

## UNIT 1

### INTRODUCTION TO GST

The Goods and Services Tax (GST) is a comprehensive indirect tax introduced in India on July 1, 2017, to streamline and unify the country's taxation system by replacing multiple taxes with a single, nationwide tax on goods and services.

#### Objectives

- ✓ **One Nation, One Tax Ideology:** GST replaces multiple indirect taxes, creating a unified tax structure across all states, simplifying tax administration, and standardizing rates and policies.
- ✓ **Subsuming Major Indirect Taxes:** GST consolidates various central and state-level indirect taxes into one, reducing the compliance burden and streamlining the tax system in India.
- ✓ **Eliminating the Cascading Effect of Taxes:** GST removes the cascading effect by allowing tax credits across goods and services, ensuring tax is only levied on the net value added at each supply chain stage.
- ✓ **Curtailing Tax Evasion:** With stringent GST laws, including mandatory invoice uploading and e-invoicing, the chances of tax evasion and fraud are significantly reduced.
- ✓ **Expanding the Taxpayer Base:** GST's consolidated approach has increased the number of tax-registered businesses, bringing previously unorganized sectors under the tax net.

- ✓ **Enhancing Ease of Doing Business:** GST has simplified tax compliance through online processes, from registration to return filing, contributing to a more business-friendly environment.
- ✓ **Improving Logistics and Distribution:** The unified tax system under GST has minimized transportation delays, improved supply chain efficiency, and reduced logistics and warehousing costs.
- ✓ **Promoting Competitive Pricing and Consumption:** Uniform GST rates across India have led to more competitive pricing, increasing consumption, and boosting indirect tax revenues.

### Features

- ✓ **Single Indirect Tax:** GST combines various indirect taxes like VAT, excise duty, and service tax into one unified tax, making tax compliance simpler and reducing the overall tax burden on goods and services.
- ✓ **Registration Exemptions for Small Businesses:** Businesses with turnover below specified limits (Rs.40 lakh or Rs.20 lakh in special states) don't need to register for GST, easing compliance for smaller entities.
- ✓ **Four-Tier Tax Structure:** GST rates are categorized into four main slabs—5% for essential items, 12% for standard goods, 18% for common items and services, and 28% for luxury or non-essential goods—along with special rates for specific items.
- ✓ **GST Composition Scheme:** Allows small businesses to pay GST at a reduced rate and follow simpler compliance procedures. However, these businesses cannot claim input tax credit on their purchases.

- ✓ **Input Tax Credit System:** Businesses can offset the tax paid on inputs against their output tax liability, reducing the cumulative tax burden and avoiding tax on tax.
- ✓ **Invoice Matching:** The GST system ensures that the details of invoices from suppliers match those reported by recipients, helping to detect and correct discrepancies and ensure accurate tax credit claims.
- ✓ **Consumption-Based Tax:** GST is collected by the state where the final consumption occurs, not where the goods are produced. This system helps in balancing tax distribution among states and reducing evasion.
- ✓ **Anti-Profiteering Measures:** Businesses are required to pass on the benefits of reduced tax rates or input tax credits to consumers by lowering prices, to prevent unjust profit-making.
- ✓ **Competitive Advantage:** By eliminating tax cascading and lowering production costs, GST helps Indian businesses become more competitive internationally, attracting foreign buyers and investments.
- ✓ **Digital Compliance and Payments:** The GST system is largely digital, enabling businesses to handle registration, return filing, and payments online, thus enhancing efficiency and reducing paperwork.

### Advantages and Disadvantages of GST

- ✓ **Simplified Tax Structure:** GST replaces multiple indirect taxes (like VAT, service tax, excise duty) with a single tax, reducing complexity and compliance costs for businesses.

- ✓ **Uniform Tax Rate:** Provides a uniform tax rate across the country, eliminating discrepancies and creating a level playing field for businesses operating in different states.
- ✓ **Reduction in Cascading Effect:** The Input Tax Credit (ITC) system helps to eliminate the cascading effect of taxes, where tax was previously paid on tax, thus reducing the overall tax burden on goods and services.
- ✓ **Reduces tax evasion:** GST's digital compliance system, including e-filing and e-payment, enhances transparency.
- ✓ **Boost to Economy:** By improving the efficiency of the tax system and reducing the tax burden on businesses, GST can stimulate economic growth and improve the investment climate.
- ✓ **Ease of Doing Business:** Simplifies the tax administration process, making it easier for businesses to operate and expand across state boundaries.
- ✓ **Greater Revenue for States:** States benefit from a share in the GST revenue, which is distributed based on consumption, potentially leading to increased revenue for states.
- ✓ **Consumer Benefits:** Lower tax burden due to reduced cascading effects can lead to lower prices for consumers on various goods and services.
- ✓ **Standardization:** Standardizes tax rules and regulations, making it easier for businesses to understand and comply with tax laws.

- ✓ **Encourages Formal Economy:** Encourages businesses to operate within the formal economy to benefit from ITC and avoid penalties, thus expanding the tax base.

### Disadvantages:

- ✓ **Implementation Challenges:** The initial rollout of GST was complex and challenging, causing confusion among businesses and taxpayers, particularly small and medium-sized enterprises.
- ✓ **Increased Compliance Costs:** While GST simplifies tax structure, it requires businesses to maintain detailed records and adhere to new compliance procedures, which can increase administrative costs.
- ✓ **Regulatory Burden:** The need to regularly file returns and adhere to stringent rules can be burdensome for businesses, particularly for smaller enterprises.
- ✓ **Technical Issues:** Technical glitches and issues with the GST portal have caused delays and difficulties in filing returns and processing refunds.
- ✓ **Impact on Small Businesses:** Small businesses might struggle with compliance due to lack of resources and expertise, potentially leading to higher operational costs.
- ✓ **Potential Price Fluctuations:** The transition to GST may lead to price fluctuations for some goods and services, which can impact consumers and businesses.

- ✓ **Revenue Distribution Issues:** Disputes over revenue sharing between central and state governments can lead to financial strain on states and complications in fund allocation.
- ✓ **Complex Rate Structure:** The multiple GST rates (5%, 12%, 18%, 28%) and exemptions can be complex and confusing, complicating compliance and planning.
- ✓ **Impact on Certain Sectors:** Some sectors, particularly those with a high share of tax-exempt goods or services, might face financial strain due to changes in tax rates and credits.
- ✓ **Delayed Refunds:** Businesses may experience delays in receiving refunds for input tax credits, impacting their cash flow and financial stability.

Under the Goods and Services Tax (GST) regime in India, several indirect taxes were subsumed (replaced) to create a unified tax system. These include:

- ✓ **Central Excise Duty:** Previously levied on the manufacture of goods within India.
- ✓ **Service Tax:** Imposed on the provision of services.
- ✓ **Value Added Tax (VAT):** Applied on the sale of goods within a state.
- ✓ **Sales Tax:** A general term used for state-level tax on goods sales, which included various state taxes.
- ✓ **Central Sales Tax (CST):** Applied on the inter-state sale of goods.
- ✓ **Octroi:** Local tax collected on goods entering a municipal area.

- ✓ **Entry Tax:** Imposed by states on the entry of goods into their territory from outside.
- ✓ **Luxury Tax:** Applied on luxury goods and services.
- ✓ **Entertainment Tax:** Imposed on entertainment activities, such as cinema tickets and amusement parks.
- ✓ **Purchase Tax:** Applied on the purchase of goods in certain states.

The structure of GST (Goods and Services Tax) in India is designed to integrate various taxes into a single, unified system. It is organized as follows:

### GST Components

- ✓ **Central Goods and Services Tax (CGST):** Tax levied by the Central Government on intra-state (within the same state) supplies of goods and services. To ensure central revenue collection.
- ✓ **State Goods and Services Tax (SGST):** Tax levied by the State Governments on intra-state supplies of goods and services. To ensure state revenue collection.
- ✓ **Integrated Goods and Services Tax (IGST):** Tax levied by the Central Government on inter-state (between states) supplies of goods and services, and on imports. To facilitate the smooth flow of credit between states and manage cross-border transactions.
- ✓ **Union Territory Goods and Services Tax (UTGST):** Tax levied by the Central Government on intra-Union Territory supplies of goods and

services, applicable to Union Territories without legislatures (e.g., Lakshadweep). To ensure tax revenue for Union Territories.

### GST Rate Structure

- **0%:** Essential goods such as food grains and certain other basic items.
- **5%:** Items of mass consumption like packaged food items and other essential goods.
- **12%:** Goods and services like certain apparel and some business inputs.
- **18%:** Goods and services including most consumer durables and certain professional services.
- **28%:** Luxury and sin goods like luxury cars, tobacco products, and high-end services.
- **Special Rates:** Includes a 0.25% rate on precious stones and a 3% rate on gold and gold jewellery.
- **Nil Rate:** Some goods and services are exempt from GST.

### Challenges for implementation of GST

- ✓ **Training for Tax Administration Staff:** One of the primary challenges in the implementation of GST was the need for extensive training for tax administration staff.
- ✓ **High Compliance Costs:** Under the GST regime, an assessee is required to file up to 37 returns per year, which includes three monthly filings and one annual return.

- ✓ **Regressive Nature of GST:** GST is considered a regressive tax because it has a greater impact on low-income earners, as it is based on expenditure rather than income. This means that everyone who purchases goods or services is required to pay GST, regardless of their income level.
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- ✓ **Robust IT Network:** The implementation of GST requires a stable IT network capable of facilitating GST operations through real-time integration of state governments, commerce and industry and other stakeholders.
- ✓ **Challenges for SMEs:** GST has increased the dependence on the IT interface, making the taxation process more reliant on online systems. While larger organisations may be better equipped to adapt to this change, many SMEs lack the technical expertise and resources to do so.

### Key Functions of the GST Council:

The GST (Goods and Services Tax) Council is a constitutional body in India responsible for making recommendations to the Union and State Governments on issues related to GST. Established under Article 279A of the Indian Constitution, the council is chaired by the Union Finance Minister, with the finance ministers of all the states as members.

- ✓ **Tax Rates:** It determines the tax rates under GST, including the structure and the rates applicable to different goods and services.
- ✓ **Exemptions:** The council decides on the goods and services that should be exempted from GST.
- ✓ **Threshold Limits:** It determines the threshold limits for businesses to be exempted from GST registration.
- ✓ **Laws and Regulations:** The council makes recommendations on GST laws, including rules, regulations, and procedures.
- ✓ **Cess and Surcharges:** It has the authority to decide on the levying of additional cess or surcharges for certain goods or services.
- ✓ **Resolution of Disputes:** The council resolves disputes among states or between states and the central government regarding GST implementation.
- ✓ **Decision-Making Process:** The decisions in the GST Council are typically made by a three-fourth majority of the weighted votes of the members present and voting.

The central government's vote has a weightage of one-third, while the state governments' votes collectively have a weightage of two-thirds.

**The key powers of the GST Council summarized in keywords and brief explanations:**

- ✓ **Tax Rates:** Recommends tax rates and structure for various goods and services under GST.
- ✓ **Exemptions:** Decides on goods and services exempted from GST.
- ✓ **Threshold Limits:** Sets turnover limits for businesses to register for GST.
- ✓ **Laws and Rules:** Formulates and recommends GST laws, rules, and amendments.
- ✓ **Inter-State Trade:** Determines principles for place of supply to classify transactions as intra-state or inter-state.
- ✓ **Special Provisions:** Makes special provisions for states with unique economic conditions.
- ✓ **Dispute Resolution:** Establishes mechanisms to resolve disputes between states or between states and the central government.
- ✓ **Cess Recommendations:** Recommends the imposition, modification, or discontinuation of cess under GST.
- ✓ **GST Administration:** Advises on revenue distribution between central and state governments.
- ✓ **Grievance Redressal:** Addresses grievances related to GST implementation, ensuring cooperative federalism.

✓ Important Meanings

**The Electronic Cash Ledger** is a digital ledger maintained on the GST portal where taxpayers can deposit money to pay their GST liabilities. This ledger is part of the GST system and is used to keep track of the amount deposited by a taxpayer, which can then be utilized to pay taxes, interest, penalties, fees, or any other amount payable under GST.

**The Electronic Credit Ledger** is a digital ledger maintained on the GST portal that records the input tax credit (ITC) a taxpayer is entitled to under GST. The credit available in this ledger can be used to pay off the taxpayer's GST liabilities, such as CGST, SGST/UTGST, and IGST.

**A Tax Invoice** is a legal document issued by a registered seller to the buyer, detailing the goods or services supplied and the amount of tax charged on those goods or services under GST. It serves as a crucial record for both the seller and the buyer for tax purposes, enabling the buyer to claim input tax credit (ITC).

**Aggregate Turnover** refers to the total turnover of a business, including all taxable and non-taxable supplies, exempt supplies, and exports of goods or services, across all locations, during a financial year. It is a critical metric used to determine a taxpayer's eligibility for various GST-related provisions.

**The Adjudicating Authority** under GST is a designated official or authority responsible for resolving disputes, adjudicating cases, and making decisions related to violations, penalties, and other issues under the GST law.