WHY GST IS 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?

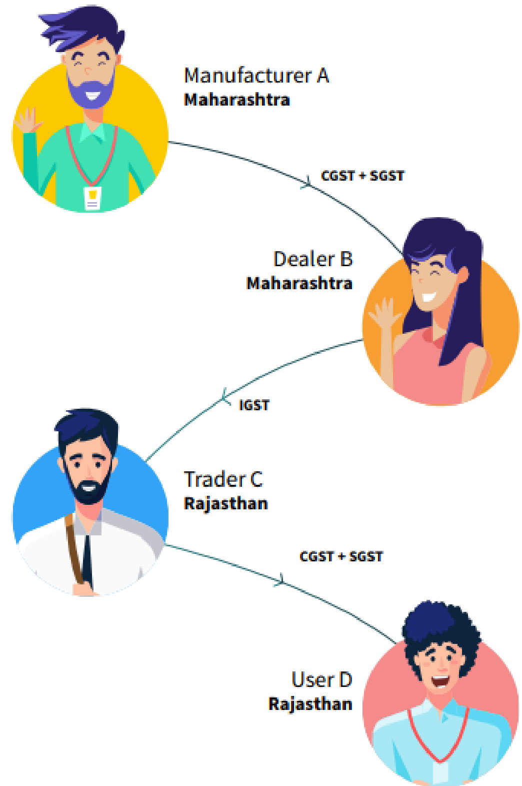
Suppose goods worth INR 10,000 are sold by manufacturer A in Maharashtra to Dealer B in Maharashtra. B resells them to trader C in Rajasthan for INR 17,500. Trader C finally sells to End User D in Rajasthan for INR 30,000.

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.

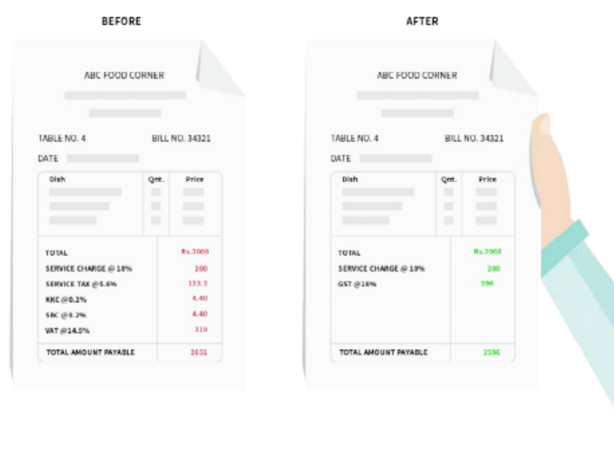


WHEN IS TAX LEVIED?

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.



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.

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:

1. a) Location of the recipient of services:

S.No	Case	Location of Recipient of Service
A	where a supply is received at a place of business for which the registration has been obtained	such place of business
B	where a supply is received at a place other than the place of business for which registration has been obtained (a fixed establishment elsewhere)	such fixed establishment
C	where a supply is received at more than one establishment, whether the place of business or fixed establishment	the location of the establishment most directly concerned with the receipt of the supply
D	in absence of such places	the location of the usual place of residence of the recipient

1. b) Location of the provider/supplier of services:

S.No	Case	Location of Recipient of Service
A	where a supply is made from a place of business for which the registration has been obtained	the location of such place of business
B	where a supply is made from a place other than the place of business for which registration has been obtained (a fixed establishment elsewhere)	the location of such fixed establishment
C	where a supply is made from more than one establishment, whether the place of business or fixed establishment	the location of the establishment most directly concerned with the receipt of the supply
D	in absence of such places,	the location of the usual place of residence of the supplier

Valuation of supply under GST

GST will be charged on the 'transaction value'. Transaction value is the price actually paid (or payable) for the supply of goods/services between unrelated parties (i.e., price is the sole consideration).

The value of supply under GST shall include:

- Any taxes, duties, cess, fees and charges levied under any act, except GST. GST Compensation Cess will be excluded if charged separately by the supplier.
- Any amount that the supplier is liable to pay which has been incurred by the recipient and is not included in the price.
- The value will include all incidental expenses in relation to sale such as packing, commission etc.
- Subsidies linked to supply, except Government subsidies will be included.
- Interest/late fee/penalty for delayed payment of consideration will be included.

Let us consider an example of ABC, a manufacturer, selling tools and hardwares like drills, polishers, spades etc. It sells a power drill to XYZ a wholesaler. **The MRP is INR 5,500 but ABC sells it for INR 3,000.**

Power Drill	3000
Add: Excise @12.5%	375
Subtotal	3375
Add VAT @14.5% on Subtotal	490
Total	3865

Under GST, the value of goods and/or services supplied is the transaction value, i.e. the price paid/payable, **which is INR 3,000 in the example. Assuming CGST=9% and SGST= 9%, the invoice will look like this:**

Power Drill	3000
Add: CGST @9%	270
Add: SGST @9%	270
Total	3540

N

Discounts

Discounts will be treated differently under GST. **Discounts given before or at the time of supply will be allowed as deduction from transaction value**. Discounts given after supply will be allowed only if certain conditions are satisfied.

Tax	**Treatment of Discounts**
Excise	Before/on time of sale are allowed
VAT	Different treatment in diff. states
Service Tax	Allowed

Under GST, discounts given before or at the time of supply will be allowed as deduction from transaction value. Such discounts must be clearly mentioned on the invoice.

Discounts given after supply will be allowed only if:

it is mentioned in the agreement entered into before sale **input tax credit proportionate to the discount has been reversed by the recipient of the supply** and it can be clearly tracked to relevant tax invoice

To continue with our previous example, XYZ is a wholesaler selling tools like drills, polishers, spades etc. XYZ now sells the power drill to a trader **TDR for INR 4,000 offering a 1% discount. XYZ incurs INR 150 packing charges**

To encourage prompt payment, XYZ offers additional 0.5% discount if WHL pays within 7 days.

Power Drill	4000
Packing Charges	150
Discount @1%(on sale vlaue)	(40)
Subtotal	**4,110**
Add: CGST @9%	370
Add: SGST @9%	370
Total	**4850**

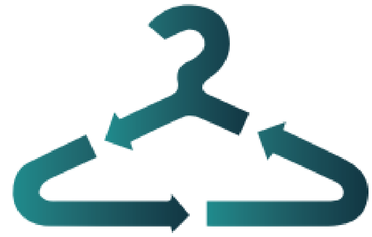
Discount of 0.5% is not deducted in the invoice because it will be given at the time of payment. However, since this discount was known at the time of supply, and can be linked to this specific invoice, and the discount amount can be reduced from the transaction value.

For this, XYZ Ltd. will issue a credit note to TDR for INR 20 **(0.5% of INR 4,000 = INR 20+ GST@ 18% on INR 20 = INR 3.60),** and this must be linked to the relevant tax invoice. Here, discount has been given after supply. But it was agreed upon at the time of supply and can be traced to the relevant invoice. So it will be allowed to be deducted from the transaction value.

Valuation of Supply when Buying and Selling of Second-Hand Goods

Where a taxable supply is provided by a person dealing in buying and selling of second-hand goods i.e. used goods, or goods which have undergone minor processing which does not change their nature, and where no input tax credit has been availed on purchase of such goods, the value of supply shall be the difference between the selling price and purchase price and where the value of such supply is negative it shall be ignored.

This rule will be applicable when the selling price exceeds the purchase price which is quite unlikely in second-hand goods. This also includes buying and selling on online platforms such as OLX and Quikr.



Second-Hand Goods

Value of a Token, or a Voucher, or a Coupon, or a Stamp (other than postage stamp)

The value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) which is redeemable against a supply of goods or services, or both, shall be equal to the money value of the goods or services, or both, redeemable against such token, voucher, coupon, or stamp.

Example: If INR 1,500 worth of Sodexho is supplied by the taxable person, the value of supply under GST law will also be INR. 1,500.

Redeemable Token

GST Return

A return is a document that a taxpayer is required to file as per the law with the tax administrative authorities. Under the GST law, a normal taxpayer will be required to furnish three returns monthly and one annual return. Similarly, there are separate returns for a taxpayer registered under the composition scheme, taxpayer registered as an Input Service Distributor, a person liable to deduct or collect the tax (TDS/TCS)

In the table below, we have provided details of all the returns which are required to be filed under the GST Law.

Return Form	What to file?	By Whom?	By When?
GST R-1	Details of outward supplies of taxable goods and/or services effected	Registered Tax Supplier	10th of next month
GST R-2	Details of inward supplies of taxable goods and/or services effected claiming input tax credit	Registered Taxable Recipient	15th of the next month
GST R-3	Monthly return on the basis of finalization of details of out-ward supplies and inward sup-plies along with the payment of amount of tax.	Registered Taxable Person	20th of the next month
GST R-4	Quarterly return for com-pounding taxable person.	Compostion Supplier	18th of month succeediing quarter
GST R-5	Return for Non-Resident for-eign taxable person	Non-Resident Taxable Person	20th of the next month

GST R(1-5)

Return Form	What to file?	By Whom?	By When?
GST R-6	Return for Input Service Distributor	Input Service Distributor	13th of next month
GST R-7	Return for authorities deducting tax at source	Tax Deductor	15th of the next month
GST R-8	Monthly return on the basis of finalization of details of outward supplies and inward supplies along with the payment of amount of tax.	Registered Taxable Person	20th of the next month
GST R-9	Details of supplies effected through e-commerce operator and the amount of tax collected	E-commerce Operator/Tax Collector	10th of the next month
GST R-10	Return for Non-Resident foreign taxable person	Non-Resident Taxable Person	20th of the next month

GST R(6-10)

Return Form	What to file?	By Whom?	By When?
GST R-10	Final Return	Taxable person whose registration has been surrendered or cancelled.	Within three months of the date of cancellation or date of cancellation order, whichever is later.
GST R-11	Details of inward supplies to be furnished by a person having UIN	Person having UIN and claiming refund	28th of the month following the month for which statement is filed

GST R(11-12)

All these returns are required to be filed digitally online through a common portal to be provided by GSTN, non-government, private limited company promoted by the central and state governments with the specific mandate to build the IT infrastructure and the services required for implementing Goods and Services Tax (GST).

Proposed GST Identification Number (GSTIN)

Here's a complete break-up of the proposed GST Identification Number. Each taxpayer will be allotted a state-wise PAN-based 15-digit Goods and Services Taxpayer Identification Number (GSTIN).

- The first two digits of this number will represent the state code as per Indian Census 2011
- The next ten digits will be the PAN number of the taxpayer
- The thirteenth digit will be assigned based on the number of registration within a state
- The fourteenth digit will be Z by default
  The last digit will be for check code