



CA

INTERMEDIATE

**GOODS AND
SERVICES TAX**



- ▶ ICAI Study Material Questions Covered
- ▶ RTP/MTP Questions Covered
- ▶ Past Year Exam Questions Covered

Book recommended by AIR 1

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Chapter 1: GST in India - An Introduction

Overview of Tax

It is a compulsory charge levied by the Government. There are two types of taxes:

1. Direct Tax
2. Indirect Tax

Direct & Indirect Tax

Direct taxes	Indirect taxes
A direct tax is charge, which is imposed directly on the taxpayer and paid directly to the Government by the persons on whom it is imposed. The burden of this tax cannot be shifted by the taxpayer to someone else.	Indirect taxes are imposed on goods and services. Its incidence is borne by the consumers who ultimately consume the product or service. It is also called consumption taxes.
A significant direct tax imposed in India is Income tax.	Indirect taxation in India has witnessed a drastic change on July 01, 2017 and all indirect taxes have been amalgamated into – GST & Customs.
Direct taxes are progressive in nature. Hence a rich person pays more compared to a poor person.	Indirect taxes are regressive in nature because they equally impact the rich or the poor.
Example : Income Tax , Property Tax , Corporate Tax , etc.	Example : GST , Custom Duty , etc.

FEATURES OF INDIRECT TAXES

- **An important source of revenue:** Indirect taxes are a major source of tax revenues for Governments worldwide and continue to grow as more countries move to consumption oriented tax regimes. In India, indirect taxes contribute more than 50% of the total tax revenues of Central and State Governments.
- **Tax on commodities and services:** It is levied on commodities at the time of manufacture or purchase or sale or import/export thereof. Hence, it is also known as commodity taxation. It is also levied on provision of services.
- **Shifting of burden:** There is a clear shifting of tax burden in respect of indirect taxes. For **Example**, GST paid by the supplier of the goods is recovered from the buyer by including the tax in the cost of the commodity.

- **No perception of direct pinch:** Since, the value of indirect taxes is generally inbuilt in the price of the commodity, most of the time the taxpayer pays the same without actually knowing that he is paying tax to the Government. Thus, the taxpayer does not perceive a direct pinch while paying indirect taxes.
- **Inflationary:** Tax imposed on commodities and services causes an all-round price spiral. In other words, indirect taxation directly affects the prices of commodities and services and leads to inflationary trend.
- **Wider tax base:** Unlike direct taxes, the indirect taxes have a wide tax base. Majority of the products or services are subject to indirect taxes with low thresholds.
- **Promotes social welfare:** High taxes are imposed on the consumption of harmful products (also known as 'sin goods') such as alcoholic products, tobacco products etc. This not only checks their consumption but also enables the State to collect substantial revenue.
- **Regressive in nature:** Generally, the indirect taxes are regressive in nature. The rich and the poor have to pay the same rate of indirect taxes on certain commodities of mass consumption. This may further increase the income disparities between the rich and the poor.



CONCEPT OF GST

- GST is a value added tax levied on manufacture, sale and consumption of goods and services.
- GST offers a comprehensive and continuous chain of tax credits from the producer's point/service provider's point up to the retailer's level/consumer's level thereby taxing only the value added at each stage of the supply chain.
- The supplier at each stage is permitted to avail credit of GST paid on the purchase of goods or services and can set off this credit against the GST payable on the supply of goods and services to be made by him. Thus, only the final consumer bears the GST charged by the last supplier in the supply chain, with set-off benefits at all the previous stages.
- Since, only the value added at each stage is taxed under GST, there is no tax on tax or cascading of taxes under the GST system. GST does not differentiate between goods and services and thus, the two are taxed at a single rate.

Illustration 01

Under Goods and Services Tax (GST), only value addition is taxed and burden of tax is to be borne by the final consumer. Examine the validity of the statement.

Solution

The statement is correct. Goods and Services Tax is a destination-based tax on consumption of goods and services. It is levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. Resultantly, only value addition is taxed and burden of tax is to be borne by the final consumer.

Illustration 02

A dual GST has been implemented in India. Elaborate.

Solution

A dual GST has been implemented in India with the Centre and States simultaneously levying it on a common tax base. The GST levied by the Centre on intra-State supply of goods and / or services is called the Central GST (CGST) and that levied by the States/ Union territory is called the State GST (SGST)/ Union GST (UTGST). Similarly, Integrated GST (IGST) is levied and administered by Centre on every inter-State supply of goods and/or services. 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, therefore, keeps with the Constitutional requirement of fiscal federalism.

Why India Needed GST

Following reasons demanded implementation of GST:

- Double taxation of a transaction as both goods and services.
- Non-inclusion of several local levies in State VAT such as luxury tax, entertainment tax, etc.
- Non-integration of VAT & service tax.
- No CENVAT after manufacturing stage



Analysis

Particulars	A Manufacturer Delhi	B Manufacturer Delhi	C Trader Kanpur	D Trader Bhopal	E Trader Bhopal
Input	1000	2000	4000	4500	5400
Processing	500	1000	—	—	—
Profit	500	1000	500	900	1000
Selling Price	2000	4000	4500	5400	6400
GST@12%	240	480	540	648	768
Invoice price	2240	4480	5040	6048	7168
Output Tax Liability	240	480	540	648	768
Input Tax Credit	—	240	480	540	648
Net Tax Liability	240	240	60	108	120

Illustration 03

Explain with the help of **Examples** how a particular transaction of goods and services is taxed simultaneously under Central GST (CGST) and State GST (SGST)?

Solution

The Central GST and the State GST is levied simultaneously on every intra-State supply of goods or services or both made by registered persons except the exempted goods and services as well as goods and services which are outside the purview of GST. Further, both are levied on the same price or transaction value. The same can be better understood with the help of following Examples;

Example I: Suppose 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 ₹ 100, the dealer would charge CGST of ₹ 10 and SGST of ₹ 10 in addition to the basic price of the goods. The CGST component will go into a Central Government account while the SGST portion into the account of the concerned State Government (viz. U.P.). It is important to note that he might not actually pay ₹ 20 (₹ 10 + ₹ 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (inputs, input services and capital goods) assuming that all his purchases are intra-State. However, 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. CGST credit cannot be used for payment of SGST and vice versa.

Example II: Suppose, again 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 ₹ 100, the ad company would charge CGST of ₹ 10 as well as SGST of ₹ 10 at the basic value of the service. The CGST component will go into a Central Government account while the SGST portion into the account of the Maharashtra Government. He might not actually pay ₹ 20 (₹ 10+₹ 10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (say, of inputs such as stationery, office equipment, services of an artist etc.) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on its purchase while for SGST, he can utilise the credit of SGST alone. CGST credit cannot be used for payment of SGST and vice versa.

FRAMEWORK OF GST

- 1. Dual GST:** India has adopted a Dual GST model in view of the federal structure of the country.
 - Centre and States simultaneously levy GST on taxable supply of goods or services or both, which takes place within a State or Union Territory. Thus, tax is imposed concurrently by the Centre and States, i.e. Centre and States simultaneously tax goods and services.
 - GST is a destination based tax applicable on all transactions involving supply of goods and services for a consideration subject to exceptions thereof. GST in India comprises of:

- i. On intra-State supplies of taxable goods and/or services
 - a) Central Goods and Services Tax (CGST) - levied and collected by Central Government,
 - b) State Goods and Services Tax (SGST) - levied and collected by State Governments/ Union Territories with Legislatures and
 - c) Union Territory Goods and Services Tax (UTGST) - levied and collected by Union Territories without Legislatures.

Union Territories	
Without State Legislature	With State Legislature
▪ Andaman & Nicobar islands	▪ Delhi
▪ Lakshadweep	▪ Jammu & Kashmir
▪ Ladakh	▪ Puducherry
▪ Dadra and Nagar Haveli & Daman and Diu	
▪ Chandigarh	

- ii. Inter-State supplies of taxable goods and/or services are subject to Integrated Goods and Services Tax (IGST). IGST is the sum total of CGST and SGST/UTGST and is levied by Centre on all inter-State supplies.
- 2. **GST – A tax on goods and services:** GST is levied on all goods and services, except alcoholic liquor for human consumption and petroleum crude, diesel, petrol, ATF and natural gas.
 - a) Alcoholic liquor for human consumption: is outside the scope of GST. The manufacture/ production of alcoholic liquor continues to be subjected to State excise duty and inter-State/ intra-State sale of the same is subject to CST/VAT respectively.
 - b) Petroleum crude, diesel, petrol, ATF and natural gas: As regards petroleum crude, diesel, petrol, ATF and natural gas are concerned, they are not presently leviable to GST. GST will be levied on these products from a date to be notified on the recommendations of the GST Council.



- c) Till such date, central excise duty continues to be levied on manufacture/production of petroleum crude, diesel, petrol, ATF and natural gas and inter-State/intra-State sale of the same is subject to CST/VAT respectively.

- d) **Tobacco:** Tobacco is within the purview of GST, i.e. GST is leviable on tobacco. However, Union Government has also retained the power to levy excise duties on tobacco and tobacco products manufactured in India. Resultantly, tobacco is subject to GST as well as central excise duty.
- e) **Opium, Indian hemp and other narcotic drugs and narcotics:** Opium, Indian hemp and other narcotic drugs and narcotics are within the purview of GST, i.e. GST is leviable on them. However, State Governments have also retained the power to levy excise duties on such products manufactured in India. Resultantly, Opium, Indian hemp and other narcotic drugs and narcotics are subject to GST as well as State excise duties.
- f) Further, real estate sector has been kept out of ambit of GST, i.e. GST will not be levied on sale/ purchase of immovable property.

Illustration 04

GST is a destination-based tax on consumption of goods or services or both. Discuss the validity of the statement.

Solution

The given statement is valid. GST is a destination-based tax on consumption of goods or services or both. GST is known as destination-based tax since the tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply. For **Example**, if A in Delhi produces the goods and sells the goods to B in Haryana. In this case, the tax would accrue to the State of Haryana and not to the State of Delhi. On the other hand, under pre-GST regime, origin based taxation was prevailing in such cases. Under origin-based taxation, the tax used to accrue to the State from where the transaction originated. In the given case, under origin-based taxation, the central sales tax would have been levied by Centre and collected by the State of Delhi and not by the State of Haryana.

Illustration 05

Discuss the leviability of GST or otherwise on the following:

- a) Alcoholic liquor for human consumption
- b) Petroleum crude, diesel, petrol, Aviation Turbine Fuel (ATF) and natural gas
- c) Tobacco
- d) Opium, Indian hemp and other narcotic drugs and narcotics

Solution

- a) **Alcoholic liquor for human consumption :** is outside the realm of GST. The manufacture/production of alcoholic liquor continues to be subjected to State excise duty and inter-State/intra-State sale of the same is subject to CST/VAT respectively.
- b) **Petroleum crude, diesel, petrol, ATF and natural gas:** As regards petroleum crude, diesel, petrol, ATF and natural gas are concerned, they are not presently leviable to GST. GST will be levied on these products from a date to be notified on the recommendations of the GST Council.

Till such date, central excise duty continues to be levied on manufacture/production of petroleum crude, diesel, petrol, ATF and natural gas and inter-State/intra-State sale of the same is subject to CST/ VAT respectively.

- c) **Tobacco:** Tobacco is within the purview of GST, i.e. GST is leviable on tobacco. However, Union Government has also retained the power to levy excise duties on tobacco and tobacco products manufactured in India. Resultantly, tobacco is subject to GST as well as central excise duty.
- d) **Opium, Indian hemp and other narcotic drugs and narcotics:** Opium, Indian hemp and other narcotic drugs and narcotics are within the purview of GST, i.e. GST is leviable on them. However, State Governments have also retained the power to levy excise duties on such products manufactured in India. Resultantly, Opium, Indian.

Illustration 06

Which are the commodities which have been kept outside the purview of GST? Examine the status of taxation of such commodities after introduction of GST.

Solution

Article 366(12A) of the Constitution as amended by 101st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. Therefore, alcohol for human consumption is kept out of GST by way of definition of GST in the Constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out of the purview of GST; GST Council shall decide the date from which they shall be included in GST. The erstwhile taxation system (CST/VAT & central excise) still continues in respect of the said commodities.

BENEFITS OF GST

GST is a win-win situation for the entire country.

It brings benefits to all the stakeholders of industry, Government and the consumer.

The significant benefits of GST are discussed hereunder:

Benefits to Economy

Creation of unified national market:

GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.

Boost to 'Make in India' initiative:

GST gives a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market. This will create India as a — Manufacturing hub.



Enhanced investment and employment:

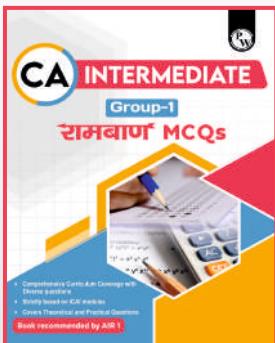
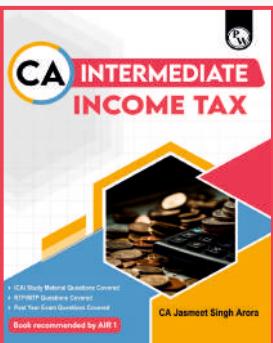
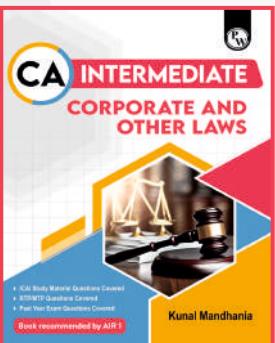
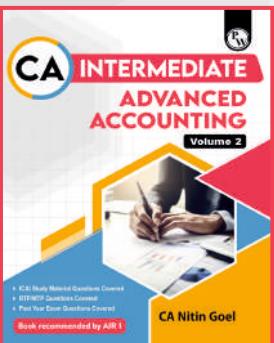
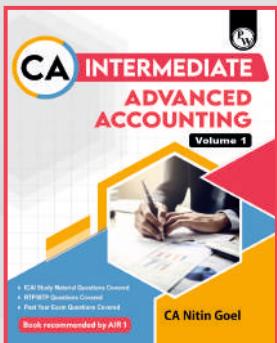
The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input tax on goods and services and phasing out of Central Sales Tax reduces the cost of locally manufactured goods and services and increases the competitiveness of Indian goods and services in the international market and thus, gives boost to investments and Indian exports. With a boost in exports and manufacturing activity, more employment is generated and GDP is increased.

About The Author

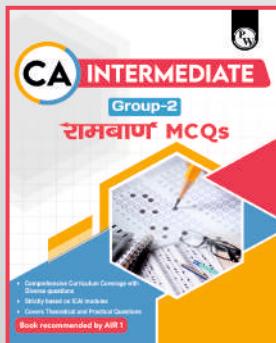
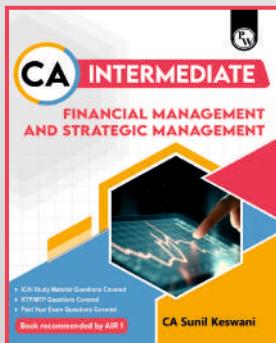
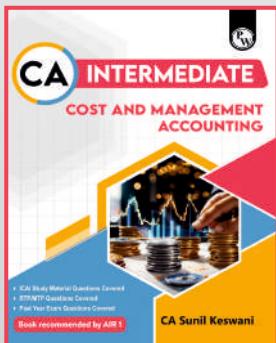
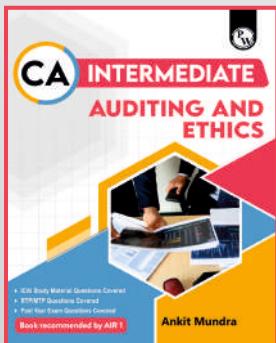
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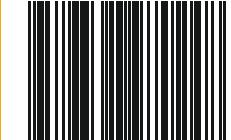
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