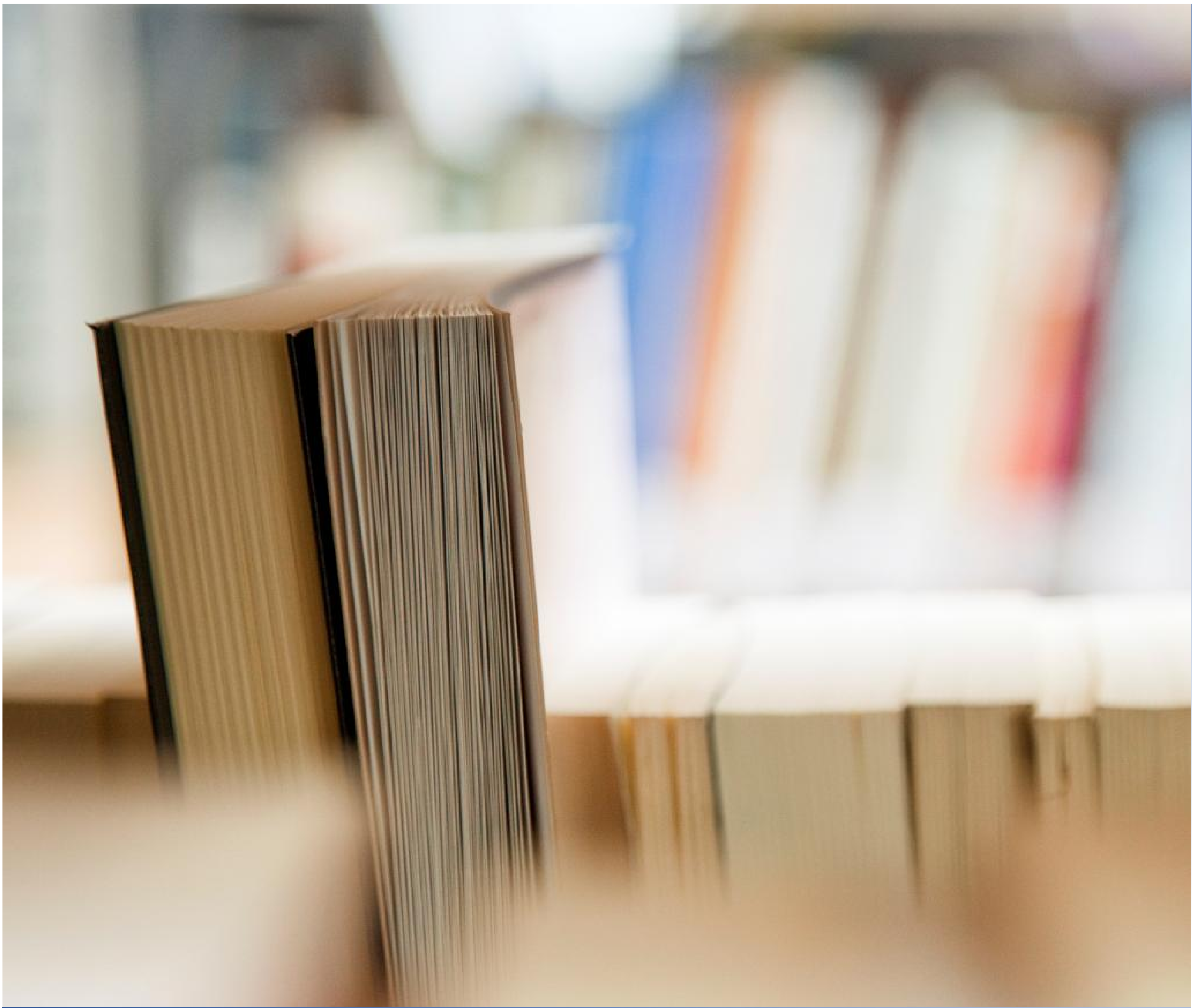

FAQs on Basics of GST

(updated on 10th April, 2017)

S KHAITAN & ASSOCIATES

SHUBHAM KHAITAN

FAQs on Basics of GST

Introduction

Goods and Services Tax is a tax levied on the supply of goods or services or both. It purports to replace multiple taxes like Vat, Service Tax, Central Excise etc with only one tax regime i.e. GST. The tax paid at the previous stage will be allowed as input tax credit against payment of output taxes. To sum up, only value addition will be taxed similar to the VAT and CENVAT regime. It is a destination based tax. It means that the tax would accrue to the state to which the goods are finally supplied i.e. where consumption takes place.

Q1) How is GST better than the current tax regime?

Ans) GST intends to remove a lot of drawbacks which are prevalent in the current tax regime. Few of these drawbacks are as follows:

1. **Compliance Burden -** Under the current tax regime, a large variety of indirect taxes are charged such as Central Excise, Customs, Service Tax, State VAT, entertainment tax, State Excise etc. Each of these taxes have separate laws and their respective rules. Currently, a person has to examine which taxes are applicable to him and accordingly has to comply with the same. Also, every tax regime has a different set of taxable events, valuation rules, time of payment etc. Compliance with so many separate Acts and Rules makes the current tax regime very strenuous. Moreover, the Government has to assess and collect these taxes separately making it difficult for them also. However, under the GST regime most of these taxes have been subsumed into GST.

2. **Cascading Effect-** Another major drawback is that the current tax regime has not been able to reasonably remove the cascading effect of taxation. This is because the Central taxes like Service Tax and Excise paid on inputs are not allowed to be set off against the State Level VAT on sale of goods. In the same way, the VAT paid on inputs is not allowed to be set off against the Service Tax liability on provision of service or Excise Liability on manufacture of goods. This adds to the cost of the goods and leads to double taxation.
In the GST regime, since most of the taxes have been subsumed into GST, it will smoothen the process of flow of credit. In the long run, it will help the consumers by reducing the ultimate selling price and it will help the suppliers by making their products more competitive in the domestic and international markets.

3. **Goods or Services –** The current tax regime requires us to classify between goods or services. This leads to a lot of disputes and confusions for certain industries like restaurants, construction etc. Such issues will reduce to a great extent under the GST regime.

4. **Easy administration and increase in revenues for the Government –** GST due to its transparent nature will be easier for the Government to administer. Moreover, GST is

expected to widen the tax base and improve the compliance rate thereby increasing revenues for the Government.

Q2) Which are the taxes that will be subsumed under GST?

Ans) Taxes levied and collected by the Centre –

1. Central Excise Duty
2. Duties of Excise (Medicinal and Toilet Preparations)
3. Additional duties of Excise (Goods of Special Importance)
4. Additional duties of Excise (Textiles and Textile Products)
5. Additional Duties of Customs (CVD)
6. Special Additional Duties of Customs (SAD)
7. Service Tax
8. Central Surcharges and Cesses so far as they relate to supply of goods and services

State taxes

1. Value Added Tax
2. Central Sales Tax
3. Luxury Tax
4. Entry Tax
5. Octroi
6. Entertainment and Amusement Tax (except when levied by the local bodies)
7. Taxes on advertisements
8. Purchase Tax
9. Taxes on lotteries, betting and gambling
10. State Surcharges and Cesses so far as they relate to supply of goods and services

Q3) How many taxes will be levied under the GST regime ?

Ans) The following are the different taxes levied under the GST regime:

1. In case of Intra-State Supply – A dual taxation system will be followed as GST will be levied in two parts; the Central Goods and Services Tax(CGST) and the State Goods and Services Tax (SGST). The CGST will be levied by the Central Government whereas the SGST will be levied by the State Government. For the purposes of GST, a Union Territory with a legislature shall be treated as a state and SGST will be levied. In case of an Union Territory without a legislature, instead of SGST, Union Territory GST (UTGST) will be charged.

2. In case of Inter-State Supply – GST will be levied by the name of Integrated Goods and Services Tax (IGST). The IGST will be levied by the Central Government but it will be distributed between the Central Government and the State Government of the state where the goods are supplied, in the manner *as may be provided by the Parliament by law on the recommendations of the Goods and Services Tax Council.*

Q4) What is the need for such dual taxation system?

Ans) India is a federal country. The Central Government and the State Government have different rights and responsibilities with respect to collection of taxes. Both the Governments are expected to retain their independence with respect to levy and collection of taxes. Since, GST is to be collected by both the Governments concurrently, dual taxation system is required to be implemented in India.

Q5) Which products are not covered under GST currently?

Ans) The following goods are not covered under GST:

1. Alcoholic Liquor for Human Consumption - It will not be covered under GST. State Governments will retain the exclusive right to tax alcoholic liquor for human consumption. So the existing taxes will continue.
2. Electricity
3. Petroleum Products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel – Although these are covered under GST; The existing taxes (VAT & Central Excise) will continue on these and GST will not be levied till it is specified by the GST Council

Q6) What will be the status of Tobacco and tobacco products under the GST regime?

Ans) Tobacco and tobacco products are covered under the GST regime and GST will be levied on it. Moreover, the Central Government has retained the right to levy Central Excise on such products. Hence both taxes can be levied simultaneously on these products.

Q7) How many rates are expected under GST?

Ans) The Goods and Services Tax (GST) will be levied at multiple rates ranging from 0 per cent to 28 per cent. GST Council finalised a four-tier GST tax structure of 5%, 12%, 18% and 28%, with lower rates for essential items and the highest for luxury and de-merits goods.

In order to control inflation, essential items including food, which presently constitute roughly half of the consumer inflation basket, will be taxed at zero rate. The lowest rate of 5% would be for common use items. There would be two standard rates of 12% and 18%, which would fall on the bulk of the goods and services. This includes fast-moving consumer goods. Highest tax slab will be applicable to luxuries and de merit goods

Luxuries, demerit and sin goods (like tobacco and aerated drinks), will attract a cess for a period of five years on top of the 28% GST.

The collection from this cess as well as that of the clean energy cess would create a revenue pool which would be used for compensating states for any loss of revenue during the first five years of implementation of GST.

Q8) What is the taxable event under GST?

Ans) The taxable event under GST is the "supply" of goods or services. This term has a very wide scope and has been given an inclusive meaning under the law.

Q9) How will imports be treated under GST?

Ans) Imports of Goods and Services will be treated as inter-state supplies and IGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed. With respect to import of goods, Basic Customs Duty will continue to be levied even under the GST regime.

Q10) How will Exports be treated under GST?

Ans) Exports will be treated as zero rated supplies. No tax will be payable on exports of goods or services, however credit of input taxes will be available and same will be available as refund to the exporters. The exporter will have an option to either pay tax on the output and claim refund of IGST or export under Bond without payment of IGST and claim refund of Input Tax Credit (ITC).

Q11) Whether transaction in securities be taxable in GST?

Ans) Securities have been specifically excluded from the definition of goods as well as services. Thus, the transaction in securities shall not be liable to GST.

Q12) Who is required to register under the GST regime?

Ans) The following persons are required to register under GST:

1. Persons having an aggregate turnover of more than:

a. Rs. 10 lakhs in Special Category state (viz. States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand)

b. Rs. 20 lakhs in other than Special Category States

The registration is required to be taken in each of the states from where the taxable supplies are made.

Aggregate turnover means the aggregate value of

a. All taxable supplies
b. Exempt supplies
c. Export of goods or services or both
d. Interstate supplies

of a person having the same PAN No.to be computed on an all India Basis. It does not include the CGST, SGST,UTGST or IGST charged on supplies.

2. Every person who is registered or holds a licence under any of the existing law on the date immediately preceding the appointed date
3. Certain persons who are required to compulsorily register irrespective of their turnover (viz. persons making any interstate taxable supply, persons required to pay tax under reverse charge basis, electronic commerce operator etc.)

Q13) What are the conditions for paying taxes under composition scheme under GST?

Ans) A registered person with an aggregate turnover in a preceding financial year up to Rs. 50 lakhs shall be eligible for composition levy. Under the scheme, a taxpayer shall pay tax as a percentage of his turnover in a state during the year without the benefit of ITC.

The rate of tax for composition levy shall not exceed

a. 1% under CGST + 1% under SGST =2% of the turnover in State for manufacturer
b. 2.5% under CGST + 2.5% under SGST = 5% of the turnover in state for specific services as Serving of food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption) for cash, deferred payment or other valuable consideration.
c. 0.5% under CGST+ 0.5% under SGST= 1% of the turnover in State in other cases;

A tax payer opting for composition levy shall not collect any tax from his customers. The government may increase the above said limit of Rs. 50 lakhs to up to Rs. 1 crore, on the recommendation of GST Council.

The following persons cannot opt for Composition Scheme ;

a. Tax payers making inter- state supplies or
b. Supplier of services other than that on which 2.5% tax shall be applied as mentioned above
c. Supplier of any goods which are not leviable to tax under this Act
d. Persons making supplies through e-commerce operators who are required to collect tax at source
e. Manufacturers of such goods as may be notified by the Government, on the recommendations of the council.

Conclusion

Finally, GST is a reality and there is still a lot that needs to be done in the next few months by the industry for transition into this new regime. It is being touted as the most game changing tax reform of the country since independence. It is certainly going to affect all the businesses and professions throughout the country. So, it is paramount for the trade and commerce to make an impact assessment for their respective businesses.

(This publication contains information for general guidance only. It is not intended to address the circumstances of any particular individual or entity. Although the best of endeavour has been made to provide the provisions in a simpler and accurate form, there is no substitute to detailed research with regard to the specific situation of a particular individual or entity. S. Khaitan & Associates or any of its officials do not accept any responsibility for loss incurred by any person for acting or refraining to act as a result of any matter in this publication)

REGD OFFICE : 24/25, RUPCHAND ROY STREET,
3RD FLOOR,
KOLKATA – 700007

ADMIN OFFICE : MOOKERJEE HOUSE,
17, BRABOURNE ROAD, 2ND FLOOR,
KOLKATA - 700001

PHONE NO : 03340687062, +919831912725

EMAIL ID : shubham@cakhaitan.com
shubham0044@gmail.com

WEBSITE : www.cakhaitan.com