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## Understanding GST (Goods & Service tax) and present status

30<sup>th</sup> December'2014

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# 1. Relevance of this update



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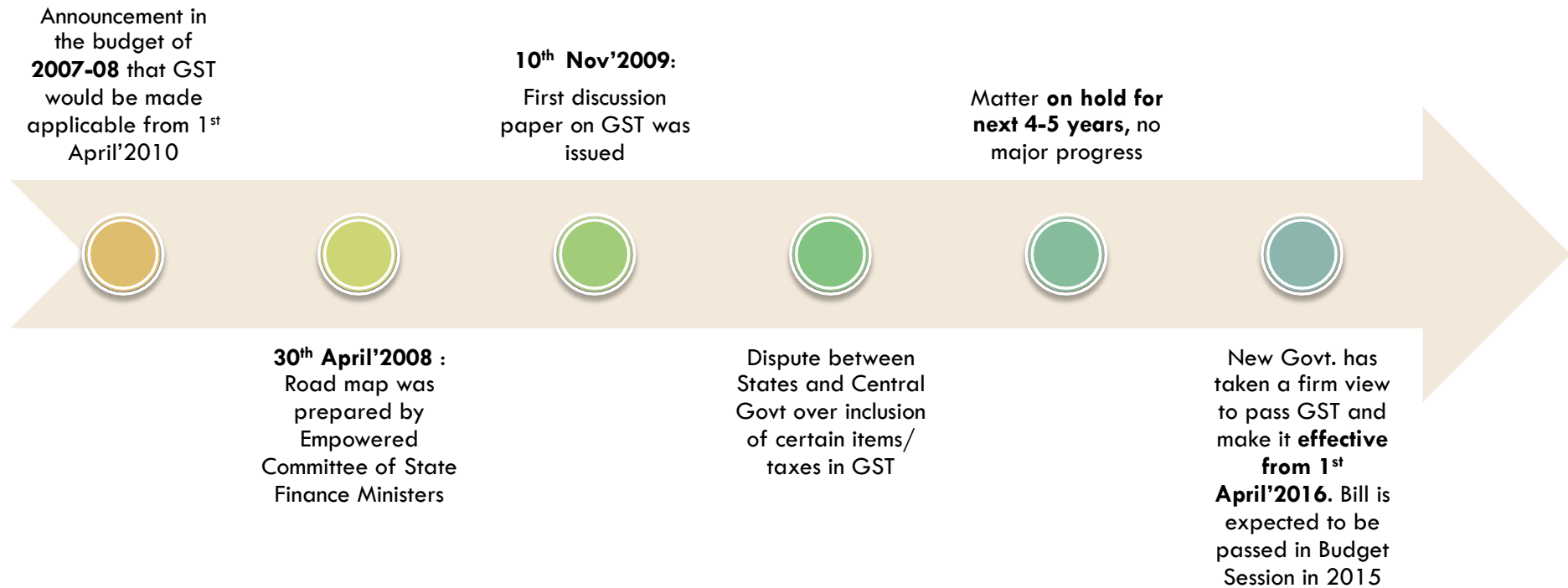
- It's been more than 5 years when first discussion paper was released on Good and Service Tax (GST).
- The present Government is quite serious in passing the GST Bill in the ongoing winter session of the Parliament to make it a reality from 1<sup>st</sup> April'2016 (just 15 months from now).
- Purpose of this update is to apprise about the fundamental structure of GST and some issues which requires consideration before the transition to this new and revolutionary indirect tax law.
- You may also like to use it to educate your internal taxation team about GST.
- The views and opinion expressed in this update are personal in nature and it is advised to consult with an expert before taking taking any action based on them.



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## 2. Background of GST



### 3. Why GST is required?



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- In the present system of CENVAT (Central Excise and Service Tax), many indirect taxes are outside the ambit of CENVAT, like Additional Excise duty, Additional Custom duty, Surcharges etc.
- In the present system of State VAT, there are following shortcomings:
  - Cascading effect of CENVAT as there is no credit available for the excise duty paid on goods and service tax on services while discharging sales tax liability.
  - No credit of CST paid on purchase in case of inter state sale.
  - Many Indirect taxes are not part of VAT i.e. Entertainment Tax, Luxury tax, Entry Tax etc.
- With the introduction of GST, all of the above shortcomings will get removed which will establish a continuous chain of set off from the level of original producer/service provider to the level of retailer.



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## 3.1 Example: GST

Stage of supply chain	Purchase value	Value addition	Value of supply	GST rate	GST on Output	Input tax credit	Net GST
Manufacturer	100	30	130	10%	13	10	3
Whole-seller	130	20	150	10%	15	13	2
Retailer	150	10	160	10%	16	15	1

## 4. GST model in India



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- India will adopt a dual structure GST- CGST (Central GST) and SGST (State GST).
- This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State)
- For Inter State Transactions, there would be IGST which will be comprising of CGST and SGST.
- Cross utilization of Input Tax Credit (ITC) not allowed between CGST and SGST except in case of Inter-State transactions.
- GST would be applicable on supply of goods or services as against the present concept of tax on the manufacture or on sale of goods or on provision of services.
- GST would be a destination based tax as against the present concept of origin based tax. SGST would accrue to the State where goods are consumed.

....contd.



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- A uniform threshold limit will be prescribed under SGST which presently varies from State to State.
- Two rates are expected to be prescribed under GST, one for goods& services of basic importance, another standard rate for remaining goods and services.
- Standard rate is expected to be 20%.
- Exports will be zero rated
- CGST and SGST to be levied on imports with necessary Constitutional Amendments.



## 5. GST- Global situation



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- More than 140 countries have already introduced GST/National VAT.
- France was the first country to introduce GST system in 1954.
- Typically it is a single rate system but two/three rate systems are also prevalent.
- Canada and Brazil alone have a dual VAT.
- Standard GST rate in most countries ranges between 15-20%.
- All sectors are taxed with very few exceptions/ exemptions.

## 6. Which indirect taxes will be subsumed?



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- Following **Central taxes** will be subsumed in GST:
  - Central Excise Duty
  - Additional Excise Duties
  - Excise Duty levied under Medicinal & Toiletries Preparation Act
  - Service Tax
  - Additional Customs Duty (CVD)
  - Special Additional Duty of Customs (SAD)
  - Surcharges and Cesses
  
- Following **State level taxes** will be subsumed in GST:
  - VAT/Sales Tax
  - Entertainment Tax
  - Luxury Tax
  - Taxes on Lottery, betting and gambling
  - State Cesses and surcharges related to supply of goods and services
  - Entry tax not in lieu of Octroi

....contd.



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- Following taxes will/may be **outside** the ambit of GST:
  - Purchase tax
  - Tax on Alcoholic products
  - Tax on Tobacco products
  - Taxes on petroleum products
  - Stamp duty
  - Vehicle tax

## 7. How IGST will work?



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- Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services.
- The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases.
- The Seller's State will transfer to the Centre the credit of SGST used in payment of IGST.
- The purchasing dealer will claim credit of IGST while discharging his output tax liability in his own State.
- The Centre will transfer to the purchasing dealer's State the credit of IGST used in payment of SGST.

## 8. Issues to be addressed



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- What will happen to the unutilized input credit on the date of implementation of GST?
- What will happen to the special industrial schemes?
- How many tax returns to be filed?
- Will there be a single rate for goods and services or separate rates?

## 9. Role of IT in success of GST



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- IT (Information Technology) infrastructure will play a major role in successful implementation of GST.
- India will be one market. To ensure this, a real time credit settlement system of ITC in case of Inter state transactions needs to be in place.
- Considering the importance of IT, Central Govt. appointed (in past) Mr. Nandan Nilekani to head the Empowered Group of IT Infrastructure on GST and GSTN (Goods and Service Tax Network) was envisaged.
- A PAN based taxpayer ID will be used across India for CGST and SGST.
- The IT system is being envisaged to be intelligent enough to detect and deter the frauds.
- Next few slides will showcase the role of IT in the GST implementation and why it is so important.



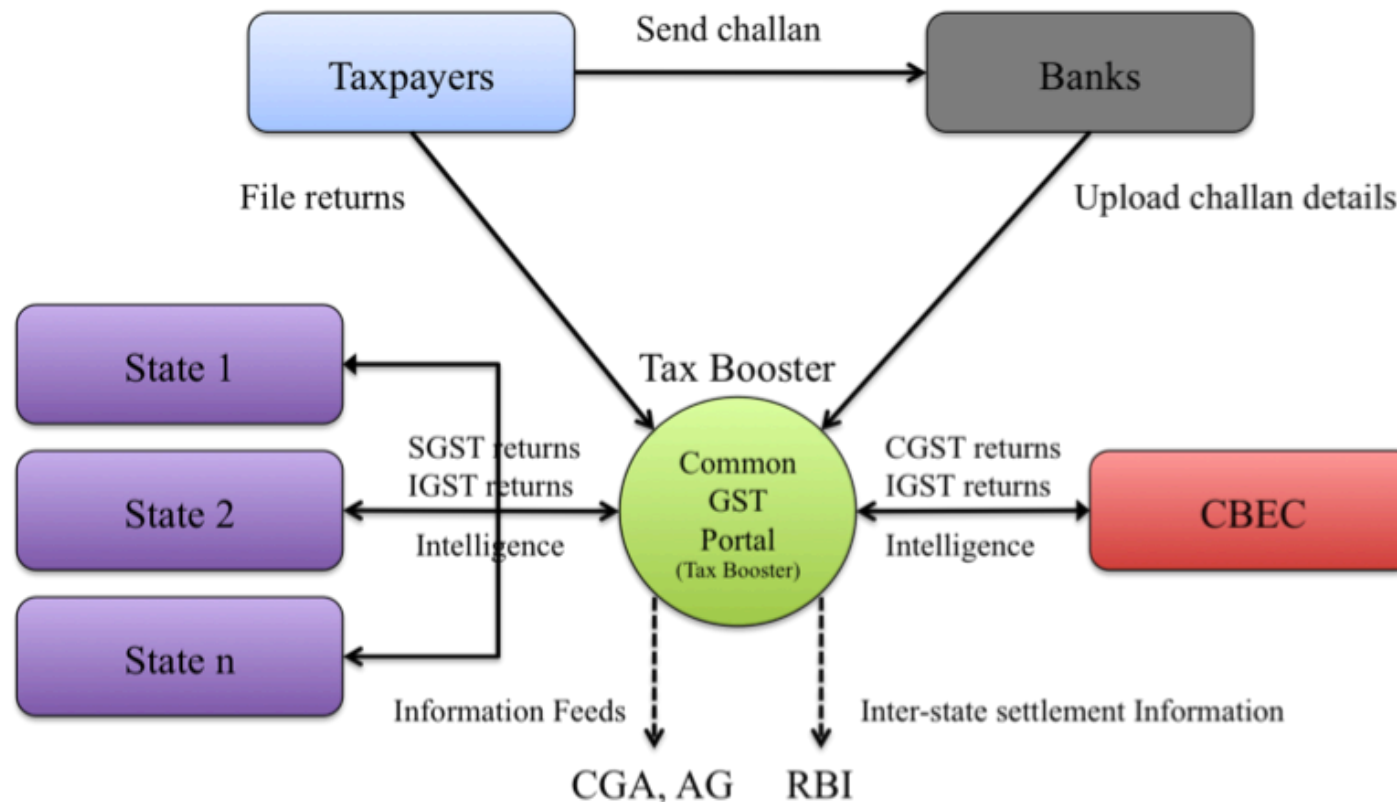
## 9.1 Framework of GSTN





## 9.2 Information flow

**Information flows unmodified through Common GST Portal to states and CBEC**  
**Common GST Portal will also integrate with systems of CBDT, MCA, etc.**

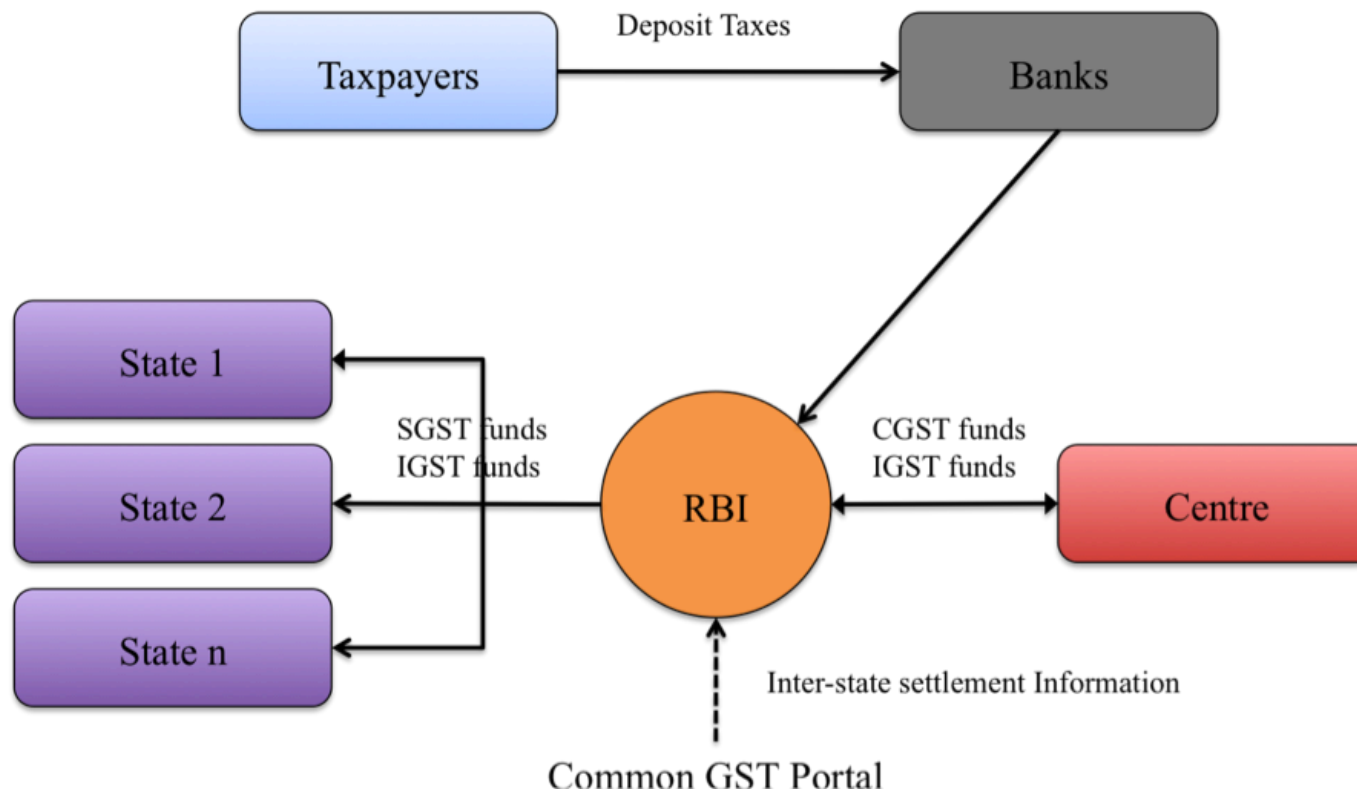






## 9.3 Fund transfer between Centre and States

**State funds flow directly from taxpayers to the states**  
**Centre funds flow directly from taxpayers to centre**



## 10. Preparation for GST by companies



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- Considering the eagerness shown by the present government, GST now seems to be a reality from 1<sup>st</sup> April'2016.
- Companies can take following measures to prepare itself for the smooth transition of GST:
  - Educate its employees about basic concept of GST who are responsible for managing indirect tax compliances
  - Study GST model of other countries to understand the practical aspects
  - Use hypothecated examples to work out the impact of GST on the products manufactured/traded or services provided
  - Keep a track of all the developments related to GST



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## 11. About us

Served more than **50**  
**clients** in past **9**  
years

Strong team of **70**  
energetic people,

State of the art  
office of **3,500** sqft

Impressive client  
retention period : >  
**6** years

Client's turnover :  
INR **50** cr to Rs.  
**1,500** cr

**99.87%** adherence  
to SLA's

## 12. Taxation compliance services



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- We take care taxation compliances on end to end basis at pan India level i.e. across **29 States and 6 union territories.**
- Services:
  - Ascertaining the correct liability of tax for the period (i.e. month/quarter etc.)
  - Ensuring full availment and utilization of Input credit (wherever applicable)
  - Preparation and filing of tax returns
  - Preparation of detail for assessment or audit purpose
  - Representing company during the tax assessment
- Coverage of taxation compliances:

■ Value added tax and CST	■ Income Tax
■ Service tax	■ Professional Tax
■ Central Excise	■ PF & ESI
■ Any other tax compliances	

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