

India  
Tax  
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## Indirect tax Alert

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In this issue:

**Proposed Goods and Services Tax in India**



### Proposed Goods and Services Tax in India

The Empowered Committee of State Finance Ministers today released the First Discussion Paper on the Goods and Services Tax (GST) in India (Discussion Paper).

The basic features of GST as laid down in the Discussion Paper are as under:

#### Dual Tax on Goods and Services:

All Goods and Services would be subject to dual GST; a Central GST (CGST) and a State GST (SGST) concurrently. This dual GST model would be implemented through multiple statutes (one for CGST and SGST for every State), with uniform provisions concerning chargeability, taxable event, taxable person, valuation, classification etc., as far as practicable. The dual GST model would ensure that the Centre and the States have concurrent jurisdiction for the entire value chain and for all the taxpayers on the basis of the thresholds to be prescribed.

#### Scope of Coverage of goods and services

CGST and SGST would be applicable on all transactions of goods and services except the following:

- Exempted goods and services
- Goods outside the purview of GST
- Transactions which are below the prescribed threshold limits

The coverage of the products which have special treatment under the current model of taxation of goods and services, under the dual GST would be as under:

S.No.	Goods	Treatment under GST
1.	Products containing Alcohol	Outside the purview of GST
2.	Tobacco Products	Subject to GST with Input Tax Credit. However, Centre may levy excise duty on tobacco products over and above GST.
3.	Petroleum Products	Crude Oil, Motor Spirit (including Aviation Turbine Fuel) and High Speed Diesel Oil would be kept outside GST  Decision regarding the inclusion or otherwise of the Natural Gas in GST will be taken after further deliberations.

**Taxes to be subsumed into CGST:**

The following taxes would be subsumed into CGST:

- Central Excise Duty
- Additional Excise Duties
- Excise Duty levied under the Medicinal and Toiletries Preparation Act
- Service Tax
- Additional Customs Duty levied on imports in lieu of Central Excise Duty at the time of imports
- Special Additional Duty of Customs levied in lieu of VAT payable, at the time of imports
- Surcharges and Cesses

**Taxes to be subsumed into SGST:**

The following taxes would be subsumed into SGST:

- VAT / Sales Tax
- Luxury Tax
- Taxes on lottery, betting and gambling
- State Cesses and Surcharges
- Entertainment Tax not levied by local bodies
- Entry tax not in lieu of Octroi

However, inclusion of purchase tax, levied by the States, within the GST framework is still under discussion.

#### **GST on Exports and Imports:**

Exports under GST model would be zero-rated.

Imports of goods and services would be subject to both CGST and SGST based on destination principle. The tax revenue will accrue to the State where the imported goods and services are consumed. GST paid on import of goods and services will be available as credit.

#### **Exemptions / incentives under GST Regime:**

Necessary tax exemptions, remissions etc., related to industrial incentives should be converted into cash refund schemes to ensure continuation of GST chain.

Exemptions, remissions etc., under Special Industrial Area Schemes would continue up to the legitimate expiry time both for the Centre and the States.

Goods supplied to Special Economic Zones (SEZs) would be Zero rated. This benefit would only be limited to the processing Zones of the SEZs. No benefit would be allowed for the sales from SEZ to Domestic Tariff Area.

No new exemption, remission etc., or continuance of earlier exemption, remission etc., would be allowed. In such cases, the Central and the State Governments could provide reimbursement after collecting GST.

#### **Threshold limits:**

Uniform threshold limit across States should be adopted at Rs. 10 Lakhs both for goods and Services.

Threshold for the CGST for goods may be maintained at Rs. 150 Lakhs.

Higher threshold limit may be considered for CGST on Services.

Composition scheme with special floor rate of 0.5% across the States would be available to tax payers having gross annual turnover not exceeding Rs 50 lakhs.

#### **Treatment of Interstate transactions in Goods and Services**

Integrated GST (IGST) would govern taxability of inter-state sales of goods and services. Salient features of the proposed IGST are as follows :

- Centre would levy IGST on all inter-State transactions; IGST would be aggregate of CGST and SGST.
- Tax treatment for consignment or stock transfer of goods and services will be provided separately.
- Inter-State seller will pay IGST on its value addition after adjusting credit of CGST, SGST and IGST on inputs.
- The inter-State purchaser may use the credit of the IGST paid on his purchases to discharge the output tax liability in his own State.

A clearing house mechanism will be set-up for transfer of revenue between the importing state, the exporting State

and the Centre.

#### *Advantages of IGST model:*

- Input tax credit chain will be maintained
- No blockage of fund as there will not be any upfront payment of tax
- No refund claim in exporting State
- Self monitoring model
- E-registration of inter-State dealers to improve the compliance level
- IGST model can handle Business to Business' and 'Business to Consumer' transactions

#### **Credit Mechanism**

Since CGST and SGST are to be treated separately, credit of CGST and SGST would be allowed against respective taxes only. Cross utilization of Input Tax Credit is permissible only in case of Inter State supply of goods and services, as explained above.

Refund of accumulated GST credit in a time bound manner is allowed in specific cases such as:

- Transactions involving exports
- Accumulated GST as a result of purchase of capital goods
- Input tax at a rate higher than output tax.

#### **Compliance Aspects:**

Each tax payer would be allotted a PAN – linked taxpayer identification number with a total of 13 / 15 digits.

Taxpayer would need to submit separate periodical return to both CGST and SGST authorities, in a common format as far as possible.

#### **Source**

1. ***First Discussion Paper on Goods and Services Tax in India released by The Empowered Committee of State Finance Ministers on November 10, 2009.***

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