

GOODS AND SERVICES TAX (GST)

(JUNE 2015)

CA. UPENDER GUPTA, IRS
B. COM. (HONS.), FCA, FCS, FCMA, LL.B.

PRESENTATION PLAN

- ❑ Why GST – perceived benefits
- ❑ Existing Indirect Tax Structure
- ❑ Features of Constitution Amendment Bill
- ❑ Features of Proposed GST Model
- ❑ GSTN
- ❑ GST Planning
 - Impact Areas for Business
 - Role of Chartered Accountants



WHY GST – PERCEIVED BENEFITS

WHY GST- perceived benefits

❑ To Trade

- Reduction in multiplicity of taxes
- Mitigation of cascading/ double taxation
- More efficient neutralization of taxes especially for exports
- Development of common national market
- Simpler tax regime
 - Fewer rates and exemptions
 - Conceptual clarity (Goods vs. Services)

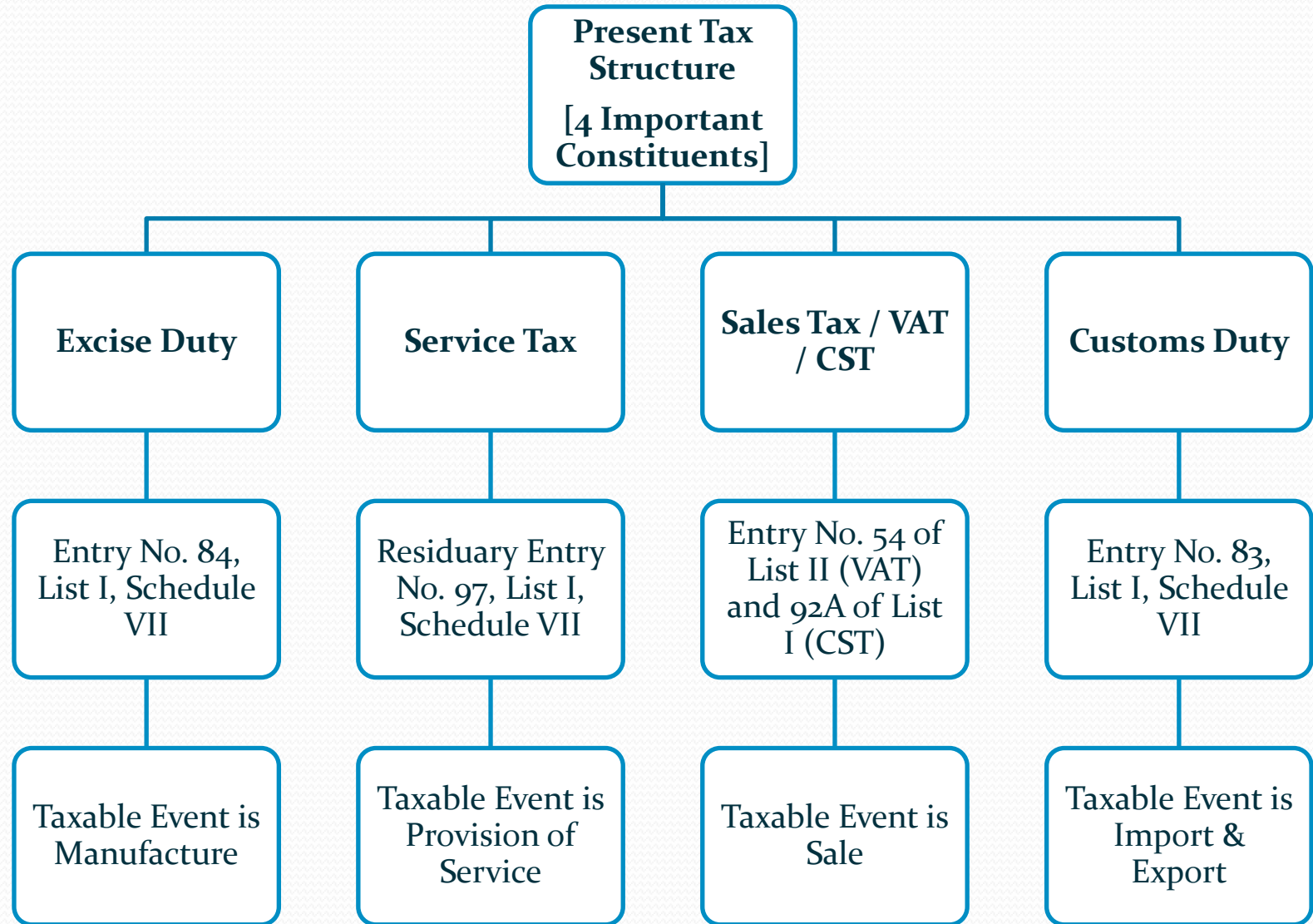
❑ To Government

- Simpler Tax system
- Broadening of Tax base
- Improved compliance & revenue collections (tax booster)
- Efficient use of resources



EXISTING INDIRECT TAX STRUCTURE

Existing Indirect Tax Structure





FEATURES OF CONSTITUTION AMENDMENT BILL

FEATURES OF CONSTITUTION AMENDMENT BILL....

- ❑ 122nd Amendment Bill introduced in LS on 19.12.2014
- ❑ Key Features
 - Concurrent jurisdiction for levy & collection of GST by the Centre & the States –proposed Article 246A
 - Authority for Centre to levy & collect IGST on supplies in the course of inter-State trade or commerce including imports – proposed Article 269A
 - levy & collection by GOI
 - to be apportioned between Union & States on recommendations of the GST Council (GSTC)
 - Parliament to have powers to formulate principles for determining when a supply takes place in course of inter-state trade or commerce

....FEATURES OF CONSTITUTION AMENDMENT BILL....

□ Key Features contd.

- Authority for Centre to levy & collect non-vatable Additional Tax not exceeding 1% for 2 years on inter-state supply of goods – to be assigned to originating State – proposed Clause 18
- Compensation for loss of revenue to States for five years on recommendation of GSTC – proposed Clause 19
- GST defined as any tax on supply of goods or services or both other than on alcohol for human consumption – proposed Article 366 (12A)
 - GST on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas & aviation turbine fuel to be levied from a later date on recommendations of GSTC

....FEATURES OF CONSTITUTION AMENDMENT BILL....

□ Key Features contd.

- Goods includes all materials, commodities & articles – Article 366 (12)
- Services means anything other than goods – proposed Article 366 (26A)
- GSTC - proposed Article 279A
 - To be constituted by the President within 60 days from the coming into force of the Constitution Amendment
 - Consists of Union FM & Union MOS (Rev)
 - Consists of Ministers in charge of Finance / Taxation of each State
 - Chairperson – Union FM
 - Vice Chairperson - to be chosen amongst the Ministers of State Government

....FEATURES OF CONSTITUTION AMENDMENT BILL....

□ Key Features contd.

- GSTC - proposed Article 279A
 - Quorum is 50% of total members
 - Decisions by majority of 75% of weighted votes of members present & voting
 - Weightage of votes:
 - ✓ Centre – $1/3^{\text{rd}}$ of total votes cast
 - ✓ States (all taken together) – $2/3^{\text{rd}}$ of total votes cast
 - Council to determine the procedure in performance of its functions
 - Council to decide modalities for dispute resolution arising out of its recommendations
 - Council to be guided by need for
 - ✓ a harmonized structure of GST; and
 - ✓ a harmonized national market for goods & services

....FEATURES OF CONSTITUTION AMENDMENT BILL....

❑ Key Features contd.

- Council to make recommendations on
 - ✓ Taxes, etc. to be subsumed in GST
 - ✓ Exemptions & thresholds
 - ✓ GST rates
 - ✓ Band of GST rates
 - ✓ Model GST Law & procedures
 - ✓ Special provisions for certain special category States (Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand)
 - ✓ Date from which GST would be levied on petroleum & related products

....FEATURES OF CONSTITUTION AMENDMENT BILL....

□ Key Features contd.

- Parliament has exclusive powers to make laws on all matters not enumerated in State List, Concurrent List or Article 246A – proposed amendment to Article 248
- GOI's powers to levy service tax omitted – proposed omission of Article 268A & Entry 92C
- Powers to levy CST amended so as to provide for only on goods not covered under Article 269A – proposed amendment to Article 269

....FEATURES OF CONSTITUTION AMENDMENT BILL

❑ Key Features contd.

- IGST collected under Article 269A to be apportioned first & remaining to be distributed between Union & States – proposed Article 270 (1A)
- No powers for Parliament to impose surcharge over & above GST – proposed amendment to Article 271
- Concept of Declared goods done away with – proposed omission of Article 286 (3)
- Changes in entries in List – I & II



FEATURES OF PROPOSED GST MODEL

FEATURES OF PROPOSED GST....

- ❑ Destination based Taxation
- ❑ Apply to all stages of value chain – primary, secondary and tertiary including retail
- ❑ Apply to all supplies of goods or services (as against manufacture, sale or provision of service) made for a consideration except –
 - Exempted goods or services – common list for CGST & SGST
 - Goods or services outside the purview of GST
 - Transactions below threshold limits
- ❑ Dual GST having two concurrent components –
 - Central GST levied and collected by Centre
 - State GST levied and collected by States

....FEATURES OF PROPOSED GST....

- ❑ CGST and SGST on intra-State supplies of goods or services in India
- ❑ IGST applicable to
 - Inter-State supplies of goods or services in India
 - Inter-state stock transfers of goods
 - Import of goods or services
- ❑ IGST levied and collected by the Centre
- ❑ Additional Tax not exceeding 1% on inter-state supply of goods – to be levied & collected by the Centre but assigned to originating State
- ❑ Export of goods and services – Zero rated

....FEATURES OF PROPOSED GST....

- ❑ All goods or services likely to be covered under GST except:
 - Alcohol for human consumption - State Excise plus VAT
 - Electricity - Electricity Duty
 - Real Estate - Stamp Duty plus Property Taxes
- ❑ Petroleum Products – to be brought under GST from a later date on recommendation of GSTC
- ❑ Tobacco products – under GST plus Central Excise

....FEATURES OF PROPOSED GST....

Taxes (Centre, State or local levies – in the nature of indirect taxes on supply of goods or services) to be subsumed within GST:

Central Taxes

- Central Excise duty (CENVAT)
- Additional duties of Excise
- Excise duty levied under Medicinal & Toiletries Preparation Act
- Additional duties of Customs (CVD & SAD)
- Service Tax
- Surcharges & Cesses

State Taxes

- State VAT / Sales Tax
- Central Sales Tax
- Purchase Tax
- Entertainment Tax (not levied by the local bodies)
- Luxury Tax
- Entry Tax (All forms)
- Taxes on lottery, betting & gambling
- Surcharges & Cesses

....FEATURES OF PROPOSED GST....

- ❑ GST Rates – to be based on RNR – Four rates
 - Merit rate for essential goods
 - Standard rate for goods and services in general
 - Special rate for precious metals
 - Nil rate for exempted goods or services
- ❑ Floor rate with a small band of rates for standard rated goods or services for CGST & SGST
- ❑ Optional Threshold exemption in both components of GST
- ❑ Optional Compounding scheme for taxpayers having taxable turnover up to a certain threshold above the exemption

....FEATURES OF PROPOSED GST....

- ❑ Multiple statutes – one for Centre and one for every State
- ❑ Model GST Law including Rules and procedures to be recommended by GST Council -
 - Certain features to be common between the Centre and the States and across the States
 - Certain other features may vary to allow flexibility to the Centre and the States
- ❑ Place of Supply Rules -
 - to determine Place of Supply of goods or services
 - to determine whether the supplies are intra-State or inter-State
- ❑ HSN Code likely to be used for classification of goods
- ❑ Present System of classification of services likely to be used

....FEATURES OF PROPOSED GST....

- ❑ Tax payments by suppliers in Exporting State
- ❑ ITC availed by importing dealers
- ❑ ITC of IGST to be used for payment of IGST, CGST & SGST in that order
- ❑ ITC of CGST to be used for payment of CGST & IGST in that order
- ❑ ITC of SGST to be used for payment of SGST & IGST in that order

....FEATURES OF PROPOSED GST....

- ❑ Credit of SGST used for payment of IGST – to be transferred by Exporting State to the Centre
- ❑ Credit of IGST used for payment of SGST – to be transferred by Centre to Importing State
- ❑ Inter-Governmental Transfers to take place at the end of Tax Period
- ❑ Central Government to act as a clearing house and transfer the funds across States



GSTN

GSTN - Functions

- ❑ GSTN to function as pass through portal where all GST dealers would
 - submit registration application
 - file returns
 - make tax payments
- ❑ Common Registration, Return filing & e-Payment services for tax payers
- ❑ Registration, return & payment information submitted by dealers on GSTN to be passed to the Central and concerned State Tax Authorities
- ❑ Statutory functions like assessment, enforcement of tax laws, settlement of disputes etc. to be performed by the respective Tax Authorities only

GSTN - Services

- ❑ Common Registration, Return filing & e-Payment for tax payers
- ❑ Integration of GSTN with existing tax administration systems of Central / State Governments & other stakeholders
- ❑ Facilitate, implement and set standards for providing services to tax payers through GSTN
- ❑ Build efficient & convenient interfaces with tax payers to increase tax compliance
- ❑ Assist Tax Authorities in plugging tax evasion & improving transparency of tax administration system
- ❑ Carry out research, study best practices & provide training to the stakeholders
- ❑ Deliver any other service of relevance to Government & other stakeholders



GST PLANNING

Impact Areas for Businesses....

❑ Procurement

- Flexibility in vendor selection- location no longer a constraint
- Reduction in procurement cost – abolition of CST, removal of cascading effect and unfettered ITC throughout supply chain

❑ Manufacturing

- Multiple small size plants Vs mega plants in a single or fewer locations
- Decision based on reducing logistics cost Vs reducing manufacturing cost
- Re location of plants based on Over all costs and service level

❑ Distribution

- Warehouse need not be State specific
- One warehouse can supply to more than one states & one state market can actually be serviced by more than one warehouse
- Location of warehouse may get decided by the center of gravity of demand cutting across many states
- Size of warehouse would be more determined by the market opportunities proximate to the warehouse location
- Distribution network to align with market demand & competitive advantage

....Impact Areas for Businesses

- ❑ Supply Chain
 - Possibility of lowering cost of operations due to:
 - ✓ Compression of the supply chain
 - ✓ Disintermediation
 - ✓ Unfettered credit throughout the supply chain
 - ✓ Uniformity in Sourcing Decisions – Centralization
 - ✓ Impact on working capital flows
- ❑ Change in IT systems
- ❑ Treatment of tax incentives
- ❑ Treatment of excluded sectors
- ❑ Transaction issues
- ❑ Tax compliance

ROLE OF CHARTERED ACCOUNTANTS....

- ❑ Tracking GST development
- ❑ Review of draft legislation & impact analysis
- ❑ Industry advocacy
- ❑ Review of final legislation & impact analysis
- ❑ Implementation assistance
- ❑ Post implementation support

....ROLE OF CHARTERED ACCOUNTANTS

- ☐ Tax Planning
- ☐ Record Keeping
- ☐ Departmental Audit
- ☐ External Audit of GST Records
- ☐ System Audit
- ☐ Certifications for Tax credits and Special audits, if any
- ☐ Assisting the Governments -- both Central and State



Thank you

upender.gupta@nic.in
upenderg90@gmail.com