



1. GST

❖ GST - Goods and service act

- Single indirect tax on all goods and services.
- An indirect tax for whole country. It creates a unified market. Now there is 'one nation one tax'.
- It's a single tax on **Supply** of goods and services in the entire life cycle of product i.e manufacturing to consumer.
- It's calculated only on 'value added' at any stage of goods and services.
- It's a destination based taxation system (tax is levied at selling point).
- Example Parle-G made in Mumbai, sold in Indore (Tax at Indore)
- Established by 101st constitutional amendment act.



❖ Taxes Incorporated :

➤ State level :

- a. VAT, Sales Tax, Entertainment tax
- b. Octroi and entry tax
- c. Taxes on lottery and gambling
- d. Advertisement tax
- e. Central sales tax

➤ Central level :

- a. Central excise duty
- b. Service Tax
- c. Additional custom duty
- d. Special additional custom duty
- e. Additional excise duty

❖ GST Rates Slab

- In India, the four major GST slabs cover nearly 500 services and over 1300 products. Rates of 5%, 12%, 18%, and 28% are among them.
 - The GST Council revises the items under each slab rate on a regular basis to reflect industry demands and market trends.
 - The revised structure ensures that essential items are taxed at a lower rate, while luxury goods and services are taxed at a higher rate.
- **GST Rate Slab Exempted (No Tax):** This category includes 7% of all goods and services. (Ex. Fresh fruits and vegetables, milk, buttermilk, curd, natural honey, flour, besan, bread, all kinds of salt, jaggery, hulled cereal grains, fresh meat, fish, chicken, eggs, bindi, sindoor, kajal, bangles,



drawing, and coloring books, stamps, judicial papers, printed books, newspapers, jute and handloom, hotels and lodges with tariffs below INR 1000, and so on).

- **5% GST Rate Slab:** This category includes 14% of all goods and services. Some examples include clothing under INR 1000 and footwear under INR 500, packaged food items, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizza bread, rusk, sabudana, cashew nut, cashew nut in shell, raisin, ice, fish file, kerosene, coal, medicine, agarbatti (incense sticks), postage or revenue stamps, fertilizers, etc.



0%
Milk, eggs, cereal



5%
Sugar, spices, tea



12%
Computers, processed food



18%
School bags



28%
Air Conditioners and luxury items

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- **12% GST Slab Rate:** Edibles such as frozen meat products, butter, cheese, ghee, packaged dry fruits, animal fat, sausages, fruit juices, namkeen, ketchup & sauces, ayurvedic medicines, all diagnostic kits and reagents, cellphones, spoons, forks, tooth powder, umbrella, sewing machine, spectacles, indoor games such as playing cards, chess board, carrom board, ludo, apparels above INR 1000, This category includes 17% of all goods and services.

- **18% GST Slab Rate:** Maximum items are under it. This category includes 43% of all goods and services. Pasta, biscuits, cornflakes, pastries and cakes, preserved vegetables, jams, soups, ice cream, mayonnaise, mixed condiments and seasonings, mineral water, more than INR 500 footwear, camera, speakers, monitors, printers, electrical transformer, optical fiber, tissues, sanitary napkins, notebooks, steel products, headgear and its parts, aluminum foil, bamboo furniture, AC restaurants that serve liquor, restaurants in five-star and luxury hotels, telecom services.

- **28% GST Rate Slab:** This category includes 19% of all goods and services. The remaining edibles, such as chewing gum, bidi, molasses, chocolate that does not contain cocoa, waffles and wafers coated in chocolate, pan masala, aerated water, personal care items such as deodorants, shaving creams, aftershave, hair shampoo, dye, sunscreen, paint, water heater, dishwasher, weighing machine, washing machine, vacuum cleaner, automobiles, motorcycles, 5-star hotel stays, race club betting, private lottery and movie tickets above INR.100.

Types :

Central GST – levied and collected by centre

State GST - levied and collected by State

Integrated GST – levied by centre on interstate transactions of goods and services and on imports.

UTGST– Union Territory Goods and Services Tax. For Union territories.



❖ The Goods and Services Tax (Compensation to States) Act

An Act to provide for compensation to the States for the loss of revenue arising on account of implementation of the goods and services tax in pursuance of the provisions of the Constitution. It was for 5 years.

- **Destination based tax :** GST is essentially a destination based consumption tax. i.e., the goods/services will be taxed at the place where they are consumed and not at the origin. So, the state where they are consumed will have the right to collect GST.

example:

if a car is manufactured in Mumbai however is bought by a customer in Hyderabad, SGST might accrue to Telangana



❖ GST COUNCIL Composition

Union representatives (2)	States' representatives (total 31)
<ul style="list-style-type: none"> • Finance Minister as the Chairman • Union Minister of State for finance or revenue. 	<ul style="list-style-type: none"> • Each state government (including UT with legislature : J&K, Delhi & Puducherry) can nominate one minister to GST council- it may be their minister of finance or Dy. CM or any other minister as per their wish. • One of them will be selected as the Vice-Chairman of GST council.
Voting power – 1/3 rd	Voting power – 2/3 rd
<p>NOTE – It takes all decision related to GST taxation.</p> <ul style="list-style-type: none"> • If all members do not unanimously agree over a proposal then it will be put for voting. • However in such case, minimum 3/4 votes required to pass the proposal. 	
<p>QUORUM– Council Meetings to proceed only with quorum of 50% of total membership.</p>	

❖ GSTN (GST network) :

- A non for profit company under companies act.
- It provides IT support to GST.
- It facilitates registration, tax filling and taxes settlements.

➤ Tax invoice

- All registered taxpayers are required to issue a tax invoice to their customers. A tax invoice primarily contains details of goods sold, quantity, taxes charged, and taxable value. It is primary evidence based on which a customer can claim an input tax credit.
- Issuance of tax invoices is essential to evidence the supply of goods or services. A tax invoice should be





issued at the time of supply by all registered GST taxpayers. From a buyer's point of view, receipt of tax invoice for goods purchased or services availed is essential to claim the input tax credit. Further, a tax invoice is also essential for various financial reporting purposes.

➤ **Input tax credit :**

- It is brought to avoid 'tax on tax'.
- Firms at the time of paying taxes on input, can reduce the tax that is already paid.
- Tax invoices are the evidences for taxes already paid on the product

Ex.

Pinki bought Plastic.(200rs tax was paid on it) to manufacture Chairs.

Tax on chairs is 700rs. which she has to pay. As 200 was already paid on raw material i.e. plastic, so she can demand 200rs. back as Input Tax Credit.

(Cascading - cost of steel- 1000. Tax on it- 200. Net cost now- 1200.

Chair made from the steel. Manufacturing cost- 300. New cost now- 1200+ 300= 1500.

New taxable amount- 1500.

In this 1500, 200 is the previous tax, which is again being taxed. Thus tax on tax.)

➤ **GST is a multistage tax.**

- From material supplier to producer, retailer it is levied at value addition done at each stage.

Provisions Of 101st Constitutional Amendment Act, 2016	
246-A	<ul style="list-style-type: none"> • States are given power to tax goods and services. (previously, they couldn't tax services.) • But only Union will have the power to tax inter-state supply of goods and services in the form of "IGST"
269-A	<ul style="list-style-type: none"> • IGST (on inter-state trade) will be distributed between Union and states, as per the formula by the GST Council
270	<ul style="list-style-type: none"> • CGST (New indirect tax of the union, which has replaced excise duty and service tax). CGST will be distributed between union and state govt. as per the formula set by finance commission.
279A	<ul style="list-style-type: none"> • President of India to appoint a constitutional body, "GST Council" headed by Finance Minister.
366	<ul style="list-style-type: none"> • Alcoholic liquor for human consumption is kept out of GST. (i.e. State govt continue to levy State Excise on its production and State VAT on its sale.)

NOTE – Alcohol for human consumption, Crude oil, Petrol (Motor Spirit), Diesel, Aviation Turbine Fuel and Natural Gas Doesn't comes under GST.



➤ **GST COMPOSITION SCHEME**

- It aims to rid the small taxpayers of tedious GST formalities and pay GST at a fixed rate of annual turnover.
- This tax has to be paid on quarterly basis.
- However, upon opting for this scheme, he cannot issue taxable invoice under GST law and can neither collect GST from his customers nor can claim Input Tax credit on his purchases.
- Monthly compliance is very tedious for small entrepreneurs / small merchants so they may opt for GST Composition scheme wherein instead of above (5-12-18-28%) rates they'll have to collect only flatrate GST of 1% on goods, 5% on restaurants, 6% on all services.
- Disadvantage: He will not get Input Tax Credit.
- Advantage: He'll not have to deposit tax/forms on monthly basis to GSTN web-portal. He'll have to do it on Quarterly basis (3-3-3-3 months)

➤ **E-Way bill System.**

- An electronic bill generated by GSTN is required in moving the goods of value exceeding Rs. 50,000 from one state to another.
- It will eliminate the need for separate transit pass in each state, thus, enabling hassle-free movement.
- Related: GST council announced the E-invoice (bill generation) from January-2020 on pilot basis, then E-way bill will not have to be generated separately.

This will provide relief to businessmen, will improve the tax-surveillance and fight against false ITC-credit claims through fake invoices. E-invoice shall be compulsory from 1 April 2020.

➤ **Reverse charge mechanism**

- Normally, a seller must collect the GST tax from buyer & deposit to the govt.
- However, in selected cases when seller is not registered with GST number, while buyer is registered with GST number, then buyer will have to deposit the tax to government.

National Anti-Profiteering Authority (NAPA)

- GST provides input tax credit for most of the indirect taxes of the Union and State Government. So, an entrepreneur's cost of production should reduce, then he should also reduce the prices for consumers, yet many companies had not reduced their prices e.g. Domino's Pizza, Nestle, Hindustan Unilever toothpaste & detergents etc.
- To teach them a lesson, To curb their profiteering, Union govt has set up NAA under Central Goods and Services Tax Act, 2017.
- NAA examines and check such profiteering activities
- It can take punitive actions like penalty and cancellation of registration

Authority for Advance Ruling (AAR)

- CGST Act, 2017 provides for a statutory body called Authority for Advance Ruling (AAR), where entrepreneur can seek advance clarifications about taxation. Ex. What would be rate of taxation.
- An entrepreneur would like to have clarification from Tax authorities before starting the production, lest he gets tangled in raids and litigations afterwards.
- Higher appeal- Appellate Authority for Advance Ruling (AAAR)
- **Benefits -**
 - Reduces litigation & harassment afterwards
 - Ease of doing business
 - Attract Foreign Direct Investment (FDI).



➤ **Reforms Brought About by GST**

- Creation of common national market: By amalgamating a large number of Central and State taxes into a single tax which is common for whole country.
- Mitigation of cascading effect: GST mitigated ill effects of cascading or double taxation in a major way and paved the way for a common national market.

❖ **Benefits of GST :**

- Single indirect tax.
- Easy to administer as its a single tax with robust IT system.
- Better tax compliance : transparency, efficiency in taxation
- Higher revenue efficiency
- Decreased cost of collection

➤ **To consumer :**

- Reduced tax burden
- More tax on luxury goods and less on basic goods
- No cascading (tax on tax) so cheaper goods

➤ **To business class :**

- a. Increased ease of doing business.
- b. Unified national market
- c. Removal of interstate barriers
- d. Reduced Paper work
- e. Seamless flow of goods

➤ **Zero Rated Exports**

- If a final product is meant to be exported outside India (or sent to Special Economic Zone/SEZ in India), it will be subjected to 0% IGST.
- It reduces cost of production to exporters. This will improve price competitiveness of Indian products in foreign markets.
- Australia and other GST countries also follow similar “zero rated export” regime.

❖ **GST: CHALLENGES**

- High Rates and Multiple Slabs
- If Union and States abolished existing indirect taxes (Excise, Custom and VAT), then their revenue income will obviously decline.
- Therefore, GST rates needed to be high enough to sustain any fall in revenue collection. Such ‘ideal’ rate of GST is called Revenue Neutral Rate (RNR). In, Singapore GST only 7%, Australia GST only 10%.
- Whereas India has four slabs- 5-12-18-28% Many daily necessities are in 18% GST slab.
- Indirect taxes are regressive in nature & harm the purchasing power of poor.
- Petrol, diesel, electricity are not subjected to GST regime So, businessman cannot claim GST-input credit on them. Even when crude oil prices are declines in the international market, the Union and State governments do not reduces their Union excise and state VAT on the petroleum fuels, which further aggravates the inflation and business cost.
- Frequent changes in GST rates makes it difficult for the companies to plan long term business strategies. E.g. In 2019-Sept, GST on Caffeinated beverages hiked from 18% → 28%. This will decrease the sales. If any soft-drinks company had invested in expansion of plant-production capacity, it would suffer.



- States are complaining that GST compensation cess amount is not released in a timely fashion by the Union Government. This affects State funded welfare schemes.
- Inconvenience to Small Traders
- In GSTN web-portal, the traders have to deposit the GST on monthly basis, upload various forms & invoice details, generate e-way bills. While government has tried to keep these online forms/ mechanisms as simple as possible, but since many small traders are not proficient with computer, excel / accounting software, internet, digital payments – GST compliance creates inconvenience to them, and forces them to hire full time accountants, raising their cost of operations.
- GSTN server crashes often so traders can't upload things on time, and then they've to pay penalty for crossing monthly deadlines.

➤ **Counter arguments:**

- Even in the erstwhile VAT system businessmen had to upload similar things so, it's not entirely new or alien system imposed upon them. Besides, they can opt for the GST composition scheme where they have to upload things on quarterly basis instead of monthly basis.
- GSTN portal also provides free accounting software to small traders so they don't have to spend rupee in buying proprietary software like Tally.
- GST Council has reduced the late-fees, GSTN portal has been given technical upgrades to reduce the glitches/outages.

➤ **Conclusion:**

GST is a positive step towards shifting Indian economy from the informal to formal one. With time and experience we will overcome the impending challenges.