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Basics of GST

An Overview of Applicability

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GST, also known as the ***Goods and Services Tax*** is an indirect tax levied in India from 1 July 2017. It applies to the supply of goods or services or both and is borne by the final consumer of such goods or services.

GST was introduced to replace the multi-tax system by a single tax and remove many different tax laws such as excise duty, service tax, central sales tax, entry tax and so on. However, basic customs duty continues to apply. Also, excise duty on certain items like alcohol will still be applicable.

GST is a destination-based (consumption) tax, and hence, only the consuming states get to enjoy the revenue collected on a transaction. Further, an end-user consuming any goods or services is liable to pay the Goods and Services Tax.

Advantages of GST: Removes cascading effect & many more

GST helps remove the tax-on-tax issue (also known as cascading effect) and hence reduces the final price of the end-product. In the erstwhile system, this issue was prevalent. The state-imposed VAT paid on purchase could not be used to pay towards excise duty/service tax payable to the centre on the manufacture of goods. Now, this will be done away with!

Let’s take an example pertaining to the pre-GST era to understand the essence of GST.
In order to sell a T-shirt to one Mr Robert, the supply of that T-shirt goes through many stages - manufacturer, distributor and a retail store.

Let us assume that the tax rate is 10% across and the profit margin is 20% for all taxpayers.

Taxpayer	Action	Cost (Rs)	Profit (Rs)	Total (Rs)	Tax at 10%	Price (Rs)
Manufacturer	Purchases raw material	100	20	120	12 (Sales tax)	132
	Manufactures @ Rs 40 (additional cost incurred)	172	34	206	21 (Central Excise)	227
Distributor	Adds value @ Rs 30	257	51	308	31 (VAT)	339
Retailer	Adds value @ Rs 20	359	72	431	43 (VAT)	474
	Total	**190**	**177**	**367**	**107**	**474**

Now from the above example, we can see that tax is being added at every stage after which further taxes are being charged.

We can notice that the total Rs 206 at stage one (in the second row) includes the tax of Rs 12 charged by the raw material vendor. Tax is charged on Rs 206 to arrive at Rs 21. This is what is meant by tax paid on tax or in short, 'the cascading effect'.

Why did this happen?
This is because the Central Sales Tax (CST) and Excise Duty were Central taxes whereas the VAT is a state tax. Ideally, the tax paid on your purchases can be deducted while paying the tax to the government on your sales known as an input tax credit. But not all taxes can be claimed as input tax credits. As per the input credit rules, central taxes cannot be used to set off against state taxes, because the Central tax is being paid to the Central Government whereas the VAT is being paid to the state government. Further, CST credit cannot be claimed at all! These were some of the restrictions on claiming the input tax credit. It led to higher tax outflow.

Under GST, all these are gone!
GST helps mitigate the cascading effect to a great extent. In the same example, let's add two more columns.

Taxpayer	Action	Cost (Rs)	Profit (Rs)	Total (a) (Rs)	Tax on sales at 10% (d) (Rs)	ITC (e) (Rs)	Actual liability (b)=(d)-(e) (Rs)	Price (c)=(a)+(b) (Rs)
Manufacturer	Purchases raw material	100	20	120	12	--	12	132
	Manufactures @ Rs 40 (additional cost incurred)	172	34	206	21	12	9	215
Distributor	Adds value @ Rs 30	245	49	294	29	21	8	302
Retailer	Adds value @ Rs 20	322	64	386	39	29	10	396
	Total	**190**	**167**	**357**			**39**	**396**

Hence, if we compare the two tables given above, we can observe that the price has drastically fallen post-GST implementation, which is a primary advantage of GST. It was possible by charging tax only on the value that is added during each process.

Apart from the above major advantage of GST, other benefits are that it advocates a relatively simple and easy online procedure, the number of compliances is lesser when compared to the previous indirect tax regime, improved efficiency of logistics and built to regularise the unorganised sectors in India.

However, the GST system has a few drawbacks, one of them being that GST is completely an online taxation system, at a point of time when the taxpayer base is not technologically self-sufficient.

GST can be charged under either of the following tax heads based on supply type as given below:

Supply of goods or services is	Supply type	Tax head/s	Government earning tax revenue
Within the state or Union Territory	Intra-state supply	Central GST State GST/Union Territory GST, as the case may be	Central State/Union Territory, as the case may be
Between two states/ Union Territories Import Export	Inter-state supply	Integrated GST	Central which distributed proportionate revenue to the consuming state/Union Territory.

Note: CGST and SGST each are approx. half the rate applicable for IGST.

What are the different GST rates?

There are primarily four different GST rates charged i.e. 5%, 12%, 18% and 28% depending upon the item and description of goods or services supplied. Apart from these, there are only a few other items like silver, gold or precious metals in its alternative forms that are covered under a lower rate of 0.25% or 3%.

In addition to these, GST compensation cess may apply to a few items such as automobile parts, sin goods (goods deemed harmful to society and individuals such as alcohol and tobacco), and luxury goods.

The rate applicable for Composition dealers is nominal and not covered here.

Below is a list of few items along with the applicable tax rate:

GST Rates	Products		
0%	Milk	Unpacked foodgrains	Kajal
	Eggs	Unpacked paneer	Educational services
	Curd	Gur and palmyra jaggery	Health services
	Lassi	Unbranded natural honey	Children’s drawing and colouring books
	Salt	Fresh vegetables	Unbranded atta
	Prasad	Besan	Unbranded maida
0.25%	Synthetic or reconstructed precious or semi-precious stones	Precious stones (other than diamonds) and semi-precious stones	Diamonds, non-industrial unworked or simply sawn, cleaved or bruted, including unsorted diamonds
3%	Coin	Imitation jewellery	Articles of jewellery and parts of precious metal or metal clad with precious metal
5%	Sugar	Fabric	Packed paneer
	Tea	Spices	Coal
	Edible oils	Coal	Raisin
	Domestic LPG	Life-saving drugs	Roasted coffee beans and coffee (except instant)
	PDS kerosene	Coir mats, matting and floor covering	Skimmed milk powder

GST Rates	Products		
5%	Cashew nuts	Agarbatti	Footwear (<Rs.500)
	Milk food for babies	Mishti/mithai (Indian sweets)	Apparels (<Rs.1,000)
12%	Butter	Computers	Packed coconut water
	Ghee	Processed food	Umbrella
	Almonds	Mobiles	Fruit juice
18%	Hair oil	Toothpaste	Capital goods
	Soap	Ice-cream	Industrial intermediaries
	Pasta	Toiletries	Corn flakes
	Computers	Printers	Soups
	Leasing services involving own or leased non-residential property	Any other professional, technical and business services	Accommodation in hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes where room tariff between Rs.2,500 and Rs.7,499 per room per day
28%	Small cars (+1% or 3% cess)	High-end motorcycles (+15% cess)	Consumer durables such as AC and fridge

Note: Abatement is available for leasing of motor vehicles purchased and leased prior to 1 July 2017 to the extent of 35% of the applicable tax rate, till 30th June 2020.

Certain items of goods or services are notified as exempt (includes 0%) or is not a supply under GST law (alcohol and tobacco). Hence, no GST applies to them. GST on crude petrol and products has not yet been notified.

The supplies for the purpose of deciding whether is subject to GST and if so, Following is the broad classification under GST law:

Supply Name	Description
Taxable	Supply of goods or services or both which is leviable to tax under this Act.
Zero Rated (Not Nil rated)	Exports Supplies made to SEZ or SEZ Developers.
Nil Rated	Supplies that have a declared rate of 0% GST. Example: Salt, grains, jaggery, etc.
Exempt	Supplies are taxable but do not attract GST and for which ITC cannot be claimed. Example: Fresh milk, fresh fruits, curd, bread, etc.
Non-GST	These supplies do not come under the purview of the GST law. Example: Alcohol for human consumption.
Others	Petroleum crude, high-speed diesel, aviation turbine fuel, and natural gas are still under the scope of GST but the GST rate is yet to be notified as on 31 July 2019.

Exemptions under GST

Many items such as fresh milk, fruits, and vegetables never attract GST. These are declared as exempt supplies.

Exempt supply implies, although levy exists, that GST does not apply to the notified supply of goods or services either in public interest or on a recommendation of the GST Council. Also, if the input tax credit (ITC) is claimed on the raw materials/input services used to make exempt supplies, it must be reversed.

Exemptions under GST has been notified as follows:

- Supplies taxable at a 'NIL' rate of tax* (0% tax).
- Supplies that are wholly or partially exempted from CGST or IGST by way of a notification amending Section 11 of CGST Act or Section 6 of IGST Act.
- Non-taxable supplies as defined under Section 2(78) – supplies that are not taxable under the Act (for example, alcoholic liquor for human consumption).

*Supplies can be charged with a different GST rate via a notification.

Please note that the zero-rated supplies like exports cannot be classified as exempt goods and hence the treatment for zero-rated supply would differ.

Learn what is the mechanism around making exemptions under GST:

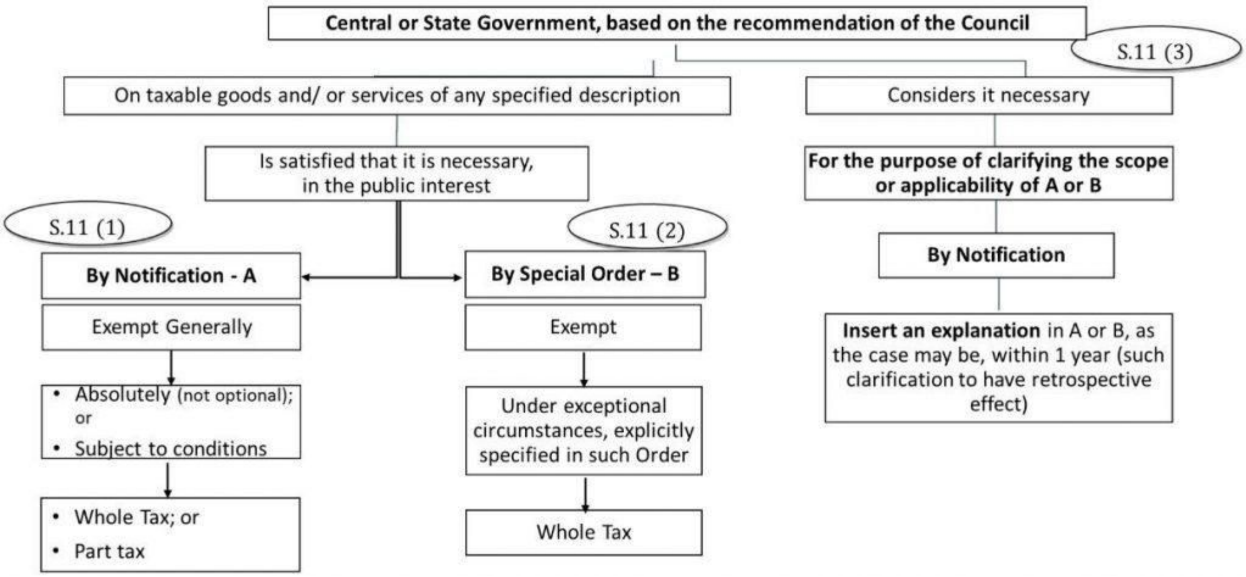

Fig.1 : Exemptions under GST

Types of Exemptions:

- Absolute exemption: Exemption without any conditions. For example, transmission or distribution of electricity by an electricity transmission or distribution utility or services by the Reserve Bank of India.

- Conditional Exemption: Exemption subject to certain conditions. For example, services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having declared tariff of a unit of accommodation less than 'Rs 1,000 per day'.

- Partial exemption: For example, intra-state supplies of goods and/or services received from an unregistered person by a registered person is exempted from payment of tax under reverse charge provided the aggregate value of such supplies received by a registered person from all or any of the suppliers does not exceed `Rs 5,000 in a day'.

Effect of exemption notified under one law on other GST laws:

Exemption under CGST Act	Deemed to be exempt under the SGST/UTGST Act
	No auto-application of exemption under the IGST Act
Exemption under IGST Act	No auto-application of exemption under the CGST Act

You can get a complete list of goods notified as exempt under GST here.

HSN codes and its implications

The goods and services are classified under 99 chapters following the Harmonized Commodity Description and Coding System (HSN code).

Services are also classified uniformly for recognition, measurement and taxation. Codes for services are called Services Accounting Code or SAC colloquially.

Under the Indian indirect tax system, an 8-digit classification of various items is followed.

HSN codes/SAC code classification is necessary to arrive at the GST rate applicable on the item under consideration.

What does law require with regards to HSN code and SAC codes?

The GST returns require the declaration of HSN code as follows:

Turnover (Rs)	No. of digits of HSN to be declared
Up to 1.5 crore	0
1.5 crore - 5 crore	2
More than 5 crore	4

Note: These slabs will undergo changes under the new GST returns system

The present GST returns in GSTR-1 has a table for HSN summary of outward supplies for the relevant tax period. However, it is not made mandatory.

GSTR-9 (annual return to be filed by all registered taxpayers) require a compulsory declaration of HSN summary of outward supplies and inward supplies, HSN code-wise, for the entire financial year. Minor relief is provided for declaring HSN summary for inward supplies only for such HSN codes that account for more than 10% of the total inward supplies during the financial year.

The new GST returns in ANX-1 will also need the HSN codes to be declared. HSN code shall be reported at least at a six-digit level for goods and services for taxpayers with turnover up to Rs.5 crore). All suppliers with an annual aggregate turnover of more than Rs.5 crore and that in relation to exports, imports and SEZ supplies will upload HSN level data while it has been kept optional for those with the turnover lower than that limit.

All about Different Tax Heads- SGST, CGST, IGST

There are four tax heads under GST- CGST, SGST/UTGST, and IGST. In order to identify which tax head applies and for passing revenue to the right State, classify supplies/transactions as the intrastate and interstate supply.

Intrastate supply of goods or services

- The location of the supplier and the place of supply is in the same state.
- A seller has to collect both Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) from the buyer.
    - CGST is deposited with the Central Government and is governed by the CGST Act, the CGST (Rate) Act and rules thereunder.
    - SGST is deposited with State Government and is governed by the respective SGST Acts, the CGST (Rate) Acts and rules thereunder notified by every State. [Note: e-way bill rules are separately notified by every State]
    - Instead of SGST, Union Territory Goods and Services Tax (UTGST) shall apply only to the Union Territories and is governed by the UTGST Act.
- CGST and SGST will be at a rate of approximately half of the IGST charged. Eg: If the tax rate is 5%, then CGST is 2.5% and SGST is 2.5% each.

Interstate supply of goods or services

- The location of the supplier and the place of supply are in different states. Few exceptions to this rule exist. (SEZ unit is the same State or transport of goods outside India)
- A seller has to collect Integrated Goods and Services Tax (IGST) from the buyer.
    - The amount of IGST accrues in the IGST pool and later distributed between the Central GST and State GST.
- Zero-rated supplies such as export or import of goods or services or when the supply of goods or services is made to or by an SEZ unit is deemed to be interstate supply.

Supply and its Types

GST is charged only on the supply of goods and services. Hence, we need to understand what ‘supply’ means. It includes but is not limited to, sale, transfer, lease, rent, hire for business purpose.

The main definition of supply under GST can be summarised as follows:

Apart from the main definition of supply, there are schedules under GST, defined as follows-

Schedule I:
Few supplies are declared as taxable even if no consideration is involved but is for business purposes. For example, sale of plant or machinery where ITC was availed on the same. The following are the list of supplies subject to GST even if no consideration is involved-

- Transactions between Related Persons
- Supply of Goods via an agent
- Taxable Person Importing Services From a Related Person
- Permanent Transfer of Business Assets where ITC has Been Availed on Such Assets

Read further here

Schedule II:
Certain transactions are specifically categorised either as the supply of goods only or as the supply of services. For example, any treatment or process which is applied to another person's goods is a supply of services. The list includes renting of immovable property, treatment applied on another person’s goods, construction of an immovable property, composite supplies and many more. Read further here

Schedule III
Some supplies are kept completely out of the GST purview, which otherwise would have attracted GST. For example, services by the employee to the employer in relation to his employment are covered here. Read further here

What is composite supply and mixed supply?

A different treatment has been specified for composite supplies and mixed supplies.

Now take an example of a Diwali gift box that consists of canned foods, sweets, chocolates, cakes, dry fruits, aerated drinks and fruit juices supplied for a single price. It is a **mixed supply** since all have individual uses.

Suppose the person separately buys canned foods, sweets, chocolates, cakes, dry fruits, aerated drinks and fruit juices separately and not as a Diwali gift box, then it is not considered as a mixed supply.

On the other hand, take the example of a construction of a new building where a combination of materials like bricks, cement, sand and services such as labourers, engineers, architects etc. together produce a building. You are paying for the construction in a single bill raised by the builder. Also, each of them is necessary for the completion of construction. It is a case of **composite supply**.

In case of the Diwali box example, since the aerated drinks have the highest GST rate of 28%, aerated drinks will be treated as principal supply and 28% will apply on the entire gift box with other items.

In the construction example, works contract is the principal supply being service, therefore, the rate applicable to the principal supply applies to the overall bill raised for the construction service.

We can conclude the following from these two types of supplies:

Particulars	Composite Supply	Mixed supply
Main item	Principal item	The item with the highest tax rate
Tax rate applicable	Tax rate of the principal item	Highest tax rate of all the items

Applicability of GST across businesses in India

GST is levied on the supply of goods and services for only those businesses that cross aggregate annual turnover over Rs.20 lakh.

Once the turnover crosses this limit, such businesses should register itself under GST on the centralised portal and obtain GST identification number (GSTIN) separately for every State/Union territory in which business operates.

To reckon the limit, PAN level turnover needs to be taken into consideration. A lower limit applies for special category states of Rs.10 lakh.

Alternatively, businesses can also opt to register under GST voluntarily even if turnover falls below these limits.

With effect from a date yet to be notified as on 31 July 2019, the limit has been raised to Rs.40 lakh for those businesses being the supplier of only goods. Also, a few states were given the option to choose between the limit Rs.10 lakh and Rs.20 lakh.

Once registered under GST, the business must start issuing GST compliant tax invoices, file GST returns on a regular basis, and comply with e-way bill rules where it involves the movement of goods.

A glimpse of various GST returns (GSTR-1, GSTR-3B, GSTR-2A, and GSTR-9)

One of the important compliance for GST registered taxpayer is to file GST returns regularly by the designated due dates. If not, they can be liable for late fees. Also, if tax is paid beyond the due date, interest liability can arise.

Let us quickly run through the popular GST returns to be filed by regular dealers.

GSTR-1 and GSTR-3B: At present GSTR-1 must be filed monthly by taxpayers whose annual turnover crosses Rs.1.5 crore. Likewise, those who have a turnover up to Rs.1.5 crore per annum can opt to file this return either monthly or quarterly. GSTR-1 is a return filed by suppliers of goods or services or both declaring their outward supplies during the tax period (invoice-wise with the mention of the buyer’s GSTIN), including exports, credit or debit notes against invoices and any amendments thereto. This return shall be used by the tax authorities to auto-prepare GSTR-2A for the tax period for every corresponding recipient taxpayer.

Another return for tax and ITC summary in GSTR-3B should be filed every month by all taxpayers except composition dealers.

GSTR-2A: The taxpayers will get the details of their purchase invoices along with ITC values as reported by their corresponding suppliers in GSTR-2A. They can use this auto-drafted return to compare with their purchase books and find any differences in ITC claim. Hence, they can fix any erroneous claims made in their GSTR-3B in the following month.

The returns mentioned above will completely phase out by January 2020 with the implementation of new GST returns.

A regular taxpayer should also be required to comply annually with the following returns:

GSTR-9: All regular taxpayers must file the annual returns in GSTR-9 by 31 December of next year related to the financial year.

The form will have consolidated details of sales, purchase, tax payable and paid, ITC availed and refund of tax. It involves rigorous reconciliation between Books of Accounts and regular GST returns already filed for the financial year such as GSTR-1, GSTR-3B and GSTR-2A.

GSTR-9C: In addition to the GSTR-9, certain taxpayers whose annual turnover exceeds Rs.2 crore must have GST audit conducted by a CA/CMA. The auditor must report reconciliation results and form an opinion in a form named GSTR-9C.

Composition dealers have a different system for return filing:

CMP-08 and GSTR-4: Composition dealers (for dealers/manufacturers in goods, and service providers stipulated by Notification No. 2/2019 dated 7 March 2019) have different rules for return compliance. They must pay tax in a statement cum challan CMP-08 for every quarter by the 18th of the month following the quarter. In addition to this, a renewed GSTR-4 that was earlier filed quarterly must be filed by 30th April of next year relevant to a financial year.

GSTR-9A: It is a return that a taxpayer registered under composition levy should file annually if he possesses registration anytime during the year. It must be filed by the 31st of December of the year following a particular financial year.

In addition to the above returns for regular taxpayers, the returns in forms GSTR-5, 5A, 7, 8 and 11 need to be filed by certain types of taxpayers. Whereas, the form GSTR-10 applies to all kinds of GST registered taxpayer who cancelled their registration during the financial year.

Let us have a quick look at the applicability and compliance required for these returns:

Return Form	Particulars	Frequency	Due Date
GSTR-5	Return for a Non-Resident foreign taxable person	Monthly	20th of the next month
GSTR-5A	Return for summarising the outward taxable supplies and tax payable by the OIDAR*	Monthly	20th of the next month
GSTR-6	Return for an Input Service Distributor	Monthly	13th of the next month
GSTR-7	Return for authorities deducting tax at source.	Monthly	10th of the next month
GSTR-8	Details of supplies effected through e-commerce operator and the amount of tax collected	Monthly	10th of the next month

Return Form	Particulars	Frequency	Due Date
GSTR-10	Final Return	Once, when GST Registration is cancelled or surrendered	Within three months of the date of cancellation or date of cancellation order, whichever is later.
GSTR-11	Details of inward supplies to be furnished by a person having UIN and claiming a refund	Monthly	28th of the month following the month for which statement is filed

*OIDAR stands for Online Information Database Access and Retrieval.