29th August 2016

OVERVIEW OF GST

Introduction

The existing indirect tax regime in India carries some inherent shortcomings which not only results in instances of double taxation, but at the same time leads to increased cost of goods and services. Multiple taxes are applicable to goods during their journey to the final consumer which increases both cost and compliances. Tax paid under one law is not vatable under other which adds to the final price of the goods. There is lack of clarity while defining goods and services leading to double taxation. Both the houses of parliament have passed the constitution amendment bill related to Goods and Services Tax (GST) bringing a bright scope of making it applicable w.e.f. 1st April 2017.

This update contains a brief about the GST.

Objective of GST

One of the main objectives of Goods & Service Tax (GST) would be to eliminate the double taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax till the level of final consumers will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country. Introduction of GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. This will not only reduce the overall cost of goods and services, but will also remove the tax rate disparities among various states. GST, being a destination-based consumption tax based on VAT principle.

Impact of GST

GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system.

Besides simplifying the current system and lowering the costs of doing business, GST will call for a fundamental redesign of **supply chains**. It will affect how the companies operate their businesses, presenting significant opportunities for long-term revenue and margin improvement

Main features of GST

Business entities need to be able to understand and analyse the business impact of GST and make necessary preparations and make policy and system changes in time. Depending on the operating geographies, size and sector, the changes would be substantial and may require a proactive planning with a time bound action plan.

In order to prepare for the implementation of GST, the they need to understand the GST policy development and its implications to scenario planning and preparing a transition roadmap. Following are the main features of proposed the GST Law:

- This act will extend to whole of India.
- GST is a self-assessed destination based taxation system.
- It would subsume many indirect taxes including Central Excise, Service Tax, VAT, etc. In brief it would subsume the following taxes:
    - State taxes which will be subsumed in SGST
        - VAT/Sales Tax
        - Entertainment Tax (unless it is levied by local bodies)
        - Luxury Tax
        - Taxes on lottery, betting and gambling.
        - State cess and surcharges to the extent related to supply of goods and services.
        - Entry tax not on in lieu of octroi.
    - Central Taxes which will be subsumed in CGST
        - Central Excise Duty.
        - Additional Excise Duty.
        - The Excise Duty levied under the medical and Toiletries Preparation Act
        - Service Tax.
        - Additional Customs Duty, commonly known as countervailing Duty (CVD)
        - Special Additional duty of customs(SAD)
        - Education Cess
        - Surcharges

- GST on export would be zero rated, as it keeps the same status as under existing laws.
- Both CGST and SGST will be levied on import of goods and services into India. The incidence of tax will follow the destination principle i.e. SGST goes to the state where it is consumed. Complete set-off will be available on the GST paid on import on goods and services.
- It is proposed to provide for compensation to the States for the loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years.
- GST to be levied on all goods and services, except alcoholic liquor for human consumption. Petroleum products are presently outside the ambit of GST. However, GST Council will recommend the date on which the GST would be levied on such products.
- Under the model GST law following taxes will apply:
  - On an intra-state sales(i.e sale within the state) - Central GST / State GST (i.e CGST / SGST), and
  - On an inter-state sales (i.e CST sale) - Integrated GST (i.e IGST).
- Unlike present regime where taxable event for Central Excise is "manufacturing", for Service Tax is "provision of service" and for Value Added Tax is "Transfer of property", under the proposed regime, all the taxable events will be replaced with only one incidence which will be known as "Supply"
- "Works Contract" is now classified as a pure Service; therefore, the supply could only be of either Goods or Service.
- Intangible properties are to be considered as Service only.
- Reverse Charge mechanism has now been extended to supply of goods also.
- The introduction of GST, will allow Input tax credit on tax paid on interstate purchase transaction as well (which is not allowed under current VAT scenario).
- As per section 16(11) input tax credit will not be available unless the tax has actually been deposited by the supplier of goods and the return for the same has been duly filed.
- Expected rate of GST which will finally be decided by the GST Council is expected to be between18% to 22%.
- All existing taxpayers who are registered under any VAT, Service Tax and Excise Act, will initially get a provisional registration, which will be valid for a period of 6 months and will get final registration thereafter.
- The registration number will be PAN based and dealers would be given a unique id called GSTIN.
- Anyone working from more than one state is required to take at least one registration per state that he works from.
- The receipt of payment will now be considered as the "Time of supply" of goods and tax will become due even on advance payments.
- A major compliance relief under GST, as compared to existing indirect tax structure, is that a Common return would serve the purpose of both Centre and State Government.
  - There are eight forms provided for in the GST business processes for filing for returns. Most of the average tax payers would be using only four forms for filing their returns.
  - These are return for supplies, return for purchases, monthly returns and annual return.
  - A regular registered taxable person would be required to file monthly returns.
  - Small taxpayers with turnover up to 50 lakhs, who have opted composition scheme shall have to file return on quarterly basis

- The payment of taxes will be done electronically and payment can be made through online banking, Credit Card/Debit Card, NEFT/RTGS and through cheque/cash at the bank.
- In case of imports Additional customs duty will be merged with GST at the time of import. In other words, the additional custom duty in lieu of CVD /Excise and the Special Additional Duty (SAD) in lieu of sales tax/VAT will be subsumed in GST. Basic customs duty remains the same; therefore, even after introduction of Goods and Service Tax (GST), there is no change in basic customs duty structure.
- The value of supply will also include any taxes levied other than CGST/ SGST/ IGST.
- Agriculturist has been kept out of the purview of GST
- Ecommerce platforms to fall under tax net. They will be required to deduct TDS.

.

Conclusion

GST would be a major indirect tax reform for Indian economy reducing the cascading effect of tax on the cost of goods and services. It would impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system.

CA. Rajesh Saluja
rajeshsaluja@lunawat.com

Our Offices

Daryaganj, New Delhi
54, Daryaganj,
New Delhi – 110 002
Tel: +91 11 23270624
+ 91 11 23279414
Email: dgoffice@lunawat.com

Paschim Vihar, New Delhi
A-2/132, Prateek Apartments,
Paschim Vihar,
New Delhi – 110 063
Tel: + 91 11 25278405
+ 91 11 25278406
+ 91 11 45733511
+ 91 11 45733512
+ 91 11 45581264
Email: pvoffice@lunawat.com

Keshopur, New Delhi
WZ-339, 2nd Floor,
Street No. 19,
Santgarh, Keshopur,
Outer Ring Road,
New Delhi - 110 018
Tel: +91 11 28333914
Fax:+ 91 11 28331602
Email: keshopur@lunawat.com

Karampura, New Delhi
109, Magnum House-1,
Karampura Complex,
New Delhi-110 015
Tel: + 91 11 41427356
+ 91 11 42068101
Email: karampura@lunawat.com

Mumbai
Office No. 9, First Floor. Star Trade Centre, Chamunda Circle,
Near Station,
Borivali (W),
Mumbai - 400 092
Tel: + 91 22 22073481
Email: mumbai@lunawat.com

Lunawat & Co

- Audit & Assurance
- Income Tax
- VAT
- Service Tax
- Company Law Related Service
- Limited Liability Partnerships (LLP)
- NGO Services
- Consultancy Services
- Trainings
- Trade Marks

For more information, please visit www.lunawat.com or mail at ca@lunawat.com

Knowledge Partners

CA. Pramod Jain
CA. Rajesh Saluja
CA. Ramesh Bhatia
CA. Manoj Sarda
CA. L. L. Sethia
Mr. P. K. Gupta, LLB
CA. Reeta Jain
CA. Sudarshan Bhatia
CA. Vikas Yadav
CA. Payal Gupta
CS. Divya Khurana
CS. Neha Jain

LUNAWAT & CO

A Professional Services Firm
That Value Your Perspective