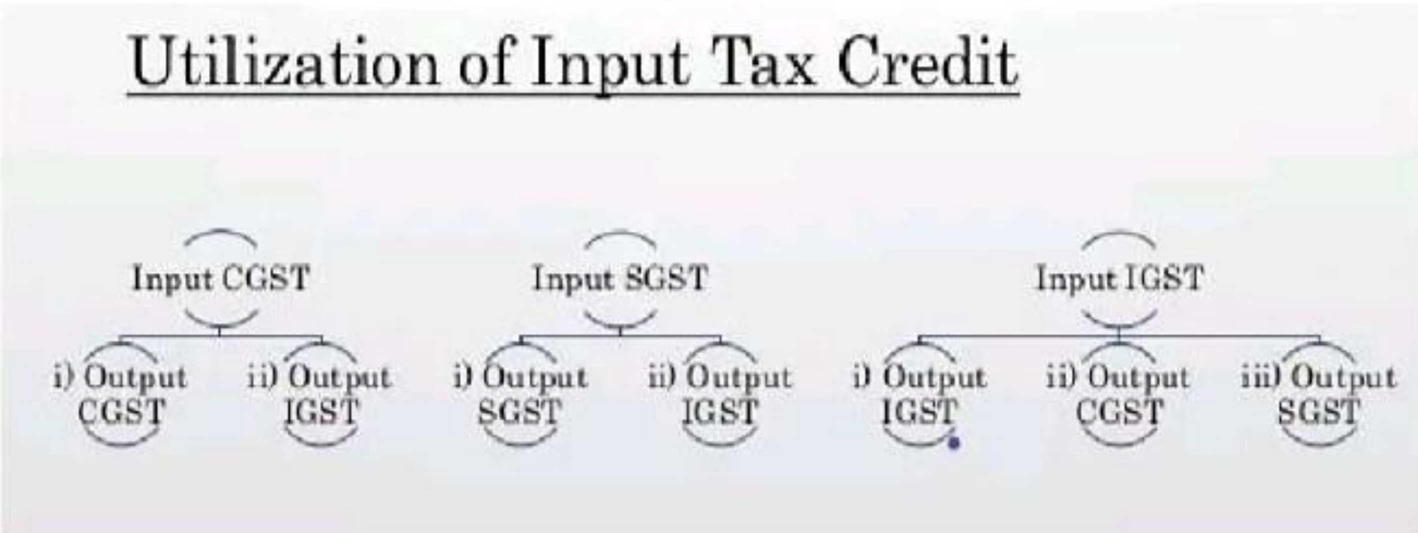
❖ India will adopt a dual GST which will be imposed concurrently by the Centre and States, i.e. Centre and States will simultaneously tax goods and services. Centre will have the power to tax intra-State sales & States will be empowered to tax services. GST will extend to whole of India except the State of Jammu and Kashmir.

❖ GST is a destination-based tax applicable on all transactions involving supply of goods and services for a consideration subject to exceptions thereof. GST in India will comprise of Central Goods and Service Tax (CGST) - levied and collected by Central Government, State Goods and Service Tax (SGST) - levied and No CENVAT after manufacturing stage Non-inclusion of several local levies in State VAT such as luxury tax, entertainment tax, etc. Nonintegrating of VAT & service tax Cascading of taxes on account of (i) levy of Non-VAT able CST and (ii) inclusion of CENVAT in the value for imposing VAT Double taxation of a transaction as both goods and services collected by State Governments/Union Territories with State Legislatures and Union Territory Goods and Service Tax (UTGST) - levied and collected by Union Territories without State Legislatures, on intra-State supplies of taxable goods and/or services. Inter-State supplies of taxable goods and/or services will be subject to Integrated Goods and Service Tax (IGST). IGST will approximately be a sum total of CGST and SGST/UTGST and will be levied by Centre on all inter-State supplies.

❖ There is single legislation – CGST Act, 2017 - for levying CGST. Similarly, Union Territories without State legislatures [Andaman and Nicobar Islands, Lakshadweep, Dadra and Nagar Haveli, Daman and Diu and Chandigarh] will be governed by UTGST Act, 2017 for levying UTGST. States and Union territories with their own legislatures [Delhi and Puducherry] have to enact their own GST legislation for levying SGST. Though there would be multiple SGST legislations, the basic features of law, such as chargeability, definition of taxable event and taxable person, classification and valuation of goods and services, procedure for collection and levy of tax and the like would be uniform in all the SGST legislations, as far as feasible. This would be necessary to preserve the essence of dual GST.

❖ In GST regime, tax (i.e. CGST and SGST/UTGST for intra-State supplies and IGST for inter-State supplies) shall be paid by every taxable person and in this regard, provisions have been prescribed in the law. However, for providing relief to small businesses, a simpler method of paying taxes and accounting thereof is also prescribed, known as Composition Scheme. Along with providing relief to small-scale business, the law also contains provisions for granting exemption from payment of tax on specified goods and/or services.

❖ Input Tax Credit (ITC) of CGST and SGST/UTGST will be available throughout the supply chain, but cross utilization of credit of CGST and SGST/UTGST will not be possible, i.e. CGST credit cannot be utilized for payment of SGST/UTGST and SGST/UTGST credit cannot be utilized for payment of CGST. However, cross utilization will be allowed between CGST/SGST/UTGST and IGST, i.e. credit of IGST can be utilized for the payment of CGST/SGST/UTGST and vice versa.



❖ Since GST is a destination-based consumption tax, revenue of SGST will ordinarily accrue to the consuming States. The inter-State supplier in the exporting State will be allowed to set off the 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 the importing State will be allowed to avail the credit of IGST paid on inter-State purchase made by him. Thus, unlike the existing scenario where the credit chain breaks in case of inter-State sales on account of non-VAT able CST, under GST regime there is a seamless credit flow in case of inter-State supplies too. The revenue of inter-State sale will not accrue to the exporting State and the exporting State will be required to transfer to the Centre the credit of SGST/UTGST used in payment of IGST. The Centre will transfer to the importing State the credit of IGST used in payment of SGST/UTGST. Thus, the inter- State trade of goods and services (IGST) would need a robust settlement mechanism amongst the States and the Centre. A Central Agency is needed which can act as a clearing house and verify the claims and inform the respective Governments to transfer the funds. This is possible only with the help of a strong IT Infrastructure.

❖ Resultantly, Goods and Services Network (GSTN) - a Special Purpose Vehicle – has been set to provide a shared IT infrastructure and services to Central and State Governments, taxpayers and other stakeholders for implementation of GST.

The functions of the GSTN, inter alia, include:

- Facilitating registration;
- Forwarding the returns to Central and State authorities;
- Computation and settlement of IGST;
- Matching of tax payment details with banking network;
- Providing various MIS reports to the Central and the State Governments based on the taxpayer return information;
- Providing analysis of taxpayers' profile; and
- Running the matching engine for matching, reversal and reclaim of input tax credit.

4.2. GST PORTAL

The government's portal (ref fig.2) for GST compliance is finally live and open for business registrations. The GST portal is hosted at https://www.gst.gov.in/ and so far, only registrations are enabled on it. Existing taxpayers or new businesses can apply to register and submit the required documents. All the existing registered taxpayers will be granted provisional registration initially and would be required to submit additional documents within 6 months.

Figure (2)

4.3. GSTIN

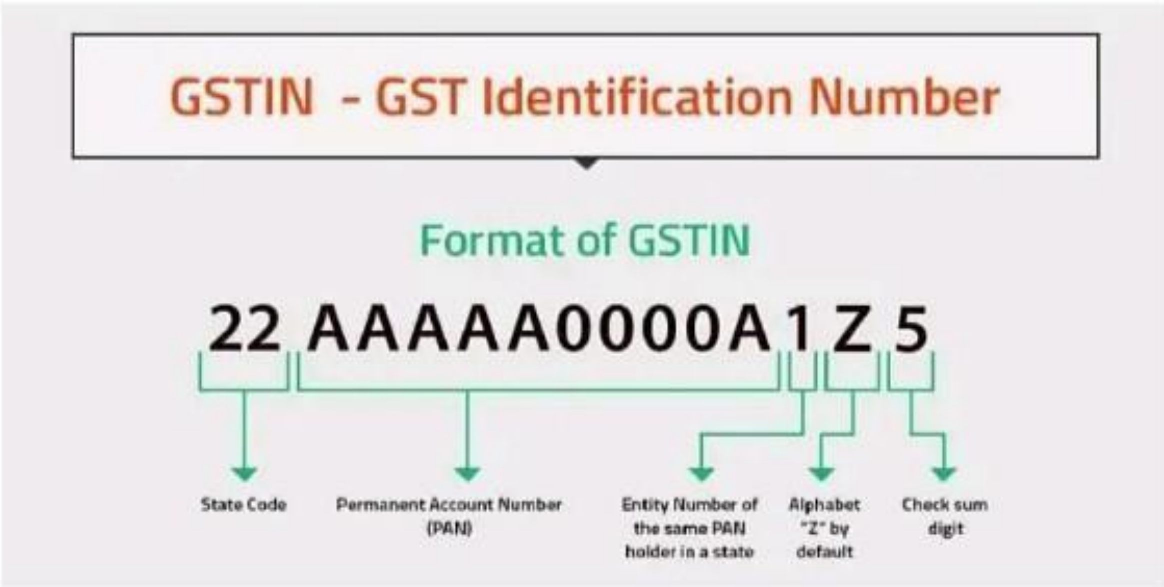
For any dealer registered under state VAT law, a unique TIN number is issued by the respective state tax authorities. Similarly, a service provider is assigned a service tax registration number by the Central Board of Excise and Custom (CBEC). Going forward, in the new GST regime, all these taxpayers will get consolidated into one single platform for compliance and administration purposes and will be assigned registration under a single authority. The government has set up GSTN–a special purpose vehicle to provide the IT infrastructure necessary to support GST digitally. It is expected that 8 million taxpayers will be migrated from various platforms into GST. All of these businesses will be assigned a unique Goods and Services Tax Identification Number (GSTIN). But most are yet not aware of the new registration process and the identification number.

Proposed GST Identification Number (GSTIN)

A complete break-up of the proposed GST Identification Number. Each taxpayer will be allotted a state-wise PAN-based 15-digit Goods and Services Taxpayer Identification Number (GSTIN).

- The first two digits of this number will represent the state code as per Indian Census 2011
- The next ten digits will be the PAN number of the taxpayer
- The thirteenth digit will be assigned based on the number of registration within a state
- The fourteenth digit will be Z by default
- The last digit will be for check code

A format of proposed GSTIN has been shown in the image below.



4.4. GST Registration

Every business carrying out a taxable supply of goods or services under GST regime and whose turnover exceeds the threshold limit of Rs. 20 lakh/ 10 Lakh as applicable will be required to register as a normal taxable person. This process is of registration is referred as GST registration.

Importance of GST Registration

GST registration is critical because it will enable you to avail various benefits that are available under the GST regime. One such benefit is to avail seamless input tax credit. Multiple taxes are being clubbed under GST and thus the cascading of taxes that is prevailing currently will no longer be the case. Also, timely registration will help you avoid any kind of interface with tax authorities.

Casual Registration

A person who occasionally supplies goods and/or services in a territory where GST is applicable but he does not have a fixed place of business. Such a person will be treated as a casual taxable person as per GST.

Example: A person who has a place of business in Bangalore supplies taxable consulting services in Pune where he has no place of business would be treated as a casual taxable person in Pune.

4.5. Composition Dealer

This is an option available to small businesses and taxpayers having a turnover less than Rs. 75 lakhs. They can opt for Composition scheme where they will tax at a nominal rate of 1% or 2.50% (for manufacturers) CGST and SGST each (rates will be notified later). They will be required to maintain much less detailed records and file only 1 quarterly return instead of three monthly returns. However, they cannot issue taxable invoices, i.e., collect tax from customers, but are required to pay the tax out of their own pocket. They cannot also claim any input tax credit. Composition levy is available to only small businesses. It is not available to interstate sellers, e-commerce traders, and operators.

Applicability

GST will apply when turnover of the business exceeds Rs 20 lakhs (Limit is Rs 10 lakhs for the North-Eastern States). [Earlier the limit was Rs 10lakhs and Rs 5lakhs for NE states.]

4.6. Migration to GST

All existing Central Excise and Service Tax assessees and VAT dealers will be migrated to GST. To migrate to GST, assessees would be provided a Provisional ID and Password by CBEC/State Commercial Tax Departments.

Provisional IDs would be issued to only those assessees who have a valid PAN associated with their registration. **An assessee may not be provided a Provisional ID in the following cases:**

1. The PAN associated with the registration is not valid
2. The PAN is registered with a State Tax authority and Provisional ID has been supplied by the said State Tax authority.
3. There are multiple CE/ST registrations on the same PAN in a State. In this case, only 1 Provisional ID would be issued for the 1st registration in the alphabetical order provided any of the above 2 conditions are not met.

The assesses need to use this Provisional ID and Password to login to the GST Common Portal **https://www.gst.gov.in** where they would be required to fill and submit the Form 20 along with necessary supporting documents.

4.7. Penalties for Not Registering Under GST

An offender not paying tax or making short payments has to pay a penalty of 10% of the tax amount due subject to a minimum of Rs. 10,000. The penalty will be high at 100% of the tax amount when the offender has evaded i.e., where there is a deliberate fraud. However, for other genuine errors, the penalty is 10% of the tax due.

4.8. Multiple Registrations Under GST

- A person with multiple business verticals in a state may obtain a separate registration for each business vertical.
- PAN is mandatory to apply for GST registration (except for a non-resident person who can get GST registration on the basis of other documents).
- A registration which has been rejected under CGST Act/SGST Act shall also stand rejected for the purpose of SGST/CGST act.

4.9. Input Tax Credit

One of the fundamental features of GST is the seamless flow of input credit (ref fig.3) across the chain (from the manufacture of goods till it is consumed) and across the country.

4.10. GST software

The brink of one of the biggest business changes of our times viz. Goods and Services Tax. So far, most of the big businesses have already identified vendors for implementation of GST software. Many of the large enterprises had floated a Request for Proposal/Request for Information (RFP/RFI) late last year, asking software providers to present them with their solutions. They would have then evaluated these providers, over multiple product demos and extensive question and answer rounds, to reach a stage where they can now begin the implementation process, and undertake business process mapping and solution.

GST software, a list of some of the key features that software provides.

1. Cloud based GST Software: -

Clear tax GST is a cloud-based software i.e. developed and maintained on internet which empowers us to provide our users with the following features

• Create a sync between working offline and backup on connectivity with internet

• Providing an updated version of our software without bothering the user with additional efforts to update the software

• Easy access to software from anywhere at any time without worrying about internet connectivity

2. No desktop for installation: -

As the software is hosted on cloud, user need not have a desktop system for installation of our software.

Clear Tax GST software can be downloaded as an offline software on system / mobile app, mobile website / desktop website.

User need not bear additional cost of installation of the software and utilities. Hence, You can login from anywhere and anytime.

At the point of creating an invoice our software makes sure that all mandatory fields are accurately filled.

In case of any mistake, an alert or notification will be given for every error made in an invoice along with report of all such invoices.

4.11. GST RATES LIST 2019

GST council has made the much-awaited announcements around tax rates on various categories of goods on day one of a two-day meeting of the said council at Srinagar. There has been a hype around these rates for a while and now these rates are finally in the public domain.

As soon as the GST rates were announced a huge wave of curiosity hit across industry and trade bodies. Everyone is evaluating their position as a result of this change. So, in this article, we bring you our analysis of these GST rates.

We know that the GST slabs are pegged at 5%, 12%, 18% & 28%. According to the GST council, the tax structure for common-use goods are as under:

GST Rates on Goods

- *5% Tax Slab*

Given below are the items that have been added to the 5% GST tax rate slab along with the other existing items-

- Cashew nuts/cashew nuts in shell
- Ice and snow
- Bio gas
- Insulin
- Aggarbatti
- Kites
- Coir mats, matting and floor covering
- Pawan Chakki that is Wind-based Atta Chakki

- Postage or revenue stamps, stamp-postmarks, first-day covers, etc.
- Numismatic coins
- Braille paper, braille typewriters, braille watches, hearing aids and other appliances to compensate for a defect or disability
- Fly-ash blocks
- Walking sticks
- Natural cork
- Marble rubble
- Accessories/parts for carriages designed for differently-abled individuals

12% Tax Slab

After the GST council meeting on 11th June, the following items were added to the 12% GST rates category-

- Preparations of vegetables, fruits, nuts or other parts of plants, including pickle, murabba, chutney, jam, jelly
- Ketchups, sauces and mustard sauce but excluding curry paste, mayonnaise and salad dressings, mixed condiments and mixed dressings
- Bari made of pulses including mungodi
- Menthol and menthol crystals, peppermint, fractionated/de-terpenated mentha oil, dementholised oil, Mentha piperita oil and spearmint oil
- All diagnostic kits and reagents
- Plastic beads
- Exercise books and note books
- Glasses for corrective spectacles and flint buttons
- Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs
- Fixed Speed Diesel Engines
- Two-way radio (Walkie talkie) used by defence, police and paramilitary forces etc.
- Intraocular lens
- Corrective spectacles

- Playing cards, chess board, carom board and other board games, like ludo, etc.
- Debagged/roughly squared cork
- Items manufactured from natural cork
- Agglomerated cork

18% Tax Slab

The items mentioned below have been added to the 18% GST tax rate slab among the other existing items-

- Kajal pencil sticks
- Dental wax
- Plastic Tarpaulin
- School satchels and bags other than of leather or composition leather; toilet cases, Hand bags and shopping bags of artificial plastic material, cotton or jute; Handbags of other materials excluding wicker work or basket work
- Headgear and parts thereof
- Precast Concrete Pipes
- Salt Glazed Stone Ware Pipes
- Aluminium foil
- All goods, including hooks and eyes
- Rear Tractor tyres and rear tractor tyre tubes

- Rear Tractor wheel rim, tractor centre housing, tractor housing transmission, tractor support front axle
- Weighing Machinery other than electric or electronic weighing machinery
- Printers other than multifunction printers
- Ball bearing, Roller Bearings, Parts & related accessories
- Transformers Industrial Electronics
- Electrical Transformer
- Static Converters (UPS)

- CCTV including CCTV with video recorders
- Set top Box for TV
- Computer monitors not exceeding 17 inches
- Electrical Filaments or discharge lamps
- Winding Wires, Coaxial cables and Optical Fiber
- Perforating or stapling machines (staplers), pencil sharpening machines
- Baby carriages
- Instruments for measuring length, for use in the hand (for example, measuring rods and tapes, micrometers, callipers)
- Bamboo furniture
- Swimming pools and paddling pools
- Televisions/Monitors (upto 32 inches)
- Power banks powered by Lithium-ion batteries
- Sports goods, games consoles and related items with HS code 9504
- All items with HS code 8483 including gear boxes, transmission cranks and pulleys

28% Tax Slab

- The council meeting was held to 'reduce' the tax rates on certain items based on customer preferences. Hence, no additional items were added to the highest GST rates slab of 28%.

- Used or retreaded pneumatic rubber tires

GST Rates on Services

Nil GST

- Chargeable services offered on Basic Savings Bank Deposit (BSBD) account opened under the PMJDY (Pradhan Mantri Jan Dhan Yojana)

5% Tax Slab

- Railways-Transportation of goods, passengers
- Goods transported in a vessel from outside India
- Renting a motor cab without fuel cost
- Transport services in AC contract/stage or radio taxi
- Transport by air (scheduled)/air travel for purpose of pilgrimage via chartered/non-scheduled flights
- Tour operator services
- Leasing of aircrafts
- Print media ad space
- Working for printing of newspapers

12% Tax Slab

- Rail transportation of goods in containers from a third party other than Indian Railways
- Air travel excluding economy
- Food /drinks at restaurants without AC/heating or liquor license
- Renting of accommodation for more than Rs.1000 and less than Rs.2500 per day
- Chit fund services by foremen
- Construction of building for the purpose of sale
- IP rights on a temporary basis
- Movie Tickets less than or equal to Rs. 100

❍ *18% Tax Slab*

- Food/drinks at restaurants with liquor license
- Food /drinks at restaurants with AC/heating
- Outdoor catering
- Renting for accommodation for more than Rs.2500 but less than Rs.5000 per day
- Supply of food, Shamiyana, and party arrangement
- Circus, Indian classical, folk, theatre, drama
- Supply of works contract
- Movie Tickets over Rs. 100

❍ *28% Tax Slab*

- Entertainment events-amusement facility, water parks, theme parks, joy rides, merry-go-round, race course, go-carting, casinos, ballet, sporting events like IPL
- Race club services
- Gambling
- Food/drinks at AC 5-star hotels
- Accommodation in 5-star hotels or above

4.12. NO TAX

Apart from other items that enjoy zero GST tax rate, these are the commodities added to the list after 11th June rate revision –

- Hulled cereal grains like barley, wheat, oat, rye, etc.
- Bones and horn-cores unworked and waste of these products.
- Palmyra jaggery
- All types of salt
- Dicalcium Phosphate (DCP) of animal feed grade conforming to IS specification No. 5470 :2002
- Kajal [other than kajal pencil sticks]
- Picture books, colouring books or drawing books for children
- Human hair – dressed, thinned, bleached or otherwise worked
- Sanitary Napkins
- Unit container-packed frozen branded vegetables (uncooked/steamed)
- Vegetables preserved using various techniques including brine and other preservatives that are unsuitable for immediate human consumption.
- Music Books/manuscripts

4.13. <u>GST Monthly Returns: -</u>

GST return procedure **(refer fig No. 3)** Based on the category of registered person such as monthly return is to be filed by Regular, Foreign Non-Residents, ISD and Casual Tax Payers whereas Compounding/Composite tax payers has to file quarterly returns:

<u>Figure No. 03</u>

4.14. Needs to file Return in GST regime

• Every registered dealer is required to file return for the prescribed tax period. A Return needs to be filed even if there is no business activity (i.e. Nil Return) during the said tax period of return.

• Government entities / PSUs, etc. not dealing in GST supplies or persons exclusively dealing in exempted / Nil rated / non –GST goods or services would neither be required to obtain registration nor required to file returns under the GST law.

• However, State tax authorities may assign Departmental ID to such government departments / PSUs / other persons and will ask the suppliers to quote this ID in the supply invoices for all inter-State purchases being made to them.

4.15. Salient Features of GST Returns

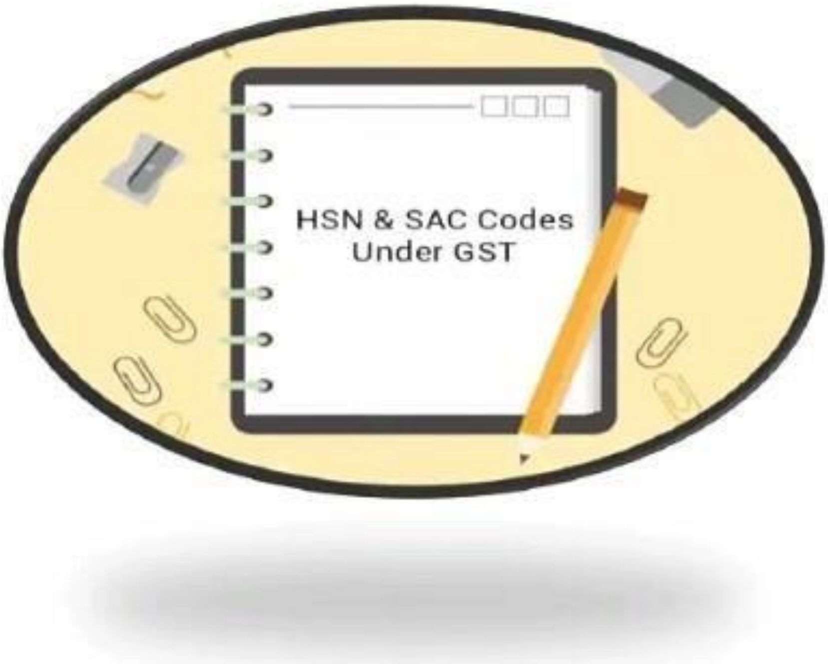
• Filing of returns would only be through online mode. Facility of offline generation and preparation of returns will also be available. The returns prepared in the offline mode will have to be uploaded.

• There will be a common e-return for CGST, SGST, IGST and Additional Tax.

• A registered Tax Payer shall file GST Return at GST Common Portal either by himself or through his authorised representative.

• There would be no revision of Returns. Changes to be done in subsequent Returns

4.16. HSN / SAC CODE UNDER GST



What is HSN Code?

The Harmonized Commodity Description and Coding System generally refers to **"Harmonized System of Nomenclature"** or simply "HSN". It is a multipurpose international product nomenclature developed by the World Customs Organization (WCO). It first came into effect in 1988.

How does HSN code work?

It has about 5,000 commodity groups, each identified by a six-digit code, arranged in a legal and logical structure. It is supported by well-defined rules to achieve uniform classification.

Why is HSN important?

The main purpose of HSN is to classify goods from all over the World in a systematic and logical manner. This brings in a uniform classification of goods and facilitates international trade.

HSN Worldwide

The HSN system is used by more than 200 countries and economies for reasons such as:

- Uniform classification
- Base for their Customs tariffs
- Collection of international trade statistics

Over 98% of the merchandise in international trade is classified in terms of the HSN.

Harmonized System of Nomenclature number for each commodity is accepted by most of the countries. The HSN number remains same for almost all goods. However, HSN number used in some of the countries varies little, based on the nature of goods classified.

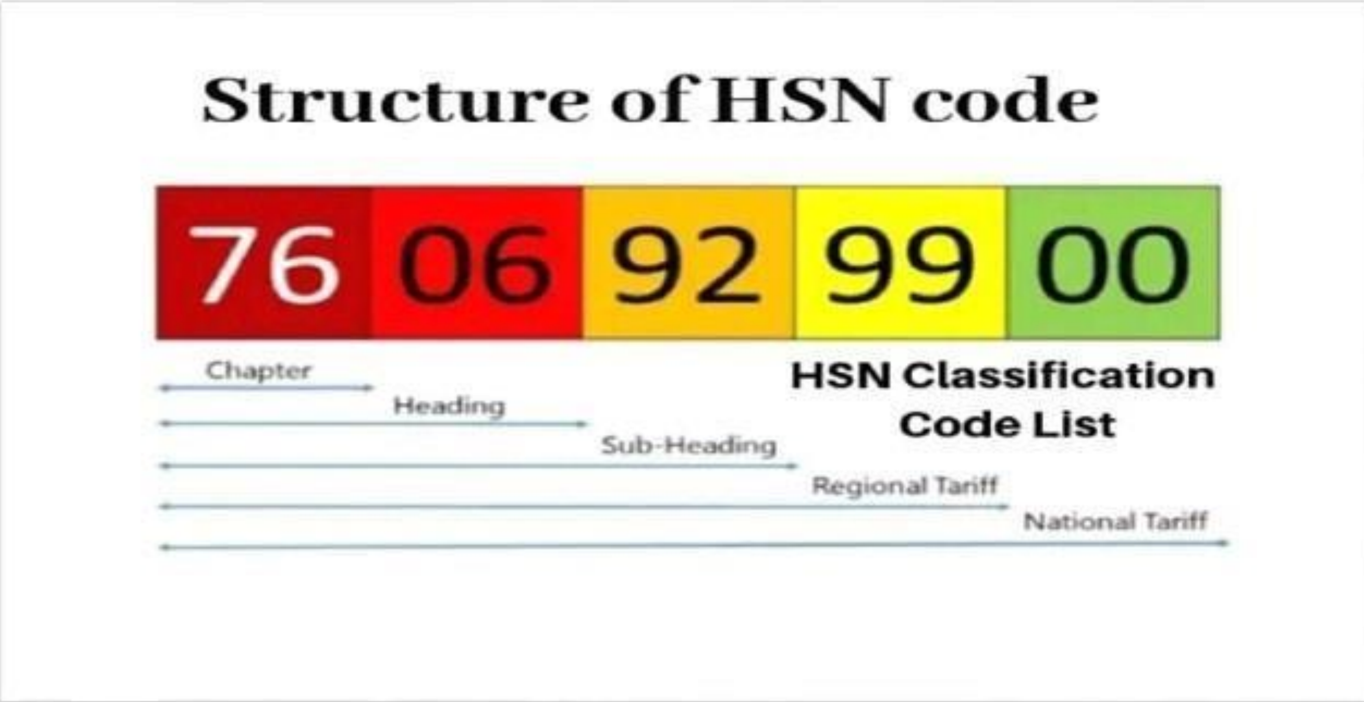
HSN in India

India is a member of World Customs Organization (WCO) since 1971. It was originally using 6-digit HSN codes to classify commodities for Customs and Central Excise. Later Customs and Central Excise added two more digits to make the codes more precise, resulting in an 8-digit classification.

Understanding the HSN Code

The HSN structure contains 21 sections, with 99 Chapters, about 1,244 headings, and 5,224 subheadings.

- Each Section is divided into Chapters. Each Chapter is divided into Headings. Each Heading is divided into Sub Headings.
- Section and Chapter titles describe broad categories of goods, while headings and subheadings describe products in detail.



Services Accounting Code (SAC) in GST

Like goods, services are also classified uniformly for recognition, measurement and taxation. Codes for services are called Services Accounting Code or SAC.

For example:

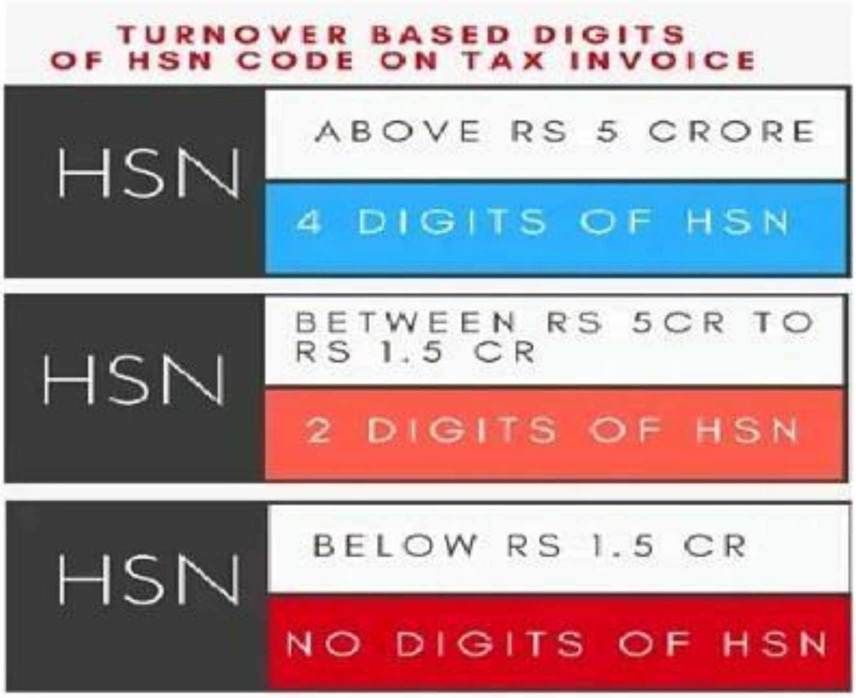
Legal documentation and certification services concerning patents, copyrights and other intellectual property rights-- 998213

- The first two digits are same for all services i.e. 99
- The next two digits (82) represent the major nature of service, in this case, legal services
- The last two digits (13) represent detailed nature of service, i.e., legal documentation for patents etc.

PROPOSED NEW SCHEME OF CLASSIFICATION OF SERVICES

Heading & Group	Service Code (Tariff)	Service Description
Section 7: Financial and related services; real estate services; and rental and leasing services		
		4 Digit Code
Heading No. 9971		Financial and related services
Group 99711	4 Digit Code	Financial services (except investment banking, insurance services and pension services)
	997111	Central banking services
	997112	Deposit services
6 Digit Code	997113	Credit-granting services including stand-by commitment, guarantees & securities
	997114	Financial leasing services
	997119	Other financial services (except investment banking, insurance services and pension services)
Group 99712		Investment banking services
	997120	Investment banking services
Group 99713		Insurance and pension services (excluding reinsurance services)
	997131	pension services
	997132	Life insurance services (excluding reinsurance services)

HSN codes to be declared:



Why is HSN important under GST?

The purpose of HSN codes is to make GST systematic and globally accepted.

HSN codes will remove the need to upload the detailed description of the goods. This will save time and make filing easier since GST returns are automated.

A dealer or a service provider must provide HSN/SAC wise summary of sales in his GSTR-1.

4.17. GST calculation

- The GST shall have two components: one levied by the Centre (referred to as Central GST or CGST), and the other levied by the States (referred to as State GST or SGST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.

- The CGST and the SGST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.

- Cross utilization of ITC both in case of Inputs and capital goods between the CGST and the SGST would not be permitted except in the case of inter-State supply of goods and services (i.e. IGST).

- The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.

THE FOLLOWING COMPARISON SHOWS THE BENEFITS OF GST: -

Comparison between Multiple Indirect Tax Laws and proposed Law		
Particulars	**Without GST**	**With GST**
	(Rs.)	
Manufacture to Wholesaler		
Cost of Production	5,000.00	5,000.00
Add: - Profit Margin	2,000.00	2,000.00
Manufacturer Price	7,000.00	7,000.00
Add: - Excise Duty @ 12%	840	-
Total value (a)	7,840.00	7,000.00
Add: - VAT @ 12.5%	980	-
Add: - CGST @ 12%	-	840
Add: - SGST @ 12%	-	840
Invoice Value	8,820.00	8,680.00
Wholesaler to Retailer		
COG to Wholesaler (a)	7,840.00	7,000.00
Add: - Profit Margin @ 10%	784	700
Total Value (b)	8,624.00	7,700.00
Add: - VAT @ 12.5%	1,078.00	-
Add: - CGST @ 12%	-	924
Add: - SGST @ 12%	-	924
Invoice Value	9,702.00	9,548.00
Retailer to Consumer		
COG to Retailer (b)	8,624.00	7,700.00
Add: - Profit Margin @ 10%	862.4	770
Total Value (c)	9,486.00	8,470.00
Add: - VAT @ 12.5%	1,185.80	-
Add: - CGST @ 12%	-	1,016.40
Add: - SGST @ 12%	-	1,016.40
Total Price to the Final Consumer	10,672.20	10,502.80.
Cost Saving to Consumer	-	169.4
% of Cost Saving	-	1.59

NOTE: - Input tax credit available to **wholesaler is Rs.980 and Rs. 1,680** in case of without GST and with GST respectively.

Likewise Input tax credit available to Retailer is Rs. 1,078 and Rs. 1,848 in case of without GST and with GST respectively.

4.18. IMPACTS OF BENEFITS ON GST

The basis of Goods and Services Tax is the seamless flow of Input Tax Credit (ITC) along the entire value addition chain. At every step of the manufacturing process, businesses will have the option to claim the tax already paid in the previous transaction. Understanding this process is crucial for businesses. A detailed explanation here.

To understand this, let us first understand what is Input Tax Credit. It is the credit an individual receives for the tax paid on the inputs used in manufacturing the product. So, if there is a 10% tax that the individual must submit to the government, he can subtract the amount he has paid in taxes at the time of purchase and submit the balance amount to the government.

Benefits of GST

To Trade:

- Reduction in range of taxes
- Mitigation of cascading/ double taxation
- More efficient balance of taxes particularly for exports
- Development of Common National Market or Common Economic Market
- Simpler tax administration regime with less rates and exemptions.
- Increase in cost competitiveness' for local enterprises with reduction in tax cost and also reduced cost of compliance

To Government:

- Simpler tax framework
- Broadening tax base
- Improved compliance and revenue collections
- Efficient utilization of resources
- Investments out of savings by consumers - due to mitigation of cascading effect, contributes to increase in availability of funds out of savings of consumer - which may be used for financing developmental activities

To Consumer:

- Reduction in cost of goods and services due to removal of cascading effect of taxes
- Increase in buying force and real income
- Increase in savings due to decline in cost
- Increase in investments due to increase in savings.

EXAMPLE: -

Stage 1: Manufacturing

Take apparel manufacturing as an example and **10%** as the GST applicable.

The manufacturer buys raw material worth **INR 500** that is inclusive of the GST of **INR 50** (10% of 500). He then adds his own value of **INR 50** to the materials during the manufacturing process. This brings the gross value of the product to **INR 550**.

Now, the total tax amount on the output of the apparel comes to **INR 55** (10% of 550) In the current tax system, the manufacturer would be required to pay a tax of **INR 55**; however, under GST he can set some of his tax off as he has already paid it while purchasing the raw materials. Therefore, the final GST that the manufacturer will incur will be of INR 5 (total tax amount till now **minus** the tax he has already paid) i.e. **INR 5** (55-50)

Stage 2: Wholesale

Here, the apparel is passed from the manufacturer to the wholesaler at a gross value of **INR 550** that is inclusive of the GST of **INR 55** (10% of 550). The wholesaler then adds his value (his margin) of INR 50 making the total INR 600 (550 + 50). This brings the total tax amount on the final to INR 60 (10% of 600). Like the manufacturer, the wholesaler too can set off this tax amount with the tax that he has already paid for while purchasing the goods from the manufacturer. Thus, the final GST for the wholesaler would be INR 5 (60 – 55)

Stage 3: Retailer

In this final step, the retailer buys the apparel from the wholesaler at a gross value of **INR 600** that is inclusive of the GST of **INR 60** (10% of 600). He then adds his value or margin of INR 50 making the total cost of the goods **INR 650**. The GST applicable here is **INR 65** (10% of 650), but since the retailer has already paid a tax while purchasing the goods, he can set it off. Thus, the final GST incidence for the retailer would be **INR 5** (65 – 60).

At the end, since the retailer will sell the product at INR 650, the GST paid by the customer would be INR 65(10% of 650) only. This number would have been much higher in our current tax structure.

Thus, GST can be a win-win scenario that will benefit the entire value chain and make it easier for both businesses and consumer

4.19. Overall Impact of GST

a) **Change in law and procedure:** Since it is a major indirect tax reform in India, there would be new legislations and procedures. The entire indirect tax code would be a new one.

b) **Change in tax-rates:** The standard rate of 12.5 % for central excise, Service tax, along with residuary rate of VAT at 12.5-14.5% brings the overall rate to 25%-30%. But, post GST, the general rate will be 18%; a net gain of almost 7%-12%. Most of the dealers and consumers would experience the change in tax rates, either significantly or marginally. When the tax rates are increased for some products it could lead to tax evasion as well.

c) **GST based on HSN:** The central excise tariff-based classification would no longer be applicable. It would reduce the interpretational issues in respect of class of commodities. The Harmonized Commodity Description and Coding System generally refers to **"Harmonized System of Nomenclature"** or simply "HSN". It is a multipurpose international product nomenclature developed by the World Customs Organization (WCO). It first came into effect in 1988.

d) **Ailment of tax credit:** GST would facilitate near seamless credit across the entire supply chain and across all States under a common tax base. At present no cross credits are available across central excise/service tax to local VAT/sales tax. Under the GST law, the input tax credit (ITC) (set off) would be given for Central GST against CGST and the States would give input tax credit (ITC) SGST to SGST. Cross utilization of credit between Central GST and State GST would not be allowed.

e) **Credit ailment based on vendor's invoices:** The credit of excise duty paid is available based on the excise invoice raised by manufacturer or service provider. The credit is available under the Service Tax law when the invoice amount is paid within 3 months of the invoice date. In respect of joint charge and reverse charge, based on receipt of payment on the basis of payment challans of the assessee. Under State VAT law, credit is allowable on the basis of tax invoice. Under GST the credits could be availed based on the invoices of vendors under CGST and SGST. But the onus may shift onto the assessee to ensure that the amount of the CGST/SGST has been deposited in the respective Government treasury by the vendor. This provision has been added to bring in tax discipline but smaller businesses may find transaction cost increasing due to this.

f) **Avoidance of Double Taxation:** Presently, several transactions suffer VAT as well as Service Tax such as works contract or licensing of software. This could be resolved under the GST regime by redefining what is goods and service.

g) **Changes in the Accounting Software:** Dealers and service providers need to modify/replace the accounting and taxation software. Initially there could be investment costs, costs of training in GST of people at each level starting from junior/mid to higher level managerial staff, management group/stakeholders.

h) **Training:** Comprehensive training would be required to the staff members of the business community, both at senior level and also at junior level across the purchase, sales and finance functions. VAT + CE/ ST officers would also need to understand the law well.

i) **Competent Professionals:** There are specialized consultants for Excise Duty, Service Tax and VAT. With the GST, only a single consultant maybe required who can handle all GST matters. Compliance for the SME may necessitate competent tax preparers Amending existing contracts: Assesses have to incorporate an extra clause in the existing contracts to collect CGST and SGST as applicable

4.20. <u>ON INDIA: -</u>

Goods and Services Tax (GST) is expected to provide the much-needed stimulant for economic growth in India by transforming the existing basis of indirect taxation towards free flow of goods and services within the economy and also eliminating the cascading effect of tax on tax. In view of the important role that India is expected to play in the world economy in the years to come, the expectation of GST being introduced is high not only within the country, but also in neighbouring countries and in developed economies of the world.

Some of the imp impacts are: -

A) **Increased FDI:** The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/ multiple tax laws are one of the reasons foreign Companies are wary of coming to India in addition to widespread corruption.

B) **Growth in overall revenue:** It is estimated that India could get revenue of $15 billion per annum by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. Over a period, the dilution of the principles may see that only part of this is accruing.

C) **Single point taxation:** Uniformity in tax laws will lead to single point taxation for supply of goods or services all over India. This increases the tax compliance and more assesses will come into tax net.

D) **Simplified tax laws:** This reduces litigation and waste of time of the judiciary and the assessee due to frivolous proceedings at various levels of adjudication and appellate authorities. Present law appears to be much worse and an amalgam of the bad parts of VAT/ ST/ CE.

E) **Increase in exports and employment:** GST could also result in increased employment, promotion of exports and consequently a significant boost to overall economic growth and factors of production -land labour and capital.

4.21. ON INDIAN ECONOMY: -

• Reduce tax burden on producers and foster growth through more production. This double taxation prevents manufacturers from producing to their optimum capacity and retards growth. GST would take care of this problem by providing tax credit to the manufacturer.

• Various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well. A single taxation system could eliminate this roadblock for them.

• A single taxation on producers would also translate into a lower final selling price for the consumer.

• Also, there will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base.

• GST would add to government revenues by widening the tax base.

• GST provides credits for the taxes paid by producers earlier in the goods/services chain. This would encourage these producers to buy raw material from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation.

• GST also removes the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction.

• The proposed GST regime, which will subsume most central and state-level taxes, is expected to have a single unified list of concessions/exemptions as against the current mammoth exemptions and concessions available across goods and services

The introduction of Goods and Services Tax would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would alleviate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods and services. Introduction of GST would also make Indian products competitive in the domestic and international markets. Last but not the least, this tax, because of its transparent character, would be easier to administer. However, once implemented, the system holds great promise in terms of sustaining growth for the Indian economy.

4.22. NEGATIVE LIST UNDER GST

SECTION 7(2)(a) read with SCHEDULE III

Schedule III: -Activities or transactions which shall be treated neither as a supply of goods nor a supply of services

1. Services by an employee to the employer in the course of or in relation to his employment.

2. Services by any Court or Tribunal established under any law for the time being in force.

3. Functions performed by the MPs, MLAs, Members of municipality and Member of other local authorities.

4. Duties performed by any person who holds any constitutional post.

5. Duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.

6. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.

7. Sale of land and sale of building where entire consideration has been received after issuance of completion certificate.

8. Actionable claims other than lottery, betting and gambling.

4.23. List of taxes not covered under GST

- ✓ Stamp Duty
- ✓ Electricity Cess
- ✓ Extra Entertainment Tax Levied by Local Bodies
- ✓ Property Tax
- ✓ Entry Fee at Municipal Corporation Border
- ✓ Road Tax
- ✓ Toll Tax
- ✓ Extra Excise Duty on Tobacco Products

4.24 LIMITATION OF GST

Why no to GST?

For quite some time now, it has been clear that the people most keen on this "reform" are big industrialists, especially multinationals. Since they are big, they cannot evade state or central taxes on goods. Their crib is that they have to compete with companies in the unorganised sector which often pay no tax.

FIRST, as we noted above, it helps the big more than the small. Since the proposal is that companies with a turnover of Rs 1.5 crore will have to pay GST, it means many small companies will end up paying taxes. The big companies will benefit, as they will now get deductions on the taxes paid by their small suppliers. Since the initial GST rate could be anywhere from 15-25 percent (depending on what is left out of its ambit), that's a huge tax bite for the small. the key beneficiaries of GST will be sectors such as batteries, footwear, plywood, electrical appliances, ceramics, adhesives and paints, where the unorganised sector accounts for 35-70 percent of total market size." The latter's loss will be the gain of their competitors in the organised sector.

SECOND, if the unorganised sector is going to lose some of its competitive edge initially, it means there will be pressures for layoffs in companies that can't compete as a result of GST implementation. In the short run, GST may end up costing jobs till the smaller companies learn to compete. And small companies are the biggest job creators anywhere in the world.

THIRD, if we assume that those evading excise (legally or otherwise) currently will henceforth start paying the tax, it means they have to raise prices to stay profitable. Taxes up, prices up. In the short-term, GST may boost the prices of some segments of the economy.

Beside above mentioned, some other reason Businesses Need to Overcome in the GST Regime,

✓ Change in Business Software

✓ GST Compliance

✓ Increase in Operating Costs

✓ Policy Change During the Middle of the Year

✓ Online Procedure

✓ Higher Tax Burden for Manufacturing SMEs

✓ No Clarity on Tax Holidays

✓ Disruption to Business

CHAPTER 5

CONCLUSION

Implementation of GST is one of the best decisions taken by the Indian government. For the same reason, July 1 was celebrated as Financial Independence Day in India when all the Members of Parliament attended the function in Parliament House. The transition to the GST regime which is accepted by 159 countries would not be easy. Confusions and complexities were expected and will happen. India, at some point, had to comply with such regime. Though the structure might not be a perfect one but once in place, such a tax structure will make India a better economy favourable for foreign investments. Until now India was a union of 29 small tax economies and 7 union territories with different levies unique to each state. It is a much accepted and appreciated regime because it does away with multiple tax rates by Centre and States. And if you are doing any kind of business then you should register for GST as it is not only going to help Indian government but will help you also to track your business weekly as in GST you have to make your business activity statement each week.

From the above discussion, it is clear that GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important breakthrough – in the sphere of indirect tax reforms in India.

If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be a further significant improvement – the next logical step – towards a comprehensive indirect tax reforms in the country. Once GST is implemented, most of the current challenges of this move will be a story of the past. India will become a single market where goods can move freely and there will lesser compliances to deal with for businesses. The benefits of GST will definitely outweigh the disadvantages of GST.

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

CHAPTER 6

RECOMMENDATION

Some suggestions for better administrative way to handle and implement of goods and service tax act in India are: -

- Standardization of systems and procedure
- Tax relief in case of branch transfer
- Well defined procedures in case of job works
- Uniform dispute settlement procedure
- Adequate training for both tax payers and tax enforcers
- Re-organization of administrative machinery for GST implementation
- Building information technology backbone – the single most important initiative for GST implementation.
- Uniform implementation of GST should be ensured across all states (unlike the staggered implementation of VAT) as many issues might arise in case of transactions between states who comply with GST and states who are not complying with GST.

CHAPTER 7

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