

Moving towards Goods and Service Tax



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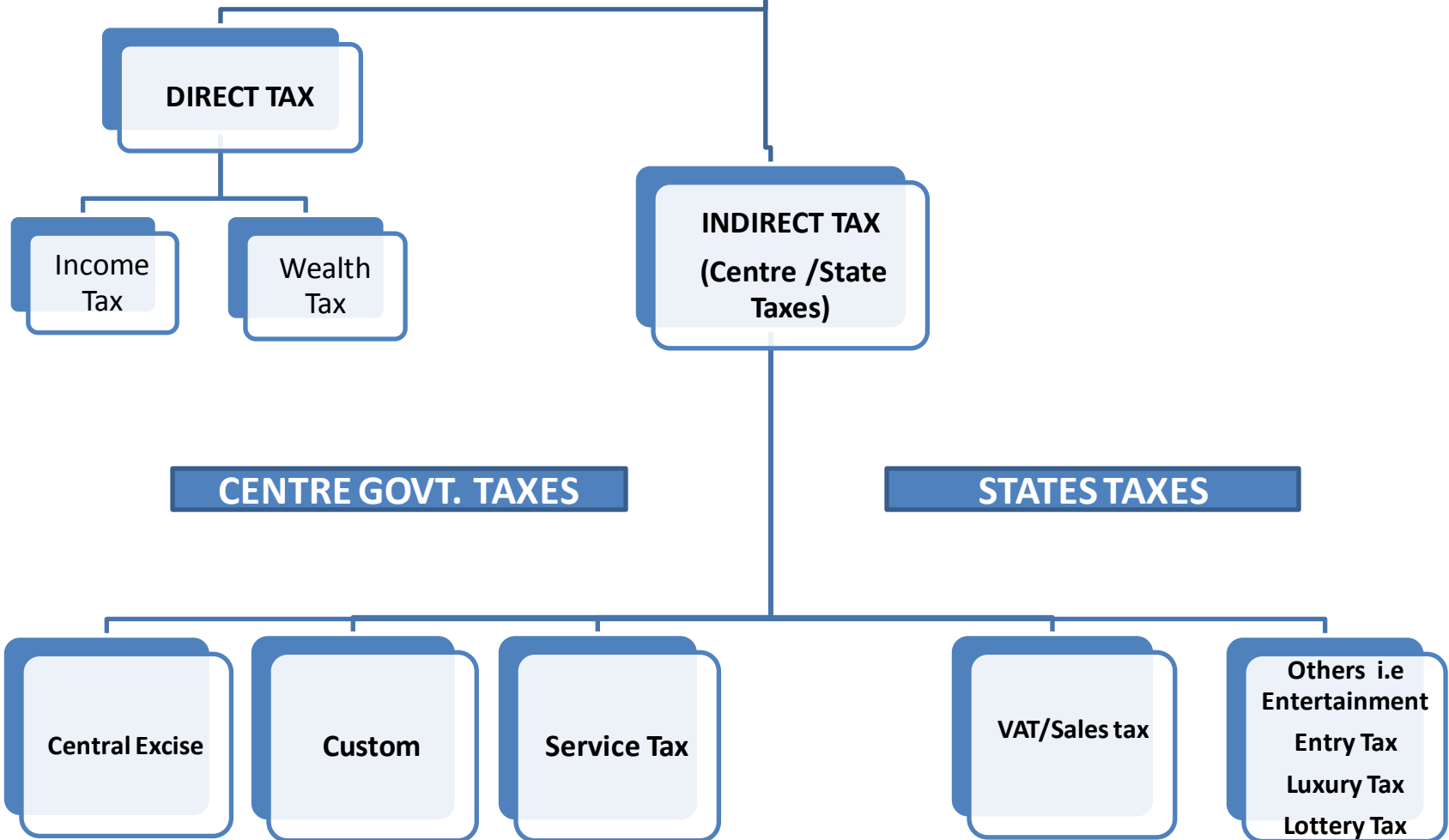
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Existing Tax Structure in India



Limitations of Existing Tax Structure

- **Cascading Effect** of Taxes not eliminated completely (*CST, additional customs duty, surcharges, luxury tax, entertainment tax, etc. etc.,*)
- **Tax on Tax - CENVAT** load on the goods remains included in the value of goods to be taxed under State VAT.
- **Cross utilization** of input tax i.e. CENVAT (Excise & Service Tax) and (VAT etc.) set-off out of reach.
- Multiplicity of taxes
- High cost of compliance and difficult to administer.
- **Lack of proper IT infrastructure**

Concept of Goods & Service Tax(GST)

- GST is a destination based consumption tax.
- GST is a value added tax to be levied on both goods and services, (except the exempted goods and services).
- The tax will be levied on the value of the product or service supplied and not sold.
- The taxes levied at the multiple stages such as CENVAT, Central sales tax, State Sales Tax, Octroi etc will be replaced by GST to be introduced at Central and State level.

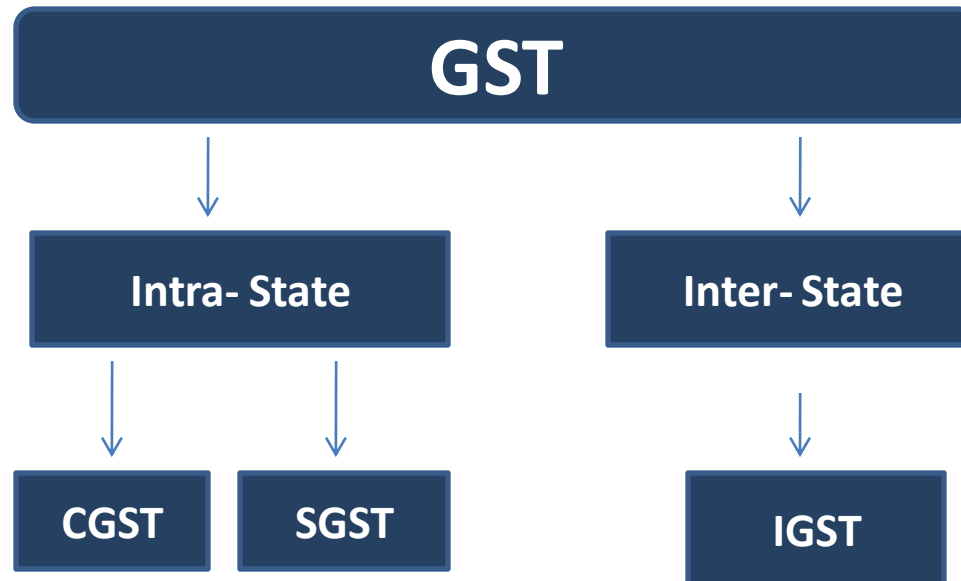
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Broad Constitutes of Goods & Service Tax



Revenue will be ultimately received by the state in which goods are finally consumed

GST : Internationally

- Approximately 160 countries have adopted so far, France was First Country to adopt it in 1954,

Malaysia implementing GST from April 1, 2015

S.no.	Region	No. of countries	Tax Rates(range)
1	ASEAN-(Thailand & Phillipines)	7	7-12%
2	Asia- (Iran & Tajikstan)	19	5-20%
3	Europe- (Jersey & Hungary)	53	5-27%
4	Oceania- (Niue & NewZealand)	7	5-15%
5	Africa- (Nigeria & Gambia)	44	5-40%
6	South America- (Brazil & uruguay)	11	10-22%
7	Caribbean,Central& North America - (Canada & Barbados)	19	5-17.5%

Highest rates are in Hungry (27%) and Gambia (40%).

Malaysia has proposed 6%.

Source: "Countries implementing VAT or GST"

http://gst.customs.gov.my/en//gst/pages/gst_ci.aspx

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GST : Working

Levy of Tax under GST framework (@ 10%)

Suppose a manufacturer purchases a X commodity for Rs. 200 and adds a value of Rs. 80 into it thus creating the X of Rs. 280.

GST paid by manufacturer will be- Rs. 8 i.e.

(Tax on output- Rs. 28 minus Tax paid on input –Rs. 20)

Now **the second party in the chain, the wholesaler** will get this X for Rs. 280 and supposing the value addition by him is Rs. 60.

GST paid by wholesaler will be- Rs. 6 i.e.

(Tax on output- Rs. 34 minus Tax paid on input –Rs. 28)

The retailer buys the X for Rs. 340 and added a value of Rs. 100 to it.

GST paid by retailer will be- Rs. 10 i.e.

(Tax on output- Rs. 44 minus Tax paid on input –Rs. 34)

Total GST paid-Rs. 44

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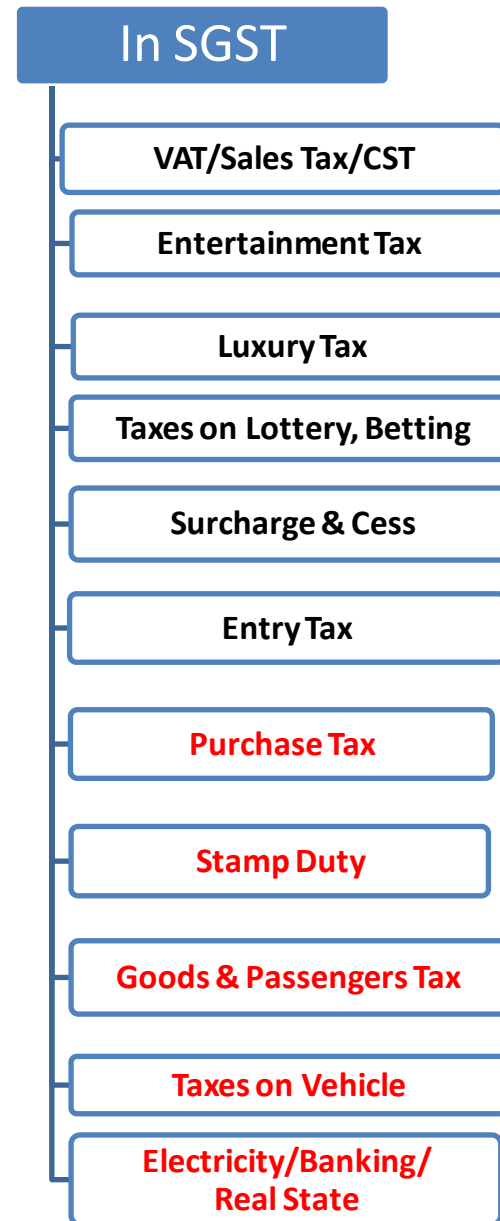
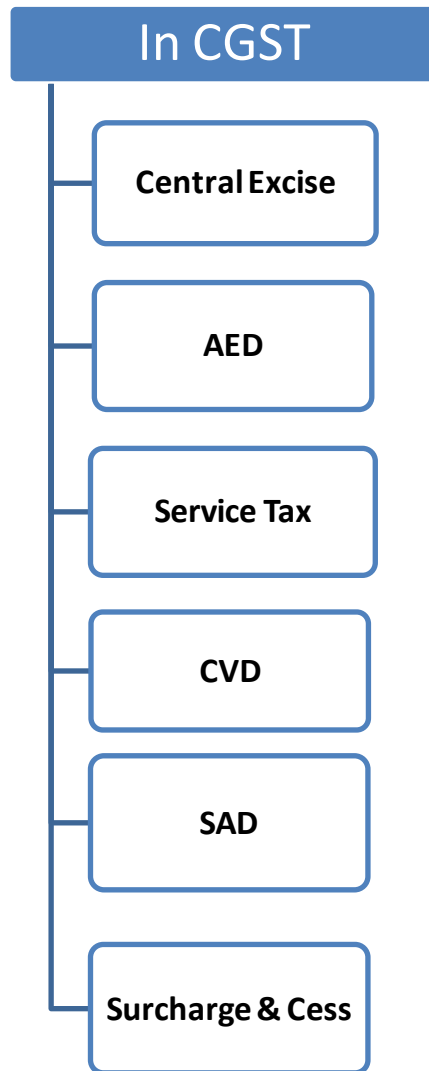
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Progress of GST in India

Year	Event
2000	Vajpayee Government started discussion on GST by setting up an empowered committee
2002-04	Kelkar Task Force Report recommended unification of all State & Centre Taxes,
April 2007	CST phase out started
May 2007	Joint working committee formed by SC
Nov 2007	Joint working committee submitted report
Feb 2008	FM announced introduction of GST from 01/04/10
April 2008	Empowered committee finalized views over GST
July 2009	FM announced commitment to introduce GST from 01/04/10
Nov 2009	First discussion paper released by EC
Dec 2009	Task force constituted by FC released its report
Feb 2010	GST to be introduced in April 2011- mentioned in the speech of then FM Mr. Pranab Mukherjee
March 2011	The Constitution 115 th amendment bill introduced in Lok sabha for levy of GST on all goods or services except for the specified goods.
March 2012	drafting of model legislation for Centre and State GST in concert with States under progress
2013	Four Committees have been constituted by the Empowered Committee of State Finance Ministers (EC) to deal with the various aspects of work relating to the introduction of GST
Till date	Govt hopes to approve the legislative scheme which enables the introduction of GST probably by April 2016

Taxes to be submerged in GST (Dual Model)



How proposed GST will be better than existing Taxes?

- Dual model GST under federal structure i.e. CGST & SGST,
- **Elimination of cascading effects of the taxes,**
- CGST & SGST will be charged on same price,
- **Set-off relief fully captured,**
- Destination based tax structure,
- **Free movement of goods & service through out the country,**
- Applicable to all transactions of Goods & Services with some exceptions,

- Input tax credit (ITC) for the CGST/SGST and could be utilized for payment of CGST/SGST, but ***cross utilization not allowed***, except IGST
- **Inter State GST (IGST) –new model for Interstate transactions**
- Refund for unutilized ITC will be discouraged
- **Threshold limits will be on higher side**
- Common Returns formats for CGST & SGST
- **No exemption/Remission of Tax to Industry**
- State will be empowered to Tax Services
- **It will also improve the International cost competitiveness of native Goods and Services.**

Difference between existing tax structure and GST

Existing Tax Structure	GST Structure
Cascading Effect of Taxes not eliminated completely (CST, additional customs duty, surcharges, luxury tax, entertainment tax, etc. etc.,)	It will be eliminated being credit allowed on all the components of taxes.
Cross utilization of input tax (VAT etc.) and CENVAT (Excise & Service Tax) set-off out of reach	In case of IGST only, cross utilization will be allowed. Cross utilization of CGST & SGST not Available.
Value-added chain in the distribution trade below the manufacturing not captured fully	It will be taken care
Tax on Tax - CENVAT load on the goods remains included in the value of goods to be taxed under State VAT	It will be taken care as same value be the base for CGST/SGST
Assessable Value for diff. taxes is Diff. i.e. Excise – sec-4 (transactional value) VAT - Sale value (Including excise duty) , Service Tax - Gross realization value	Assessable value for all the taxes

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<p>Taxable event is diff. for diff. taxes i.e. <i>Excise Duty</i>-Manufacturing, <i>Sales Tax/VAT</i>- Sale of Goods <i>Service Tax</i>- Realization of Service</p>	<p>Taxable event is “Supply “ of Goods & Services</p>
<p>Different Authorities for diff. taxes i.e. Excise Duty – Custom & Excise Deptt. - Service Tax – Service tax Comm. VAT – Diff authorities at state levels & Other Taxes- Various authorities at local level</p>	<p>Only two authorities i.e. one for SGST & One for CGST</p>
<p>Difficulties in filling -various documents with <i>diff. authorities</i> - documents at <i>various point of time</i></p>	<p>Documents will be reduced a lot</p>
<p>Too many returns under different statute i.e. Excise Returns, Service tax Returns, Sales tax return etc..</p>	<p>Common format is proposed.</p>
<p>Difficult to manage annual calendar for compliance under various laws.</p>	<p>It will be manageable to some extent</p>

Tax Rates Proposed under GST

Empowered Committee	Task Force
<p>Broad rate structures- no rates are specified.</p> <ul style="list-style-type: none">- a lower rate- items of basic importance- standard rate for goods in general- Special Rates.- Zero rated items-a list of exempted items, <p>(IGST rate will be sum total of SGST & CGST)</p> <p>However, in a meeting of EC held on 21.07.10 Finance Minister has proposed the following GST rates:</p> <ul style="list-style-type: none">- goods – 20%- services- 16%- essential items-12% <p><i>(Source "The Tribune" dt. 22.07.10)</i></p>	<p>Total Tax rate -12% i.e.</p> <p>CGST – 5%</p> <p>SGST – 7%</p> <p>IGST - 12% i.e. <i>total of CGST & SGST</i></p>

Tax Rates Proposed under GST

Empowered Committee	Task Force
<p>The exempted list under VAT regime including Goods of Local Importance may be retained in the exempted list as it is under SGST/CGST</p>	<p>There should not be any exemption. For necessary cases, common exemption list may be drawn which may include: All public services of Government. <i>Any service transactions between an employer and employee</i> Unprocessed food article Education services provided by non-Governmental schools and colleges Health services provided by non-Governmental agencies.</p>
<p>Purchase Tax - undecided</p>	<p>It must be subsumed in SGST</p>
<p>Tobacco Products - may be taxed by Centre without ITC Petroleum Products - out of preview Alcohol Products - out of preview</p>	<p>Emission fuels, tobacco and alcohol subject to GST and Excise with no ITC for excise. Industrial fuels and Natural Gas should be subjected only to GST with the benefit of ITC.</p>

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Flawless GST-How?

1. The base should be extend to **all goods and services** including immovable property, Banking Services, goods & passengers;
2. There should be a **single low rate**;
3. The tax should be **destination based**;
4. The tax should be designed on **invoice-credit method**;
5. **Full and immediate input tax credit** in respect of **capital goods**;
6. The GST must **replace all transaction based taxes** on goods and services and factors of production;
7. There should be **seamless flow of the tax** through all stages of production and distribution so as to stick on “final” consumption;
8. The exports should be **zero rated** and **imports** should be **fully taxed**;
9. There should be a **threshold exemption** for small dealers;
10. **Full computerisation** of the compliance and administrative systems.

CHALLENGES FOR GST

- **It is difficult to estimate accurately *gain for States from service tax* and *loss on account of removal of cascading effects*, payment of input tax credit and *phasing out of CST*.**
- **Estimate for Compensation to states on A/c of loss of Purchase Tax .**
- **How to tackle existing Multiple rate structure.**
- **Constitutional Amendments for empowering the**
 - **Centre to levy tax on sale of goods,**
 - **States for levy of service tax and tax on imports,**
 - **approvals from State Legislatures for Debiting Consolidated Funds-**

283(2) of Constitution)

Article 278 and Article 288 of the Constitution to be amended to enable levy of GST on supply of electricity to Government at all levels like any other normal goods.

- **Clear cut list of services to be taxed.**
- **IT infrastructure.**
- **Co-Operation among the states (b2c transactions)**
- **Clearance of pending cases of assessment & others under CENVAT/ Sales Tax/VAT**
- **Unorganised Sector like manufacturer of copper, aluminum, and steel ingots in Mandi Gobindgarh (PB.)**
- **It may face opposition from Local Dealers as they have to pay CGST in addition to SGST directly.**

SHORTCOMINGS.....

- Cascading effect not completely eliminated i.e credit of CGST to set off SGST or vice –a- versa is not allowed
- **It does not specify list of exempted Goods/Services to be taxed. Some discretion may be allowed to states.**
- Revenue Neutral Rate (RNR) needs further review as many services like Railway Freight, small traders/un-organized sector etc. are not considered.
- **Although no. of rates slabs has been reduced but Multiple rates not fully eliminated.**
- Different rates on input and output which will lead to evasion of taxes.
- **Strong Regulator not yet appointed. Empowered committee is not backing with any statute.**

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ISSUES not addressed by Govt.

- Tax Administration
- GST Network-allocation in among states and central
- Provisions for consignment and stock transfer of goods and services
- Revenue Neutral rate structure
- Registration Threshold Limits
- Place of Supply rules

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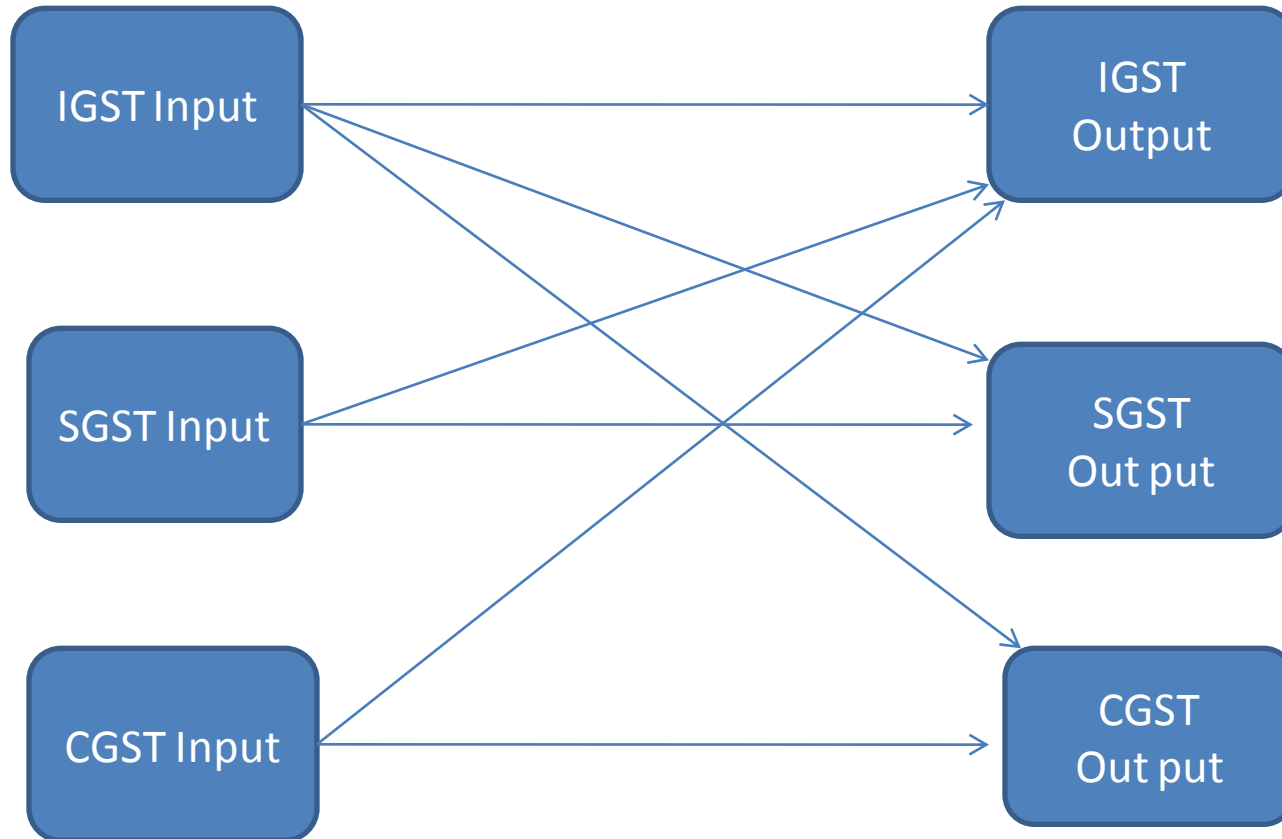
Inter-State Transactions of Goods and Services

- Centre would levy IGST which would be **CGST plus SGST** on all Inter State transactions,
- The inter-State seller will charge & pay IGST in his state on value additions after adjusting available credit of **IGST, CGST, and SGST** on his purchases,
- The Exporting State will **transfer** to the Centre **the credit of SGST** used in payment of IGST,
- The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State,
- The Centre will **transfer** to the importing State the **credit of IGST** used in payment of SGST,
- The relevant information will also be submitted to the Central Agency which will act as a ***clearing house mechanism***.

Features of IGST

- a) Maintenance of uninterrupted ITC chain on inter- State transactions.
- b) No upfront payment of tax or substantial blockage of funds for the inter- State seller or buyer.
- c) No refund claim in exporting State, as ITC is used while paying the IGST.
- d) Self monitoring model.
- e) Level of computerization is limited to inter-State dealers and Central and State Governments should be able to computerize their processes expeditiously.
- f) As all inter-State dealers will be e-registered and correspondence with them will be by e-mail, the compliance level will improve substantially.
- g) Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

Proposed Flow of ITC Credit



ITC credit of SGST is not available for CGST or vice-a-versa

Sequence of use of IGST

IGST

CGST

SGST

Sale In Local Market

Purchase	Amt.	SGST (10%)	CGST (10%)	IGST (20%)	Landed Cost
Raw Material-'A'	Rs. 100.00	10.00	10.00	-	120.00
“ “ -'B' (Imp.)	“ 100.00	-	-	20.00	120.00
TOTAL	“ 200.00	10.00	10.00	20.00	240.00
Value Addition	“ 100.00				100.00
Sales Price					300.00
Output Tax Liability	“ 300.00	30.00	30.00	-	360.00
ITC ADJ.		10.00	30.00 (IGST+CGST)		
TAX PAYABLE/(REFUND)		20.00	-	-	

IGST SALE (Inter state sale)

Purchase	Amt.	SGST (10%)	CGST (10%)	IGST (20%)	Landed Cost
Raw Material-'A'	Rs. 100.00	10.00	10.00	-	120.00
“ “ - 'B'(Imp.)	“ 100.00	-	-	20.00	120.00
TOTAL	“ 200.00	10.00	10.00	20.00	240.00
Value Addition	“ 100.00				100.00
Sales Price					300.00
Output Tax	“ 300.00	-	-	60.00	360.00
ITC ADJ.		10.00	10.00	20.00	
TAX PAYABLE/(REFUND)		00.00	00.00	20.00	
ADJ. AT STATE/CENTRE LEVEL		10.00	-	-	

GST on Imports

- GST will be levied on imports with necessary Constitutional Amendment. ?
- **Both CGST and SGST will be levied on import of goods and services or IGST may be levied.**
- The incidence of tax will follow the destination principle
- **The tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed.**
- Full and complete set-off will be available on the GST paid on import on goods and services

Zero Rating of Exports

- Exports would be **zero-rated**.
- Similar benefits may be given to **Special Economic Zones** (in processing zones only)
- No benefit to the sales from an SEZ to Domestic Tariff Area (DTA)

Special Industrial Area Scheme

- No exemption, remission etc. would be allowed,
- **The existing exemptions ,remissions etc. should be converted, if at all needed, into cash refund schemes after collection of tax,**
- Special Industrial Area Schemes would continue up to legitimate expiry of time
(both for the Centre and the States).

Role of Cost & Management Accountants

- **Restructuring of Business operations & Strategies,**
- **Valuation of transactions other than sale or non-monetary items valuation**
- **Input-Output ratio**
- **Job Work valuation**
- **Stock Valuation**
- **Audit under GST**
- **Consultancy**

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Thank You

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