

INTRODUCTION TO GST

Concept of GST and Difference Between Direct Tax & Indirect Tax

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So, friends, when we say that GST is really good concept brought to the economy, it helps the industry or it will help the industry. How?

How economy shall be benefited under GST?

- PAN based registration number throughout the country
- Set-off of taxes will be available to large extent.
- Apart from Basic Excise duty, AED, CVD, SAD, Surcharges & Cess etc. will be subsumed in CGST hence
- Similarly taxes at State level i.e Entertainment Tax, Octroi/Entry Tax, Luxury Tax, Lottery/Betting tax will be subsumed in SGST and there set-off benefit will be available.
- Set-off of taxes for IGST transactions will be available.
- Cost of Raw material will reduce as cascading effect of taxes will be eliminated.
- No CST implication or statutory forms like C, H, F and E1E2 forms
- Free flow of Goods and Services across the country- no Octroi/chungi
- Filing of return for both Centre and State Governments will be at par.
- No need of claiming refunds of CenVat/VAT as complete set off is available.....?
- Compliance cost of Industry will reduce with less compliances.

It is very true that GST has simplified the procedure. Simplify the procedure, reduce the cost. So, benefits of GST which we have adopted. Number one, it is a PAN-based registration for every business house. So, means generally we have seen that PAN number is used for income tax purposes. But we have linked both the taxes together. We have linked the taxes means PAN based registration number under GST means now ministry of finance has access to income tax transactions as well as GST transactions. So, that evasion of taxes can be reduced. Set-off of taxes will be available to large extent. YES. Because now state government and central government both are charging GST on the same transaction. So, setting off of taxes paid on my procurement

will be easier one as compared to previous regime, as already explained. Taxes have been subsumed in GST. It has simplified the tax procedure, tax system. Same thing is for state taxes.

In previous regime, inter-state transaction, when we were paying CST, set-off provisions were not available. For CST, what I have paid on my procurement, set off was not available. But in GST, it is available. So, it has reduced your cost further. Cascading effect, I have already explained you. Apart from that, there were some statutory forms to be used in VAT for different transactions. Means if you are exporting something, if you are selling something interested, if you are transferring goods to your own branches, you are supposed to use Form C, Form H, Form F. And these forms were issued by the state governments only and their printing their stock availability was another issue. So these have been abolished/ done away with the GST provisions. So there is no need of such forms. There is no concept of such forms under GST. So it has simplified the procedure and saved a lot of time of the industry and the business houses.

In previous slides, I gave you one example where truck moves from Chennai to Delhi and reach Delhi after 30-35 days. And whenever it crosses any state boundary, they are supposed to get checked their documents and all, which wasted a lot of time. So, under GST, all authorized barriers have been abolished, so, there is no such checking. There are interceptors but no such checkings on each and every state border. It has reduced traveling time of a truck from Chennai to Delhi to 25 days. A bigger and very good step and big achievement for logistic industry as in logistic industry it has reduced a lot of cost. Further friends, filing of returns for both central and state government will be at par. Earlier in pre-GST regime, I told you that every state has its own tax laws. And under own tax laws, they were having different procedures.

In Maharashtra, return forms are different. In Tamil Nadu, return forms are different. In Karnataka, forms are different. In UP, forms are different. So, each state has its own forms for their returns under VAT. And filing dates are also different. Means Punjab has a date of 7th of the next month, UP has 15th of the next month, West Bengal has a 15th-16th of the next month, like this. But in GST, common return at same time and through IT, online, from anywhere you can file. So, a company having business in 29 states or union territories, they were supposed to keep state-wise consultants, state-wise employees. But in GST, it has reduced that such type of cost. Now, sitting in head office, company can compliance everything under GST.

Having a registration number, filing your monthly, quarterly, annual returns, filing reply to the notices issued by the department, everything is online. You need not to go to state-wise for appearing or such type of things. Things are made so easy. That's why compliance cost has come down drastically and in better and effective way. This way GST has impacted our economy. This

way GST has impacted our economy, given money in the hands of consumer, save the working capital of the industry, reduce the financial cost of the industry, reduce the travel time for the logistic industry. Strategic management has played its role under GST.

Definitely, and I am very hopeful that this step is towards to make India once again Vishwaguru, by having 33 percent or more contribution to the world economy. Perhaps this may be the small step towards that. Friends in this part of my presentation of this session as I explained you earlier also we will talking about concept of supply because GST is applicable on supply; supply of goods and services. GST is not applicable on manufacturing of goods. GST is not applicable on supply of services only.

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

If you go by the definition of supply under GST law, under section 7, what it says? It says a tax on all form of supply of goods or services. I explained you earlier this definition. It is a wide scope for the word 'supply'. And technically, when we talk about GST Act, in GST Act, under Section 7 of CGST Act, they have defined supply, and supply is subject to GST. So, they have included various forms of supply under the word supply as far as GST is concerned.

Meaning of Supply (Sec.-7 & 8)

Supply includes (Sec. 7)

(1) For the purposes of this Act, the expression “supply” includes--

(a) **all forms of supply of goods or services or both** 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;

aa) the activities or transactions, by a person, other than an individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration,

(b) **import of services** for a consideration **whether or not** in the course or furtherance of business; and

(c) the activities specified in **Schedule-I**, made or agreed to be made **without a consideration**;

So, Section 7 of CGST Act says tax on all form of supply of goods and services such as sale, transfer, barter, exchange, license, rental, lease, disposal, made or agreed to made, GST is applicable. So, friends, this is Section 7 of CGST Act. This is the actual language which we need to understand. What does it mean; the word 'supply'? Because supply, what I have told you, that is one part, and apart from that, there are other transactions also which has been covered under the definition of supply.

So, section 7, sub-section (1) (a), talks about simple supply world which we have already studied that is "all forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration...". So, consideration world is important over here. Means when you are selling goods, you are transferring goods against some consideration, you are charging some money for that, it is supply. Further, section 7, sub-section (1) sub-clause (aa). It says, supply also include the activities, transactions, by a person. By a person means not an individual. By a person means company, partnership firm, club, association, association of persons (those are doing some type of business), other than individual, already told you, to its members.

Meaning thereby is, GST says where any club or association of person or a society rendering some sort of services or supplying some sort of goods to its members only, even then it is a supply and GST is applicable. So, section 7, sub-section (1)(a) includes sale, transfer, barter and all. And (aa) says, any service or supply of goods by association of person or a society or a club to its members only, even then it is supply. It covered under the definition supply and GST is applicable. So, means if you are a member of any club, and club is charging 5000 rupees from you. That 5000 rupees plus 18% GST will be applicable. So club will charge from you 5000 plus 18% GST. And club will deposit this 18% GST to the government. After collecting from you.

Then section 7, sub-section (1) (b). Import of services. When you are importing some services for consideration whether or not in course or furtherance of business. Meaning, you are in India and you need some help from outside India and you identify one person in America and you are getting some services, maybe IT based online services from that person from USA and you are paying for that. But here, whether or not in course of business, it is important. Means, whether you are getting these services from USA for the purpose of business or for some personal consumption or some for personal purposes, services, then again it will be a, it will be subject to GST.

So, means if as an individual you are getting some services from outside India for your own purpose, maybe for business purpose, otherwise you are supposed to pay tax. And this transaction,

because the person who is sitting in USA, GST is not applicable to them. It is applicable to the person who is in India. So, if I am the person who is getting these services sitting in India. So, GST will be paid by me under 'reverse charge mechanism'. We will see what is reverse charge mechanism in following slides.

But it is, so this is again part of your definition supply. So, we have to be very-very careful while doing business or dealing in GST to understand what is supply. So, friends, here 7(1)(a), 7(1)(aa), 7(1)(b) talks about all type of transactions on which GST is applicable. 7(1)(c) says, again an important section, the activity specified in Schedule I. Friends, there are three schedules under GST and all these three schedules are under Section 7, which we are reading right now. So, Section 7 has three schedules and there are only three schedules under GST Act. So, what it says?

Meaning of Supply (Sec.-7)

SCHEDULE :I

Matters to be treated as Supply even if made without consideration:

1. **Permanent transfer/disposal** of business assets where *input tax credit has been availed on such assets*.
2. Supply of goods or services **between related persons**, or between distinct persons as specified in section 25, when made in the course or furtherance of business.
3. Supply of goods—
 - by a **principal to his agent** where the agent undertakes to supply such goods on behalf of the principal, or
 - by **an agent to his principal** where the agent undertakes to receive such goods on behalf of the principal.
4. **Importation of services** by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

It says the activity specified in Schedule I made or agreed to be made without consideration. Means if you have entered into any transaction where there is no consideration, you are not charging something, you are giving them free of cost, even then it is a supply under GST. Even then it is a supply. So, you have to pay GST on that. There are different issues on this, how valuation of this will be done because ultimately GST will be paid on some value. When value is zero, how GST will be paid, it is also defined in the law. We will see that. So, Schedule I says the transactions which have been entered by business entity for nil consideration, even then GST will be paid. We will see the transactions under Schedule I.

Meaning of Supply (Sec.-7 & 8)

(1A) where certain activities or transactions constitute a supply in accordance with the provisions of sub-section (1), they shall be treated either as supply of goods or supply of services as referred to in Schedule-II.

(2) Notwithstanding anything contained in sub-section (1),--

(a) activities or transactions specified in **Schedule-III**; or

(a) **such activities or transactions** undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities, as may be notified by the Government on the recommendations of the Council, shall be **treated neither as a supply of goods nor a supply of services**.

Then (1A). It says, where certain activities or transactions constitute a supply in accordance with the provisions of sub-section (1), which we have already covered in previous slides, they shall be treated either as supply of goods or supply of services as referred to in schedule II.

Friends, schedule I, I told you that schedule I is related with the transactions. If you did without consideration, there are transactions listed in schedule I.

Meaning of Supply (Sec.-7)

SCHEDULE-II

ACTIVITIES OR TRANSACTIONS TO BE TREATED AS SUPPLY OF GOODS OR SUPPLY OF SERVICES

1. Transfer

(a) any transfer of the title in goods is a supply of goods;

(b) any transfer of right in goods or of undivided share in goods without the transfer of title thereof, is a supply of services;

(c) any transfer of title in goods under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed, is a supply of goods.

2. Land and Building

(a) any lease, tenancy, easement, licence to occupy land is a supply of services;

(b) any lease or letting out of the building including a commercial, industrial or residential complex for business or commerce, either wholly or partly, is a supply of services.

3. Treatment or process

Any treatment or process which is applied to another person's goods is a supply of services.

contd..2

4. Transfer of business assets

- (a) where goods forming part of the assets of a business are transferred or disposed of by or under the directions of the person carrying on the business so as no longer to form part of those assets, such transfer or disposal is a supply of goods by the person;
- (b) where, by or under the direction of a person carrying on a business, goods held or used for the purposes of the business are put to any private use or are used, or made available to any person for use, for any purpose other than a purpose of the business, the usage or making available of such goods is a supply of services;
- (c) where any person ceases to be a taxable person, any goods forming part of the assets of any business carried on by him shall be deemed to be supplied by him in the course or furtherance of his business immediately before he ceases to be a taxable person, unless-
 - (i) the business is transferred as a going concern to another person; or
 - (ii) the business is carried on by a personal representative who is deemed to be a taxable person.

Schedule II helps us to identify whether a particular transaction is of goods or services. So, schedule II is listed with the transactions or help us to make out that this particular transaction is a supply of goods or a supply of services. Because there are many business transactions where goods and services are being supplied together. Where goods are also supplied along with the service; catering service. If you are supplying food along with the catering services, means food is also supplied and catering service is also given and food is a product, is a goods.

5. Supply of services

The following shall be treated as supply of services, namely:-

- (a) renting of immovable property;
- (b) construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly, except where the entire consideration has been received after issuance of completion certificate, where required, by the competent authority or after its first occupation, whichever is earlier
- (c) temporary transfer or permitting the use or enjoyment of any intellectual property right;
- (d) development, design, programming, customization, adaptation, upgradation, enhancement, implementation of information technology software;
- (e) agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act; and
- (f) transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration. [contd...4](#)

6. Composite supply

The following composite supplies shall be treated as a supply of services, namely:-

- (a) works contract as defined in clause (119) of section 2; and
- (b) supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration

Construction, cement, aggregate, sand is also supplied along with the labour. So, labour is a service, supply of cement, sand is a goods. So, in such type of cases, Schedule II help us to know if particular type of transaction is a supply of goods or supply of services or both.

Meaning of Supply (Sec.-7 & 8)

(1A) where certain activities or transactions constitute a supply in accordance with the provisions of sub-section (1), they shall be treated either as supply of goods or supply of services as referred to in Schedule-II.

(2) Notwithstanding anything contained in sub-section (1),--

(a) activities or transactions specified in **Schedule-III**; or

(a) **such activities or transactions** undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities, as may be notified by the Government on the recommendations of the Council, shall be **treated neither as a supply of goods nor a supply of services**.

Then friends, section 7, sub-section (2). It says activities transaction specified in Schedule III, meaning there is another Schedule III.

SCHEDULE-III

ACTIVITIES OR TRANSACTIONS WHICH SHALL BE TREATED NEITHER AS A SUPPLY OF GOODS NOR A SUPPLY OF SERVICES

1. Services by an employee to the employer in the course of or in relation to his employment.
2. Services by any court or Tribunal established under any law for the time being in force.
3. (a) the functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;
(b) the duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity;
or
(c) the duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
4. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.

SCHEDULE-III

5. **Sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.**
6. **Actionable claims, other than 5[specified actionable claims].**
7. **Supply of goods from a place in the non-taxable territory to another place in the nontaxable territory without such goods entering into India.**
8. (a) **Supply of warehoused goods to any person before clearance for home consumption;**
(b) **Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.**

I told you that there are three schedules in GST. All are related with Section 7. Schedule I talks about the transaction where there is no consideration but GST is paid. Schedule II helps us to identify whether particular transaction is a supply of goods or supply of services. And Schedule III is talking about the services or the goods which are neither supply of goods nor supply of services. Means they are out of the preview of GST. There are some transactions which are neither treated as supply of goods nor treated as supply of services. We will see what these are. So, activities of transaction specified in Schedule III or such other activities as government may think so, shall be treated neither as supply of goods nor supply of services. So, Schedule III is telling me the transactions which are totally out of the purview of GST.

So, now coming to Schedule I. Schedule I talks about "matters to be treated as supply even if made without consideration".

1. Permanent transfer/disposal of business assets. If you are transferring some business assets from one company to another company, one unit to another unit, one branch to another branch within the same company, and you are not charging anything from that then because ultimately you are supplying these goods to your own company; and a company cannot sell goods to its own. But GST says it is a sale. It is a supply. So pay GST on that. So this we need to. Wherever if you come across with such type of transactions, refer this section first and then charge GST and deposit it.
2. If there are two related parties, there is a definition of related party in the GST. If two related parties are doing some transaction with each other. From unit 1, finished product is the raw material of unit 2. Both are within the same management, part of the company, same company. So, unit 1's final product is the raw material of unit 2. They are regularly

sending these goods to unit 2 for further processing. So, GST says, though both the units are of the same company under the same management, but I do not know these two units. For me, unit 1 has supplied goods to unit 2. So, pay GST.

3. Supply of goods by principal to its agent. In pre-GST regime, if there is a businessman having agents in different states for selling his products, he was sending these goods on consignment basis where title of ownership is with the principal only and agent was just selling the products in the market and getting their commission. In this arrangement of principal and agent agreement, agent was never been a owner of the goods. Principal means the owner of the goods, because agent was pursuing sale, arranging orders for the principal and getting some commission out of that. But GST says no. If there is a principal-agent agreement is there, principal is in Delhi, agent is in different states, in different districts, both are independent parties. So, principal has to charge GST on the goods sent to the commission agent. So, it has again come under the picture of supply. Schedule 1, we are talking about where transactions are without consideration. An agent versus principal. If agent is sending some goods to principal, again GST will be charged.
4. Import of services, GST will be charged, maybe without consideration.

Meaning of Supply (Sec.-7)

SCHEDULE-II

ACTIVITIES OR TRANSACTIONS TO BE TREATED AS SUPPLY OF GOODS OR SUPPLY OF SERVICES

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- (a) any transfer of the title in goods is a supply of goods;
- (b) any transfer of right in goods or of undivided share in goods without the transfer of title thereof, is a supply of services;
- (c) any transfer of title in goods under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed, is a supply of goods.

2. Land and Building

- (a) any lease, tenancy, easement, licence to occupy land is a supply of services;
- (b) any lease or letting out of the building including a commercial, industrial or residential complex for business or commerce, either wholly or partly, is a supply of services.

3. Treatment or process

Any treatment or process which is applied to another person's goods is a supply of services.

contd..2

Schedule II. It helps us to know whether particular transaction is service or a supply of goods. So there are different different examples in case of land and building.

1. It says "any lease, tenancy, easement, license to occupy land is supply of service". Means if you have given land on rent, it is a service, "any lease letting out building including commercial, industrial or residential...", partly or wholly is again a supply of service.

2. Renting of property is a supply of service only.
3. Treatment or process. If you are doing some process on some products, may be heating, may be engineering, may be painting, may be surface finishing, it is again a service because it is a job work.
4. Where goods are involved, it will be definitely supply of goods only. So, these are few examples given in Schedule II, which help us to understand whether particular transaction is supply of goods or supply of service.
5. Composite supply, which includes two, three supplies together. There are two concepts in the GST. One is composite supply, another is mixed supply. So, we have to understand both the concepts and we will study it later on. Composite supply and mixed supply and both will be taxed accordingly, if the transaction falls in the composite supply or in mixed supply category.

SCHEDULE-III

ACTIVITIES OR TRANSACTIONS WHICH SHALL BE TREATED NEITHER AS A SUPPLY OF GOODS NOR A SUPPLY OF SERVICES

1. Services by an employee to the employer in the course of or in relation to his employment.
2. Services by any court or Tribunal established under any law for the time being in force.
3. (a) the functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;
(b) the duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity;
or
(c) the duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
4. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.

SCHEDULE-III

5. **Sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.**
6. **Actionable claims, other than 5[specified actionable claims].**
7. **Supply of goods from a place in the non-taxable territory to another place in the nontaxable territory without such goods entering into India.**
8. (a) **Supply of warehoused goods to any person before clearance for home consumption;**
(b) **Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.**

Then schedule III means these transactions are neither supply of goods nor supply of services. They are out of the preview of GST. What are these?

1. Services by employee to its employer. So, if you are in job, it is not subject to GST because it is employer-employee relationship and you are under contract with the employer for a service in the company. So, it is not subject to GST. You are not supposed to charge GST to the employer.
2. Services by the court tribunals. So, courts performing its work for litigation purposes and if they are; it is sort of service only because they are hearing both the parties in the dispute and they are giving their orders accordingly based on the facts of the case; these are not subject to GST. So, courts when providing services to its people means those are coming to them with appeal, they will not charge GST.
3. Similarly, services of member of parliament, member of state assemblies, municipalities, panchayat, these are not services, these are not supply of goods under GST. So, no GST will be applicable on the services of these people.
4. Services of funeral, burial, cremation, these are also not part of GST, will not be treated as supply of services or supply of goods.
5. Sale of land. Sale of land is also not a supply of goods or supply of service. Renting a land, leasing a land is supply of service, but sale of a land is not a supply of goods or a service. So, sale of land is not subject to GST.
6. Actionable claims are not subject to GST. That is why, if you have got some insurance claim, on that insurance claim or that amount which you received from insurance company, GST is not applicable.

7. Supply of goods from a place in non-taxable territory, where GST is not applicable, means in India, if you are getting something from outside India, where GST is not applicable, Indian GST I am talking about, tax will not be applicable. If goods have been sold before coming to custom house, from a foreign country, it is not subject to GST.

So, this was about total concept of GST and the basic things which has been covered under GST; what was the flaw in the existing means pre-GST regime and what is improved upon under GST regime in the country which has helped the companies, helped the customers, helped the government to increase the revenue.

So, if we talk about revenue collection under GST, it has **grown** like anything. Though some states are still lagging behind as far as GST collection is concerned because I told you that GST is consumption-based tax. So, if any state has more population, to my mind, they must have more consumption of goods and services. But it will depend on their purchasing power.

So the way I explained you the method of calculation of pricing under GST, definitely the purchasing power of the people will increase because when they will save on account of cascading effects, on account of simplification of the system, on account of reduction in the traveling time of transporters, on account of simplification the rates of the taxes, definitely overall economy will boom and people will spend more and the revenue will be generated like anything. With these words, as of now, Thanks a lot!