**GOODS AND SERVICE TAX**

**BBA-N 603**

**UNIT-1**

**INTRODUCTION**

To understand GST, it is important that we understand the current indirect taxation system. Direct taxes such as income tax are borne by the person liable to pay the tax; this means that the tax burden cannot be shifted to anyone else. The liability of an indirect taxes on the other hand, can be shifted to another person. So, the person liable to pay the tax can collect the tax from someone else and then pay it to the government; thus shifting the tax burden. The GST tax falls in this category. The current indirect tax structure, which comprises of so many different taxes, can be classified as:

Central taxes: levied by the Central govt (includes Central Sales Tax, Excise Duty etc.)

State taxes: levied by the various state govt (VAT, Service Tax, Octroi)

**Section- 2(52)-for Goods and 2(102)-for Services Under GST Act**

The taxable event under GST is supply of “Goods” and “Services”. Hence it is important to understand the meaning of both these terms**.**

**Definition of Goods – Section 2(52) of GST Act**

“Goods’’ means every kind of movable property other than money and securities but includes actionable claims ,growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

The above is summarized as under:

**Goods include**:

Every kind of movable property

Actionable claims

Growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

**A goods does not include**:

Money and

Securities

**Definition of Service – Section 2(102) of GST Act**

“Services’’ : means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.

**GST VS CURRENT INDIRECT TAX STRUCTURE**

The current indirect tax has one major problem - the casacading effect. When you buy something, you pay a tax on tax itself.

GST aims to solve this problem by introducing seamless Input Tax Credit (ITC). Today, the tax that you pay on material purchases cannot be claimed from output tax. This is set to change with ITC.

In the end, every time an individual was able to claim input tax credit, the sale price for him reduced and the cost price for the person buying his product reduced because of a lower tax liability.

So essentially, GST is going to have a two-pronged benefit. One, it will reduce the cascading effect of taxes, and second, by allowing input tax credit, it will reduce the burden of taxes and, hopefully, prices.

**AN OVERVIEW TO GST**

GST is a comprehensive, multi-stage, destination-based consumption tax on levied at every stage of value addition in the lifecycle of a product. To understand this better, let us look at each of the terms in detail:

Comprehensive: GST will subsume all of the current indirect taxes. Plus, by bringing in a unified taxation system, across the country, it will ensure that there is no more arbitrariness in tax rates.

Multi-stage: GST is levied each stage in the supply chain, where a transaction takes place. Value-addition: This is the process of addition to the value of a product/ service at each stage of its production, exclusive of initial costs. Under GST, the tax is levied only on the value added.

Destination-based consumption: Unlike the current indirect taxes, GST will be collected at the point of consumption. The taxing authority with appropriate jurisdiction in the place where the goods/ services are finally consumed will collect the tax

**WHAT IS SGST, CGST, AND IGST?**

Suppose goods worth INR 10,000 are sold by manufacturer A in Maharashtra to Dealer B in Maharashtra. B resells them to trader C in Rajasthan for INR 17,500. Trader C finally sells to End User D in Rajasthan for INR 30,000.

Suppose CGST= 9%, SGST=9%. Then, IGST= 9+9=18% Since A is selling this to B in Maharashtra itself, it is an intra-state sale and both CGST and SGST will apply, at the rate of 9% each.

B (Maharashtra) is selling to C (Rajasthan). Since it is an interstate sale, IGST at the rate of 18% will apply.

C (Rajasthan) is selling to D also in Rajasthan. Once again it is an intra-state sale and both CGST and SGST will apply, at the rate of 9% each.

Any IGST credit will first be applied to set off IGST then CGST. Balance will be applied to setoff SGST. Since, GST is a consumption based tax, i.e., the state where the goods were consumed will collect GST. By that logic, Maharashtra (where goods were sold) should not get any taxes. Rajasthan and Central both should have got (30,000 \* 9%) = 2,700 each instead of only 2,250. Maharashtra (exporting state) will transfer to the Centre the credit of SGST of INR 900 used in payment of IGST. The Centre will transfer to Rajasthan (importing state) INR 450 as IGST credit used.

**\*\*Do note,** that custom duties are not part of this tax structure.

**When is Tax Levied?**

A taxable event such as manufacture, sale and provision of a good has to occur for tax to be collected. Under the current system, each taxable event is subject to multiple taxes such as excise, VAT/ CST and service tax. But under GST, products will no longer have multiple taxes, and will not incur excise duty as well as VAT at different points of time. There will no longer be any difference between goods and services in terms of taxation.

An example of this is when we go out to eat at a restaurant. Earlier, the customer paid both VAT and service tax on a single bill, but after GST is implemented there will be a single tax charge on the bill amount. This leads us to an important concept in GST - Time, Place, and Value of Supply of goods and services.

**Composition Levy**

Goods and Services Tax is set to bring along a new regime of business compliance in India. Large organizations have the requisite resources and expertise to address these requirements. To resolve such scenarios, the government has introduced Composition Scheme under GST, which is merely an extension of the current scheme under VAT law. When opting for the Composition Scheme under GST, a taxpayer will be required to file summarized returns on a quarterly basis, instead of three monthly returns (as applicable for normal businesses). In this section, we have addressed some of the basic queries around Composition Scheme under Goods and Services Tax Law.

**Who can opt for Composition Scheme?**

Businesses dealing only in goods can only opt for composition scheme. Services providers have been kept outside the scope of this scheme. However, restaurant sector taxpayers may also opt for the scheme. This holds true if your annual turnover is below INR 50 Lakhs.

**Taxable Persons Excluded from the Composition Scheme**

Following taxable persons are not granted permission to opt for the scheme who:

* supply goods not leviable under the Act
* supply services
* make a supply of goods other than intra-state i.e. inter-state or import/ export
* make a supply of goods through Electronic Commerce Operator i.e. e-commerce and liable to collect taxes
* manufacture such goods as may be notified

Further, it is also if in case a taxable person has different business segments having same PAN as held by the taxable person, they must register all such businesses under the scheme.

If an individual operates different businesses such as textiles, electronics and accessories, as well as a grocery store, then they must register all the above segments collectively under the Composition Scheme, or simply opt not for the scheme.

**Merits of the Composition Scheme**

Below are some of the prominent reasons why you should choose to get registered as a supplier under the composition scheme:

* Limited Compliance: Lesser compliance w.r.t. furnishing of returns, maintenance of books of records, issuance of invoices more focus on business.
* Limited Tax Liability: on comparison with regular taxpayers, person taxed under Composite Scheme will be liable to pay tax at a rate not less than 2.5% for manufacturer and 1% in any other cases instead of a standard rate of 18%.
* High Liquidity: Unlike normal tax payers, tax payers under Composite Scheme will be liable to pay taxes at a lower rate resulting in lesser chunk on his working capital.

**Demerits of the Composition Scheme**

The demerits of registering under Composite Scheme by a taxable person are as follows:

* Limited Territory for Business: A taxpayer registered under the composition scheme is barred from carrying out inter-state transactions and cannot affect import-export of goods and services.
* No Credit of Input Tax: Under the scheme, the credit of input tax paid on the purchases of inputs from a normal taxpayer will not be allowed. The buyer of goods supplier by scheme holder will also not enjoy input tax credit resulting in price distortion, cascading, loss of business to scheme holders.
* No Collection of Tax: Though the rate of tax for a scheme holder is lower the burden of such tax is kept on the taxpayer himself, leading to higher cost of sales.
* Penal Provision: As per the Model GST Law, if the taxpayer who has previously been given registration under composition scheme is found to be not eligible to the composition scheme or if the permission granted earlier was incorrectly granted, then such taxpayer will be liable to pay the differential tax along with a penalty

**What is Aggregate Turnover?**

The law says that “aggregate turnover” means the aggregate value of all taxable supplies, excluding the value of inward supplies on which tax is payable by a person on reverse charge basis, exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes Central tax, State tax, Union territory tax, Integrated tax and cess.

**For Normal Category States**

Under GST Here’s an example to help you understand the concept of aggregate turnover. So Mr. A is a farmer with an annual turnover of INR 55 lakh. Since this income is agriculture-related, the turnover is exempt from GST. However, Mr. A also supplies plastic bags along with his crop and charges separately for this. His turnover from the sale of plastic bags is INR 1 lakh and we know that this transaction (sale of plastic bags) is chargeable to GST. In simple words, his taxable turnover is only INR 1 lakh. Going by the definition of aggregate turnover, Mr. A is required to register under GST because his aggregate turnover exceeds the threshold limit of INR 20 lakh. Further, Mr. A does not have the option to register as a composition dealer because this aggregate turnover exceeds the threshold limit of INR 50 lakh.

**Below is the list of states which are assigned special status under Goods and Services Tax Law:** 1.Arunachal Pradesh 2.Assam 3.Jammu & Kashmir 4.Manipur 5.Meghalaya 6.Mizoram 7.Nagaland 8.Sikkim 9.Tripura 10.Himachal Pradesh 11.Uttarakhand

The threshold limit of aggregate turnover for all the above states has been kept at INR 10 lakh. So the same example will apply here too, but the numbers will get modified. Let’s assume that the turnover of the farmer Mr. A living in Nagaland is INR 15 lakh from agriculture. His taxable turnover from the sale of plastic bags is only INR 50,000. Mr. A will still have to register under GST as his aggregate turnover exceeds the threshold limit of INR 10 lakh for special category states.

**Reverse Charge**

**Reverse charge**, where the recipient is liable to pay tax, is common to many countries like Canada where it is applicable on imports of services and intangible properties. Normally, the supplier pays the tax on supply. In certain cases, the receiver becomes liable to pay the tax, i.e., the chargeability gets reversed which is why it is called reverse charge. In India, this is a partly new concept introduced under GST. The purpose of this charge is to increase tax compliance and tax revenues. Earlier, the government was unable to collect service tax from various unorganized sectors like goods transport. Compliances and tax collections will therefore be increased through reverse charge mechanism. The concept of reverse charge mechanism is already present in service tax. In GST regime, reverse charge may be applicable for both services as well as goods.

**Advantages of GST in India**

* GST has brought together a number of indirect taxes under one umbrella, simplifying taxation for service and commodity businesses.
* GST is aimed at reducing corruption and sales without receipts.
* GST reduces the need for small companies to comply with excise, service tax and VAT.
* GST brings accountability and regulation to unorganized sectors such as the textile industry.
* With GST replacing multiple state and central taxes, the tax collected is likely to be distributed across the country, providing funds for development to the developing or underdeveloped pockets in India.

## ****Disadvantages of GST in India****

* Increased costs of software purchase that can assist in GST filing process leads to higher operational costs for many businesses.
* GST has given rise to complexity for many business owners across the nation. e complexities in taxation for products have seen manufacturers suspend their reward programs, which are sure to affect consumers.
* The GST transaction fees within the financial sector have become more expensive increasing from 15% to 18%.
* With GST, insurance premiums have become more expensive.

**Persons will be liable to pay GST**

The following categories of persons will be liable to pay GST:

* Persons registered under GST and making taxable supplies under GST.
* Persons registered under GST required to make payment of tax under reverse charge mechanism.
* E-Commerce operators registered under GST and through whom certain categories of notified supplies are made.
* Persons registered under GST and required to deduct Tax (TDS)
* E-Commerce Operators registered under GST and required to collect tax (TCS)

**MIGRATION OF PERSONS REGISTERED UNDER EARLIER LAW IN GST**

