

Popular Article

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## **One Nation, One Tax – GST**

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### **Introduction**

Indian political system is three tier system i.e. Central government, State governments and local authority. At each level different types of taxes are levied. There are two types of taxes are being collected in India – Direct tax and Indirect Tax. Indirect taxes are collected by Central as well as State governments of the nation. Indirect taxes are those taxes which are indirectly levied on expenses incurred by the individual. Taxes like customs, excise, central sales tax, service tax were collected by central government and taxes like value added tax, professional tax, stamp duty tax, luxury tax were collected by state governments. Several Indirect taxes of central and state governments are subsumed in one tax i.e. Goods and services Tax.

GST is emerged from limitations of indirect tax system. Indirect tax system had specific deficiencies like cascading effect, varied concessions and exemptions, lack of transparency multiple stages of tax collection, lack of uniformity, different provisions for goods and services in the context of taxes etc. To eliminate deficiencies of indirect tax system GST is introduced in place of several taxes of central and state governments so the uniformity can be maintained across the country. Benefits of GST are – reduction in multiplicity of taxes, relief in double taxation, efficient neutralization of taxes, development of common market, simple tax regime, simple tax mechanism, price reduction, uniform prices across the country, transparency in taxation system, benefit of input tax credit, benefits to small retailers, reduction in average tax burden, one nation one tax, strengthening economy of the country, uniform development of all states, reduction in accounting work etc. These benefits are availed by the traders and customers and assisting to establish good relation between central government and states and union territory governments.

In GST different central and state level taxes are subsumed. It is very difficult task the conversion

of several taxes of different governments in to one tax. There are several aspects of GST like history of indirect taxation, GST concept and origins, amendment of constitution for goods and services tax, GST council, definitions, administration, supply, registration, levy and collection of tax, composition levy, exemptions, input tax, output tax, input tax credit, rate of goods and services tax deducted at source, tax collected at source, refunds, assessment, compensation to states, accounts and records, offences and penalties, inspection, search, seizer, arrest and confiscation, reverse charge mechanism, export and import under GST and many more are carefully well designed. Only selected aspect of GST (i) concept of GST (ii) Rates of GST and Services and goods and services are covered under different tax rates (iii) Input tax credit (iv) Reverse charge mechanism and (V) GST council are discussed in brief in this paper.

**Good and Services Tax:** "Goods and Services Tax "means any supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption. Meaning of services here is anything other than goods, While goods has already been defined under article 366(12) in an inclusive manner, to provide that goods include all materials, commodities and articles.

On 29-3-2017 Loksabha and on 6-4-2017 RajyaSabha passed the following four bills.

1. The Central Goods and Services Tax Bill, 2017 (CGST)
2. The Integrated Goods and Services Tax Bill, 2017 (IGST)
3. The Union Territories Goods and Services Tax Bill, 2017 (UTGST)
4. The Goods and Services Tax (compensation to states) Bill, 2017 (CGST)

Goods and Services Tax of each state was to be passed by the respective state government. All state governments have passed their bills on different dates. Gujarat Government has passed GST Act on 9-5-2017.

**Rates of GST:** An excellent arrangement of tax rates is made under GST regime. Keeping in mind nature, utility and need of goods and services these rates are determined by the concern authorities. Still process in transition period so on demand of public and government at its own is open to modify these rates. These tax rates determinations is based on two aspects (i) location of supplier and (ii) place of supply. With consideration of these two important factors the supply of goods and services are categorized in to two categories (i) Interstate supply and Intra State supply.

**Goods:** In table A goods related GST rates are shown.

**Table A**  
Tax rates for Goods

Schedules and Tax Rates (%)		Interstate supply of Goods and services	Intrastate supply of Goods and services		
		IGST (%)	CGST (%)	SGST/UTGST (%)	CGST + SGST/UTGST (%)
Schedule 1	5	5	2.5	2.5	5
Schedule 2	12	12	6	6	12
Schedule 3	18	18	9	9	18
Schedule 4	28	28	14	14	28
Schedule 5	3	3	1.5	1.5	3
Schedule 6	.25	.25	.125	.125	.25
Schedule 7	Nil	Nil	Nil	Nil	Nil

Following are tax rates and goods which covered under each tax rates. This list is not an exhaustive it is given for information purpose.

Tax Rates	Goods
5%	Meat/Fish (other than fresh/chilled) put up in a container and bearing a registered brand name, skimmed milk powder, chena or paneer put up in a container and bearing a registered brand name, singhada (dried whether or not shelled or peeled), mangoes (sliced, dried), grapes(dried and raisins), coffee(roasted), tea (whether or not flavoured, other than unprocessed green leaves of tea)mate, vanilla, cinnamon and cinnamon-tree flowers,cloves(whole fruit, cloves and steams) and many more.
12%	Live horses, condensed milk, ghee/butter oil, branded cheese, brazil nuts, dates(soft or hard), citrus fruit, starches, pig fats, wool grease, edible mixtures, pasta, vegetables/fruits/ nuts/tomato/mushrooms(prepared or preserved by vinegar or acetic acid),jams, fruit juices, diabetic foods, soya milk drinks, printing/writing ink, tooth powder, candles, feeding bottles, plastic beads and many more.

18%	Malt(whether or not roasted), tendu leaves, Indian katha, glycerol, vegetable waxes, artificial honey, sugar confectionery, cocoa butter, cocoa powder, chocolates, malt extract, pastry, cakes, biscuits, ice cream, mineral water, non-alcoholic beverages, vinegar, marble/granite(other than blocks) and many more.
28%	Pan masala, all goods(including aerated waters) containing added sugar/other sweetening matter/flavoured, cigars/cigarettes/manufactured tobacco substitutes, Portland cement, paints/varnishes/lacquers, glaziers' putty, new pneumatic tyres, air conditioning machines, refrigerators/freezers equipment, washing machines and many more.
3%	Pearls(natural or cultured), diamonds, precious stones, gold, platinum, silver, jewellery (gold/silver)[not including bangles of lac/shellac] and others
.25%	Diamonds(industrial or non industrial, un-worked or simply sawn, cleaved or brutes, including unsorted diamonds) and others
Nil	Live sheep and goats, Fresh milk and pasteurized milk, including separated milk, milk and cream, not concentrated nor containing added sugar or other sweetening matter, excluding Ultra High Temperature (UHT) milk

### Computation of GST:

Preet limited of Pune, is a supplier of a X component within the state and outside the state. GST rate to his is 28%. Sales data for the month of January 2018 is as follows.

Date	Recipient of supply	Place of supply	Amount of supply in Rupees
January 5, 2018	A	Jodhpur	12,00,000
January 12, 2018	B	Nasik	15,00,000
January 18, 2018	C	Bombay	13,00,000
January 24, 2018	D	Delhi	28,00,000
January 30, 2018	E	Chandigarh	10,00,000

## Statement of GST liability of Preet limited for the month of January, 2018

Recipient of Supply	Nature of supply (Place of Supply)	Taxable value of goods	IGST@ 28%	CGST @ 14%	SGST @ 14%
A	Jodhpur ( <b>Inter- state</b> )	12,00,000	3,36,000	-	-
B	Nasik (Intra State)	15,00,000	-	2,10,000	2,10,000
C	Bombay (Intra State)	13,00,000	-	1,82,000	1,82,000
D	Delhi ( <b>Inter- state</b> )	28,00,000	7,84,000	-	-
E	Chandigarh ( <b>Interstate</b> )	10,00,000	2,80,000	-	-
Total GST Liability			14,00,000	3,92,000	3,92,000

Note: Tax rate applicable to Preet limited is 28%. Irrespective of nature of supply company has to pay total tax @28%. If it is Interstate supply 28% IGST and if it is Intrastate than 14% CGST and 14% SGST are applicable.

**Services:** In table B services related GST rates are shown.

**Table B**

## Tax rates for Services

Categories and Tax Rates (%)		Interstate supply of Goods and services		Intrastate supply of Goods and services		
		IGST (%)		CGST (%)	SGST/UTGST (%)	CGST + SGST/UTGST (%)
Category 1	5	5		2.5	2.5	5
Category 2	12	12		6	6	12
Category 3	18	18		9	9	18
Category 4	28	28		14	14	28
Category 5	3	3		1.5	1.5	3
Category 6	.25	.25		.125	.125	.25
Category 7	Nil	Nil		Nil	Nil	Nil

In case of services most of the services attracts 18% GST. A few services are taxable at the lower rate of 5% and 12%. Some services are taxable at a higher of 28%. These rates are briefly narrated as follows. In case of service tax for one service different tax rates are applicable. The reason behind this is that these kind services are further categorized into sub services by considering their nature. E.g. Accommodation, food and beverage service – Accommodation in a hotel/inns/guest house/club/campsites/other similar places for residential purposes having "declared tariff"

- |   |         |
|---|---------|
| a) Less than Rupees 1,000 per unit per day                                | Nil Tax |
| b) Rupees 1,000 or more but less than Rupees 2,500 per unit per day       | 12%     |
| c) Rupees 2,500 or more but less than Rupees 7,500 per unit per day       | 18%     |
| d) Rupees 7,500 or more per unit per day (Including 5 star accommodation) | 28%     |

Following are tax rates and services which covered under each tax rates. This list is not an exhaustive it is given for information purpose.

Tax Rates	Services
5%	Composite supply of works contract involving predominantly earth work (that is, constituting more than 75% of the value of the works contract) provided to the Central Government/State Government/Union Territory/Local authority/Government authority, Transport of passengers with or without accompanied belongings, by (a) rail in first class or air conditioned coach (b) air in economy class etc, Goods transport – transport of goods in vessels,
12%	Composite supply of works contract (i.e. construction, repair, completion, maintenance, renovation etc) provided to Central Government/State Government/Union Territory/Local authority/Government authority, Goods transport – transport of goods in containers by rail any person other than rail,
18%	Construction of complex, building, civil structure, services in retail trade, rental services of transport vehicles with or without operators,
28%	Gambling, services provided by a race club by way of totalisator or a license to bookmaker in such club,

Nil	Support services to agriculture, forestry, fishing, animal husbandry etc. Services provided by the Central Government, State Government, Union territory or local authority to another Central Government, State Government, Union territory or local authority: Provided that nothing contained in this entry shall apply to services(i) by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services provided to a person other than the Central Government, State Government, Union territory; (ii) in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport; (iii) of transport of goods or passengers and many more.
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**GST council:** GST council is a constitutional body to decide issued relating to GST. The union cabinet under the chairmanship of Prime Minister Shri Narendra Modi approved setting up of GST council on 12<sup>th</sup> September, 2016 and setting up the secretariat. The union finance minister who will be the chairman of the council. The union minister of state in charge of revenue or finance who will be the member of council. One member from each state who is minister in charge of finance or taxation or any other minister, any one of them will be vice chairman of the GST council who will be mutually elected by them. The secretary of revenue department will work as EX OFFICIO secretary to the GST council. The chairperson of central board of excise and custom will be the permanent invitee in all the proceedings of the GST council who will not have the voting rights.

The role of GST council is very important because council bring all states on a common platform where issues pertaining to GST are to be resolved unanimously. GST council has to perform very crucial functions which would not create any kind of dissatisfaction amongst public, traders, central government and state governments including union territories. Article 279A (4) provides that GST council make recommendations to the central and state governments on:

- a) The taxes, cesses and surcharges levied by the union, the states and the local bodies which may be submitted in the goods and services tax,
- b) To decide exempted goods and services in the interest public,
- c) Formation of model tax laws for goods and services, principal of levy, apportionment of goods and services tax levied on applies in the course of inter-state trade or commerce,
- d) To decide the threshold limit of turnover below which goods and services may be exempted from this tax,
- e) To decide floor rated with bands of goods and services tax,
- f) To decide special provisions for states – Arunachal Pradesh, Assam, J&K, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura Himachal Pradesh and Uttarakhand,

g) Any other matter relating to the goods and services tax, as council may decide.

GST council has arranged several meetings after its formation to eliminate any kind of ambiguity, relaxation in GST and other related issues. So far 25 meetings are arranged by the council for hurdles free implementation of GST. Last 25<sup>th</sup> meeting of council was held at vigyanbhavan, New Delhi, on 18<sup>th</sup> January, 2018.

**Input Tax Credit:** To eliminate the cascading effect of taxes and to minimize tax liability effectively, the concept of input tax credit is considered to be best mechanism to avoid double taxation on goods and services. Section 2(63) defines the expression ‘input tax credit’ as the credit of input tax. Section 2(62) defines the expression ‘input tax’ in the relation to a registered person as the central tax, state tax, integrated tax or union territory tax charged on any supply of goods or services or both made to him. In brief the supplier of goods/services can avail credit of CGST/SGST/UTGST and IGST charge by input supplier of goods, services and capital goods.

Utilization order of input tax credit of different GST is as under.

Sr. No.	Balance of GST	Utilization order of balance of GST
1	IGST	(i) First will be utilized for payment of IGST (ii) any balance for payment of CGST and finally (iii) if any surplus remains can be used for payment of SGST/UTGST.
2	CGST	(i) First will be utilized for payment of CGST (ii) any balance for payment of IGST and finally (iii) if any surplus remains cannot be used for payment of SGST/UTGST.
3	SGST/UTGST	(i) First will be utilized for payment of SGST/UTGST (ii) any balance for payment of IGST and finally (iii) if any surplus remains cannot be used for payment of CGST.

How and in which order input tax credit balance will be utilized by the company for eliminating cascading effect of taxes, is explained as follows.

On 21<sup>st</sup> January, 2018 X company limited of Mumbai has supplied goods its customer of Pune for Rs. 53,60,000. On the same day sent goods of Rs. 10,00,000 to its customer of Chennai. Applicable GST rate is 18%. X Company limited has the following balances its electronic



credit ledger. (i) IGST Rs. 1,84,000 , (ii) CGST Rs. 10,000 and (iii) SGST Rs. 18,00,000.

Statement of Total GST

(Company limited – Mumbai) (Tax paid on Input)

Particulars	Taxable Value (Rs)	IGST @ 18%	CGST @ 9%	SGST @ 9%
a) Supply to Pune customer (Intrastate supply)	53,60,000	--	4,82,400	4,82,400
b) Supply to Chennai customer (Interstate supply)	10,00,000	1,80,000	---	---
Total Payable GST		1,80,000	4,82,400	4,82,400

Statement of Utilization of Input tax credit and Net Payable GST

Particulars	IGST (Rs)	CGST(Rs)	SGST(Rs)
Tax on output supply	1,80,000	4,82,400	4,82,400
Less: IGST Balance (Utilization of Input tax Credit) (See utilization order )	1,80,000	4,000	---
	---	4,78,400	4,82,400
Less: CGST Balance (Utilization of Input tax Credit) (See utilization order )	---	10,000	---
	---	4,68,400	4,82,400
Less: SGST Balance (Utilization of Input tax Credit) (See utilization order )	---	---	4,82,400
Net GST Payable	---	4,68,400	---

X Company is liable to pay Output tax of Rs. 11,44,800 (IGST1,80,000+4,82,400+4,82,400) but input tax credit can used of Rs 6,76,400 (Rs.1,80,000+4,000+10,000+482400) (which are paid at the time acquisition of goods), so it will be deducted from Rs 11,44,000 net amount of payable GST will be Rs. 4,68,400.

In brief to be for output Rs. 11,44,800 and paid at the time input acquisition Rs. 6,76,400

(On the basis of conditions of input credit utilization) thus net payable amount is of Rs. 4,68,400.

**Reverse Charge Mechanism:** Generally, supplier of goods and services is liable for payment of GST to the government. In a few cases, however, the recipient of goods/services is liable for payment of GST. There are two sections – section 9(3) and section 9(4) under which recipient are liable to pay GST.

As per section 9(3) supply of cashew nuts, not shelled or peeled, Bidi wrappers leaves (tendu), Tobacco leaves, Silk Yarn, Raw Cotton, Supply of lottery, supply of services by goods transport agency(based on certain conditions), services provided by an individual advocate(including a senior advocate) or firm of the advocates by way of legal services, directly or indirectly, services provided by an arbitral tribunal, services provided by way of sponsorship, services supplied by government, services provided by the a director of a company or a body corporate to the said company or the body corporate, services supplies by an insurance agent to any person carrying on insurance business, services supplied by recovery agents, supply of services by an author, music composer, photographer, artist or the like by the way of transfer or permitting the use or enjoyment of a copy right relating to original literary, dramatic, musical or artistic works to a publisher, music company, produces or the like etc(Where nature of supply and recipient of supply for goods and services are specified.)

As section 9(4) provides that GST in respect of the supply of taxable goods/services by a supplier, who is not registered, to a registered person shall be paid by the recipient under reverse charge mechanism and all GST provisions shall apply to such recipient as if he is the person liable for paying GST in relation to the supply of goods and services. So, whenever a registered person procures supplies from an unregistered supplier, he needs to pay GST as per reverse charge mechanism.

### **Conclusion**

The elimination of different taxes and formation one tax in the nation is result of efficient and effective steps of central government and state governments. It is an achievement of the nation. GST is passing through transition period. It has certain limitations. In this regard GST council is working very sincerely and after full implementation of GST all concerned stakeholders will be happy with simple, easy and comfortable indirect taxation system.

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