

GOODS AND SERVICES TAX (GST)

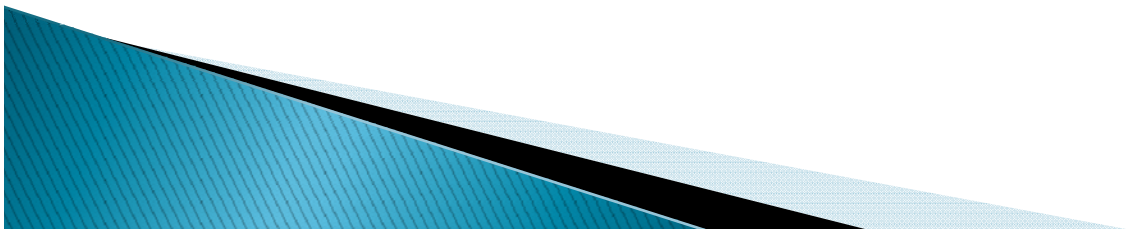
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Budget 2010 – Retrospective Amendments

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Tax – Is it Certain

“Nothing is certain except death and Taxes”

Quote by Benjamin Franklin

“What is uncertain about taxes”

Budget 2010 – Income Tax

▶ Retrospective Amendments – Uncertain Vs. Certain:

Budget	No. of Direct Tax amendments	No. of Retrospective Amendments	% of Retrospective amendments
2005	109	8	7%
2006	146	38	26%
2007	165	32	19%
2008	94	24	26%
2009	120	38	32%
2010	91	16	18%

Budget 2010 – Income tax

▶ Retrospective Amendments – Uncertain Vs. Certain:

- Royalties or fees for technical services would be taxable in India even if services are rendered outside India - Budget 2010 – effective 1 Jun-1976
- High Courts have the power to condone the delay in filing of appeals/ reference applications - Budget 2010 - 1 June 1981
- Assessing officer has the power to reassess a particular item of income, even though it is not covered by the reasons for reopening the assessment - Finance Act 2009 - effective 1-Apr-1989
- Tax holiday claim not eligible if not made by way of claim in return of income - Finance Act 2009 – effective 1-Apr-2003
- Disallowance of provisions for diminution in the value of assets for MAT computation - Finance Act 2009 – effective 1-Apr-1998

Budget 2010 – Income tax

▶ Retrospective Amendments – Uncertain Vs. Certain:

- Disallowance of deferred tax and dividend distribution tax for MAT computation - Finance Act 2008 – effective 1-Apr-2001
- A simple direction to initiate penalty proceedings in the assessment order is sufficient for initiating a penalty - Finance Act 2008 – effective 1-Apr-1989
- Holding a person as assessee-in-default for 'not deducting and depositing TDS' alongside 'deducting but not depositing TDS' -Finance Act 2008 - effective 1-Jun-2002

Budget 2010 – Income tax

▶ Retrospective Amendments – Uncertain Vs. Certain:

- Interest or Royalties or fees for technical services would be taxable in India even if services are rendered outside India U/S 9(1)(v)/ (vi)/(vii)
- income of a non-resident shall be deemed to accrue or arise in India under clause (v) or clause (vi) or clause (vii) of sub-section (1) of section 9 and shall be included in his total income, whether or not,
 - the non-resident has a residence or place of business or business connection in India; or
 - the non-resident has rendered services in India
- *Ishikawajima-Harima Heavy Industries Ltd., Vs DIT (2007)[288 ITR 408] -*
- Sufficient territorial nexus for services rendered in India as well as utilized in India

Budget 2010 – Service tax

▶ Retrospective Amendments – Uncertain Vs. Certain:

- Renting of immovable property to include:
 - the activity of 'renting' itself (proposed retrospectively from 1 June 2007); and
 - renting of vacant land for undertaking construction of buildings or structures on such land for furtherance of business or commerce during the lease period to be taxable
- Commercial Training or Coaching Service will include training or coaching provided for a consideration, irrespective of profit motive (proposed retrospectively from 1 July 2003)

Budget 2010 – Service tax – Retrospective Amendments

- ▶ **Renting on Immovable Properties U/S 65(105) (zzzz)– 1 June 2007:**
- **Home Solution Retail India Ltd and Others vs. Union of India and others:**
 - *mere renting* of immovable property – not taxable
 - Service tax is Value Added Tax and hence only the “value added”
 - Act of renting of immovable property not provide any value addition
 - In the case of lease, the right of possession is transferred whereas in the case of license, there is a transfer of permissive possession. Such transfer of right cannot be considered as service;
 - The Hon’ble court has not given judgment on validity of Section 65 (105) (zzzz) of the Finance Act but quashed or set aside the operative part of the Notification No. 24/2007-ST dated 22/05/2007 and Circular No. 98/1/2008-ST dated 04/01/2008 which entails levy of service tax on renting of immovable property

Budget 2010 – Service tax – Retrospective Amendments

- ▶ **Renting on Immovable Properties U/S 65(105) (zzzz)– 1 June 2007:**
 - Before - *'to any person, by any other person in relation to renting of immovable property for use in the course or furtherance of business or commerce'*
 - Now *'to any person by any other person by renting of immovable property or any other service in relation to such renting for use in the course or furtherance of business or commerce'*.
 - Recovery would be made as if the amendment was always in force at all material times.
 - Renting of vacant land, where the agreement or contract between the lessor and lessee provides for undertaking construction of buildings or structures on such land for furtherance of business or commerce during the tenure of the lease, shall be subjected to service tax

Budget 2010 – Service tax – Retrospective Amendments

- ▶ **Commercial Training or Coaching U/S 65(105) (zxc)– 1 July 2003:**
 - “commercial training or coaching centre” occurring in sub-clause and in clauses 10 (26), (27) and (90a) shall include any centre or institute, by whatever name called, where training or coaching is imparted for consideration, whether or not such centre or institute is registered as a trust or a society or similar other organization under any law for the time being in force and carrying on its activity with or without profit motive and the expression “commercial training or coaching” shall be construed accordingly
 - *Board of Control for Cricket in India v. CCE - 2007 (7) S.T.R. 384 (Tri.- Mumbai)*
 - *Inst. of chartered fin. analysts of india v. C.C. & C.E., Hyderabad 2009 (14) S.T.R. 220 (Tri. - Bang.)*
 - *CCE, Siliguri v. M/s. Mahabir International - 2008 (9) S.T.R. 162 (Tri.- Kolkata)*
 - *M/s. Great Lakes Institute of Management Ltd. v. CST, Chennai - 2008 (10) S.T.R. 202 (T.)*
 - *CCE, Mangalore v. Employ Me - 2006 (4) S.T.R. 303 (T)*

Budget 2010 – Service tax – Retrospective Amendments

- ▶ **Commercial Training or Coaching U/S 65(105) (ztc)– 1 July 2003:**
 - The exemption under commercial training or coaching service has been restricted to industrial training institutes or industrial training centers affiliated to the National Council of Vocational Training offering specified courses (effective from 27 February 2010)

Budget 2010 – Service tax

▶ Export of Service Rules 2005 – 27 February 2010:

- Export rules simplified by deleting condition of provided from India and used outside India
- Question – Why not retrospective ? Litigation to continue
- Immovable Property/ Performance/ Recipient of Services
- Used outside India - ABB India Ltd. Vs. CST (2008) 17 STT 233 (CESTAT) – question of delivery is decided leniently and treated as export of service for booking sales orders in India for company situated in Singapore
 - Blue Star Vs. CCE (2009) 18 STT 34 (CESTAT SMB)
 - Lenovo (India) Pvt. Ltd. v. CCE (Appeals-II) & Ors. 2009 – TIOL – 911 – CESTAT – DEL
 - Microsoft Corporation (India) Private Ltd. Vs. Commissioner of Service Tax & Anr. (AIT -2009- 418 Delhi HC) – Against Assessee

Budget 2010 – Service tax

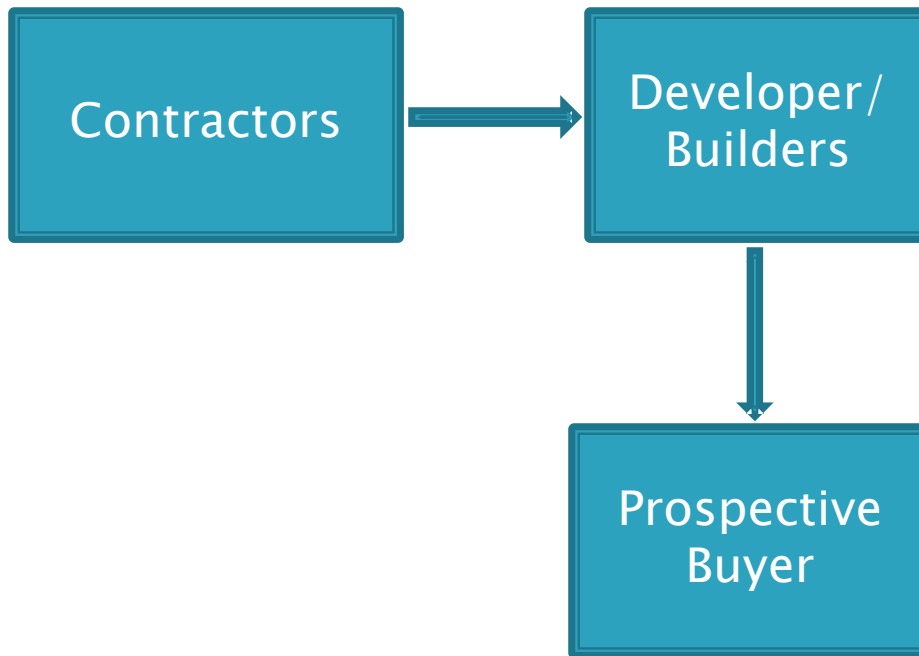
- ▶ **Amendments in Export/ Import of Service Rules effective 27 Feb 2010:**
 - Mandap keeper's service shifted from the 'performance category' to 'location of immovable property category to qualify as exports
 - Following services shifted from the performance category to recipient category to qualify as exports:
 - Chartered accountant service
 - Cost accountant service
 - Company secretary service
 - **Export rules simplified by deleting condition of provided from India and used outside India**

Budget 2010 – Service tax

- ▶ **Construction of Complex services & Commercial or industrial Construction Services U/S 65(105) (zzzh) & (zzq):**
 - Service provided by builder / promoter / developer to the prospective buyer will be taxable unless the entire consideration is paid after the completion of construction on the issuance of completion certificate by the competent authority
 - Explanation added construction of new building intended for sale by builder/ authorized person before or during or after construction – deemed to be service provided by builder to the buyer
 - Construction of flats subsequent to entering into agreement for sale – becomes taxable service

Budget 2010 – Service tax

- ▶ Construction of Complex services (16/6/2005) & Commercial or industrial Construction Services (10/9/2004) U/S 65(105) (zzzh) & (zzq):



- 33% of value of taxable Services – No cenvat credit on Input/IS/CG
- Prior to Works Contract Services -1 June 2006
- Composition – 4.12% (With CC on inputs services/CG) and Normal - 10.3% (With CC on all)

Circular No. 108/02/2009-ST dated January 29, 2009 - any service provided by promoters/builders/developers in connection with the construction of residential complex till the execution of such sale deed would be in the nature of 'self-service' and consequently would not attract service tax

Budget 2010 – Service tax

- ▶ IT Software Services U/S 65(105)(zzzze): Information Technology Software Service used for purposes other than business or commerce has also been included

Packaged Software

Customized Software

Excise Duty/ CVD/Service tax/ VAT/CST

Media Costs & Right to use Vs. Sale of Software – Source Code/ entire property
Imagic Creative Pvt. Ltd (SC) – Service tax & VAT is mutually exclusive

Budget 2010 – Service tax

- ▶ The Service Tax rate remains unchanged at 10.3 %

- ▶ **Levy extended to the following new services:**
 - Promotion of a 'brand' of goods, services, event, business entity or endorsement of a name etc.

 - Services for promoting, marketing, organising/ assisting in organising games of chance including lottery, bingo or lotto

 - Granting the right or permitting commercial use/ exploitation of any event including events related to art, entertainment, business, sports or marriage

 - Assigning of copyrights on cinematographic films and sound recording

Budget 2010 – Service tax

▶ **Levy extended to the following new services:**

- Health checkup by hospitals/medical establishments and health services provided under health insurance schemes offered by insurance companies provided the cost is borne by employer /business entity
- Maintenance of medical records of employees of a business entity
- Services provided by electricity exchanges related to electricity related contract
- Certain additional services provided by a builder to prospective buyers such as preferential location or external or internal development of complexes; however services of providing parking spaces are not taxable

Budget 2010 – Service tax

- ▶ **Existing Taxable Services expanded /altered (effective date to be notified):**
 - Air Passenger Transport Service will now include domestic journeys, and international journeys in any class (earlier, only international travel in business class)
 - Information Technology Software Service used for purposes other than business or commerce has also been included
 - Commercial Training or Coaching Service will include training or coaching provided for a consideration, irrespective of profit motive (proposed retrospectively from 1 July 2003)
 - The exemption under commercial training or coaching service has been restricted to industrial training institutes or industrial training centers affiliated to the National Council of Vocational Training offering specified courses (effective from 27 February 2010)

Budget 2010 – Service tax

- ▶ **Existing Taxable Services expanded /altered (effective date to be notified):**
 - Sponsorship Service shall include services in relation to sports -IPL
 - Construction of Complex service and Commercial or industrial construction service provided by builder / promoter / developer to the prospective buyer will be taxable unless the entire consideration is paid after the completion of construction on the issuance of completion certificate by the competent authority
 - Renting of immovable property to include:
 - the activity of 'renting' itself (proposed retrospectively from 1 June 2007); and
 - renting of vacant land for undertaking construction of buildings or structures on such land for furtherance of business or commerce during the lease period to be taxable

Budget 2010 – Service tax

- ▶ **Existing Taxable Services expanded /altered (effective date to be notified):**
 - Airport Services, Port Services and Other Port Services to include all services provided entirely within the airport/ port premises - Authorization from the airport/ port authority would not be a precondition for taxing these services
 - Auctioneer's Service will exclude auction by government which involves sale of government property only
 - Taxable value of service under Management of Investment under Unit Linked Insurance Product (ULIP) Service shall be the actual amount charged by the insurer for management of funds under ULIP or the maximum fund management charges fixed by the Insurance Regulatory & Development Authority, whichever is higher

Budget 2010 – Service tax

▶ Specific Exemption granted from 27 Feb 2010:

- Pre-packaged IT software, with the license for right to use provided applicable excise and customs duty is paid
- Air passenger transport service – statutory taxes charged by the foreign government shown separately are excluded
- Erection, commissioning or installation of mechanized food grain handling systems, cold storages and machinery/equipment for initial setting up or substantial expansion of units for processing of agricultural, apiary, horticultural, dairy, poultry, aquatic, marine or meat products
- Transportation of food grains and pulses by road

Budget 2010 – Service tax

▶ Specific Exemption granted from 27 Feb 2010:

- Indian news agencies under the category of Online Information and Database Retrieval Services
- Technical testing and analysis service' and 'technical inspection and certification service' provided by Central and State seed testing laboratories and Central and State seed certification agencies
- Transmission of electricity
- Transport of specified goods by rail, for instance defense/ military equipments, railway equipments/materials (effective from 1 April 2010)
- Transport of food grains and pulses by a goods transport agency

Budget 2010 – Service tax

▶ Withdrawal of Specific Exemption:

- The exemption granted to Railways for transport of goods in container (effective from 1 April 2010)
- Group Personal Accident Scheme provided by the Government of Rajasthan to its employees (effective from 27 February 2010)
- Service provided for construction and operation of installations, structures and vessels for prospecting or extraction or production of mineral oils and natural gas activities performed in the Exclusive Economic Zone and the Continental Shelf of India and supply of any goods connected with these activities (effective from 27 February 2010).

Budget 2010 – Service tax

▶ Other Amendments:

- **Amendments to refund procedure:** retrospective – the rigid requirement of evidencing one to one nexus between output and input services has been removed and refund shall not be linked to CENVAT taken only in a particular period
- **Other changes:** the construction and operation of installations, structures and vessels for the purposes of prospecting or extraction or production of mineral oils and natural gas in the Exclusive Economic Zone and the Continental Shelf of India and the supply of any goods connected with these activities would be taxable
- **No penalty if duty and interest paid before the issue of show cause notice in cases other than fraudulent evasion**

Budget 2010 – Excise

- The standard rate of Excise duty (BED) has been increased from 8% to 10% to align with the Service tax rate as a way forward for GST
- Specific rates of excise duty have been increased on cements manufactured by the mini cement plants and other plants
- BED on the basis of retail sale price has been introduced on the parts, components and assemblies of automobiles
- Excise duty rates on tobacco products such as cigarettes, cigars, cheroots, cigarillos, gutkhas, zarda, chewing tobacco, pipes and other non-smoking tobacco products have been increased
- Compounded levy has been introduced on chewing tobacco and branded, unmanufactured tobacco in pouches (with effect from 8 March 2010)
- **A Clean Energy Cess has been proposed on coal, lignite and peat**

Budget 2010 – Excise

▶ Exemptions/concessions on excise duty:

- Self loading and self unloading trailers/ semi-trailers for agricultural purposes exempted from BED
- Goods supplied to mega power projects from which power supply has been tied up through tariff based competitive bidding or awarded through tariff based competitive bidding exempted from Excise duty
- List of raw materials used for manufacture of rotor blades for wind operated electricity generators have been expanded
- Specified goods required for initial setting up of solar power generation project or facility have been exempted
- Exemption on specified equipments for preservation, processing, storage or transport of agricultural produce has been extended to apiary, horticultural, poultry, dairy, aquatic produce and meat
- Dementholised oil, deterpenated mentha oil, spearmint/ mentha piperita oils and all intermediates and by-products of menthol exempted from BED

Budget 2010 – Excise

▶ Legislative changes:

- The following process would be considered **as 'manufacture'** for the purposes of levy of excise duty
 - Cutting /sawing /sizing /polishing/ any other process used to convert stone blocks into slabs /tiles
 - Drawing or redrawing of aluminium tubes.

▶ Others Amendments:

- Value representing the transfer of right to use packaged software has been exempted without the condition of commercial exploitation
- Section 11A (2B) is proposed to be amended to clarify that no penalty would be imposed where duty along with interest has been paid before the issuance of a demand notice by Revenue
- Scope of the Settlement Commission is proposed to be increased to include cases of clandestine removal of goods from the factory

Budget 2010 – Excise

- ▶ **Changes in the Central Excise Rules, 1944 (CER) & CENVAT Credit Rules, 2004 (CCR):**
 - Full CENVAT credit on capital goods will be allowed in the year of installation to the small sector enterprises with effect from 1 April 2010 & permitted to make quarterly payment of excise duty instead of monthly payment
 - The CER and the CCR have been retrospectively amended to provide for proportionate availment of Cenvat credit with respect to manufacture of dutiable and exempt goods
 - Rule 3(5) of the CCR has been amended to provide accelerated depreciation in the case of computers and computer peripherals cleared after use from the factory

Budget 2010 – Excise

- ▶ **Changes in the Central Excise Rules, 1944 (CER) & CENVAT Credit Rules, 2004 (CCR):**
 - Rule 4(5) of the CCR has been amended to permit sending of jigs, fixtures, moulds and dies to a vendor for production of goods, according to the specifications of the principal manufacturer without reversal of credit
 - CCR has been amended to allow Cenvat credit of duty paid on inputs in manufacture of goods supplied to the eligible power projects
 - Rule 15 of the CCR is being amended to harmonise the penal provisions for incorrect availment of Cenvat credit of duty paid on inputs or capital goods.

Budget 2010 – Custom Duty

- **BCD remains unchanged at 10% *advalorem***
- **Median rate of CVD has been increased from 8% to 10%**
- BCD at the rate of 16% has been imposed on electrical energy supplied from a Special Economic Zone to the Domestic Tariff Area and non-processing areas of SEZ with retrospective effect from 26 June 2009

- ▶ **Project Imports**
 - Concessional duty at 5% BCD has been extended to the following Project imports
 - Cold storage, cold room (including farm pre-coolers) or industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic and marine produce and meat
 - Projects for installation of Mechanised Handling Systems & Pallet Racking Systems, in mandis or warehouses for food grains and sugar
 - Mono Rail Projects for urban public transport
 - Setting up of Digital Head End.

Budget 2010 – Custom Duty

▶ Duty exemptions/concessions:

- All medical equipment and parts for manufacture of such equipments will attract 5% BCD, 4% CVD and nil Special Additional Duty (SAD) (earlier only selected equipments were eligible)
- All pre-packaged goods intended for retail sale, mobile phones, watches, ready made garments, carbon black feedstock and waste paper have been exempted from SAD
- Truck refrigeration units have been exempted from BCD
- Bio-polymer/bio-plastics used for manufacture of biodegradable agro mulching films, nursery plantation & flower pots have been exempted from BCD
- Tunnel boring machine for hydro-electric power projects has been exempted from BCD & Ground source heat pump (geo-thermal energy) has been exempted from BCD and SAD

Budget 2010 – Custom Duty

▶ Duty exemptions/concessions:

- Batteries pack, battery chargers, electric motors and motor controllers imported for manufacture of electrical vehicles have been exempted from BCD and SAD. CVD on these items has been reduced from 8% to 4%
- **Parts for the manufacture of battery chargers and hands-free headphones (accessories of mobile phones) have been exempted from BCD, CVD and SAD**
- BCD on machinery items, instruments, appliances required for initial setting up of solar power generation projects or facilities has been reduced to 5% and CVD has been exempted
- Exemption on specified machinery for tea, coffee and rubber plantation have been extended up to 31 March 2011
- Gold ore and concentrate have been exempted from BCD and SAD. However, such imports will suffer CVD at the rate of INR 140 per 10 gram of gold content

Budget 2010 – Custom Duty

▶ **Duty exemptions/concessions:**

- Cobalt-chrome alloys, special grade stainless steel, titanium alloy and high density polyethylene for the manufacture of ortho paedic implants has been exempted from BCD
- Value of intellectual property of movies, music and gaming software (meant for use with gaming consoles) has been exempted. Customs duty will be levied only on the cost of the medium (film, CD, DVD etc) and the freight and insurance
- Promotional material like trailers, making of films etc imported free of cost in the form of electronic promotion kits (EPK)/Betacams have been exempted from the customs duty
- **Value limit for duty free import of samples has been increased from INR 100,000 to 300,000**

Budget 2010 – Custom Duty

▶ CVD Exemption withdrawn on:

- Spares parts for maintenance of medical equipment and Import of hospital equipment

▶ Other Changes:

- Machinery imported for road construction sold prior to 5 years will be charged customs duties on depreciated value at the rate of duty applicable at the time of import

- Clarified that road construction machines imported under the exemption can be relocated or re-deployed to another eligible road construction project

- Value representing the transfer of right to use packaged software has been exempted without the condition of commercial exploitation. The effective date for these changes is 27 February 2010.

▶ Legislative change

- The scope of the Settlement Commission is proposed to be increased to include cases of clandestine import, where no entry has been made under the Customs Act

Budget 2010 – Central Sales Tax

- Present CST rate @ 2% against Form C will continue till GST implemented
- Central Sales Tax Act has been amended to rationalize the appeal proceedings relating to inter-state sale and stock transfer disputes
- Besides submitting Form F, additional responsibility cast upon the dealer to prove that the inter-State movement of goods was not by way of sale

GOODS AND SERVICES TAX (GST)

Brief Overview

Goods and Services Tax

- Destination based Tax
- Comprehensive Value added Tax on Goods and Services
- Collected on each stage of Sale or Purchase in the Supply Chain
- Seamless ITC throughout the supply chain
- No differentiation between Goods and Services as GST is levied at each stage in the supply chain
- At all stages of production and distribution taxes are a pass through
- GST is borne by the final consumer

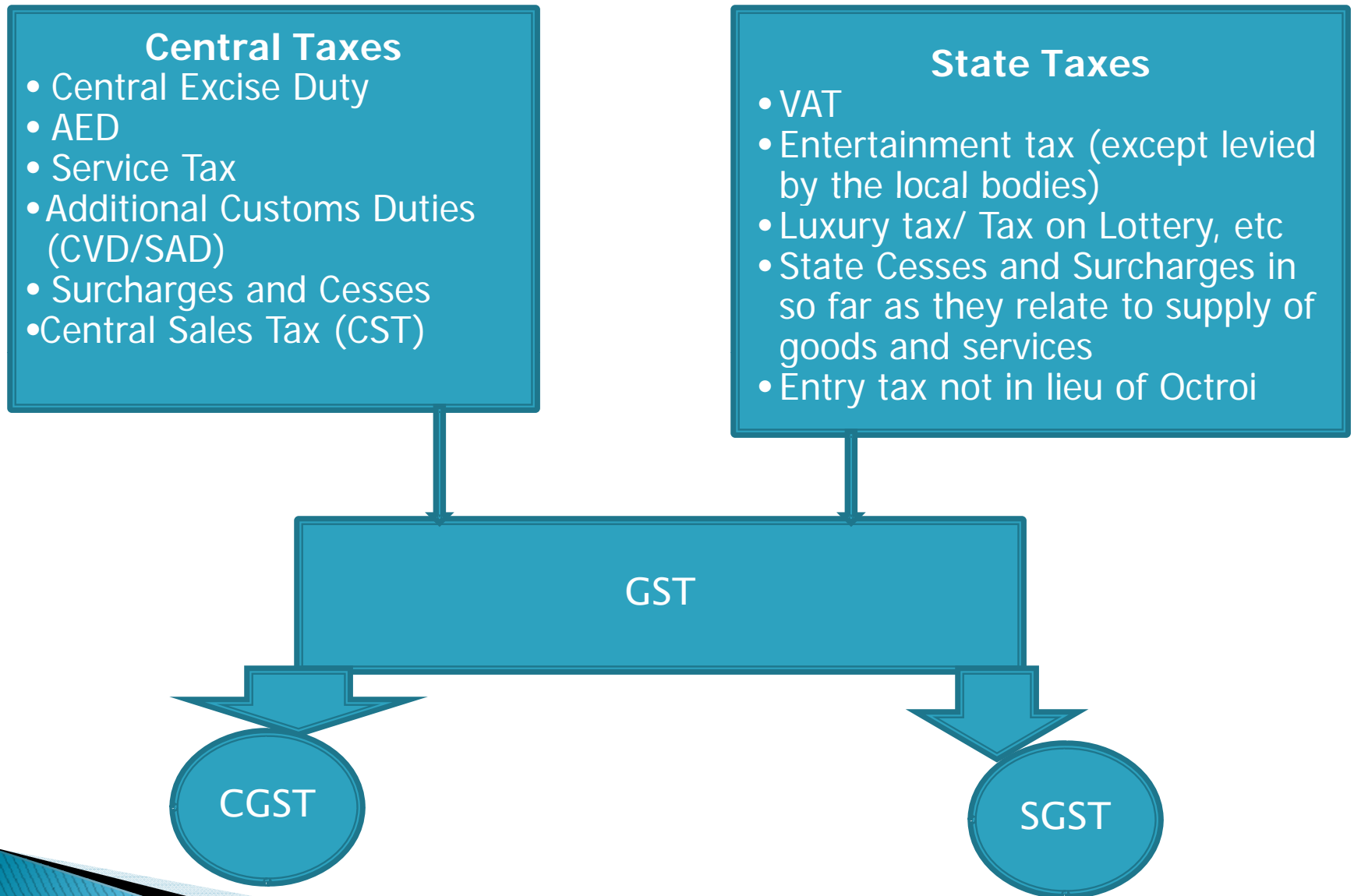
Justification of GST

- Lack of uniformity in tax rates
- Lack of uniformity in classifications
- Different threshold exemption limits
- Different taxable events for different taxes
 - Excise – Manufacture
 - VAT/CST – Sale
 - Service tax – Rendering of services
- Lack of Uniformity in Forms & Procedure, Appeals, Tax payments, etc.
- Different base for levy of taxes
- Cascading effects on costs – Cenvat, CST, etc.

Objectives of GST

- Reduced transaction cost in the hands of the tax payers
- Increased tax collections due to wider tax base and better compliance
- Improvement in international cost competitiveness of indigenous goods and services
- Efficiency enhancement in manufacture and distribution due to economies of scale
- GST encourages an unbiased tax structure that is neutral to business processes, business models, organization structure, product substitutes and geographical locations
- Complication in classification of Goods/ Services - Double taxation – Software, Works Contract, leasing/ hiring of equipment
- Subsuming of several taxes in the GST

Taxes and Duties subsumed under GST



Present Power of levy of Taxes and Duties

Goods

Central Govt

- Direct taxes
- Import – BCD, CVD, SAD
- Manufacturing – CE/ AED
- Surcharges and Cesses
- Central Sales Tax (CST)

State Govt

- VAT
- Entry Tax/Octroi
- CST

Services

Central Govt

- Service - Service tax

State Govt

- No Power except luxuries tax

Taxes & Duties proposed to be outside the purview of GST

▶ **Central Taxes:**

- Excise duty on Tobacco products (Addition to GST)

▶ **State Taxes:**

- Purchase Tax
- Entertainment Tax (levied by LB)
- Entry tax in lieu of Octroi
- Electricity duty

Goods proposed to be outside the purview of GST

- **Tobacco products – Attracts CE in addition to GST**
- **Alcoholic beverages – State VAT/ sales tax continue**
- **Petroleum products – Crude, motor spirits including ATF,HSD**
 - Sales tax continue with prevailing floor rates
 - Centre also to continue its levies
- **Natural Gas – Still no clarity**

Salient Features of Proposed Dual GST Model – India

- Central GST (CGST) and the State GST (SGST) levied on a comprehensive base comprising both goods and services - Dual GST is a political necessity
- Multiple Statues - **one for CGST and SGST statute for every State**
- Uniformity in the basic features of law –
 - Chargeability
 - Definition of taxable event
 - Taxable person
 - Measure of levy including valuation provisions,
 - Basis of classification etc. HSN
- Dual administration with concurrent jurisdiction by Centre and States
- Uniform collection procedures for CGST & SGST
- Common Return for CGST & SGST

Salient Features of Proposed GST Model - India

- Threshold exemption limits –
 - For CGST – Rs. 1.5 Cr for Goods and Rs. 10 Lakh services
 - For SGST - Service tax & VAT limits - Rs. 10 Lakh
- Proposed Compounding scheme 0.5% for Turnover < Rs. 50 Lakh
- PAN based GST number – 13-15 digit number
- Industrial Incentives to be refunded once cash is available under GST system
- Special Industrial Area Schemes to continue up to legitimate expiry, however no new schemes approved
- Good balance of fiscal autonomy to Centre & State – Need Harmonization
- Refund in time bound manner
- Provision for advance ruling, dispute resolution

Key Features- summarized

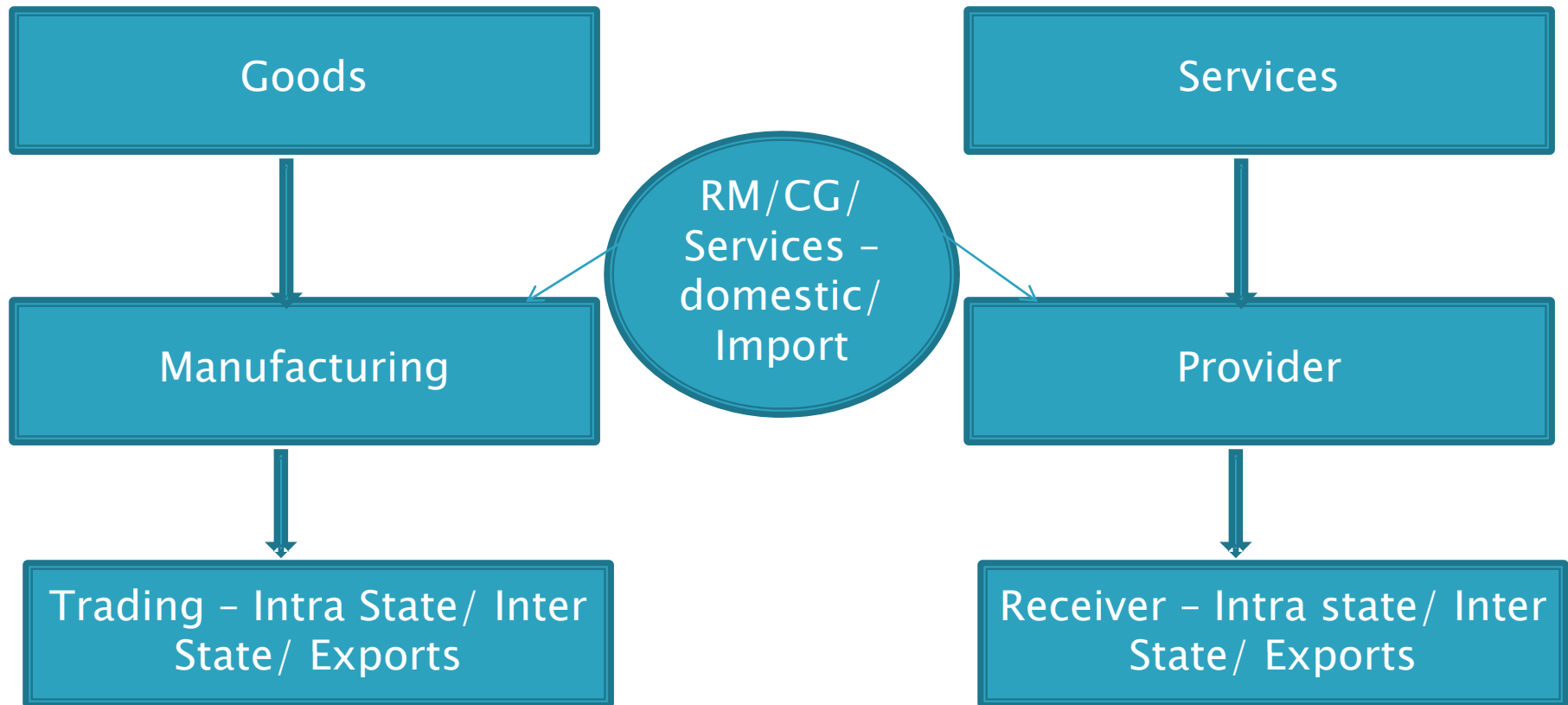
Dual - Goods and Services Tax		
<i>Transactions within the state</i>		<i>Interstate Transactions</i>
State GST(SGST)	Central GST(CGST)	Interstate Transactions
Levied by State	Levied By Centre	Levied by Centre
Implemented through multiple Statutes of respective states	Implemented single statue	Implemented through single statutes
Paid to the account of of State Government Government	Paid to the account Central	Paid to account of Central Government
		$IGST = SGST + CGST$
		No Clarity for Stock Transfers

Proposed GST Rates - India

- For Goods:
 - Lower Rate – Goods of basic importance & nature
 - Standard Rate – General Goods
 - Special Rate – Precious metals, stones, etc.
 - Exempt list – discussions carrying on basic necessities items
 - Zero rate – Exports & SEZ (Processing Zones)
- For Services: Single rate (CGST & SGST)
- GST Rates: Expected

GST	13th FC	Deptt of Revenue	Budget 2010
CGST	5%	8%	10%
SGST	7%	8%	10%
TTL	12%	16%	20%

Supply –Chain process



Transactions within a state –under GST

- ▶ The Manufacture and Sale/Supply of Goods & Services carried within a state, then both CGST and SGST leviable on common base
- ▶ Pay CGST and SGST in separate revenue accounts
- ▶ The Input Tax Credit (ITC) is also allowed to be taken separately for CGST and SGST.
- ▶ The credit of CGST to be utilized to pay CGST only and credit of SGST taken is to be utilized to pay SGST only. Cross adjustment of tax credit between CGST and SGST will not be allowed.

Transactions within a state –under GST -Example

Cenvat/VAT viz-a-viz GST								
S/Chain	Particulars	Value	Present	Particulars	Value	Proposed		
			Central/State			CGST	SGST	IGST
Manufa cturing	Raw Materials	100	10	Raw Materials	100	10	10	0
	O/H & Value Additio	100		O/H & Value Additio	100			
	Assessable Value	200		Assessable Value	200			
	Excise Duty@10.3%	21	21	CGST & SGST@10%	40	20	20	0
	Sub TTL	221		Sub TTL	240			
Trading	Value Addition@ 30	66		Value Addition@ 30%	60			
	<u>Base Value for VAT</u>	287		<u>Base Value - GST</u>	<u>260</u>			
	<u>VAT@ 12.5%</u>	36	36	<u>CGST & SGST @ 10%</u>	<u>52</u>	26	26	0
	Consumer Price	323		Consumer Price	312			
Taxes	Centre Taxes		21	Centre Taxes		26		0
	State Taxes		36	State Taxes			26	0
	TTL Taxes		56	TTL Taxes		26	26	0
	Cascading		3	Cascading		0	0	0

Assumed CGST & SGST rate @ 10%

INTER-STATE GOODS AND SERVICES TAX

Interstate Transaction of Goods and Services

- IGST would be $CGST + SGST$
- Tax Payment by exporting dealer to the account of Centre as IGST after adjusting IGST, SGST & CGST credits
- Credit of IGST paid allowed to the buying dealer
- Exporting State to transfer SGST used in payment of IGST to the account of Centre
- This IGST paid by buying dealer can be utilized against payment of IGST, CGST or SGST on his Turnover

Interstate Transaction of Goods and Services – Example 1

IGST - Model I					
Supply Chain	Particulars	Value	Proposed		
			CGST	SGST	IGST
Manufacturing	Raw Materials	100	6.0	6.0	8.0
	O/H & Value Additions	100			
	Assessable Value	200			
Input Credit	A	0	6.0	6.0	8.0
Sale within State @40%	Sub Total	80			
	CGST & SGST		8.0	8.0	0.0
Inter-State Sale @20%	Sub Total	40			
	CGST & SGST		0.0	0.0	8.0
Stock Transfer @10%	Sub Total	20			
	CGST & SGST		0.0	0.0	4.0
Exports @20%	Sub Total	40			
	CGST & SGST		0.0	0.0	0.0
sale to Govt Org -Inter-State @10%	Sub Total	20			
	CGST & SGST		0.0	0.0	4.0
Output Liability	B		8.0	8.0	16.0
Balance Credit (A-B)			0.0	0.0	0.0
Liability to be paid			2.0	2.0	8.0

Assumed CGST & SGST rate @ 10%
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Interstate Transaction of Goods and Services –Example 2

I GST - Model II					
Supply Chain	Particulars	Value	Proposed		
			CGST	SGST	IGST
Manufacturing	Raw Materials				
	Intra-State	0	0.0	0.0	0.0
	Inter -State	100	0.0	0.0	20.0
	O/H & Value Additions	100			
	Assessable Value	200			
Input Credit	A	0	0.0	0.0	20.0
Sale within State @40%	Sub Total	80			
	CGST & SGST		8.0	8.0	0.0
Inter-State Sale @20%	Sub Total	40			
	CGST & SGST		0.0	0.0	8.0
Stock Transfer @10%	Sub Total	20			
	CGST & SGST		0.0	0.0	4.0
Exports @20%	Sub Total	40			
	CGST & SGST		0.0	0.0	0.0
sale to Govt Org -Inter-State @10%	Sub Total	20			
	CGST & SGST		0.0	0.0	4.0
Output liability	B	0	8.0	8.0	16.0
Balance Credit (A-B)			0.0	0.0	4.0
Liability to be paid			8.0	4.0	0.0

Assumed CGST & SGST rate @ 10%
CA Bimal Jain

Interstate Transaction of Goods and Services

- Centre to transfer IGST used by dealer against payment of SGST to Importing State
- Settlement of IGST Account between receiving and exporting states by clearing agency
- Strong incentive to buyers to ensure levy and payment of destination based IGST so as to avail credit
- Settlement of IGST Account between receiving and exporting states by central agency who will act as clearing house mechanism
- No clarity as yet on stock transfers but would be charged on destination based principles

Interstate Transaction of Goods and Services

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

Tax Exemptions in GST Scenario

- Zero Rating of Exports & SEZ (Processing Zones)
- AREA BASED - To be discontinued after current eligibility period - both for centre and States
- INDUSTRIAL INCENTIVE - Converted into cash refund schemes
- PRODUCT BASED: Minimum, If essential, to be converted in to refund route

THANK YOU.....

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