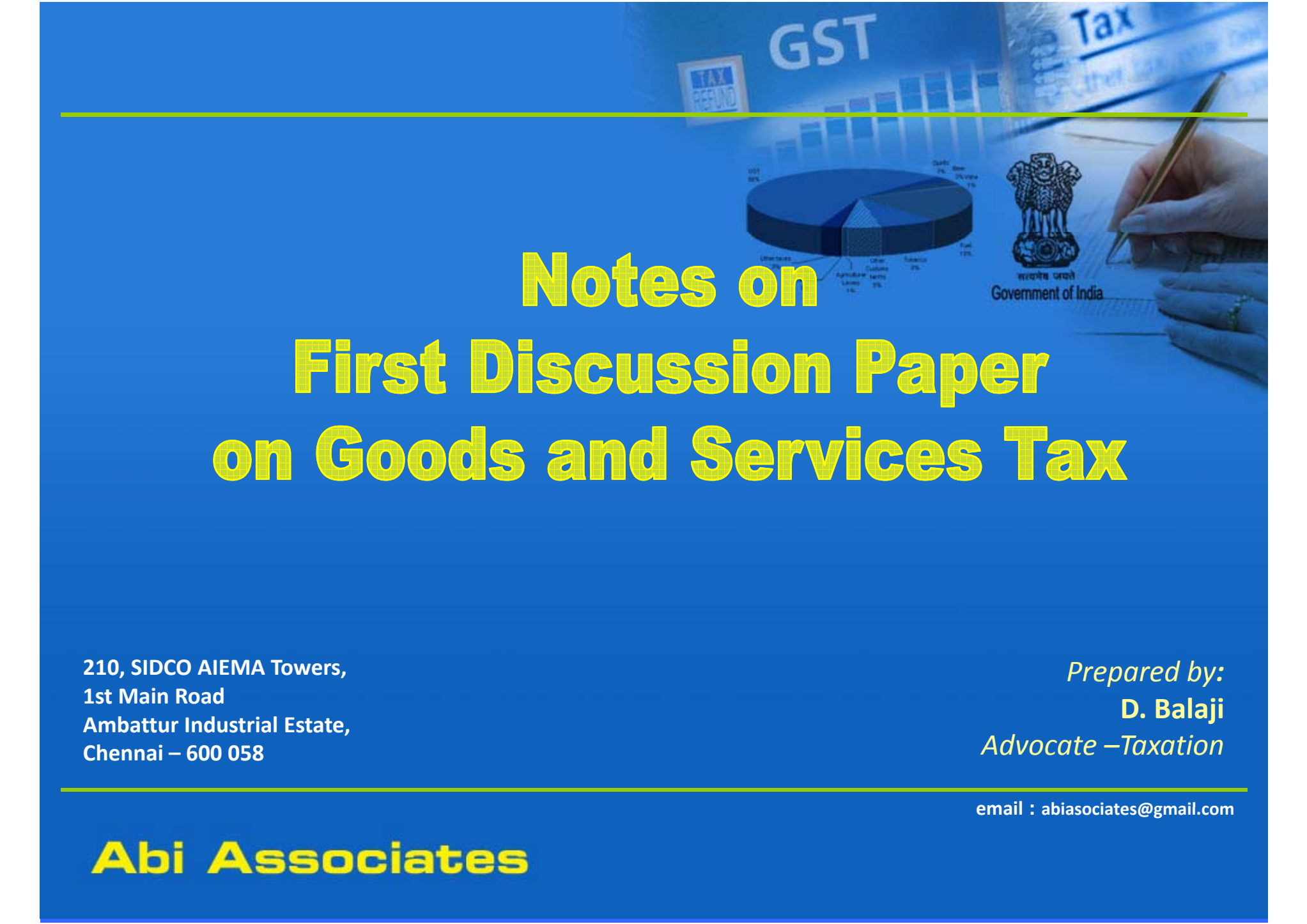




Notes on First Discussion Paper on Goods and Services Tax

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“It will lower the tax rate by broadening the tax base and minimizing exemptions...”

Dr. Vijay Kelkar,
Chairman, Finance Commission

*on the occasion of the ASSOCHAM 3rd National Conference on
“GST for Accelerated Economic Growth and Competitiveness”
29th June, 2009*

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Objective

If the **Value Added Tax (VAT)** is considered to be a major improvement over the pre-existing Central Excise Duty at the National Level and the Sale Tax System at the State Level, then the **Goods and Services Tax (GST)** will be a further significant breakthrough – the next logical step – towards a comprehensive indirect tax reform in the country.

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Justification of GST: Central

- The shortcoming in CENVAT of the Government of India lies in non-inclusion of several Central Taxes in the overall frame work of CENVAT.
- Such as additional customs duty, surcharges etc.
- The outcome is tax set-off out of reach for manufacturers/dealers.
- No step has yet been taken to capture the value-added chain in the distribution trade below the manufacturing level in the existing scheme of CENVAT.
- Hence the introduction of GST at the central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief.

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Justification of GST: *State*

- In the existing State-level VAT structure there are also certain shortcomings as follows.
- Several indirect taxes on goods and services such as luxury tax, entertainment tax, are yet not subsumed in the VAT.
- CENVAT load on the goods remains included in the value of goods to be taxed under State VAT



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Goods & Services Tax Model for India

- Designing an effective GST model in a federal system with the objective of having an overall harmonious structure of rates together with upholding the powers of Central and State Governments in their taxation matters.
- Also a need to propose GST model that should be easily implementable, while being generally acceptable to stakeholders.

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Salient features of the GST Model

Dual GST Structure with defined functions and responsibilities of the Centre and the States. CGST – Central GST and SGST - State GST.

- The dual GST model would be implemented through multiple statutes. One for CGST & SGST statute for every State. However the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.
- All Inter-state transactions to be levied with IGST, a central levy. (More elaborately discussed later).

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Chargeability

- The Central GST & State GST would be applicable to all transactions of goods and services except the exempted goods and services and those goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.
- GST is destination based taxation system.

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Payment of GST

- The Central GST & State GST are to be paid to the accounts of the Centre and the States Separately.



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Input tax credit

- Taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilised only against the payment of Central GST. The same principle will be applicable for the State GST.
- Cross utilisation of ITC between the Central GST & State GST would not be allowed except in the case of Inter – State Supply of goods and services under the IGST.
- The taxpayer or exporter would have to maintain separate details in books of account for utilisation of refund of credit.
- The problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in cases such as: Exports / Purchase of Capital Goods / Input tax at higher rate than output tax.
- The refund/adjustment should be completed in a time bound manner.

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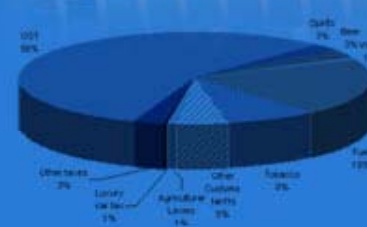
Other Features:

- The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
- Proposed threshold limit for Central GST on goods of annual turnover is of Rs. 1.50 crore and annual turnover of Rs. 10 lakh both for goods and services for the State GST. The separate threshold for Central GST for services of annual turnover is of Rs. 10 Lakh.
- The Composition/Compound Scheme for the State GST have an upper ceiling at Rs. 50 Lakh of Gross Annual Turnover and a floor rate of 0.5% across the States.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

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Central & State Taxes to be subsumed under GST: Central

- Central Excise Duty
- Additional Excise Duties
- The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- Service Tax
- Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- Special Additional Duty of Customs – 4% (SAD)
- Surcharge
- Cesses



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Central & State Taxes to be subsumed under GST: State

- VAT/Sales tax
- Entertainment tax (unless it is levied by the local bodies)
- Luxury Tax
- Taxes on lottery, betting and gambling
- State cesses and Surcharges in so far as they relate to supply of goods and services
- Entry tax not in lieu of Octroi.
- Purchase tax under discussion with the Government of India.
- Tobacco products would be subjected to GST with ITC. Centre may be allowed to levy excise duty on tobacco products over and above GST without ITC.

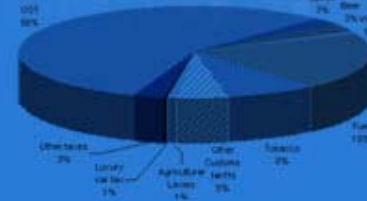


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Out of the purview of GST

- Alcohol /Alcoholic Beverages.
- Petroleum products – Crude, Motor Sprit including ATF.
- About natural gas, yet to be decided.



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Taxation of Services

- Both the Centre and the States will have concurrent power to levy tax on all goods and services.



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Inter-State Transactions of Goods and Services

- IGST model would be implemented.
- Centre would levy IGST which would be CGST plus SGST on all inter-state transactions with appropriate provision for consignment or stock transfer of goods and services.
- Maintenance of uninterrupted ITC chain on Inter-State Transactions.
- All Inter-State dealers will be e-registered and correspondence with them will be by e-mail.
- No refund claim in exporting State, as ITC is used up while paying the tax.
- Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.



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GST Rate Structure: State

- Two rate structure – a lower rate for necessary items and goods of basic importance and a standard rate for goods in general.
- There will also be a special rate for precious metals and a list of exempted items.



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GST Rate Structure: Central

- The states are of the view that the CGST relating to goods, the Government of India may also have a two-rate structure.
- Taxation of services, there may be a single rate for both CGST & SGST.



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Zero rating of exports

- Exports would be zero-rated. - Similar benefits may be given to SEZs. Such benefits will only be allowed to the processing zones of the SEZs.
- No benefit to the sale from an SEZ to Domestic Tariff Area (DTA) will be allowed.

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GST on imports

- Both CGST & SGST will be levied on import of goods and services into the country with necessary Constitutional Amendments.
- The incidence of tax will follow the destination principle.
- Full and complete set-off will be available on the GST paid on goods and services.

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Special Industrial Area Scheme

- Tax exemption to special industrial area scheme to continue. This will continue till expiry period the scheme. For ex. Uttaranchal state where excise duty exemption available for 10 years from the date of commercial production.
- The tax exemptions, remissions etc. related to industrial incentives should be converted into cash refund schemes. In case of deferral scheme presently operative in many states extended to specified units (For ex. In Tamil Nadu, Ford, Hyundai and Saint Gobin enjoys such schemes) after collection of tax, so that GST scheme on the basis of a continuous chain of set-offs is not disturbed.
- No new exemption, remission etc. or continuation of earlier exemption would be allowed.

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Issues not discussed in the white paper

- Tax chargeability for deemed exporters
- Intra State and Inter State Works Contract

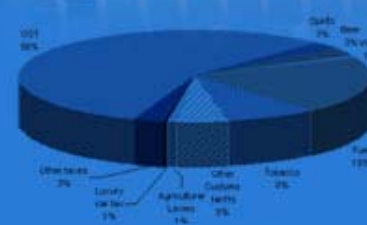


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Issues not discussed in detail in the white paper

- Purchase tax in SGST
- Branch transfer/consignment sales in SGST and IGST. Whether there will not be SGST levy but what is contemplated is to levy consignment tax under IGST legislation with set-off at the recipient level.
- Registration details
- Limitation of credit utilisation on refund/adjustment



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- | Number of children in the household | Percentage |
|-------------------------------------|------------|
| 0 | 30% |
| 1 | 20% |
| 2 | 20% |
| 3 | 10% |
| 4 | 5% |
| 5 | 5% |
| 6 | 5% |
| 7 | 5% |
| 8 | 5% |
| 9 | 5% |
| 10 | 5% |
| 11 | 5% |
| 12 | 5% |
| 13 | 5% |
| 14 | 5% |
| 15 | 5% |
| 16 | 5% |
| 17 | 5% |
| 18 | 5% |
| 19 | 5% |
| 20 | 5% |