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STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

To kindle interest in economic affairs...
To empower the student community...

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July 2017

Theme 308

GOODS AND SERVICES TAX - PART I

26th Year of Publication

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SIB STUDENTS' ECONOMIC FORUM

JULY 2017

The South Indian Bank Ltd., H.O. : 'S.I.B. House', Thrissur, Kerala

Theme No: 308: Goods and Services Tax - Part I

A well informed customer will make the policy makers as well as organizations which produce goods and render services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of its products.

The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly meeting of the Forum. This month the topic for discussion is Goods and Services Tax - Part I.

GST is introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. GST is the single indirect tax for the whole nation, which will make India one unified common market. GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make the country tax neutral, irrespective of the choice of place of business. The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost. Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with multiple taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

1. What is Goods and Service Tax (GST)?

It is a destination based tax on consumption of goods and services. It is proposed to be levied at all stages right from manufacturing to final consumption with credit of taxes paid at previous stages available as setoff. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer.

2. What exactly is the concept of destination based tax on consumption?

The tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

3. Briefly explain the place of supply provisions in respect of goods and services?
Goods being tangible do not pose any significant problems for determination of their place of consumption. Services being intangible pose problems w.r.t determination of place of supply mainly due to following factors:

i) Service provider, service receiver and the service provided may not be ascertainable or may easily be suppressed as nothing tangible moves.
ii) The manner of delivery of service could be altered easily. For example repair or maintenance of software could be changed from onsite to online, where banking services earlier required customer to go to the bank, now the customer could avail service from anywhere.
iii) For supplying a service, a fixed location of service provider is not mandatory and even the service recipient may receive service while on the move.

4. What assumptions in a transaction can be used to determine the place of supply, particularly in case of services?
The various elements involved in a transaction in services can be used as proxies to determine the place of supply. An assumption which gives more appropriate result than others for determining the place of supply could be used for determining the place of supply. The same are given below:

a. Location of service provider.
b. The location of service receiver.
c. The place where the activity takes place/ place of performance.
d. The place where it is consumed.
e. The place/person to which actual benefit flows

5. Which of the existing taxes are subsumed under GST?
The GST would replace the following taxes:
(i) Taxes currently levied and collected by the Centre:

a. Central Excise duty
b. Duties of Excise (Medicinal and Toilet Preparations)
c. Additional Duties of Excise (Goods of Special Importance)
d. Additional Duties of Excise (Textiles and Textile Products)
e. Additional Duties of Customs (commonly known as CVD)
f. Special Additional Duty of Customs (SAD)
g. Service Tax
h. Central Surcharges and Cesses so far as they relate to supply of goods and services

(ii) State taxes that would be subsumed under the GST:

a. State VAT
b. Central Sales Tax
c. Luxury Tax
d. Entry Tax (all forms)
e. Entertainment and Amusement Tax (except when levied by the local bodies)
f. Taxes on advertisements

g. Purchase Tax
h. Taxes on lotteries, betting and gambling
i. State Surcharges and Cesses so far as they relate to supply of goods and services

6. Which are the commodities proposed to be kept outside the purview of GST?
Alcohol for human consumption, Petroleum Products viz. petroleum crude, motor spirit (petrol), High speed diesel, Natural gas, Aviation turbine fuel & Electricity.

7. What will be the status in respect of taxation of commodities kept outside the purview of GST, after introduction of GST?
The existing taxation system (VAT & Central Excise) will continue with respect to the commodities kept outside the purview of the GST.

8. What are the types of GST implemented?
It would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and services would be called the Central GST (CGST) and that to be levied by the States would be called the State GST (SGST). Similarly Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

9. How a particular transaction of goods and services would be taxed simultaneously under Central GST (CGST) and State GST (SGST)?
The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of CENVAT. While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the State.

Example: Suppose hypothetically that the rate of CGST is 9% and that of SGST is 9%. When a Timber Mart in Kerala supplies timber to a Furniture maker which is also located within the same State for, say Rs. 100, the timber mart would charge CGST of Rs. 9 and SGST of Rs. 9 in addition to the basic price of the goods. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not actually pay Rs. 18 (Rs. 9 + Rs. 9) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his purchases (say, inputs). But for paying CGST he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

10. Who will decide rates for levy of GST?
The CGST and SGST would be levied at rates to be jointly decided by the Centre and States. The rates would be notified on the recommendations of the GST Council.

11. How will the goods and services be classified under GST regime?
HSN (Harmonised System of Nomenclature) code shall be used for classifying the goods under the GST regime. Taxpayers whose turnover is above Rs. 1.5 crores but below Rs. 5 crores shall use 2 digit code and the taxpayers whose turnover is Rs. 5 crores and above shall use 4 digit code. Taxpayers whose turnover is below Rs. 1.5 crores are not required to mention HSN Code in their invoices. Services will be classified as per the Services Accounting Code (SAC)

12. What is GSTN and its role in the GST regime?
GSTN stands for Goods and Service Tax Network (GSTN). A Special Purpose Vehicle called the GSTN has been set up to cater to the needs of GST. The GSTN shall provide a shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders for implementation of GST. The functions of the GSTN would include:

- i) Facilitating registration.
- ii) Forwarding the returns to Central and State authorities.
- iii) Computation and settlement of IGST.
- iv) Matching of tax payment details with banking network.
- v) Providing various MIS reports to the Central and the State Governments based on the tax payer return information.
- vi) Providing analysis of tax payers' profile.
- vii) Running the matching engine for matching, reversal and reclaim of input tax credit.

The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments. GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are preparing their IT infrastructure for the administration of GST. There is no manual filing of returns. All taxes can also be paid online. All mis-matched returns would be auto generated, and there would be no need for manual interventions. Most returns would be self-assessed.

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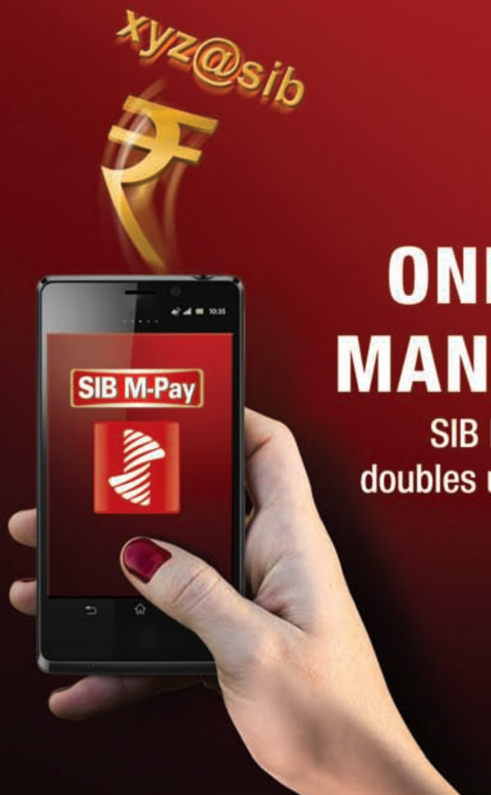

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