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Years  
1992-2017

# The Goods and Services Tax: Behind the Biggest Tax Reform in Independent India

GST Webinar, 27 July 2017



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## Section 1

# Framework



# Framework

**10 Years**

...in Making

**30 +**

Sub-Groups &  
Committees

**18000 +**

Man Hours of  
discussion by GST  
Council

**14 EC Meetings in**

10 years and

**13 GSTC Meetings**

in 6 months

**175 +**

Officers Meetings

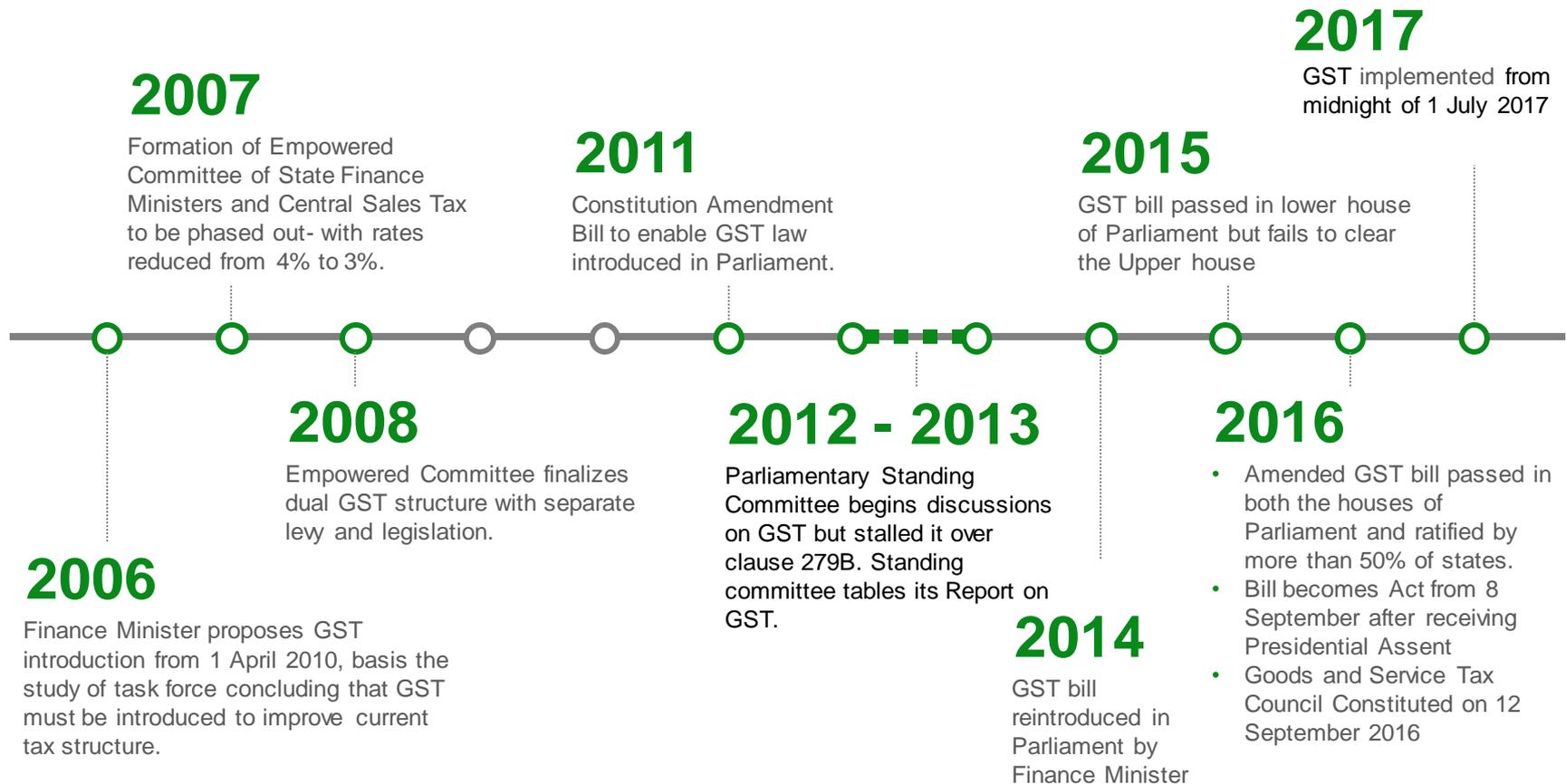
Constitution  
Amendment and

**5 Laws**

approved by  
collaborative effort

# Evolution of GST

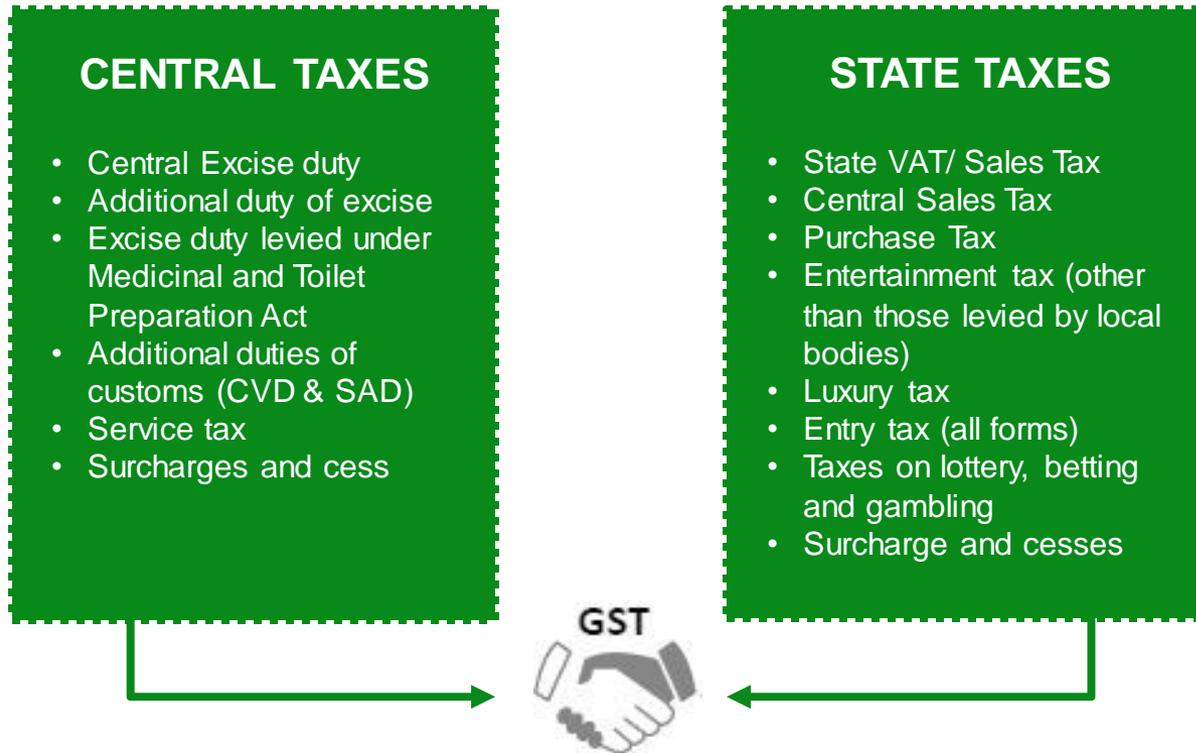
According to Kautilya in his book 'Arathshastra' the tax system of a country should be "liberal in assessment and ruthless in collection"



# Framework

- Concurrent jurisdiction for levy & collection of GST by the Centre & the States – Article 246A.
- Centre to levy & collect IGST on supplies in the course of inter-State trade or commerce including imports – Article 269A
- Compensation for loss of revenue to States for five years on recommendation of GSTC – Clause 19
- Constitution of GST Council (GSTC)
  - Consists of Union Finance Minister (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
  - Quorum is 50% of total members
  - Decisions by majority of 75% of weighted votes of members present & voting (Centre plus 20 States)
  - Council to make recommendations on:
    - Taxes to be subsumed in GST
    - Exemptions and thresholds
    - GST rates
    - GST Law & procedure
    - Dispute resolution mechanism

# Taxes to be subsumed



Constitution amended to provide concurrent powers to both Centre and States to levy GST (Centre to tax Sale of goods and State to tax provision of services)

# Exclusions from GST



**Basic Custom Duty  
on imports**



**Tobacco products  
(partly)**



**Electricity and  
power**



**Stamp duty**



**Clean energy cess**



**Alcohol for human  
consumption**



**Petroleum products**

Including petroleum crude, high speed diesel,  
motor spirit, natural gas, Aviation Turbine Fuel



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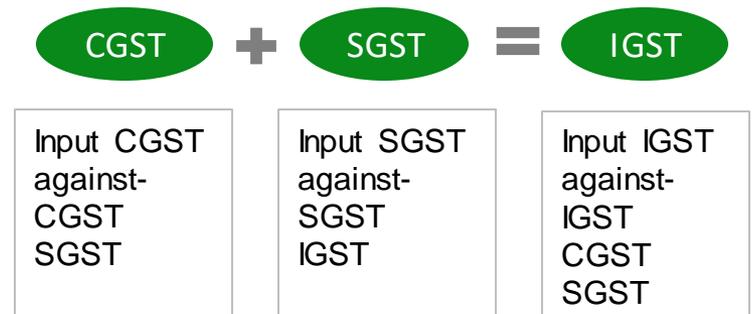
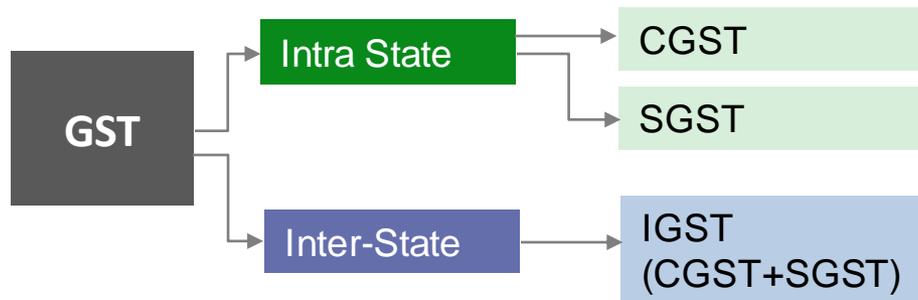
## Section 2

# Levy and Compliances



# Levy and Compliances

- **Dual GST:** Central GST (CGST) and State GST (SGST) to **operate concurrently** on supply of goods and services.
- **Inter-State transactions** subject to **Integrated GST (IGST)** which will be **aggregate of CGST and SGST**
- **Taxable event of 'supply/destination'** as against manufacture (excise), sales (VAT) and service (service tax).
- Existing **industrial incentives** to be continued by way of 'refund' mechanism
- Exports and supplies to SEZ to be zero-rated
- **Imports would be subjected to IGST** on destination principle; SGST component of IGST to be appropriated by State where supplies get consumed.



# Levy and Collection



# Levy and Collection

## Features:

- Tax on supply of goods or services rather than manufacture / production of goods, provision of services or sale of goods
- Powers to declare certain supplies as supply of goods or of services – Schedule II
- Powers to declare certain activities/transactions as neither supply of goods nor of services - Schedule III
- On Intra-State supplies of goods or services - CGST & SGST shall be levied by the Central and State Government respectively, at the rates prescribed
  - Maximum rate ring fenced in law
- On Inter -State supplies of goods or services - IGST shall be levied by the Central Government, at the rate prescribed
  - Maximum rate ring fenced in law
- Composite supply shall be treated as supply of principal good/service. Mixed supply shall be treated as supply of that particular goods or service which attract highest rate of tax.
- Returns to be filed every month and Annual return by 31<sup>st</sup> December of succeeding financial year.

# Levy and Collection

## **Determination of nature of Supply:**

- Elaborate Rules provided for determining the place of supply
  - Intra-State supply of goods or services - where the location of the supplier and the place of supply are in the same State
  - Inter-State supply of goods or services - where the location of the supplier and the place of supply are in different State

## **Liability to pay:**

- GST is collected and paid by taxable supplier to the Government. In certain case tax shall be paid by recipient on reverse charge basis. In case of supply through e-commerce, tax shall be paid by e-commerce operator

## **Composition Scheme:**

- Provision for levy of tax on fixed rate on aggregate turnover upto a prescribed limit (<INR 7.5 million) in a financial year (Composition scheme) without participation in ITC chain.
- Not a supplier of service. Not engaged in inter-state trade and not engaged in supply of goods through e-commerce.
- Rate of 1% (manufacturers), 2.5% (restaurant services) and 0.5% (other suppliers) on turnover.

# Levy and Collection

## **Time and Value of Supply:**

- Elaborate principles devised for determining the time of supply of goods or services with following being crucial determinants with certain exceptions:
  - Date on which supplier issues invoice
  - Date on which supplier receives the payment, whichever is earlier
- Tax is to be paid on Transaction value (TV) of supply generally i.e. the price actually paid or payable for the supply of goods or services

## **Input Tax Credit (ITC):**

- Matching of supplier's and recipient's invoice details
  - ITC to be confirmed only after matching of such information
  - ITC to be reversed in case of mis-match
- Input Service Distributor mechanism for distribution of ITC of input services

## **Registration:**

- Registration mandatory if aggregate turnover > INR 2 Million (INR 1 Million for special category states such as North Eastern states). Separate registration for each state.
- PAN based 15 digit GST number.
- Registration of Non residents without PAN.



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## Section 3

# Benefits of GST



# Benefits

## TO CONSUMERS

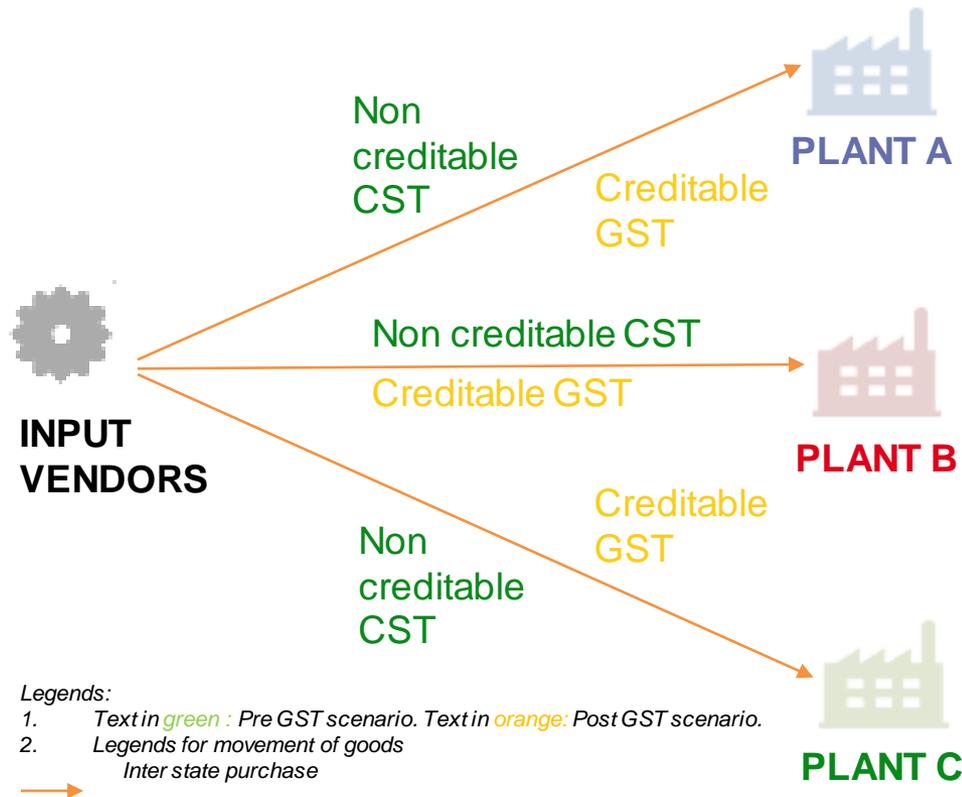
- Simpler Tax system
- Reduction in prices of goods & services due to elimination of cascading
- Uniform prices throughout the country
- Transparency in taxation system
- Increase in employment opportunities

## 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
- Distinction between Goods & Services no longer required

# Illustration

## Reduction in tax credit loss on inter state purchase



Particulars	Manufactured goods	
	Present	GST
Input	1,000	1,000
Excise @ 12.5%	125	-
GST @18%	-	180
Eligible credit	125	180
CST @2%	22.5	-
Eligible credit	Nil	
Effective cost	1,022.5	1,000

**Notes:**

1. Value of input is assumed at Rs 1,000.
2. GST is assumed at 18%



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## Section 4

# GST across the Globe



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# GST across the Globe

- The spread of Value Added Tax (VAT) or Goods and Services Tax (GST) system of Indirect taxes across the globe is showing an increasing trend with more than **160 countries, including 33 of the 34 member** countries of Organization for Economic Co-operation and Development (OECD), employing VAT as the preferred form of consumption tax. Before India, Malaysia is the recent country to implement GST effective 1 April 2015.

# GST across the Globe

Country	Features
 <p data-bbox="220 639 369 676">Canada</p>	<ul data-bbox="523 415 1798 796" style="list-style-type: none"><li>• GST applies to the supply of most of the goods and services in Canada. Further, three provinces (Nova Scotia, New Brunswick, Newfoundland and Labrador, referred to as the participating provinces) harmonized their provincial sales tax with GST to create what is known as Harmonized Sales Tax (HST) and is imposed on taxable goods and services.</li><li>• Effective from January 1, 2008, the GST rate was reduced from 6% to 5% and HST rate from 14% to 13%</li><li>• The HST comprises GST and 8% provincial tax and is applied to the same base of goods and services that are taxable under GST. HST follows the same general rules as GST.</li></ul>
 <p data-bbox="214 1110 376 1148">Australia</p>	<ul data-bbox="523 886 1798 1182" style="list-style-type: none"><li>• In Australia, GST is a broad-based tax of 10% on most of the goods and services. In most cases, GST is included in the price which is paid. Only registered business entities are entitled to a tax credit.. Most food items, including meat, fruit and vegetables, are GST-free.</li><li>• Prepared food, take away food, restaurant meals, confectionery, ice cream, snack foods, alcoholic beverages and soft drinks are covered in GST.</li><li>• Other GST-free items include most of the educational and health services, eligible child care, and a range of other goods and services.</li></ul>

# GST across the Globe

Country	Features
 <p data-bbox="146 668 442 711">United Kingdom</p>	<ul data-bbox="523 476 1740 733" style="list-style-type: none"><li data-bbox="523 476 1740 546">• In the United Kingdom, the indirect tax structure comprises excise duty as well as VAT. However, the scope of excise duty is restricted to limited commodities.</li><li data-bbox="523 551 1740 733">• There are three rates of VAT, depending on the goods or services the business provide. The rates are: Standard – 20% Reduced – 5% Zero – 0%</li></ul>
 <p data-bbox="200 1011 388 1053">Singapore</p>	<ul data-bbox="523 819 1798 1043" style="list-style-type: none"><li data-bbox="523 819 1798 1043">• In Singapore, Goods and Services Tax (GST) is a broad-based consumption tax, which is levied on almost all supplies of goods and services and import of goods. It is a multi-stage tax which is collected at every stage of the production and distribution chain. Exemptions have been given for sale and lease of residential properties, import and local supply of precious metals and provision of financial services. Export of goods and international services are zero-rated.</li></ul>

# GST across the Globe

Country	Features
 <p data-bbox="208 793 382 833">Malaysia</p>	<ul data-bbox="523 565 1798 911" style="list-style-type: none"><li>• GST in Malaysia was implemented with effect from 1st of April 2015.</li><li>• GST rate is fixed at 6%.</li><li>• In order to attract GST, supply of goods or services must be made in Malaysia.</li><li>• Only businesses with annual sales turnover of RM 500,000 and above are liable to be registered under GST. The threshold limit of RM 500,000 is calculated either based on the sales records for the preceding 12 months or based on the estimated sales for the next 12 months</li></ul>

# GST across the Globe

Particulars	India	Canada	UK	Singapore	Malaysia
Name	GST	Federal Goods & Service Tax & Harmonized Sales Tax	Value Added Tax	GST	GST
Standard rate	0%, 5%, 12%, 18% and 28% +cess(for luxury items)	GST 5% and HST varies from 0% to 15%	20% Reduced rates- 5%, exempt and zero rated	7% Reduced rates- zero rates, exempt	6%
Threshold exemption limit	INR 2 million (INR 1 million for NE states)	Canadian \$ 30,000 (Approx INR 1.56 million)	Pound 73,000 (Approx. INR 6.13 million)	Singapore \$ 1 million (approx. INR 48 million)	MYR 500,000 (approx. INR 7.5 million)
Returns and payments	Monthly and 1 annual return	Monthly, quarterly or annually based on turnover	Usually quarterly, annually for small businesses	Usually quarterly, option to businesses for monthly returns	Large organisation monthly



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