

## A Note on GST

1. GST (Goods & Services Tax) is a single tax on the supply of goods and services, right from the manufacturer to the consumer. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. GST has been envisaged as a more efficient tax system, neutral in its application and distributionally attractive.

**At the Central level, the following taxes will be subsumed:**

a. Central Excise Duty, b. Additional Excise Duty, c. Service Tax, d. Additional Customs Duty commonly known as Countervailing Duty, and e. Special Additional Duty of Customs.

**At the State level, the following taxes will be subsumed:**

a. State Value Added Tax/Sales Tax, b. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), c. Octroi and Entry tax, d. Purchase Tax, e. Luxury tax, and f. Taxes on lottery, betting and gambling.

2. Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

3. For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. 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

(2)

processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST. There would be no manual filing of returns. All taxes can also be paid online. All mismatched returns would be auto generated, and there would be no need for manual interventions. Most returns would be self-assessed.

**4. The main features of the proposed registration procedures under GST will be as follows:**

- i. Existing dealers: Existing VAT/Central excise/Service Tax payers will not have to apply afresh for registration under GST.
- ii. New dealers: Single application to be filed online for registration under GST.
- iii. The registration number will be PAN based and will serve the purpose for Centre and State.
- iv. Unified application to both tax authorities.
- v. Each dealer to be given unique ID GSTIN.
- vi. Deemed approval within three days. vii. Post registration verification in risk based cases only.

**5. The main features of the proposed returns filing procedures under GST will be as follows:**

- a. Common return would serve the purpose of both Centre and State Government.
- b. 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.
- c. Small taxpayers who have opted composition scheme shall have to file return on quarterly basis.
- d. Filing of returns shall be completely online. All taxes can also be paid online.

**6. The main features of the proposed payments procedures under GST will be as follows:**

- i. Electronic payment process- no generation of paper at any stage
- ii. Single point interface for challan generation- GSTN 12
- iii. Ease of payment – payment can be made through online banking, Credit Card/Debit Card, NEFT/RTGS and through cheque/cash at the bank.
- iv. Common challan form with auto-population features

- v. Use of single challan and single payment instrument
- vi. Common set of authorized banks
- vii. Common Accounting Codes

**7. Establishment of Legal Framework will be as follows:-**

- i. Passage of the Constitution Amendment Bill from Parliament: First week of August 2016
- ii. Ratification by 50% States
- iii. Presidential Assent of Constitution Amendment and notification in official Gazette
- iv. Cabinet Approval for Formation of GST Council
- v. Recommendation of Model GST laws by GST Council
- vi. Cabinet Approval for the CGST and IGST laws by Centre and for SGST laws by ALL states

Passage of CGST and IGST laws in the Centre and passage of SGST laws in ALL states:  
Winter Session 2016 & Notification of GST Rules

**8. Preparation of IT Infrastructure will be as follows:-**

- i. Goods and Services Tax Network (GSTN): Not-for-profit, non Government Company set up by Centre and States to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders.
- ii. Frontend Processes: Common modules for registration, returns and payments being developed by GSTN.
- iii. Backend Processes: Modules for backend processes of tax authorities such as processing registration/returns, assessments, audit, appeals, etc.
- iv. Development of GST Frontend and Backend for 17 States by GSTN: End December 2016
- v. CBEC's Backend systems: End November 2016
- vi. Backend systems of 14 States: End November 2016
- vii. Backend systems of Pr. CCA, Banks, RBI & State accounting authorities: End November 2016
- viii. Testing and integration of GST Frontend and backend of all stakeholders: Jan – March 2017

**9. Returns will be filed as follows:-**

- i. Common return would serve the purpose of both Centre and State Government.

- (4)
- ii. Most 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.
  - iii. Small taxpayers: Small taxpayers who have opted composition scheme shall have to file return on quarterly basis.
  - iv. Filing of returns shall be completely online.
  - v. All taxes can also be paid online.

## **10. GST Council**

The GST Council will consist of: (a) the Union Finance Minister (as Chairman), (b) the Union Minister of State in charge of Revenue or Finance, and (c) the Minister in charge of Finance or Taxation or any other Minister, nominated by each state government. All decisions of the GST Council will be made by three fourth majority of the votes cast; the centre shall have one-third of the votes cast, and the states together shall have two-third of the votes cast. The GST Council will make recommendations on:

- (a) taxes, cesses, and surcharges to be subsumed under the GST;
- (b) goods and services which may be subject to, or exempt from GST;
- (c) the threshold limit of turnover for application of GST;
- (d) rates of GST;
- (e) model GST laws, principles of levy, apportionment of IGST and principles related to place of supply;
- (f) special provisions with respect to the eight north eastern states, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand; and related matters.

The GST Council may decide the mechanism for resolving disputes arising out of its recommendations. Parliament may by law, provide for compensation to states for revenue losses arising out of the implementation of GST, based on the recommendations of the GST Council. Such compensation could be for a maximum of five years.

## **11. Revenue Neutral Rate**

A Committee headed by the Chief Economic Adviser Dr. Arvind Subramanian on Possible Tax rates under GST submitted its Report to the Finance Minister. The Committee in its concluding observations has stated that this is a historic opportunity for India to implement a

game-changing tax reform. Domestically, it will help improve governance, strengthen tax institutions, facilitate "Make in India by Making One India," and impart buoyancy to the tax base. It will also set the global standard for a value-added tax (VAT) in large federal systems in the years to come.

Following are the highlights of Report:

The GST has been an initiative that has commanded broad consensus across the political spectrum. It has also been a model of cooperative federalism in practice with the Centre and states coming together as partners in embracing growth and employment-enhancing reforms. It is a reform that is long awaited and its implementation will validate expectations of important government actions and effective political will that have, to some extent, already been "priced in."

Getting the design of the GST right is, therefore, critical. Specifically, the GST should aim at tax rates that protect revenue, simplify administration, encourage compliance, avoid adding to inflationary pressures, and keep India in the range of countries with reasonable levels of indirect taxes.

#### Summary of Recommended Rate Options (in percent)

RNR	Rate on precious metals	"Low" rate (goods)		"Standard" rate (goods and services)	"High/Demerit" rate or Non-GST excise (goods)
Preferred	15	6	12	16.9	40
		4		17.3	
		2		17.7	
Alternative	15.5	6	12	18.0	40
		4		18.4	
		2		18.9	

All rates are the sum of rates at centre and states

The Committee's recommendations on rates summarized in the table above are all national rates, comprising the sum of Central and State GST rates. How these combined rates are allocated between the Centre and States will be determined by the GST Council. This allocation

must reflect the revenue requirements of the Centre and States so that revenues are protected. For example, a standard rate of 17% would lead to rates at the Centre and States of say 8 percent and 9 percent, respectively. The Committee considers that there are sound reasons not to provide for an administration-complicating "band" of rates, especially given the considerable flexibility and autonomy that states will preserve under the GST (including the ability to tax petroleum, alcohol, and other goods and services).

Implementing the GST will lead to some uncharted waters, especially in relation to services taxation by the States. Preliminary analysis in this report indicates that there should not be large shifts in the tax base in moving to the GST, implying that overall compensation may not be large. Nevertheless, fair, transparent, and credible compensation will create the conditions for effective implementation by the States and for engendering trust between the Centre and States. The GST also represents a historic opportunity to Make in India by Making One India. Eliminating all taxes on inter-State trade (including the 1 percent additional duty) and replacing them by one GST will be critical to achieving this objective.