

Goods and Services Tax

A benchmark transformation from present tax regime to the unified tax framework

Edition 2
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The much-awaited GST now becomes a law with President's assent (on 8th September, 2016) after more than 16 States (BJP-ruled Assam being the first one) ratified it recently.

The successful introduction and passage of the Constitution (122nd Amendment) Bill, 2014 on GST ("GST Bill") in the Indian Parliament is a noteworthy achievement for a large democracy like India.

Now, GST Bill will be enacted as the Constitution (101st Amendment) Act, 2016 and implemented w.e.f. April 01, 2017.

As per Article 279A (1) of the amended Constitution, the **GST Council** has to be constituted by the President within 60 days of the commencement of Article 279A.

The GST Council will be a joint forum of the Centre and the States.

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.

The introduction of GST is expected to not only make the tax system simpler but also help increased tax compliance, boost tax revenues, reduce the tax outflow in the hands of the consumers, make exports competitive and provide an unfragmented national market for goods and services.

As we all are aware that it would be a benchmark transformation from current tax regime to the new GST framework, let us understand the difference between the two structures and the impact of new reform.



S. No.	Issues	Present Regime	GST Regime
1.	Broad scheme	There are separate laws for separate levy. For e.g. Central Excise Act, 1944, respective State VAT laws.	There will be only one such law because GST shall subsume various taxes as specified above.
2.	Tax on Goods and services	Goods and services are taxed separately	No differentiation between a “good” and a “service”; both are subject to one tax
3.	Tax rates	There are separate rates. For e.g. Excise 12.36 % and Service Tax 15%.	There will be one CGST rate and a uniform rate of SGST across all states.
4.	Cascading effect	This Problem arises because credit of CST and many other taxes not allowed.	This situation will not arise as CST concept is being eliminated with introduction of IGST.
5.	Point of taxation	Tax is levied on manufacture and sale of goods, and/or provision of services.	GST is a Destination-based tax collected on final consumption.
6.	Tax burden	Under present scenario, tax burden on tax payer is high.	Under this regime, tax burden is expected to reduce since all taxes are integrated which make it possible that burden is split equitably between manufacturing and services

7.	Tax credit	Only intra-state transactions get input credit set-off, not inter-state transactions.	Input credit set-off to be available for intra-state as well as inter-state transactions.
8.	Cost Burden on Consumers	Due to presence of cascading effect, certain taxes become part of cost.	As GST mechanism removes such effect by providing credit, cost burden is reduced.
9.	Concurrent Power	At present, there is no such power to both Centre and State on same subject tax matter	Both Centre and State are vested with the power to make law on GST by virtue of proposed Article 246A of the Constitution
10.	Compliance	Tax compliance is complex because of multiplicity of laws and their provisions to be followed.	Tax compliance would be easier as only one law subsuming other taxes need to be followed
11.	Transparent Tax Administration	Presently, tax is levied at two stages in broad manner i.e. (i) When product moves out of factory. (ii) At retail outlet.	GST is to be levied only at final destination of consumption and not at various points. This brings more transparency and corruption free tax administration.

*By eliminating barriers such as entry taxes, GST will result in a **unified national market** for goods and services that will be accessible to the smallest entrepreneur. It could potentially make sourcing, distribution and warehousing of goods easier and faster between the Indian states. Also, as companies will no longer need to pay interstate taxes, implementation of GST will free up capital that they can now use in their business.*

Over the last 66 years of the Indian republic, the Centre and the states have remained good fiscal neighbours. This is because the Constitution allotted mutually exclusive tax bases to each. This tax fence between the Centre and the states is now being dismantled by the GST. For the first time, they will share a common indirect tax base, with the GST council providing the modality for doing so. Whether such a sharing of tax base is both harmonious and sustainable will be the true test of success of cooperative fiscal federalism in India.

Let us first understand the various indirect taxes that are presently being levied by the Central & State Governments.

Ref.	Tax	Levied by	Nature	Can be Set-off against	Covered by GST
1	Central Excise	Centre	Manufacture	1,2	Yes
2	Service tax	Centre	Services	1,2	Yes
3	Customs	Centre	Import	-	No
4	CVD* under Customs	Centre	Additional Import duty	1,2	Yes
5	SAD* under Customs	Centre	Additional Import duty	1,2	Yes
6	CST	Centre	Inter-state sales	No	Yes
7	VAT	State	Sales within the state	7	Yes

(*CVD – Countervailing Duty; SAD – Special Additional Duty)

The GST shall subsume all the above taxes, except the Basic Customs Duty that will continue to be charged even after the introduction of GST.

India shall adopt a Dual GST model, meaning that the GST would be administered both by the Central and the State Governments.

The GST shall have two components: one levied by the Central (hereinafter referred to as CGST), and the other levied by the States (hereinafter referred to as SGST). Rates for CGST and SGST would be prescribed appropriately, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State).

The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.

Since the CGST and SGST are to be treated separately, taxes paid against the CGST shall be allowed to be taken as input tax credit (ITC) for the CGST and could be utilized only against the payment of CGST. Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services under the IGST model.

Transaction	New System	Present System	Comments
Sale within the state	SGST and CGST	VAT & Excise/ Service tax	Transaction of sale within the state shall have 2 taxes: SGST- which goes to the State, and CGST- which goes to the Centre
Sale outside the state	IGST	CST & Excise/ Service tax	Transaction of sale from one state to another shall have only one type of tax- IGST which goes to the Centre

Taxes to be subsumed in GST

<u>Central Taxes to be Subsumed</u>	<u>State Taxes to be Subsumed</u>
1. Central Excise duty (CENVAT)	1. State VAT
2. Excise duty levied under Medicinal & Toiletries Preparation Act	2. Central Sales Tax
3. Additional Excise Duty	3. Purchase Tax
4. Countervailing Duty (CVD)	4. Luxury Tax
5. Additional duties of customs (ADC)	5. Entertainment Tax (unless it will levied by Local Bodies)
6. Service Tax	6. Entry Tax (All forms)
7. Surcharges & Cess, KKC	7. Taxes on lottery, betting & gambling
	8. Surcharges & Cess

-Only single Tax GST will be levied on all the Goods & Services. The above taxes will be abolished.

Taxes that will not be subsumed

1. Electricity Duty
2. Stamp Duty
3. Other Entry taxes and Octroi
4. Basic customs duty and safeguard duties on import of goods into India
5. Professional Tax
6. Entertainment Tax (levied by local bodies)

GST Rates on Goods & Services to be based on **Revenue Neutral Rate (RNR)**

There will be *Four rates*:

- Merit rate for essential goods and services,
- Standard rate for goods and services in general. For goods in general, government is considering pegging the rate of GST from 18% to 20%,
- Special rate for precious metals, &
- NIL rate

Current Rates of GST in some other countries are:

Japan	8%
Germany	19%
Canada	5%
Sweden	25%
France	19.60%
Singapore	7%
New Zealand	15%
Australia	10%

Rules for Calculation of Tax Liability and Tax Credit

- In case of Intra-state Sale, CGST and SGST will be charged and no IGST will be charged.
- In case of Inter-state sales, only IGST will be charged and CGST / SGST will not be charged.
- Output CGST will be adjusted only with Input CGST and thereafter for IGST.
- Output SGST will be adjusted only with Input SGST and thereafter for IGST.
- Cross adjustment of CGST with SGST and SGST with CGST is not allowed.
- Output IGST will be adjusted first with Input IGST, then with CGST and last with SGST (in this sequence only).

This can be understood by an illustration below:

Particulars	Current System	GST
Manufacturer		
COST OF GOODS	0	0
Add: Value Addition (A)	10000	10000
Basic Price	10000	10000
Add: CENVAT @12.5% (D)	1250	0
Add: GST @18%	0	1800
Add: VAT @12.5%	1406	0
Total Price	12656	11800
Wholesaler/ Distributer		
Cost of Goods	12656	11800
Less: Input credit of VAT/GST	-1406	-1800
Add: Value Addition (B)	5000	5000
Basic Price	16250	15000
Add: VAT@ 12.5%	2031	0
Add: GST 18%	0	2700
Total Price	18281	17700
Retailer		
Cost of Goods	18281	17700
Less: Input credit of VAT/GST	-2031	-2700
Add: Value Addition (C)	2000	2000
Basic Price	18250	17000
Add: VAT@ 12.5% (E)	2281	0
Add: GST 18% (F)	0	3060
Total Price paid by consumer	20531	20060
Total Value added (A+B+C)	17000	17000
Total Tax Paid (D+E+F)	3531	3060
Effective Tax Rate (% of Value Addition)	21%	18%

GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems. Below are few sectors at a glance:

Sectors	Change	Impact
Telecom	Current Tax 15%. After GST 18%. may see marginal dip in consumption as tax rise from 15% to 18%	Negative
Consumer Staples	Current tax rate 22% now after GST it's 18%	Positive
Consumer Discretionary	Current 15% after GST 18%	Negative
Banks	Current service tax 15% now after GST 18%	Negative
Media	Current Tax 15% service tax and 7% entertainment Tax by States, now after GST it will be 18%	Positive
Cement	Current Tax 27% altogether after GST it will be 18%	Positive
Auto Industries	Current Tax 27% after GST it will be 18%	Positive
Real Estate	Rise in Stamp duty from 15% to 16%, Current duty approx. 7%	Negative

About Us

Who We Are:

We are a team of distinguished chartered accountant, corporate financial advisors and tax consultants in India. Our firm of chartered accountants represents a coalition of specialized skills that is geared to offer sound financial solutions and advices. The organization is a congregation of professionally qualified and experienced persons who are committed to add value and optimize the benefits accruing to clients.

Our Focus:

To provide high quality services to our clients and believe in upholding high standards of honesty and integrity in what we do.

Our Clientele:

We have been providing services to a proud mix of Multinational companies, Indian companies, High Net Worth Individuals amongst others. Our multinational client-set includes companies belonging to Japan, US, Singapore, China, Taiwan, Hong Kong, and many others.

We advise & also hand-hold foreign companies set-up operations in India & cater to their compliance requirements right from inception to regular day-to-day operations.

Our Services:

Accounting / Book-keeping


Book-keeping, Preparation and Compilation of financial statements, Accounting reconciliations and Consolidations, Accounting system implementation, Development of Accounting policies and Procedures Manual, Forecasting and Projections, Financial analysis of reports, Cash flow management.

Audit / Assurance

Audit, Review of financial statements, Internal control reviews, Reporting requirements, Drafting of Management

Regulatory

Advice on Regulatory matters, Assistance in obtaining Clarifications and Approvals from Reserve Bank of India (RBI) and other Statutory Authorities, Company Law



Compliance, Compliance with Exchange Control Regulations and Import-Export Code norms.

Taxation

Corporate, Individual & International Taxation, Direct & Indirect tax compliance, Return Filing, Tax Advisory, Tax Audit, Dispute Resolution, Transfer Pricing, secretarial records, Filing of necessary forms.

Transaction advisory

Business structuring, Valuations, Corporate Finance, Due diligence, Tax planning.

Compliances

Income tax, Service tax, VAT/ CST, Excise/ Customs, RBI and ROC compliances in respect of all types of regulatory filing of documents and their follow up.



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