

INTRODUCTION TO GST

Concept of GST and Difference Between Direct Tax & Indirect Tax

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Week 01

Lecture 03

So, friends if we go by international practices and we have seen that in different countries there are different rates of GST.

GST rates: Internationally

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

Malaysia introduced GST from April 1, 2015 @6% and than abolished in 2018

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%).

Source: "Countries implementing VAT or GST"

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

So, in ASEAN (Thailand & Phillipines) countries we have 7 to 12 percent GST single rate. In countries like Iran & Tajikstan, we have 5 to 20% GST. So, different countries based on their requirement and based on their budget structure, they keep different rates for GST. Malaysia was the first, means it was the youngest country who implemented GST in 2015, but later on they withdrew it. And India came after that with effect from 1st July 2017 and still we are practicing GST seeing the good results in the economy.

So this is the rates applicable or adopted by different countries so far when the 60 countries are having GST across globe and with different rates of taxes and with different models of GST; as we adopted dual model of GST because of federal structure of the country. So it is purely on the need of the country or the economy how they pursue with the GST.

What is Goods & Service Tax (GST)

A tax on all forms of supply of goods and/or services such as **sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made** for a consideration by a person in the course or furtherance of business

Now, friends, coming to GST i.e. Goods and Service Tax. What is that? Means, how this tax is implemented? How this tax is charged? So, it says, it's a tax on all form of supply (all form of supply) of goods and/or services or both in form of sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made.

Means what?

It means if we are dealing with goods or services wherein we are selling these goods, we are transferring these goods, we are into the system of barter, means we are giving one product and taking another product we are exchanging in the business process we have given license to use, we have charged rent on that (for the use of that property) means of that particular product, we have given on lease or we have dispose of or we have agreed to dispose of or we have agreed to some terms and if there is any consideration (if there is any money) involved in that, because of that use, because of that sale, because of that transfer, the GST will be charged. So, its scope is very wide. Means, all transactions, whatever you have undertaken during the course of business, GST will be charged.

In simple way friends, it says, if you are selling some product, you have to charge GST. Even if you are not selling, but you are just transferring the product. Transferring the goods, means what? Means a company has one office in Delhi, another office in Mumbai. And company is transferring its own product. Company is transferring its own assets from Delhi to Mumbai. Though it is not

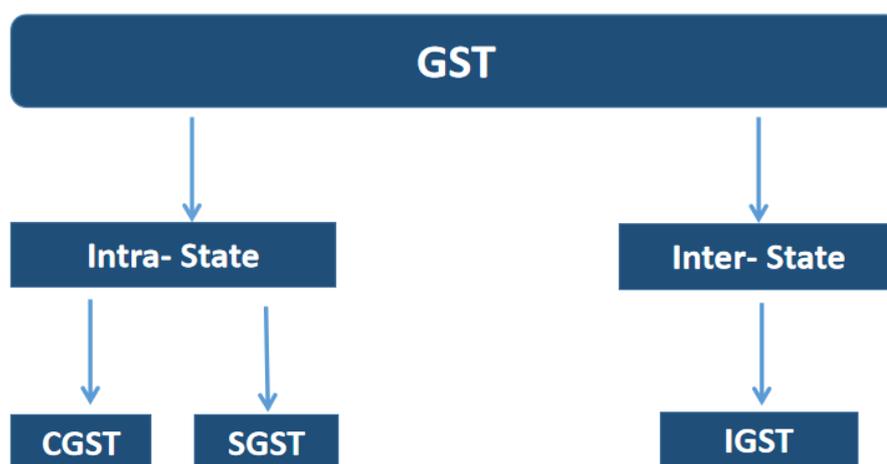
a sale because company cannot sell its own goods to its own branch. But GST says it's a transfer of goods, transfer of products, transfer of assets. It is subject to GST.

So, meaning thereby, if you are shifting, you are transferring goods within your company from one office to another office located in different states, you are supposed to pay GST. There are some issues on these particular transactions, but we will discuss later on. But as of now, we must understand that simply if you are transferring goods without charging anything, without having any consideration for that, means from one office to another office, from head office to branch, from branch to another branch, from one warehouse to another warehouse, from one warehouse to another branch or vice versa, GST is applicable. So, whenever you are transferring goods without any consideration GST will be applicable.

Barter system, if you are adopting some barter system where we are taking one product and giving another product, GST is applicable. So, scope of this is very wide that on each and every type of transaction you have to pay GST. If you agree to do something with some person under some agreement, and if you have done that, GST will be applicable. So, scope is very wide.

We will see further how these things move under GST and what are the complications and how we will charge GST on such products where there is no consideration.

Broad Constitutes of Goods & Service Tax



So, friends, when we talk about GST, this is the framework under which we will charge GST. So, in business or from GST point of view in the country, we either have 'intra-state transactions' or we have 'inter-state transactions'.

Intra-state transactions means transaction within the state. If we are businessman and we are operating in Karnataka, so if we are selling our products within the state of Karnataka, it is intra-state. And inter-state, when we are crossing the border of our state, means from Karnataka to Tamil Nadu, Karnataka to Kerala, it is interstate, where two states are involved now in these transactions. So, any person supplying goods from Chennai to Bangalore or from Chennai to Andhra, Hyderabad, it is an inter-state transaction.

So, in inter-state transaction IGST is applicable and in intra-state transaction, CGST and SGST is applicable. But GST will be of same amount, means if your GST on a particular product is 28 percent, in case of interstate transactions, IGST will be charged and it will be charged at the rate of 28 percent. When the same transaction took place within the state, means intrastate, then 14% CGST, 14% SGST would be charged.

So, this way in total scenario, when we are doing business, maybe we are as a manufacturer or as a trader or as a service provider. If my services are for a particular consumer who is within the state of where I am having business, I will charge CGST and SGST at the same rate, and if I am supplying to a customer who is outside my state, I will charge IGST, sum total of CGST and SGST, that is 28%. This way we will make transactions and pay taxes under GST.

Friend, this example I have worked out for your convenience. How actual invoicing we will do under GST?

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 (Rs.30.00 -IGST+CGST)		
TAX PAYABLE-in cash/(REFUND)		20.00		-	-

It is a CASE OF INTRA-STATE transaction, means within the state, in local market, and it is for a manufacturer. If you are having a manufacturing unit, where you are manufacturing some product, how you will raise your invoice?

So, friends, here I am a manufacturer. I have two types of raw material. One raw material is A. Another raw material is B (it is imported). Raw material A for my product means when I am going to manufacture a product, I need raw material A for Rs. 100, raw material B for Rs. 100. So, my raw material cost is Rs. 200. When I purchase these materials for my final product, it is purchased within the state. It is a local purchase. So, I paid for calculation purposes, I paid 10 rupees state GST, 10 rupees central GST for raw material A and my landed cost is 120.

Though in my books of accounts, my raw material cost will be 100 only, 20 rupees will be kept outside as a GST paid, which is known as ITC.

For imported product means raw material because it is imported so it is the interested; covered under 'interested' under GST and it is subject to IGST. So when I am importing any goods from outside country after paying custom duty on that whatever amount will come I will pay IGST. So I paid 20 rupees on imported material. So, my landed cost or the total value of the purchase is 240.

Though for GST purposes, for accounting purposes, my landed cost is 200 rupees. 40 rupees is GST I paid to my suppliers and I will take benefit of it. So, when I write my books of accounts, I will say raw material/purchase account/debit with 200 rupees to cash, to bank or to parties credit, whatever it is. So, my raw material cost is 200 rupees.

I process this material. I have processed this material in my factory by using conversion cost, my labour, my electricity, other inputs. I spent 100 rupees. So, my FG (my final product/ my finished product/ my finished goods) is of rupees 300, which is ready to market, which is ready to sell. So, when I sell this product in the market, again in the local market only within the state, I will charge (say 10 percent of the) GST on this product. So, I will charge 30 rupees CGST, 30 rupees SGST. The invoice value will be 360 rupees.

So, means in this process, material of 200 rupees, by having 100 rupees as a conversion cost (by doing value addition of 100 rupees) I am now having a product of 300 rupees, which is subject to GST.

Friends, my raw material is also subject to GST and my finished product is also subject to GST. So, here 60 GST (30 rupees CGST, 30 rupees SGST). Invoice value is 360.

So, in 360 rupees, 60 rupees is my liability to pay GST to the government. I sold this product to my consumer, my buyer. And I charge 60 rupees (30 rupees CGST, 30 rupees SGST) GST, which I am supposed to pay to the government. Because it's indirect tax, so buyer is paying to me and I

will pay to the government. So, this 60 rupees is my liability on 300 rupees bill. I need to pay 60 rupees.

But in GST, friends, out of these 60 rupees, I have already paid 40 rupees to the government through my buying; 10 rupees CGST is paid, 10 rupees SGST is paid and 20 rupees IGST is paid to the government already in my purchasing.

So to remove the cascading effects of tax on taxes I am not considering this tax paid on my raw material as my cost. It is a credit lying in my account with the government. Means I have already paid to the government through my supplier and I will settle/ I will set off this amount against my output liability. So my output liability over here is 60. Out of 60, 40 rupees I have already paid to the government. So my net liability comes to 20 rupees which I need to pay in cash. So this 20 rupees after adjusting my 40 rupees credit lying in my account which I paid to the government through my suppliers. I will adjust that amount and 20 rupees net I will pay to the government.

So, this is the beauty of GST. I need not to pay the taxes which I have already paid. There are some conditions on that. There are some terms on the adjustment of these taxes. We will see that also later on when we will talk about ITC. But simple concept under GST is that I need not to pay taxes which I have already paid to the government and whenever I am paying my output liability I will adjust the taxes which have already been paid on my inputs and net amount I will pay in cash.

Same example for INTER-STATE TRANSACTIONS where IGST is applicable on my final products.

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-in cash /(REFUND)		00.00	00.00	20.00	
ADJ. AT STATE/CENTRE LEVEL		10.00	-	-	

Same example friends.

Raw material 'A' of 100 rupees, imported material 'B' of 100 rupees. My landing cost is 200 rupees of raw material. 10 rupees-10 rupees CGST and SGST on local material, 120 rupees. 20 rupees IGST on imported goods, 120 rupees, total 240. Value addition I did for 100 rupees, product value is 300 rupees. And because now this product I am selling out of state, means if I am having a factory or my manufacturing unit in Karnataka and selling it to Tamil Nadu, so I will charge 60 rupees.

In case of intra-state, I will charge Rs. 30 CGST, Rs. 30 SGST. But it is inter-state, so I am charging Rs. 60. Total GST is Rs. 60 in inter-state transaction. So again invoice value is 360. So my tax liability is 60 rupees again and while paying the 60 rupees I will see how much I have already paid to the government on my procurement. I have already paid 40 rupees. So my net liability again is 20 rupees.

But friends, here the issue is, because it is an IGST liability, so IGST will be adjusted against IGST first, then CGST again, and then finally against SGST. There is a sequence given in the law. Whenever you are adjusting your taxes which you have already paid, you have to follow a set system, a set sequence. Means for payment of IGST, first you have to adjust your IGST. If when IGST is totally exhausted and still amount is there to pay, you are supposed to adjust from your CGST. And if CGST is exhausted and still amount is there to pay, then go to State GST.

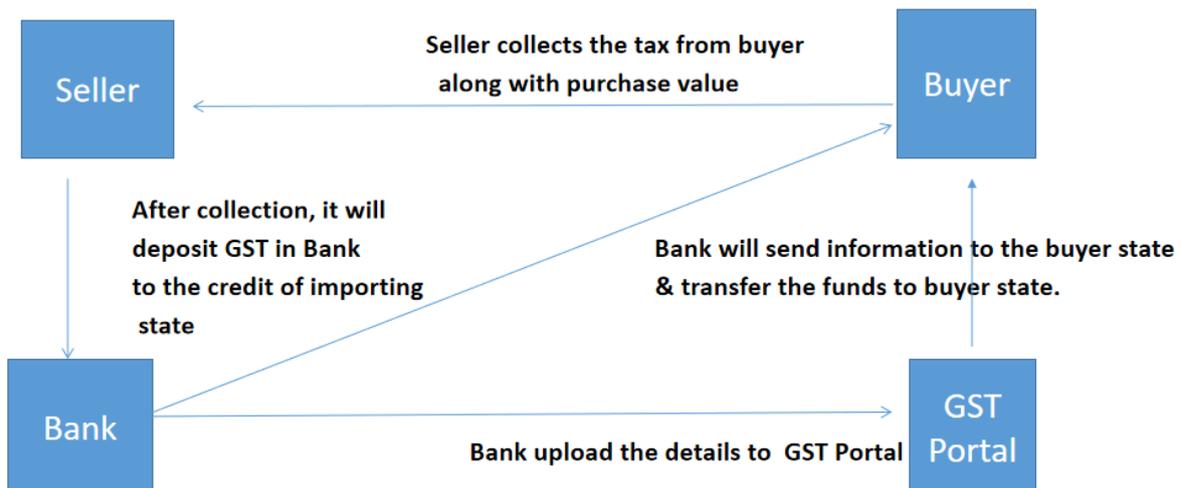
This sequence will be followed. Otherwise, you will be non-compliance. So, this is the way business transaction took place under GST and we comply with it.

This is a simple calculation I did for you people. But in practical, when we will go, we will apply actual rate of taxes. For example, in case of cars, 28% GST is there. So, if it is sale of car within the state, here the rate will be 14%. Here 28%. Similarly, different products have different rate of taxes. If we purchase cement, in cement tax is 18 percent. So, 9 percent CGST, 9 percent SGST, 18 percent IGST.

So, different products have different rate of taxes. So, whenever you are dealing with a particular product, you have to see value is of mine but rates of taxes are of the GST law. You have to refer the law and see what rate of tax will be applicable on it.

Model-1: for Inter-State Supplies

Tax Paid by the Seller to the Authorities.

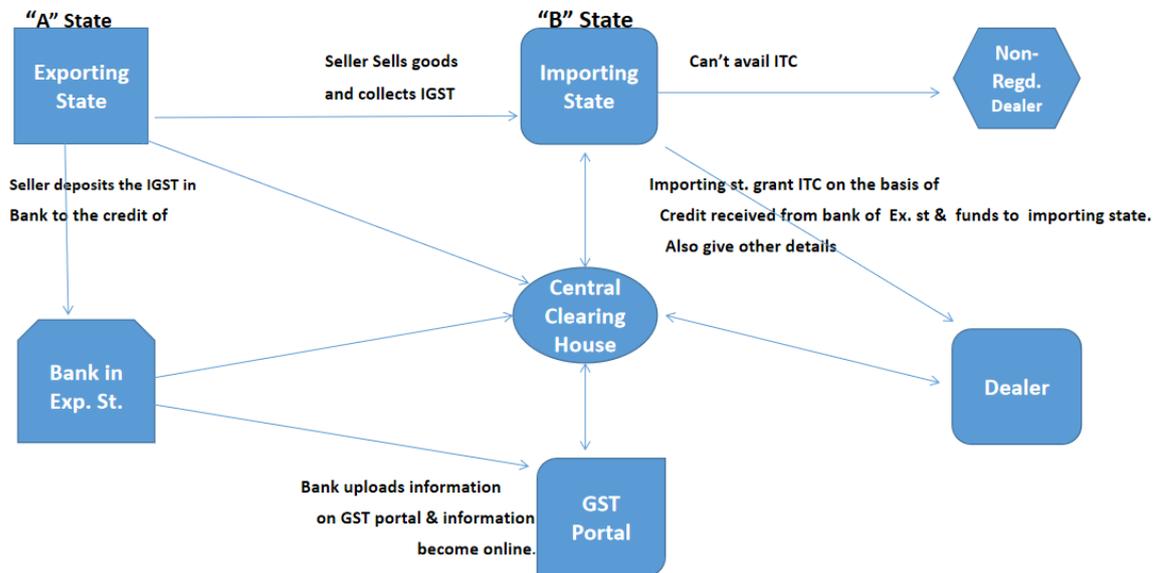


*** Credit is available only after payment of GST**

So friends, in GST framework as I told you the buyer pays tax to seller, because seller, when supply goes to buyer, buyer has to pay him money along with taxes. So, buyer will pay value of goods purchased along with taxes to seller and seller will pay taxes collected by him through bank under GST; through bank at GST portal to respective states where the material is consumed. So, because GST portal is a central place for all business transactions, So your buyer, your sellers, bankers and other government agencies are connected or interconnected with GST portal for all information sharing. So when bank will deposit or transfer the tax deposited by supplier on behalf of this buyer, the bank will transfer this tax through GST portal to respective states where buyer

is consuming the goods. So, this way, consumption-based taxes will go to the state where product or the service is actually consumed.

IGST Model: Tax Paid/Collection Mechanism



So, this is the bigger framework of GST transactions in the country where all parties are involved. This is seller and this is the buyer. So, buyer will purchase goods from A and will pay to the supplier the value of goods along with taxes; if it is intra-state transaction but obvious CGST and SGST will be levied and it will be paid and if it is inter-state transactions then IGST will be paid. The seller will deposit taxes to the bank with the complete details where he sold the goods to whom he sold the goods. Bank will send the information to central agency for collection of the taxes on behalf of the state. Also to the GST portal and this central agency will share the information with the buyer state or the dealer state.

This way all organizations, all agencies, all people, all stakeholders involved in this, including government, will come to know that this transaction has happened. And respective state will get the benefit means the tax whatever is paid by the buyer ultimately to their own kitty because GST is a consumption based tax. The money will not remain with the supplier state, as I told you. It will go to the consumption state. So the states which are having more consumption will be having more revenue. So, this was the issue also when GST was discussed, when GST was negotiated with the states.

The states like Bihar, Odisha, they were worried because they don't have much consumption as compared to Punjab, Maharashtra and all. So, assurance was given that GST regime will bring lot of things for them. But still states having less consumption, they are having less revenue also. But states like UP, which is having maximum or highest population, still lacking behind as far as GST collection is concerned. And state like Haryana, which is having very less population, is at fifth level in the country, at fifth position, is far away from, is far ahead of Punjab, who is having same population. So, that is different story how-why these states are lacking means UP which is having maximum population but still they are not collecting that much of GST as it was supposed to be.

Part-II

Constitutional Provisions

(122nd amendment)

Then friends I told you that when GST was brought to the country we were having certain issues with Constitution of India also. That in Constitution the model accepted by us for GST was not acceptable. So, we need to amend and we amended Constitution of India through 122nd Constitution Amendment.

Pre-GST Provisions of Constitution

- the Centre is liable to levy tax on
 - **manufacture,**
 - **rendering of services and**
 - **import of goods up to production.**

- States are empowered to levy and collect tax on the **sale of goods .**

So, in pre-GST regime, we all know that in manufacturing, excise duty was applicable and it was central government tax. Central government was supposed to impose excise duty and paid taxes

and collected taxes from the industry on the manufacturing. Then services were also subject matter of central government and states were not supposed to charge service tax on the services. And for import of goods also, central government was imposing or levying taxes and collecting. And in states, on sale of goods means VAT, sale tax, CST, State government was supposed to charge taxes and Central government was not allowed. And in GST now, we see that state governments are also empowered to charge service tax. And Central government is also empowered to charge sale tax. So, this happened only because of some amendment in Constitution of India. And what are these?

Amendment in Constitution

very important development that has happened is 122nd Constitution Amendment Bill, 2014 which was tabled by the Central Government before the lower house of Parliament on **December 19, 2014.**

So, 122nd amendment in constitution brought an Amendment Bill, 2014 through which some amendments were done, so that things can be streamlined in line with the spirit of GST.

Constitutional Provisions Amended

- *There are different provisions for levy and collection of tax in our constitution.*
- *7th schedule of article 246 of the constitution of India consists three lists, namely the:*
 - *list I (Union list),*
 - *list II (State list), and*
 - *list III (the concurrent list).*
- **A new Article 246A** which has conferred simultaneous power to Union and State legislatures to legislate on GST.
- **A new Article 279A** inserted for the creation of a **Goods & Services Tax Council** which will be a joint forum of the Centre and the States..
- The Council will make recommendations to the Union and the States on important issues like tax rates, exemptions, threshold limits, dispute resolution modalities etc

Friends, in Constitution of India, under Schedule 7, Article 246, we have List No. 1, which is

Union List. This list is carrying taxes which can be imposed by, which can be levied by central government. List two is State List; which has taxes or the list of the taxes which can be levied by state government only list third is Concurrent List where both the governments can charge taxes. So, during process of amendment of Constitution of India for the purpose of GST a new Article 246A was inserted which empower state governments and central governments to impose taxes on goods and services and collect the taxes under GST. Then another Article 279A was inserted for the purpose of GST wherein goods and service tax council, GST council was formed. A central agency having participation from states as well as centre and can jointly discuss the issues for every state and amend the laws for the requirement of the country and make a law. GST council is a body of all states and central government. But it is a recommending body. It can recommend the procedure, it can recommend the suggestions, it can recommend the proposals to the Parliament. And its recommendations will be approved by the Parliament. Only then the law will come.

So, GST Council concept was brought to the Constitution through Article 279A. And GST Council is a body of state and central government concerned ministries. As I told, it is a recommending body. We recommend the proposals to the parliament and then law will come into the picture.

Broad Features of GST as reflected in the Constitution Amendment Bill

- The Bill proposed to replace the current Indirect tax regime consisting of multiplicity of taxes with a single tax.
- Constitution was proposed to be amended for conferring concurrent taxing powers on the Centre & States for levying GST on every transaction of supply of goods or services or both.
- **Subsuming of various Central indirect taxes and levies** such as *Central Excise Duty, Additional Excise Duties, Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, Additional Customs Duty commonly known as Countervailing Duty, Special Additional Duty of Customs, Service Tax and Central Surcharges and Cesses* so far as they relate to the supply of goods and services.

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So, this bill brought many changes in the existing laws to bring GST. So, it gives power to state government and central government to impose taxes. It reduces the multiplicity of taxes. It

subsumes the various central and state government taxes into one tax that is GST. So, all these taxes were subsumed, which I have already told you. These taxes earlier these were charged individually, but after having this amendment in Constitution of India, by giving power to state government and central government, these taxes were charged as GST only.

**Broad Features of GST as reflected in the
Constitution Amendment Bill**

- **Subsuming of State Value Added Tax/Sales Tax, Entertainment Tax** (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, Taxes on lottery, betting and gambling; and State cesses and surcharges in so far as they relate to supply of goods and services.
- Dispensing with the concept of 'declared goods of special importance' (Sec.-14 of CST)
- Levy of Integrated GST on inter-State transactions of **goods and services**.
- Conferring concurrent power upon Parliament and the State Legislatures to make laws governing GST

Cont....3

Similarly, in state taxes, all these taxes were subsumed in state GST. So, these taxes were abolished. Entertainment tax, central sale tax, octroi, anti-tax, purchase tax, luxury tax, these taxes were abolished. And this happened only because of the amendment in Constitution of India, and then bringing in GST. Then there was a concept of special importance, 'goods of special importance' under CST Act that was done away with. Then charging of IGST. Earlier during interstate transactions, because interstate transaction concept was in CST, in VAT, not in excise duty. So, it was only in CST Act. So, now in GST that concept changed and it was brought to central government also and IGST concept was brought for interstate transactions. Then confirming concurrent powers with parliament and state assemblies. Because whenever you have an amendment in constitution, you need to take into account into confidence the state legislature assemblies also.

- Coverage of all goods and services, **except alcoholic liquor for human** consumption, under GST.
- In case of **petroleum and petroleum** products, it has been provided that these goods shall not be subject to the levy of GST **till a date notified on the recommendation of the GST Council.**
- Compensation to the States for loss of revenue arising on account of implementation of the GST up to a **period of five years-hundred percent;**

So, this amendment to the constitution also said that goods and services will be covered, but alcohol/ liquor for human consumption will not be part of GST. Similarly, petroleum products will not be part of GST. Real estate will not be a part of GST. Friends, these items were kept out of the purview of GST deliberately because I told you that states were worried about their revenue because they were having a fear in their mind that they will lose their revenue. So, to have a confidence in state government's mind, Real estate, liquor, diesel petrol were kept outside the preview of GST so that they can or they may amend their respective law as per the requirement to make balanced economy in their state. That is why these products were kept outside the purview of the GST. And in case of petroleum and petroleum products cases, it says it will be notified, it will be covered under GST only when GST Council thinks so. So, as I told you that GST Council is a part of state and central government agencies, so, whenever they feel confident that now states are at level where they are having better revenues, they may opt/ go for this provision also that petroleum or diesel products are also subject to GST. But as of now, after 7 years of GST, these are out of the preview of GST. And further friends, for state government losses, five years time was secured that in five years coming, next five years from 1st July 2017, means till 30th of June 2022, if states have losses, then these losses or the states will be compensated by the central government by having some fund. So, these type of provisions were made and constitution was amended and then after constitutional amendment was approved GST was launched and introduced. Without this GST was not possible because governments were not having powers of that. So unless you have provision or the law or the articles in Constitution such type of things was not possible.