

FREQUENTLY ASKED QUESTIONS ON GST

Q.1 What is Constitutional Amendment Bill in relation to GST?

Ans. The Union Government in third week of December, 2014 (19 December, 2014) introduced Constitution (122nd Amendment) Bill, 2014 in Parliament which when passed shall pave the way for introduction of proposed Goods and Service Tax (GST) in India. This is an improvised version of lapsed 115th Amendment Bill of 2011.

The Bill on passage would enable the Central Government and the State Governments to levy GST. This tax (GST) shall be levied concurrently by various states as well as Union Government. Once this is passed by two-third majority in the Parliament, atleast 50 per cent of the states will have to pass it. Once this amendment is through, the road will be clear for GST Bill (and then Act), given the political will. Eventually, we will then have the following taxes -

- National level GST [Central GST (CGST) and Inter-state GST (IGST)]
- State Level GST (SGST)

Q. 2 Why does introduction of GST require a Constitutional Amendment?

Ans. The Constitution provides for delineation of power to tax between the Centre and States. While the Centre is empowered to tax services and goods upto the production stage, the States have the power to tax sale of goods. The States do not have the powers to levy a tax on supply of services while the Centre does not have power to levy tax on the sale of goods. Thus, the Constitution does not vest express power either in the Central or State Government to levy a tax on the 'supply of goods and services'. Moreover, the Constitution also does not empower the States to impose tax on imports. Therefore, it is essential to have Constitutional Amendments for empowering the Centre to levy tax on sale of goods and States for levy of service tax and tax on imports and other consequential issues.

As part of the exercise on Constitutional Amendment, there would be a special attention to the formulation of a mechanism for upholding the need for a harmonious

structure for GST along with the concern for the powers of the Centre and the States in a federal structure.

Q.3 What does 122nd Constitutional Amendment Bill, 2014 seeks to achieve?

Ans. The Bill seeks to amend the Constitution to introduce the goods and services tax (GST). Consequently, the GST subsumes various central indirect taxes including the Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty (CVD) and Special Additional Duty of Customs (SAD), etc. It also subsumes state Value Added Tax (VAT)/Sales Tax, Central Sales Tax, Entertainment Tax, Octroi and Entry Tax, Purchase Tax and Luxury Tax, etc.

Q.4. When will this change take effect?

Ans. The 122nd amendment will come into force from such date which Central Government may appoint by way of notification, after enactment. For enactment, it has to be passed by two-third majority by both houses of the Parliament of those present and simple majority of total membership of both houses. It has to be then approved by one-half of the state Governments, i.e. atleast 15 states. The said Bill has been passed by Lok Sabha on 6-5-2015 but is waiting for passage by Rajya Sabha.

Q.5 What is GST Council and its composition?

Ans. The President must constitute a Goods and Services Tax Council within sixty days of this Act coming into force. The GST Council aim to develop a harmonized national market of goods and services.

The GST Council is to comprise of the following three members / class of members:

- (a) the Union Finance Minister (as Chairman),
- (b) the Union Minister of State in charge of Revenue or Finance, and
- (c) the Minister in charge of Finance or Taxation or any other, nominated by each state government.

The President shall, within sixty days from the date of commencement of the Constitution (One Hundred and Twenty-second Amendment) Act, 2014, by order, constitute a Council to be called the Goods and Services Tax Council.

GST council examines issues relating to goods, services tax and make recommendations to the Union, and the States on parameters like rates, exemption list and threshold limits. The Council shall function under the Chairmanship of the Union Finance Minister and will have the Union Minister of State in charge of Revenue or Finance as member, along with the Minister in-charge of Finance or Taxation or any other Minister nominated by each State Government.

Q.6 What functions will GST Council perform?

Ans. Functions of the GST Council include making recommendations on:

- taxes, cess and surcharges levied by the centre, states and local bodies which may be subsumed in the GST;
- goods and services which may be subjected to or exempted from GST;
- model GST laws, principles of levy, apportionment of IGST and principles that govern the place of supply;
- the threshold limit of turnover below which goods and services may be exempted from GST;
- rates including floor rates with bands of GST;
- special rates to raise additional resources during any natural calamity;
- special provision with respect to Arunachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and
- Any other matters relating to the goods and services tax, as the Council may decide.

The Goods and Service Tax Council shall recommend the date from which the goods and service tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.

Q.7. What is the justification for levy of GST?

Ans. There was a burden of "tax on tax" in the pre-existing Central excise duty of the Government of India and sales tax system of the State Governments. The introduction of Central VAT (CENVAT) has removed the cascading burden of "tax on tax" to a good extent by providing a mechanism of "set off" for tax paid on inputs and services upto the stage of production, and has been an improvement over the pre-existing Central excise duty. Similarly, the introduction of VAT in the States has removed the cascading effect by giving set-off for tax paid on inputs as well as tax paid on previous purchases and has again been an improvement over the previous sales tax regime.

But both the CENVAT and the State VAT have certain incompleteness. The incompleteness in CENVAT is that it has yet not been extended to include chain of value addition in the distributive trade below the stage of production. It has also not included several Central taxes, such as Additional Excise Duties, Additional Customs Duty, Surcharges etc. in the overall framework of CENVAT, and thus kept the benefits of comprehensive input tax and service tax set-off out of the reach of manufacturers/ dealers. The introduction of GST will not only include comprehensively more indirect Central taxes and integrate goods and services taxes for set-off relief, but also capture certain value addition in the distributive trade.

Similarly, in the present State-level VAT scheme, CENVAT load on the goods has not yet been removed and the cascading effect of that part of tax burden has remained unrelieved. Moreover, there are several taxes in the States, such as, Luxury Tax, Entertainment Tax, etc. which have still not been subsumed in the VAT. Further, there has also not been any integration of VAT on goods with tax on services at the State level with removal of cascading effect of service tax. In addition, although the burden of Central Sales Tax (CST) on inter-State movement of goods has been lessened with reduction of CST rate from 4% to 2%, this burden has also not been fully phased out. With the introduction of GST at the State level, the additional burden of CENVAT and services tax would be comprehensively removed, and a continuous chain of set-off from the original producer's point and service provider's point upto the retailer's level would be established which would eliminate the burden of all cascading effects, including the burden of CENVAT and service tax. This is the essence of GST. Also, major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes, and thus bring down the compliance cost. With GST, the burden of CST will also be phased out.

Thus, GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward.

Q. 8 What is cascading effect and how GST will address this?

Ans . A tax that is levied on a good at each stage of the production process up to the point of being sold to the final consumer. Cascading effect of taxes is one of the major distortions of the Indian taxation regime. Federal structure of our democracy, allows both states and center to levy taxes separately and this has caused this cascading. While Income tax, Excise duty, Service tax and Central Sales tax (CST), Securities Transaction tax is levied by the center; VAT/sales tax, Entry tax, State excise, Property tax, Agriculture tax and octroi is charged by the State governments. There are many possible transactions which come under the ambit of two or more of these taxes and the value of the second tax is calculated on the value arrived at by adding the value of first tax to the value of transaction. For example, inter-state purchase of goods would attract both Central Service tax and Sales tax and manufacturing and sell would be liable to Cenvat over and above CST.

Implementation of GST promises many benefits as reduction in the number of taxes at the Central and state levels, cut in effective tax rate for many goods, removal of the current cascading effect of taxes, reduction of transaction costs for taxpayers through simplified tax compliance, and increased tax collections due to wider tax base and better compliance.

Q.9 How does the proposed GST and present system of VAT compare?

Ans. In principle, there is no difference between present tax structure under VAT and GST as far as the tax on goods is concerned because GST is also a form of VAT on Goods and services. Here at present the sales tax, with an exception of CST, is a VAT system and in case of service tax the system also has the Cenvat credit system hence both sales tax and service tax are under VAT system in our country. At present the goods and services are taxed separately but in GST the difference will be vanished. The overall system of GST is very much similar to the VAT, which can be considered as first step towards GST. Let us see the VAT implementation schedule of various states:

<i>Sr. no</i>	<i>States</i>	<i>Date of Levy of VAT</i>	<i>Number of States</i>
1	Haryana	1-4-2003	1
2	Andhra Pradesh, West Bengal, Kerala, Karnataka, Orissa, NCT Delhi, Tripura, Bihar, Arunachal Pradesh, Sikkim, Punjab, Goa, Mizoram, Nagaland, Jammu and Kashmir, Manipur, Maharashtra, Himachal Pradesh, Assam and Meghalaya.	1-4-2005	20
3	Uttaranchal	1-10-2005	1
4	Rajasthan, Gujarat, MP and Chhattisgarh, Jharkhand.	1-4-2006	5
5	Tamil Nadu	1-1-2007	1
6	Uttar Pradesh	1-1-2008	1

All the states have their own VAT Laws comprising VAT acts and VAT rules and these acts and rules are formulated on the basis of "White Paper on VAT" issued by the empowered committee of states' Finance Ministers on VAT headed by Dr. Asim Das Gupta, the Finance Minister of West Bengal. Due to the fact that the taxpayers are already using the Vatable sales tax and service tax system there may be a possibility that GST will be a matter of settlement between the Centre and the states and like VAT, the possibility of any resistance from the tax payers is somewhat less.

Q.10 What is GST? How does it work?

Ans. GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer's point and service provider's point upto the retailer's level. It is essentially a tax only on value addition at each stage, and a

supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services as available for set-off on the GST to be paid on the supply of goods and services. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

The illustration shown below indicates, in terms of a hypothetical example with a manufacturer, one wholesaler and one retailer, how GST will work. Let us suppose that GST rate is 10%, with the manufacturer making value addition of Rs.30 on his purchases worth Rs.100 of input of goods and services used in the manufacturing process. The manufacturer will then pay net GST of Rs. 3 after setting-off Rs. 10 as GST paid on his inputs (i.e. Input Tax Credit) from gross GST of Rs. 13. The manufacturer sells the goods to the wholesaler. When the wholesaler sells the same goods after making value addition of (say), Rs. 20, he pays net GST of only Rs. 2, after setting-off of Input Tax Credit of Rs. 13 from the gross GST of Rs. 15 to the manufacturer. Similarly, when a retailer sells the same goods after a value addition of (say) Rs. 10, he pays net GST of only Re.1, after setting-off Rs.15 from his gross GST of Rs. 16 paid to wholesaler. Thus, the manufacturer, wholesaler and retailer have to pay only Rs. 6 (= Rs. 3+Rs. 2+Re. 1) as GST on the value addition along the entire value chain from the producer to the retailer, after setting-off GST paid at the earlier stages. The overall burden of GST on the goods is thus much less. This is shown in the table below. The same illustration will hold in the case of final service provider as well.

Stage of Supply Chain	Purchase Value Of Input	Value Addition	Value at Which Supply Goods and Services Made to Next Stage	Rate of GST	GST on Output	Input Tax Credit	Net GST = GST on output - Input Tax Credit
Manufacturer	100	30	130	10%	13	10	13-10 = 3
Whole Seller	130	20	150	10%	15	13	15-13 = 2
Retailer	150	10	160	10%	16	15	16-15 = 1

Q.11 At what points, GST will be levied?

Ans. Both Centre and States will simultaneously levy GST across the value chain. Centre would levy and collect Central Goods and Services Tax (CGST), and States would

levy and collect the State Goods and Services Tax (SGST) on all transactions within a State.

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. There will be seamless flow of input tax credit from one State to another. Proceeds of IGST will be apportioned among the States.

GST will be a destination-based tax. All SGST on the final product will ordinarily accrue to the consuming State.

Q.12 When will the liability to pay GST arise?

Ans. The payment liability of CGST and SGST will arise at the time of supply as determined for goods and services. The provisions stipulate payment of GST at the earliest in case of:

Goods: On removal of goods or receipt of payment or issuance of invoice or date on which buyer shows receipt of goods

Services: On issuance of invoice or receipt of payment or date on which recipient shows receipt of services Given that there could be many parameters in determining 'time' of supply, maintaining reconciliation between revenue as per financials and as per GST could be a major challenge for businesses.

Q.13 How will the place of supply be determined?

Ans. It is important to determine whether a transaction is 'intra-State' or 'inter-State' as GST (i.e. CGST plus SGST or IGST, as the case may be) will be applicable accordingly.

For 'goods', the place of supply would be location where the goods are delivered. For 'services' the place of supply would be the recipient location.

However, there are multiple scenarios such as for supply of services in relation to immovable property, wherein this principle will not apply and specific rules will

prevail. Thus, the business will have to scroll through all the place of supply provisions before determining the place of supply.

Q.14 What are the salient features of the proposed GST model?

Ans. The salient features of the proposed model are as follows:

- Consistent with the federal structure of the country, the GST will have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.
- The Central GST and the State GST would be applicable to all transactions of and services except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.
- The Central GST and State GST are to be paid to the accounts of the Centre and the States separately.
- Since the Central GST and State GST are to be treated separately, in general, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.
- Cross utilization of ITC between the Central GST and the State GST would, in general, not be allowed.
- To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.

- The administration of the Central GST would be with the Centre and for State GST with the States.
- The taxpayer would need to submit periodical returns to both the Central GST authority and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax facilitating data exchange and taxpayer compliance. The exact design would be worked out in consultation with the Income-Tax Department.
- Keeping in mind the need of tax payers convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

Q.15 How are present tax provisions different from the proposed GST model?

Ans. Most of the existing provisions such as pre-deposit, arrest, prosecution, reverse charge, tax return preparers and many more will be same in the proposed draft GST law. Therefore, the model GST law appears to be largely on similar lines except the tax model and subsuming of major taxes into GST.

Q.16 Will GST economically benefit India?

Ans. Certainly yes . India's GDP could receive a boost just from capital goods becoming cheaper once the GST is rolled out. There is likely to be a clear lift for investment in the economy because of a likely seamless and efficient crediting of taxes paid on capital goods / inputs. Cheaper goods would increase the demand for capital goods, thereby raise investment and hence growth. Even GDP is likely to grow by 1-2 percent. GST would also eliminate the negative protection favouring imports which will boost domestic manufacturing. Also, lagging regions will catch up with more advanced regions.

Getting the design of the GST right is therefore critical. Specifically, the GST should aim at tax rates that protect revenue, simplify administration, encourage compliance,

avoid adding to inflationary pressures, and keep India in the range of countries with reasonable levels of indirect taxes.

Q.17 What are the advantages of GST?

Ans . The advantages of GST are as follows:

1. Will bring India at par with developed economies.
2. GST as comprehensive indirect tax reform will make India single largest market in the world .
3. GST will help broaden tax base and increase tax - GDP ratio.
4. Computerization of processes
5. Less duplication / compliance
6. Lower cost of production / Cost reduction for all
7. Reduced sale price
8. Increase in Domestic and Export market – Increase in profit
9. Reduction in administration costs since only one Department
10. Single Authority to deal with the compliances
11. Interpretational issues sorted out effectively
12. No dispute on classification between goods or services (e.g IPR, software, telecom etc).
13. Transactions where both VAT and Service Tax are levied would be liable to only one tax.
14. No composition issues
15. Will generate audit trail which taxmen can follow to unearth huge tax evasion.

Q .18 How will GST benefit industry, trade and agriculture?

Ans. The GST will give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The transparent and complete chain of set-offs which will result in widening of tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in industry, trade and agriculture.

Q.19 How will GST benefit the exporters?

Ans. The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

Q.20 How will GST benefit the small entrepreneurs and small traders?

Ans. The present threshold prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. The existing threshold of goods under State VAT is Rs. 5 lakhs for a majority of bigger States and a lower threshold for North Eastern States and Special Category States. A uniform State GST threshold across States is desirable and, therefore, the Empowered Committee has recommended that a threshold of gross annual turnover of Rs. 10 lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime. Keeping in view the interest of small traders and small scale industries and to avoid dual control, the States considered that the threshold for Central GST for goods may be kept at Rs.1.5 crore and the threshold for services should also be appropriately high. This raising of threshold will protect the interest of small traders. A Composition scheme for small traders and businesses has also been envisaged under GST as will be detailed in Answer to Question 14. Both these features of GST will adequately protect the interests of small traders and small scale industries.

Q.21 How will GST benefit the common consumers?

Ans. With the introduction of GST, all the cascading effects of CENVAT and service tax will be more comprehensively removed with a continuous chain of set-off from the producer's point to the retailer's point than what was possible under the prevailing CENVAT and VAT regime. Certain major Central and State taxes will also be subsumed in GST and CST will be phased out. Other things remaining the same, the burden of tax on goods would, in general, fall under GST and that would benefit the consumers.

Q.22 How will GST benefit the ex-chequer and Government?

Ans. The benefits to ex-chequer and Government are as follows :

1. Simpler Tax System
2. Broadening of tax base
3. Improved compliance & revenue collections (tax booster)
4. Efficient use of resources
5. Curb on revenue leakage
6. Because of tax credit , cash transactions will be less

Q.23 What are the likely disadvantages of GST ?

Ans. The likely disadvantages of GST are :

1. Total GST rate may be higher
2. Vote weightage of States will be linked to population rather than any economic criteria. Census is done once in 10 years.
3. Discrimination (1 percent additional tax)
4. May not be efficient for sectors like banking, tourism, advertisement, business promotion etc.
5. Education, tourism etc will also not benefit but contribute more to taxes
6. Dispute resolution going to be tough with poor governance. Disputes in GSTC to be resolved by GSTC only
7. Small states may remain aggrieved.

Q.24 Is there going to be any threshold limit for exemption under GST regime?

Ans. Yes, there is likelihood of threshold exemption limit in GST based on gross turnover as in present case. Centre and few states are in favour of Rs. 25 lakh limit while some other states want a lower limit of Rs. 10 lakh per annum. However, Committee headed by Chief Economic Advisor (MOF) has recommended a higher threshold limit of Rs. 40 lakh to ensure compliance and minimize the burden on smaller assesseees.

Q 25. What is the concept of providing threshold exemption for GST?

Ans. Threshold exemption is built into a tax regime to keep small traders out of tax net.

This has three-fold objectives:

- (a) It is difficult to administer small traders and cost of administering of such traders is very high in comparison to the tax paid by them.
- (b) The compliance cost and compliance effort would be saved for such small traders.
- (c) Small traders get relative advantage over large enterprises on account of lower tax incidence.

The present thresholds prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. A uniform State GST threshold across States is desirable and, therefore, it has been considered that a threshold of gross annual turnover of Rs. 10 lakh both for goods and services for all the States and Union Territories might be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime. Keeping in view the interest of small traders and small scale industries and to avoid dual control, the States also considered that the threshold for Central GST for goods may be kept Rs.1.5 Crore and the threshold for services should also be appropriately high.

Q.26 How will export of goods / services be taxed ?

Ans. Export transactions of goods or services shall be zero rated, i.e. no GST will be payable on export transactions.

Q.27. How imports are likely to be taxed under GST regime ?

Ans. The import of goods or services will be deemed as supply of goods or services or both, in the course of inter-state trade or commerce and thus it will attract IGST (CGST plus SGST). Thus, import of goods will attract Basic Customs Duty and IGST, while import of services will attract IGST.

Q.28 What are the prerequisites for GST Models?

Ans. All the Models of GST require the following pre-requisites for successful implementation of GST:

- Extensive Computerization and strong IT infrastructure
- E-filing of periodical returns
- E-payment of tax
- Common tax period
- National portal for access of information
- National Agency
- Trained and well equipped staff.

Q.29 What are the features that are kept into consideration while framing a suitable GST model?

Ans. While suggesting a model for the base and rate structure of GST, the following should be kept in mind by the Working Group:

- GST should be so designed that it should be revenue fair with sufficient growth of revenue to the centre and every State. Interests of the Special Category, North-Eastern States and Union Territories Have to be especially kept in mind.
- The Group will examine different models and see the manner in which the power of levy, collection and appropriation of revenue should be vested in the Centre and the States by looking at the pros and cons of various models.
- The various models suggested by the Working Group should ensure that double taxation is avoided.
- The Working Group would ensure that the suggested models take into account the problems faced during Inter-State transactions and any revenue loss.
- The Working Group should consider how exempted goods and services and Non-VAT items such as petroleum goods and alcohol might be treated under the new regime.
- The models developed should reflect the interests of the Trade, Industry, Agriculture and Consumers, with due concern to the Centre-State relations.

Q.30 Why is Dual GST required?

Ans. India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

Q.31 What is meant by dual GST ?

Ans. Dual GST signifies that GST would be levied by both, the Central Government and the State, on supply of goods or services.

Under GST, the power to tax on supply of all goods and services would be vested in the hands of both, the State and the Centre. However, in certain cases, such as the inter-state transactions, the power to tax would be vested with the Central Government, while the revenue would in some appropriate manner, get distributed to the States. Considering the dual taxation power to tax transactions under GST, the structure is referred to as Dual GST.

Q.32 What are benefits of dual GST ?

Ans. The dual GST is expected to be a simple and transparent tax with one or two CGST and SGST rates. The dual GST is expected to result in:-

- reduction in the number of taxes at the Central and State level
- decrease in effective tax rate for many goods
- removal of the current cascading effect of taxes
- reduction of transaction costs of the taxpayers through simplified tax compliance
- increased tax collections due to wider tax base and better compliance

Q.33 What is Central Goods and Services Tax (CGST)

Ans. Under the Central Goods and Services Tax, the two levels of Government would combine their levies in the form of a single National GST, with appropriate revenue sharing arrangements among them. The tax could be controlled and administered by the Central Government. There are several models for such a tax. Australia is the

most recent example of a National GST, where it is levied and collected by the Centre, but the proceeds are allocated entirely to the States.

In the case of a Central GST (where all goods and services are taxed by the Central government only), the Centre will collect most of the country's total tax revenue, leaving very little for the sub-national Governments. As against this, the present proposal is to have a dual GST.

Q.34 What is State Goods and Services Tax (SGST) ?

Ans. In State GST, the States alone can levy GST and the Centre withdraws from the field of GST or VAT completely. It can be a desirable option given the mismatch in resources and responsibilities of the States. In this case, the State GST will work as the redistributing mechanism. The loss to the Centre from vacating this tax field could be offset by a suitable compensating reduction in fiscal transfers to the States. This would significantly enhance the revenue capacity of the States and reduce their dependence on the Centre.

Q.35 What is Inter-state Goods and Services Tax (IGST) ?

Ans. According to Model IGST Law, IGST shall mean the tax levied under the IGST Act on the supply of any goods and / or services in the course of inter-state trade or commerce. IGST Act shall apply to whole of India.

Q.36 How will IGST work ?

Ans. Central Government would levy IGST (which would be CGST plus SGST) on all inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of 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 Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

Q.37 How will revenue from IGST be apportioned between Centre and States ?

Ans. Revenue from IGST will be apportioned among Union and States by Parliament on basis of recommendation of Goods and Service Tax Council [Proposed Article 269A(2) and Article 270 (1A) of Constitution of India]. The apportionment will be required as input tax credit of IGST can be used for SGST and *vice versa*. Since IGST will be on 'supply of goods or services', IGST will be payable on stock transfers, branch transfers and even when goods are dispatched inter-state job work and return.

Q.38 How will the rules for administration of CGST and SGST be framed?

Ans. The Joint Working Group (Empowered Committee) has also been entrusted the task of preparing draft legislation for CGST, a suitable Model Legislation for SGST and rules and procedures for CGST and SGST. Simultaneous steps have also been initiated for drafting of legislation for IGST and rules and procedures. As a part of this exercise, the Working Group will also address to the issues of dispute resolution and advance ruling. The model law and draft business processes have already been released.

Q.39 How would a particular transaction of goods and services be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

Ans. The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of CENVAT. While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the State.

Illustration 1: Suppose hypothetically that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for , say Rs. 100, the dealer would charge CGST of Rs. 10 and SGST of Rs. 10 in addition to the basic price of the goods. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not actually pay Rs. 20 (Rs. 10 +

Rs. 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his purchases (say, inputs). But for paying CGST he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

Illustration II: Suppose, again hypothetically, that the rate of CGST is 10% and that of SGST is 10%. When an advertising company located in Mumbai supplies advertising services to a company manufacturing soap also located within the State of Maharashtra for, let us say Rs. 100, the ad company would charge CGST of Rs. 10 as well as SGST of Rs. 10 to the basic value of the service. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not again actually pay Rs. 20 (Rs. 10+Rs. 10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his purchase (say, of inputs such as stationery, office equipment, services of an artist etc). But for paying CGST he would be allowed to use only the credit of CGST paid on its purchase while for SGST he can utilize the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

Q.40 Which Central and State taxes are proposed to be subsumed under GST?

Ans. The various Central, State and Local levies were examined to identify their possibility of being subsumed under GST. While identifying, the following principles were kept in mind:

- Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services.
- Taxes or levies to be subsumed should be part of the transaction chain which commences with import/ manufacture/ production of goods or provision of services at one end and the consumption of goods and services at the other.
- The sub-summing of taxes should result in free flow of tax credit in intra and inter-State levels.
- The taxes, levies and fees that are not specifically related to supply of goods & services should not be subsumed under GST.
- Revenue fairness for both the Union and the States individually would need to be attempted.

On application of the above principles, the Empowered Committee has recommended that the following Central Taxes should be, to begin with, subsumed under the Goods and Services Tax:

- (i) Central Excise Duty
- (ii) Additional Excise Duties
- (iii) The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- (iv) Service Tax
- (v) Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- (vi) Special Additional Duty of Customs - 4% (SAD)
- (vii) Surcharges, and
- (viii) Cesses.

The following State taxes and levies would be, to begin with, subsumed under GST:

- (i) VAT / Sales tax
- (ii) Entertainment tax (unless it is levied by the local bodies).
- (iii) Luxury tax
- (iv) Taxes on lottery, betting and gambling.
- (v) State Cesses and Surcharges in so far as they relate to supply of goods and services.
- (vi) Entry tax not in lieu of Octroi.

Purchase tax: Some of the States felt that they are getting substantial revenue from Purchase Tax and, therefore, it should not be subsumed under GST while majority of the States were of the view that no such exemptions should be given. The difficulties of the food grain producing States was appreciated as substantial revenue is being earned by them from Purchase Tax and it was, therefore, felt that in case Purchase Tax has to be subsumed then adequate and continuing compensation has to be provided to such States. This issue is being discussed in consultation with the Government of India.

Tax on items containing Alcohol: Alcoholic beverages would be kept out of the purview of GST. Sales Tax/VAT could be continued to be levied on alcoholic beverages as per the existing practice. In case it has been made Vatable by some States, there is no objection to that. Excise Duty, which is presently levied by the States may not also be affected.

Tax on Tobacco products: Tobacco products would be subjected to GST with ITC. Centre may be allowed to levy excise duty on tobacco products over and above GST with ITC.

Tax on Petroleum Products: As far as petroleum products are concerned, it was decided that the basket of petroleum products, i.e. crude, motor spirit (including ATF) and HSD would be kept outside GST as is the prevailing practice in India. Sales Tax could continue to be levied by the States on these products with prevailing floor rate. Similarly, Centre could also continue its levies. A final view whether Natural Gas should be kept outside the GST will be taken after further deliberations.

Taxation of Services: As indicated earlier, both the Centre and the States will have concurrent power to levy tax on goods and services. In the case of States, the principle for taxation of intra-State and inter-State has already been formulated by the Working Group of Principal Secretaries /Secretaries of Finance / Taxation and Commissioners of Trade Taxes with senior representatives of Department of Revenue, Government of India. For inter-State transactions an innovative model of Integrated GST will be adopted by appropriately aligning and integrating CGST and IGST.

Q.41 What is the rate structure proposed under GST?

Ans. The Empowered Committee has decided to adopt a two-rate structure –a lower rate for necessary items and items of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items. For upholding of special needs of each State as well as a balanced approach to federal flexibility, it is being discussed whether the exempted list under VAT regime including Goods of Local Importance may be retained in the exempted list under State GST in the initial years. It is also being discussed whether the Government of India may adopt, to begin with, a similar approach towards exempted list under the CGST.

For CGST relating to goods, the States considered that the Government of India might also have a two-rate structure, with conformity in the levels of rate with the SGST. For taxation of services, there may be a single rate for both CGST and SGST.

The exact value of the SGST and CGST rates, including the rate for services, will be made known duly in course of appropriate legislative actions.

Q.42 What is the scope of composition and compounding scheme under GST?

Ans. A Composition/Compounding Scheme will be an important feature of GST to protect the interests of small traders and small scale industries. The Composition/Compounding scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. In particular there will be a compounding cut-off at Rs. 50 lakhs of the gross annual turnover and the floor rate of 0.5% across the States. The scheme would allow option for GST registration for dealers with turnover below the compounding cut-off.

Q.43 What is meant by Revenue Neutral Rate (RNR) ?

Ans. It is the tax rate that will allow the Government to receive the same amount of money despite of changes in tax laws. In the GST regime the revenue of the government would not be same in comparison with the present tax structure due to tax credit mechanism, removal of cascading effect , or otherwise. Therefore an adjusted in tax rate is required to avoid reduction in revenue of the government. This adjusted Rate is termed as Revenue Neutral Rate (RNR).

According to Sub-committee on GST rates headed by CEA (MOF), the term “Revenue Neutral Rate (RNR)” will refer to that single rate, which preserves revenue at desired (current) levels. In practice, there will be a structure of rates, but for the sake of analytical clarity and precision it is appropriate to think of the RNR as a single rate. It is a given single rate that gets converted into a whole rate structure, depending on policy choices about exemptions, what commodities to charge at a lower rate (if at all), and what to charge at a very high rate.

Q.44 What is going to be likely Revenue Neutral Rate ?

Ans. It is expected that a reasonable RNR could be in the range of 16-18 percent which the trade and industry may find acceptable. Sub-committee on GST rates headed by CEA (MOF) has recommended a revenue neutral rate of 15 to 15.5 percent and

standard rate between 16.9 to 18.9 percent. The opposition parties want a cap of 18 percent.

Q.45 How is Revenue Neutral Rate different from standard rate of GST ?

Ans. The Revenue Neutral Rate should be distinguished from the “standard” rate defined as that rate in a GST regime which is applied to all goods and services whose taxation is not explicitly specified. Typically, the majority of the base (i.e., majority of goods and services) will be taxed at the standard rate, although this is not always true, and indeed it is not true for the states under the current regime.

Q.46 What is the structure of registration number in GST ?

Ans. Each taxpayer will be allotted a State wise PAN-based 15-digit Goods and Services Taxpayer Identification Number (GSTIN).

13th digit would be alpha-numeric (1-9 and then A-Z) and would be assigned depending on the number of registrations a legal entity (having the same PAN) has within one State. For example, a legal entity with single registration within a State would have “1” as 13th digit of the GSTIN. If the same legal entity goes for a second registration for a second business vertical in the same State, the 13th digit of GSTIN assigned to this second entity would be “2”. This way 35 business verticals of the same legal entity can be registered within a State. 14th digit of GSTIN would be kept BLANK for future use.

Q.47 How will Goods and Service Tax return filing be done?

Ans. Common periodicity of returns for a class of taxpayers would be enforced. There will be different frequency for filing of returns for different class of taxpayers, after payment of due tax, either prior to or at the time of filing return. The return can be filed without payment of self-assessed tax as per the return but such return would be treated as an invalid return and would not be taken into consideration for matching of invoices and for inter-Governmental fund settlement among States and the Centre.

The periodicity of return for different categories of taxpayers is proposed as follows:

S. No.	Return / Ledger	For	To be filed by
1	GSTR 1	Outward supplies made by taxpayer (other than compounding taxpayer and ISD)	10th of the next month
2	GSTR 2	Inward supplies received by a taxpayer (other than a compounding taxpayer and ISD)	15th of the next month
3	GSTR 3	Monthly return (other than compounding taxpayer and ISD)	20th of the next month
4	GSTR 4	Quarterly return for compounding Taxpayer	18th of the month next to quarter
5	GSTR 5	Periodic return by Non-Resident Foreign Taxpayer	Last day of registration
6	GSTR 6	Return for Input Service Distributor (ISD)	15th of the next month
7	GSTR 7	Return for Tax Deducted at Source	10th of the next month
8	GSTR 8	Annual Return	By 31st December of next FY
9		ITC Ledger of taxpayer	Continuous
10		Cash Ledger of taxpayer	Continuous
11		Tax ledger of taxpayer	Continuous

Q.48 Whether return can be revised under the proposed GST regime ?

Ans . No, there is no such provision of revision of returns.

Q.49 In GST regime, Information Technology network will be crucial as most of the procedures would be automated. How it will be done?

Ans. Well-designed and well-functioning Information Technology (IT) infrastructure facility would be a precondition and pre-requisite for smooth administration of taxpayers,

processing of returns, controlling collections, making refunds, auditing taxpayers, levying penalties etc. in the new regime. On the IT front, all stakeholders had agreed for a common PAN-based taxpayer ID, a common return, and a common challan for tax payment and therefore a common portal providing three core services (registration, returns and payments) would ease compliance. It also stated that the information technology preparedness of states must be improved. Further, the IT infrastructure, unified tax credit clearing mechanism may be put in place.

Q.50 What is GST Network (GSTN)?

Ans. The GSTN is the comprehensive back end infrastructure network for the management of tax data and reporting of the GST. The Committee noted that the Non Government shareholding in GSTN is dominated by private banks, and this is not desirable. It recommended that the Non Government Institutional shareholding be limited to public sector banks and financial institutions.

GSTN was incorporated on 28 March 2013 under Section 25 of the Companies Act, 1956 (as non-Government, not-for-profit, private limited Company) promoted jointly by Central and State governments (refer Table 5 below). GSTN has a self-sustaining revenue model, based on levy of user charges on tax payers and tax authorities availing its services. The GSTN will provide a front end portal to administer the Inter – State Taxation (IGST). The above network will work as a clearing house mechanism which will pool all the information about taxes levied on the Inter-State transactions and provide data on the amounts to be transferred to the destination state for ensuring seamless input tax credit.

GSTN has been entrusted with the responsibility to develop, operate and maintain a common GST portal which would provide a common and shared IT infrastructure between Central and State Governments, Banks, CBEC, Reserve Bank of India etc. For the purpose of simplicity for taxpayer, uniformity of tax administration, it is also proposed to have digitization of all documents and automation of related processes such as common PAN-based registration; common standardized return for all taxes (with different account heads for CGST, SGST, IGST); common standardized challan for all taxes (with different account heads for CGST, SGST, IGST) etc. Each tax authority will have full flexibility in using this data for in-house automation, integration, and enforcement.

Q.51 It is understood that under GST regime some states shall be benefitted by one percent additional tax. What is this tax ?

Ans. An additional tax (not to exceed 1%) on the supply of goods in the course of inter-state trade or commerce would be levied and collected by the centre. Such additional tax shall be assigned to the states for two years, or as recommended by the GST Council.

The net proceeds of additional tax on supply of goods in any financial year, except the proceeds attributable to the Union territories, shall not form part of the Consolidated Fund of India and be deemed to have been assigned to the States from where the supply originates.

Manufacturing states such as Maharashtra and Gujarat have demanded they be allowed to levy two per cent additional tax over and above the state GST rate, though no decision had been taken on this. For a decision, this provision also requires a two-third majority in the Empowered Committee.

However, Sub-committee on GST rates headed by CEA(MOF) has not found favour with proposed additional tax.

Q.52 What is the proposed law on additional tax ?

Ans. Clause 18 of 122nd Amendment Bill provides for additional tax on inter-state supply as follows-

- an additional tax on supply of goods, not exceeding 1% in the course of inter State trade or commerce shall be levied and collected by the Government of India for a period of 2 years or such other period as the GSTC Council may recommend.
- Such tax shall be assigned to the States.
- The net proceeds of additional tax on supply of goods in any financial year, except the proceeds attributable to the Union territories, shall not form part of the Consolidated Fund of India and be deemed to have been assigned to the States from where the supply originates.
- The Government of India may, where it considers necessary in the public interest, exempt such goods from the levy of this additional tax.

- The Parliament may, by law, formulate the principles for determining the place of origin from where supply of goods take place in the course of inter State trade or commerce.

Q.53 Are there any disadvantages of additional tax ?

Ans. The 1% tax will increase cost of inter-state job work of goods. The 1% tax will increase cost of inter-state transactions and hence, to that extent, will discourage inter-state movement of goods. Thus, it will be hindrance to inter-state movement of goods. It is yet to be seen whether 1% additional tax will be imposed only at the initial movement from originating State or at each inter-state movement of same goods.

Q.54 Will cross utilization of credits between goods and services be allowed under GST regime?

Ans. Cross utilization of credit of CGST between goods and services would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST. However, the cross utilization of CGST and SGST would generally not be allowed except in the case of inter-State supply of goods and services under the IGST model which is explained in answer to the next question.

Q.55 How can the burden of tax, in general, fall under GST?

Ans. The present forms of CENVAT and State VAT have remained incomplete in removing fully the cascading burden of taxes already paid at earlier stages. Besides, there are several other taxes, which both the Central Government and the State Government levy on production, manufacture and distributive trade, where no set-off is available in the form of input tax credit. These taxes add to the cost of goods and services through "tax on tax" which the final consumer has to bear. Since, with the introduction of GST, all the cascading effects of CENVAT and service tax would be removed with a continuous chain of set-off from the producer's point to the retailer's point, other major Central and State taxes would be subsumed in GST and CST will also be phased out, the final net burden of tax on goods, under GST would, in general, fall. Since there would be a transparent and complete chain of set-offs, this will help widening the coverage of tax base and improve tax compliance. This may lead to higher generation of revenues which may in turn lead to the possibility of lowering of average tax burden.

Q.56 In case of transfer of business (change in the constitution), whether the input tax credit would be available to transferee?

Ans. Where there is a change in the constitution of a taxable person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provision for transfer of liabilities, the said taxable person shall be allowed to transfer the input tax credit that remains unadjusted in its books of accounts to such transferred, sold, merged, demerged, leased or amalgamated business in the manner prescribed.

Q.57 If any loss to states arises due to the introduction of GST , would such loss be compensated?

Ans. Yes, Clause 19 of Constitution Amendment Bill , 2014 states that Parliament may provide for compensation to states for such loss of revenue from the introduction of goods and service tax which may extend to five years. The Select Committee of Rajya Sabha has recommended that the wording should be 'for a period of five years'. Thus, compensation to States for loss of revenue on account of introduction of GST will be for five years.

Q.58 What has been the experience of other countries with GST?

Ans. Over 160 countries have introduced GST in some form. It has been a part of the tax landscape in Europe for the past 50 years and is fast becoming the preferred form of indirect tax in the Asia-Pacific region. It is interesting to note that there are over 40 models of GST currently in force, each with its own peculiarities. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions.

In China, GST applies only to goods and the provision of repairs, replacement and processing services. It is only recoverable on goods used in the production process, and GST on fixed assets is not recoverable. There is a separate business tax in the form of VAT. At the same time, it must be noted that GST is a more structured and transparent form of indirect taxation. It has proven itself as the most efficient and effective method of providing revenues that government need, while encouraging economic growth and efficiency.

Q.59 Which countries follow the methodology of Dual GST ?

Ans. Presently Canada is the only country which follows the dual GST model. India is likely to follow the same because of its federal structure.

Q.60 Which is the latest country to introduce GST ?

Ans . The latest country to introduce GST is Malaysia where GST has been levied w.e.f. 1st April, 2015.