

# **GOODS AND SERVICE TAX (GST)**

## **Part - 3**

**SUBJECT: INCOME TAX AND GST**

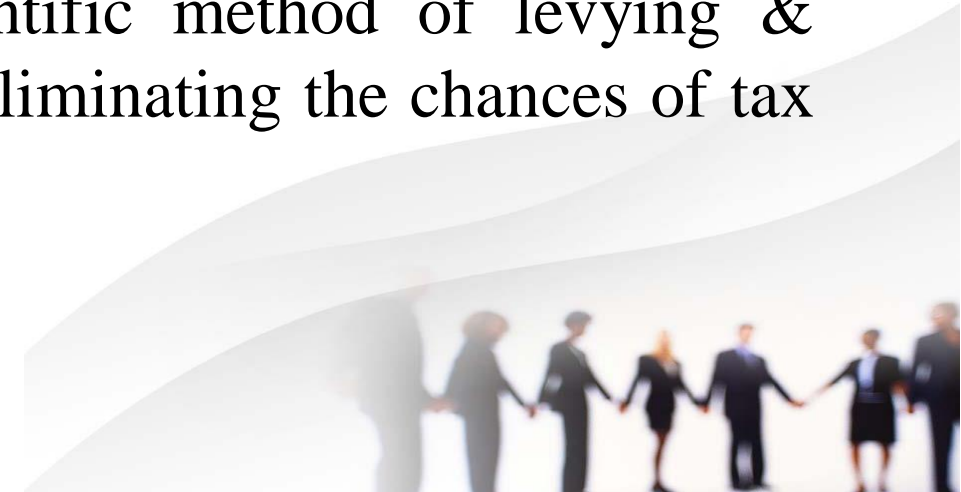
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**ACADEMIC YEAR: 2020-21**



# TAX CASCADING

- Under multiple tax system, the tax on raw materials and finished products may be subjected to tax again.
- This is quit common and very high if there are different taxes collected at different stages by different authorities.
- As a result of tax cascading the prices of final products escalate illogically, without any correlation to the cost of production.
- The GST system has been devised as a scientific method of levying & collecting tax on goods & services, completely eliminating the chances of tax cascading.



# TAX PYRAMIDING

- Under sales tax system, a seller collects tax from the buyer at the specified rates.
- When the buyer sells the purchased goods to another one, he collected from the second buyer a price which includes his cost plus tax already paid price, it is by him plus his profit.
- As result, at each stage of sale, tax component becomes part of the cost of the product.
- Under the GST system, one can easily findout the entire tax element in the price because it is equal to the final tax paid by the ultimate customer.



# VALUE ADDITION

- For tax purposes, the term 'value addition' simply means 'expenses' plus 'profit' of the seller.
- in other words, valuation addition means 'sales' minus 'purchases'.
- GST is a system of Value Added Tax.
- Under GST system, tax paid on purchases (input tax) is deducted from tax collected on sales (output tax) to arrive at tax on value addition.

$$\text{GST payable} = t(\text{O}) - t(\text{I})$$

here,  $t(\text{O})$  = Output tax

$t(\text{I})$  = Input tax



# TAXABLE PERSON UNDER GST

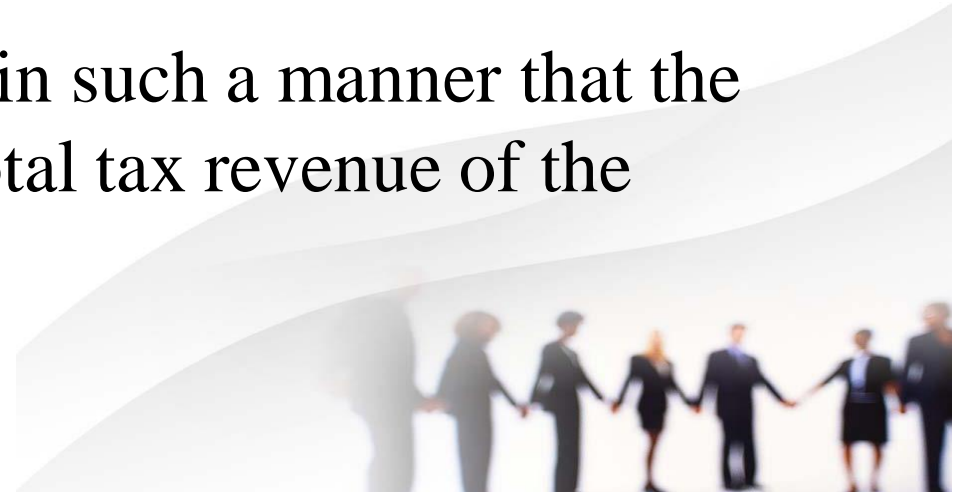
A person who carries out any business at any place in India and who is registered or required to be registered under the GST Act. Amongst others, GST registration is mandatory for;

- ❖ any business whose turnover in a FY exceeds 20 lakhs.  
(Rs.10lakhs for North Eastern & Hill States)
- ❖ an input service distributor
- ❖ an E-commerce operator or aggregator
- ❖ a person who supplies via E-commerce aggregation



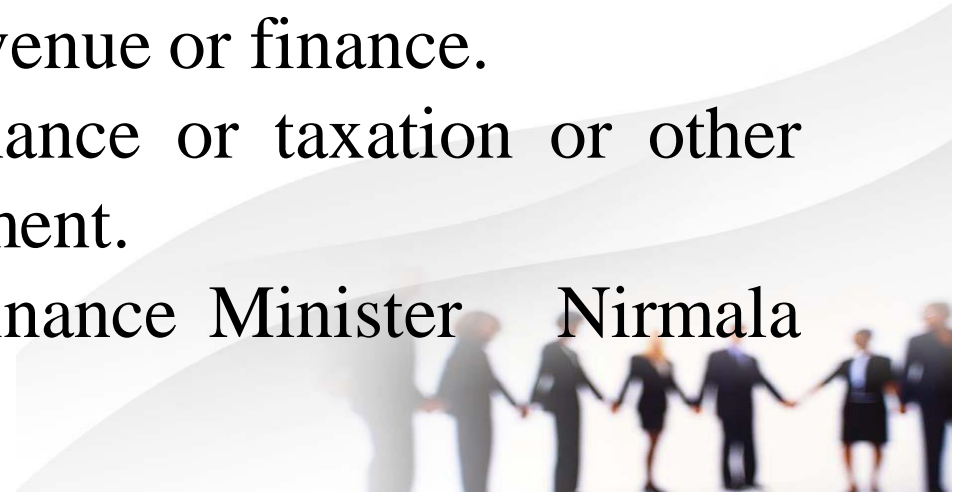
# REVENUE NEUTRAL RATE (RNR)

- The principle of 'RNR' was adopted to determine the GST rates.
- It refers to the rate of tax which has neutral impact on existing tax revenue of the Government.
- GST has subsumed all the indirect taxes on goods and services.
- The amount of GST collected will be the total indirect tax revenue of the Centre and States together.
- Therefore, the GST council finalised the rates in such a manner that the introduction of GST has a neutral impact on total tax revenue of the Centre and States.



# GST COUNCIL

- The 101<sup>th</sup> constitution amendment formed the GST Council, which will be responsible for monitoring the matters relating to supply of goods and services in the country.
- Governing body consist of 33 members.
- It's an apex member committee to modify, reconcile and to procure any laws or regulations based on GST.
- Council contains :
  - (a) Union Finance Minister (as chairperson)
  - (b) Union Ministers of State in Charge of Revenue or finance.
  - (c) The Ministers of state in charge of finance or taxation or other Ministers as nominated by each state government.
- Now the council is headed by the Union Finance Minister Nirmala Sitharaman.



# GSTIN

- ❖ Unique GST Identification Number that every business will be allotted.
- ❖ Every tax payer will be allotted a state-wise, PAN-based 15 digit GSTIN.  
Eg. 32AABCK7096E1ZM
- ❖ PAN is mandatory for register under GST.





# Structure of Registration Number

- State wise **PAN-based registration Number**
- Registration number will be **15-digit**
- Known as Goods and Services Taxpayer Identification Number (**GSTIN**).

GSTIN														
State		PAN										Entity Code	Blank	Check Digit
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

- ❖ 1-2 digit would be state code as defined under the Indian Census 2011.
- ❖ Next 10 digit would be PAN number of the registrant
- ❖ 13th digit would be alpha-numeric (1-9 and then A-Z) represent number of registrations a legal entity (having the same PAN) has within one State.
- ❖ 14th digit of GSTIN would be kept BLANK for future use.
- ❖ 15<sup>th</sup> digit is check digit enable department to verify the GSTIN as entered by person.

# GOODS AND SERVICE TAX NETWORK (GSTN)

- Developed by Infosys Technologies and the Information Technology Network.
- It's a sophisticated network, accessible to stakeholders, government and taxpayers to access information from a single source (portal).
- The portal is accessible to the tax authorities for tracking down every transaction, while tax payers have the ability of connect for their tax returns.



# HARMONIZED SYSTEM OF NOMENCLATURE (HSN code)

- It is a multipurpose international product nomenclature developed by the World Customs Organization.
- To identify each and every product with a standardised name.
- every registered person is required to declare the list of commodities transacted by him.
- this declaration is required along with the HSN code of each commodity manufactured or sold.
- Examples:
  - 0902 - Tea products.
  - 1902 – Vermicelli.
  - 170410 - Chewing Gum Sugar Coated
  - 0909 – Cumin.



# SERVICE ACCOUNTING CODE (SAC)

- To identify the services to levy tax based on the type of services.

Example :

995411 - Construction services of residential building .

996811 - Postal services.

996422 - Long-distance transport services through road

997120 - Investment banking services



# RATES OF GST

**“Unification of tax system does not mean unification of tax rates.”**

- ❖ Exempted supplies
- ❖ Taxable @ 0.25%
- ❖ Taxable @ 3%
- ❖ Taxable @ 5%
- ❖ Taxable @ 12%
- ❖ Taxable @ 18%
- ❖ Taxable @ 28%
- ❖ Tax deducted at source (TDS) 2%
- ❖ Tax collected at source (TCS) 1%
- ❖ Composite Tax 1%

## **Kerala Flood Cess**

- ❖ Flood cess @ 1% is applicable on intra- state supply of prescribed goods & services, for a period of 2 years.
- ❖ The rate of flood cess is 0.25% instead of 1% on items which are subject to 3% of GST.



# GOODS KEPT OUTSIDE THE GST

- Alcohol for human consumption (not for commercial use).
- Petrol and petroleum products i.e petroleum crude, high speed diesel, motor spirit, natural gas, aviation turbine fuel, ATF.

