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E - Book

A Comprehensive Guide Book on GST India
by **ClearTax**

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GST in INDIA - A Comprehensive Guide Book by **ClearTax**

GST is a huge reform for indirect taxation in India, the likes of which the country has not seen post Independence. GST will simplify indirect taxation, reduce complexities, and remove the cascading effect. Experts believe that it will have **a huge impact on businesses both big and small, and change the way the economy functions.**

This ebook will help you understand the basics of GST, important terminologies and concepts, and how this might affect your business in the long run. Students of finance, business professionals, entrepreneurs, tax practitioners and accountants will find this e-book comprehensive and helpful in understanding GST.

Content

1.GST VS CURRENT INDIRECT TAX STRUCTURE

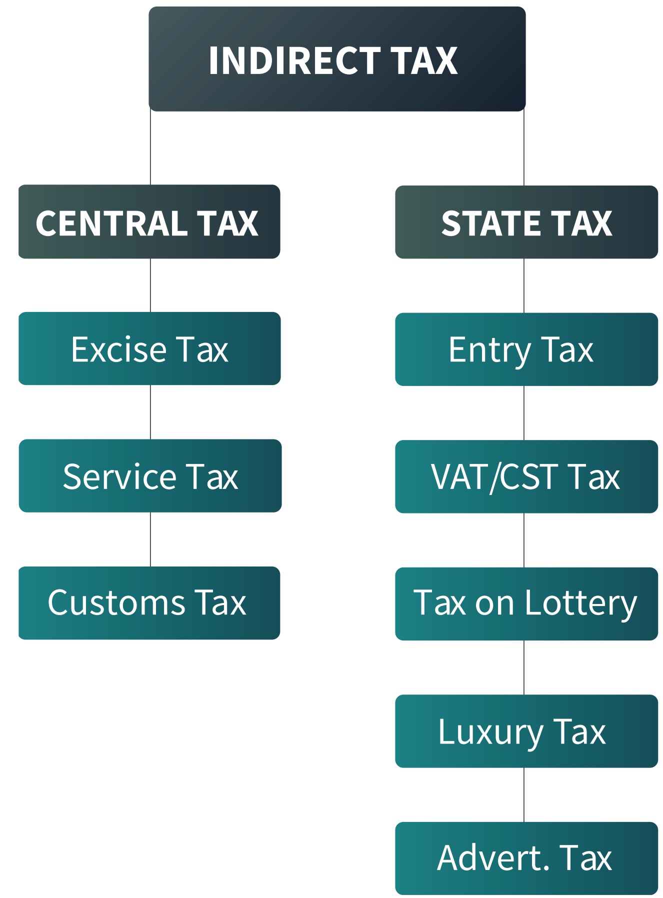
To understand GST, it is important that we understand the current indirect taxation system. **Direct taxes such as income tax are borne by the person liable to pay the tax; this means that the tax burden cannot be shifted to anyone else.** The liability of an indirect taxes on the other hand, can be shifted to another person. So, the person liable to pay the tax can collect the tax from someone else and then pay it to the government; thus shifting the tax burden. The GST tax falls in this category.

The current indirect tax structure, which comprises of so many different taxes, can be classified as:

Central taxes: levied by the Central govt (includes Central Sales Tax, Excise Duty etc.)

State taxes: levied by the various state govts (VAT, Service Tax, Octroi)

The current indirect tax has one major problem - **the casacading effect**. When you buysomething, you pay a tax on tax itself.
Let’s understand this with a hypothetical numerical example



STAGE 1
Say a shirt manufacturer pays INR 100 to buy raw materials. If the rate of taxes is set at 10%, and there is no profit or loss involved, then he has to pay INR 10 as tax. So, the final cost of the shirt now becomes INR ***(100+10=) 110.***

STAGE 2
At the next stage, the wholesaler buys the shirt from the manufacturer at INR 110, and adds labels to it. When he is adding labels, he is adding value. Therefore his cost increases by say INR 40. On top of this, he has to pay a 10% tax, and the final cost therefore becomes INR ***(110+40=) 150 + 10% tax = 165.***

STAGE 3
Now, the retailer pays INR 165 to buy the shirt from the wholesaler because the tax liability had passed on to him. He has to package the shirt, and when he does that, he is adding value again. This time, let's say his value add is INR 30. Now when he sells the shirt, he adds this value plus the VAT he has to pay the government to the final cost. So the cost of the shirt becomes INR 214.5 Let's see a breakup for this:
Cost = INR 165 + Value add = INR 30 + 10% tax = INR 195 + INR 19.5 = INR 214.5

So, the customer pays INR 214.5 for a shirt the cost price of which was basically only INR 170. Along the way the tax liability was passed on at every stage of transaction and the final liability comes to rest with the customer. This is called the Cascading Effect of Taxes where a tax is paid on tax and the value of the item keeps increasing every time this happens.

Action	Cost	10% Tax	Total
Buys Raw Material	100	10	110
Manufactures @ 40	150	15	165
Adds Value @ 30	195	19.5	214.5
Total	170	44.5	214.5

GST aims to solve this problem by introducing seamless Input Tax Credit (ITC). Today, the tax that you pay on material purchases cannot be claimed from output tax. This is set to change with ITC.

In our example, when the wholesaler buys from the manufacturer, **he pays a 10% tax on his cost price because the liability has been passed on to him. Then he adds value of INR 40 on his cost price of INR 100** and this brings up his cost to INR 140. Now he has to pay 10% of this price to the government as tax. But he has already paid one tax to the manufacturer. So this time what he does is, instead of paying INR (**10% of 140=) 14** to the government as tax, he subtracts the amount he has paid already. So he deducts the INR 10 he paid on his purchase from his new liability of INR 14, and pays only INR 4 to the government. So the INR 10 becomes his input credit.

When he pays INR 4 to the government, he can pass on its liability to the retailer. So, the retailer pays **INR (140+14=) 154** to him to buy the shirt. At the next stage, the retailer adds value of INR 30 to his cost price and has to pay a 10% tax on it to the government. When he adds value, his price becomes INR 170. Now, if he had to pay 10% tax on it, he would pass on the liability to the customer. But he already has input credit because he has paid INR 14 to the wholesaler as the latter's tax. So, now he reduces INR 14 from his tax liability of I**NR (10% of 170=) 17** and has to pay only INR 3 to the government. And therefore, he can now sell the shirt for INR **(140+30+17) 187** to the customer.

Action	Cost	10% Tax	Actual Liability	Total
Buys Raw Material	100	10	10	110
Manufactures @ 40	140	14	4	154
Adds Value @ 30	170	17	3	187
Total	170		17	187

In the end, every time an individual was able to claim input tax credit, the sale price for him reduced and the cost price for the person buying his product reduced because of a lower tax liability. The final value of the shirt also therefore reduced from INR 214.5 to INR 187, thus reducing the tax burden on the final customer.

So essentially, **GST is going to have a two-pronged benefit.** One, it will reduce the cascading effect of taxes, and second, by allowing input tax credit, it will reduce the burden of taxes and, hopefully, prices.

2.SO, WHY IS GST A BIG DEAL?

GST is a comprehensive, multi-stage, destination-based consumption tax on levied at every stage of value addition in the lifecycle of a product. To understand this better, let us look at each of the terms in detail:

Comprehensive: GST will subsume all of the current indirect taxes. Plus, by bringing in a unified taxation system, across the country, it will ensure that there is no more arbitrariness in tax rates.

Multi-stage: GST is levied each stage in the supply chain, where a transaction takes place.
Value-addition: This is the process of addition to the value of a product/ service at each stage of its production, exclusive of initial costs. Under GST, the tax is levied only on the value added. This is done through

Destination-based consumption: Unlike the current indirect taxes, GST will be collected at the point of consumption. The taxing authority with appropriate jurisdiction in the place where the goods/ services are finally consumed will collect the tax

For example: Let's say that cotton garments are being shipped from Karnataka to Maharashtra. Karnataka is the producer state and Maharashtra is the consumer state. Tax revenue under GST

Let's understand how this will impact imports and exports. Exports are not taxable, because the place of consumption is outside India. Imports are taxable, because the place of consumption is in India.
The tax on imported goods will therefore be just the same as domestically-produced goods. Imports would be costlier because of additional custom duties. Thus, the export industry will become more competitive. A**lso, domestic goods will be protected by making imports at par with domestic goods.**

WHAT IS SGST, CGST, AND IGST?

Suppose goods worth INR 10,000 are sold by manufacturer A in Maharashtra to Dealer B in Maharashtra. B resells them to trader C in Rajasthan for INR 17,500. Trader C finally sells to End User D in Rajasthan for INR 30,000.

Suppose C**GST= 9%, SGST=9%. Then, IGST= 9+9=18%**
Since A is selling this to B in Maharashtra itself, it is an intra-state sale and **both CGST and SGST will apply, at the rate of 9% each.**

B (Maharashtra) is selling to C (Rajasthan). Since it is an inter-state sale, IGST at the **rate of 18% will apply.**

C (Rajasthan) is selling to D also in Rajasthan. Once again it is an intra-state sale and both **CGST and SGST will apply, at the rate of 9% each.**

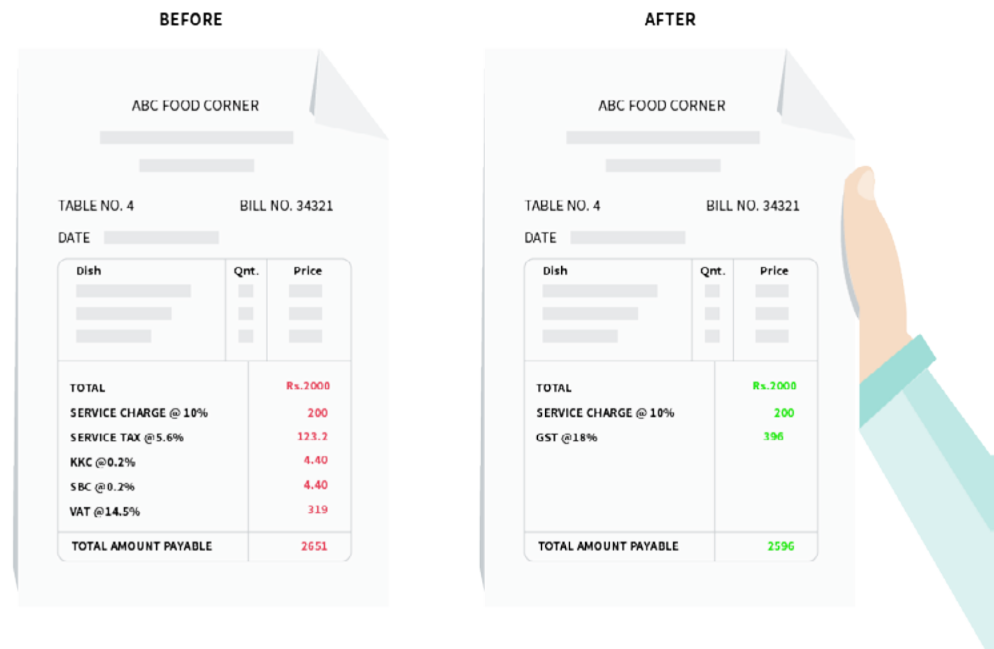
*** **Any IGST credit will first be applied to set off IGST then CGST. Balance will be applied to setoff SGST**.
Since, GST is a consumption based tax, i.e., the state where the goods were consumed will collect GST. By that logic, Maharashtra (where goods were sold) should not get any taxes. Rajasthan and Central both should have got **(30,000 * 9%) = 2,700 each instead of only 2,250.**
Maharashtra (exporting state) will transfer to the Centre the credit of **SGST of INR 900 used in payment of IGST.**
The Centre will transfer to Rajasthan (importing state) INR 450 as IGST credit used.
**Do note, that custom duties are not part of this tax structure.

When is Tax Levied?

A taxable event such as manufacture, sale and provision of a good has to occur for tax to be collected. Under the current system, each taxable event is subject to multiple taxes such as excise, VAT/ CST and service tax. But under GST, products will no longer have multiple taxes, and will not incur excise duty as well as VAT at different points of time. There will no longer be any difference between goods and services in terms of taxation.

An example of this is when we go out to eat at a restaurant. Earlier, the customer paid both VAT and service tax on a single bill, but after GST is implemented there will be a single tax charge on the bill amount.

This leads us to an important concept in GST - Time, Place, and Value of Supply of goods and services. Let us look at these provisions in detail in the next chapter.



3.REGISTERING UNDER GST

Now that we know the basics of GST calculation, the process of ITC claims and filing of returns, let us look at how a tax-payer can register for GST.
If you meet any of the conditions listed below, you should obtain your GST registration when the enrollment reopens again [GST is expected to apply from 1st July 2017]:

- Your aggregate turnover in a financial year exceeds INR 20 lakhs (INR 10 lakhs for Special category states)\

- If your turnover includes supply of only those goods/services which are exempt under GST, this clause does not apply

To calculate this threshold, your **turnover should include the aggregate value of all taxable supplies, exempt supplies, export of goods and/or services and inter-state supplies of a person having the same PAN.**

Important Points to Remember when

- Every person who is registered under an earlier law will take registration under GST too.

- Where a business which is registered has been transferred to someone, t**he transferee shall take registration with effect from the date of transfer.**

- **Registration is mandatory for anyone who makes inter-state supply of goods and/or services.**

- Registration is mandatory for:
  - Casual Taxable Person
  - Non-Resident Taxable Person
  - Agents of a supplier
  - Taxpayers paying tax under reverse charge mechanism
  - Input Service Distributors
  - E-commerce operator or aggregator and their suppliers
  - Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person

Other Notable Points Regarding Registration

- A person with multiple business verticals in a state will need to obtain a separate registration for each business vertical.
- PAN is mandatory to apply for GST registration (except for non-resident person who can get GST registration on the basis of other documents).
- A registration which has been rejected under CGST Act/SGST Act shall also stand rejected for the purpose of SGST/CGST Act.

Who is a ‘Casual Taxable Person?

If you occasionally make supply of goods/services as a principal or agent or any other capacity, in a taxable territory, where GST applies but where you don’t have a fixed place of business. As per GST, you will be treated as a casual taxable person.

Who is a Non- Resident Taxable Person

When you occasionally make supply of goods/services as a principal or agent or any other capacity, in a taxable territory, where GST applies but you don’t have a fixed place of business in India. As per GST, you will be treated as a non-resident taxable person.

Here are the rules for registration for these persons:

- Registration shall be valid for 90 days.
- It can be further extended by 90 days.
- An advance deposit of tax liability for the period of regis tration must be made. Additional tax must be deposited if extension of registration is sought.
- This tax deposited shall be used like ‘input credit’

Exemption from GST Registration

The following shall not be required to obtain registration and will be allotted a UIN (Unique Identification Number) instead. They can receive refund of taxes on notified supplies of goods/services received by them:

- Any specialised agency of UNO (United Nations Organisa tion) or any multilateral financial institution and organisa tion notified under the United Nations Act, 1947
- Consulate or Embassy of foreign countries
- Any other person notified by the Board/Commissioner The central government or state government may be based on the recommendation of the GST council, notify exemption from registration to specific persons.

Should You Opt for Voluntary Registration?

A person may opt for voluntary registration under GST even if he is not liable to be registered. All the provisions of GST applicable to a registered taxable person will similarly apply to such a voluntarily registered person also, i.e. he will be treated as a normal taxable person.

For example, assume there is a small grocery dealer with a limited turnover of Rs. 12-15 lakh. Such a dealer may not be required to register under GST. However, he may be supplying inputs to a nearby restaurant which has a turnover exceeding Rs. 20 lakh, is registered as a normal taxpayer, and is thus eligible for input credit. In such a scenario, a small dealer may register voluntarily to pass on the benefit of input credit to his buyer.

Check the Positive and the Negative aspects of Voluntary Reigstration

Postive

- In spite of composition levy, many small organisations are planning to voluntarily register themselves under GST. This is because composition levy has certain drawbacks. Voluntary registration will mitigate such drawbacks and give the following advantages:

- Provide input tax credit to customers: Since your business is legally recognised, you can issue taxable invoices. Buyers, in turn, can take input credit on their purchases. This will help expand the customer base and make it more competitive.

- Take input credit: Voluntarily registered persons can take input credit on their own purchases and input services like legal fees, consultation fees etc. This will eventually increase their business margin and profitability.

- Make inter-state sales without many restrictions: Businesses registered under GST can make inter-state sales without many restrictions. Thus, it widens the potential market for SMEs. These SMEs can also opt for selling their goods online through the e-commerce platform.

- Be compliant and have good rating: Registration for GST will ensure that the business is compliant and scalable without any barrier of future registration. Also under GST, compliance rating will be maintained and if this is done correctly, it can attract additional business.

Negative

- We discussed the benefit of getting registered under the Goods and Services Tax, however, there is a flip-side to it. Businesses registering voluntarily under GST may have to face extra compliance and working capital liquidity. Some of these consequences are:

- Multiple return filing: Businesses registered under Goods and Services Taxes are required to file three returns every month. These returns are GSTR-1, GSTR-2, GSTR-3 and include the details of all purchases, sales, and final tax liability after setting off Input Tax Credit. Failure to file these returns will not only deny the input credit to our buyer but also attract penalty. Further Compliance rating will get affected negatively.

- Payment of tax liability: Once registered under GST, the supplier will have the additional responsibility of collecting and depositing taxes with the authorities. This will not only inflate the cost for the buyer but also leverage similar sellers who are not registered under GST.

- Registration in every state of business activity: Further under the new law, obtain registration in each state of business activity. Return needs to be filed in the jurisdiction of the state where goods are supplied for consumption. In other words, if a small dealer is supplying in five states, he needs to register in all five states to fully take benefit of input tax credit. This can increase the cost of compliance to business.

3.Time, Place and Value of Supply under GST Explained

According to the law, the point of taxation means the point in time when goods have been deemed to be supplied or services have been deemed to be provided. The point of taxation enables us to determine the rate of tax, value, and due dates for payment of taxes.

The liability to pay CGST / SGST will arise at the time of supply as determined for goods and services. There are separate provisions for time of supply for goods and time of supply for services. The liability to pay CGST / SGST on the services shall arise at the time of supply as determined by GST provisions.

How to Determine Time of Supply

The time of supply of goods/services shall be the earlier of the following dates:

the date of issuing invoice (or the last day by which invoice should have been issued)
OR
the date of receipt of payment, whichever is earlier
If the supplier of taxable goods/service receives an amount up to INR 1000 in excess of invoice amount, the time of supply for the extra amount shall be the date of issue of invoice (at the option of the supplier).

For both the above clauses, the supply shall be assumed to have been made to the extent it is covered by the invoice or the payment (as the case may be).

For the second clause, the date of receipt of payment shall be the earlier of:
the date on which the dealer enters the payment in their books
OR
the date on which the payment is credited to their bank account

For example, if the date of invoice is 15th May 2018, and date of receipt of payment is 10th July 2018. The date when the supplier recorded the receipt in his books is 11th July 2018.
Thus, the time of supply will be 15th May 2018.

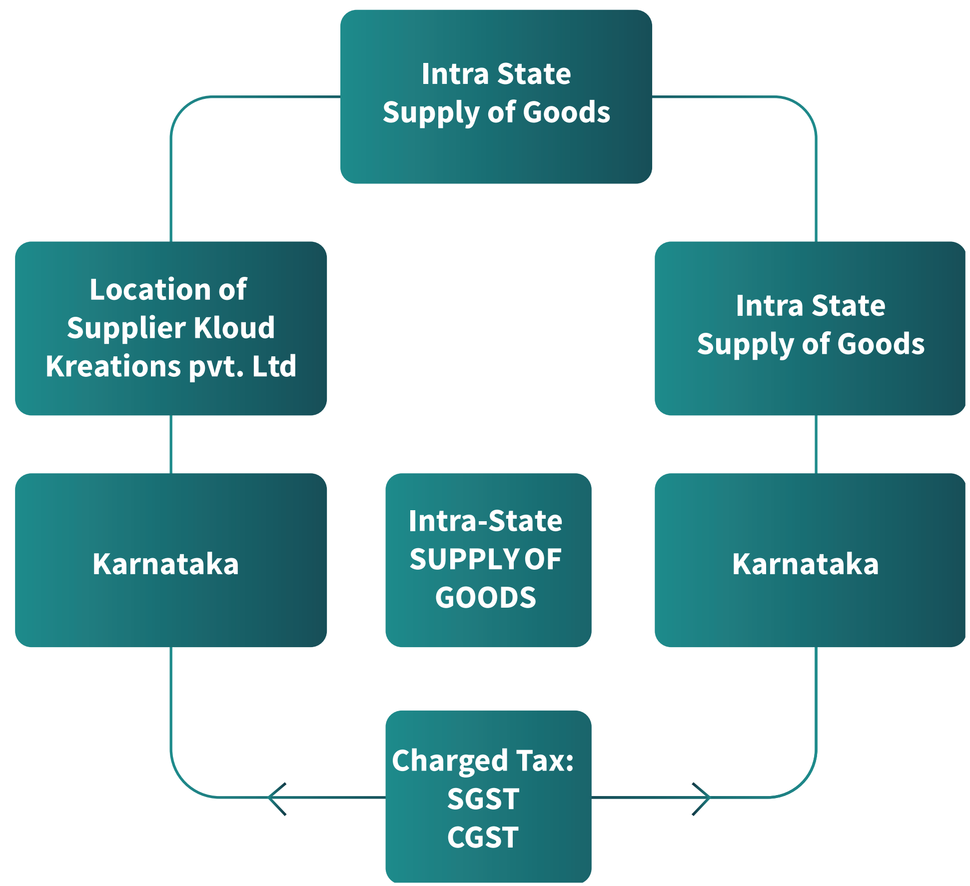
How to Determine Place of Supply

'Place of Supply' under GST is an important factor as it defines whether the transaction will be counted as intra-state (i.e within the same state) or inter-state (i.e. between two states) and accordingly the changeability of tax, i.e levy of **SGST, CGST & IGST will be determined.**
While determining the levy of taxes based on place of supply, two things are considered:

- Location of Supplier: It is the registered place of business of the supplier
- Place Of Supply: It is the registered place of business of the recipient

Let's understand this with the help of two examples

Example 1: Determining Place of Supply for Intra-State Supply of Goods
Let us assume there is a supplier of craft products, Kloud Kreations Pvt. Ltd with the registered office in Bangalore, Karnataka. It supplies goods to schools in Manipal, Karnataka. Here, since the supplier as well as the recipient are located in same state i.e Karnataka, it will be counted as 'Intra-State Supply Of Goods' and hence SGST and CGST will be levied.

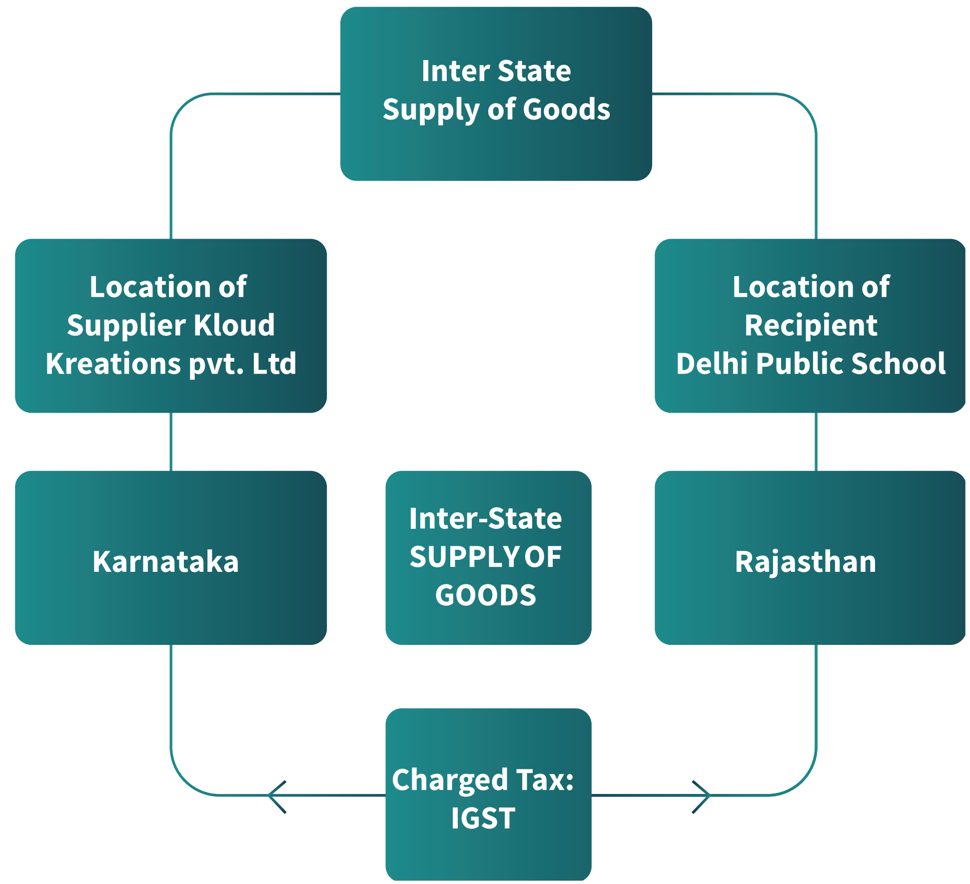


Example 2: Determining Place of Supply for Inter-State Supply of Goods

Let us assume the supplier of craft products, Kloud Kreations Pvt. Ltd has their registered office in Bangalore, Karnataka and the recipient i.e Delhi Public School is located in Jaipur, Rajasthan. Here, since the supplier and the recipient are located in different states i.e Karnataka and Rajasthan, it will be counted as 'Inter-State Supply Of Goods' and hence IGST will be levied.

There are specific provisions for determination of place of supply of goods which depend on:

- The place of supply of goods: where the supply involves movement of goods
- The place of supply of goods: where the supply involves no movement of goods
- The place of supply of goods: in case of export and import of goods



Calculating Place of Supply of Services under GST

Let us first understand why an accurate determination of place of supply is important for businesses. The reasons for this are listed below:

- Wrong classification of supply between interstate or intra-state and vice-versa may lead to hardship to the taxpayer as per section 19 of IGST Act and section 70 of CGST Act
- Where wrong taxes have been paid on the basis of the wrong classification, refund will have to be claimed by the taxpayer
- The taxpayer will have to pay the correct tax along with interest for delay on the basis of revised/correct classification
- Also, correct determination of place of supply will help us in knowing the incidence of tax. As if place of supply is determined as a place outside India, then tax will not have to be paid on that transaction

How to Determine the Place Of Supply Of Services

GST is destination based tax i.e consumption tax, which means tax will be levied where goods and services are consumed and will accrue to that state.
Under GST, there are three levels of Tax, IGST, CGST and SGST and based on the ''place of supply'' so determined, the respective tax will be levied. IGST is levied where transaction is inter-state, and CGST and SGST are levied where the transaction is intra-state. For understanding Place of Supply for Services the following two concepts are very important namely:

- location of the recipient of services
- location of the supplier of services

Let's understand these two concepts in detail as they will form the base for determining the place of supply in case of supply of services: