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GOODS AND SERVICES TAX (GST)

CA. Abdul Kadir .N. Arsiwala



As per U.G.C. Guidelines and also on the basis of revised syllabus of
Kavayitri Bahinabai Chaudhari North Maharashtra University, Jalgaon
with effect from June, 2020, Also useful for all Universities.

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Goods and Services TAX (GST)

- A U T H O R -

CA. ABDUL KADIR .N. ARSIWALA

M. Com., CA, NET

Assistant Professor,

Incharge, Faculty of Management,

School of Commerce & Management,

KCES's Moolji Jaitha College (Autonomous), Jalgaon.



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Preface

The Indian tax system has gone through many reforms especially after the Independence period. The tax reforms in India are aimed towards mobilization of resources for meeting the development goals of Government. The reforms have been brought about in Direct and Indirect Taxation with objective of harmonization of these taxes.

Introduction of GST has been can be termed as a landmark reform in the history of Indirect Taxes in India. The GST has bought about a efficient and harmonized consumption tax system. It integrates Union Excise Duty, Customs Duties, Service Tax and State VAT into a single point levy.

The purpose of this book is to impart basic knowledge about the GST among the students of Commerce. The book explains various basic concepts of GST to students in simple language.

I would like to express my deep gratitude towards my parents who have always motivated me for writing this book. I would like to thank my family members for support and inspiration. I would also like to thank the publishers for extending their cooperation in printing the book.

While adequate care has been taken to ensure that the matter in the book is free from any error and the presentation of the book is simple, there may be some unintentional errors on my part. I welcome the readers to give their valuable views, suggestions and feedback on my email abdulkadirarsiwala@gmail.com.

- Author

Dedicated to my Parents...

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Basics of GST and Important Definitions under CGST Act

- 1.1 History of Goods and Services Tax in World and in India
- 1.2 Merits and Demerits of GST
- 1.3 Types of GST
- 1.4 Role of GST Council
- 1.5 Important Definitions :
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GST is a part of the proposed tax reforms in India having a broad base that instigate the applicability of an efficient and harmonized consumption tax system. This system is basically structured to simplify current indirect tax system in India. It integrates the union excise duties, customs duties, service tax and state VAT into a single point levy i.e. GST. It may be rightly termed as a national level VAT on goods and services with one of the differences that it also covers Service under its scope.

Basically, Goods and Service Tax is that tax credit mechanism wherein the tax is levied on goods and services at each point of sale or provision of service. Under this tax regime the seller of goods or the service provider can claim the input credit of tax paid by him (i.e. input GST) for purchasing the goods or procuring the service. Thereafter he can utilize that credit of GST to set off against the amount payable on the supply of goods or services (i.e. output GST). Precisely, it can be termed as a consumption tax collected on the value-addition made in the goods and services at each stage of the supply chain.

Further the peculiarity of this tax structure is that the end consumer, being the last person in the supply chain, has to bear this tax and so, in many respects, GST may also be referred to as a last-point retail tax. It is basically a tax on final consumption.

A quick look into the history of GST around the Globe :

France was the first country which introduced a comprehensive goods and service tax Regime in 1954. The Goods and Service Tax (GST) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at a national level. The GST rate in various countries ranges from 5 per cent in Taiwan to 25 per cent in Denmark.

In the late 1980s, the federal government of Canada replaced its MST (Manufacturer's Sale Tax) with a new value-added sales tax called the Goods and Services Tax (GST). The basic motive behind this reform was to introduce a new nationally harmonized sales tax which would replace individual provincial sales taxes (PST), and both the levels of government would share the revenues generated there from.

Subsequent negotiations to harmonize the provincial and national sales taxes proved unsuccessful for the Canadian Government. Various provinces challenged the introduction of national sales tax on the ground that the federal government was exceeding its constitutional powers by operating in a taxation field historically reserved for the provinces. But as a result of constructive efforts by the Canadian Government National Sales Tax was implemented in 1989-90.

In Australia It was introduced by the Howard Government on 1 July 2000, replacing the previous Federal wholesale sales tax system and designed to phase out a number of various State and Territory Government taxes, duties and levies such as banking taxes and stamp duty. This proved a milestone in the taxonomy of Australia.

Today, it has spread to about 150 countries.

1.1 History of GST, Historical Background of GST :

The origin of Goods and Services Tax could be traced back to July 17, 2000, when the Government of India set up the Empowered Committee of State Finance Ministers with the Hon'ble State Finance Ministers of West Bengal, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Uttar Pradesh, Gujarat, Delhi and Meghalaya as members with the following objectives :

- to monitor the implementation of uniform floor rates of sales tax by States and Union Territories;
- to monitor the phasing out of the sales-tax based incentive schemes;
- to decide milestones and methods of States to switch over to VAT; and
- to monitor reforms in the Central Sales Tax system existing in the country.

History of GST :

- 1) Amaresh Baghchi Report, 1994 suggests that the introduction of “Value Added Tax (VAT)” will act as root for implementation of Goods and Services Tax in India
- 2) Ashim Dasgupta, 2000 empowered committee, which introduces VAT System in 2005, which has replaced old age taxation system in India.
- 3) Vijay Kelkar Task Force 2004, it strongly recommended that the integration of indirect taxes into the form of GST in India.
- 4) Announcement of GST to be implemented by 1st April, 2010 after successfully implementation of VAT system in India and suggestion of various committees and task forces on GST, the Union Government first time in Union Budget

2006-07 announced that the GST would be applicable from 1st April, 2010.

- 5) The government has formed various Joint Working Groups of state finance ministers to study the impact of GST on the revenue of various States.
- 6) The empowered committees of State Finance Ministers after various meetings reached on amicable formula for implementation of GST in India.
- 7) Task force of Finance Ministers has submitted their report in December, 2009 on structure of GST in India.
- 8) Government of India has issued first discussion paper in November, 2009.
- 9) Constitution (115th Amendment) Bill introduced on 22nd March, 2011 and same was referred to Parliamentary Standing Committee on Finance for discussion.
- 10) **March, 2011** : The Constitution (One Hundred and Fifteenth Amendment) Bill, 2011 to give concurrent taxing powers to the Union and States was introduced in Lok Sabha. The Bill suggested the creation of Goods and Services Tax Council and a Goods and Services Tax Dispute Settlement Authority. The Bill was lapsed in 2014 and was replaced with the Constitution (122nd Amendment) Bill, 2014.
- 11) **November, 2012** : A “Committee on GST Design”, consisting of the officials of the Government of India, State Governments and Empowered Committee (EC) was constituted.
- 12) **March, 2013** : A not for profit, non-Government, private limited company was incorporated in the name of Goods and Services Tax Network (GSTN) as special purpose vehicle setup by the Government primarily to provide IT infrastructure and services to the Central and State Government(s), tax payers and other stakeholders for implementation of the Goods and Services Tax (GST).
- 13) **August, 2013** : The Parliamentary Standing Committee submitted its Report to the Lok Sabha. The

recommendations of the Empowered Committee (EC) and the recommendations of the Parliamentary Standing Committee were examined by the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the Draft Amendment Bill was suitably revised.

- 14) Finance Minister in his speech announced that the GST will be rolled out by April, 2011.
- 15) In August, 2013 Standing Committee on Finance tabled its Report on GST Bill
- 16) In December, 2014 revised Constitution Amendment Bill was tabled in Parliament
- 17) Constitution (122nd Amendment) Bill introduced in the Parliament in December, 2014; since 115th Amendment Bill has been lapsed due completion of parliamentary terms. The Government of India has introduced Constitution (122nd Amendment) Bill on 19th December, 2014 the Lok Sabha has passed the bill on 6th May, 2015 but Bill is pending in Rajya Sabha.
- 18) On June 14, 2016, the Ministry of Finance released draft Model law on GST in public domain for views and suggestions.
- 19) GST Bill Passed in Rajya Sabha on 3rd August 2016 (03-08-2016) On August 03, 2016, the Constitution (122nd Amendment) Bill, 2014 was passed by Rajya Sabha with certain amendments.
 - a) The changes made by Rajya Sabha were unanimously passed by Lok Sabha.
 - b) After the passage of the Amendment Bill in the Rajya Sabha and the changes subsequently ratified and passed by the Lok Sabha unanimously, the Bill was adopted by a majority of State Legislatures wherein approval by at least 50% of the State Assemblies was required.

- c) The final step to the Constitution (122nd) Amendment Bill, 2014 becoming an Act was taken when the Hon'ble President of India gave his final assent on September 8, 2016.
 - d) The Constitutional 101st Amendment Act came into force which empowers both the States and Centre to levy this tax.
- 20) **In March 2017** – GST Council finalizing the GST Rules and GST Rates
- 21) **In April 2017 – Four GST related Bills become Act following Presidents assent & passage in Parliament:**
- a) Central GST Bill
 - b) Integrated GST Bill
 - c) Union Territory GST Bill
 - d) GST (Compensation to States) Bill
- 22) **In May 2017 – GST Council recommends all the rules**
- 23) **30th June 2017** – All States except J&K passed their SGST ACT
- 24) **1st July 2017** – GST Launched
- 25) **8th July 2017** – SGST Act passed by J&K; CGST and IGST Ordinances promulgated to extend GST to J&K
- 26) **Journey Continues...**

1.2 Merits/ Advantages of GST :

1. **GST eliminates the cascading effect of tax** : Introduction of GST will eliminate the cascading effect of taxation which existed in earlier forms of indirect taxes. This is because GST is a comprehensive tax designed to bring all indirect taxes under one umbrella.

Cascading tax effect can be best described as 'Tax on Tax'. Let us take this example to understand what is Tax on Tax :

Before GST regime :

A Tax Consultant offering services for say, Rs. 1,00,000 and charged a service tax of 15% (Rs. 1,00,000 * 15% = Rs. 15,000).

Then say, he would buy office supplies for Rs. 30,000 paying 5% as VAT (Rs. 40,000 *5% = Rs. 2,000).

He had to pay Rs. 15,000 output service tax without getting any deduction of Rs. 2,000 VAT already paid on stationery.

His total outflow is Rs. 17,000.

Under GST :

GST on service of Rs 1,00,000 @18%	18,000
Less : GST on office supplies (Rs 30,000*5%)	2,000
Net GST to pay	16,000

* Savings of **Rs 1000** in tax due to elimination of cascading effect.

2. **Higher Threshold for Registration** : Earlier, in the VAT structure, any business with a turnover of more than Rs 5 lakh (in most states) was liable to pay VAT. Also, service tax was exempted for service providers with a turnover of less than Rs. 10 lakh. Due to this almost all small traders and service providers had to register under VAT and they were liable to pay taxes.

However under GST regime, this threshold has been increased to Rs 40 lakh (20 Lakh in Special Category States), which exempts many small traders and service providers.

Let us look at this table below :

Tax	Threshold Limits
Excise	1.5 crore
VAT	5 lakh in most states
Service Tax	10 lakh
GST	40 lakh (20 lakh for Special Category States)

Special Category States include States like Puducherry, Meghalaya, Mizoram, Tripura, Manipur, Sikkim, Nagaland, Arunachal Pradesh, Uttarakhand.

3. **Composition scheme for small businesses** : Under GST, small businesses (with a turnover of Rs. 40 lakh to 1.5 crore) can benefit as it gives an option to lower taxes by utilizing

the Composition scheme. This move has brought down the tax and compliance burden on many small businesses.

4. **Simple and easy online procedure** : The entire process of GST (from registration to filing returns) is made online, and it is super simple. This has been beneficial for start-ups especially, as they do not have to run from pillar to post to get different registrations such as VAT, excise, and service tax.
5. **The number of compliances is lesser** : Earlier, there was VAT and service tax, each of which had their own returns and compliances. Under GST, however, there is just one, unified return to be filed. Therefore, the number of returns to be filed has come down. There are about 11 returns under GST, out of which 4 are basic returns which apply to all taxable persons under GST. This has made tax compliances simple for small traders and service providers.

Below table shows the same :

Tax	Return Filing
Excise	Monthly
Service Tax	Proprietorship/ Partnership – Quarterly Company/ LLP – Monthly
VAT	Different for different states Some states require monthly returns over threshold limit. Some states like Karnataka used to require monthly returns

6. **Defined treatment for E-commerce operators** : Earlier to GST regime, supplying goods through e-commerce sector was not defined. It had variable VAT laws. Let us look at this example:

Online websites (like Flipkart and Amazon) delivering to Uttar Pradesh had to file a VAT declaration and mention the registration number of the delivery truck. Tax authorities could sometimes seize goods if the documents were not produced.

Goods and Services Tax (GST) - (Sem VI)



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Author : CA. Abdul Kadir .N.
Arsiwala

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